



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director *LaM*

RE: Designated Commission Interim Study; Appropriate Basis for the Allocation of Fire State Aid

DATE: September 25, 2003

Introduction

As a topic for consideration by the Legislative Commission on Pensions and Retirement during the 2003-2004 Interim, the Commission chair, Representative Steve Smith, has designated a review of the appropriate basis for the allocation of fire state aid.

The interim topic is an outgrowth of proposed pension legislation considered by the Commission during the 2003 Legislative Session, H.F. 427 (Strachan); S.F. 731 (Marko), which would change the manner in which fire state aid is apportioned by shifting the population determinant from solely the decennial federal census to one of four population counts, either the most recent census, any special U.S. Census Bureau census, the annual Metropolitan Council population estimates, or the annual State Demographer population estimates. Because the manner in which fire state aid is apportioned has not been seriously reviewed by the Legislature since the last time the mechanism was revised in 1969, the topic also is ripe for Commission review.

This Commission meeting is the second consideration of the topic by the Commission. The Commission staff expects that full Commission consideration on the topic will require three meetings in total.

This Commission staff issue memorandum is the second issue memorandum for the Commission interim study. This Commission staff issue memorandum presents information on the role that fire state aid and additional volunteer firefighter state aid play in funding firefighter pension programs and the range of fire state aid amounts as a percentage of pension costs, the range of fire state aid amounts per firefighter, and the range of fire state aid amounts per fire run or other measure of fire department activity. The first Commission staff issue memorandum provided general background and historical information about the fire state aid and additional volunteer firefighter state aid programs, to set the stage for further consideration of the topic. The third Commission staff issue memorandum will survey some of the alternative potential bases for allocating state support for firefighters and firefighter pension coverage.

Role That Fire State Aid Plays in Funding Firefighter Pensions

1. In General. Since the creation of fire state aid in Minnesota, in 1885, the primary use for the aid has been the relief of firefighters. Current law, Minnesota Statutes, Section 69.031, Subdivision 5, Paragraph (a), continues that dedication, requiring within 30 days that the municipal treasurer deposit any fire state aid received with the duly incorporated firefighter relief association in the municipality if one is organized and it files a financial report with the municipality. If there is no local firefighter relief association, the fire state aid is required to be deposited into a special municipal account under Minnesota Statutes, Section 69.031, Subdivision 5, Paragraph (a), and expended only for Minnesota fire department association or state volunteer firefighter benefit association dues, the purchase and maintenance of fire equipment, and the payment of construction, repair and maintenance costs of the fire station under Minnesota Statutes, Section 424A.08.

Municipal firefighters have retirement coverage from one or more of three different types of pension plans, either a volunteer firefighters relief association, a local paid firefighters relief association, or the Public Employees Police and Fire Retirement Plan (PERA-P&F). Volunteer firefighter relief associations are governed by Minnesota Statutes, Sections 69.771 to 69.775, and Chapters 424A and 424B. Background information on volunteer firefighter relief associations is presented in Attachment A. Local paid firefighter relief associations were more prominent in Minnesota before 1980, when two dozen existed, but now are represented by two remainder relief associations, the Minneapolis Firefighters Relief Association and the Virginia Fire Department Relief Association. The Minneapolis Firefighters Relief Association is governed by Minnesota Statutes, Section 69.77, and Chapter 423C. The Virginia Fire Department Relief Association is governed by Minnesota Statutes, Section 69.77, and Laws 1953, Chapter 399, as amended. Other paid firefighter relief associations have consolidated with the Public Employees Police and Fire Retirement Plan (PERA-P&F), either

under pre-1987 special legislation or under Minnesota Statutes, Chapter 353A, enacted in 1987. Established in 1958, PERA-P&F initially was almost wholly composed of police officers. The PERA-P&F firefighter membership has grown from around 100 members in the 1970s to 1,466 firefighter members in 2001, or approximately 15 percent of the total plan active membership. PERA-P&F is governed by Minnesota Statutes, Sections 353.63 to 353.69.

2. Firefighter Pension Funding Requirements. The funding requirements for firefighter pension coverage are governed by Minnesota Statutes, Section 69.77 (local paid firefighter relief associations), Minnesota Statutes, Sections 69.771 to 69.774 (volunteer firefighter relief associations), or Minnesota Statutes, Section 353.65 (the Public Employees Police and Fire Retirement Plan (PERA-P&F)).

Minnesota Statutes, Section 69.77, requires local paid firefighter relief associations to obtain annual actuarial valuations of the benefits provided by the special fund of the relief association, calculated by a qualified actuary under the entry age normal cost actuarial method, statutory economic actuarial assumptions, and appropriate demographic actuarial assumptions. Based on the actuarial valuation results, the financial requirements of the relief association and the minimum municipal obligation with respect to the relief association are determined. The financial requirements are the total of the normal cost and the amortization (by 2010) contribution/funding surplus credit (for the Minneapolis Firefighters Relief Association) plus the prior year's administrative expenses increased by 3.5 percent (for the Virginia Fire Department Relief Association). The minimum municipal obligation is the financial requirements of the relief association reduced by the amount of fire state aid expected to be received, the amount of fire insurance premium tax surcharge expected to be received (Minneapolis), the amount of any amortization, supplemental amortization, and additional amortization state aid expected to be received, and the amount of member contributions expected to be deducted in the upcoming years.

