

**HF 4018 (Carlson, A.); SF 4066 (Rosen):  
Extending the 1997 state aid to local governments to fund  
increased employer contributions to the Public Employees  
Retirement Association (PERA)**

*Prepared by: Susan Lenczewski*

*Date: March 9, 2020*

## Introduction

**Previous Commission Action:** This bill, as introduced during the 2019 session (*HF2387; SF2488*), was approved by the Commission at its meeting on May 23, 2019, during the interim between the end of the regular session and the special session. At the meeting, the Commission approved a motion requesting House and Senate leadership and the Governor to take up the bill during the special session and provide the necessary funding. The letter to leadership and the Governor, dated May 23, 2019, is attached. The language of the current bill, HF 4018; SF 4066 is identical to the 2019 bill.

**Law Amended:** Minnesota Statutes, Section 273.1385, Subdivision 4 (“Aid for Public Employees Retirement Association Employer Contribution Rate Increase”).

**Brief Description:** The bill amends the sunset provision in the statute, which terminates the aid on June 30, 2020. The bill continues the aid until the earlier of June 30, 2048, or the end of the fiscal year following the fiscal year in which the PERA General Employee Retirement Plan is fully funded.

## Background

In 1997, the legislature approved a significant public pension reform package that included increases in the rates for employer and employee contributions to the General Employees Retirement Plan of the Public Employees Retirement Association (PERA General). To help local government employers pay the higher employer contribution, the legislature approved the payment of an annual state aid based on total payroll for employees covered by PERA General. At that time, the plan was projected to be fully funded in 2020, so the legislation terminates the aid on June 30, 2020.

As reported by PERA’s executive director at the Commission’s meeting on March 3, as of June 30, 2019, PERA General was 80.2% funded, with \$22.4 billion in assets and \$28 billion in liabilities. The plan will not be fully funded in 2020, as had been projected in 1997.

In 1997, the amount of the annual payment was approximately \$15 million. Since then, the amount has declined, as total payroll and the number of employers declined. The state aid is paid in two installments, by July 20 and December 26. The total aid for FY 2019 was \$13.919 million.

## Summary of the Bill

HF 4018 (Carlson, A.); SF 4066 (Rosen) amends Minnesota Statutes, Section 273.1385, which authorizes the payment of the annual state aid to local governments to cover the cost of increased employer contributions to PERA General. Subdivision 4 states that the aid provided under this section terminates on June 30, 2020.

The bill amends subdivision 4, by replacing the current June 30, 2020, termination date with a new provision that states that the aid continues under the earlier of:

- (1) the fiscal year after the fiscal year in which the PERA General Plan's assets equals or exceeds liabilities; that is, the plan becomes fully funded; or
- (2) June 30, 2048, which is the end of the current 30-year amortization period.

Minnesota Management and Budget (MMB) estimates that the state aid for payments for the next four years as follows:

FY 2020: \$13.860 million  
FY 2021: \$13.210 million  
FY 2022: \$13.150 million  
FY 2023: \$13.100 million

The revenue estimate dated March 22, 2019, prepared for the 2019 bill, is attached.

### Legislative Commission on Pensions and Retirement

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# Legislative Commission on Pensions and Retirement

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May 23, 2019

Governor Tim Walz  
130 State Capitol, St. Paul, MN 55155

Senator Jeremy R. Miller, President of the Senate  
3107 Minnesota Senate Building, St. Paul, MN 55155

Representative Melissa Hortman, Speaker of the House  
463 State Office Building, St. Paul, MN 55155

Senator Paul E. Gazelka, Majority Leader  
3113 Minnesota Senate Building, St. Paul, MN 55155

Representative Ryan Winkler, House Majority Leader  
459 State Office Building, St. Paul, MN 55155

Re: State aid to local governments to fund employer contributions to the PERA General Plan

Dear Governor Walz, Representatives Hortman and Winkler, and Senators Gazelka and Miller:

The Legislative Commission on Pensions and Retirement met this morning to consider a draft pension bill. The bill was approved for introduction during the 2019 special session.

In addition, the Commission approved the following motion:

"That the Legislative Commission on Pensions and Retirement recommends to the legislature, House and Senate leadership, and Governor Walz that, during the 2019 special session, the state aid to local governments for increased contributions to the general employees retirement plan of the Public Employee Retirement Association (PERA General) under Minnesota Statutes, section 273.1385, not sunset on June 30, 2020, as provided in subdivision 4, but be extended until the earlier of (1) the last day of the fiscal year immediately following the fiscal year in which the actuarial value of assets of PERA General first equals or exceeds the actuarial accrued liabilities of the plan as reported in the annual actuarial valuation prepared under section 356.215, or (2) June 30, 2048; and, further, that this law change shall take effect immediately upon enactment."

