

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director

RE: S.F. 623 (Tomassoni); H.F. 240 (Rukavina): Aurora, Biwabik, Hoyt Lakes, and Palo Volunteer Firefighter Relief Associations Post-Consolidation Service Pension Amount

DATE: March 29, 2005

Summary of S.F. 623 (Tomassoni); H.F. 240 (Rukavina) S.F. 623 (Tomassoni); H.F. 240 (Rukavina)

S.F. 623 (Tomassoni); H.F. 240 (Rukavina) exempts the Aurora Volunteer Firefighter Relief Association, the Biwabik City Volunteer Firefighter Relief Association, the Hoyt Lakes Volunteer Firefighter Relief Association, and the Palo Volunteer Firefighter Relief Association from the post-consolidation service pension amount provision of Minnesota Statutes, Section 424B.10, Subdivision 1, Paragraph (a), if two or more of the volunteer firefighter relief associations consolidate, by allowing the pre-consolidation service pension amount of the new consolidated relief association to be the immediate pre-consolidation service pension amount and providing that the post-consolidation service pension amount of the new consolidated relief association to be the highest service pension amount of any of the relief associations in effect immediately prior to the consolidation.

Background Information on Volunteer Firefighter Relief Association Consolidations

Minnesota Statutes, Chapter 424B, governs the dissolution and consolidation of volunteer firefighter relief associations. With approval of the governing bodies of each municipality, two or more relief associations servicing contiguous fire districts may initiate consolidation. Initiation involves proposing a consolidation resolution to the relief association board of trustees, notification of members, and a public hearing. If adopted by the majority of the board, a copy of the resolution must be filed with other relief associations which may be part of the consolidation. If two or more of the applicable relief associations adopt a consolidation resolution, those relief associations are consolidated as of the following January 1. If the subsequent relief association following the consolidation is a new relief association, the association must incorporate as a nonprofit corporation and the new board must include at least one board member from each prior association. If the consolidation retains one association and dissolves the others, the articles of incorporation of the remaining association must be revised as necessary. The president, secretary, and treasurer of the consolidated relief association must be elected by the association membership. On the effective date of the consolidation, the assets of the prior relief association special funds transfer to the consolidated special fund, and all liabilities, fund management and plan administration, and all records transfer to the new board of trustees. The consolidated relief association is the successor in interest in all claims for and against the special funds of the prior relief associations. Before consolidation, the secretaries of the prior relief associations must settle all accounts payable from the respective general fund. Remaining balances transfer to the general fund of the consolidated relief association. Following transfer of administration, records, special and general fund assets and liabilities, the prior relief associations cease to exist. The Secretary of State, State Auditor, Commissioner of Revenue, and the Commissioner of the federal Internal Revenue Service are to be notified of the termination. Administrative expenses consistent with Minnesota Statutes, Section 69.80 (authorized special fund administrative expenses) may be paid from the consolidated special fund. All other expenses must be paid from the general fund. The service pension of the consolidated relief association is the highest service pension amount payable by any of the relief associations that were included in the consolidation. Subsequent benefit increases after that date must conform to general law applicable to volunteer fire benefit levels. Unless the municipalities agree in writing to another procedure, the minimum annual financial obligation to the consolidated relief association must be allocated between the applicable municipalities in proportion to their fire state aid. If a municipality fails to pay its share, contributions must be covered by the remaining municipalities. The municipality which is delinquent or deficient in its payments must reimburse the other municipalities plus a 25 percent surcharge.

If a relief association is dissolved without consolidation, prior to the effective date of the dissolution the board must pay all accounts payable against the special fund other than the accrued liabilities for pensions and other benefits. The remainder of the special fund assets after settling those non-benefit-related obligations are transferred, in cash or securities, to the municipal finance officer. The board also transfers any records needed to settle future benefit-related claims. The assets of the prior special fund create a municipal trust fund to be invested according to investment and fiduciary law applicable to volunteer fire plans. The municipality and the trust fund are responsible for any remaining liabilities of the prior special fund, including any unfunded liabilities. The board must notify the Commissioner of Revenue, the State

Auditor, and the Secretary of State of the dissolution action within 30 days of the effective date of the dissolution.

