

950302

**A Review Of Various Volunteer
Firefighter Relief Association Issues**

**A Report On Selected Topics
Arising Out Of Commission Interim Hearings**

Legislative Commission on
Pensions and Retirement
January 30, 1995



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Phil Riveness, Chair
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Roy Terwilliger

January 30, 1995

55 State Office Building
St. Paul, Minnesota 55155-1201
Telephone (612) 296-2750
FAX (612) 296-1321
TDD (612) 296-9896
Lawrence A. Martin, Exec. Dir.
Edward Burek, Deputy Dir.
Jean A. Liebgott, Adm. Sec.

Senator James Metzen
Chair, Senate Committee on Governmental Operations and Veterans Affairs
Room 303, Capitol
St. Paul, MN 55155

Representative Phyllis Kahn
Chair, House Committee on Governmental Operations and Gambling
Room 367, State Office Building
St. Paul, MN 55155

Senator Gene Merriam
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Room 122, Capitol
St. Paul, MN 55155

Representative Loren Solberg
Chair, Committee on Ways and Means
Room 445, State Office Building
St. Paul, MN 55155

Re: Letter Of Transmittal For Commission Report

Dear Senators and Representatives:

Herewith transmitted is a report on various topics related to volunteer firefighter relief associations and the retirement coverage provided to volunteer firefighters assembled by the Legislative Commission on Pensions and Retirement during the course of hearings on volunteer firefighter retirement coverage during the 1994-1995 Interim.

The Commission hopes that this report provides useful information to the various committees with general jurisdiction over public pension and retirement issues on various volunteer firefighters relief association topics that may arise during the 1995 Legislative Session.

Sincerely,

A handwritten signature in cursive script that reads "Phil Riveness".

Phil Riveness
Senator, District Number 40
Chair, Legislative Commission on Pensions and Retirement

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Summary Of The 1994-1995 Interim Commission Hearings On
Volunteer Fire Issues

A. Commission Deliberations On The Issue

During the 1994-1995 Interim, the Commission selected a number of public pension issues for in-depth Commission consideration. One of those public pension issues was a review of potential volunteer fire regulation revision and clarification. The issue was an outgrowth of concern by Commission members about various volunteer firefighters relief association issues that were unfinished at the conclusion of the 1994 Legislative Session.

B. Study Approach Concerning Volunteer Fire Issues

In conducting its review of potential volunteer fire regulation revision and clarification issues, the Commission decided to initiate the study by receiving testimony on various volunteer fire issues from parties interested in the topic and from the public.

From the testimony received by the Commission, a list of potential study topics was assembled by the Commission staff for review by the Commission (see Appendix A.) That list became the basis for the identification by Commission members of items for further Commission staff research and for the preparation by the Commission staff of a document outlining available legislative options.

The Commission ultimately selected seven volunteer firefighters relief association items in six subject categories for Commission staff development. This report represents the Commission staff development of the volunteer firefighters relief association topics selected by the Commission membership.

C. Testimony On Volunteer Fire Issues

The Commission took public testimony on various volunteer fire regulation revision and clarification issues during two meetings, on September 21, 1994 and on October 17, 1994.

The Commission received specific testimony on volunteer fire issues from the following:

- Jim Gelbmann, representing the Office of the Minnesota State Auditor
- Robert Wetherille, representing the Minnesota State Fire Department Association
- Gus Welter, representing the Minnesota State Fire Department Association
- Stanley Peskar, representing the League of Minnesota Cities
- A. J. DeAntoni, representing the Gray Eagle Association of Bloomington, Minnesota

The testimony received by the Commission from these individuals is summarized in the meeting minutes of the Commission for the three meetings during which the Commission considered this topic, included as Appendix B. The total list of volunteer firefighters relief association issues identified by the various individuals presenting testimony is summarized in a Commission staff memorandum, included as Appendix A.

Background on Volunteer Firefighter Relief Associations and Volunteer Fire Regulation

A. Fire Service and Relief Associations

Fire coverage in Minnesota is provided through 799 firetowns. Pension coverage for firefighters in 1994 is provided by the Public Employees Police and Fire Plan (PERA-P&F), five paid firefighter relief associations (Austin, Bloomington, Minneapolis, Richfield, and Virginia), 16 paid firefighter consolidation accounts administered by the Public Employees Retirement Association (Albert Lea, Chisholm, Columbia Heights, Crookston, Duluth, Faribault, Hibbing, Mankato, Red Wing, Rochester, St. Cloud, St. Louis Park, St. Paul, South St. Paul, West St. Paul, and Winona), and 685 volunteer firefighter relief associations.

B. Structure of Volunteer Firefighter Pension Coverage

In Minnesota, volunteer firefighters typically have pension coverage as part of their compensation package and that pension coverage is provided by the various local volunteer firefighter relief associations located in the state. These volunteer firefighter relief associations are creatures of state law and are subject to various statutory regulations.

Under Minnesota Statutes, Section 424A.001, Subdivision 4, volunteer firefighter relief associations are required to be nonprofit corporations organized under Minnesota Statutes, Chapter 317A, the Minnesota Nonprofit Corporation Act. Minnesota Statutes, Chapter 317A, applies to all Minnesota nonprofit corporations and contains numerous requirements on the manner of incorporation, general powers, scope of bylaws, function of the board and officers, rights and obligations of members, processes of consolidation, merger, or dissolution, and corporate registration. In several areas, Minnesota Statutes, Chapter 424A, contains additional regulation or conflicting regulation, and the more particularized regulatory provisions of that chapter apply. For instance, Minnesota Statutes, Section 317A.203, provides for a board of directors of at least three individuals, but Minnesota Statutes, Section 424A.04, Subdivision 1, provides for a board of trustees generally comprised of nine members. Also, Minnesota Statutes, Section 317A.701 through 317A.791, generally governs the dissolution of a nonprofit corporation, but Minnesota Statutes, Section 424A.02, Subdivision 11, specifically governs the dissolution of a volunteer firefighter relief association.

A volunteer firefighter relief association under Minnesota Statutes, Chapter 424A, can exist in one of three ways:

1. Separate Corporation. As a separate nonprofit corporation directly associated with a municipal fire department established by municipal ordinance;
2. Division of Another Relief Association. As a volunteer division or account of a part paid and part volunteer firefighter relief association directly associated with a municipal fire department established by municipal ordinance; or
3. Subsidiary Corporation. As a separate nonprofit corporation subsidiary to an independent nonprofit firefighting corporation also organized under Minnesota Statutes, Chapter 317A, and operating exclusively for firefighting purposes.

A volunteer firefighter relief association, under Minnesota Statutes, Section 424A.001, Subdivision 4, has the status of a governmental entity, receiving public money, and providing benefit coverage for individuals providing the governmental services of firefighting and emergency first response.

C. Volunteer Firefighter Relief Association Structure

Minnesota Statutes, Section 424A.05, requires that every relief association establish and maintain a special fund. The special fund is the fund from which volunteer firefighter pension benefits are payable and into which state aid, municipal contributions, and other public money is deposited. Beyond fire state aid and municipal tax revenue, the special fund also must receive all money or property donated by any person if so designated. Investment income on special fund assets also must be deposited in the special fund. Beyond the payment of service pensions, the special fund can also be disbursed for disability benefits, survivor benefits, funeral benefits, Minnesota State Fire Department Association and State Volunteer Firefighters' Benefit Association dues, and authorized administrative expenses. All benefit payments are required to be in accord with the requirements of law and the relief association bylaws.

The relief association treasurer is required to be the custodian of the special fund and recipient on behalf of the special fund of its revenue. The treasurer is required to maintain records documenting any transaction affecting the assets or revenues of the special fund. The records of the treasurer, as well as the relief association bylaws, are public and open for public inspection.

The assets of the special fund must be invested in authorized securities, which are either a limited list of securities for small relief associations, or a separate codified list which represents the pre-1994 list of authorized investment securities for the State Board of Investment for larger relief associations.

Relief associations under Minnesota Statutes, Section 69.775, also have authority to invest in mutual funds that are restricted to the same authorized securities, or to invest in the Minnesota Supplemental Investment Fund administered by the State Board of Investment.

Minnesota Statutes, Section 424A.06, allows a volunteer firefighter relief association to establish and maintain a general fund. The general fund is the fund into which non-tax or non-public funds are deposited and from which moneys can be expended as the relief association sees fit, as governed by its bylaws. The general fund traditionally is supported by member dues and by revenues raised from community fundraising events.

D. Volunteer Firefighter Relief Association Governance

Minnesota Statutes, Section 424A.04, Subdivision 1, requires either a nine member board of trustees or a ten member board of trustees. The board composition differs depending on whether the relief association is associated with a municipal fire department or is subsidiary to an independent nonprofit firefighting corporation, as follows:

**Relief Association Associated With
Municipal Fire Department**

Six trustees elected from the relief association membership (one can be a retiree receiving a monthly benefit, at relief association's discretion.)

**Relief Association Subsidiary to Independent
Nonprofit Firefighting
Corporation**

Six trustees elected from the relief association membership (one can be retiree receiving a monthly benefit, at relief association's discretion.)

**Relief Association Associated With
Municipal Fire Department**

Three trustees from municipal officials (the mayor, clerk, the clerk-treasurer or finance director, and the municipal fire chief.)

**Relief Association Subsidiary to Independent
Nonprofit Firefighting
Corporation**

Three trustees from municipal officials (if one municipality served, three officials designated by municipality; if two municipalities served, two officials from largest municipality and one official from other municipality, designated by municipalities; if three or more municipalities served, one official from each of the three largest municipalities, designated by municipalities.)

One trustee, who is the fire chief of the independent nonprofit firefighting corporation.

Ex-officio trustees have the same rights and duties as elected trustees, except that ex-officio trustees may not serve as an officer of the board of trustees. Elected trustees have a term length as specified in the relief association bylaws, but it may not be longer than three years and it must be staggered if it is more than one year in length.

Minnesota Statutes, Section 424A.04, Subdivision 1, provides for at least three officers of a volunteer firefighter relief association. The three officers must include a president, a secretary, and a treasurer. The officers must be drawn from the relief association board of trustees, from the elected board membership. The officers can be elected by the board of trustees or by the relief association membership as the bylaws specify. No person is allowed to occupy more than one officer position at one time. Officers have a term length as specified in the relief association bylaws, but the term may not be longer than three years.

E. Volunteer Firefighter Relief Association Membership Inclusions and Exclusions

State law is largely silent on the question of which persons are required to be or may be included in the membership of or coverage by a volunteer firefighter relief association. Except for a definition of the term "volunteer firefighter" in Minnesota Statutes, Section 353.01, Subdivision 36, existing for purposes of providing an exclusion of volunteer firefighters from the Public Employees Retirement Association or Public Employees Police and Fire (PERA-P&F) coverage, the term "volunteer firefighter" is not defined in state law. Under Minnesota Statutes, Chapters 317A and 424A, each volunteer firefighter relief association sets its own qualifications or requirements for membership, subject to certain statutory membership exclusions. The determination of volunteer firefighter status occurs in conjunction with the municipal fire department or the independent nonprofit firefighting corporation membership requirements, since Minnesota Statutes, Section 424A.02, Subdivision 1, sets certain benefit qualifications in terms of active membership with the fire department in addition to relief association membership. Volunteer firefighters are not always individuals who donate their time for free to assist in fire suppression activities. Many volunteer firefighters are reimbursed for their out-of-pocket expenses, or are paid a minimum fire run amount, or are paid an hourly rate when engaged in fire department duties. Some volunteer firefighter relief associations cover salaried firefighters who also have PERA-P&F coverage. Fire department duties can include activities beyond strict fire suppression activities, including fire equipment maintenance, firefighters training, fire department administration, fire prevention, emergency first response services. When the fire department is the sponsoring entity for ambulance services, the activities can include paramedic or other ambulance and emergency

medical duties. Because service pensions from a volunteer firefighters relief association are a function in large measure of the amount of fire state aid per relief association member, which is an amount determined independent of volunteer firefighter relief association requirements, there is an economic incentive for a relief association to be selective or restrained in fashioning the local definition or classification of a volunteer firefighter.

Minnesota Statutes, Section 424A.01, sets forth several exclusions from volunteer firefighter relief association membership or coverage. Minnesota Statutes, Section 424A.01, Subdivision 1, prohibits municipalities or independent nonprofit firefighting corporations from employing minors as volunteer firefighters, hence also excluding minors from volunteer firefighter relief association membership. Minnesota Statutes, Section 424A.01, Subdivision 2, excludes substitute volunteer firefighters from volunteer firefighter relief association membership. Minnesota Statutes, Section 424A.01, Subdivision 3, provides that members of the fire department who also decline to be members of the volunteer firefighter relief association are ineligible for volunteer firefighter relief association benefit coverage. Minnesota Statutes, Section 424A.01, Subdivision 4, allows a volunteer firefighter relief association board of trustees to exclude applicants for membership in the volunteer firefighter relief association from membership if they have a pre-existing physical or mental impairment or condition that would constitute a predictable and unwarranted risk of ancillary (disability or death) benefit liability, and if the relief association makes that determination based on medical evidence.

F. Benefit Coverage Provided By Volunteer Firefighter Relief Associations

1. In General. The state law regulating the benefit coverage provided to volunteer firefighters by volunteer firefighter relief associations from the relief association special fund is primarily Minnesota Statutes, Sections 424A.02, 424A.03, and 424A.10. Minnesota Statutes, Chapter 424A, was enacted in 1979, which was the last time the Legislature undertook a general review and analysis of volunteer fire benefit coverage.

Unlike most public employee pension coverage, where state law specifies all or most aspects of the benefit plan, the statutory regulation of volunteer firefighter relief associations largely consists of specifying certain minimum eligibility requirements and certain benefit maximums, with the actual benefit plan assembled in the articles of incorporation or the bylaws of the particular volunteer firefighter relief association. The primary benefit coverage provided by a volunteer firefighter relief association is the service pension coverage, and most minimum eligibility requirements and benefit maximums relate to the service pension coverage.

2. Service Pension Eligibility Requirements. Minnesota Statutes, Section 424A.02, Subdivision 1, authorizes a volunteer firefighter relief association to provide a service pension to a member of the relief association if certain conditions are met by the volunteer firefighter. The volunteer firefighter must meet the following conditions:

- i. Terminate Active Service. The person must separate from active service as a firefighter with the fire department, defined as the cessation of the performance of fire suppression duties and the cessation of the supervision of fire suppression activities.
- ii. Attain at Least Age 50. The person must reach at least age 50.
- iii. Have Credit For At Least Five Years Fire Department Service. The person must have credit for at least five years of service as an active member of the fire department with which the relief association is associated.

- iv. Have Credit For At Least Five Years Relief Association Membership. The person must have credit for at least five years of active membership in the relief association before separating from service (open to modification for a new relief association covering an existing volunteer fire department, with firefighters having prior service).
- v. Compliance With Additional Conditions. The person must comply with any additional age, service or membership conditions prescribed in the relief association bylaws.

3. Partial Vesting With Less Than 20 Years Service Credit. The volunteer fire community traditionally has required 20 years of service for a person to become eligible to receive a service pension. Between 1979 and 1989, ten years of service were required as the minimum service requirement for entitlement to a partial service pension. In 1989, the ten years service requirement was reduced to five years. Under state law, the maximum service pension payable with less than 20 years of service is limited to a portion of the service pension earned or accrued. The applicable statutory provision is Minnesota Statutes, Section 424A.02, Subdivision 2. The percentage of the accrued or earned benefit must be set forth in the articles of incorporation or the bylaws of the relief association, but cannot exceed the following:

<u>Completed Years of Service</u>	<u>Nonforfeitable Percentage of Pension Amount</u>
5	40 percent
6	44 percent
7	48 percent
8	52 percent
9	56 percent
10	60 percent
11	64 percent
12	68 percent
13	72 percent
14	76 percent
15	80 percent
16	84 percent
17	88 percent
18	92 percent
19	96 percent
20 and thereafter	100 percent

4. Flexible Service Pension Maximums. Minnesota Statutes, Section 424A.02, Subdivision 3, establishes a maximum service pension payable to a retiring former volunteer firefighter. Before 1979, the predecessor provision (Minnesota Statutes 1978, Section 69.06) set a single dollar amount maximum on volunteer fire service pensions. With the enactment of Minnesota Statutes, Section 424A.02, Subdivision 3, the service pension maximum has been a sliding scale depending on the financial resources of the relief association on a per firefighter basis. If a volunteer firefighter relief association has a substantial portion of the funding required to support a given level of service pension under the 1971 Volunteer Firefighter Relief Association Guidelines Act, Minnesota Statutes, Sections 69.771 through 69.776, the relief association is allowed to provide in its articles of incorporation or bylaws that service pension level.

The service pension can be a monthly benefit service pension (a specified dollar level per month per

year of service credit, payable for life) or a lump sum service pension (a specified dollar level per year of service credit, payable in a lump sum or in a number of installment payments.) If a relief association provides both a monthly benefit service pension and a lump sum service pension as an alternative, the amount of each type of service pension must comply with the flexible service pension maximum. The funding amount on which the flexible service pension maximum scale is based is the amount of funding available per firefighter, computed on a three year average. The funding used in the computation is the amount of fire state aid received, the amount of any municipal funding provided, and one-tenth of the amount of any funding surplus (assets in excess of actuarial accrued liability.)

The following are the flexible service pension maximums for monthly benefit volunteer firefighter relief associations and for lump sum volunteer firefighter relief associations:

**Monthly Benefit Volunteer Firefighter
Relief Associations**

**Lump Sum Volunteer Firefighter
Relief Associations**

<u>Minimum Average Amount of Available Financing Per Firefighter</u>	<u>Maximum Service Pension Amount Payable Per Month For Each Year of Service</u>	<u>Minimum Average Amount of Available Financing Per Firefighter</u>	<u>Maximum Lump Sum Service Pension Amount Payable for Each Year of Service</u>
\$...	\$.25	(1) for service pensions payable before January 1, 1994	\$ 10
42	.50	\$...	\$ 10
84	1.00	11	20
126	1.50	16	30
168	2.00	23	40
209	2.50	27	50
252	3.00	32	60
294	3.50	43	80
335	4.00	54	100
378	4.50	65	120
420	5.00	77	140
503	6.00	86	160
587	7.00	97	180
672	8.00	108	200
755	9.00	131	240
839	10.00	151	280
923	11.00	173	320
1007	12.00	194	360
1090	13.00	216	400
1175	14.00	239	440
1259	15.00	259	480
1342	16.00	281	520
1427	17.00	302	560
1510	18.00	324	600
1594	19.00	347	640
1677	20.00	367	680
1762	21.00	389	720
1845	22.00	410	760
1888	22.50	432	800
1929	23.00	486	900
2014	24.00	540	1000
2098	25.00	594	1100

**Monthly Benefit Volunteer Firefighter
Relief Associations**

**Lump Sum Volunteer Firefighter
Relief Associations**

**Minimum Average
Amount of Available
Financing Per
Firefighter**

**Maximum Service
Pension Amount Payable
Per Month For Each
Year of Service**

2183	26.00
2267	27.00
2351	28.00
2436	29.00
2520	30.00
any amount more than 2520	30.00

**Minimum Average
Amount of Available
Financing Per
Firefighter**

**Maximum Lump Sum
Service Pension Amount
Payable for Each
Year of Service**

648	1200
702	1300
756	1400
810	1500
864	1600
918	1700
972	1800
1026	1900
1080	2000
1134	2100
1188	2200
1242	2300
1296	2400
1350	2500
1404	2600
1458	2700
1512	2800
1566	2900
1620	3000
1672	3100
1726	3200
1753	3250
1780	3300
1820	3375
any amount more than 1820	3375
(2) in addition to the service pension maximum under clause (1), for service pensions payable after December 31, 1993, and before January 1, 1995	
1834	3400
1888	3500
any amount more than 1888	3500
(3) in addition to the service pension maximum under clauses (1) and (2), for service pensions payable after December 31, 1994, and before January 1, 1996	
1942	3600
1996	3700
2023	3750
any amount more than 2023	3750
(4) in addition to the service pension maximum under clauses (1) to (3), for service pensions payable after December 31, 1995	
2050	3800
2104	3900
2158	4000
any amount more than 2158	4000

To demonstrate the manner in which the flexible service pension maximum operates, for a hypothetical ten person volunteer firefighter relief association, the applicable flexible service

pension maximums under Minnesota Statutes, Section 424A.02, Subdivision 3, would be as follows:

XYZ Volunteer Firefighter Relief Association

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Fire State Aid	\$9,650	\$9,800	\$10,300
Municipal Contribution	2,500	1,250	0
One Tenth Funding Surplus	<u>0</u>	<u>0</u>	<u>110</u>
Total	12,150	11,050	10,410
Number of Firefighters	10	10	10
Financing Per Firefighter	\$1,215	\$1,105	\$1,041
Three Year Average Financing	Year 1	\$1,215	
	Year 2	1,105	
	Year 3	<u>1,041</u>	<u>\$3,361</u> = \$1,120.33
		\$3,361	3

The applicable flexible service pension maximums for a volunteer firefighter relief association with a three year average amount of financing per firefighter of \$1,120.33 is \$13.00 per month per year of service monthly benefit service pension maximum, or \$2,000 per year of service lump sum service pension maximum.

5. Defined Contribution Lump Sum Service Pension Coverage. Minnesota Statutes, Section 424A.02, Subdivision 4, allows a volunteer firefighter relief association to provide a defined contribution (or split-the-pie) service pension in lieu of a defined benefit monthly benefit or lump sum service pension. The defined contribution service pension coverage necessitates that the volunteer firefighter relief association establish a separate account for each member, to which an equal share of any fire state aid, municipal contributions or turnover gain (forfeited amounts upon early terminations under Minnesota Statutes, Section 424A.02, Subdivision 2) must be credited to each individual account. Investment income based on the account balance also must be credited to each individual account.
6. Monthly Benefit Defined Benefit Plan Service Credit Maximum. For volunteer firefighter relief associations that provide monthly benefit service pensions, Minnesota Statutes, Section 424A.02, Subdivision 5, imposes a 30 year service credit maximum.
7. Benefit Calculation Uniformity. Minnesota Statutes, Section 424A.02, Subdivision 6, provides that the method of calculating service pensions must be applied uniformly for all years of active service. It also provides that credit must be given for all years of service other than those covered by the 30 year service credit maximum and the partial early vesting provisions. The provision also prohibits the payment of a service pension to a person who remains an active firefighter, prohibits the payment of other special fund benefits to a person receiving a service pension, exempts volunteer firefighter relief association pensions and benefits from garnishment, judgement, execution or legal process other than marriage dissolution or child support obligations, and prohibits the assignment of any service pension or benefit from a volunteer firefighter relief association.
8. Deferred Service Pensions. For a volunteer firefighter who has completed the length of service credit required for vesting, has at least five years of relief association active membership, but separates from active volunteer firefighter service and volunteer firefighter relief association membership before age 50, Minnesota Statutes, Section 424A.02, Subdivision 7, provides for a deferred service pension

payable when the former firefighter reaches at least age 50. The service pension is calculated based on the law in effect when active service terminated, but a lump sum service pension may be credited with actual earned interest over the deferral period, but not more than five percent.

9. Installment Payments for Lump Sum Service Pensions. Volunteer firefighter relief associations that pay lump sum service pensions are authorized by Minnesota Statutes, Section 424A.02, Subdivision 8, to pay the lump sum service pension in installments. No limit in the number of installments is specified. The installments are to have the same present value as the lump sum service pension, based on a five percent interest assumption.

10. Conversion of Lump Sum Service Pensions Into Annuities Through Single Premium Insurance Annuity Purchase. Minnesota Statutes, Section 424A.02, Subdivision 8a, allows a volunteer firefighter relief association that pays a lump sum service pension to purchase a single premium insurance annuity for the retiring volunteer firefighter from an insurance company approved to do this type of business by the state Commerce Commissioner.

