

## Background Information on Excess Police State Aid and Dedicated Uses for Police State Aid

### 1. Excess Police State Aid

Police state aid, an aid program assisting municipalities, counties, and some state agencies in meeting their employer pension contribution obligations, is funded from insurance premium tax proceeds, largely those related to automobile casualty risks, under Minnesota Statutes, Chapter 297I.

Because police state aid funding is dedicated tax proceeds, which vary over time, and may be used solely for police pension coverage purposes, which also vary over time, there has been some amount of “excess” police state aid since 1977.

The following sets forth the amount of excess police state aid since 1977, as reported by PERA or the Department of Revenue:

Year	Allocated Police State Aid	Excess Police State Aid	Excess as Percentage of Total
1977	\$ 8,601,025.61	\$ 314,036.48	3.65%
1978	\$10,269,283.14	\$462,390.67	4.50%
1979	\$11,464,982.02	\$516,922.66	4.51%
1980	\$12,826,038.31	\$674,867.34	5.26%
1981	\$14,091,351.96	\$586,656.15	4.16%
1982	\$14,663,614.00	\$409,941.49	2.80%
1983	\$14,817,224.00	\$303,703.63	2.05%
1984	\$15,242,120.00	\$693,560.10	4.55%
1985	\$16,287,427.00	\$303,533.44	1.86%
1986	\$19,091,379.58	\$569,332.54	2.98%
1987	\$23,986,079.00	\$1,649,958.88	6.88%
1988	\$26,074,381.00	\$1,895,177.80	7.27%
1989	\$26,525,503.00	\$1,603,182.09	6.04%
1990	\$27,399,401.00	\$1,840,063.51	6.72%
1991	\$30,111,119.00	\$2,024,718.90	6.72%
1992	\$31,950,032.00	\$2,300,738.45	7.20%
1993	\$31,145,397.00	\$2,512,286.68	8.07%
1994	\$36,210,413.00	\$2,508,669.12	6.93%
1995	\$38,711,974.00	\$3,643,711.64	9.41%
1996	\$47,499,045.00	\$8,239,744.00	17.35%
1997	\$47,619,477.00	\$7,392,472.00	15.52%
1998	\$43,199,063.00	\$8,868,062.00	20.53%
1999	\$46,117,948.00	\$3,106,474.00	6.74%
2000	\$45,915,460.00	\$5,164,417.00	11.25%
2001	\$44,843,783.00	\$9,665,401.00	21.55%
2002	\$47,384,086.00	\$11,323,286.00	23.90%
2003	\$50,053,513.00	\$14,207,656.00	28.38%
2004	\$52,665,660.00	\$19,145,180.00	36.35%
2005	\$54,175,957.00	\$17,504,762.00	32.31%
2006	\$54,532,574.00	\$13,304,865.00	24.40%
2007	\$60,741,027.00	\$5,511,068.00	9.07%
2008	\$60,826,549.00	\$1,321,260.00	2.17%
2009	\$62,898,602.00	\$424,758.00	0.68%
2010	\$62,392,553.00	\$194,150.00	0.31%
2011	\$62,402,681.00	\$145,156.00	0.23%

### 2. Excess Police State Aid 1977-1988

The situation of “excess” police state aid arose as a result of the 1977 police state aid legislation (Laws 1977, Ch. 429, Sec. 4-9). Because of the statutory guarantee to cities of no less police state aid than they received in 1975, which was added in 1976 (Laws 1976, Ch. 315, Sec. 6), and because of the relatively high 1977 per capita police state aid amount (\$1,610.00 in 1977, covering the full Public Employees Police and Fire Retirement Plan (PERA-P&F) employer contribution on a covered salary of \$13,496.67, when the average PERA-P&F covered salary for active members for fiscal year 1977 was \$14,171.45), it was clear that some employing units covered by PERA-P&F could receive total police state aid in an amount that was greater than the total PERA-P&F employer contribution for their police officers. It was decided by the Legislative Commission on Pensions and Retirement that the best way to handle this excess police state aid situation that was most consistent with the designated purpose of the police state aid program to provide financing for police pensions was to

require that any excess amounts also be contributed to PERA-P&F. The excess police state aid was to be used to amortize the unfunded actuarial accrued liability of PERA-P&F. There can only be an excess police state aid amount if the individual police state aid amount exceeds the average salary of all police officers employed by the political subdivision who are covered by PERA-P&F.

