

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director

RE: S.F. 1927 (Betzold); H.F. 1799 (Wardlow): Volunteer Firefighter Relief Associations;
Statewide Volunteer Firefighter Retirement Plan Study

DATE: March 28, 2005

Summary of S.F. 1927 (Betzold); H.F. 1799 (Wardlow)

S.F. 1927 (Betzold); H.F. 1799 (Wardlow) creates a 21-member task force to make recommendations for the design of a statewide volunteer firefighter retirement plan, including the investment vehicles that would be used, plan administration and corporate governance, incentives needed to formulate the plan, and state resources needed for the plan. The Department of Public Safety would provide administrative services for the task force. The task force members are the State Auditor or the Auditor's designee, four individuals appointed by the president of the Minnesota Area Relief Association Coalition, four appointed by the president of the Minnesota State Fire Department Association, four appointed by the president of the Minnesota State Fire Chiefs Association, four by the board of directors of the League of Minnesota Cities, two by the board of directors of the Insurance Federation of Minnesota, and two by the board of directors of the Minnesota Association of Farm Mutual Insurance companies. The task force shall file its report with various legislative committees and commissions by January 15, 2006. The task force is funded with a \$40,000 state general fund appropriation.

Discussion

S.F. 1927 (Betzold); H.F. 1799 (Wardlow), which updates the 2004 Session H.F. 2886 (Haas), would create a task force to produce a study advising the Legislature in creating a statewide volunteer firefighter retirement plan. The plan, if established, presumably would replace some or most volunteer firefighter relief associations.

Regarding the task force and its duties as stated in the bill, volunteer firefighter organizations have a majority of members on the task force. Little is stated in the bill about how the task force would conduct its study. The proposed legislation contains no statement requiring the task force to survey volunteer firefighter relief associations or hold various regional meetings to receive reactions from volunteer firefighters and from the general public. Perhaps sufficient surveys and other input have already been received from the local relief associations or it is believed that the task force membership adequately represents these groups.

Bills to create a volunteer fire task force were introduced in 2002, 2003, and 2004. The 2003 bills provided some additional controls or requirements regarding how the study was to be structured. Under the 2003 Session H.F. 489 (Rhodes); S.F. 449 (Johnson, D.E.), the task force was to be staffed by the Management Analysis Division of the Department of Administration, and the proposed budget was much larger than in the current bill, \$300,000 compared to \$40,000. The Management Analysis Division was to conduct a statewide survey of volunteer fire relief associations and conduct a series of public meetings around the state to obtain comments from volunteer firefighters, and presumably others. An actuary was to be retained to suggest possible benefit levels and their associated cost. The 2003 bills met strong opposition in part because of the requested \$300,000 appropriation.

Representative Haas's 2004 bill, upon which S.F. 1927 (Betzold); H.F. 1799 (Wardlow) is modeled, was a scaled-down version of the 2003 bills, with a more modest appropriation request of \$40,000. The presumed intention was to create a study proposal that could win legislative passage. But in downsizing the bill proposing the task force study, language was removed which would help insure grass root input and support, and specifying how the study would be done. There is no language stating that volunteer fire relief associations must be surveyed, or that any regional public meetings are to occur. Since S.F. 1927 (Betzold); H.F. 1799 (Wardlow) is virtually identical to the 2004 bill, the Commission may wish to consider whether some specificity should be added to the current draft.

S.F. 1927 (Betzold); H.F. 1799 (Wardlow) raises several pension and related public policy issues, as follows:

1. Presumption that Statewide Plan Should be Created. The language presumes that a statewide plan should be created. Under the language, the task force is to recommend investment vehicles for the plan, administration, staffing, and state resources needed to support the plan, but the task force is not asked to recommend whether a statewide plan should be created. The Commission may wish to consider an amendment to have the task force address that basic question. The Commission may also wish to consider whether regional plans rather than a single statewide plan should be created. Regional plans rather than a single plan might be better accepted by the volunteer fire community, but might add unnecessary staff, investment expenses, or other costs that could be avoided by a single plan system. There might be a need in the more distant future for the Legislature to consider merging those regional plans.
2. Appropriateness of the Relative Proportion of Task Force Representation. The policy issue is the appropriateness of weighting the task force membership more heavily from the volunteer firefighter community than from other interested parties. The proposed legislation would give the volunteer firefighter community 57 percent of the total membership on the task force. This may help sell the idea of the task force and study to a suspicious volunteer firefighter community, but if the goal of the task force actually is to dispassionately gain information on the topic and report its findings, the over-weighting may not be necessary or desirable. The representation within the proposed task force could be altered or, in lieu of this proposal, a third party such as the University of Minnesota or the Citizen's League could be asked to undertake the study.
3. Unnecessary Legislation Because a Self-Help Remedy Is Available. The policy issue is the appropriateness of the proposed legislation and its use of state resources (a \$40,000 appropriation) and the use of legislative time and effort when the interested parties have a self-help remedy of conducting a study on their own. Any of the parties represented in the proposed study task force could establish a task force or a working group that could study this topic of a statewide volunteer fire fund and plan, without any legislation. The legislative proposal serves mainly as an effort to obtain state funding. Earlier versions of this study proposal (the 2002 bills) would have used a portion of fire state aids. Given opposition to that proposal, the 2003 proposed legislation requested \$300,000 through a general fund appropriation. Representative Haas's 2004 bill requested \$40,000 through a general fund appropriation, as does S.F. 1927 (Betzold); H.F. 1799 (Wardlow).
4. Public Purpose for Statewide Plan. The question is whether there would be a clear benefit to Minnesota's citizens if a statewide volunteer fire plan were created. When the task force idea was first proposed a few years ago, the chief proponent, the Minnesota Area Relief Association Coalition, argued that a statewide plan would benefit the volunteer firefighters by providing higher benefits to the firefighters. While this would be an advantage to the firefighters who receive those benefits, the coalition was not providing any reason why a statewide plan would serve the general public and be worthy of broad legislative support. In any event, there is no need to create a statewide plan to provide higher benefits. That could be provided within the current decentralized system by increased municipal support and by better investment performance from the approximately 700 volunteer fire relief associations.

