



**Request for City Council Committee Action
From the Finance Department**

Date: October 21, 2002
To: Councilmember Barbara Johnson, Chair, Ways & Means
Ways & Means Committee
Referral to: Ways & Means

Subject: Issuance of general obligation pension bonds

Recommendation:

The Finance Department recommends the City Council adopt the attached resolutions requesting the Board of Estimate & Taxation to act as agent in awarding \$35.6 million in general obligation pension bonds. Bond proceeds will be used to finance a portion of the City's Minneapolis Employees Retirement Fund (MERF) and the Minneapolis Police Relief Association (MPRA) pension obligations through December 31, 2003. This proposal is consistent with the Mayor's 2003 budget recommendation.

Previous Directives: n/a

Submitted by: Patrick Born, City Finance Officer

Approved by: Patrick Born, City Finance Officer _____

John Moir, City Coordinator _____

Presenters in Committee (name, title)

Patrick Born, City Finance Officer

Financial Impact (Check those that apply)

No financial impact - or - Action is within current department budget.

(If checked, go directly to Background/Supporting Information)

Action requires an appropriation increase to the Capital Budget

Action requires an appropriation increase to the Operating Budget

Action provides increased revenue for appropriation increase

Action requires use of contingency or reserves

Other financial impact (Explain): Requests the Board of Estimate to act as agent in awarding \$35.6 million in general obligation pension bonds. The appropriation needed to service the debt on this issuance has been included in the Mayor's 2003 recommended budget.

Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (use any categories that apply)

Neighborhood Notification

City Goals

Comprehensive Plan

Zoning Code

Not applicable

Background/Supporting Information

The proceeds from this bond sale will be used to meet a portion of the City's 2003 Minneapolis Employee Retirement Fund (MERF) and Minneapolis Police Relief Association (MPRA) pension obligations.

The issuance of these general obligation pension bonds is based on the assumption that the City will continue to levy property taxes to fund a portion of the City's contributions to MERF and MPRA. The City will need both property tax revenue and bond proceeds to fully meet our 2003 municipal obligations to these pension funds. If the 2003 adopted budget does not provide for the level of property tax funding recommended by the Mayor -- \$4,451,000 for MERF and \$2,963,300 for MPRA - the Council may need to consider issuing additional bonds in order to fully fund the City's 2003 municipal obligation.

Minneapolis Employee Retirement Fund (MERF)

MERF has two funds that fund employee retirements -- the active fund and the retired fund. Every year the City and MERF members (current employees) make their annual contributions into MERF's active fund. As a member retires, the present value of his or her pension is transferred from the active fund into the retired fund. The retired account must always be 100 percent funded.

While the City and MERF members have been making the amount of contributions mandated by the state, the City's balance in the active fund went negative in June of this year. This occurred because MERF members have been retiring at a faster pace and at higher costs than originally forecasted by MERF actuaries.¹

Per state legislation, if the City's balance in the active fund is insufficient to cover the cost of a retiring member, the fund will bill the City for the amount of the insufficiency on a monthly basis. The City must fund the amount of the insufficiency, plus 6 percent interest (compounded annually or from the date of notification to the date of payment). The issuance of \$25 million in general obligation pension bonds will cover the amount of the City's current deficiency, which is approximately \$6.5 million, as well as the amount needed to finance the expected retirements for 2003, which is estimated at approximately \$18.5 million. Proceeds from the bonds for MERF will be transferred to MERF to pay the monthly invoices the City receives from MERF.

Minneapolis Police Relief Association (MPRA)

The increase in the City's municipal contribution for the MPRA is directly related to the increase in the fund's unfunded liability. In the past year, the fund's unfunded liability has more than doubled due primarily to the negative performance of the equity markets. This has increased the fund's unfunded liability from \$56 million in 2000 to \$115.5 million in 2001², an increase of \$59.5 million. The Mayor's 2003 budget proposes to fund the incremental increase in the City's contribution to MPRA through bond proceeds in order to meet the Mayor and City Council's adopted tax policy. Proceeds from the bonds for MPRA will be transferred to the MPRA no later than the receipt of the 2003 property taxes for MPRA.

¹ The actuarial assumptions used by MERF are specified by state statute. These actuarial assumptions used have not materialized and as a result have not reflected the actual number and cost of retirements.

² The City's municipal contribution is based on the most recent completed actuarial valuation. The City's 2003 contribution is based upon the 2001 actuarial valuation.

The Terms and Conditions of the Pension Bond Sale will be presented before Ways & Means on November 4th and full City Council on November 8th, 2002. The Pension bonds will be sold on December 4th, 2002.

Please see the attached resolutions requesting the Board of Estimate & Taxation to act as agent for the City Council in awarding the bond sales.

RESOLUTION #1 - 2002R-???
By W&M Chair Barbara Johnson

Requesting that the Board of Estimate and Taxation act as an agent on behalf of the City Council to award general obligation pension bonds in the amount of \$25,000,000 for the City's MERF obligations through December 31st, 2003.

RESOLUTION #2 - 2002R-???
By W&M Chair Barbara Johnson

Requesting that the Board of Estimate and Taxation act as an agent on behalf of the City Council to award general obligation pension bonds in the amount of \$10,600,000 for the City's MPRA obligations through December 31st, 2003.