

Intergovernmental Agreement between

the Metropolitan Council, the City of Minneapolis, and
the Minneapolis Employees Retirement Fund

from Met Council

INTERGOVERNMENTAL AGREEMENT

This intergovernmental agreement is made and entered into by and between the Metropolitan Council (hereinafter "Council"), the City of Minneapolis (hereinafter "City"), and the Minneapolis Employees Retirement Fund (hereinafter "MERF").

WHEREAS:

1. Prior to 1969, wastewater treatment for the city of Minneapolis was provided by the Minneapolis-St. Paul Sanitary District ("District"). Certain employees of that entity were eligible for membership and participated in the Minneapolis Employees Retirement Fund.
2. The Metropolitan Sewer Board, later renamed the Waste Control Commission ("MWCC"), was established in 1969. Pursuant to law, on January 1, 1971 the Minneapolis-St. Paul Sanitary District ("District") was abolished and the Metropolitan Sewer Board assumed ownership and control of all facilities owned by the District.
3. Pursuant to law: a) all persons regularly employed by the District became employees of the Metropolitan Sewer Board; and b) former employees of the District could at their option continue to be members of MERF and retain pension rights under that retirement plan. A number of such employees elected to continue to be members of MERF.
4. In 1994, the Council became the successor entity to the MWCC with respect to all the MWCC's property, interests, obligations, and rules. As such, several employees of the Council continued to be members of MERF.
5. All employees of the Council eligible for membership in MERF have now retired, or are no longer employed but are not yet receiving retirement benefits (referred to in this agreement as on "deferred retirement status"). However, the Council has continuing obligations under state law to MERF relative to the retirement of those employees.
6. The City has a substantial ongoing liability to MERF and is willing to assume the future liability of the Council to MERF for the Council's retired MERF employees. An assumption of these liabilities by the City is in the public interest as it reduces administrative costs for the Council and the MERF, without a material increase in administrative cost to the City.
7. A proposed amount to be paid to the City for assuming the Council's obligations has been developed based on an independent actuarial analysis of the expected remaining Council liability. The actuarial analysis takes into account the expected mortality of the beneficiaries and also discounts the expected payments to a present value.

NOW, THEREFORE, it is agreed:

ARTICLE I METROPOLITAN COUNCIL

- 1.01 Council Payment.** In consideration of the undertakings by the other parties under this Agreement, the Council shall pay to MERF, for the benefit of the City's account with MERF, the sum of \$1,307,264.
- 1.02 Time of Payment.** Payment of the sum specified in section 1.01 shall be made by the Council on or before December 31, 2001, or within 10 working days after this agreement becomes effective, whichever is later.
- 1.03 Definition of Term "Council's MERF Obligations".** For the purposes of this agreement, the term "Council's MERF Obligations" shall mean all past, present or future liability or obligations which the Council, its governing board or employees, or their predecessors or successors, may have to the City, MERF, or any other person, related to the payment of retirement pay to former employees of the Council, or its predecessors, who are eligible for retirement pay of any kind from MERF, and which liability or obligations arise under state or other law including, without limitation, any obligations arising under Minnesota Statutes, section 473.511, subdivision 3, and Minnesota Statutes, Chapter 422A.

ARTICLE II CITY OF MINNEAPOLIS

In consideration of the Council's undertakings under this agreement, the City agrees to the following obligations:

- 2.01 Assumption of Council's MERF Obligations.** Upon payment by the Council to MERF of the amount specified in section 1.01, the City shall assume and be responsible for all of the Council's MERF Obligations as defined in section 1.03.
- 2.02 Indemnification.** Upon payment by the Council to MERF of the amount specified in section 1.01, the City shall indemnify and hold harmless the Council, its governing board, agents, and employees against any and all claims by, or amounts owed to, any person which arise out of the Council's MERF Obligations as defined in section 1.03.

ARTICLE III MERF

- 3.01 Receipt of Council Payment.** MERF agrees that upon receipt of the Council's payment in accordance with section 1.01, MERF shall: a) credit the Council's payment to the City's account with MERF; b) record a consolidation of the Council's MERF account into the City's MERF account; c) consolidate assets held in the Council's account with the assets in the City's account; and d) dissolve the Council's account. These changes will be effective on January 1, 2002 or upon receipt of the Council's payment, whichever is later.


