

Minnesota Management & Budget Non-Operating

FY 2020-21 Biennial Budget Change Item

Change Item Title: MERF State Aid

| Fiscal Impact (\$000s) | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|--|---------|---------|---------|---------|
| General Fund | | | | |
| Expenditures | 10,000 | 10,000 | 10,000 | 10,000 |
| Revenues | 0 | 0 | 0 | 0 |
| Other Funds | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact = (Expenditures – Revenues) | 10,000 | 10,000 | 10,000 | 10,000 |
| FTEs | 0 | 0 | 0 | 0 |

Recommendation:

The Governor recommends \$10 million annually from the general fund to restore cuts made in 2017 legislation to state aid to the Minneapolis Employees Retirement Fund (MERF). This recommendation reinstates the full state aid amount first provided in 2015 legislation. With this proposal, Minneapolis local governments no longer face a \$10 million increase in their required MERF contributions set to go into effect beginning FY 2020.

Rationale/Background:

MERF was the pension fund providing retirement benefits to Minneapolis-based local government employees and was merged into the Public Employees Retirement Association (PERA) General Employees Fund in 2015. Currently, 3,100 MERF members receive benefits and 23 either remain active employees or do not yet receive benefits. 2015 legislation set direct aid amounts at \$37 million annually: \$6 million from the state and \$31 million from Minneapolis local governments. The state's direct aid amounts were set to increase to \$16 million annually beginning FY 2018, thereby lowering local government payments to \$21 million. This long-term allocation agreement was based upon the portion of the total cost being paid by the state and Minneapolis-based employers before the merger in 2015: 43 and 57 percent respectively. 2017 legislation lowered the state's contribution back down to \$6 million annually beginning FY 2020 and increased local government contributions back to \$31 million. These payments assist in paying off MERF's remaining unfunded liabilities. The payments end in 2031.

Proposal:

The Governor recommends restoring the cuts to MERF state aid enacted in 2017. By providing this state aid, Minneapolis-based local governments will no longer need to pay \$10 million more each year toward their required MERF contributions beginning FY 2020. The Governor's recommendation provides the original state and local contribution allocations agreed to in 2015 when MERF was officially merged into the PERA General Employees Fund.

Results:

This recommendation maintains the annual \$37 million contribution from state and local governments toward MERF's unfunded liabilities. The PERA General Employees Fund, which absorbed MERF in 2015, is 79.5% funded on a market value of assets basis as of FY 2018. The PERA General Employees Fund is projected to reach full funding in FY 2037.

Statutory Change(s):

Minnesota Statutes 353.27, subd. 3c, para. (d), and Minnesota Statutes 353.505, clause (a).