11. Ancillary Benefit Limits. Minnesota Statutes, Section 424A.02, Subdivision 9, places limits on ancillary retirement benefit coverage. Ancillary benefits are those benefits provided by a volunteer firefighter relief association other than the service pension, such as disability benefits, death benefits, or survivor benefits. The limitations are needed to protect the financial solvency regulation of volunteer firefighter relief associations, which is built around determining the accrued liability and financial requirements for the level of the service pension coverage provided by the volunteer firefighter relief association. The limitations are:

- i. No Post Retirement Benefit Beyond the Lump Sum Service Pension. Volunteer firefighter relief associations that provide lump sum service pensions are prohibited from paying any additional benefit to a retired firefighter or on behalf of a retired firefighter once payment of the service pension commences; and
- ii. Maximum Ancillary Benefit Available. All volunteer firefighter relief associations are limited in the payment of pre-retirement and post-retirement ancillary benefits to the amount of the accrued service pension of the volunteer firefighter, except that the survivor benefit payable on behalf of a deceased short service firefighter may be based on a five years of service accrued benefit if that produces a larger accrued service pension amount.

12. Post-retirement Increases. A volunteer firefighter relief association paying a monthly service pension may, if it chooses, provide a post-retirement increase to service pension and benefit recipients upon providing a benefit increase to active firefighters, under Minnesota Statutes, Section 424A.02, Subdivision 9.

13. Municipal Approval of Benefit Changes; State Filing Requirements. Minnesota Statutes, Section 424A.02, Subdivision 10, requires municipal approval of any benefit changes or amendments to the relief association articles of incorporation or bylaws impacting on benefits unless the volunteer firefighter relief association has authority under the 1971 Volunteer Firefighter Relief Association Financing Guidelines Act to implement the benefit increase without local approval. The benefit change approval request must be accompanied by an estimate of the actuarial impact of the benefit change. Upon making a benefit change, the volunteer firefighter relief association must file a copy of the revised articles of incorporation or bylaws with the Commissioner of Commerce in order to retain eligibility for fire state aid.

14. Volunteer Firefighter Relief Association Dissolution and Consolidation. Minnesota Statutes, Section 424A.02, Subdivisions 11 and 12, provide for the distribution of volunteer firefighter relief association assets if the associated fire department is disbanded and the relief association is dissolved and permit the transfer of service credit to a new volunteer firefighter relief association if that relief association covers essentially the same geographical area as the disbanded fire department.

15. Combined Volunteer Firefighter Relief Association Service Pensions. If the volunteer firefighter relief association elects to do so, the relief association under Minnesota Statutes, Section 424A.02, Subdivision 13, can recognize total service rendered for any other participating volunteer firefighter relief association in meeting its vesting requirement and can pay a prorated service pension based on the accrual service rendered in that relief association.

16. Supplemental Benefit For Lump Sum Volunteer Firefighter Relief Associations. Minnesota Statutes, Section 424A.10, requires a volunteer firefighter relief association that pays a lump sum service pension to pay a supplemental benefit from the relief association special fund to retiring firefighters who receive a lump sum service pension. The supplemental benefit is an amount equal to ten percent of the lump sum service pension paid, up to \$1,000. The supplemental benefit is reimbursable to volunteer firefighter relief associations annually, in March, from the State General Fund by the Commissioner of Revenue, for the volunteer firefighter relief associations that apply for the reimbursement in the preceding February. The supplemental benefit was intended to offset the impact of a federal Internal Revenue Code ten percent income tax surcharge on pre-age 59 1/2 non-annuity pension distributions. The supplemental benefit is in lieu of a state income tax exclusion for lump sum retirement benefit distributions.

G. Fire State Aid

The fire state aid program is financed from the dedicated proceeds of a generally applicable two percent premium tax on fire, lightning, sprinkler damage, and extended coverage insurance on property located within the state. Half of the total fire state aid amount is distributed in proportion to the population according to the last federal census and half is distributed in proportion to property market values, excluding mineral values but including tax-exempt property. This allocation method reflects an assumption that local property values and population relative to the whole state reflect the relative need for fire protection services.

The fire aid system dates back to 1885 (Laws 1885, Chapter 187.) This law established a one-half of one percent tax on insurance premiums for property located in municipalities having a fire protection service. Laws 1903, Chapter 20, raised the tax to the two percent premium tax level and specified uses for the money raised. The funds were to be used to provide retirement and disability benefits to fire department members and their survivors, and to help maintain the fire department, including covering purchase and maintenance costs of fire equipment.

After 1903, the most fundamental changes in the fire state aid laws were to restrict the use of the aid to providing pension and disability related benefits, and to change the nature of the aid distribution system. Authority to use the aid to purchase fire equipment and to cover other costs of operating the fire service existed from 1885 until 1943, when Laws 1943, Chapter 323, Section 2, deleted the language authorizing this use. Laws 1945, Chapter 225, provided for the use of fire state aid for firefighting equipment purposes only if no firefighter relief association is associated with the fire department. The current allocation mechanism, which is based on a state-wide tax on property insurance premiums which is distributed back to municipalities based half on a measure of property wealth and half on population, was implemented in 1969. This replaced the previous system in which the fire state aid to each municipality was based solely on the property insurance taxes as reported by insurance companies for

property within that municipality. The pre-1969 system was eventually deemed to be both inequitable and unworkable. The chief administrative problem was that insured properties tended to be misclassified by insurance agency personnel by location, because mailing addresses might reflect the largest nearby city or town, rather than the community in which the property is actually located and because of various clerical errors.

The chief elements of the current system are as follows:

1. Funding Source. Each property insurer in the state is required to complete a Minnesota Firetown Premium Report which is submitted to the Department of Revenue. The insurers indicate the premiums for fire, lightning, sprinkler damage, and extended coverage on properties within the state, and they pay a tax of two percent of these premiums if they are not mutual insurance companies or a tax of one-half of one percent if they are mutual insurance companies with assets under \$1.6 billion.

2. Total Fire State Aid Amount. The amount of fire and related insurance premium taxes, the amount of any State General Fund subsidy, and the amount of fire state aid for the period 1988-1994 is as follows:

<u>Year</u>	<u>Premium Taxes Collected</u>	<u>State General Fund Subsidy</u>	<u>Administrative Costs Deducted</u>	<u>Prior Year Carry Forward</u>	<u>Fire State Aid Distributed</u>	<u>Change From Prior Year</u>
1988	\$10,863,322	\$0	\$(23,492)	\$0	\$10,839,826	\$442,618
1989	10,542,958	413,140	(33,543)	593	10,923,145	83,319
1990	10,079,540	825,005	(32,673)	245	10,872,111	(51,034)
1991	10,518,836	0	(27,390)	0	10,491,446	(380,665)
1992	10,556,290	0	(26,276)	0	10,530,014	38,568
1993	10,069,957	0	(72,000)	0	9,997,957	(532,057)
1994	N/A	N/A	N/A	N/A	10,665,543	667,586

Source: Minnesota Department of Revenue:
Senate Counsel and Research.

N/A indicates that figures were not available.

3. Administering Agency. The Department of Revenue is the principal administering agency. The department must determine which municipalities qualify for fire state aid, it must determine the total tax on insurance premiums and collect that tax, and it must allocate the fire state aid. Qualification for fire state aid depends on compliance with annual financial reporting requirements, as determined by the Office of the State Auditor.

4. Aid Qualification Requirements. Municipalities and independent non-profit firefighting corporations using paid, volunteer, or a combination of paid and volunteer firefighters can qualify to receive the aid. To determine which municipalities and independent non-profit firefighting corporations qualify for the aid, the municipal clerk or the secretary of the non-profit firefighting corporation, if appropriate, and fire chief certify by March 15th of each year to the Department of Revenue that a municipal fire department or non-profit firefighting corporation exists which meets minimum required standards for the aid. These standards include a requirement that the fire department or non-profit firefighting corporation be in existence at least one year, that it have at least ten paid or volunteer firefighters, that regularly scheduled meetings are held for training and equipment maintenance, and that the department has a fire truck and other necessary firefighting equipment.

5. Allocation Method. The Revenue Department distributes the aid among qualifying municipalities and non-profit firefighting corporations based half on population according to the last census and half on property value.

Prior to 1991, the fire state aid was distributed half on population and half on net tax capacity exclusive of mineral values. Net tax capacity includes the effects of tax classification rates. These rates recognize varying proportions of property value depending on the property's relative market value and type (residential, commercial, industrial.) Since the 1991 tax bill, full market value (exclusive of mineral values and including tax exempt property value) is used. This 1991 change, by itself, probably shifts more of the aid to non-metropolitan areas. This counteracts some of the aid shift toward metropolitan areas that would otherwise have occurred due to population shifts. The 1990 census reveals population growth in suburban and metropolitan areas relative to the rural areas of the state.

H. Volunteer Firefighter Relief Association Funding Requirements

1. Volunteer Firefighter Relief Association Financing Guidelines Act of 1971. Minnesota Statutes, Sections 69.771 through 69.776, the Volunteer Firefighter Relief Association Financing Guidelines Act of 1971, governs the calculation of the actuarial accrued liability and annual funding requirement of volunteer firefighter relief associations, the determination of the financial requirements of volunteer firefighter relief associations, the determination of the minimum obligation of municipalities or independent nonprofit firefighting corporations toward the volunteer firefighter relief association, the requirement for municipal ratification of volunteer firefighter relief association plan amendments, and the investment of volunteer firefighter relief association special fund assets.

2. Calculation of Volunteer Firefighter Relief Association Actuarial Accrued Liability and Annual Funding Requirement. State law differentiates in the calculation of volunteer firefighter relief association actuarial accrued liabilities or its equivalent and the annual funding requirements. For volunteer firefighter relief associations providing monthly benefit service pensions, because there is a mortality risk and the need for making complicated computations, the relief association is required by Minnesota Statutes, Section 69.773, to utilize an approved actuary and have a quadrennial actuarial valuation prepared. For volunteer firefighter relief associations providing lump sum service pensions, because there is no mortality risk and the liability and funding calculations are less complicated, the relief association officers are required by Minnesota Statutes, Section 69.772, to estimate the association's actuarial liabilities and its annual funding requirement by using a simplified statutory valuation procedure.

The monthly benefit volunteer firefighter relief association actuarial work is governed essentially by the same requirements applicable for other Minnesota public pension plans, Minnesota Statutes, Sections 356.215, and 356.216. The actuarial valuations will disclose the relief association's actuarial accrued liability, the assets, unfunded actuarial accrued liability, normal cost, and amortization of the unfunded actuarial accrued liability (typically using a 20 year amortization period). The financial requirement of the monthly benefit relief association is the combination of four items:

- i. the normal cost;
- ii. the amortization requirement if the relief association has an unfunded actuarial accrued liability;
- iii. the prior year's administrative expenses, multiplied by a factor of 1.035; and
- iv. one-tenth of the relief association's funding surplus, if the relief association has assets in excess of its actuarial accrued liability.

The lump sum volunteer firefighter relief association computations are required to follow simplified calculation procedures set forth in Minnesota Statutes, Section 69.772, Subdivision 2. The table and related provisions in Minnesota Statutes, Section 69.772, Subdivision 2, were developed by the Commission and its consulting actuary in 1970-1971. The statutory table is basically a present value table assuming a lump sum benefit payable immediately after 20 years of service, based on a three percent interest assumption, and assuming no pre-retirement turnover or mortality. The following is the statutory pension liability table, applicable for a \$100 per year of service lump sum benefit:

<u>Cumulative Year</u>	<u>Accrued Liability</u>
1	\$60
2	124
3	190
4	260
5	334
6	410
7	492
8	576
9	666
10	760
11	858
12	962
13	1070
14	1184
15	1304
16	1428
17	1560
18	1698
19	1844
20	2000
21 and thereafter	100 additional per year

The relief association's accrued liability is calculated annually using the table, after being multiplied by a factor to adjust the \$100 lump sum per year of service table to the actual lump sum service pension amount provided by the volunteer firefighter relief association. Thus, for a volunteer firefighter relief association paying a \$1,000 per year of service lump sum service pension, the factor would be 10 (\$1,000 divided by \$100.) The calculated accrued liability is compared to the special fund assets to determine whether or not the relief association has an unfunded accrued liability. The following year's projected accrued liability is then calculated, based on an additional year of service per member, and the increase in the accrued liability over the current year's accrued liability is the annual accruing liability of the relief association, which is the functional equivalent of the normal cost calculation in an actuarial valuation prepared by an actuary under Minnesota Statutes, Section 356.215. The financial requirements of the relief association are the combination of three or four items:

- i. the computed annual accruing liability;
- ii. one-tenth of the computed current year's unfunded accrued liability, if the relief association has an unfunded accrued liability;
- iii. the prior year's administrative expense, multiplied by a factor of 1.035; and

- iv. one-tenth of the relief association's funding surplus, if the relief association has assets in excess of the accrued liability.

A hypothetical volunteer firefighter relief association roster can be used to demonstrate the calculation of actuarial accrued liabilities and annual funding requirements under Minnesota Statutes, Section 69.772, Subdivisions 2, 2a, and 3, as follows:

XYZ Relief Association
Ten Active Members; Lump Sum Service Pension of \$1,000 per Year of Service
(\$20,000 Lump Sum at 20 years of Service)

<u>Membership Characteristics</u>			<u>Current Year Liability</u>		<u>Next Year Liability</u>	
<u>Member</u>	<u>Age</u>	<u>Cumulative Service</u>	<u>Actual Cumulative Service</u>	<u>Accrued Liability</u>	<u>Projected Cumulative Service</u>	<u>Projected Accrued Liability</u>
A	25	3	3	1,900	4	2,600
B	33	9	9	6,660	10	7,600
C	41	15	15	13,040	16	14,280
D	49	19	19	18,440	20	20,000
E	29	4	4	2,600	5	3,340
F	37	12	12	9,620	13	10,700
G	45	18	18	16,980	19	18,440
H	21	1	1	600	2	1,240
I	26	2	2	1,240	3	1,900
J	31	5	5	<u>3,340</u>	6	<u>4,100</u>
Accrued Liability Totals				\$74,420		
					\$84,200	
					\$84,200	
					<u>74,420</u>	
					\$9,780	
					\$74,420	
					<u>58,000</u>	
					\$16,420	
					9,780	
					1,642	
					<u>2,588</u>	
					\$14,010	

3. Calculation of the Minimum Municipal Obligation. The Volunteer Firefighter Relief Association Financing Guidelines Act of 1971, Minnesota Statutes, Sections 69.771 through 69.776, requires municipal support of a relief association if the main other revenue source, the fire state aid program under Minnesota Statutes, Sections 69.011 through 69.051, is insufficient. Specifically, Minnesota Statutes, Section 69.772, Subdivision 3, for lump sum volunteer firefighter relief associations and Minnesota Statutes, Section 69.773, Subdivision 5, for monthly benefit volunteer firefighter relief associations, require that the municipality include in its budget, levy for, and pay over to the relief association the amount of the financial requirements of the relief association, reduced by the amount of

the fire state aid anticipated to be received in the following year. For lump sum volunteer firefighter relief associations, the relief association financial requirement also are reduced by an amount equal to five percent of the assets of the relief association, to adjust for the next year's future expected interest earnings. The determination of the minimum municipal obligation must be made by the officers of the relief association, and must be certified to the municipality as part of the municipal budget preparation process.

4. Compliance With Municipal Funding Requirement. If the municipality fails to include the minimum municipal obligation in its budget or fails to spread the obligation in its property tax levy, Minnesota Statutes, Section 69.772, Subdivision 4, for lump sum volunteer firefighter relief associations, and Minnesota Statutes, Section 69.773, Subdivision 5, for monthly benefit volunteer firefighter relief associations, require that the relief association officers certify the required municipal obligation amount to the county auditor, who is required to levy that amount as part of the property taxes of that municipality.

I. Volunteer Firefighter Relief Association Investment Authority

Volunteer firefighter relief associations are either subject to a limited list of authorized investment securities or to an expanded list of authorized investment securities.

Minnesota Statutes, Section 356A.06, Subdivision 6, provides that a relief association that has less than \$1 million in assets based on book value is a limited list plan unless the relief association:

- i) invests at least 60 percent of its assets based on book value using the services of an investment advisor registered with the securities and exchange commission in accordance with the federal Investment Advisors Act of 1940 or uses a licensed investment advisor under state law or;
- ii) invests at least 60 percent of its assets based on book value through the State Board of Investment or;
- iii) uses a combination of a registered/licensed investment advisor and the State Board of Investment to invest at least 75 percent of its assets based on book value.

A relief association which has more than \$1 million in assets based on book value or which meets one or more of the above requirements is an expanded list plan and is permitted to invest according to the expanded list of authorized investment securities under Minnesota Statutes, Section 356A.06, Subdivision 7.

Section 356A.06, Subdivision 6, includes the following investment securities in the limited list of authorized investment securities:

- i) insured certificates of deposit and savings accounts;
- ii) fixed income government obligations which have yield and quality comparable to non-tax exempt issues, and which have been issued by government units which back the securities by full taxing authority and which have not defaulted on any interest and principal during the preceding ten years (revenue bonds must be self supporting for the last five years);
- iii) domestic corporate obligations, including bonds, notes, debentures, or other regularly issued and readily marketable forms of indebtedness, providing that average pre-tax

earnings for the past five years are at least 150 percent of total interest and principal payments, and providing that the debt is in the top three quality ratings of Moody's Investors Service or Standard and Poor's ratings;

- iv) mutual fund shares, providing that the securities the mutual fund holds comply with (1) through (3) above.

Section 69.775 permits stock investing through a mutual fund. Section 69.775 indicates that, notwithstanding Section 356A.06, Subdivision 6, volunteer firefighter relief associations can invest up to 75 percent of the market value of their assets in open end mutual funds if the investments of those funds are consistent with the expanded list of authorized investments.

Those volunteer firefighter relief associations that are not subject to the limited list are permitted by Section 356A.06, Subdivision 7, to invest in the full range of acceptable investments for the State Board of Investment prior to 1994. This creates a difference between the relief associations which are subject to the limited list and those which are not. The difference concerns the form of the investments. Limited list relief associations can invest through mutual funds in securities of the types applicable to expanded list volunteer firefighter relief associations. Those associations subject to the expanded list and not subject to the limited list can invest in these assets without use of a mutual fund.

The expanded list of authorized investment securities includes the following:

- i) government obligations, including notes, bills, bonds, and mortgages backed by the full faith and credit of the issuer and with a rating within the top four quality rating categories of a nationally recognized rating agency. Acceptable investments include guaranteed and insured issues of the United States and its agencies, the states and their political subdivisions, Canadian issues and those of the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided that the principal and interest is payable in United States dollars;
- ii) domestic corporate debt, including bonds, notes, debentures, and transportation equipment obligations, providing the obligations are rated among the top four quality categories by a nationally recognized rating agency, and Canadian debt meeting these quality requirements, providing the principle and interest payments are in United States dollars;
- iii) various other forms of investments, including bankers acceptances, certificates of deposit, commercial paper, mortgage participation certificates and pools, guaranteed investment contracts, savings accounts, guaranty fund certificates, surplus notes, and mutual insurance company debt, providing various quality and insurance requirements regarding these various investments as specified in detail in the statutes are met;
- iv) stocks and convertibles of any domestic corporation, Canadian corporation, or any corporation whose stock trades on the New York or American Stock Exchanges; and
- v) venture capital, real estate and resource limited partnerships, below investment grade debt, and international securities, with limits regarding the minimum number of other unrelated owners of the limited partnership investments and the maximum portion of a

portfolio that can be devoted to these types of investments, in order to limit the risk exposure.

Finally, Minnesota Statutes, Section 356.71, permits any public pension plan whose assets are not invested by the State Board of Investment to invest in Minnesota situs nonfarm real estate ownership interests or loans secured by mortgages or deeds of trust.

J. Fiduciary Obligations

The fiduciary obligations of volunteer firefighter relief association administrators and the standards which they must follow in conducting those duties are codified in Minnesota Statutes, Chapter 356A, the Public Pension Fiduciary Responsibility Law. This regulation includes:

1. Fiduciary Status. Board members and the chief administrating officer of volunteer firefighter relief associations are fiduciaries. As fiduciaries, they have a duty to active members, deferred retirees, and benefit recipients, to the state, and to local taxpayers.
2. Fiduciary Activities. The activities of volunteer firefighter plan fiduciaries include, but are not limited to:
 - i) Determination of plan benefits. Administrators must correctly compute benefits and provide only authorized benefits to plan members;
 - ii) Determining funding requirements and contributions. Funding requirements must be properly determined;
 - iii) Maintaining membership and financial records. Accurate, well maintained membership data and financial information must be maintained;
 - iv) Plan administrative expenses. Administrative expenses must be reasonable and necessary; and
 - v) Investment of plan assets. Investments should be properly diversified, prudent, and consistent with laws indicating authorized investments for the particular fund.

All fiduciary activities must be conducted in accordance with the purpose and intent of the by-laws and relevant laws, and must be conducted faithfully and without prejudice. No fiduciary or relative of a fiduciary may receive anything more than nominal compensation in consideration for a pension plan disbursement. The administrators are also bound in all their actions by the prudent person standard, which requires the fiduciary to act in good faith and to exercise the degree of judgement and care that persons of prudence, discretion, and intelligence would exercise in the management of their own affairs, and, for investments, not undertaken for speculation, considering the probable safety of the plan capital as well as the probable investment return to be derived from the assets.

3. Specific Investment Requirements. Section 356A.06 details investment-related fiduciary requirements, as follows:

- i) Financial control of assets. Plan assets may be held only by the plan treasurer, the depository agent of the plan, or the State Board of Investment or its depository agent;

- ii) Diversification. Investment must be properly diversified among investment types to minimize the risk of substantial investment losses;
- iii) Sufficient liquidity. Plans must invest sufficient assets in cash equivalent securities to meet immediate liquidity needs, thus avoiding losses due to forced early liquidation of other securities;
- iv) Conflicts of interest. Any conflict of interest must be avoided and no fiduciary may personally profit, directly or indirectly, from the investment of plan assets;
- v) Prohibited transactions. Certain transactions are explicitly prohibited, which include, but are not limited to, sales, exchanges, or leases of real estate between the pension plan and a fiduciary of the plan, lending of money or extensions of credit by the plan to a fiduciary, transfers of assets between a fiduciary and the plan, and sales of services by a fiduciary to a plan;
- vi) Economic interest statement. To help identify actual or potential conflicts of interest, members of the governing board and the chief administrative officer of the relief association must file an annual economic interest statement which is available for public inspection, which must identify ownership interests in investment brokerage businesses, real estate sales, insurance agencies, banks, or other financial institutions, and which must identify any relationship or financial arrangement that can lead to a conflict of interest;
- vii) Investment business recipient disclosure. The chief administrative officer must annually disclose the recipients of investment business or investment commissions paid to brokers, banks, or other investment managers; and
- viii) Authorized investments. Volunteer fire relief associations are either "limited list" associations, or "expanded list" associations, depending on the size of their asset base or whether the plan uses professional investment advisors. Plans with more than \$1 million in assets, or smaller plans which use professional investment advisors are expanded list associations, enabling them to invest following essentially the same investment authorization as the State Board of Investment had prior to 1994. In addition, under other statutes, these plans are given broader real estate investment authorization than the State Board of Investment. Limited list plans are somewhat more restricted, although they share the same real estate investment authorization as the expanded list plans. In all cases, investments must meet prudent investment standards.

4. Required Disclosure To The Membership. The chief administrating officer of the volunteer firefighter relief association must provide a benefit summary to all plan participants. A copy of all financial reports and actuarial reports required of volunteer fire plans, or a summary of these reports, must be provided to relief association members.

5. Adverse Determination Review Procedure. A review procedure covering adverse determination of eligibility, benefits, or other rights under the plan must be available to volunteer firefighter relief association members. Members must be given timely notice and a reasonable opportunity to be heard in the review process. If a specific review procedure is not specified by other law, the volunteer firefighters relief association must develop and adopt a review procedure.