3.02 **No Recourse against Council.** MERF further agrees that upon receipt of the Council's payment in accordance with section 1.01, MERF agrees that: a) it will look only to the City for any of the Council's MERF Obligations as defined in section 1.03; and b) it will have no further recourse of any kind against the Council for the Council's MERF Obligations as defined in section 1.03.

ARTICLE IV GENERAL PROVISIONS.

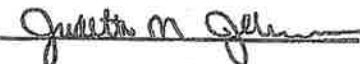
- 4.01 **Assignment.** No party to this agreement shall assign, delegate, or transfer any rights or obligations under this agreement without the prior written consent of the other parties.
- 4.02 **Amendments.** Any amendments or modifications to this agreement shall be in writing and shall not be effective until executed by the parties to this agreement.
- 4.03 **Governing Law, Jurisdiction and Venue.** This agreement, and executed amendments thereto, shall be governed by the laws of the State of Minnesota.
- 4.04 **Complete Agreement.** This agreement, and amendments and supplements, constitutes the entire agreement between the parties.

IN WITNESS WHEREOF, the parties have caused this agreement to be executed by their duly authorized officer(s) on the dates set forth below. This agreement shall be effective upon execution by, and delivery to, all of the parties.

METROPOLITAN COUNCIL

By: 
Title: Regional Administrator
Date: 1/31/02

MINNEAPOLIS EMPLOYEES RETIREMENT FUND

By: 
Title: Executive Director
Date: Dec. 28, 2001

CITY OF MINNEAPOLIS

BY: 
MAYOR


DATE: Jan 8, '03

ATTEST: 
CITY CLERK

COUNTERSIGNED: 
FINANCE OFFICER

APPROVED AS TO FORM


ASSISTANT CITY ATTORNEY

APPROVED: 
DEPARTMENT HEAD
RESPONSIBLE FOR CONTRACT
MONITORING FOR THIS
CONTRACT

merf Minneapolis
Employees
Retirement
Fund

October 24, 2001

800 Baker Building
706 - 2nd Avenue South
Minneapolis, MN 55402-3008
(612) 335-5950
FAX (612) 335-5940

Dale Ulrich
Metropolitan Council
Mears Park Center
230 E. 5th Street
St. Paul, Mn 55101-1633

Judith M. Johnson
Executive Director/
Chief Investment Officer

Patrick Born
301 M City Hall
350 So. 5th Street
Minneapolis, Mn 55415

Board Members
James H. Lind
President
David L. Fisher
Vice President
Agnes M. Gay
Secretary/Treasurer
Dennis W. Schulstad
Craig P. Cooper
Joan M. Campbell
Sharon Sayles Belton

Dear Mr. Ulrich and Mr. Born;

Attached is the special valuation that you requested related to the expected total pension liabilities for the Metropolitan Council. The State of Minnesota actuary, Mr. Thomas Custis of Milliman USA, has developed the assumptions and reviewed the work that is the basis for his final liability estimate.

I spoke with Mr. Custis at length yesterday to review the findings in the report that he provided. I believe that the assumptions used are appropriate and that the final value he has determined is a reasonable estimate of the ultimate cost of both the two deferred members of the council and all of the retirees of the council in the MERF fund.

It is important to note that the council number is higher than the council number for the annual valuation of the MERF fund. On an ongoing basis the fund incorporates yearly mortality gains and losses as part of the valuation model. In the case of an account buyout the actuary uses the most current mortality tables that are incorporated into law for PERA. MERF cannot update its own mortality tables without legislative action.

Mr. Custis noted that the age of the council employees was younger than the general MERF retiree group. He also noted that the group had relatively higher pensions than other MERF retirees. The council group has now been separately priced for just the members of the council group. I believe this observation is reflective of trends that we have noticed in council costs. The council employees and retirees are generally part of the professional, manager, or high skilled technical workforce. These positions command higher compensation levels than the public works employees at the City of Minneapolis and the janitorial and cafeteria workers at the Minneapolis School District.

It is also the case that the council has offered several retirement incentives to manage its workforce. These incentives have resulted in employees retiring at a younger age than our average MERF member and in resultant higher costs due to pension

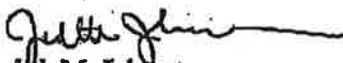
multiplier enhancements. The Milliman USA actuarial firm has been consistently employed by the State of Minnesota for a number of years due to the professionalism and rigor of the analysis that form the basis of their valuations. I have an exceptionally high level of confidence in their work and valuations.