This motion relates to state aid paid to approximately 1,500 local taxing authorities that is due to sunset under current law on June 30, 2020. This state aid has helped counties, cities, townships, libraries, nursing homes, utility companies, and other public entities pay required employer contributions to PERA since 1997. The state aid was intended to extend until PERA General reached full funding, predicted to occur in 2020. At approximately 82% funded, PERA General has not reached full funding and the increased level of employer contributions will continue.

The impact to the general fund was estimated by the Department of Revenue to be \$13,210, 000 for FY2021, \$13,150,000 for FY2022, and \$13,100,000 for FY2023.

Without the extension of this state aid, Minnesota residents across the state will be asked to pay more in property taxes to replace this aid or public employers will have to reduce other services to fund PERA contributions.

We encourage you to reconsider your decision not to extend the state aid. This provision is not currently in the draft pension bill, but with a target for pensions, the Commission would meet again to amend the bill for this provision.

Sincerely,

Representative Mary Murphy, Chair  
Legislative Commission on Pensions and Retirement

cc: Commissioner Myron Frans, Minnesota Management and Budget  
Commissioner Cynthia Bauerly, Department of Revenue  
Members of the Legislative Commission on Pensions and Retirement

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## PROPERTY TAX

### Extending the state aid to local governments to fund increased PERA contributions

March 22, 2019

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue

Analysis of H.F. 2387 (Murphy) / S.F. 2488 (Rosen) as introduced

	Fund Impact			
	FY2020	FY2021	FY2022	FY2023
	(000's)			
PERA Aid	\$0	(\$13,800)	(\$13,740)	(\$13,690)
Property Tax Refund Interaction	\$0	\$330	\$330	\$330
Income Tax Interactions	\$0	\$260	\$260	\$260
General Fund Total	\$0	(\$13,210)	(\$13,150)	(\$13,100)

Effective the day following final enactment.

## EXPLANATION OF THE BILL

Under current law, state aid to local governments to help pay for employer contributions to the Public Employees Retirement Association (PERA) terminates on June 30, 2020.

Under the proposal, PERA Aid would continue until the earlier of:

1. the last day of the fiscal year immediately following the fiscal year in which the actuarial value of assets of the PERA general employees retirement plan first equals or exceeds the actuarial accrued liabilities of the plan; or
2. June 30, 2048.

## REVENUE ANALYSIS DETAIL

- Estimates are based on the February 2019 forecast.
- Aid amounts paid to jurisdictions cannot increase. However, if a PERA unit privatizes or otherwise disbands, aid payments cease.
- Based on aid payments in previous years, a slight annual decrease in total aid is assumed.
- It is further assumed that local governments would reduce their levies by a portion of the PERA Aid payments. Under this assumption:
  - Property taxes would be reduced in jurisdictions receiving the additional aid.
  - Lower property taxes paid by homesteads would decrease state-paid property tax refunds beginning in FY 2021.
  - Lower property taxes would also reduce deductions on corporate and individual income tax returns, increasing state income tax collections beginning in FY 2021.
- The net cost to the state general fund would be an estimated \$13.2 million in FY 2021.
- Tax year impacts are allocated to the following fiscal year.

**PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)**

<i>Transparency, Understandability, Simplicity &amp; Accountability</i>	Neutral
<i>Efficiency &amp; Compliance</i>	Neutral
<i>Equity (Vertical &amp; Horizontal)</i>	Neutral
<i>Stability &amp; Predictability</i>	Neutral
<i>Competitiveness for Businesses</i>	Neutral
<i>Responsiveness to Economic Conditions</i>	Neutral

*The bill is scored on a three point scale (decrease, neutral, increase) for each principle in comparison to current law.*

Source: Minnesota Department of Revenue  
Property Tax Division - Research Unit  
[www.revenue.state.mn.us/research\\_stats/  
pages/revenue-analyses.aspx](http://www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx)

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in alternative formats upon request

State of Minnesota  
HOUSE OF REPRESENTATIVES

## NINETY-FIRST SESSION

H. F. No. **4018**

03/02/2020 Authored by Carlson, A.,  
The bill was read for the first time and referred to the Committee on Government Operations

- 1.1 A bill for an act
- 1.2 relating to state aid; extending the state aid to local governments to fund increased
- 1.3 employer contributions to the Public Employees Retirement Association; amending
- 1.4 Minnesota Statutes 2018, section 273.1385, subdivision 4.
- 1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:
- 1.6 Section 1. Minnesota Statutes 2018, section 273.1385, subdivision 4, is amended to read:
- 1.7 Subd. 4. **Aid termination.** The aid provided under this section ~~terminates on June 30,~~
- 1.8 ~~2020,~~ continues until the earlier of:
- 1.9 (1) the last day of the fiscal year immediately following the fiscal year in which the
- 1.10 actuarial value of assets of the general employees retirement plan of the Public Employees
- 1.11 Retirement Association first equals or exceeds the actuarial accrued liabilities of the plan
- 1.12 as reported in the annual actuarial valuation prepared under section 356.215; or
- 1.13 (2) June 30, 2048.
- 1.14 **EFFECTIVE DATE.** This section is effective the day following final enactment.