6. Fiduciary Continuing Education Requirement. Fiduciaries must make a reasonable effort to obtain the knowledge and skills necessary to perform their obligations effectively. The governing

boards of the volunteer firefighter relief associations must develop continuing education programs for relief association board of trustee members who are not proficient in all areas of their fiduciary responsibilities.

Volunteer Fire Relief Association Membership: Issue B-9; Definition Of The Term "Volunteer Firefighter"

Issue And Source Of The Issue

Minnesota Statutes, Chapter 424A, does not contain a definition of what constitutes a "volunteer firefighter" for purposes of obtaining or retaining membership in a volunteer firefighter relief association. Minnesota Statutes, Section 353.01, Subdivision 36, does define the term "volunteer firefighter," but solely for the purposes of an exclusion of volunteer firefighters from coverage by the Public Employees Retirement Association (PERA) or the Public Employees Police and Fire Fund (PERA-P&F.)

The issue was raised by the Minnesota State Fire Department Association. The Minnesota State Fire Department Association recommended in September, 1994, that a definition of the term "volunteer firefighter" be added to Minnesota Statutes, Chapter 424A.

Analysis Of Issue Of Defining The Term "Volunteer Firefighter"

The definition of the term "volunteer firefighter" determines eligibility for membership in a volunteer firefighter relief association and, consequently, eventual entitlement for volunteer firefighter relief association benefits. Currently, there is no statutory definition of the term of statewide application for volunteer fire departments and volunteer firefighter relief associations. Each volunteer firefighter relief association currently defines its own eligibility requirements for membership in the relief association, if any, in the articles of incorporation or bylaws of the relief association. In actuality, the definition of the term is most commonly delegated to the volunteer fire department by the volunteer firefighter relief association by virtue of the common practice of the relief association providing retirement coverage to the entirety of the fire department. The extent of standards imposed on volunteer firefighters by a volunteer fire department will likely depend on the extent of potential fire hazard in that community, the availability of potential firefighters, and the size of any compensation package applicable to volunteer firefighters.

The primary reason for a policymaker to be concerned about which persons are deemed to be volunteer firefighters and to have retirement coverage by a volunteer firefighter relief association would be if there was evidence that a significant number of volunteer firefighter relief associations currently include some individuals as volunteer firefighters and members of the relief association who would not normally be included in the customary understanding of the term "volunteer firefighter" or that a significant number of volunteer firefighter relief associations currently exclude some individuals from the working definition of the term "volunteer firefighter" that governs retirement benefit coverage by the volunteer firefighter relief association.

The Minnesota State Fire Department Association, in its testimony before the Commission in September, 1994, did not provide any clear information or indication that either inappropriate inclusions or exclusions exist in the volunteer firefighter relief association membership. In previous legislative sessions, the Minnesota State Fire Department Association has criticized the practice in some municipalities where salaried firefighters who are employed by the applicable fire department and who have pension coverage by the Public Employees Police and Fire Fund (PERA-P&F) also are considered to be volunteer firefighters in the same municipality for purposes of volunteer firefighters relief association membership and benefit coverage. Under the federal Fair Labor Standards Act (FLSA), firefighters in this circumstance are required to be paid overtime pay by the fire department for any additional firefighting service rendered for the same fire department and, consequently, these firefighters have no time to serve akin to other volunteer firefighters. The Minnesota State Fire

Department Association apparently would prefer that these salaried firefighter members of volunteer firefighter relief associations in the same municipality be excluded from the volunteer firefighter relief association coverage.

Beyond this concern for the additional pension coverage provided to salaried firefighter members of volunteer firefighter relief associations, there are potential inclusions in and exclusions from volunteer firefighter relief associations that could be deemed inappropriate by a policymaker and that could require the development of a legislative definition of the term "volunteer firefighter," even if the volunteer firefighter community does not perceive the situation to be a policy problem. Inappropriate inclusions in volunteer firefighter relief association membership could be situations such as the inclusion in membership of a person who functions solely to process relief association reports, records, and other relevant paperwork, or the inclusion in membership of a person who is an elected local or state official (city council member, mayor, county board member, or legislator) without being required to render any further firefighting duties. Inappropriate exclusions in volunteer firefighter relief association membership could be situations such as the exclusion from membership of a person in a protected class (i.e. race, color, national origin, religion, creed, etc.) under federal or state law or a person who fails to meet some arbitrary or capricious qualification criteria unrelated to serving as a firefighter or who is the victim of valid qualification criteria that is applied in an arbitrary or capricious manner (i.e. a person who is unwilling to support the current relief association leadership, a person who is a persistent critic of current relief association practices or conduct, or a person who resides in the "wrong" area of the municipality or fire town.)

It is unclear to the Commission staff to what extent these situations of inappropriate inclusions or inappropriate exclusions occur. Since firefighters are not directly licensed by the State like police officers, there apparently is no regular information assembled by the State of Minnesota on the actual total number of Minnesota firefighters against which the total membership of fire pension plans numbers can be compared to determine any significant difference in numbers and any potential inappropriate exclusions. There also is no general information assembled on fire runs and the extent of participation in fire runs by firefighters from which some conclusions could be drawn about potentially inappropriate inclusions.

Options For Legislative Resolution Of The Volunteer Firefighter Definition Issue

If the Commission and the Legislature conclude that there are inappropriate inclusions and exclusions from the membership of volunteer firefighter relief associations and that these inappropriate inclusions and exclusions are sufficiently extensive to merit corrective legislation, there are several options available to the Commission and the Legislature in attempting to fashion that corrective legislation, as follows:

A. Mandate Local Resolution Of Issue; Require Formulation Of Volunteer Fire Relief Association Bylaw Definition

Proposed legislation could be fashioned that would require each volunteer firefighter relief association to define in its bylaws who is a volunteer firefighter and what minimum level of service is needed to be maintained in order to be credited with a year of service credit by the relief association. The bylaw provision would be subject to approval by the applicable municipality or municipalities under current state law. The bylaw provisions would be reported to the Office of the State Auditor under existing law, so that there would be a basis for a future comparison of membership provisions statewide. By requiring a clear definition that is fashioned locally, variations in practices that occur or are necessary throughout the state would be respected, but the issue would be given greater visibility by the proposed legislation that will allow for the appropriate local debate on the issue.

B. Monitor Level Of Volunteer Firefighter Service; Require Reporting To State Auditor On Service Levels Of Volunteer Firefighters

Proposed legislation could be fashioned that would require volunteer firefighter relief associations to annually report key information on membership and level of service. The information could include reporting on the number of firefighters associated with the applicable fire department and the number of firefighters who are volunteer firefighter relief association members, the number of applicants for relief association membership, the number of applicants accepted, and the reason for rejection of each applicant, and the number of fire runs, training sessions, and other fire department activities that each firefighter renders. If there are membership problems in some volunteer firefighter relief associations, the reporting process and the actual reported results should identify them.

C. Assemble Broad Generic Definitions; Require Conformity By All Volunteer Fire Relief Associations

Proposed legislation could be fashioned that would attempt to define the term "volunteer firefighter" and to specify the minimum requirements to receive a year of service credit from a volunteer firefighter relief association. The definitions could vary, as follows:

1. Focus On Fire Suppression Personnel; Credit Service For Any Suppression Activity. The provision could define a "volunteer firefighter" as a person who is accepted for membership by and an active member in good standing in a municipal fire department or independent nonprofit firefighting corporation, whichever applies, and who is regularly engaged in fire suppression activities for that department or corporation. The provision could define volunteer firefighter relief association "service credit" as any year in which a volunteer firefighter performs or is on call to perform fire suppression activities for the department or corporation. This definition will leave the actual functional definition to the applicable fire department, by keying on fire department membership in good standing, and will place the emphasis on fire suppression duties, the chief activity normally ascribed to firefighters, thereby arguing for the exclusion of personnel who perform other or related duties (e.g. dispatchers, paramedics, or administrative personnel.) The definitions would provide guidance to local relief associations without actually providing any significant detrimental regulation in most cases.
2. Exclude Personnel Not Primarily Engaged In Fire Suppression; Credit Service Only For Fire Suppression Activity And Fire Suppression Training. The provision could define a "volunteer firefighter" in a manner that clearly and specifically excludes any fire department personnel who are not primarily engaged in fire suppression duties. It could also define volunteer firefighters relief association "service credit" as any period during which the firefighter actually performs fire suppression activities or is engaged in fire suppression training. These definitions would mandate the exclusion of all non-suppression personnel and would limit the crediting of service by volunteer firefighter relief associations to activities that fully conform to the traditional view of firefighting duties, which is fire suppression.
3. Exclude Non-Fire Suppression Personnel; Exclude From Service Credit Non-Fire Suppression Activity And Any Non-Volunteer Service. The provision could define a "volunteer firefighter" to include only fire suppression personnel. It could also define volunteer firefighter relief association "service credit" in a manner that excludes any period of service by a firefighter other than fire suppression or related training and excludes any service for which the firefighter receives compensation greater than that paid to any other emergency or on-call personnel. The definitions would restrict the volunteer firefighter relief association benefits to traditional volunteer firefighters and to traditional firefighting activities.

D. Assemble Specific Definitions; Develop With Particularity Specific Inclusions and Exclusions For Membership And Service Crediting For All Volunteer Fire Relief Associations

Proposed legislation could be fashioned that would define the term "volunteer firefighter" as the Legislature defines the membership for virtually all other Minnesota public pension plans, with the development of a set of inclusions in and exclusions from membership. It could also define the term "service credit" for a volunteer firefighters relief association, by specifying the activities and the extent of its performance in order to qualify for a year of credited service.

Volunteer Firefighter Benefit Coverage: Issue A-2; Limitation On The Benefit Increase Authority For Volunteer Fire Relief Associations With Substantial Unfunded Actuarial Liabilities

Issue And Source Of The Issue

Minnesota Statutes, Section 424A.02, Subdivision 3, limits the authority of a volunteer firefighters relief association and the applicable municipality to increase the level of service pensions solely on the basis of the three year average amount of available financing per firefighter in the relief association, with a sliding scale of service pension benefit maximums associated with increasing financing levels. The current actuarial condition of the volunteer firefighters relief association, expressed by its funding ratio (which is the current value of assets expressed as a percentage of current actuarial accrued liability,) is not currently a factor further limiting the authority of a relief association and the associated municipality to implement service pension increases.

The issue was raised by the Office of the State Auditor. The Office of the State Auditor recommended, in September, 1994, that a minimum funding level be added as an additional constraint on the authority of a volunteer firefighters relief association and a municipality to increase service pensions.

Analysis Of Issue Of Minimum Funding Level Constraint On Service Pension Increases

The volunteer firefighters relief association service pension is the primary benefit coverage provided by a relief association to compensate a firefighter for the services rendered to the benefit of the fire department and the community. The volunteer firefighter relief association service pension may be the sole compensation for services provided to a volunteer firefighter from any source. The amount of the service pension is set by the volunteer firefighters relief association and, since January 1, 1970, with the approval of the municipality. In 1982, for a volunteer firefighters relief association with assets in excess of its accrued liability and without any municipal contribution requirement, authority was granted for the relief association to increase its service pension amount without municipal approval, so long as the additional liability associated with the service pension increase does not exceed 90 percent of the funding surplus of the volunteer of the volunteer firefighters relief association.

The current constraint on the ability to increase the service pension amount, the requirement of having a specific level of funding per active firefighter on average over a three year period, was introduced in 1979 and was strengthened in 1993. The flexible service pension maximums, which are sliding scales of benefit maximums associated with a three year average level of financing (fire state aid, municipal contribution, and portion of funding surplus) per firefighter, attempts to insure that a substantial portion of the funding needed to support a given level of service pension is in place prior to the implementation of the service pension increase. However, because the flexible service pension maximums do not require the full amount of the funding necessary to support a given service pension level to be in place for the three years prior to the service pension increase, current law allows volunteer firefighter relief associations with unfunded accrued liabilities to continue to increase the amount of their service pensions if the applicable municipalities agree. Under the 1971 Volunteer Firefighters Relief Association Financing Guidelines Act, municipalities associated with relief associations with funding requirements greater than the applicable fire state aid allocation are obligated to make annual contributions to the relief associations.

Of the 697 volunteer firefighter relief associations in Minnesota that filed their required financial reporting in calendar year 1993, 161 (23.1 percent) had a funding ratio (assets as a percentage of accrued liabilities) of less than 95 percent. This includes 12 volunteer firefighter relief associations with unfunded accrued liabilities in excess of \$250,000:

<u>Volunteer Firefighters Relief Association</u>	<u>Unfunded Accrued Liability</u>
Apple Valley	\$302,517
Eden Prairie	1,015,472
Lake Johanna *	565,522
Lakeville	436,343
Maplewood	479,625
Mound	720,441
New Brighton	535,448
Pipestone	252,867
Robbinsdale	439,203
Roseville	1,064,928
Savage	1,006,447
Worthington	691,033

* Independent Nonprofit Firefighting Corporation

To protect from potential future funding disasters, current statutes depend solely on the judgment of the relief association or of the applicable municipality (or municipalities for independent nonprofit firefighting corporations) if a volunteer firefighters relief association with a substantial unfunded accrued liability is involved in a request for a service pension increase. The suggestion from the Office of the State Auditor, during the September 21, 1994, Commission hearing, is to limit in some ways the ability of volunteer firefighters relief associations and municipalities to approve a service pension increase if the relief association has a substantial unfunded accrued liability. The questions for policy makers are:

1. **Appropriateness Of Additional Limit.** Is it desirable to impose a legal constraint on potential volunteer fire service pension increases in the event of a volunteer firefighters relief association with a substantial unfunded accrued liability?
2. **Nature Of Constraint To Be Imposed.** If a constraint is appropriate, what type of constraint would be appropriate to impose and on which entity (volunteer firefighters relief association or municipality) would the constraint appropriately be imposed?
3. **Size of Unfunded Accrued Liability.** If a constraint is appropriate, what constitutes a substantial unfunded accrued liability for a volunteer firefighters relief association that will trigger the constraint? For the 161 volunteer firefighter relief associations included in the December 31, 1993 Compilation of Volunteer Firefighters Relief Association Data by the Office of the State Auditor that have unfunded accrued liabilities, the following sets forth the number of relief associations at each funding level grouping:

<u>Funding Level</u>	<u>Number of Relief Associations</u>
Under 50%	3 (1.86% of group/0.43% of total)
50-59%	3 (1.86%/0.43%)
60-69%	14 (8.70%/2.01%)
70-79%	29 (18.01%/4.16%)
80-89%	63 (39.13%/9.04%)
90-94%	43 (26.71%/6.17%)
95% +	6 (3.73%/0.86%)

Options For Legislative Resolution Of The Issue Of Limits On Volunteer Fire Relief Association Benefit Increase Authority

If the Commission and the Legislature conclude that it is desirable to impose a legal constraint on the ability of volunteer firefighter relief associations to request or of municipalities to approve service pension or other benefit increases if the relief association has a substantial unfunded accrued liability, there are several options available to the Commission and the Legislature in attempting to fashion that additional volunteer firefighter relief association regulation, as follows:

A. Maximum Constraint: Absolute Prohibition On Service Pension Or Other Benefit Increases For Volunteer Firefighter Relief Associations With Triggering Unfunded Accrued Liability Level

Proposed legislation could be fashioned that would prohibit, without exception, a volunteer firefighters relief association with a funding ratio of less than the triggering funding ratio from seeking any benefit plan modification and the applicable municipality from approving any benefit plan modification until the relief association funding ratio improves to exceed the triggering funding ratio. The triggering funding ratio (current assets divided by accrued liability) options include:

1. under 50 percent;
2. under 60 percent;
3. under 70 percent;
4. under 80 percent;
5. under 90 percent; or
6. under 95 percent.

While the absolute prohibition would tend to eliminate the potential for some volunteer firefighter relief associations with sizable unfunded accrued liabilities to further threaten their fiscal s vency by granting ill-timed benefit increases, the potential solution does have some potential adverse impacts. Most volunteer firefighter relief associations are lump sum relief associations, where the relief association officers calculate the relief association liabilities and funding costs and project asset values, and the calculation of the triggering funding level will be done by those officers. Inadvertent or deliberate miscalculations would foil the potential solution. If the Office of the State Auditor closely monitors these calculation in the future, however, the potential solution would be more effective. Also, the regulation could adversely affect some volunteer firefighter relief associations that have large unfunded actuarial liabilities, because they are very new relief associations appended to older fire departments or because they recently increased service pension amounts in order to recruit sufficient new volunteer firefighters, but which also have sufficient future financing resources to accommodate that large initial pension funding load.

B. Minimum Constraint: Any Approved Service Pension Or Other Benefit Increase With Triggering Funding Level Would Be Accompanied By Accelerated Amortization Contribution

Proposed legislation could be fashioned that would permit a volunteer firefighters relief association with a funding ratio of less than the triggering funding ratio (potential levels set forth in Option A) to seek a benefit plan modification and would permit the applicable municipality to approve the benefit plan modification if the future financial requirements of the special fund of the relief association and the minimum municipal obligation to the relief association are calculated using an accelerated amortization contribution that is greater than the generally applicable amortization contribution (currently one-tenth of each unfunded accrued liability increment for lump sum volunteer firefighter relief associations; approximately eight percent of each unfunded accrued liability increment for

monthly benefit volunteer firefighter relief associations.) The acceleration of the amortization contribution requirement and obligation options include:

1. 10 percent greater than current requirement;
2. 25 percent greater than current requirement;
3. 30 percent greater than current requirement;
4. 50 percent greater than current requirement; or
5. 100 percent greater than current requirement.

This potential restriction on volunteer fire benefit increase authority would assist in solving the problem, if implemented correctly, but it would make the current amortization requirements for volunteer firefighter relief associations even more complex for relief association officials to determine than it is currently, and would make its monitoring by the Office of the State Auditor more difficult.

C. Constraint With Ad Hoc Exceptions; Prohibition On Service Pension Or Other Benefit Increases With Triggering Unfunded Accrued Liability Level Unless State Auditor Approves Exception

Proposed legislation could be fashioned that would prohibit a volunteer firefighters relief association with a funding ratio of less than the triggering funding ratio from seeking any benefit plan modification or the applicable municipality from approving any benefit plan modification until there is a significant improvement in the funding ratio unless the State Auditor, based on other relevant considerations, authorizes an exception.

Offsetting the generally positive impact that the potential solution would have is the policy issue of delegating significant discretion to one person, the State Auditor, without providing sufficient appropriate legislative constraints on its exercise to reduce or eliminate any potential for abuse.

Volunteer Firefighter Benefit Coverage: Issue C-1; Clarification Of Authority To Convert Defined Benefit Plans Into Defined Contribution Plans

Issue And Source Of The Issue

Minnesota Statutes, Section 424A.02, Subdivision 4, permits defined contribution (sometimes referred to as split-the-pie) volunteer firefighter relief associations instead of defined benefit (lump sum or monthly benefit) volunteer firefighter relief associations, but the authority is sandwiched into a statute section that is primarily related to defined benefit plans, making the specific provisions applicable to a defined contribution volunteer firefighter relief association less clear for newly created plans. Minnesota Statutes, Chapter 424A, lacks the specific authority or the procedures for an existing volunteer firefighter relief association to make the conversion from a defined benefit plan to a defined contribution plan. On one occasion (Fridley Volunteer Firefighters Relief Association,) special law authority was enacted. Other volunteer firefighter relief associations have reportedly made the conversion without the benefit of any statutory authorization.

The issue was raised by the League of Minnesota Cities. The League of Minnesota Cities recommended, in September, 1994, that a clarification be made in the existing law governing defined contribution plans to make the application of current law clearer for newly created defined contribution volunteer firefighter relief associations. It also requested the enactment of specific authority for a volunteer firefighters relief association to convert a defined benefit pension plan to a defined contribution pension plan and the formulation of the necessary procedures to do so.

Analysis Of The Issue Of Conversions Of Defined Benefit Plans To Defined Contribution Plans

Historically, most volunteer firefighter relief associations have been defined benefit plans. Defined benefit plans provide a pension benefit that is predeterminable by virtue of a formula or other computational method. The alternative type of pension plan is a defined contribution plan, where the pension benefit is the amount to the credit of the plan member in an individual account at the time of retirement. Defined benefit plans require that some actuarial calculations be done periodically to determine the amount of funding required for the plan to remain financially solvent. Defined contribution plans do not have potentially variable contribution rates, but typically have specified contribution rates or a designated level of funding. In the past, when defined contribution volunteer firefighter relief associations existed, they generally were "split-the-pie" plans, where any fire state aid and municipal contribution received by the volunteer firefighters relief association would be divided among the various active volunteer firefighter members.

Currently (as of December 31, 1993,) there are 697 volunteer firefighter relief associations in Minnesota that met their financial reporting requirement under state law to file with the Office of the State Auditor. Of that total, 73 (10.5 percent) are defined contribution plans. These plans had 10.4 percent of the assets held by all volunteer firefighter relief associations and received eight percent of the total contributions received by all volunteer firefighter relief associations (10.6 percent of all fire state aid and 3.7 percent of all municipal contributions.) The active membership of defined contribution plans account for 9.2 percent of the total active membership of all volunteer firefighter relief associations.

Defined contribution plans differ from defined benefit plans in the extent of certainty about ultimate benefit payouts to be provided and the extent of risk borne by plan members and plan sponsors (primarily municipalities.) Defined benefit plans carry the greatest certainty in the amount of eventual benefit payouts to members, through the case of a service related benefit formula, while they also carry the greatest level of plan sponsor (municipal) liability risk under current state law because of that benefit payout certainty. Defined contribution plans lack certainty in eventual benefit payouts in

comparison, eliminate plan sponsor liability risk, and shift the investment performance from the plan sponsor (municipality) to the plan membership.

If it is important to municipal officials or the organizers of a volunteer firefighters relief association to avoid the creation of unfunded actuarial accrued liabilities and to limit the exposure of the plan sponsor (municipality) to the risk of variable, and potentially increasing, contribution rates, the choice of a defined contribution plan represents the optimal benefit plan type choice. Defined contribution plans also can address other concerns, like portability (individual account balances are more portable than service credit records,) and individual funding security (defined contribution plan assets are allocated to individuals rather than covering the undifferentiated totality of the relief association membership,) and avoid some relief association regulation (defined contribution plans are outside of the flexible service pension maximums of Minnesota Statutes, Section 424A.02, Subdivision 3, and potentially allow for the payment of greater service pensions for those relief associations that have disproportionately high levels of fire state aid or other financing, per firefighter.) Traditionally, pension plans exist to assist the personnel system by providing pension benefit coverage that is adequate to meet the recruitment, retention, and systematic and predictable out-transitioning needs of the employer. Defined contribution pension plans, with their lack of benefit certainty and their shift of investment performance risk, frequently are viewed as being less proficient in encouraging recruitment, personnel retention, and end-of-career out-transitioning.

Since relatively few new volunteer firefighter relief associations are being formed, with an initial choice between a defined contribution plans and a defined benefit plan, the question between the two types of pension plans largely now arises in connection with volunteer firefighter relief associations that are considering the conversion from a defined benefit plan to a defined contribution plan. For policy makers, the question of a conversion from a defined benefit plan to a defined contribution plan raises several questions, which are as follows:

1. Appropriateness Of Authorizing Conversion. The policy issue is whether or not it is appropriate to authorize the conversion from a defined benefit plan to a defined contribution plan for an existing volunteer firefighter relief association rather than requiring the termination of the existing defined benefit plan, the liquidation of its liabilities, and its replacement with a wholly new volunteer firefighters relief association benefit structure utilizing a defined contribution plan. A conversion would be appropriate if a change in pension plan type is to the benefit of both the plan sponsors and the plan membership in meeting the purposes for which the relief association exists. If the defined contribution plan, then, better meets the portability needs of a certain group of volunteer firefighters, an conversion should be encouraged, but if the defined contribution plan conversion is pursued solely to evade other service pension amount regulation by a volunteer firefighters relief association receiving disproportionately large fire state aid allocations, the desirability for legislators of promoting the conversion is less clear.