Minnesota Statutes, Sections 69.771 and 69.772, relate to volunteer firefighter relief associations that pay lump sum service pensions. The provisions specify the manner in which volunteer firefighter relief association officials are to determine the liability of the relief association special fund and to determine the special fund's annual accruing liability (i.e. the difference between the current year's liability and the projected liability with an additional year of service credit, or normal cost). The financial requirements of the relief association are the annual accruing liability, plus any amortization of the unfunded liability created by recent benefit increases (one-tenth of the benefit increase liability), plus the prior year's administrative expenses of the relief association increased by an inflation factor of 1.035 percent, with that amount reduced by an amount equal to five percent of the relief association's assets representing expected investment earnings, and reduced by one-tenth of any amount of assets in excess of accrued liabilities. The minimum municipal obligation toward the volunteer firefighter relief association is the financial requirements of the relief association reduced by the amount of fire state aid expected to be received from the State of Minnesota.

Minnesota Statutes, Sections 69.771 and 69.773, relate to volunteer firefighter relief associations that pay monthly service pensions in whole or in part. The provisions require the volunteer firefighter relief associations have an actuarial valuation of the special fund prepared by an approved actuary every four years. The financial requirements of the relief association are the normal cost indicated in the valuation, plus the amortization requirement for any unfunded actuarial accrued liabilities, plus the prior year's administrative expenses of the relief association increased by an inflation factor of 1.035 percent, and reduced by an amount equal to one-tenth of any amount of assets in excess of actuarial accrued liabilities. The minimum municipal obligation toward the volunteer firefighter relief associations is the financial requirements of the relief association reduced by the amount of fire state aid expected to be received from the State of Minnesota.

Minnesota Statutes, Sections 69.771 and 69.774, relate to independent nonprofit firefighting corporations and their subsidiary volunteer firefighter relief associations. The provisions require that independent nonprofit firefighting corporations providing lump sum service pensions comply with Minnesota Statutes, Section 69.772, and that independent nonprofit firefighting corporations providing monthly service pensions in whole or in part comply with Minnesota Statutes, Section 69.773.

For firefighters covered by the Public Employees Police and Fire Retirement Plan (PERA-P&F), Minnesota Statutes, Section 353.65, governs the member and employer contribution rates.

According to the Public Employees Retirement Association (PERA), in fiscal year 2001, 1,421 firefighters in 72 municipalities were covered by PERA-P&F. Attachment B sets forth information on the number of active firefighters covered by PERA-P&F in 2001. The PERA-P&F contribution rates are set by the Legislature in general reference to the actuarial valuation results of the retirement plan and revised by the Legislature periodically as the actuarial condition of the plan changes.

3. The Extent of Fire State Aid Contribution Towards Firefighter Pension Coverage Cost. Although fire state aid is largely dedicated for the funding of firefighter pension cost, the portion of that pension cost actually covered by fire state aid varies considerably, partially because of the varying nature of pension coverage for firefighters, partially because of the varying legacies of past pension funding practices, and partially because of variations in fire state aid.

For volunteer firefighter relief associations providing defined contribution retirement coverage, the pension funding obligation is limited to the administrative expenses of the volunteer firefighter relief associations, with the usual practice of these plans being an equal allocation of any fire state aid (and municipal contribution), without the retirement plan document specifying a particular contribution amount. For volunteer firefighter relief associations providing lump sum service pension coverage, the pension funding obligation is calculated in a very amateur and rough-hewn actuarial manner and the funding must not extend beyond the active member’s average career length in order for the relief association to pay a lump sum retirement benefit, so consequently, the annual funding obligation is relatively large. For volunteer firefighter relief associations providing monthly benefit service pension coverage in whole or in part, the pension funding obligation is essentially an actuarial determination, but the actuarial calculations leading to the determination are infrequent (i.e. every four years or with every service pension increase). For the local paid firefighter relief association (Minneapolis and Virginia), the pension funding obligation is an annual actuarial determination and the annual cost reflects the significant maturity of the two programs. For municipalities with full-time firefighters covered by PERA-P&F, the employer contribution is based on the firefighter’s salary and a statutory employer contribution rate that is periodically revised (last revision in 1999, but likely to be revised in 2004 based on the recently approved PERA-P&F actuarial assumption changes). For municipalities with former paid fire relief associations that consolidated with PERA since 1987, that merged into PERA-P&F in 1999, and that had a significant unfunded actuarial accrued liability, there is an additional employer contribution related to their unfunded actuarial liability in 1999.

Attachment C sets forth a comparison of the total firefighter municipal funding obligation and the total fire state aid received for those municipalities with PERA-P&F-covered firefighters. Attachment D sets forth a comparison of the funding obligations for the various volunteer firefighter relief associations and the total fire state aid received.

Excluding volunteer firefighter relief associations that provide defined contribution service pension coverage, where there is essentially no set funding obligation, the following indicates the situation for the 25 fire state aid recipients where fire state aid pays the greatest portion of firefighter pension funding obligations:

County	Municipality	Fire State Aid	FSA Rank	Pension Coverage Cost	FSA-Paid Portion	Pension Cost Payment Rank
Pine	Pine City	\$33,749	111	\$ -8,315	\$ -405.87	1
Becker	Detroit Lakes	48,947	84	11,379	430.12	2
Norman	Ada	9,683	323	4,718	205.22	3
Hennepin	St. Louis Park	192,555	18	114,770	167.77	4
Ramsey	Roseville	151,046	25	92,922	162.55	5
Hennepin	Minnetonka	270,808	10	173,097	156.45	6
Mower	Austin	82,443	53	54,848	150.31	7
Hennepin	Brooklyn Center	102,269	36	72,862	140.36	8
St. Louis	Pequaywan Township	3,945	705	2,811	140.36	9
Dakota	Burnsville	241,426	12	184,360	130.76	10
Hennepin	Plymouth	319,416	5	247,108	129.26	11
St. Louis	Meadowlands Township	3,663	716	2,974	123.18	12
Brown	New Ulm	57,671	75	49,563	116.36	13
Ramsey	White Bear Lake	153,069	24	133,724	114.47	14
Swift	Benson	18,602	186	16,813	110.64	15
Anoka	Spring Lake Park	235,355	13	215,472	109.23	16
McLeod	Hutchinson	64,549	65	60,583	106.53	17

