

To: Committee of the Whole
From: Gene Ranieri, Director, Intergovernmental Relations
Date: January 14, 2010
Re: Update: Legislature

Introduction. Two legislative hearings and one commission meeting were held on Wednesday, January 14 that are of interest to Minneapolis. The meetings covered such issues as state government cash flow, General Assistance Medical Care (GAMC) and pensions. A summary of the meetings follows:

Legislative Commission on Fiscal Policy and Planning: Balanced Budget Subcommittee. The subcommittee discussed the state of Minnesota's cash flow status. Commissioner Tom Hansen of the Minnesota Department of Management and Budget, and Jim Sholwalter, budget director for the state, presented information regarding the state's cash flow. It is projected that the state will need to supplement its cash position by May 2010 if there is no budget balancing agreed to by the Governor and legislature. To date, the state has inter-fund borrowed to meet cash demands.

At previous subcommittee meetings, state staff has indicated that they were exploring the use of short term debt or a letter of credit to provide for cash flow. At the Wednesday hearing the state staff reported that they are also reviewing the possible use of delaying payments to school districts and higher education. Minnesota statutes (Chapter 127A.46 and Chapter 16A.152 sub 7) permit the state to delay payments to school districts and higher education institutions respectively. While no decision has been made, Tom Melcher from the Minnesota Department of Education, explained a possible method to determine the amount of funding to be delayed to each school district. The methodology considers the district's unappropriated fund balance amount. The Minneapolis school district, for example, could lose approximately \$31.0 million per month from March to May. The district has a fund balance of \$90.0 million.

The subcommittee co-chairs (Sen. Larry Pogemiller and Rep. Lyndon Carlson) asked Commissioner Hansen when the Governor's supplemental budget would be released. Commissioner Hansen responded that the budget should be available prior to the start of the session on February 4. The supplemental budget will propose ways to balance the \$1.2 billion deficit in the state's general fund.

General Assistance Medical Care. The Senate Health and Housing Committee and the Human Services Finance Committee held a joint hearing regarding General Assistance Medical Care (GAMC). Sen. Linda Berglin, chair of the Human Services

Finance Committee, stated in her opening remarks that the elimination of GAMC will have impacts on not only the individuals participating in the program but also upon the medical providers and the state's livability. To continue the program the Senator has drafted a bill that extends the program for 18 months. Funding for the extension would come from a variety of sources including increased fees, federal funds and county participation. Witnesses testifying included GAMC recipients, medical providers, St. Stephen's outreach workers and Minneapolis Police Chief Tim Dolan.

The Chief noted that the Minneapolis Police Department (MPD) has approximately 6000 street medical emergency calls annually or 16 per day. Many of people involved in the calls are homeless and many receive GAMC. The Chief described the "fragile web of cooperation" among the MPD, Hennepin County Medical Center and other providers and the courts. In discussing the impact of a disruption in GAMC, the Chief indicated that treatment would be more expensive and less managed because many of the former GAMC clients would enter the criminal justice system where they would receive medical attention. He stressed the need to continue GAMC or a similar program.

Pensions. The Legislative Commission on Pensions and Retirement met to hear a presentation from Senate Counsel and Research on the Minneapolis lawsuit, the fiscal status of the three state pension funds, and the Minneapolis Employees Retirement Fund. The commission did not take action on any item but could discuss bills related to the three funds and MERF at a subsequent meeting.

Tom Bottern of Senate Counsel and Research briefed the commission on the recently issued court order related to the lawsuit regarding the city of Minneapolis and the Minneapolis Police Relief and Minneapolis Fire Relief Associations. Commenting that he would not discuss the merits of the case, Mr. Bottern outlined the court order and told the commission that the case is under appeal and a decision may not be forthcoming until after the conclusion of the legislative session.

The three state pension funds are the Teachers Retirement Association, Minnesota State Retirement System and the Public Employees Retirement Association (PERA). Most local government employees including Minneapolis employees belong to PERA. Mary Vanek, PERA Executive Director, testified on behalf of its members. She indicated that the PERA board has been monitoring the financial status of the fund and based on actuarial studies and other research, PERA will need to modify its policies to achieve full funding by its amortization date of 2031. Among the policy changes being proposed are a reduction in the annual Cost of Living Adjustment, an increase in employer and employee contributions, an increase in the number of years needed to be a vested member of PERA and reductions in interest rates paid on refunds paid to members leaving the fund. The COLA is currently a fixed 2.5% annual increase. The proposal is to reduce the rate to 1% until the fund is 90% funded. The fund is currently 55% funded. The contribution rate increase is

proposed to be increased by 0.5% of payroll with the employer and employee each paying an additional ¼%. The vesting period or time needed to be a public employee to be eligible for PERA would increase to five years. The proposal includes several changes to refunds and other payments. For example the interest rate paid for refunds would decrease from 6% to 4%.

The MERF presentation was made by the fund's actuaries – GRS Company. Leslie Thompson of GRS made the presentation along with Luther Thompson, MERF Executive Director. The presentation indicated MERF has a funding deficit that if not addressed soon could lead to a default. The lack of active members and the decline of the market has impacted the fund's financial status. All but 165 of the fund's 4400 members are retired and the fund annually pays out \$144.0 million in benefits and has a balance of approximately \$850.0 million. The fund is 55% funded.

The city and the other employers and MERF have been meeting to develop a solution. Proposed legislation that would have the state and employers share in the cost of the fund has served as a base for the discussions but a funding source has not yet been identified.

Federal Update. The city of Minneapolis will receive a Neighborhood Stabilization Program competitive grant from the U.S. Department of Housing and Urban Development (HUD). The \$19.45 million grant will be used by the city and the city of Brooklyn Park in neighborhoods facing large numbers of foreclosures.

On January 25, 2010, U.S. Secretary of Transportation Ray LaHood will conduct a "listening session" at the Humphrey School regarding federal transportation legislation. Details should be available shortly.

On February 2, 2010, the Director of the Community Oriented Policing (COPS) Office will be in Minneapolis. Meetings with city officials will be scheduled.