2. Procedure For Converting Any Retiree And Deferred Retiree Benefits. Although most Minnesota volunteer firefighter relief associations are lump sum defined benefit plans, some are monthly benefit or annuity defined benefit plans, where there currently exist retired members who have an ongoing entitlement to retirement benefits. The policy issue is the need to specify a procedure for converting ongoing retiree benefits to some other type of obligation as part of a conversion of a defined benefit plan to a defined contribution plan. While the relief association could continue paying the monthly retirement benefits to current benefit recipient, this practice will obligate a certain pool of relief association assets for a number of years into the future and, if there are mortality losses, will continue to constitute a claim on additional relief association assets. This will complicate the conversion of active member service credit.

3. Procedure For Converting Active Member Service Credit. In converting defined benefit plans to defined contribution plans, the service credit that underlies the defined benefit plan must be converted into a dollar amount. If that conversion for existing relief association members does not occur, the shift to a defined contribution plan through the addition of new relief association members will potentially require decades to complete and will complicate the operation of the volunteer firefighters relief association considerably. The policy issue is the need to specify a procedure for converting service credit into a dollar accumulation and set the conversion amount and the need to handle the obligation to any active firefighters who did not convert the prior service credit.

4. Requirement For Municipal Approval For Conversion. While the conversion will reduce the potential future liability of the applicable municipality or independent nonprofit firefighting corporation, the defined contribution rates may constitute a substitute municipal liability. The policy issue is whether or not the approval of the municipality or municipalities associated with the relief association would be necessary in order for the conversion of a relief association to occur. Some volunteer firefighter relief associations that do not have unfunded accrued liabilities or current municipal contribution requirements are currently exempt from the requirement of obtaining municipal approval for benefit modifications and other relief association bylaw or articles of incorporation changes.

Options For Legislative Resolution Of The Issue Of The Authority To Convert Defined Benefit Plans To Defined Contribution Plans

If the Commission and the Legislature conclude that it is desirable to authorize or encourage volunteer firefighter relief associations to convert from defined benefit plans to defined contribution plans, there are several options available to the Commission and the Legislature in attempting to fashion that volunteer fire authority, as follows:

A. Authorize Benefit Plan Conversion; Require Affirmative Elections Of New Benefit Plan Type Or Annuity Conversion.

Proposed legislation could be fashioned that would authorize the conversion from a defined benefit plan to a defined contribution plan, with an affirmative election of the annuity conversion or the defined contribution plan conversion. If no affirmative election of the conversion occurs, the retiree or firefighter retains the benefit coverage in effect immediately prior to the conversion. While the conversion will be less complete if the default benefit coverage is the prior benefit coverage, the practice would be more legally unassailable than if benefit conversions are more greatly encouraged.

B. Authorize Benefit Plan Conversion; Require Conversion Unless Retiree Or Firefighter Elects Not To Have Conversion Occur.

Proposed legislation could be fashioned that would authorize the conversion to a defined contribution plan, with an automatic conversion of existing annuities to single premium insurance annuity contracts and of prior active firefighter service credit to an individual account accumulation unless the monthly benefit plan retiree or active firefighter elects not to have the conversion occur. The conversion would be more complete if the default choice was the benefit conversion, although the automatic conversion runs some risk of legal challenge where it ultimately works to reduce the eventual benefit paid to a retiree or a former firefighter.

C. Encourage Benefit Plan Conversion; Provide Additional Fire State Aid Amount Or Other Incentive For Converting Relief Associations.

Proposed legislation could be fashioned that would provide an incentive for volunteer firefighter relief associations to convert from a defined benefit plan to a defined contribution plan, by reserving a portion of the current fire state aid for defined contribution plans or adding additional general fund money to the fire state aid for defined contribution plans. The incentive could spur more conversions than would occur if no state financial encouragement was provided.

Volunteer Firefighter Relief Association Administration: Issue A-3;
Open Public Board of Trustee Meetings

Issue And Source Of Issue

Minnesota Statutes, Section 356A.08, Subdivision 1, extends the open meeting law to statewide public employee pension plans, but does not do so for local public pension plans. The Office of the State Auditor reports that some volunteer firefighter relief association board meetings are not conducted as open, public meetings and that some municipal officials who are relief association board members do not regularly receive notices of relief association board meetings.

The issue was raised by the Office of the State Auditor. The Office of the State Auditor recommended, in September, 1994, that there be a statutory requirement for public meetings by volunteer firefighter relief association boards of trustees, but that the open meeting requirement for volunteer firefighter relief associations should not be as onerous as Minnesota Statutes, Section 471.705. The Office of the State Auditor also recommended, in September, 1994, that there be a statutory requirement that all volunteer firefighter relief association board of trustee members, including any ex-officio members, receive timely notice of board meetings.

Analysis Of The Issue Of Open Public Volunteer Fire Relief Association Board Meetings

Unlike many other states, where local pension plans are either agencies or wholly owned instrumentalities of the local governmental unit, virtually all local public pension plans in Minnesota are nonprofit corporations under state law and have a separate legal identity from the sponsoring governmental unit. As separate corporations, Minnesota local public pension plans are not clearly covered by most local governmental requirements or regulation. Most Minnesota local public employee pension plans are volunteer firefighter relief associations.

Volunteer fire relief associations are considered to be governmental entities under state law. Minnesota Statutes, Section 424A.001, Subdivision 4, which defines the term "relief association" in the chapter relating to volunteer firefighter relief association governance and benefits, specifies that

[a] relief association is a governmental entity that receives and manages public money to provide retirement benefits for individuals providing the governmental services of firefighting and emergency first response.

Thus, as a governmental entity, volunteer firefighter relief associations can be argued to be included in the current requirements of the Minnesota Open Meeting Law. Minnesota Statutes, Section 471.705, Subdivision 1, which specifies the applicability of the provision and mandates a presumption of openness in meetings, includes "other public body" in the enumeration of entities governed by the open meeting law. In 1989, when the public pension plan fiduciary responsibility law was enacted, only statewide pension plans were specifically included in the application of the open meeting law, although the initial Commission drafts of the proposed fiduciary responsibility legislation also extended the open meeting law to local public employee pension plans. This lack of specific inclusion for volunteer firefighter relief associations raises a potential negative implication that local pension plans are excluded from meeting the requirements of the open meeting law.

The Minnesota Open Meeting Law, Minnesota Statutes, Section 471.705, applies to a large range of entities and constitutes extensive regulation of the conduct of governing body meetings. The law generally requires the following:

1. governing body meetings must be open and public;
2. votes by governing body members must be recorded and must be available for public inspection;
3. governing body actions must be recorded and must be available for public inspection;
4. appropriations must be made by recorded votes;
5. a copy of printed meeting materials must be available for public inspection in the meeting room during the course of the meeting;
6. a schedule of regular meetings must be public and available; and
7. appropriate public notice of special meetings and emergency meetings must be given.

The Open Meeting Law includes penalties for intentional violations of the Open Meeting Law requirements, including monetary civil penalties, potential removal from office for multiple violations, and liability for plaintiff's attorney's fees and legal costs in applicable litigation.

Without some open public meeting requirement, the official activities of volunteer firefighter relief associations would be hard to differentiate from a voluntary association or club. Since volunteer firefighter relief associations control assets derived from state and local tax revenues, can affect future tax obligations of the applicable municipalities, and include public officials on their governing board, it would be appropriate for relief associations to conduct their business activities in as governmental a manner as possible. Also, volunteer firefighter relief associations historically have considered themselves to be governmental entities for federal internal revenue and other regulatory purposes. Volunteer fire relief associations are generally exempt from direct federal income taxation under federal Internal Revenue Code Section 501(c)(4) and are generally excepted from the regulation of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, under the governmental pension plan exception of ERISA Sections 3(32) and 4(b).

For policy makers, there are several issues and questions that arise in connection with the broad topic of the status of volunteer firefighters relief association board of trustee meetings as open public meetings. These issues and questions are:

1. Existence Of Factual Basis For Concern. Is the anecdotal information of the Office of the State Auditor provided on September 21, 1994, generally correct about the lack of formal meeting notices provided to municipal officials who serve on volunteer firefighters relief association boards in some instances? Are any actual instances of failure to provide notice widespread, of long duration, and intentional? Are reports of a failure to provide notice actually a convenient excuse by municipal officials to explain away their general practice of noninvolvement in volunteer firefighters relief association affairs? Are volunteer firefighters relief association board meetings generally closed to the public or inaccessible by virtue of the lack of notice and meeting materials if not formally closed? If there is little factual basis for believing that volunteer firefighter relief associations routinely exclude the public from their governing board meetings, hold secret or unannounced meetings, fail to give municipal officials adequate notice of relief association board meetings, fail to disclose meeting materials, or intentionally engage in practices that would or do violate the Minnesota Open Meeting Law, then any regulatory effort in this area would be preventive or preemptive rather than remedial or corrective.
2. Appropriateness Of Inclusion In Minnesota Open Meeting Law. Irrespective of actual practices of volunteer firefighters relief association boards of trustees, is it appropriate to require volunteer firefighter relief associations to comply with the Minnesota Open Meeting Law? During the 1994 Legislative Session, the Office of the State Auditor requested the addition of statutory requirements for open volunteer firefighters relief association board of trustee meetings and for the provision of formal notice to all board of trustee members, but sought less onerous regulation than the Minnesota Open

Meeting Law. Presumably, the argument is that the Minnesota Open Meeting Law is too onerous relates to the penalties applicable to violations (civil fines and removal from office) and that volunteer firefighters relief association officials are essentially volunteers. However, the Minnesota Open Meeting Law requires an intentional violation of the law for any penalties to apply and applies to numerous township and other small governmental units, where service is also essentially volunteer.

3. Desirability Of Fashioning Slimmed Down Open Meeting Regulation. If the simple inclusion of volunteer firefighter relief associations in the Minnesota Open Meeting Law is not deemed appropriate, is it still desirable to require to parallel some aspects of the current Minnesota Open Meeting Law in regulation formulated for volunteer firefighter relief associations, such as requiring that volunteer firefighters relief association board of trustee meetings be open to the public and that formal notice of board meetings be given to all members of the board? If the various requirements of the Minnesota Open Meeting Law are not to be duplicated, the criteria needed to determine which regulatory aspects are to be applied to volunteer firefighter relief associations and which are not must be identified and implemented. Whatever aspects of the Minnesota Open Meeting Law are ultimately identified for application to volunteer firefighter relief associations, the question also arises about how those requirements are to be enforced.

Options For Legislative Resolution of the Issue of Requiring Volunteer Fire Relief Association Board Meetings Be Open and Public

If the Commission and the Legislature conclude that it is desirable to clarify the application of the Minnesota Open Meeting Law to volunteer firefighter relief associations and to determine whether or not volunteer firefighters relief association board of trustee meetings must be open, public, and follow adequate notice, there are several options that are available to the Commission and the Legislature in attempting that clarification and determination, as follows:

A. Exempt Relief Associations From Open Meeting Law Without Corollary Regulation. Proposed legislation could be fashioned that would clearly and specifically exempt volunteer firefighter relief associations from the Minnesota Open Meeting Law, without any comparable regulation in whole or in part. This would validate the current perception of some volunteer firefighters that volunteer firefighter relief associations and volunteer fire pension are independent of government in their fundamental character.

B. Exempt Relief Associations From Open Meeting Law; Require Board Meetings to Be Open and Public, With Formal Meeting Notices. Proposed legislation could be fashioned that would clarify that volunteer firefighter relief associations are not subject to the regulation of the Minnesota Open Meeting Law, but which could require volunteer firefighters relief association board meetings to be conducted in open session, with access to relief association members and members of the public, and be conducted only with notice of the meeting provided to all board members. The regulation would make volunteer firefighter relief associations more overtly governmental in their operation, but would be less potentially onerous than the current Minnesota Open Meeting Law. The new regulation would need to address many of the same operational aspects as the current Minnesota Open Meeting Law, like special meetings, emergency meetings, recessed meetings, and the handling of nonpublic data. If the treatment of those operational items differs from the Minnesota Open Meeting Law, or if the authority to close a meeting is at variance with the Minnesota Open Meeting Law, any volunteer firefighters relief association provision may function to erode the broader provision. If the adapted provision for volunteer firefighter relief associations has no penalty provisions or less stringent penalty provisions, compliance by relief associations may be more difficult to achieve.

C. Clarify Application of Open Meeting Law To Volunteer Fire Relief Associations. Proposed legislation could be formulated that would clearly make the Minnesota Open Meeting Law applicable to volunteer firefighter relief associations. If any modifications are necessary, such as those currently applicable to state agencies or departments, the required modifications could be indicated throughout the body of Minnesota Statutes, Section 471.705. The clear application of the Minnesota Open Meeting Law to volunteer firefighter relief associations will bring the full body of assembled case law to this area, but may subject volunteer firefighter relief associations to more onerous regulation than the volunteer firefighters desire.

Volunteer Fire Relief Association Actuarial Reporting And Funding Requirements: Issue B-4;
Appropriateness Of The Future Administrative Expense Estimation Process

Issue And Source Of The Issue

Minnesota Statutes, Section 69.772, Subdivision 3, and Section 69.773, Subdivision 4, require that an amount for future administrative expenses be included in the calculation of the financial requirements of the relief association and the minimum funding obligation of the municipality. That amount is the prior year's administrative expense increased by the factor of 1.035.

The issue was raised by the Minnesota State Fire Department Association. The Minnesota State Fire Department Association contended, in September, 1994, that the current statutory procedure does not accurately predict future administrative expenses, because of the sizable inherent variability in them, and recommended that a more realistic method for administrative expense calculation be developed for volunteer firefighter relief associations.

Analysis Of The Issue About Calculating The Funding Requirement For Future Administrative Expenses

The Minnesota State Fire Department Association contends that the current provision requiring the estimation of the following year's administrative expense by increasing the prior year's administrative expense by 3.5 percent results in an overestimation of financial requirements and a subsequent overpayment of municipal contributions.

To determine whether or not the current system for calculating the funding requirement represents an adequate process for estimating upcoming administrative expenses, the Commission staff compared the actual administrative expenses for the period 1986-1992 as reported to the Office of the State Auditor with the administrative expense funding requirement determined under the statutory formula (i.e. increased by the factor 1.035) for 309 volunteer firefighter relief associations. The 309 volunteer firefighter relief associations selected are those which paid monthly benefit service pensions at any time during the period 1986-1992 and those which paid a lump sum service pension in excess of \$300 per year of service in 1986. The relief associations selected are the volunteer firefighter relief associations that provide the largest benefit levels and are the most likely to show the greatest variability in administrative expenditures. The following sets forth the general results of that comparison:

Analysis of Individual Year Comparisons^{\1}

	Monthly Benefit Relief Associations			Large Lump Sum Benefit Relief Associations			All Selected Volunteer Firefighter Relief Associations		
	Substantial Over-estimate ^{\2}	Substantially Close ^{\3}	Substantial Under-estimate ^{\4}	Substantial Over-estimate ^{\2}	Substantially Close ^{\3}	Substantial Under-estimate ^{\4}	Substantial Over-estimate ^{\2}	Substantially Close ^{\3}	Substantial Under-estimate ^{\4}
1987	27.78%	27.78%	44.44%	20.51%	34.80%	44.69%	21.36%	33.98%	44.66%
1988	33.33	22.22	44.44	24.91	35.16	39.93	25.89	33.66	40.45
1989	36.11	33.33	30.56	26.74	34.43	38.83	27.83	34.30	37.86
1990	30.56	30.56	38.89	25.64	34.07	40.29	26.21	33.66	40.13
1991	22.22	11.11	66.67	28.21	41.03	30.77	27.51	37.84	34.95
1992	52.78	8.33	38.89	22.34	43.22	34.43	25.89	39.16	34.95
Total	33.80%	22.22%	43.98%	24.73%	37.12%	38.16%	25.78%	35.38%	38.83%

Source: 1986-1992 Compilations of Volunteer Firefighter Relief Association Data, Office of the State Auditor

- \1 Analysis expresses the percentage of relief associations in each category based on a comparison of the prior year's administrative expense multiplied by 1.035 with the actual administrative expense for the following year. The analysis included 36 volunteer firefighter relief associations that paid monthly benefit service pensions at some time during the period 1986-1992 and an additional 273 volunteer firefighter relief associations that paid lump sum service pensions in 1986.
- \2 Substantial overestimate means that the computed administrative expense (prior year's administrative expense multiplied by 1.035) was in excess of 110 percent of the actual administrative expense for the subsequent year.
- \3 Substantially close means that the computed administrative expense was between 90 percent and 110 percent of the actual administrative expense for the subsequent year.
- \4 Substantial underestimate means that the computed administrative expense was less than 90 percent of the actual administrative expense for the subsequent year.

Analysis of Total 1987-1992 Period Comparisons^{\5}

	Monthly Benefit Relief Associations			Large Lump Sum Benefit Relief Associations			All Selected Volunteer Firefighter Relief Associations		
	Substantial Over-estimate	Substantially Close	Substantial Under-estimate	Substantial Over-estimate	Substantially Close	Substantial Under-estimate	Substantial Over-estimate	Substantially Close	Substantial Under-estimate
	19.44%	52.78%	27.78%	13.19%	56.78%	30.04%	13.92%	56.31%	29.77%

Source: 1986-1992 Compilations of Volunteer Firefighter Relief Association Data, Office of the State Auditor

- \5 Analysis expresses the percentage of relief associations in each category where the total computed administrative; computed future expenses for the period 1987-1992 were compared with the total actual administrative expenses for the same period.

Analysis of 1987-1992 Total Results\6

Monthly Benefit Relief Associations

<u>Year</u>	<u>Computed Administrative Expense</u>		<u>Actual Administrative Expense</u>		<u>Percentage</u>
	<u>Total</u>	<u>Average</u>	<u>Total</u>	<u>Average</u>	
1987	\$224,917	\$6,247.72	\$431,456	\$11,984.88	52.13%
1988	446,557	12,404.36	275,503	7,652.86	162.08
1989	285,146	7,920.71	292,551	8,126.42	97.47
1990	302,790	8,410.84	336,724	9,353.44	89.92
1991	348,509	9,680.82	424,506	11,791.83	82.10
1992	439,364	12,204.55	397,997	11,055.47	110.39
Total	\$2,047,283		\$2,158,737		94.84%

Larger Lump Sum Relief Associations

<u>Year</u>	<u>Computed Administrative Expense</u>		<u>Actual Administrative Expense</u>		<u>Percentage</u>
	<u>Total</u>	<u>Average</u>	<u>Total</u>	<u>Average</u>	
1987	\$262,131	\$960.19	\$295,566	\$1,082.66	88.69%
1988	305,911	1,120.55	353,592	1,295.21	86.52
1989	365,967	1,340.54	419,944	1,538.26	87.13
1990	434,642	1,592.10	439,962	1,611.58	98.79
1991	455,361	1,667.99	432,949	1,585.89	105.18
1992	448,102	1,641.40	505,283	1,850.85	88.68
Total	\$2,272,114		\$2,447,296		92.84%

All Selected Relief Associations

<u>Year</u>	<u>Computed Administrative Expense</u>		<u>Actual Administrative Expense</u>		<u>Percentage</u>
	<u>Total</u>	<u>Average</u>	<u>Total</u>	<u>Average</u>	
1987	\$487,048	\$1,576.21	\$727,022	\$2,352.82	66.99%
1988	752,468	2,435.17	629,095	2,035.91	119.61
1989	651,113	2,107.16	712,495	2,305.81	91.38
1990	737,432	2,386.51	776,686	2,513.55	94.95
1991	803,870	2,601.52	857,455	2,774.94	93.75
1992	887,466	2,872.06	903,280	2,923.24	98.25
Total	\$4,319,397		\$4,606,033		93.78%

Source: 1986-1992 Compilations of Volunteer Firefighter Relief Association Data, Office of the State Auditor

\6 Analysis expresses a comparison of the total computed and actual administrative expenses, the computed and actual averages, and the percentage relationship between the computed and actual amounts.

The individual results for the 309 selected volunteer firefighter relief associations for the period 1986-1992 are attached, as Appendix C.

The current procedure for calculating the administrative expense portion of a volunteer firefighter relief association's annual financial requirements and minimum municipal obligation appears to the Commission staff to be a relatively accurate estimate for inclusion in the relief association funding requirement. Even among the relief associations with the most volatile potential expenditures and with the largest potential expenditures, the monthly benefit volunteer firefighter relief associations, the procedure did not overestimate the annual financial requirements in a majority of cases (about one-third of cases looking at individual years separately or about one-fifth of cases looking at the total period 1987-1992) as alleged by the Minnesota State Fire Department Association, and did not typically involve a large dollar differential where the process did cause an overestimation.

More often than not (approximately 40 percent of the time in any year and approximately 30 percent over the whole period,) the current administrative expense estimation process actually underestimates the subsequent year's administrative expense by a substantial (over ten percent) amount, thereby actually arguing for a strengthening of the process by increasing the factor used in making the estimate above the current factor of 1.035.

Options For Legislative Resolution Of The Issue About Calculating The Funding Requirement For Future Administrative Expenses

If the Commission and the Legislature conclude that it is desirable to address the issue of the appropriateness of the current procedure for estimating future relief association administrative expenses for inclusion in volunteer firefighters relief association funding requirements, there are several options available to the Commission and the Legislature, as follows:

A. Conclude That The Current Estimation Process Is Appropriate; Retain Current Procedure

The Commission and the Legislature could review the data assembled by the Commission staff and conclude that the current estimation process for future relief association administrative expenses will produce overestimates and underestimates, but that it is a self correcting process and should be retained without any statutory modification.

B. Conclude That The Current Estimation Process Merits Periodic Review; Mandate Quadrennial Review Of Adequacy By State Auditor

The Commission and the Legislature could conclude that the current procedure for estimating future relief association administrative expenses merits continued monitoring regarding its appropriateness and that the Office of the State Auditor should assess its reliability as an estimation process every four years as part of its compilation of volunteer firefighters relief association financial and related data. Thus, if the period 1986-1992 proves to be an anomaly or if the selection by the Commission staff of only the volunteer firefighter relief associations paying the largest benefit amounts constitutes a sampling error, the issue can be revisited by the Commission and the Legislature in the future with the benefit of readily obtainable data.

C. Conclude That The Current Estimation Process Overestimates Future Administrative Expenses; Modify the Procedure To Produce More Accurate Results

The Commission and the Legislature could conclude that there are sufficient instances of the current procedure producing overestimates of future relief association administrative expenses and could fashion proposed legislation to amend Minnesota Statutes, Sections 69.772 and 69.773, to implement a smaller increase factor or to implement a different estimation procedure. The appropriate alternative

increase factor is not clear, nor is an appropriate alternative estimation procedure. The Minnesota State Fire Department Association may have suggestions in this regard.

D. Conclude That The Current Estimation Process Underestimates Future Administrative Expenses; Substitute Higher Increase Factor

The Commission and the Legislature could conclude that the current procedures for estimating future relief association administrative expenses sufficiently underestimates these future costs that proposed legislation should be fashioned to amend Minnesota Statutes, Sections 69.772 and 69.773, to implement a higher increase factor. An increase factor of 1.0375 instead of the current increase factor of 1.035 would significantly increase the number of selected volunteer firefighter relief associations during the period 1986-1992 where the estimated future administrative expense amount would be substantially close to the actual administrative expense amount.

Fire State Aid: Issues A-7 And B-1; Fire State Aid Distribution Formula And Potential For Increase In Mutual Insurance Company Premium Taxes

Issue and Source of Issue

Minnesota Statutes, Section 60A.15, Subdivision 1, imposes a premium tax on fire and related insurance of two percent for most insurance companies and one-half of one percent for town and farmer's mutual insurance companies and mutual property and casualty insurance companies with assets less than \$1.6 billion. The fire state aid under Minnesota Statutes, Section 69.021, Subdivision 5, Paragraph (b,) is funded by an appropriation equal to the amount of fire and related insurance premium taxes collected. The Office of the State Auditor indicated that fire state aid apportionments under Minnesota Statutes, Section 69.021, do not highly correlate with the level of volunteer fire department activity (number of fire calls.) Fire state aid also continues to be payable to volunteer firefighter relief associations with assets significantly in excess of actuarial accrued liabilities and has other disparities.