<u>County</u>	<u>Municipality</u>	<u>Fire State Aid</u>	<u>FSA Rank</u>	<u>Pension Coverage Cost</u>	<u>FSA-Paid Portion</u>	<u>Pension Cost Payment Rank</u>
Hennepin	Richfield	126,624	27	119,760	105.73	18
Olmsted	Rochester	374,492	4	374,250	100.06	19
Freeborn	Geneva	5,354	601	5,435	98.50	20
Hennepin	Eden Prairie	288,496	6	303,630	95.02	21
Lyon	Taunton	3,945	709	4,398	89.70	22
Nobles	Bigelow	5,354	593	6,276	85.31	23
Redwood	Revere	5,636	578	6,650	84.76	24
Swift	Danvers	4,509	668	5,424	83.13	25

The top 25 fire state aid recipients in terms of the portion of firefighter pension costs paid by fire state aid include four of the top ten fire state aid amount recipients (Rochester, Plymouth, Eden Prairie, and Minnetonka) and include three of the bottom ten fire state aid amount recipients (Meadowlands Township, Taunton, and Pequaywan Township). The top 25 list includes four municipalities that utilize only paid firefighters (St. Louis Park, Burnsville, Richfield, and Rochester). Of that group, only Burnsville did not have a local paid firefighter relief association that consolidated with PERA and merged with PERA-P&F in 1999. The top 25 list includes seven of the 22 volunteer firefighter relief associations providing the least generous lump sum service pensions (Bigelow at \$100/year, Danvers at \$175/year, Geneva at \$100/year, Meadowlands at \$100/year, Pequaywan Township at \$30/year, Revere at \$50/year, and Taunton at \$120/year), two of the five volunteer firefighter relief associations providing the least generous monthly benefit service pensions (Hutchinson at \$11 per month/year of service and Pine City at \$5.83 per month/year of service), and the volunteer firefighter relief associations with the least generous of the 17 volunteer firefighter relief associations providing an alternative of monthly benefit or lump sum service pensions (Benson at \$800/year).

Firefighter pension coverage, especially volunteer firefighter relief association pension coverage, is a tool for municipalities or independent nonprofit firefighting corporations to recruit potential firefighters and to retain existing firefighters. If the State of Minnesota, through the mechanism of fire state aid, pays most or all of the employer firefighter pension coverage, that practice could lead the employer to provide pension coverage in excess of the amount actually needed to recruit and retain firefighters. If the employer, through the volunteer firefighter relief association, provides a nominal firefighter pension benefit in comparison to the more than 550 other volunteer firefighter relief associations providing defined benefit coverage, it raises a question about the need for that employing unit to provide any pension coverage to recruit and retain firefighters at all and a question about the overall advisability of the fire department undertaking the administrative and other responsibilities of operating a pension program.

An additional question arises with respect to fire state aid and the payment of the PERA-P&F employer contributions. Minnesota Statutes, Sections 69.031, Subdivision 5, Paragraph (a), and 424A.08, which govern the permissible uses of fire state aid and dedicates the fire state aid to a local firefighters relief association, if one exists, does not include as a permissible fire state aid use the payment of the PERA-P&F employer contribution for firefighters. In Burnsville, which only has paid firefighters covered by PERA-P&F, a strict reading of the provisions would require the city to use fire state aid for firefighting equipment purchases and fire station maintenance only. The Commission staff does not have any information about how Burnsville actually uses its sizable amount of fire state aid. In Edina and Coon Rapids, two cities served wholly or primarily by paid firefighters covered by PERA-P&F, the firefighters have established volunteer firefighter relief associations for additional firefighter pension coverage, into which the cities' fire state aid must be deposited. In those two cities, the paid firefighters have concurrent retirement plan coverage for the same service from PERA-P&F and from the local volunteer firefighter relief association, since the Commission staff is informed that federal Wage and Hour laws prohibit the "volunteering" of unpaid services to one's employer. In Duluth, Moorhead, Richfield, Rochester, St. Cloud, St. Louis Park, St. Paul, South St. Paul, West St. Paul, and Winona, where firefighting services are performed wholly by paid firefighters and where the local paid firefighter retirement plan has been consolidated or merged into PERA-P&F, and no local firefighter relief association exists, the fire state aid is presumably used to defray the PERA-P&F employer contribution for its firefighters, although state law does not specifically authorize that use. In Minneapolis, where a local firefighter relief association exists, but has been closed to new entrants since 1980, has few current active members, and has been fully funded for several years, with consequent reduced employer contribution requirements, most city firefighters are covered by PERA-P&F, but state law also does not specifically permit the use of fire state aid to make the PERA-P&F employer contributions. The Commission may wish to consider recommending an amendment to Minnesota Statutes, Sections 69.031, Subdivision 5, and 424A.08, to permit PERA-P&F employer

contributions as an authorized use of fire state aid. Where the fire state aid is currently used to fund volunteer firefighter relief association coverage for paid firefighters, the Commission will need to consider how to structure the expansion of the fire state aid dedication to include PERA-P&F employer contributions.

The Extent of Fire State Aid and the Level of Fire Department Function

1. In General. Although fire state aid is currently dedicated for the use of offsetting the employer cost of local firefighter pension coverage, if any exists, the 1969 fire state aid amendments (Laws 1969, Chapter 1001) clearly were intended to improve the quality and function of the state’s various local fire departments. The 1969 amendments required, as a condition of the receipt of fire state aid, a minimum staffing level (a minimum of ten firefighters), the holding of regularly scheduled meetings and frequent drills, the acquisition of a motorized fire truck and various other pieces of firefighting apparatus and equipment, the use of a suitable fire hall, and the existence of a reliable and adequate fire alarm communication system. The specific requirements are to be determined by the State Fire Marshal. The fire department quality and function requirements are coded in Minnesota Statutes, Section 69.011, Subdivision 4.
2. Comparison of the Magnitude of Fire State Aid and the Number of Fire Department Fire Runs. A potential measure of the need for fire department support is the extent of fire runs conducted by the fire department.