Mr. Custis mentions several adjustments that need to be made to determine a final number. The first adjustment is to account for payments made after July 1, 2001 that were in addition to those billed. The payment made in the amount of \$217,000 fits into this category of adjustment. It is also necessary to add interest at the rate of 6% per annum. I have calculated interest until December 31, 2001. Please adjust accordingly if you complete the resolutions and approvals before that date. The last adjustment is to add any payments billed on June 30, 2001 for payment over the next twelve months. I currently show \$24,500 unpaid. If you pay additional sums on these billings, these amounts would then be subtracted. See Exhibit A attached for the final calculation.

I would conclude with the required paperwork to accomplish this transfer. MERF needs a copy of the resolution passed by the governing body of the City of Minneapolis and the Metropolitan Council. The resolution must be certified by the clerk of the board as a true and correct copy of the resolution that passed on the stated relevant date. MERF will also need a check for the amount due. We will then record the transfer when all documentation is received as of the end of that month.

Please contact our office if we can provide you assistance. We believe this transaction is in the best interests of the City of Minneapolis, the Metropolitan Council and the MERF pension fund.

With Warm Regards,


Judith M. Johnson
Executive Director

Enclosure Milliman USA special valuation
MERF Schedule of Contributions Receivable

cc. Thomas Custis, Milliman USA
Edward Burek, Legislative Commission on Pensions
MERF Board
Donald Willeke, MERF General Counsel



Milliman USA
 Consultants and Actuaries

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 www.milliman.com

October 22, 2001

Ms. Judith Johnson
 Executive Director
 Minneapolis Employees Retirement Fund
 706 Second Avenue South
 800 Baker Building
 Minneapolis, MN 55402

Re: **Met Council Single Sum Payment of Projected Liabilities**
Minneapolis Employees Retirement Fund

Dear Judy:

We have estimated Metropolitan Council's single sum payment to fully fund all remaining projected MERF benefits to be \$1,462,402. A breakout of this cost is as follows:

Accrued Liability		Actuarial Asset Value	
Increase in Retiree Liability Due to Mortality Change	\$ 948,388	Employer	\$(311,000)
Deferred Vested (including mortality change)	\$ 847,919	Employee	0
Short Service Survivor 1998 Legislation	\$ 60,457	Total	\$(311,000)
1999 Legislation (COLA)	76,358	Employer	\$ 622,448
	\$ 136,815	Employee	159,272
TOTAL	\$1,933,122	Total	\$781,720
		TOTAL	\$470,720

This amount is estimated based on July 1, 2001 financial and participant information which MERF has provided to Milliman USA for purposes of the annual valuation of the fund. Actuarial Asset Value includes contributions billed but not yet paid for fiscal years ending on or before June 30, 2001; these amounts are not separately identified in the above exhibit. This method is documented further in the actuarial valuation reporting.

Ms. Judith Johnson
October 22, 2001
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The accrued liability has been determined using the following mortality assumptions:

Post-Retirement

Male

1983 Group Annuity Mortality Table for males set back one year.

Female

1983 Group Annuity Mortality Table for females set back one year.

Post-Disability

Male

1965 RRB rates through age 54. For ages 55 to 64, graded rates between 1965 RRB rates and the Post-Retirement mortality table. For ages 65 and later, the Post-Retirement mortality table.

Female

1965 RRB rates through age 54. For ages 55 to 64, graded rates between 1965 RRB rates and the Post-Retirement mortality table. For ages 65 and later, the Post-Retirement mortality table.

Future COLA increases to be credited under the 1999 Short Service Survivor legislation are expected to be 5.34% effective January 1, 2002, with a 3.5% increase effective thereafter.

The amounts shown above are determined as if the single payment were made on July 1, 2001. If any other date is selected for payment, we recommend that this amount be reviewed for other factors, such as:

- Increase due to interest accumulation from July 1, 2001 to the date of payment, or
- Decrease due to Met Council contributions received to date (in excess, if any, of the contributions required for fiscal years ending on or before June 30, 2001).

We are providing this estimate at the request of MERF. Assumptions and methods used in our determination which are not described in this letter are the same as used in the July 1, 2001 actuarial valuation of the fund. To the extent that either the underlying census information, or the economic assumptions vary from our assumptions, results will vary.