The issue was raised by the Minnesota State Fire Department Association and the Office of the State Auditor. The Minnesota State Fire Department Association, in September, 1994, recommended that the premium tax be increased to a full two percent of fire and related insurance premiums for all insurance companies. The Office of the State Auditor recommended, in September, 1994, that the Legislative Commission on Pensions and Retirement review the current fire state aid allocation formula and determine the need for changes in the aid formula.

Analysis of the Fire State Aid Revenue and Allocation Issue

A. **In General.** There are several factors that impact on the amount of fire state aid received by municipalities and transmitted to volunteer firefighter relief associations under Minnesota Statutes, Section 69.011 through 69.051. In recent years, the amount of fire state aid received by local jurisdictions has varied considerably.

Currently, half the total fire state aid, which was approximately \$10.7 million in 1994, is distributed based on the population of a given municipality or fire protection area relative to the entire state. The other half is based on the local property market value relative to the state-wide market value. Presumably, the greater the population, the more fire services are needed to protect that population. Similarly, the greater the property wealth, the greater the potential dollar value of losses due to fire. One criticism of this aid distribution system is that it does not take into account the ability of the local area to finance those services. Considerable aid could be going to areas with the highest ability to finance fire services locally. Other areas may have little population or property wealth and thus receive minimal aid. However, these communities may have little ability locally to finance those fire services that are necessary.

Fire state aid varies over time to municipalities or fire prevention districts due to two sets of causes. In the first group are all factors which influence the size of the total pie--the total amount available for distribution. If the total amount available increases, this alone would cause an increase in aid to all areas of the state. Similarly, if the pie contracts, the aid to any given area should fall. The second set of factors are share of the pie issues--factors which change the distribution of the pie among the aid recipients. The two categories are discussed in the sections below.

B. **Size Of The Total Pie Issues.**

i. **Factors Affecting The Size Of The Total Pie Generally.** The total amount available for distribution as fire state aid is related to a tax on insurance premiums for fire, lightning, sprinkler

damage, and extended coverage policy premiums in Minnesota. Tax collections will change when premiums change. Premiums, which are the price of the insurance, will vary over time due to levels of competition in the insurance industry, changes in the perceived likelihood of risk of fire loss, and changes over time in the value of the insured properties. These factors are largely beyond legislative control. What the Legislature can control is the tax base, the tax rates, and the relationship between the amount collected through the tax and the amount distributed as fire aid.

- ii. Fire Insurance Premium Tax System Changes. In 1988, the Legislature began altering the fire insurance premium tax base, the fire insurance premium tax rates, and the relationship between tax revenues and aid. As of 1987, the Minnesota tax system gave preferential treatment to a segment of Minnesota companies. Minnesota mutual insurance companies, including township and farmers' insurance companies, paid a premium tax of two percent of the premiums for Minnesota properties on fire, lightning, and sprinkler damage leakage premiums. Other Minnesota-based insurance companies and all non-Minnesota-based insurance companies paid a two percent tax on a broader base. That base was all premiums for any type of insurance written for Minnesota clients, except for certain marine insurance. The expanded base included policies written on worker's compensation, automobile, aircraft, the liability portion of homeowners insurance, commercial multiple peril insurance, farmowners multiple peril insurance, and the extended coverage fire policies.

In 1988, the Legislature created a uniform premium tax base for all insurance companies but created differential tax rates. The changes were in response to court cases from other jurisdictions. A few years earlier, several insurance companies successfully challenged the state challenged the States of Alabama and North Dakota for giving domestic (located in that state) companies preferential premium tax treatment. The United States Supreme Court ruled the preference given to domestic companies in those states was discriminatory and unconstitutional, based on an equal protection argument. To avoid a similar successful challenge in Minnesota, the 1988 Legislature changed the insurance premium tax system, although it in effect substituted one form of discrimination for another. The change was made in the 1988 tax bill, Laws 1988, Chapter 719, Article 2, Sections 1 through 5. These provisions amended Minnesota Statutes, Chapter 60A, the general insurance regulations, and Chapter 69, provisions dealing with the calculation and distribution of fire state aid. The Legislature created a uniform insurance premium tax base for all companies, but varied the tax rate according to the nature of the insurance products sold and the company's asset size. The premium tax base is the net premiums on all direct business received by the insurer in this state. To the premium tax base are applied the insurance premium tax rates. Life insurance companies, and other insurance companies having assets on December 31, 1989 of more than \$1.6 billion, pay a two percent tax on the base. Other insurers pay a lower tax rate. For those insurers subject to the lower base, the rate changes were phased in. On premiums paid on January 1, 1989 and before January 1, 1992, the tax is one percent. As of January 1, 1992 and thereafter, the rate is one-half of one percent.

- iii. Relationship Between Insurance Premium Tax Changes And Aid. The 1988 Legislature decided to insulate the fire state aid recipients from the changes in tax collections by severing the relationship between the tax collection amount and the aid distribution amount. Despite the tax rate and tax base change, the aid base and the rate used to compute the fire state aid was to remain the same. The Department of Revenue, using the information contained in the Minnesota Firetown Premium Reports, was to compute an amount of revenue equal to two percent of the reported premiums for fire, lightning, sprinkler leakage, and extended coverage policy premiums. The balance of the computed aid amount above the actual premium tax

collections was appropriated from the State General Fund through an open appropriation in Minnesota Statutes, Section 69.031, Subdivision 3, and distributed as fire state aid.

The Legislature reversed this policy in 1991. The fire state aid system would no longer be isolated from the changes in the insurance premium tax system. Aid is now limited to the amount generated by the actual fire insurance premium tax rates in effect, which for mutual insurance companies under \$1.6 billion in assets as of December 1, 1989, is less than two percent. This is applied to the same aid base that has been used for the last several years, which is the insurance premiums reported for fire, lightning, sprinkler damage, and extended coverage.

- iv. Impact On Insurance Premium Taxes And Total Fire State Aid. Information assembled by Cathy McMahon, Office of Senate Counsel and Research, in February, 1994, compares the difference between the pre-1991 basis for the allocation of fire state aid (two percent of fire and related insurance premiums,) and the fire and related insurance premium taxes actually collected, and the total amount of fire state aid allocated for the period 1988-1993. That comparison is as follows:

State Fire Aid Collections and Distributions, 1988-1993

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
Year	2 Percent of Premiums	Premium Taxes Collected	State Gen. Rev. Subsidy	Admin. Costs	Redistribution of Unexpended \$ from Prior Yr	Amount of Aid Distributed	Change from the Prior Year	Column B minus Column C	Columns B+F minus Columns E+G
1988	\$10,863,322	\$10,863,322	\$0	\$23,492	\$0	\$10,839,826	\$442,618	\$0	4
1989	10,956,098	10,542,958	413,140	33,543	593	10,923,145	83,319	413,140	3
1990	10,904,545	10,079,540	825,005	32,673	245	10,872,111	-51,034	825,005	6
1991	11,654,687	10,518,836	0	27,390	0	10,491,446	-380,665	1,136,051	1,136,051
1992	11,945,076	10,556,290	0	26,276	0	10,530,014	36,568	1,388,786	1,388,786
1993	12,094,394	10,069,957	0	72,000	0	9,997,957	-532,057	2,024,437	2,024,437

Source: Minnesota Department of Revenue (Roger Bartz, Special Taxes Division, and Larry Bewley, Local Government Services Division.)

Column Definitions:

- A: Calendar Year. Note that aid is calculated based on the insurance premiums reported for the previous calendar year.
- B: Two percent of all reported fire, lightning, sprinkler leakage, and extended coverage insurance premiums.
- C: Actual tax collected on reported fire, lightning, sprinkler leakage, and extended coverage premiums.
- D: Amount of general revenue subsidy paid toward state fire aid.
- E: Administrative costs incurred by the Dept. of Revenue and the State Auditor and paid from fire aid monies.
- F: Fire aid not distributed in prior year (due to eligibility issues) that is subsequently being awarded.
- G: The amount of fire aid distributed to relief association for the year. Some totals are a few dollars off due to rounding by the Dept. of Revenue.
- H: The change in total fire aid distribution amount from the previous year.
- I: The difference between 2 percent of premiums and the actual amount of taxes collected.
- J: The difference between 2 percent of premiums and the actual amount distributed, adjusted for admin. cost reductions and prior year corrections.

Prepared by Cathy McMahon, Senate Counsel and Research (296-7680).
fireaid.xls
2/24/94

C. Fire State Aid Distribution Issues.

- i. Fire State Aid Distribution Factors Generally. The following factors have caused noticeable shifts in the allocation of fire state aid amounts in recent years. Those factors are:

1. Population Changes. The 1991 and later fire state aid allocations are based on the 1990 Census Bureau population figures, which reflect the decline in population during the 1980's in many rural areas and small towns;

2. Property Valuation Method Changes. The 1991 and 1992 allocations reflect a legislative change from net tax capacity to market value in the property wealth measure used in the fire state aid allocation; and
3. Reduction In Allocation Steps. Beginning with the 1991 allocation, the Legislature eliminated the initial county-level allocation of fire state aid.

Each of these factors, in combination, have had a strong negative impact on the fire state aid received by certain communities.

- ii. 1990 Federal Census Data. The fire state aid allocations use the most recent federal Census Bureau population data. The Census Bureau data are updated every ten years, altering the distribution whenever the latest population figures are first used in the aid allocation. The 1991 fire state aid allocation was the first to be based on the 1990 census data, capturing for the first time the population losses in many rural areas and small towns which occurred over the 1980's. Lower population in a given jurisdiction causes less fire state aid.
- iii. Shift To Market Value As Property Wealth Indicator. During the 1980's and early 1990's, the Legislature frequently revised the measure of property wealth used in the fire state aid allocations. Each revision altered the fire state aid allocation. The most recent revision occurred in 1991, when the Legislature changed from net tax capacity to market value for the property wealth measure. It is possible that this change, if it had occurred alone, might have caused more fire state aid to go to rural and residential areas, but the effect of population shifts in the 1980's tended to predominate, causing a net loss of fire state aid to rural areas and small out-state municipalities after 1990.
- iv. Impact Of Eliminating Initial County-level Fire State Aid Allocations. Prior to the 1991 distribution, the fire state aid was first allocated to the counties based half on the relative county population and half on the relative property wealth of the county. This county allotment was in turn divided among the municipalities and fire protection areas in the county based on the same two indicators. Due to a legislative change in 1991, this initial county allocation step was eliminated. Currently, half the total fire state aid available from the tax aid is allocated directly to municipalities and fire prevention districts based on the local population relative to the state-wide population, and half the fire state aid is determined by the local property market value relative to the state-wide property value. For some counties, the new procedure produces considerably lower fire state aid. These changes are due to two effects, the within-county distributional effect and the effect of the treatment of "unprotected lands."

The within-county distributional effect occurs in a county that has a relatively low population and where that population is not uniformly distributed within the county. Under the pre-1991 distributions, a relatively populated municipality in a sparsely populated county could receive a larger share of aid than it would in 1991 and later allocations. In 1989, the fire state aid was allocated first to the counties based half on gross tax capacity relative to the entire state and half on population of the county relative to the entire state. Next, the resulting county total fire state aid was reallocated to the municipalities and fire districts using similar allocation factors based on local gross tax capacity and population figures. For example, in 1989, Cook County received \$22,010 in total fire state aid. Of this amount, \$16,527 was due to its tax capacity and only \$5,483 was due to its population. The fire state aid due to tax capacity in this case was roughly three times the aid due to population. However, to determine a municipality's share of this county total fire state aid, while most of the county's aid total was due to relative tax capacity, when the

aid is redistributed to the municipal level half, \$11,005, will be allocated based on population. This favors jurisdictions with relatively high population in low population counties. This advantage for these towns ended when the county allocation was eliminated in the 1991 and later allocations, causing each municipality to receive aid based directly on its share of property wealth and population relative to the state-wide totals.

A few counties had lower fire state aid under the post 1990 distributions because of the effect of a change in recognizing unprotected lands within the counties. Unprotected lands are areas that are not served by a qualifying fire department. Under the pre-1991 fire state aid allocations, property wealth and population in unprotected lands were reflected in the aid allocated to the county. This total county-level aid was then distributed only among the municipalities and fire protection districts. When the county-level allocation was eliminated in 1991, population and property wealth lying outside a municipality or fire protection district was no longer reflected. The municipalities and fire protection districts in counties with significant unprotected lands would lose fire state aid relative to earlier distributions. Most counties have little or no unprotected land and thus were not impacted by the different treatment of unprotected lands under the post-1991 allocation system. However, several counties have considerable unprotected lands, including Cook, Lake of the Woods, Koochiching, and Clearwater, causing this different treatment to have a major impact on the fire state aid received.

Policy Issues

For policy makers, the recent changes in the fire state aid distribution formula and interest on the part of volunteer firefighters for an increase in mutual insurance company fire insurance premium taxes raise several questions. These questions are as follows:

1. Appropriate Amount Of State Assistance For Volunteer Firefighter Pensions. The policy issue is whether or not the current amount of state assistance for volunteer firefighter pension coverage, the volunteer fire portion of the fire state aid program, is the appropriate amount. Of the \$10.7 million in fire state aid in 1994, volunteer firefighter relief associations received approximately 70 percent, or roughly \$7.5 million. The balance of the fire state aid is attributable to salaried firefighter pension coverage, either in local paid firefighter relief associations, in local fire consolidation accounts in the Public Employees Police and Fire Fund (PERA-P&F), or directly in PERA-P&F. Is this the correct amount of state resources to be allocated for this purpose? Should the fire state aid be a larger amount or a smaller amount?
2. Appropriateness Of Tying Fire State Aid To A Dedicated Tax Program. The policy issue is whether or not the current practice of dedicating the proceeds of a given state tax (the fire and related insurance premium tax, paid by insurance companies in lieu of corporate income taxes) as an open and standing State General Fund appropriation is the optimal way to fund this state responsibility. If the volunteer fire community pursues a renewal of the State General Fund subsidy for the fire state aid program (e.g. basing the fire state aid program on a hypothetical two percent insurance premium tax rate rather than actual fire and related insurance premium tax proceeds,) is the placement of that additional direct obligation on the State General Fund appropriate? If the fire and related insurance premium tax rate for some or all insurers are increased in response to demands from the volunteer fire community, will it be appropriate for Minnesota to bear the likely consequences of that tax increase, especially the likely retaliatory insurance premium tax rate increase by other states on Minnesota-based insurance companies?
3. Appropriateness Of The Current Measures Of Need For Fire State Aid. The policy issue is whether or not the current basis for the allocation of fire state aid is the optimal measure of the need

for the state assistance. The current fire state aid program is premised on the belief that the relative population and the relative property value of a given jurisdiction is the best measure of fire risk, the need for firefighters, and ultimately, the relative size of volunteer firefighter service pension coverage. While the current population-property value basis for the fire state aid distribution is undoubtedly better than the pre-1969 basis of the relative amount of premium taxes collected in each jurisdiction, as reported by the various insurance agencies, there does not appear to be any body of data assembled that indicates whether this allocation procedure is or is not the optimal measure of the need to fund volunteer firefighters relief association service pension coverage. The Office of the State Auditor has indicated that a number of disparities exist between the fire state aid allocated and the funding requirements of the associated volunteer firefighter relief associations. Previously, the Commission has discussed implementing both minimums and maximums on the fire state aid allocations. Would it be appropriate to explore other measures of the need of jurisdictions for fire state aid on which the allocations could or should be based?

4. Appropriateness Of The Dedication Of Fire State Aid For Firefighter Pension Funding. The policy issue is whether or not the fire state aid allocation should be solely dedicated to funding volunteer firefighter relief associations. Under current law, if a volunteer firefighters relief association exists for the firefighters in a given jurisdiction, all fire state aid received by the jurisdiction is required to be transmitted to the relief association. This mandated transmittal occurs even if the associated fire department has outstanding firefighting equipment or related needs and the quality of firefighting protection would be improved by a redirection of all or a portion of the fire state aid allocation to fire department needs rather than to the volunteer firefighters relief association.

Options For Legislative Resolution Of The Issues Of The Fire State Aid Distribution Formula And Fire Insurance Premium Taxes

If the Commission and the Legislature conclude that it is desirable to review the fire state aid allocation formula and consider modifying the fire insurance premium tax rates, there are several options available to the Commission and the Legislature in undertaking that consideration:

A. Conclude That An Increase In Fire State Aid Is Needed; Implement A State General Fund Subsidy. Proposed legislation could be fashioned that would reimplement a subsidy from the State General Fund for the fire state and program similar to the subsidy that occurred between 1988 and 1991. The subsidy, based on the difference between the actual fire and related insurance premium taxes collected and those taxes at a two percent rate, would have amounted to approximately \$2 million in 1993. The Commerce Department or the Revenue Department may be able to estimate the likely future trend line of the future subsidies. Any proposed State General Fund subsidy would compete with other demands for State General Fund funding during this and future legislative sessions.

B. Conclude That An Increase In Fire State Aid Is Needed; Implement An Increase In Premium Tax Rate. Proposed legislation could be fashioned that would increase the fire and related insurance premium tax rate to two percent for all insurers. This would automatically produce an increase in the amount of fire state aid allocated because of the existing dedication of the fire and related insurance premium tax revenues. The premium tax rate increase will be opposed by various insurance company representatives and may cause retaliation by other states against Minnesota insurance companies.

C. Conclude That The Fire State Aid Is Inefficiently Allocated; Implement Aid Minimums and Maximums. Proposed legislation could be fashioned that would include fire state aid minimums and maximums in Minnesota Statutes, Sections 69.011 through 69.051. This would increase the fire state aid paid to the most modest current recipient and would avoid paying substantial fire state aid amounts to volunteer firefighter relief associations in a substantial overfunded condition. The minimums and

maximums could be assembled in such a way so as to have a cancelling financial impact. The minimums and maximums would be favored by volunteer firefighter relief associations receiving the least fire state aid currently and would be opposed by volunteer firefighter relief associations receiving the greatest current fire state aid amounts.

D. Conclude That Current Basis For Fire State Aid Distribution Is Inappropriate; Mandate Study To Establish New Basis For Allocation. Proposed legislation could be fashioned that would mandate the Commission, the Office of the State Auditor, or some other suitable body to review the current basis for the fire state aid allocation, to identify the available alternative allocation bases, and to recommend a replacement for the current fire state aid allocation basis.

E. Conclude That Current Dedication Of Fire State Aid To Pension Funding Is Inappropriate; Authorize Other Uses For Fire State Aid Amounts. Proposed legislation could be fashioned that would allow the fire state aid allocation to be expended in whole or in part for fire department equipment or related needs, as the applicable municipality designates. If volunteer firefighters relief association pension coverage is an important tool for the recruitment and retention of volunteer firefighters, volunteer firefighters relief association funding needs should be able to successfully compete with other fire department funding needs when budgets are considered by the municipality.

Volunteer Fire Relief Association Restructuring: Issues A-5 and C-9; Clarify Procedures For Volunteer Fire Relief Association Consolidations

Issue And Source Of Issue

Currently, when fire departments are reorganized, the only procedure for handling the associated relief associations is found in Minnesota Statutes, Section 424A.02, Subdivisions 11 and 12. Minnesota Statutes, Section 424A.02, Subdivision 11, provides for a liquidation and immediate asset distribution of the relief association when the municipality dissolves or eliminates the fire department. Minnesota Statutes, Section 424A.02, Subdivision 12, allows prior service credit in a disbanded volunteer firefighter relief association to be transferred for vesting purposes only to the volunteer firefighter relief association established for a newly formed fire district that covers substantially the same area. Thus, state law currently does not authorize the consolidation of volunteer firefighter relief associations other than liquidation of prior relief associations when fire departments are disbanded and reformulated.

The issue was raised by the Office of the State Auditor and by the League of Minnesota Cities. In September, 1994, the Office of the State Auditor recommended that volunteer firefighter relief associations be accorded the option, at their discretion, to consolidate with other relief associations. Also in September, 1994, the League of Minnesota Cities identified the lack of a generalized process for consolidating volunteer firefighter relief associations as the biggest barrier to fire department consolidation and recommended that a volunteer firefighter relief association consolidation process be developed in order to facilitate fire department consolidation.

Analysis Of The Issue Of Clarifying Volunteer Fire Relief Association Consolidation Procedures

Historically, volunteer firefighter relief associations in Minnesota have been established on a fire department-by-fire department basis. Relatively few volunteer firefighter relief associations serve more than one fire department. When volunteer firefighter relief associations have consolidated, it usually has accompanied a consolidation or reformulation of two or more fire departments. The current statutory provisions potentially applicable to consolidation circumstances, Minnesota Statutes, Section 424A.02, Subdivisions 11 and 12, apply only if the associated fire department is eliminated (presumably through fire department consolidation,) dissolved, or disbanded.

It is unclear how often the provisions of Minnesota Statutes, Section 424A.02, Subdivisions 11 and 12, have been utilized. The provisions were added in 1983 (Minnesota Statutes, Section 424A.02, Subdivision 11) and 1985 (Minnesota Statutes, Section 424A.02, Subdivision 12,) and appear to have been provisions generalized from particular local circumstances.

Volunteer firefighter relief associations likely may desire consolidation in circumstances other than simply when the associated municipal fire departments or independent nonprofit firefighting corporations merge. Motivating events may include a desire to obtain either professional relief association administration or more capable relief association administration, to obtain the increased risk pooling advantages of a larger relief association membership, to obtain greater volunteer fire retirement benefit portability opportunities, or to gain certain economies of scale on actuarial valuations, audits, and investment management.

If the associated municipal fire department for a volunteer firefighters relief association is eliminated, dissolved, or disbanded, the optimal resolution of the situation for the volunteer firefighters relief association may not always (or ever) be the premature liquidation of the relief association liabilities and assets, a premature distribution of benefits to active members, and the recognition of prior service credit for vesting purposes only in any volunteer firefighters relief association that succeeds the

disbanded volunteer firefighter relief association. Depending on the investment strategy of a particular volunteer firefighters relief association, the mandated liquidation of the special fund may cause an investment loss that would not otherwise occur, such as oil and gas investments, various limited partnership involvements, venture capital investments, or international securities. Depending on the age and the earning capacity of active members of the volunteer firefighter relief associations, a premature distribution of benefits may cause various adverse tax consequences for relief association members. The desire of some relief association members for an early access to relief association service pensions (before age 50) in the context of this mandated liquidation-distribution procedure could cause those members to provoke the disbanding of a fire department that would not occur without the current statute. If the volunteer firefighter relief association members do continue in providing firefighter services in the successor fire department, the eventual retirement coverage provided by the successor volunteer firefighter relief association may be deemed inadequate and lead to certain pressures for the payment of additional benefits or for special legislation. This would be especially true if the per year of service pension amount in the disbanded volunteer firefighter relief association was much smaller than the amount that the service pension ultimately attains in the successor volunteer firefighter relief association.

For policy makers, there are questions that arise in connection with potential volunteer firefighters relief association consolidations and the current statutory treatment (or absence of treatment) of those circumstances. These policy questions are:

1. Adequacy Of The Current Statutory Provisions. The policy issue is whether or not the liquidation-early distribution procedure for volunteer firefighter relief associations associated with disbanded fire departments under Minnesota Statutes, Section 424A.02, Subdivisions 11 and 12, is an adequate response to potential volunteer firefighter relief association consolidation instances. The current provisions appear to apply to too limited a set of circumstances and the procedure set forth appears to be less than optimal for those circumstances to which it applies.
2. Appropriateness Of Encouraging Consolidations. The policy issue is whether or not the encouragement of volunteer firefighter relief association consolidations implicit in creating a consolidation procedure is appropriate. The Legislature has encouraged the consolidation of local police and salaried firefighter relief associations into the Public Employees Police and Fire Fund (PERA-P&F) in Minnesota Statutes, Chapter 353A, simply by creating the authority and eliminating the burden of seeking and developing proposed special legislation. That formal statutory process has resulted in the consolidation of 35 of 48 local police and salaried firefighter relief associations.
3. Selection Of Triggering Events. The policy issue is the identification of potential events that could trigger the consolidation authority and the selection of the appropriate triggering events. Any consolidation authority could be limited to situations of fire department consolidations or could be expanded to include any situation where any person or entity connected with the fire department or the volunteer firefighter relief association may desire to initiate the process.
4. Need For Membership And Municipal Approvals. The policy issue is the extent to which a need to secure approvals by the volunteer firefighter relief association memberships and the applicable municipalities is reflected in the consolidation process. The parties to a potential volunteer firefighters relief association consolidation are the municipalities or independent nonprofit firefighting corporations involved, the boards of trustees of the volunteer firefighter relief associations, the active membership of the volunteer firefighter relief associations, and the retired membership and other benefit recipients of the volunteer firefighter relief associations.

