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February 28, 2022

Senator John Jasinski, Chair
Senate Local Government Policy Committee
Room 3211, Minnesota Senate Building
95 University Avenue West
Saint Paul, MN 55155

Chair Jasinski and Local Government Policy Committee Members:

The Minnesota Inter-County Association (MICA) represents fifteen of Minnesota's larger and faster growing counties, including four suburban and 11 Greater MN counties.

In 2017-2018, our Association actively participated in and supported efforts to enact the long-term equity investment authority under Minn. Stats, 118A.09. That legislation, however, limited the opportunity to jurisdictions with populations greater than 100,000, or those with a most recently issued general obligation bond rated in the highest category by a national rating agency.

MICA supports the intent of SF2959 (Rest)/HF3176 (Frieberg) to allow jurisdictions under 100,000 to utilize the equity investment authority under Minn. Stats. 118A.09, if the county has attained a general obligation bond rating of AA or higher from one or more national rating agency.

Among our fifteen member counties, seven have populations greater than 100,000 and thus qualify to utilize Minn. Stats. 118A.09 regardless of bond rating, although most also achieve the highest rating. For moderately sized jurisdictions, however, achieving a "triple A' rating can be challenge even if the jurisdiction has a well-established history of financial stability and credit worthiness. Perhaps more importantly, prudent investment of long-term reserves may well improve a jurisdictions financial position consistent with sound debt and reserve management policies.

Modern accounting practices require all counties to recognize and plan for long-term liabilities, such as post-employment benefits, long-term environment care trusts, and compensated absences. As those balances have accumulated, the managing governments understandably seek sensible options for enhancing investment earnings. In reality, most local governments earn only 1-2% on accumulated long-term reserves because they are constrained from investing in equities within established safeguards.

For example, Rice County with a population of 67,000, has current long-term liabilities of approximately $3.1 million for landfill closure and post-closure costs, $1.7 million for post-employment benefits, and $1.1 million in compensated absences. However, despite undertaken intentional efforts to optimize interest earnings with available tools, the County has only been able to achieve an average 2.28% return. Many counties report even lower average earnings.

Overall, expanded eligibility to pursue equity investments within current law safeguards, allows for prudently pursuing market rates of return to decrease the amount of tax revenue or user fees required to pay for mandated needs. For example, earning a return 7.5% rather than 1.50% on even a portion of portfolio would be a substantial improvement over a 10-year period.

We thank Senator Rest for introducing the legislation and Chair Jasinski and Committee members for considering the bill today.

Sincerely,

Matthew D. Massman

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