In 1987, when police state aid had grown to \$4,075.00 per police officer and the average police salary level below which excess police state aid is generated was \$33,958.33 (and the PERA-P&F average active member salary was \$28,766), 384 local governmental employing units (out of 479 entities receiving police state aid that year, or 80.2%) returned excess police state aid to PERA-P&F, in a total amount of \$1,649,958.88.

### 3. Excess Police State Aid 1989-1993

In 1989, recognizing that PERA-P&F no longer needed the additional funding provided by excess police state aid (with a July 1, 1987, funding ratio of 104.00% and a July 1, 1988, funding ratio of 97.13%) the Legislature changed the disposition of excess police state aid (Laws 1989, Ch. 319, Art. 6). Under the 1989 legislation, excess police state aid was redirected to a special holding account in the Public Employees Retirement Association (PERA) and ultimate payment to the Public Employees Insurance Program (PEIP), administered by the Department of Employee Relations (DOER), to provide a subsidy for the then-recently created medical and hospitalization insurance program for groupings of employees and retirees of smaller local governments.

### 4. Excess Police State Aid 1994

In 1994 (Laws 1994, Ch. 632, Art. 3, Sec. 50) the transfer of the excess police state aid amount to the Public Employees Insurance Plan (PEIP) was discontinued, with \$1 million of any excess police state aid redirected to the then-recently created Ambulance Personnel Longevity Award Program, and the balance of the excess police state aid redeposited in the general fund unless the Legislature creates and funds a statewide police stress reduction and remediation program, whereupon any appropriation for that program is to be deducted from the excess police state aid balance before the general fund cancellation.

### 5. Excess Police State Aid 1995

In 1995, an additional amortization aid program was created (Laws 1995, Ch. 262, Art. 4, Sec. 1). The additional amortization aid first payable in October 1997 allocates one-half of the excess police aid money remaining, after the deduction of the Ambulance Personnel Longevity Award Program funding, to local police and paid firefighter relief associations and consolidation accounts with unfunded actuarial accrued liabilities, based on the relationship that the 1993 unfunded actuarial accrued liability of each bears to the total unfunded actuarial accrued liability of all local police and paid firefighter relief associations and consolidation accounts.

In 1995, with police state aid having grown to \$5,706.00 per police officer and the average police salary level below which excess police state aid is generated having grown to \$50,052.63 (the PERA-P&F average active member salary was \$39,954.00) 403 local government employing units (out of 458 entities receiving police state aid that year, or 87.9%) returned excess police state aid to the PERA excess police state aid holding account, in a total amount of \$3,643,711.64. The excess police state aid ranged from a high of \$151,428.05 from the Ramsey County Sheriff's Department (with an average salary of \$44,721.07) to a low of \$304.30 from the City of Lake Shore in Cass County (with a salary for its single police officer of \$47,383.33).

### 6. Excess Police State Aid 1996

In 1996 (Laws 1996, Ch. 390, Sec. 26-31, 35, 37, 38, 41) the Legislature revised the manner in which excess police state aid would be collected. The intended change was to shift the collection of excess police state aid from a post-distribution process to a pre-distribution process, with the amount of the determined excess police state aid subtracted from the police aid allocation before the aid is paid rather than re-collection after the aid is paid. Unfortunately, the 1996 police state aid changes also inadvertently modified the manner in which excess police state aid is determined for municipalities with freestanding local police relief associations and with local police consolidation accounts and for the Metropolitan Airports Commission. Under the 1996 legislation, the excess police state aid determination used for municipalities and counties solely with PERA-P&F retirement coverage is extended to municipalities with a combination of PERA-P&F coverage and either freestanding local police relief association or local police consolidation account coverage and to the Metropolitan Airports Commission, with a combination of PERA-P&F coverage and Minneapolis Employees Retirement Fund (MERF) coverage.