5. Appropriate Mechanism. The policy issue is the manner in which the consolidation mechanism and procedures is formulated. The process needs to clarify the manner in which the process is to be initiated, the consolidation question is approved, the affairs of the separate relief associations are finalized, the governance of the successor relief association specified, and the nature of the benefit coverage to be provided by the successor relief association determined.

Options For Legislative Resolution Of The Issue Of Clarifying Volunteer Fire Relief Association Consolidation Procedures

If the Commission and the Legislature conclude that it is desirable to resolve the issue of clarifying the procedures for potential consolidations of volunteer firefighter relief associations, there are several options available to the Commission and the Legislature in formulating that resolution. The available options are as follows:

- A. Conclude That The Current Authority Is Adequate; Retain Existing Statutes. The Commission and the Legislature could conclude that Minnesota Statutes, Section 424A.02, Subdivisions 11 and 12, sufficiently handle the bulk of circumstances where volunteer firefighter relief association consolidations could have arisen. If a consolidation of two existing volunteer firefighter relief associations is sought rather than the liquidation of the two existing volunteer firefighter relief associations and the formulation of a new successor volunteer firefighter relief association, the municipalities involved could then seek special legislation as Crystal and New Hope did at the end of the 1994 Legislative Session.
- B. Conclude That The Current Authority Is Inadequate; Delegate the Specification Of The Procedure To The Applicable Municipalities With State Auditor Approval. Proposed legislation could be fashioned that would authorize two or more volunteer firefighter relief associations to consolidate into a successor volunteer firefighter relief association, if undertaken in accord with a consolidation procedure jointly specified by the applicable municipalities and if approved by the State Auditor. This would permit volunteer firefighter relief association consolidations, would allow various volunteer firefighter relief associations and municipalities to experiment in the fashioning of the consolidation mechanism, and would save the Commission and the Legislature from attempting to design the process and to anticipate all the various associated problems.
- C. Provide Legislative Encouragement For Consolidations; Develop Specific Volunteer Fire Relief Association Consolidation Procedure. Proposed legislation could be fashioned for volunteer firefighter relief associations that would parallel the local police and paid firefighter relief association - Public Employees Police and Fire Fund (PERA-P&F) consolidation procedure in Minnesota Statutes, Chapter 353A, developed by the Commission in 1987. Akin to the 1987 legislation, the volunteer firefighter relief association consolidation legislation could be expected to provide encouragement to a number of volunteer firefighter relief associations.



TO: Members of the Legislative Commission on Pensions and Retirement

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

RE: Volunteer Fire Regulation Revision And Clarification Interim Project: Revised Summary of Identified Issues

DATE: November 22, 1994 (Revision of October 7, 1994 Memorandum)

Introduction

As one of its projects for the 1994-1995 Interim, the Legislative Commission on Pensions and Retirement selected the consideration of various volunteer firefighter relief association regulatory revisions and clarification.

The Commission held its initial hearing on the topic on September 21, 1994, at which it took testimony from Jim Gelbmann on behalf of the Office of the State Auditor and from Bob Wetherille and Gus Welter on behalf of the Minnesota State Fire Department Association. During the second consideration by the Commission of the topic on October 17, 1994, the Commission took testimony from Stan Peskar on behalf of the League of Minnesota Cities and from Mr. A. J. De Antoni on behalf of the Gray Eagle Association of Bloomington, Minnesota.

Process Of Identifying Volunteer Firefighter Relief Association Issues and Concluding the Project

This memorandum summarizes the various issues that have been forwarded by the Office of the State Auditor, by the Minnesota State Fire Department Association, by the League of Minnesota Cities, and by the Gray Eagle Association of Bloomington.

Attached to this memorandum is a Commission staff memorandum on the recent modifications in the fire state aid program, including the change in the insurance premium tax rates for some insurance companies, an issue raised by the Minnesota State Fire Department Association and an issue in which several Commission members expressed interest at the September 21, 1994 Commission meeting. Also attached to this memorandum is a Commission staff memorandum on the adequacy of the current process for estimating future administrative expenses in calculating volunteer firefighters relief association funding requirements, an issue raised by the Minnesota State Fire Department Association and an issue about which Senator Riveness, Commission Chair, expressed interest at the September 21, 1994 Commission meeting.

With the identification of 31 potential issues relating to volunteer firefighter relief association regulatory revisions and clarifications, the Commission can determine the issues for which it desires additional Commission staff analysis similar to the additional Commission staff memoranda relating to fire state aid and estimating the administrative expense funding requirement and for which it desires to undertake additional consideration before the 1995 Legislative Session.

Topical Division of Volunteer Fire Regulatory Issues

Because of the number of potential volunteer fire regulatory issues (31 issues), the Commission may benefit from an indication of issues organized around ten broader topical headings.

That topical division is as follows:

1. Membership
 - B-9. Define The Term "Volunteer Firefighter"
 - C-2. Double Pension Coverage For Combination Professional-Volunteer Firefighters
2. Benefit Coverage
 - A-2. Limit Benefit Increase Authority For Volunteer Firefighter Relief Associations With Substantial Unfunded Actuarial Accrued Liabilities
 - A-6. Increase Pension Portability For Mobile Volunteer Firefighters

- B-10. Increase The Largest Lump Sum Service Pension Payable Under The Flexible Service Pension Maximums
 - B-11. Authorize Deferred Retirees To Receive Post Retirement Adjustments
 - C-4. No Further Reductions In The Service Requirement For Vesting For Volunteer Fire Relief Association Benefits Should Be Enacted
 - C-8. Retention of Current Statutory Service Pension Limits
3. Administration
- A-3. Require Volunteer Firefighter Relief Association Board Of Trustee Meetings Be Open To The Public, With Formal Meeting Notice Requirements
 - C-2. Double Pension Coverage For Combination Professional-Volunteer Firefighters
 - C-6. Opposes Changes in Municipal Representation on Volunteer Firefighter Relief Association Boards of Trustees Until Benefits of Recent State Auditor Training Sessions Emerge
 - D-1. Need to Have Greater Access To Bloomington Volunteer Firefighter Relief Association Documents, Books, And Board Meetings
4. Actuarial Reporting and Funding Requirements
- B-3. Develop Actuarial Accrued Liability Determination Table For Relief Associations Earning Less Than Five Percent Investment Income
 - B-4. Develop More Realistic Method For Assuming Future Administrative Expenses In Calculating Relief Association Funding Requirements
 - B-5. Clarify The Amortization Requirement For Volunteer Firefighter Relief Associations Paying Lump Sum Benefit Service Pensions
 - B-7. Add Volunteer Firefighter Relief Associations To The Provision Disallowing The Diminishment Of Funding Requirements
 - D-2. Accelerated Recoupment of Bloomington Volunteer Firefighter Relief Association Funding Surplus
5. Fire State Aid
- A-7. Review The Fire State Aid Distribution And Formula
 - B-1. Increase Fire Insurance Premium Tax To Two Percent For All Insurers
 - B-2. Revise Fire Department Qualification Requirements For Fire State Aid Or Increase Requirement Enforcement
 - C-5. Reduction In Fire State Aid Is Problem; State Auditor Office Oversight Changes Further Reduce Fire State Aid (Related To Issues A-7 and B-1)
6. Other Financing Sources
- B-6. Permit General Fund Transfers To The Special Fund To Be Credited Against The Financial Requirements Of The Relief Association And Minimum Municipal Obligation.
 - C-7. Elimination of Use of Lawful Gambling Proceeds To Fund Volunteer Firefighter Relief Associations Was Too Drastic
7. Financial Reporting
- A-1. Revision Of The Definition Of Independent Auditor For Volunteer Fire Financial Reporting
8. Investment Authority, Procedures and Reporting
- A-4. Encourage Greater Utilization Of The State Board Of Investment By Volunteer Firefighter Relief Associations
 - B-8. Revise Or Eliminate Investment Income And Investment Performance Reporting By Volunteer Firefighter Relief Associations
9. Relief Association Restructuring
- A-5. Clarify Procedures For Volunteer Fire Relief Association Consolidations

C-9. Facilitate Consolidation of Fire Departments By Establishing A Statutory Process For Consolidating Associated Relief Associations

10. Defined Contribution Pension Plans

C-1. Clarify Authority To Adopt Defined Contribution Plans; Establish Uniform Procedure For Converting Defined Benefit Plans To Defined Contribution Plans

C-10. Authorize Option For Multiple Employer Defined Contribution Plan Volunteer Firefighter Relief Associations For Fire Departments Currently Without Pension Coverage

Summary Of Volunteer Fire Regulatory Issues Raised In Public Testimony

A. Issues Raised By The Office Of The State Auditor

A-1. Revision Of The Definition Of Independent Auditor For Volunteer Fire Financial Reporting

Minnesota Statutes, Section 69.051, Subdivision 1 and 1a, a portion of the fire state aid law, requires audited financial reports from the larger (assets over \$200,000) volunteer firefighter relief associations and audited financial statements from the smaller (assets under \$200,000) volunteer firefighter relief associations. From the larger volunteer firefighter relief associations, the report must be attested to by a certified public accountant, a public accountant, or the State Auditor. From the smaller volunteer firefighter relief associations, the statements must be certified by an independent public accountant or auditor or by the auditor or accountant who examines the applicable municipal books. The independent accountant or auditor is required to have at least five years of accounting experience and may not be a relief association or fire department member.

The Office of the State Auditor indicates that the current definition of public accountant is difficult to enforce and that unlicensed accountants cannot be held to any level of professional standards. The independent accountants are the primary (frequently sole) deterrent against theft or misuse of relief association funds. The Office of the State Auditor seeks to require the use of licensed accountants (Certified Public Accountants or Licensed Public Accountants) to attest or certify volunteer firefighter relief association financial reports and statements.

A-2. Limit Benefit Increase Authority For Volunteer Firefighter Relief Associations With Substantial Unfunded Actuarial Accrued Liabilities

Minnesota Statutes, Section 424A.02, Subdivision 3, limits the authority of a volunteer firefighters relief association and the applicable municipality to increase the level of service pensions solely on the three year average amount of available financing per firefighter in the relief association, with a sliding scale of benefit maximums associated with increasing financing levels. The current actuarial condition of the volunteer firefighters relief association, expressed by its funding ratio (current assets expressed as a percentage of current actuarial accrued liability), is not a factor limiting the authority of a relief association and its municipality to implement service pension increases.

The Office of the State Auditor recommends that a minimum funding level be added as an additional constraint on the authority to increase service pensions.

A-3. Require Volunteer Firefighter Relief Association Board Of Trustee Meetings Be Open To The Public, With Formal Meeting Notice Requirements

Minnesota Statutes, Section 356.08, Subdivision 1, extends the open meeting law to statewide public pension plans, but does not do so for local public pension plans. The Office of the State Auditor reports that some municipal officials who are relief association board members do not regularly receive notices of relief association board meetings.

The Office of the State Auditor recommends that there be a statutory requirement for public meetings by volunteer firefighter relief association boards of trustees, but that the open meeting requirement for volunteer firefighter relief associations should not be as onerous as Minnesota Statutes, Section 471.705. The Office of the State Auditor

also recommends that there be a statutory requirement that all volunteer firefighter relief association board of trustee members, including any ex-officio members, receive timely notice of board meetings.

A-4. Encourage Greater Utilization Of The State Board Of Investment By Volunteer Firefighter Relief Associations

Under Minnesota Statutes, Section 11A.17 and 69.775, volunteer firefighter relief associations are permitted to invest in the Minnesota Supplemental Investment Fund, which essentially is a family of mutual funds operated by the State Board of Investment. Some volunteer firefighter relief associations are having an increasingly difficult time in achieving adequate investment returns on their own, but no statutory incentive exists to have these relief associations utilize the State Board of Investment.

The Office of the State Auditor is recommending that a statutory incentive be fashioned for greater volunteer firefighter relief association investments in the Minnesota Supplemental Investment Fund, perhaps by limiting or eliminating certain investment disclosure reporting for volunteer firefighter relief associations that invest a minimum proportion of their assets in the Minnesota Supplemental Investment Fund. The Office of the State Auditor also recommends more funding for the State Board of Investment staff to cover the resulting increased workload, including the hiring of staff to work specifically with volunteer firefighter relief associations.

A-5. Clarify Procedures For Volunteer Fire Relief Association Consolidations

State law currently does not authorize the consolidation of volunteer firefighter relief associations other than liquidation of prior relief associations when fire departments are disbanded and reformulated, as provided under Minnesota Statutes, Section 424A.02, Subdivisions 11 and 12.

The Office of the State Auditor recommends that volunteer firefighter relief associations be accorded the option, at their discretion, to consolidate with other relief associations.

A-6. Increase Pension Portability For Mobile Volunteer Firefighters

Minnesota Statutes, Section 424A.02, Subdivision 13, authorizes various volunteer firefighter relief associations to implement a combined service pension provision to assist volunteer firefighters who move between fire departments and relief association before the conclusion of their normal career. However, the provision reportedly has never been utilized.

The Office of the State Auditor recommends that greater volunteer firefighter relief association service pension portability be enacted for volunteer firefighters who relocate to another municipality.

A-7. Review The Fire State Aid Distribution And Formula

The Office of the State Auditor indicates that fire state aid apportionments do not highly correlate with the level of volunteer fire department activity (number of fire calls). Fire state aid also continues to be payable to volunteer firefighter relief associations with assets significantly in excess of actuarial accrued liabilities and has other disparities.

The Office of the State Auditor recommends that the Legislative Commission on Pensions and Retirement review the current fire state aid allocation formula and determine the need for changes in the aid formula.

B. Issues Raised By The Minnesota State Fire Department Association

B-1. Increase Fire Insurance Premium Tax To Two Percent For All Insurers (Related to Issue A-7)

Minnesota Statutes, Section 60A.15, Subdivision 1, imposes a premium tax on fire and related insurance of two percent for most insurance companies and one-half of one percent for town and farmer's mutual insurance companies and mutual property and

casualty insurance companies. The fire state aid under Minnesota Statutes, Section 69.021, Subdivision 5, Paragraph (b) is funded by an appropriation equal to the amount of fire and related insurance premium taxes collected.

The Minnesota State Fire Department Association recommends that the premium tax be increased to a full two percent of fire and related insurance premiums for all insurance companies.

B-2. Revise Fire Department Qualification Requirements For Fire State Aid Or Increase Requirement Enforcement

Minnesota Statutes, Section 69.011, Subdivisions 4 and 5, establish certain requirements that a fire department must meet in order for the municipality to be eligible to receive fire state aid and require that the State Fire Marshall inspect fire departments. Reportedly, the requirements are not enforced and the inspections do not occur regularly.

The Minnesota State Fire Department Association is recommending that the fire department requirements and inspection obligation be enforced or, if that is not desired, be revised or eliminated.

B-3. Develop Actuarial Accrued Liability Determination Table For Relief Associations Earning Less Than Five Percent Investment Income

Minnesota Statutes, Section 69.772, Subdivision 2, provides a procedure for the calculation of actuarial accrued liabilities for volunteer firefighter relief associations that provide only lump sum service pensions. The financial requirements of the relief association are determined after subtracting an assumed investment return on current assets of five percent.

The Minnesota State Fire Department Association recommends that a new table be developed for use by relief associations that do not expect to receive a five percent investment return.

B-4. Develop More Realistic Method For Assuming Future Administrative Expenses In Calculating Relief Association Funding Requirements

Minnesota Statutes, Section 69.772, Subdivision 3, and Section 69.773, Subdivision 4, require that an amount for future administrative expenses be included in the calculation of the financial requirements of the relief association and the minimum funding obligation of the municipality. That amount is the prior year's administrative expense increased by a factor of 1.035.

The Minnesota State Fire Department Association contends that this procedure does not accurately predict future administrative expenses, because of the sizable inherent variability in them, and recommends that a more realistic method for administrative expense calculation be developed for volunteer firefighter relief associations.

B-5. Clarify The Amortization Requirement For Volunteer Firefighter Relief Associations Paying Lump Sum Benefit Service Pensions

Minnesota Statutes, Section 69.772, Subdivision 3, requires an amortization contribution equal to one-tenth of the amount of the unfunded actuarial accrued liability associated with each benefit improvement until that increment of unfunded actuarial accrued liability is paid off. For a relief association that increases its lump sum service pension each year for ten years, the amortization contribution will be the sum of ten separate amortization requirements, with its associated bookkeeping requirements, and which does not readily accommodate experience losses from investment losses or underperformance.

The Minnesota State Fire Department Association recommends that the amortization requirement calculation be simplified, with a clearer procedure for crediting amortization contributions against incremental unfunded actuarial accrued liability amounts.

B-6. Permit General Fund Transfers To The Special Fund To Be Credited Against The Financial Requirements Of The Relief Association And Minimum Municipal Obligation.

Minnesota Statutes, Section 69.772, Subdivision 3, provides that the minimum municipal obligation towards the lump sum benefit volunteer firefighter relief association be calculated as the balance of the financial requirements of the relief association remaining after subtracting the anticipated fire state aid, five percent interest on the assets of the relief association, and any anticipated member contributions to the relief association. A similar provision exists for monthly benefit volunteer firefighter relief associations in Minnesota Statutes, Section 69.773, Subdivision 5.

The Minnesota State Fire Department Association is recommending that for volunteer firefighter relief associations additionally be permitted to subtract any amounts that are transferred from the general fund of the relief association to the special fund of the relief association, reflecting volunteer fire fundraising activities.

B-7. Add Volunteer Firefighter Relief Associations To The Provision Disallowing The Diminishment Of Funding Requirements

Minnesota Statutes, Section 69.78 is part of the 1969 Paid Firefighters and Police Relief Association Guidelines Financing Act and prevents the interpretation of special or general law provisions to reduce the funding of relief associations.

The Minnesota State Fire Department Association recommends that volunteer firefighter relief associations be added to the application of this provision.

B-8. Revise Or Eliminate Investment Income And Investment Performance Reporting By Volunteer Firefighter Relief Associations

Minnesota Statutes, Section 356.218, enacted in 1990, and Section 356.219, enacted in 1994, require investment return reporting by public employee pension plans, including the larger volunteer firefighter relief associations.

The Minnesota State Fire Department Association is recommending either that volunteer firefighter relief associations be eliminated from these investment reporting requirements or that the investment reporting requirements be clarified and simplified for volunteer firefighter relief associations.

B-9. Define The Term "Volunteer Firefighter"

Minnesota Statutes, Chapter 424A, does not contain a definition of what constitutes a "volunteer firefighter" for purposes of obtaining or retaining membership in a volunteer firefighter relief association.

The Minnesota State Fire Department Association recommends that a definition of the term "volunteer firefighter" be added to Minnesota Statutes, Chapter 424A.

B-10. Increase The Largest Lump Sum Service Pension Payable Under The Flexible Service Pension Maximums

Minnesota Statutes, Section 424A.02, Subdivision 3, establishes a sliding scale of service pension maximums related to the average amount of relief association financing per firefighter. The flexible service pension maximum table for relief associations paying lump sum service pensions was increased in 1993, with the increase fully phased-in for the year 1996. The flexible service pension maximums for lump sum service pension relief associations and monthly benefit service pension relief associations are established separately.

The Minnesota State Fire Department Association is seeking a further increase in the uppermost flexible service pension maximum for volunteer firefighter relief associations paying a lump sum service pension, based on a perceived disparity between that table and the uppermost flexible service pension maximum for volunteer firefighter relief associations paying a monthly benefit service pension.

B-11. Authorize Deferred Retirees To Receive Post Retirement Adjustments

Minnesota Statutes, Section 424A.02, Subdivision 9c, allows for ad-hoc post retirement adjustments to monthly benefit relief association retirees, but does not permit those increases to be extended to deferred retirees (terminated firefighters who have not yet begun to receive a monthly benefit service pension.)

The Minnesota State Fire Department Association recommends including deferred retirees in post retirement adjustments granted after the termination of active service as a firefighter.

C. Issues Raised By The League of Minnesota Cities.

C-1. Clarify Authority To Adopt Defined Contribution Plans: Establish Uniform Procedure For Converting Defined Benefit Plans To Defined Contribution Plans

Minnesota Statutes, Section 424A.02, Subdivision 4, permits defined contribution (split-the-pie) volunteer firefighter relief associations instead of defined benefit (lump sum or monthly benefit) volunteer firefighter relief associations, but the authority is sandwiched into a statute section that is primarily related to defined benefit plans, making the specific provisions applicable to a defined contribution volunteer firefighter relief association less clear for newly created plans. Minnesota Statutes, Chapter 424A, lacks specific authority or procedures for an existing volunteer firefighter relief association to make the conversion from a defined benefit plan to a defined contribution plan. On one occasion (Fridley Volunteer Firefighter Relief Association), special law authority was enacted. Other volunteer firefighter relief associations have apparently made the conversion without the benefit of any statutory authorization.

The League of Minnesota Cities recommends a clarification in the existing law governing defined contribution plans to make the application of current law clearer for newly created defined contribution volunteer firefighter relief associations. It also requests the enactment of specific authority to convert a defined benefit volunteer firefighter relief association to a defined contribution volunteer firefighter relief association and the formulation of the necessary procedures to do so.

C-2. Double Pension Coverage For Combination Professional-Volunteer Firefighters (Related to Issue B-9)

Minnesota Statutes, Chapter 424A, does not define the term "volunteer firefighter," although Minnesota Statutes, Section 353.01, Subdivision 36, the law governing the Public Employees Retirement Association (PERA), does attempt to do so. Some paid (professional) firefighters are included in the coverage of a volunteer firefighter relief association as well as by the public pension plan that covers the paid (professional) service. Given the impact of the federal Fair Labor Standards Act (FLSA) and organizational circumstances, it may not be possible to distinguish between professional firefighting service and volunteer firefighting service and these firefighters have retirement coverage from two pension plans for essentially the same service.

The League of Minnesota Cities remains concerned about this potential or actual double coverage problem, but believes that the problem can best be resolved locally in the bylaws of the various volunteer firefighter relief associations.

C-3. Undue Complexity in Volunteer Firefighter Relief Association Laws: Efforts to Secure Compliance Too Onerous for Local Officials

Minnesota Statutes, Chapter 69 and 424A authorize three different types of volunteer firefighter relief associations, defined contribution, lump sum defined benefit, and monthly benefit defined benefit, and include regulation for all three. Unlike the very specific regulation for the statewide and major local Minnesota public employee pension plans, volunteer firefighter relief association regulation is generally authorizing legislation with some minimum and maximum limits on implementation.

The League of Minnesota Cities contends that the laws governing volunteer firefighter relief associations are unduly complex and that the requirements for compliance with volunteer firefighter relief association laws are too burdensome for local officials to comply.

C-4. No Further Reductions In the Service Requirement For Vesting For Volunteer Fire Relief Association Benefits Should Be Enacted

Minnesota Statutes, Section 424A.02, Subdivisions 1 and 2, establish the vesting requirements for a volunteer firefighter relief association service pension. The statutory minimum service credit period for vesting for a volunteer firefighting service pension is five years of service with the applicable fire department and five years of membership with the relief association, qualifying for a partial (40 percent of the accrued benefit amount) service pension. A full service pension is payable with 20 years of service unless the volunteer firefighter relief association establishes a longer vesting requirement in its articles of incorporation or bylaws.