In lieu of the asset transfer to the municipality mentioned above, the board of the dissolving relief association may purchase annuity contracts. Payment of the annuity for which the contract is purchased may not begin before the retirement age specified in law and bylaw. Legal title to the annuity contract transfers to the municipality in trust.

Discussion and Analysis

S.F. 623 (Tomassoni); H.F. 240 (Rukavina) permits the Aurora Volunteer Firefighter Relief Association, the Biwabik City Volunteer Firefighter Relief Association, the Hoyt Lakes Volunteer Firefighter Relief Association, and the Palo Volunteer Firefighter Relief Association to deviate from the general law governing volunteer firefighter relief association consolidations and, upon consolidation, pay the current service pension amounts of each relief association for per-consolidation service and initially pay the largest current service pension amount of any of the relief associations for post-consolidation service.

The proposed legislation raises several and related public policy issues for potential consideration and discussion by the Commission, as follows:

1. Appropriateness of the Proposed Exception. The policy issue is the appropriateness of providing an exception for up to four volunteer firefighter relief associations in north central St. Louis County to allow them to consolidate, but limit the pre-consolidation service pension amount for the new consolidated relief association to the respective pre-consolidation service pension amounts in each case instead of increasing them to the most generous relief association’s service pension amount. The general law currently requires the retroactive increase in pre-consolidation service pension amounts to one level, the most generous service pension amount. The general law, however, was created out of special legislation fashioned for the Crystal Volunteer Firefighter Relief Association and New Hope Volunteer Firefighter Relief Association consolidation in 1995 and special legislation fashioned for the Norwood Volunteer Firefighter Relief Association and the Young America Volunteer Firefighter Relief Association consolidation in 1996. The general law may not be optimal for other consolidations, such as this potential consolidation, where the financial ability to handle the more generous pre-consolidation benefit amount is less robust. The enhanced retroactive service pension increase in connection with consolidation undoubtedly was intended to make a proposed consolidation more attractive to firefighters who are members of the less generous volunteer firefighter relief association, but in this instance, for at least these four volunteer firefighter relief associations, the provision apparently is operating as a barrier to a consolidation rather than an incentive. In 2002, the most recent information on volunteer firefighter relief association benefit practices compiled by the Office of the State Auditor, there was considerable variability in the service pension amounts of the four volunteer firefighter relief associations, their level of fire state aid per active member, and their level of municipal support per active member, as follows:

Volunteer Firefighter Relief Association	Service Pension Amount	Fire State Aid per Firefighter	Municipal Support per Firefighter
Aurora Volunteer Firefighter Relief Association	\$1,300 per year	\$326.85	\$377.29
Biwabik City Volunteer Firefighter Relief Association	\$1,400 per year	310.00	500.00
Hoyt Lakes Volunteer Firefighter Relief Association	\$1,500 per year	320.22	227.27
Palo Volunteer Firefighter Relief Association	\$800 per year	391.38	361.11
Composite/Average	\$1,267.90 per year	\$335.23	\$363.25

2. Current and Likely Future Financial Condition of the Affected Volunteer Firefighter Relief Associations. The policy issue is the current financial condition of the affected volunteer firefighter relief associations and likely financial condition of any subsequent consolidated volunteer firefighter relief association. The following sets forth the 2002 information, the most current data available from the Office of the State Auditor, on the four volunteer firefighter relief associations:

	Aurora	Biwabik City	Hoyt Lakes	Palo
<u>Membership</u>				
Active Members	21	20	22	18
Retired Members	0	0	0	0
Deferred Members	6	3	0	0
Inactive Members	0	0	5	0
Total Members	27	23	27	18