There is a potential advantage in a statewide plan, but it has not been well articulated. There is also risk. Regarding the advantage, there is ample material in Office of State Auditor reports and other sources indicating that the typical volunteer fire relief association considerably underperforms the State Board of Investment over long periods. Thus one can argue that a statewide plan should be capable of producing more investment growth and lowering the cost of providing any given level of pensions. However, the risk is that this advantage will be wasted if a statewide volunteer fire plan fund is invested by unknowledgeable or undisciplined investors, if the plan's administrative expenses are not kept lean, if staff and administrators are hired to administer the plan although the work could be performed by existing state pension organizations at a fraction of the cost, or if any net advantage is used to provide pensions in excess of that necessary to ensure an adequate supply of volunteer firefighters.

5. Reasonableness of the Proposed Appropriation Amount, and Use of the Appropriation. The policy issue is the reasonableness of the proposed appropriation, \$40,000, to hire a consultant to assist the task force. There is no statement about what this consultant is to do, or about any expected consultant work product other than to "assist the statewide Volunteer Firefighter Retirement Plan Study Task Force."

6. Eventual Disposition of the Study. The policy issue is whether it is likely that a statewide plan would be implemented if recommended by the task force. If there is no broad base of support for a statewide volunteer fire plan, it will not be implemented even if recommended by the task force. It is unclear whether there is broad support, and any controversy in volunteer firefighter relief association proposed legislation from the volunteer fire community generally dooms the proposal. Reviewing the recent past, the Legislative Commission on Pensions and Retirement heard 2002 Session H.F. 3235 (Murphy) during February 2002, with a proposed task force study to be funded from fire state aid. The Commission initially recommended the proposed task force and the study, with minor amendments, for inclusion in the 2002 Omnibus Retirement Bill. Based on testimony from Senator Kenric Scheevel, and from a representative of the Dodge Center Fire Department on March 11, 2002, the Commission reconsidered the inclusion of the study in the 2002 Omnibus Retirement Bill and removed the applicable article from the bill. The Commission, in eliminating the proposed study, appeared to be responding to concerns from legislators and some volunteer firefighters about the overall cost of the task force and the study, the impact on individual relief associations of the proposed deductions for the 2002 and 2003 fire state aid, and the general disinterest in abandoning the current decentralized system of volunteer fire pension coverage. Opposition testimony similar to that heard by the Commission was also heard in the House State Government Finance Committee from Representative Greg Davids on behalf of southeastern Minnesota volunteer firefighters. In 2003, the Commission heard 2003 Session H.F. 489 (Rhodes); S.F. 449 (Johnson, D.E.), which would have created the task force with an appropriation of \$300,000 to finance the study, and the Commission did not recommend passage based on general concerns that the concept of a statewide volunteer fire plan did not have broad support within the volunteer fire community. In 2004, the Commission heard 2004 Session H.F. 2886 (Haas); S.F. 2796 (Betzold), with its more modest \$40,000 proposed appropriation, and did recommend it to pass, but it was eventually not included in the final omnibus retirement bill.

Potential Amendments for Commission Consideration

LCPR05-177 directs the task force to consider whether or not a statewide plan should be created, and it also provides an option of creating regional plans. If the Commission wishes to exclude the option of regional plans, the Commission can delete all language on line 7 and thereafter of the amendment.

LCPR05-178 can be used if the Commission wishes to have less volunteer fire representation on the task force. Instead of 12 volunteer fire members (four each appointed by the presidents of the Minnesota Area Relief Association, Minnesota State Fire Department Association, and Minnesota State Fire Chiefs Association, respectively), there would be nine, with three appointed by each of these organization presidents. If the Commission wishes to consider some number other than three each, the Commission can delete “three” in the amendment and insert some other amount.

LCPR05-179 would require the task force to survey a sample of volunteer fire relief associations and to hold regional meetings.

LCPR05-180 removes the appropriation.

LCPR05-181 is an alternative to LCPR05-180. It revises the appropriation from \$40,000 to an amount to be determined.

LCPR05-182, which could be used if an appropriation remains in the bill, specifies that the appropriated amount is to be used to cover the cost of administrative services provided by the Department of Public Safety, and for a consultant or consultants providing actuarial services or other services to the task force.