The League of Minnesota Cities believes that five years of service vesting requirement for volunteer firefighter relief association service pensions is sufficiently short and that a shorter vesting requirement would not allow cities to recover their investment in firefighting training.

C-5. Reduction In Fire State Aid Is Problem: State Auditor Office Oversight Changes Further Reduce Fire State Aid (Related To Issues A-7 and B-1)

Minnesota Statutes, Section 60A.15 sets the insurance premium tax rates on fire and related insurance that generate the revenue dedicated to fund the fire state aid program. Minnesota Statutes, Sections 69.011 through 69.051, governs the distribution of fire state aid. Minnesota Statutes, Section 69.021, Subdivision 5, reduces the dedicated revenue available for distribution as fire state aid by the amounts needed to pay the State Auditor's costs and expenses for audits or exams of firefighter relief associations. Because of recent changes in the premium insurance tax rates, the revenue available for distribution as fire state aid has decreased or failed to increase at historic rates over the last several years.

The League of Minnesota Cities concede that oversight by the office of the State Auditor is needed, but does not favor any expansion of oversight funded from further deductions from the fire state aid.

C-6. Opposes Changes in Municipal Representation on Volunteer Firefighter Relief Association Boards of Trustees Until Benefits of Recent State Auditor Training Sessions Emerge

Minnesota Statutes, Section 424A.04, Subdivision 1, specifies the composition of volunteer firefighter relief association boards of trustees, which include three municipal officials (mayor, clerk-treasurer or finance director, and municipal fire chief.)

The League of Minnesota Cities indicates the volunteer firefighter relief association pension system is illogical, with limited city control of benefits and ultimate responsibility for pension liabilities. It does not recommend any additional municipal official on volunteer firefighter relief association boards, in part because city officials are not currently well studied on fire pension issues, and believes that current training initiatives by the State Auditor will improve city representation on volunteer firefighter relief association boards of trustees.

C-7. Elimination of Use of Lawful Gambling Proceeds To Fund Volunteer Firefighter Relief Associations Was Too Drastic (Related to Issues B-6)

Laws 1993, Chapter 244, Article 5, disallowed the use of the proceeds from lawful gambling to make direct or indirect contributions to volunteer firefighter relief associations, effective May 18, 1993. Before 1993, a number of volunteer firefighter relief associations received direct contributions from, or indirect municipal contributions derived from lawful gambling proceeds.

The League of Minnesota Cities contends that this total prohibition was too drastic. The League of Minnesota Cities would have preferred a phase-out of lawful gambling funding of volunteer firefighter relief associations or the retention of lawful gambling as a funding source with strict limitations on benefit increases derived from that funding.

C-8. Retention of Current Statutory Service Pension Limits (Related to Issues A-2 and B-10)

Minnesota Statutes, Section 424A.02, Subdivision 3, sets forth a sliding scale of limits on service pension amounts paid by lump sum or monthly benefit defined benefit volunteer firefighter relief associations, based on the average recent funding of the relief association, known as the "flexible service pension maximums." The uppermost monthly benefit flexible service pension amount was increased by 33.3 percent in 1990, and the uppermost lump sum flexible service pension amount was increased by 33.3 percent in four steps in legislation enacted in 1993.

The League of Minnesota Cities indicates that the current flexible service pension maximums constitute good and salutary regulation and believes that the most recent increase resolves the benefit problems in the various cities except in Eden Prairie, where future special legislation will likely be sought based on a local resolution to local problems.

C-9. Facilitate Consolidation of Fire Departments By Establishing A Statutory Process For Consolidating Associated Relief Associations (Related to Issue A-5)

Currently, when fire departments are reorganized, the only procedure for handling the associated relief associations is found in Minnesota Statutes, Section 424A.02, Subdivisions 11 and 12. Minnesota Statutes, Section 424A.02, Subdivision 11, provides for a liquidation and immediate asset distribution of the relief association when the municipality dissolves or eliminates the fire department. Minnesota Statutes, Section 424A.02, Subdivision 12, allows prior service credit in a disbanded volunteer firefighter relief association to be transferred for vesting purposes only to the volunteer firefighter relief association established for a newly formed fire district that covers substantially the same area.

The League of Minnesota Cities identifies the lack of a generalized process for consolidating volunteer firefighter relief associations as the biggest barrier to fire department consolidation and recommends that a volunteer firefighter relief association consolidation process be developed in order to facilitate fire department consolidation.

C-10. Authorize Option For Multiple Employer Defined Contribution Plan Volunteer Firefighter Relief Associations For Fire Departments Currently Without Pension Coverage

Volunteer fire departments are not required by statute to establish volunteer firefighter relief associations. However, if a volunteer fire department elects to have pension coverage, Minnesota Statutes, Chapter 424A, only countenances a single employer volunteer firefighter relief association for a single municipality or governmental unit and fire department.

The League of Minnesota Cities recommends that enabling legislation be enacted to allow for the formation of a multiple employer defined contribution plan volunteer firefighter relief association for those fire departments that currently do not have volunteer firefighter relief associations.

D. Issues Raised By Bloomington Gray Eagles Association

D-1. Need to Have Greater Access To Bloomington Volunteer Firefighter Relief Association Documents, Books, And Board Meetings (Related to Issue A-3)

Volunteer firefighter relief associations are nonprofit corporations organized under Minnesota Statutes, Chapter 317A. Because volunteer firefighter relief associations are not purely governmental entities, given their status as nonprofit corporations, it is unclear whether the open meeting law and other disclosure, oversight and access legislation applies to volunteer firefighter relief associations.

D-2. Accelerated Recoupment of Bloomington Volunteer Firefighter Relief Association Funding Surplus

Laws 1994, Chapter 541, Section 2, requires a credit of one-tenth of any funding surplus (assets in excess of actuarial accrued liabilities) to be included in the calculations by the Bloomington Volunteer Firefighter Relief Association of the municipal funding requirement of the City of Bloomington, thereby reducing the amount of mandated municipal funding for that relief association over the prior law. A similar over-funding credit was added to the financing guidelines law applicable to monthly benefit defined benefit volunteer firefighter relief associations, Minnesota Statutes, Section 69.773, Subdivision 4. The same credit was added in 1979 to the financing guidelines law applicable to lump sum defined benefit volunteer firefighter relief associations, Minnesota Statutes, Section 69.772, Subdivision 3.

Mr. A. J. De Antoni seeks a greater credit for the current overfunding in the Bloomington Volunteer Firefighter Relief Association than the 1994 Bloomington special legislation permits, thereby reducing the property tax burden of Bloomington taxpayers.

D-3. Clarification of the Function of the Bloomington Volunteer Firefighter Relief Association General Fund

Although the Bloomington Fire Department is staffed by volunteer firefighters rather than full-time paid firefighters, the Bloomington Volunteer Firefighter Relief Association is organized under the second class city paid firefighter relief association law, Minnesota Statutes, Chapter 424, and special laws enacted in 1965 (Laws 1965, Chapter 446), 1978 (Laws 1978, Chapter 563, Section 15), 1981 (Laws 1981, Chapter 224, Section 238), 1989 (Laws 1989, Chapter 319, Article 11, Sections 7 through 11), and 1994 (Laws 1994, Chapter 541, Section 2.) Minnesota Statutes, Section 424.15, requires the creation of two funds within a second class city paid firefighters relief association, which are a special fund (into which tax revenues are deposited and from which only retirement benefits are paid) and a general fund (into which other revenue may be deposited and from which a variety of expenditures can be made.)

Mr. A. J. De Antoni is concerned about the sizable asset balance contained in the Bloomington Volunteer Firefighter Relief Association General Fund and disputes the need for a large municipal contribution to the relief association special fund in light of the current general fund balances.

Conclusion

Two attachments accompany this memorandum, exploring two of the 31 issues identified in prior testimony before the Commission that previously were identified to be of special interest to Commission members.

If there are other issues that merit further Commission staff research and Commission consideration, it would be appropriate for the Commission to select those issues at this time. Selected issues would be further developed by the Commission staff in a future issue memorandum and presented for discussion by the Commission at a future Commission meeting when volunteer fire issues are scheduled.

September 21, 1994
Room 107 Capitol

30th Meeting



LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Senator Phil Riveness, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 2:17 P.M.

Commission members present:

Representatives Mindy Greiling, Bob Johnson, Phyllis Kahn, and Leo Reding
Senators Steven Morse, Lawrence Pogemiller, Phil Riveness, LeRoy Stumpf, and Roy Terwilliger

1. **Approval of Minutes of August 17 and 18, 1994 Meeting**
Rep. Bob Johnson moved approval of the August 17th and 18th meeting minutes. **MOTION PREVAILED.**

3. **Volunteer Fire Regulation Revision and Clarification**
Lawrence A. Martin, LCPR Executive Director, noted that members did not have a staff memorandum on this topic but did have copies of the current law relating to volunteer firefighters. He reviewed the organizations that would be making presentations at this meeting and stated that this topic was recommended by the Office of the State Auditor.

James Gelbmann, Deputy State Auditor for Research and Pension Oversight, began his presentation. Mr. Gelbmann noted that his presentation would focus on five topics, an overview of the infrastructure of volunteer fire relief associations, the role of the State Auditor in overseeing volunteer fire relief association activities and financing, an overview of the general financial stability of the relief associations, a review of the implementation of the investment performance law relative to all Minnesota public pension funds, and a review of the recommendations formulated by the State Auditor's Office to improve the operation and financing of volunteer fire relief associations.

Topic 1. Mr. Gelbmann provided historical and statistical background information on volunteer fire relief associations. He testified that there are 698 volunteer fire relief associations in Minnesota, their total assets are \$158 million, their assets range from \$687 to \$47.1 million, and their membership ranges from 9 to 161 active firefighters. He further testified that benefit levels range from \$10 per year of service, which provides a lump sum benefit of \$200 for 20 years of service, to a lifetime benefit of \$600 per month after age 50 for 20 years of service. He also testified that one metro relief association has an unfunded actuarial accrued liability of \$1.1 million while a neighboring relief association has a \$6.8 million surplus, that the assets of one relief association account for less than 30% of its current liability while the assets of another are 10 times greater than its current liability, and that 300 relief associations have their assets invested in CD's or cash equivalents while others have national money managers and highly diversified portfolios. Mr. Gelbmann provided further statistical information and continued with the first topic.

Topic 2. Mr. Gelbmann testified that state law prescribes that the State Auditor oversee the activities of Minnesota relief associations, ascertain that they are operating pursuant to Minnesota law, and, if not, the State Auditor is authorized to direct the Department of Revenue to withhold state aid from fire relief associations that are out of compliance. He further testified that it is illegal for Minnesota municipalities to provide contributions to a relief association that is not in compliance with Minnesota Statutes. The cost of this oversight function is deducted from the total fire state aid money prior to distribution to municipalities. He continued to provide background on the State Auditor's efforts to effectively respond to its mandated responsibilities and testified that in July of 1993, state aid was withheld from over 400 relief associations that were out of compliance with state law. He testified that it took ten months of intensive technical assistance from the State Auditor's office to bring the 400 relief associations into compliance.

Topic 3. Mr. Gelbmann testified that approximately 458 of the 698 relief associations do not have unfunded liabilities. He further testified that of the approximately 240 relief associations that have unfunded liabilities 107 of them are over 90% funded, 75 are between 80 and 90 percent funded, 29 are between 70 and 80 percent funded, 18 are between 60 and 70 percent

funded, 9 are between 50 and 60 percent funded, and only 2 are less than 50% funded. The State Auditor's office is concerned with the number of relief associations that have increased their benefit levels and unfunded liabilities over the past three years. Mr. Gelbmann provided members with a table that showed 102 relief associations that had a deficit in 1990 and have since increased both their benefits and unfunded liabilities. He testified that there is no statutory requirement that volunteer fire funds ever achieve full funding.

Topic 4. Mr. Gelbmann reviewed the State Auditor's implementation and the volunteer firefighter relief associations' responses with regard to the reporting requirements passed in the 1994 Session. He stated that any investment shortfall may require an increased municipal contribution which may ultimately require increased taxes.

Sen. Riveness referred to the increasing deficit table that Mr. Gelbmann had previously provided and asked what was the basis for calculating any adjusted normal cost when a benefit increase was provided to active members. Mr. Gelbmann stated that a benefit increase that increases the unfunded liability must be amortized over the next ten year period. Any unfunded liability must be paid for with investment earnings, state aid, and municipal contributions. Discussion followed. Mr. Gelbmann proposed a threshold level which would require a relief association to be between 70% to 100% funded before it would be permitted to increase benefits. He testified that he does not have a recommendation at this time but hoped he would have a recommendation in the next few months. Rep. Reding referred to the table in statutes that permits relief associations with a certain funded status to increase benefits and asked whether that is effective in controlling benefit increases. Mr. Gelbmann testified that the table generally works but some municipalities are willing to increase their municipal contribution which increases the available funding for firefighters and permits benefit increases. He testified that the State Auditor's office is concerned about the spiraling effect this has and from the State Auditor's perspective, it is not sound public policy. Rep. Johnson stated that most of the 102 funds noted in the table remain well funded but those that are not are a concern. Discussion followed.

Sen. Morse questioned whether a municipality needs to sign off on a fire relief association's benefit increase. Mr. Gelbmann responded that the municipality does have to approve a benefit increase if the increase requires an increased municipal contribution. Discussion followed.

Rep. Kahn stated that charitable gambling proceeds are no longer permitted contributions to relief associations and that when they were permitted, municipalities were warned not to approve benefit increases based on charitable gambling contributions. She asked for Mr. Gelbmann's comments on the charitable gambling issue. Mr. Gelbmann testified that the State Auditor's office does check on whether charitable gambling is part of a relief association's funding.

Mr. Gelbmann testified that some relief associations that invest in CD's or cash equivalents do so to keep their money invested locally which is not always in the best financial interest of the relief association, the city, or the taxpayers. It often provides a substandard rate of return. He stated that it is essential that all parties involved understand all the ramifications of the relief association's investment decisions. Discussion followed. Sen. Riveness stated that many local relief associations do not have the expertise for sophisticated investments but the State Board of Investment is an alternative option for them. He also noted that the legislation passed last session did not require relief associations to alter their strategies, or take away their authorization to invest relief association assets, it only required them to disclose their investments. Sen. Morse noted that many of the local banks that relief associations invest with do not reinvest locally. Discussion followed.

Topic 5. Mr. Gelbmann testified that one of the recommendations from the State Auditor's Office was to permit relief associations of independent fire departments to combine to create one relief association to reduce costs. Discussion followed. (The recommendations of the State Auditor's Office are attached to these minutes as time constraints did not permit presentation at the Commission meeting.)

Gus Welter and Bob Wetherille, Minnesota State Fire Department Association, began their presentation. Mr. Wetherille testified in response to issues previously discussed. He noted that fire state aid is the main funding source for volunteer fire relief associations, that a few years ago, Sen. Berg amended a bill in the Senate that eliminated the use of charitable gambling proceeds for volunteer fire relief association pensions, and that the State Fire Department Association has consistently opposed using charitable gambling money to fund pensions although they have a written opinion from the Attorney General's office written prior to Sen.

Berg's amendment stating that it was a legitimate use of charitable gambling funds. Mr. Wetherille testified that his main concern is fire state aid. He provided historical background information on fire state aid and concluded by requesting that fire state aid be reinstated to the pre-1988 level. Discussion regarding why domestic mutual companies fire tax was reduced to 1/2% followed. Members suggested that the local relief associations talk to their home mutual insurance companies, convince them that firefighters protect the same property that the insurance companies would pay losses on, and that this is part of the benefit that the companies enjoy and they should be paying the 2% tax that other companies are paying.

Gus Welter provided a handout which provided the MN Fire Department Association list of items for Commission consideration for the 95 Session. Mr. Welter reviewed the items. He testified that an additional table should be included in Minnesota Statutes, Chapter 69.772, Subdivision 2, to deal with relief associations that do not earn a 5% or more investment gain. This would make relief associations aware of the cost of benefit increases and poor investment returns. He also suggested an amendment to 69.772, Subdivision 3, to establish a new method of calculating the next year's administrative expenses. Mr. Welter continued with his presentation. Sen. Stumpf asked Mr. Welter to elaborate on the suggested changes to 69.772, Subd. 3 and 69.773, Subd. 5, which dealt with contributions from the General Fund to the Special Fund. Discussion followed.

Sen. Riveness asked Stan Peskar, League of Minnesota Cities, if he would be able to return when the Commission revisits this topic. Mr. Peskar answered affirmatively.

The meeting adjourned at 4:00 P.M.

Joint Meeting
Legislative Audit Commission and Legislative Commission on Pensions and Retirement

September 22, 1994
Room 107 Capitol

Senator Phil Riveness, Chair of the Legislative Audit Commission and Legislative Commission on Pensions and Retirement, called the joint meeting to order at 10:25 A.M.

LCPR Commission members present:

Representatives Mindy Greiling, Bob Johnson, Phyllis Kahn, Gerald Knickerbocker, and Leo Reding
Senators Steven Morse, Lawrence Pogemiller, Phil Riveness, and Roy Terwilliger

Report by Allan Baumgarten, Concerning Oversight of Local Pension Funds

Sen. Riveness introduced the topic and requested James Nobles, Legislative Auditor, to provide background. Mr. Nobles testified that in August, 1993, there was an article in the Minneapolis Star Tribune that was critical of the oversight by the State Auditor's office with regard to MERF during the time that John Chenoweth was MERF's Executive Director. The article precipitated a series of hearings by the Legislative Audit Commission (LAC) and, as a result, the Legislative Auditor's Office performed a study to further review the State Auditor's oversight of MERF. In addition, the Legislative Auditor's Office hired Allan Baumgarten, an outside consultant, to do a broader study concerning the oversight of local pension funds.

Allan Baumgarten began his presentation. He testified that the LAC posed a series of issues to be addressed in the report. The issues were the role of local governance on local pension boards, the adequacy of audits performed on those local pension funds, the performance and role of the Legislature and the LCPR in oversight of local pension management, and if issues were found that needed resolution, Mr. Baumgarten was to make recommendations to the LAC.

Sen. Belanger asked why Bloomington Fire was listed as a paid fire fund. He stated that Bloomington is totally volunteer and does not have any paid employees. Sen. Riveness agreed with Sen. Belanger. Mr. Baumgarten testified that Bloomington Fire is not grouped with the volunteer fire departments in the State Auditor's report and he may have misunderstood the situation.

Mr. Baumgarten testified that oversight of local funds is done by a local governing board, by an annual audit, and by a number of state level organizations. The primary state level oversight is provided by the State Auditor's Office and the Legislative Commission on Pensions and Retirement.

Mr. Baumgarten found that attendance and participation on pension fund boards by local officials, which may include up to three representatives of local government, needs to improve. He testified that in some instances, where local officials did attend meetings and participate they lacked the leverage to influence fund policies. He testified that in a sampling of completed reports required by the State Auditor's Office, errors frequently were made and in some cases the funds were not in compliance with state law. He stated that the State Auditor's audits could be improved by focussing more on specific compliance issues. He also stated that only LCPR staff is raising questions about certain administrative expenses, the appropriateness of some travel expenses, and some investment practices.

Mr. Baumgarten testified that the LCPR and the Legislature had considerable knowledge about questionable practices at MERF but did little with the information. He agreed that the statutory role of the LCPR is not investigative. Rep. Alice Johnson asked whether Mr. Baumgarten was saying that the Legislature should require comment from the auditor about investment practices, etc. in each audit. He recommended additional oversight of administrative or management issues by either the State Auditor's Office or by an ad hoc group. Rep. Johnson asked whether Mr. Baumgarten would recommend an evaluation of the Pension Commission with regard to its current and future mission. Mr. Baumgarten recommended that the Legislature reevaluate the role of the Commission and if it has investigative expectations, it should support those expectations with the resources, authority, and orientation required.

Rep. Dauner asked for more information on the Wisconsin pension program. Mr. Baumgarten testified that he had met with Blair Testin, the Staff Director for the two Wisconsin Retirement Commissions. Mr. Testin provided information on the differences between Minnesota and Wisconsin in terms of how pension funds and oversight are organized. Mr. Baumgarten reviewed the similarities and noted that all bills relating to pensions must be referred to and recommended by the Wisconsin Retirement Commission before any further legislative action occurs. He then reviewed the differences and noted that Wisconsin's Commission includes legislators as well as other public members. He recommended that the Commission consider that concept. Sen. Riveness asked how changing the LCPR membership would improve it. Mr. Baumgarten stated that outside members might enhance the process, would bring different perspectives, and might provide legislators with political cover.

Mr. Baumgarten reviewed his conclusions and recommendations which he put under four titles, consistency, fairness of benefits and financing, linking benefits to financing, and uniformity. He recommended that local officials improve their involvement in fund governance by attending board meetings and increasing their scrutiny of local funds financial reports. He further recommended that the legislature expand local official representation on fund boards, and authorize city councils and the three first class city school boards to appoint members of the public with pension expertise. Discussion followed. Rep. Alice Johnson expanded on the idea that municipalities might agree to levy to expand benefits locally and stated that it becomes a statewide issue if the legislature is requested to increase local government aids or provide property tax relief possibly due to that expansion of local pension benefits.

Rep. Bob Johnson asked if the report had specific recommendations that the Commission could discuss, evaluate, and put into statute. He also asked if there were specific recommendations for the Audit Commission and the Attorney General's Office. Mr. Baumgarten responded that the Legislature needs to decide how much oversight of pension plans is needed.

Rep. Reding stated that he was disturbed to see that one of Mr. Baumgarten's recommendations was to establish a centralized emergency medical personnel pension plan when this has already been done. Mr. Baumgarten responded that he was aware of that but believed the plan was still evolving in terms of benefit levels and uniformity among communities. Discussion followed.

Rep. Greiling asked Mr. Baumgarten to expand on his recommendations that the LCPR consider multi-year investment return standards rather than the addition of new reporting requirements to solve the volunteer fire issue. She stated that this recommendation was similar to the State Auditor's recommendation and questioned whether other states are doing this. Mr. Baumgarten responded that oversight over hundreds of small plans individually investing public funds is difficult. The State Auditor's Office and staff of the Pension Commission as well as all the relief association funds are putting a lot of time and effort into completing and reviewing reports which may not be providing better oversight or results. Reducing the number of entities to oversee may be a solution. Setting an investment standard which, if not met, results in the State Board of Investment or a regional pool taking over that relief association's investment

authority is his recommendation. He is not aware of any other states doing this. Rep. Kahn stated that the political reality may not permit putting investment standards in place. Discussion followed.

Sen. Riveness stated that he liked the concept of setting investment standards. He further stated that he was disappointed in some volunteer fire relief associations who opposed even the simplest reports on investment returns for funds with fairly large assets. They argue that those funds belong to their relief association and the public and the Legislature should have no interest in their performance. Sen. Riveness agreed with Mr. Baumgarten's conclusion that adding more reporting requirements is not sufficient but those reports may provide a sense of what can be done in the future with regard to setting performance standards.

Rep. Kahn questioned whether Wisconsin consolidates pension bills into an omnibus bill and how they handle the specific circumstances of individuals other than by introducing bills. Mr. Baumgarten responded that he does not know whether Wisconsin has an omnibus pension bill but he does know that with only three retirement associations, their starting point is much different and reduces the bill workload of their pension commission. Circumstances of individuals are dealt with in an executive branch agency.

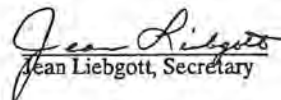
Mr. Baumgarten recommended that the Legislature explore the possibility of an executive branch office that would have administrative responsibilities and thereby reduce the workload of the LCPR. He also recommended that the Governor or the Commissioner of Finance provide more leadership in pension matters by possibly bringing a pension policy bill before the Legislature every two years.