Attachment E contains a comparison of fire state aid receipts and the number of fire runs by the fire department. The information on fire runs covers a three-year period (1999-2001) and is drawn from the reports “Fire In Minnesota” produced by the State Fire Marshal Division of the Department of Public Safety (www.dps.state.mn.us/fmarshal/mfirs/FireinMinnesota2001hyperlinked.pdf) for 1999, 2000, and 2001. The level of fire department responses is reported by the various fire departments under the Minnesota Fire Incident Reporting System. The State Fire Marshal Division website does not define what constitutes a fire run, so there could be some variability in the self-reported results stemming from definitional differences between fire departments.

The comparison indicates some variability in the rankings of the number of fire runs and the ranking of the amount of fire state aid, as exemplified by the following information on municipalities with the greatest three-year average number of fire runs by the fire department:

<u>County</u>	<u>Fire Department</u>	<u>3-Year Average Fire Runs</u>	<u>3-Year Average Fire Run Ranking</u>	<u>Population Ranking</u>	<u>Market Value Ranking</u>	<u>Final Fire State Aid Amount</u>	<u>Fire State Aid Amount Ranking</u>
Ramsey	St. Paul, City of	1361.67	1	2	2	\$974,894	2
Hennepin	Minneapolis, City of	657.00	2	1	1	1,488,501	1
St. Louis	Duluth, City of	457.67	3	4	15	279,525	7
Hennepin	Brooklyn Park, City of	281.33	4	6	14	243,523	11
Stearns	St. Cloud, City of	269.00	5	11	21	206,635	17
Olmsted	Rochester, City of	252.33	6	3	7	374,492	4
Hennepin	Bloomington, City of	238.67	7	5	3	411,764	3
Anoka	Spring Lake Park, City of	222.33	8	8	16	235,355	13
Anoka	Coon Rapids, City of	186.33	9	10	18	222,453	15
Dakota	Burnsville, City of	178.33	10	12	11	241,426	12
Hennepin	Plymouth, City of	165.00	11	7	4	319,416	5
Hennepin	Maple Grove, City of	153.33	12	15	10	225,165	14
Hennepin	St. Louis Park, City of	146.33	13	19	17	192,555	18
Dakota	Eagan, City of	138.67	14	9	9	273,233	9
Blue Earth	Mankato, City of	134.33	15	28	36	118,511	29
Beltrami	Bemidji, City of	122.33	16	34	55	94,557	44
Hennepin	West Metro Fire Rescue	115.67	17	21	26	155,419	22
Anoka	Anoka, City of	115.33	18	22	25	154,707	23
Hennepin	Brooklyn Center, City of	114.33	19	33	44	102,269	36
Hennepin	Edina, City of	114.33	20	16	5	275,024	8
Anoka	Fridley, City of	114.33	21	35	35	110,931	31
Dakota	Hastings, City of	113.33	22	41	39	101,114	38
Hennepin	Richfield, City of	112.67	23	26	29	126,624	27
Scott	Shakopee, City of	111.00	24	45	31	103,284	33
Crow Wing	Brainerd, City of	110.00	25	30	28	122,920	28

Of interest, eight of the top 25 recipients of fire state aid are not among the top 25 in the number of fire runs:

- Eden Prairie (#6 in fire state aid, #33 in fire runs);
- Minnetonka (#10 in fire state aid, #26 in fire runs);
- Woodbury (#16 in fire state aid, #62 in fire runs);
- Lake Johanna (#19 in fire state aid, #38 in fire runs);
- Apple Valley (#20 in fire state aid, #73 in fire runs);
- Lakeville (#21 in fire state aid, #32 in fire runs);
- White Bear Lake (#24 in fire state aid, #29 in fire runs); and
- Roseville (#25 in fire state aid, #35 in fire runs).

3. Comparison of the Magnitude of Fire State Aid and the Number of Fire Department “Other” Runs.
Another potential measure of the need for fire department support is the extent of other runs undertaken by the fire department, which are presumably first responder or paramedic runs.

Attachment E also contains a comparison of fire state aid receipts and the number of “other” runs undertaken by the fire department, also from the Department of Public Safety, Fire Marshal Division “Fire In Minnesota” reports for 1999, 2000, and 2001.

The comparison indicates great variability in the rankings of the number of other fire department runs and the rankings of the amount of fire state aid, as exemplified by the following information on municipalities with the greatest three-year average number of “other” runs by the fire departments:

County	Fire Department	3-Year Average Other Runs	3-Year Average Other Runs Ranking	Popula- tion Ranking	Market Value Ranking	Final Fire State Aid Amount	Fire State Aid Amount Ranking
Ramsey	St. Paul, City of	10,678.67	1	2	2	\$974,894	2
Hennepin	Minneapolis, City of	8,243.00	2	1	1	1,488,501	1
St. Louis	Duluth, City of	5,938.33	3	4	15	279,525	7
Olmsted	Rochester, City of	5,013.33	4	3	7	374,492	4
Hennepin	Edina, City of	3,896.33	5	16	5	275,024	8
Anoka	Coon Rapids, City of	3,693.33	6	10	18	222,453	15
Hennepin	St. Louis Park, City of	3,391.33	7	19	17	192,555	18
Hennepin	Richfield, City of	2,938.67	8	26	29	126,624	27
Ramsey	Maplewood, City of	2,548.33	9	25	24	145,662	26
Anoka	Fridley, City of	2,160.67	10	35	35	110,931	31
St. Louis	Virginia, City of	2,144.33	11	107	169	28,351	126
Dakota	Burnsville, City of	2,031.33	12	12	11	241,426	12
Anoka	Columbia Hts. , City of	1,942.00	13	58	79	61,896	69
Blue Earth	Mankato, City of	1,880.67	14	28	36	118,511	29
Clay	Moorhead, City of	1,863.67	15	29	54	103,004	34
St. Louis	Hibbing, City of	1,826.33	16	65	96	52,546	82
Washington	Woodbury VFD, Inc.	1,714.00	17	17	12	208,761	16
Dakota	South St. Paul, City of	1,576.33	18	53	73	68,624	61
Dakota	West St. Paul, City of	1,545.33	19	54	62	70,712	59
Washington	Cottage Grove, City of	1,453.67	20	31	41	107,975	32
Winona	Winona, City of	1,354.67	21	37	56	91,729	46
Hennepin	West Metro Fire Rescue	1,272.33	22	21	26	155,419	22
Washington	Oakdale VFD, Inc.	1,255.67	23	36	42	99,889	40
Hennepin	Eden Prairie, City of	1,224.00	24	13	6	288,496	6
Stearns	St. Cloud, City of	1,197.33	25	11	21	206,635	17

Thirteen of the top 25 recipients of fire state aid are not among the top 25 in the number of other runs:

- Bloomington (#3 in fire state aid, #28 in other runs);
- Plymouth (#5 in fire state aid, #26 in other runs);
- Eagan (#9 in fire state aid, #37 in other runs);
- Minnetonka (#10 in fire state aid, #42 in other runs);
- Brooklyn Park (#11 in fire state aid, #27 in other runs);
- Spring Lake Park (#13 in fire state aid, #29 in other runs);
- Maple Grove (#14 in fire state aid, #40 in other runs);
- Lake Johanna (#19 in fire state aid, #55 in other runs);
- Apple Valley (#20 in fire state aid, #30 in other runs);

- Lakeville (#21 in fire state aid, #47 in other runs);
- Anoka (#23 in fire state aid, #45 in other runs);
- White Bear Lake (#24 in fire state aid, #58 in other runs); and
- Roseville (#25 in fire state aid, #48 in other runs).

4. **Comparison of Fire State Aid and Total Fire Department Runs.** Another potential measure of the need for fire department support is the extent of the total activity, fire runs and other runs, undertaken by the fire department.

Attachment E contains a total state comparison of total fire department runs for the average of a three-year period ending in 2001 and the fire state aid received in 2002.

The comparison indicates considerable variability in the rankings of the total average number of fire department runs and the rankings of the amount of fire state aid, as exemplified by the following information on municipalities with the greatest amount of total fire department activity:

<u>County</u>	<u>Fire Department</u>	<u>3-Year Average Total Runs</u>	<u>3-Year Average Total Runs Ranking</u>	<u>Population Ranking</u>	<u>Market Value Ranking</u>	<u>Final Fire State Aid Amount</u>	<u>Fire State Aid Amount Ranking</u>
Ramsey	St. Paul, City of	12,040	1	2	2	\$974,894	2
Hennepin	Minneapolis, City of	8,900	2	1	1	1,488,501	1
St. Louis	Duluth, City of	6,396	3	4	15	279,525	7
Olmsted	Rochester, City of	5,265	4	3	7	374,492	4
Hennepin	Edina, City of	4,010	5	16	5	275,024	8
Anoka	Coon Rapids, City of	3,879	6	10	18	222,453	15
Hennepin	St. Louis Park, City of	3,537	7	19	17	192,555	18
Hennepin	Richfield, City of	3,051	8	26	29	126,624	27
Ramsey	Maplewood, City of	2,616	9	25	24	145,662	26
Anoka	Fridley, City of	2,275	10	35	35	110,931	31
Dakota	Burnsville, City of	2,209	11	12	11	241,426	12
St. Louis	Virginia, City of	2,178	12	107	169	28,351	126
Anoka	Columbia Hts., City of	2,016	13	58	79	61,896	69
Blue Earth	Mankato, City of	2,015	14	28	36	118,511	29
Clay	Moorhead, City of	1,928	15	29	54	103,004	34
St. Louis	Hibbing, City of	1,900	16	65	96	52,546	82
Washington	Woodbury VFD, Inc.	1,779	17	17	12	208,761	16
Dakota	South St. Paul, City of	1,680	18	53	73	68,624	61
Dakota	West St. Paul, City of	1,616	19	54	62	70,712	59
Washington	Cottage Grove, City of	1,522	20	31	41	107,975	32
Stearns	St. Cloud, City of	1,466	21	11	21	206,635	17
Winona	Winona, City of	1,428	22	37	56	91,729	46
Hennepin	West Metro Fire Rescue	1,388	23	21	26	155,419	22
Hennepin	Brooklyn Park, City of	1,386	24	6	14	243,523	11
Washington	Oakdale VFD, Inc.	1,321	25	36	42	99,889	40

Thirteen of the top 25 fire state aid recipients are not among the top 25 fire departments in terms of a three-year average of fire runs. The fire state aid recipients are:

- Bloomington (#3 in fire state aid, #27 in total runs);
- Plymouth (#5 in fire state aid, #28 in total runs);
- Eden Prairie (#6 in fire state aid, #26 in total runs);
- Eagan (#9 in fire state aid, #34 in total runs);
- Minnetonka (#10 in fire state aid, #42 in total runs);
- Spring Lake Park (#13 in fire state aid, #29 in total runs);
- Maple Grove (#14 in fire state aid, #40 in total runs);
- Lake Johanna (#19 in fire state aid, #56 in total runs);
- Apple Valley (#20 in fire state aid, #30 in total runs);
- Lakeville (#21 in fire state aid, #46 in total runs);
- Anoka (#23 in fire state aid, #45 in total runs);
- White Bear Lake (#24 in fire state aid, #58 in total runs); and
- Roseville (#25 in fire state aid, #47 in total runs).