For seven municipalities with freestanding local police relief associations, like Minneapolis, and for one metropolitan agency, the Metropolitan Airports Commission, with Minneapolis Employees Retirement Fund (MERF) coverage, the per-police officer calculation of aid (\$6,872.00 per police

officer) was compared to the employer pension costs for those police officers with PERA-P&F coverage (typically, post-1980 hires) solely, rather than being exempt from the excess police state aid calculation (as was the pre-1996 law) or than the municipality or agency's total employer police pension costs (an option that would most closely be analogous to the current definition of excess police state aid applicable to municipalities and counties solely covered by PERA-P&F). Because only a portion of the total employer police pension cost was used in determining excess police state aid for municipalities with freestanding local police relief associations, seven of the nine applicable municipalities and one metropolitan agency had a reduction in their police state aid in the September 1996 distribution over their total potential state aid. The affected municipalities, including Minneapolis, the metropolitan agency, and the amount of omitted police state aid for each were as follows:

County	Political Subdivision	1994 No. of Certified Police Officers	1995 Police State Aid	1995 No. of Certified Police Officers	Pre-Exc. 1996 Police State Aid	Employer Pension Cost Certified by PERA	1996 Excess Police State Aid	1996 Police State Aid Paid 9/96
Blue Earth	Mankato	38.83	\$221,581	39.17	\$269,142	\$265,633	\$3,509	\$265,633
Crow Wing	Brainerd	19.92	113,643	20.00	137,434	91,765	45,669	91,765
Dakota	So. St. Paul	23.58	134,565	24.67	169,502	137,125	32,377	137,125
Hennepin	Minneapolis	875.25	4,994,123	875.75	6,017,908	4,099,723	1,918,185	4,099,723
Hennepin	Metro Airports Commission	47.08	268,655	49.25	338,432	307,891	30,541	307,891
Martin	Fairmont	16.08	91,771	15.92	109,375	51,600	57,775	51,600
Polk	Crookston	13.00	74,177	15.00	103,076	50,348	52,728	50,348
Rice	Faribault	22.75	129,810	24.17	166,067	137,843	28,224	137,843

For municipalities with local police consolidation accounts, under a strict reading of the 1996 legislative changes, the per-police officer calculation of aid should have also been compared solely to the employer pension costs for those post-1980 police officers with PERA-P&F coverage and there should have also been an amount of omitted police state aid, like the municipalities with freestanding police relief associations and the Metropolitan Airports Commission. However, PERA varied from the strict letter of the 1996 legislation and added the consolidation account employer pension costs with the post-1980 police officer PERA-P&F employer pension cost. The following compares the amount of 1996 excess police state aid for these municipalities under PERA's non-literal interpretation and the amount of excess police state aid that should have occurred had PERA interpreted the 1996 legislative changes more literally:

County	Political Subdivision	1995 Police State Aid		1996 Police State Aid As Administered				1996 Legislation Provided				
		1994 Number of Certified Police Officers	1995 Police State Aid	1995 Number Certified Police Officers	Pre-Excess 1996 Police State Aid	Employer Pension Cost Certified by PERA	Actual 1996 Excess Police State Aid Collected	Actual 1996 Police State Aid Paid 9/96	Consol. Account Total Employer Cost	1995 PERA-P&F Employer Contrib. (Consol. Account Eliminated)	Recalc 1996 Excess Police State Potentially Collectable	Revised 1996 Police State Aid
Anoka	Anoka	26.92	153,585	28.08	192,981	182,077	10,904	182,077	17,755	164,322	28,659	164,322
Anoka	Columbia Hts	21.50	122,678	23.92	164,349	229,113	0	164,349	45,570	183,543	0	164,349
Anoka	Fridley	35.25	201,134	35.25	242,228	233,403	8,825	233,403	48,219	185,184	57,044	185,184
Brown	New Ulm	17.00	97,001	17.00	116,819	84,056	32,763	84,056	18,635	65,421	51,398	65,421
Dakota	W. St. Paul	22.75	129,810	23.08	158,622	192,184	0	158,622	53,768	138,416	20,206	138,416
Freeborn	Albert Lea	29.00	165,472	27.67	190,118	227,660	0	190,118	46,657	181,003	9,115	181,003
Goodhue	Red Wing	24.92	142,173	24.75	170,075	299,163	0	170,075	33,258	265,905	0	170,075
Hennepin	Bloomington	98.17	560,133	99.50	683,736	662,353	21,383	662,353	264,651	397,702	286,034	397,702
Hennepin	Crystal	24.00	136,943	25.83	177,519	165,559	11,960	165,559	56,176	109,383	68,136	109,383
Hennepin	Richfield	42.67	243,453	43.00	295,484	342,698	0	295,484	89,357	253,341	42,143	253,341
Hennepin	St. Louis Park	49.00	279,591	50.00	343,586	440,245	0	343,586	152,143	288,102	55,484	288,102
Mower	Austin	29.00	165,472	27.08	186,109	178,564	7,545	178,564	36,929	141,635	44,474	141,635
Olmsted	Rochester	98.42	561,559	98.33	675,719	1,713,264	0	675,719	871,733	841,531	0	675,719
Ramsey	St. Paul	544.00	3,104,030	531.75	3,654,037	6,156,328	0	3,654,037	1,806,904	4,349,424	0	3,654,037
St. Louis	Buhl	2.25	12,838	2.00	13,743	6,267	7,476	6,267	0	6,267	7,476	6,267
St. Louis	Chisholm	10.75	61,339	10.00	68,717	97,544	0	68,717	24,606	72,938	0	68,717
St. Louis	Duluth	131.50	750,331	133.83	919,665	2,541,874	0	919,665	1,124,021	1,417,853	0	919,665
St. Louis	Hibbing	27.83	158,815	28.00	192,408	400,859	0	192,408	220,025	180,834	11,574	180,834
Winona	Winona	35.00	199,708	36.33	249,672	428,374	0	249,672	164,352	264,022	0	249,672

Unintentionally, the replacement of the excess police state aid calculation language previously continued in Minnesota Statutes 1994, Section 69.031, Subdivision 5, with Minnesota Statutes 1996, Section 69.021, Subdivision 10, actually redefined excess police state aid for Brainerd, Crookston, Fairmont, Faribault, Mankato, the Metropolitan Airports Commission, Minneapolis, and South St. Paul, and, if it had been accurately implemented by PERA, should have redefined excess police state aid for Albert Lea, Anoka, Austin, Bloomington, Crystal, Fridley, Hibbing, New Ulm, Richfield, St. Louis Park, and West St. Paul. The inadvertent change occurred by defining excess police state aid, in effect, to be any police state aid beyond the employing unit's PERA-P&F employer contribution for the prior calendar year, without specific inclusion of any local police relief association employer cost, any local police consolidation account employer cost, or any MERF employer cost for Metropolitan Airport Commission police officers.

Legislation correcting this unintentional error, with payment of omitted 1996 police state aid amounts and rectification of various police state aid amounts for municipalities with local police consolidation accounts, was enacted in 1997 (Laws 1997, Ch. 233, Art. 1, Sec. 11, 77).

7. Excess Police State Aid After 1996

During the 11-year period 1996 to 2006, excess police state aid grew to a considerable amount, averaging \$10,060,506 annually during the period, with a high of \$19,145,180 (2004) and a low of \$3,106,474 (1999).

With a 19.65% increase in the amount of police state aid over the period 2004-2011 and with an increase in the Public Employees Police and Fire Retirement Plan (PERA-P&F) employer contribution from 9.3% of covered pay to 14.4% of covered pay, the amount of excess police state aid has declined precipitously, from \$19,145,180 in 2004 to \$145,156 in 2011.