	Aurora	Biwabik City	Hoyt Lakes	Palo
<u>Funded Status</u>				
Accrued Liability	\$424,325	\$260,124	\$331,404	\$202,576
Assets	<u>\$261,488</u>	<u>\$182,919</u>	<u>\$253,431</u>	<u>\$177,244</u>
Unfunded Accrued Liability	\$162,837	\$77,205	\$77,973	\$25,332
Funded Ratio	61.62%	70.31%	76.47%	87.49%
<u>Financial Requirements</u>				
Normal Cost	\$30,625	\$27,188	\$28,560	\$13,632
Administrative Expenses	\$2,885	\$1,611	\$3,250	\$2,119
Amortization Requirement	\$10,452	\$1,531	\$3,597	\$1,445
<u>Financial Support</u>				
Fire State Aid	\$6,864	\$6,200	\$7,045	\$7,045
Municipal Contribution	\$7,923	\$10,000	\$5,000	\$6,500

The following compares the likely post-consolidation aggregated situation (adapted 2002 results) of the single, consolidated, successor relief association for the four fire departments under the current law (i.e., pre-consolidation service pension at \$1,500 per year of service for all four departments) and under the proposed legislation (i.e., pre-consolidation service pension at \$1,300 per year of service for Aurora firefighters, \$1,400 per year of service for Biwabik City firefighters, \$1,500 per year of service for Hoyt Lakes Firefighters, and \$800 per year of service for Palo firefighters:

	Consolidated Association Under Current Law	Consolidated Association Under the Proposed Legislation
<u>Membership</u>		
Active Members	81	81
Retired Members	0	0
Deferred Members	9	9
Inactive Members	<u>5</u>	<u>5</u>
Total Members	95	95
<u>Funded Status</u>		
Accrued Liability	\$1,479,517	\$1,218,429
Assets	<u>\$875,082</u>	<u>\$875,082</u>
Unfunded Accrued Liability	\$604,435	\$343,347
Funded Ratio	59.14%	71.82%
<u>Financial Requirements</u>		
Normal Cost	\$118,584	\$100,005
Administrative Expenses	\$9,865	\$9,865
Amortization Requirement	\$20,006	\$17,025
<u>Financial Support</u>		
Fire State Aid	\$27,154	\$27,154
Municipal Contribution	\$29,423	\$29,423

3. Appropriateness of Expanding the Proposal in a General Law Provision. The policy issue is the appropriateness of expanding the substance of the proposed legislation as an alternative to be added to Minnesota Statutes, Chapter 424B. The current contents of Minnesota Statutes, Chapter 424B, were based on two consolidations accomplished by special legislation in each case, the 1995 Crystal-New Hope Volunteer Firefighter Relief Association consolidation and the 1996 Norwood-Young America Volunteer Firefighter Relief Association consolidation. The current general law chapter on volunteer firefighter relief association consolidations was not extensively examined or debated by the Commission or by the Legislature when it was enacted, but simply built on the prior special legislation in order to avoid the potential for a string of future volunteer firefighter relief association consolidation special law proposals over time. If the alternative suggested by this proposed legislation is determined to be an appropriate alternative to general law, it may be good practice to encapsulate this alternative as an option. Amendment LCPR05-154 would add the Aurora-Biwabik City-Hoyt Lakes-Palo alternative resolution of the pre-consolidation service period service pension amount issue as a statutory option in addition to the special legislation.

4. Extent of Interest and Support for the Special Legislation. The policy issue is the question of whether there is sufficient interest in consolidating by the Aurora Volunteer Firefighter Relief Association, the Biwabik City Volunteer Firefighter Relief Association, the Hoyt Lakes Volunteer Firefighter Relief Association, and the Palo Volunteer Firefighter Relief Association to justify the special legislation, and whether or not there is support for the special legislation by the City of Aurora, the City of Biwabik, the City of Hoyt Lakes and the Town of White. It is likely to be an unneeded expenditure of valuable Commission and legislative time if there is not interest by some or all of the four named volunteer firefighter relief associations in consolidating together or if there is not interest by the four political subdivisions in approving the special legislation if enacted. The proponents of the proposed special legislation should be requested to provide copies of municipal resolutions in support of the bill or other indications of interest and support sufficient to justify the expenditure of legislative time and effort on the topic.

Technical Amendment

Amendment LCPR05-153 is an amendment drafted by the Commission staff that makes various language and stylistic changes to the proposed legislation consistent with the apparent intent of the bill.