The Number of Firefighters Compared to Fire State Aid Receipts

1. In General. Fire state aid is largely dedicated for offsetting the cost of firefighter pension coverage, if any exists. Along with the level of the promised level of firefighter benefit coverage, the number of firefighters is a primary influencing factor on the cost of total firefighter pension cost. The number of firefighters also should be a good measure of the need for firefighting services if the fire department is a well-run organization that adjusts its staffing based on its actual service requirements.
2. Comparison of Fire State Aid and the Average Number of Firefighters. A potential measure of the adequacy of the current fire state aid allocation method is the comparison between the relative generosity of fire state aid and the average number of firefighters.

Attachment F contains a comparison of fire state aid recipients and the number of firefighters serving the fire department. The information on the number of firefighters covers a three-year period (1999-2001) and is drawn from the volunteer firefighter relief association compilation reports assembled by the Office of the State Auditor, the actuarial valuation reports of the Bloomington Firefighters Relief Association and the Minneapolis Firefighters Relief Association, and information provided by PERA. The position of firefighter is generally well defined in fire departments with salaried firefighters, but there is no statewide statutory definition of who appropriately are to be considered to be firefighters among the various volunteer fire departments and volunteer firefighter relief associations. Anecdotal information available to the Commission staff indicates that some volunteer firefighters are given that status based on the volunteer firefighter relief association administrative services they perform rather than their contribution to firefighting, which would overstate some fire department firefighter counts.

The comparison indicates some variability in the rankings of the number of firefighters and the ranking of the amount of fire state aid, as exemplified by the following information on municipalities with the greatest three-year average number of firefighters:

County	Fire Department	Average Number of Firefighters	Firefighter Number Ranking	Population Ranking	Market Value Ranking	Total Fire State Aid Amount	Fire State Aid Amount Ranking
Hennepin	Minneapolis, City of	429.00	1	1	1	\$1,488,501	1
Ramsey	St. Paul, City of	252.33	2	2	2	974,894	2
Hennepin	Bloomington, City of	149.67	3	5	3	411,764	3
St. Louis	Duluth, City of	114.00	4	4	15	279,525	7
Ramsey	Maplewood, City of	110.33	5	25	24	145,662	26
Dakota	Eagan, City of	94.66	6	9	9	273,233	9
Hennepin	Maple Grove, City of	86.33	7	15	10	225,165	14
Olmsted	Rochester, City of	77.67	8	3	7	374,492	4
Stearns	St. Cloud, City of	76.00	9	11	21	206,635	17
Hennepin	Eden Prairie, City of	75.66	10	13	6	288,496	6
Hennepin	Minnetonka, City of	75.66	11	14	8	270,808	10
Dakota	Lakeville, City of	68.33	12	20	20	176,147	21
Hennepin	West Metro Fire Rescue	68.33	13	21	26	155,419	22
Anoka	Spring Lake Park, City of	68.00	14	8	16	235,355	13
Dakota	Apple Valley, City of	66.66	15	18	19	181,992	20
Ramsey	Roseville, City of	65.00	16	27	22	151,046	25
Hennepin	Brooklyn Park, City of	64.66	17	6	14	243,523	11
Washington	Woodbury VFD, Inc.	64.00	18	17	12	208,761	16
Hennepin	Plymouth, City of	63.66	19	7	4	319,416	5
Ramsey	Lake Johanna VFD, Inc.	63.00	20	23	13	188,776	19
Anoka	Coon Rapids, City of	58.66	21	10	18	222,453	15
Hennepin	Edina, City of	53.66	22	16	5	275,024	8
Washington	Cottage Grove, City of	52.67	23	31	41	107,975	32
Dakota	Hastings, City of	50.33	24	41	39	101,114	38
Washington	Oakdale VFD, Inc.	48.66	25	36	42	99,889	40

Four of the top 25 fire state aid recipients are not among the top 25 in the number of firefighters in the municipality. Fire departments not among the 25 top in both lists are:

- Burnsville (#12 in fire state aid, #51 in the number of firefighters);
- St. Louis Park (#18 in fire state aid, #319 in the number of firefighters);
- Anoka (#23 in fire state aid, #36 in the number of firefighters); and
- White Bear Lake (#24 in fire state aid, #31 in the number of firefighters).

3. Comparison of Fire State Aid Per Firefighter. Another potential measure of the adequacy of the current fire state aid allocation method is a comparison of the amount of fire state aid per firefighter. The measure is closely related to the comparison of fire state aid and the average number of firefighters.

Attachment F contains a comparison of the amount of fire state aid per firefighter.

The comparison indicates considerable variability in the rankings of the relative magnitude of fire state aid per firefighter and the magnitude of fire state aid received by the municipality or firetown, as exemplified by the following information on municipalities with the greatest amount of fire state aid per firefighter:

<u>County</u>	<u>Fire Department</u>	<u>Fire Aid Per Firefighter</u>	<u>Fire Aid Per Firefighter Ranking</u>	<u>Population Ranking</u>	<u>Market Value Ranking</u>	<u>Total Fire State Aid Amount</u>	<u>Fire State Aid Amount Ranking</u>
Rice	Faribault, City of	\$8,518.46	1	42	50	\$90,892	47
Hennepin	St. Louis Park, City of	8,134.98	2	19	17	192,555	18
Blue Earth	Mankato, City of	7,257.25	3	28	36	118,511	29
Dakota	Burnsville, City of	6,645.36	4	12	11	241,426	12
Hennepin	Richfield, City of	5,276.00	5	26	29	126,624	27
Hennepin	Edina, City of	5,124.67	6	16	5	275,024	8
Hennepin	Plymouth, City of	5,017.00	7	7	4	319,416	5
Winona	Winona, City of	4,827.84	8	37	56	91,729	46
Olmsted	Rochester, City of	4,821.57	9	3	7	374,492	4
Ramsey	St. Paul, City of	3,863.56	10	2	2	974,894	2
Hennepin	Eden Prairie, City of	3,812.72	11	13	6	288,496	6
Anoka	Coon Rapids, City of	3,791.81	12	10	18	222,453	15
Hennepin	Brooklyn Park, City of	3,765.81	13	6	14	243,523	11
Anoka	Anoka, City of	3,741.91	14	22	25	154,707	23
Dakota	West St. Paul, City of	3,721.68	15	54	62	70,712	59
Dakota	South St. Paul, City of	3,675.62	16	53	73	68,624	61
Hennepin	Minnetonka, City of	3,578.96	17	14	8	270,808	10
Clay	Moorhead, City of	3,471.65	18	29	54	103,004	34
Hennepin	Minneapolis, City of	3,469.69	19	1	1	1,488,501	1
Anoka	Spring Lake Park, City of	3,461.10	20	8	16	235,355	13
Freeborn	Albert Lea, City of	3,443.49	21	60	91	57,403	76
Ramsey	White Bear Lake, City of	3,426.91	22	24	23	153,069	24
Washington	Woodbury VFD, Inc.	3,261.89	23	17	12	208,761	16
Anoka	Fridley, City of	3,169.45	24	35	35	110,931	31
Washington	Stillwater, City of	3,136.39	25	48	30	101,410	37

Ten of the top 25 fire state aid recipients were not among the top 25 in the amount of fire state aid per firefighter received by the municipality or firetown. The omitted fire state aid recipients are:

- Bloomington (#3 in fire state aid, #32 in the amount of fire state aid per firefighter);
- Duluth (#7 in fire state aid, #43 in the amount of fire state aid per firefighter);
- Eagan (#9 in fire state aid, #29 in the amount of fire state aid per firefighter);
- Maple Grove (#14 in fire state aid, #37 in the amount of fire state aid per firefighter);
- St. Cloud (#17 in fire state aid, #34 in the amount of fire state aid per firefighter);
- Lake Johanna (#19 in fire state aid, #28 in the amount of fire state aid per firefighter);
- Apple Valley (#20 in fire state aid, #33 in the amount of fire state aid per firefighter);
- Lakeville (#21 in fire state aid, #39 in the amount of fire state aid per firefighter);
- West Metro Fire Rescue (#22 in fire state aid, #52 in the amount of fire state aid per firefighter); and
- Roseville (#25 in fire state aid, #50 in the amount of fire state aid per firefighter).

Of the top 25 municipalities/firetowns ranked on the basis of fire state aid per firefighter, 12 are municipalities solely employing full-time paid firefighters (Faribault, St. Louis Park, Burnsville, Richfield, Winona, Rochester, St. Paul, West St. Paul, South St. Paul, Moorhead, Albert Lea, and Minneapolis) and three are municipalities primarily employing full-time paid firefighters (Coon Rapids, Edina, and Mankato). Because of the use of paid firefighters rather than volunteer firefighters, municipalities with wholly or primarily paid fire departments can be expected to have a fewer number of firefighters and, hence, a greater amount of fire state aid per firefighter.

Age of Housing Stock Compared to Fire State Aid Receipts

The current distribution of fire state aid relies primarily on two geographic measures, the population and the market value of the property of the area served by the fire department, for the need for fire services. The current allocation method does not appear to factor in the relative age or condition of the housing stock served by the fire department, although the condition of the housing stock clearly contributes to local decisions on the size of a fire department, the need for firefighters, and the magnitude of firefighter pension coverage needed to be provided to attract and retain quality firefighters.

Attachment F contains a comparison of the total amount of fire state aid, the geographic factors largely giving rise to that state aid amount, and the percentage of the housing stock in 2000 that was older than 40 years. The housing stock age figures are taken from 2000 federal census data as contained on the Minnesota State Demographer's website for the municipality primarily served by the fire department. The census information does not always coincide with firetown boundaries, so the total firetown housing stock information for fire state aid recipients could vary from the information contained in the comparison because additional jurisdictions or parts of jurisdictions are also included in the firetown.

The comparison indicates that the fire state aid recipients in 2002 with the oldest housing stock in 2002 are among the recipients of the least amount of fire state aid, as exemplified by the following information:

<u>County</u>	<u>Fire Department</u>	<u>% Houses 40 Years & Older</u>	<u>House Age Ranking</u>	<u>Population Ranking</u>	<u>Market Value Ranking</u>	<u>Total Fire State Aid Amount</u>	<u>Fire State Aid Amount Ranking</u>
Martin	Dunnell, City of	100.00	1	683	560	\$4,227	689
Redwood	Seaforth, City of	100.00	2	760	757	0	765
Mower	Mapleview, City of	97.90	3	741	753	5,072	638
Watonwan	LaSalle, City of	95.30	4	757	755	3,663	715
Watonwan	Darfur, City of	91.50	5	706	633	4,509	669
Lac qui Parle	Nassau, City of	91.50	6	733	733	5,636	574
Cottonwood	Jeffers, City of	90.60	7	608	479	5,636	569
Redwood	Wanda, City of	86.30	8	699	608	5,636	583
Lyon	Garvin, City of	85.90	9	739	739	4,227	690
Redwood	Clements, City of	85.30	10	690	609	6,200	516
Nobles	Lismore, City of	85.00	11	613	566	6,482	500
Murray	Iona, City of	84.40	12	698	652	2,536	738
Grant	Wendell, City of	83.00	13	595	414	5,636	586
Big Stone	Odessa Farm F.D.	82.50	14	722	719	3,663	717
Faribault	Delavan, City of	81.50	15	625	477	5,354	599
Le Sueur	Kilkenny, City of	81.30	16	467	442	6,200	522
St. Louis	Hoyt Lakes, City of	81.10	17	358	522	7,045	434
Faribault	Walters, City of	80.90	18	701	648	4,791	660
Faribault	Bricelyn, City of	80.70	19	610	519	6,200	515
Jackson	Okabena, City of	80.70	20	671	573	5,636	576
Lac qui Parle	Boyd, City of	80.30	21	632	585	5,354	596
Traverse	Dumont, City of	80.00	22	731	660	5,636	562
St. Louis	Biwabik, City of	79.60	23	564	692	6,200	514
Redwood	Sanborn, City of	79.50	24	578	532	5,354	614
Stevens	Donnelly, City of	79.20	25	587	506	7,609	389

None of the top 25 fire state aid recipients are in the top 25 based on the age of the housing stock. Of the top 25 fire state aid recipients, the only municipalities with a significant percentage of older housing stock are:

- Minneapolis (#1 in fire state aid, #64 in age of housing stock);
- St. Paul (#2 in fire state aid, #85 in age of housing stock);
- Duluth (#7 in fire state aid, #71 in age of housing stock); and
- St. Louis Park (#18 in fire state aid, #273 in age of housing stock).

Statewide, on average, 39.2 percent of the state's housing stock was 40 years of age or older in 2000.

Method of Structure Heating Compared to Fire State Aid Receipts

The current method for allocating fire state aid also does not specifically factor in any fire hazard that is related to the manner in which the structure is heated. Presumably, structures heated by wood or coal are a more significant fire risk than other methods of heating.

Attachment F contains a comparison of the total amount of fire state aid, the geographic factors that largely underlie that allocation, and the percentage of structures heated by wood or coal. The heating fuel information is from the 2000 federal census, although the information is limited to the primary local government unit located in the firetown.

The comparison indicates that the fire state aid recipients with a significant percentage of structures heated by wood or coal are among the recipients of the least amount of fire state aid, as exemplified by the following:

County	Fire Department	Popula- tion	% Wood/ Coal Heated Houses	Wood Heat Ranking	Population Ranking	Market Value Ranking	Total Fire State Aid Amount	Fire State Aid Amount Ranking	Ave. # of Fire Runs	Fire Run Ranking
Morrison	Swanville, City of	1,902	32.16	1	381	464	6,478	506	3.33	629
Carlton	Mahtowa, Town of	913	30.61	2	573	675	4,509	674	5.00	557
St. Louis	Colvin, Town of	364	28.66	3	713	721	4,227	688	3.33	622
Beltrami	Alaska, Town of	842	28.05	4	591	664	4,227	685	4.33	579
St. Louis	Toivola VFD, Inc.	414	27.69	5	703	678	6,482	504	1.67	673
St. Louis	Elmer VFD, Inc.	165	24.59	6	748	748	4,509	670	3.00	634
Aitkin	McGrath, City of	277	24.00	7	725	737	5,636	571	2.00	662
Itasca	Balsam, Town of	987	23.08	8	550	461	5,636	553	6.67	499
Carlton	Blackhoof, Town of	984	22.26	9	551	659	5,636	557	4.33	581
St. Louis	McDavitt VFD, Inc.	560	21.93	10	666	708	5,072	639	7.67	475
Carlton	Cromwell, City of	1,185	20.63	11	502	611	7,609	388	8.00	463
St. Louis	Northland VFD, Inc.	254	20.00	12	729	710	2,818	736	4.33	596
St. Louis	Pike-Sandy-Britt VFD	2,708	20.00	13	294	474	8,454	365	13.33	326
Carlton	Wright, City of	490	20.00	14	682	709	5,072	641	0.00	764
St. Louis	Pequaywan, Town of	133	19.64	15	752	728	3,945	705	1.00	692
St. Louis	Ellsburg, Town of	174	19.23	16	743	727	2,818	735	6.33	511
Clearwater	Shevlin, City of	594	18.84	17	656	677	5,636	580	16.00	269
St. Louis	Vermilion Lake, Town of	353	18.84	18	715	720	4,509	678	4.67	578
Becker	Wolf Lake, City of	1,814	18.75	19	396	505	6,011	531	15.67	284
Hubbard	Lakeport, Town of	1,118	18.73	20	521	533	4,442	682	6.33	513
Cass	Federal Dam, City of	624	18.00	21	653	670	1,902	744	0.33	704
Hubbard	Lake George VFD	982	17.88	22	554	604	4,791	650	0.00	743
Itasca	Goodland, Town of	496	17.50	23	681	712	5,072	633	2.00	657
St. Louis	French Township	470	17.14	24	685	571	7,045	428	6.33	512
Cook	Tofte, Town of	226	16.35	25	735	622	3,100	732	0.00	760

Duluth (#7 in fire state aid, #311 is wood heat rank) is the highest ranking top 25 fire state aid recipient with the greatest percentage of wood or coal-heated structures, although only six-tenths of one percent of Duluth structures are heated in this manner.

Conclusion

This memorandum is intended to raise questions for Commission members about the policy emphasis contained in the current fire state aid allocation method and to begin a conversation among and with the representatives of the fire service about whether the current allocation method is the most appropriate manner to support the fire service and firefighters pension coverage in Minnesota.

If the information contained in this memorandum and any testimony from fire service representatives results in interest on the part of Commission members for an exploration of the options available to revise the current fire state aid allocation formula, the Commission staff will explore those options in the subsequent Commission staff issue memorandum.