Sen. Morse stated that it seemed that this report highlighted three issues of concern with regard to volunteer fire relief associations. The concerns are that relief associations may increase benefits when the money is not there to support a benefit increase, that their investment returns may be poor and they may be foregoing investment gains, and that there is an administrative overburden in assessing whether or not the first two occur. He asked what feedback is provided to the local funds as a result of their filing the required reports. Sen. Riveness responded that a comparative report from the State Auditor's Office was a requirement of the investment disclosure bill enacted last session.

Sen. Spear commented on the omnibus pension bill issue. He stated that in the past, some omnibus pension bills were lost in conference committee or not passed for political reasons so some members who had non-controversial pension bills preferred to have their bills stand alone. Discussion followed.

Sen. Riveness stated that the LCPR would review the suggestions in this report specific to the Commission, would review whether there should be an agreement prior to the 1995 Session with regard to handling pension bills, and would review the LCPR staffing arrangements if the Commission determines its role to be beyond policy analysis, research, the management of bills, and review of financial reports.

The meeting adjourned at 12:00 P.M.


Jean Lieb Gott, Secretary



MARK B. DAYTON
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 400
525 PARK STREET
SAINT PAUL 55103

(612) 296-2551
(612) 297-5353 (TDD)

September 29, 1994

The Honorable Phil Riveness, Chair
Legislative Commission On Pensions And Retirement
317 Capitol
Saint Paul, Minnesota 55155

Dear Senator Riveness:

During my presentation before the Legislative Commission on Pensions and Retirement last week, I had intended to provide recommendations for amending the statutes governing volunteer firefighters' relief associations. Unfortunately, due to my extended overview remarks and the number of questions asked by Commission members, I was unable to present the conceptual ideas our Office has developed for improvements in the law. Therefore, I would like to transmit these ideas to the Commission in writing.

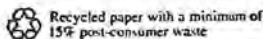
As I mentioned in my oral testimony, our Office believes the current system for financing Minnesota's Volunteer Firefighters' Relief Associations is working well and there is no need for a major overhaul of the system. While the overall system is working well, I would like to raise several issues that the Legislative Commission on Pensions and Retirement may want to consider addressing during the 1995 Legislative Session.

After reviewing these issues, I will be interested in any feedback you may have. If you would like to see any of these issues addressed through draft legislation, I will be pleased to develop draft proposals for the Commission to consider during 1995 legislative session.

Improve the definition of independent accountant.

Currently, Minnesota Statutes allow any individual who has five or more years of accounting experience to audit local relief associations, as long as the individual is not a member of the relief association. This definition of a public accountant is very difficult to enforce; it is even more difficult to hold unlicensed individuals to any level of professional standards.

While our Office is capable of reviewing all forms and financial statements filed by the relief association, we do not have the resources to examine the books and accounts of all 698 associations. Reporting forms and financial statements may be intentionally falsified. The intentional falsification of statements and reporting forms is nearly impossible to detect without examining the books and records of the association and testing sample transactions for accuracy. Therefore, the state is depending upon the independent accountants to perform this on-site work as a deterrent against theft and misuse of relief association funds.



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Based on some of the review opinions and attestations our Office has received in the past, it is highly questionable whether the standards we have prescribed for these opinions and attestations are being followed. By changing the definition of "independent accountant" to include only those individuals who are licensed Certified Public Accountants (CPAs) or Licensed Public Accountants (LPAs), our Office would have a higher level of comfort that the review of the books and records of the relief associations are being performed according to professional standards. If a CPA or an LPA fails to perform reviews and attestations according to professional standards prescribed by our Office and the industry, that individual risks jeopardizing her or his professional license. There are no similar sanctions for a non-licensed individual who fails to perform work up to industry standards.

Address issue of escalating deficits of certain relief associations.

In light of escalating unfunded liabilities for a number of relief associations, the legislature should consider establishing a minimum funding ratio threshold that must be maintained by the relief association after any benefit increase is adopted. Under current law, relief associations that have significant unfunded liabilities are able to increase their benefit levels and their unfunded liabilities as long as the "available financing per firefighter" is maintained at or above statutorily mandated levels. Under a possible legislative proposal, in addition to being required to meet the existing "available financing per firefighter" standard, relief associations would not be permitted to increase benefits if the increase would result in a funding ratio of less than 80 percent. (The 80 percent figure is arbitrary; the appropriate threshold could be determined through the legislative process.)

Require relief association meetings to be open to the public and all ex-officio members of the association receive formal notice of meetings

This is a recommendation our Office made last year. In a small number of cities, the mayor and the clerk, who are ex-officio members of the relief association, have complained that they are rarely informed when the relief association will be meeting. Although it seems relatively obvious that meeting notices should be sent to all members of the Board of Trustees, a statutory requirement to this effect will make it easier for our Office to take corrective action when there is clear evidence that ex-officio members are not being informed of meetings.

Although our Office also believes that meetings of the relief association Board of Trustees should be open to the public, and a statute should be written that would require public meetings, we do not recommend that relief association boards be subject to the existing open meeting law. In most cases, the members of the Board of Trustees who are firefighters meet weekly for practice and training. Given the amount of time these individuals are required to spend together, the civil penalties for violating the open meeting law may be too harsh, given the potential for these trustees to inadvertently discuss relief association business during training or practice sessions.

Consider possible incentives to encourage relief associations to take advantage of investment opportunities available through the State Board of Investment. Provide additional resources for the State Board to help market their program and administratively contend with an increase in the number of relief associations taking advantage of the opportunity.

Relief associations that are failing to achieve adequate rates of return on their investments should be encouraged to invest the majority of their assets with the State Board of Investment. Although our Office is actively encouraging this option, a statutory incentive for relief associations that are willing to invest with the State Board may help further our goal of adequate investment returns for all public pension funds. One ideal incentive may be to exempt relief associations that have invested at least 75

percent of their assets with the State Board of Investment from the investment disclosure reporting requirement. This type of incentive was attempted last year and was strongly opposed by certain relief associations.

If we are able successfully encourage many relief associations to invest with the State Board of Investment, the Legislature should consider appropriating sufficient resources for the Board to assist with the added workload. If more funding is made available for the Board, the Board should consider adding a full time investment advisor to work with the fire relief associations, helping them determine the appropriate allocation of assets among the separate investment options within the Minnesota Supplemental Investment Fund.

Clarify procedures that two or more relief associations can use to consolidate, even if their fire departments remain independent.

Many small relief associations are concerned that they no longer have the critical mass necessary to comply with the numerous reporting and auditing requirements. For relief associations with low benefits, minimal state aid payments, and relatively small assets, the cost of independent review opinions and the amount of effort necessary to complete all reporting forms may be overly onerous from the perspective of the relief associations.

Minnesota statutes currently do not explicitly allow two or more independent fire departments to form a single relief association. By amending statutes to recognize this discretionary option, the legislature may provide an alternative for the small relief associations that believe the current amount of oversight is excessive given their small size. If a significant number of relief associations take advantage of permissive statutory language authorizing discretionary consolidations of relief associations, our ability to provide adequate oversight for all relief associations may also be enhanced.

Authorize the portability of benefits from one association to another, so as not to penalize individuals who may move from a city prior to becoming fully vested in the plan.

Many relief associations currently have vesting periods of 15 or 20 years. While many associations also allow for partial vesting after five or more years of service, there is an absolute financial penalty for a volunteer firefighter who must relocate to another city before he or she has reached the early vesting threshold. For example, if a firefighter belongs to a relief association with a ten year early vesting provision, and is forced to relocate after nine years of service, that individual will get no benefits from the association. Furthermore, if the individual joins the volunteer fire department in her or his new city, she or he will not get credit for the nine years of service she or he has already contributed.

To address this situation, the legislature should amend the statute to allow for portability of benefits from one relief association to another when a firefighter relocates to another city and joins the fire relief association of his or her new city.

Review the state aid formula.

The current state aid formula does not necessarily provide aid to the relief associations based on their level of activity; nor is the level of need taken into consideration in allocating state aid dollars.

Our office attempted to compare volunteer fire relief association state aid payments to the number of fire calls within those municipalities to determine if there was any positive correlation between the two

variables. Although the data collected by the State Fire Marshal on the total number of fire calls may not be 100 percent reliable, we found very little correlation between the number of fire calls and the amount of state aid paid to the relief associations. There were 15 fire departments that reported no emergency runs during 1992 and received state aid amounts ranging from \$184 to \$7,229. For the fire departments that reported one or more emergency runs in 1992, the amount of state aid per run ranged from \$17.25 per run to \$5,771 per run.

Our Office also noticed a disparate amount of state aid payments being made to the relief associations with the largest surpluses. For example, the two relief associations with the largest surpluses also receive the largest allocation of state aid. In fact, approximately 16.1 percent of all state aid for volunteer relief associations is allocated to the 20 relief associations with the largest actual surpluses.

Although the current state aid formula may be the best formula possible, the Legislature should be aware of these apparent disparities in how the funding is distributed. In light of these apparent disparities, we recommend that the Legislative Commission on Pensions and Retirement review the state aid formula and determine if changes to the formula are warranted.

I would like to thank you and the other members of the Legislative Commission on Pensions and Retirement for giving me this opportunity for presenting our recommendations for improving the statutes governing the activities and financing of Minnesota's Volunteer Firefighters' Relief Associations. I hope these written recommendations are helpful. I would be pleased to discuss these recommendations with you and other members of the Commission at your convenience.

With best regards.

Sincerely,



Jim Gelbmann
Deputy State Auditor

cc: Mr. Lawrence A. Martin

October 17, 1994
Room 15 Capitol

31st Meeting



LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Senator Phil Riveness, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 1:20 P.M.

Commission members present:

Representatives Mindy Greiling, Bob Johnson, Phyllis Kahn, and Leo Reding
Senators Lawrence Pogemiller, Phil Riveness, LeRoy Stumpf, and Roy Terwilliger

2. Volunteer Fire Regulation Revision and Clarification (Second Consideration)

Lawrence A. Martin, LCPR Executive Director, briefly recapped the Commission's activity on this topic to date. He noted that there were three staff memos related to volunteer firefighter issues in members packets. The first memo summarized the issues raised by the State Auditor's Office and the State Fire Department Association. The second memo provided an indepth study on the changes in the fire state aid program. The third memo reviewed the data and method for calculating administrative expense requirements for volunteer fire plans.

Stanley Peskar, General Counsel for the League of Minnesota Cities, provided a handout that expressed the League's position on volunteer firefighter issues. He expressed appreciation for the work of the State Auditor's Office over the past two years with regard to volunteer fire relief associations. Mr. Peskar testified that the League supports legislation to facilitate volunteer fire relief association's conversion to defined contribution plans. Mr. Peskar also reviewed comments from city officials in response to the League's solicitation. Some of the comments were that pension laws are too complex, vesting requirements should not be further reduced, the State Auditor's oversight fee has reduced fire state aid, and city officials do not understand the ramifications of pension benefit changes. Mr. Peskar continued and discussion followed.

Mr. Martin noted that the State Auditor recommended that the open meeting law apply to volunteer firefighter relief association meetings and require timely notice of meetings to city officials. He asked Mr. Peskar if he could suggest a way to improve the involvement of city officials on relief association boards. Mr. Peskar suggested possibly adding finance officers as well as city clerks and mayors to relief association boards. Discussion followed.

Rep. Reding asked what the League's position was with regard to the difference in the maximum benefit amount for relief associations with a lump sum benefit as opposed to those with a monthly benefit. Mr. Peskar responded that the lump sum benefit recipients should have a small advantage over monthly benefit recipients and he would like to see an increase in the lump sum benefit maximum.

Mr. Peskar updated the Commission on the status of the Eden Prairie issue and stated that negotiations are currently underway with Eden Prairie with regard to establishing a defined contribution program to solve their recruitment and retention problem.

He continued to review the League's position on volunteer fire issues. Rep. Johnson stated that he is aware of some support for a defined contribution plan on the part of some firefighters as well as some legislators but he is concerned about municipal responsibility in a defined contribution plan. Rep. Greiling questioned whether a combination of defined benefit and defined contribution plans was feasible. Mr. Peskar testified that the League was open to that combination.

Mr. Peskar testified that the League would like fire department consolidations facilitated by legislation and would also like to see legislation that would enable multi-employer volunteer firefighter relief associations. Sen. Riveness asked how aware are municipalities of the ramifications of good relief association investment policy on the taxpayers and in providing periodic benefit increases. Mr. Peskar responded that there is not enough awareness of the importance of good investment decisions on relief association assets. Mr. Martin asked for an estimate of the number of volunteer fire departments that compensate or provide benefits to

firefighters in addition to pension benefits. Mr. Peskar responded that the majority of volunteer fire departments provide compensation in addition to pension benefits.

A.J. DeAntoni, The Gray Eagles Association, provided members with two handouts. He testified that they have been excluded from Bloomington Fire Relief Association meetings and are opposed to the City of Bloomington taxing its citizens to fund a volunteer fire relief association when the association's special fund is \$11,000,000 overfunded and has a \$2,000,000 general fund. Mr. DeAntoni testified that legislation passed last session reduced the municipal contribution by 10% over a ten years period if a relief association was overfunded. He continued with his testimony. Sen. Riveness stated that the legislation passed last session reduced Bloomington's municipal contribution by approximately \$1,000,000 a year. Senator Riveness restated Mr. DeAntoni's concern that both the relief association's special fund and general fund should be subject to the open meeting law and that when a fund has a surplus it should be returned more quickly to the municipality than is permitted by last session's legislation. Mr. DeAntoni testified that he was advised that the only control over volunteer fire relief associations was to withhold state aid.

3. Consideration of a Legislators-Constitutional Officers Joint Retirement Fund

Mr. Martin reviewed the background and staff memo on this topic. He noted that the memo provided three potential approaches for establishing a separate dedicated fund and he reviewed the budgetary impact of dedicated funding for these two plans.

Sen. Riveness stated that establishment of a dedicated fund would not provide a benefit increase it would simply provide a consistent, predictable method of funding these two plans that would eventually save money for Minnesota taxpayers. Discussion followed. Sen. Riveness asked whether there was information on what the cost savings would be over a 20 year period if a dedicated fund was established.

Doug Mewhorter, MSRS Assistant Director, and Arvin Hermann, MSRS Finance Director, testified in support of establishment of one fund for the two plans. Mr. Hermann testified that the first step would be to accumulate member contributions and second to create matching employer contributions. He testified that currently member contributions go directly into the state's general fund and an appropriation is made from the general fund for retiring members. Discussion followed and Mr. Hermann stated that MSRS supports establishing a fund as good public policy since approximately 65% of MSRS-General's revenue comes from investment returns.

1. Approval of Minutes of September 21 and 22, 1994 Meeting

Rep. Greiling moved approval of the September 21st and 22nd meeting minutes. **MOTION PREVAILED.**

The meeting adjourned at 3:05 P.M.

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October 18, 1994
Room 15 Capitol

Senator Phil Riveness, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 10:20 A.M.

LCPR Commission members present:

Representatives Mindy Greiling, Bob Johnson, Phyllis Kahn, and Leo Reding
Senators Lawrence Pogemiller, Phil Riveness, and LeRoy Stumpf

1. Consideration of Federal Tax Code Compliance for Certain Section 403(b) Annuity Plans (Second Consideration)

Lawrence A. Martin, LCPR Executive Director, reviewed the staff memo on this issue and noted that the Commission is mandated to study this topic. Mr. Martin stated that the memo provided data on the number of school districts (43) and employees (2,500) who participate in the 403(b) matching contribution plan. He noted that some pre-1971 tax sheltered programs were grandfathered in by Minnesota Statutes, Section 356.24 and he briefly reviewed several observations made with regard to the data collection. Mr. Martin then reviewed some of the Commission's options to achieve several potential policy goals the Commission may want to pursue.

Richard W. Skillman, Caplin & Drysdale, Washington D.C., began his testimony by providing information on his background. He testified that he has been practicing federal tax law in Washington D.C. for the last 22 years, primarily in the area of tax deferred savings programs for public school teachers, college and university personnel and employees of non-profit organizations under sections 403(b) and 457 of the Internal Revenue Code. Three years ago, in an appearance before the LCPR, Mr. Skillman testified in support of including 403(b) plans in the matching contribution program as a sound pro-savings idea. He stated that he believes the current 403(b) compliance concern is not wellfounded. He further testified that adding a matching contribution to a 403(b) plan does not cause additional compliance problems. Mr. Skillman summarized the federal rules stating that 1) a formal plan document is a good idea but is not required; 2) employee notification is not required; 3) 403(b) plans do have a distribution requirement; 4) there are deferral limits; 5) there is a "minimum participation" requirement effective in 1996 but in actuality it is a minimum eligibility requirement; and 6) there is a non-discrimination requirement known as an Actual Contribution Percentage (ACP) test. An element of the ACP test is that the average match paid for highly compensated employees cannot be more than 200% of the average match for non-highly compensated employees. Mr. Skillman testified that a 403(b) matching program that covers collective bargaining employees and non-collective bargaining employees, automatically satisfies the ACP test for the collective bargaining employees and the test would be applied separately for the non-collective bargaining employees. He recapped by stating that at most the 403(b) matching program is dealing with a potential compliance burden relating to a single federal requirement that has no applicability to collectively bargained employees, it would affect only a small percentage of non-collectively bargained employees, and it could be avoided altogether by structuring the program in a different way.

Patrick Nelson, Deputy Commissioner from the Department of Commerce, testified that the Department of Commerce is only remotely involved in this issue. The Department of Commerce reviews all annuity programs for compliance with state law but not for anything related to federal laws or IRS rule compliance. Mr. Nelson testified that the Commerce Department did check the eight insurance companies' ratings. He further stated that the State Board of Investment could have checked the ratings since SBI receives the same reports that Commerce receives. Sen. Riveness asked who was responsible for making sure that the companies marketing these products are complying with all applicable laws. Mr. Nelson responded that the majority of the burden falls to the school districts. He also stated that the Commerce Department does not have the expertise to review these programs for federal law compliance. Discussion followed.

Alve Jemtrud, Director of Member Services for MEA, and Mark Meyer, William M. Mercer Inc., were attending on behalf of MEA. Mr. Jemtrud testified that in 1971 Minnesota became the only state to prohibit employer matching contributions to 403(b) plans. In 1988 matching contributions were permitted in 457 plans. In 1992 matching contributions were expanded to include 403(b) plans. Mr. Jemtrud testified in support of the 403(b) matching contribution program. He testified that it allows employees to take advantage of early retirement incentives and allows districts to reserve money necessary to cover severance packages.

Mr. Meyer referred members to page 17 in the TSA Guide For Minnesota Public School Districts, 1994 Edition, which describes the ACP nondiscrimination test that may be effective in 1996. Discussion followed.

Bob Gunderson, MFT, testified that the matching contribution program was negotiated to address the problem of the unfunded liability in severance packages. He testified in support of the 403(b) matching contribution program.

Sen. Riveness asked for comments on the current number of insurance companies and whether the matching contribution program was being used primarily by the wealthier school districts. Mr. Jemtrud responded that the program was not being used primarily by wealthy school districts and that he favored an unlimited number of insurance companies. Sen. Pogemiller questioned whether it was necessary to expand the program to include 403(b) plans to address the unfunded liability issue in severance packages. Mr. Jemtrud responded that matching contributions to 457 plans did address the problem but employees wanted the higher limits allowed in 403(b) plans. Discussion followed and Sen. Pogemiller stated that the matching contribution program is difficult to justify when there are problems in funding the basic operation of schools.

Richard Shager, Tax Sheltered Alliance from Stillwater, testified that he supports rescinding

the current law and passing a new law that would allow school district contributions to be made only to 401(a) plans, permit employee contributions to be made only to 403(b) and 403(b)(7) plans, and allow an unlimited number of insurance companies to market the plans.

Robert Hengelfelt, Tax Sheltered Alliance and a representative of one of the eight chosen companies, testified that approximately 40% of his more than 1,000 clients are educators. Most of his clients use 403(b) plans without employer matching contributions. He opposes the employer matching contribution program. He believes that the current matching contribution program has serious compliance problems. He testified that he believes it is an unnecessary incentive to have a matching employer contribution when 70% of school district employees are utilizing 403(b) plans without a match in the school districts he visits. He suggested that if 403(b) employer matching contribution plans continue to be permitted, the legislature should provide school districts with guidance as well as estimates of the costs and liabilities of 403(b) employer matching contribution plans and mutual funds should be permitted as an investment option. Mr. Hengelfelt testified that he was recently informed that three metropolitan school districts have withdrawn their employer matching contribution programs after seeking independent counsel on this issue. Discussion followed. Sen. Riveness asked if Mr. Hengelfelt could provide any expert proof or information to back his viewpoint that the employer matching contribution is headed toward a crisis. Mr. Hengelfelt stated that he would provide information.

Don Bungum, a former school superintendent and now a Lindstrom Financial Planner, testified in opposition to the 403(b) employer matching contribution program as it complicates 403(b) plans.

Michael King, Universal Pensions, testified that he agreed with everything Mr. Skillman said regarding the non-discrimination rule. Mr. King believes it is a non-issue. He would like to see mutual funds added as an investment option to the current state 403(b) program. He would like to see an unlimited employer matching contribution and legislation that would enable school districts to use 403(b) programs to eliminate the unfunded liability in their current severance programs. Discussion followed. Mr. King agreed to provide members with additional information on this topic.

The meeting adjourned at 12:13 P.M.


Jean Lieb Gott, Secretary

November 29, 1994
Room 15 Capitol

32nd Meeting



LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Senator Phil Riveness, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 2:24 P.M.

Commission members present:

Representatives Mindy Greiling, Bob Johnson, Gerald Knickerbocker, and Leo Reding
Senators Steven Morse, Lawrence Pogemiller, Phil Riveness, LeRoy Stumpf, and Roy Terwilliger

Consideration of First Class City Teacher Retirement Fund Association Post Retirement Adjustment Mechanisms and Proposed Revisions (First Consideration)

Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo on this issue. He noted that the policy of a pension benefit is to replace a high percentage of pre-retirement income. The policy of a post retirement mechanism is to maintain the purchasing power of the benefit throughout retirement. Mr. Burek then summarized the three first class city teacher post retirement mechanisms and the State Board of Investment post fund mechanism (the mechanism for TRA). Mr. Burek noted that current post retirement mechanisms only by chance meet the policy requirement of maintaining a retiree's purchasing power and they are poor at tracking inflation. He stated that the DTRFA and StPTRFA post retirement mechanisms are strongly influenced by the asset levels of those funds since they divide up to one percent of their assets to provide a thirteenth check and use a split the pie method to determine the amount of the thirteenth check. The StPTRFA requires a six percent yield before the fund is authorized to pay a thirteenth check. A yield based trigger puts emphasis on consistently achieving a certain yield, it can influence the fund's portfolio mix, and it may work against long term asset growth. Mr. Burek noted that a yield based trigger may distort investment decisions. Discussion followed. Lawrence A. Martin, LCPR Executive Director, asked for clarification of the 6% asset base and how StPTRFA values assets for its yield figure. Eugene Waschbusch, Secretary/Treasurer of the StPTRFA, responded that assets are valued at cost for yield based returns and are valued at market for total rates of return. Discussion continued.

Mr. Waschbusch began his presentation and provided handouts to Commission members. He testified that StPTRFA is the only first class teacher fund that does not provide a guaranteed post retirement benefit increase. He then reviewed StPTRFA's proposed post retirement mechanism which contained a guaranteed post retirement increase component. Mr. Waschbusch referred members to a chart on page four of the handout that showed that StPTRFA retiree's income had fallen considerably short of increases in the consumer price index. He continued with his testimony on the application and impact of the proposed post retirement mechanism calculations. Questions and discussion followed.

Mr. Martin asked what would be the result of three or four negative investment earning years on the proposed post retirement mechanism calculations. Mr. Waschbusch stated that there is a potential problem but they might do as SBI does which would be to perform an annual evaluation of the retiree portion of assets or else book a negative rate into the future until the fund became whole before an additional increase above the guaranteed rate could be paid.

Rep. Greiling questioned how the proposed post retirement mechanism compares with private sector plans. Mr. Waschbusch responded that he believes that 90% of private sector plans do not have a guaranteed post retirement increase.

Sen. Morse asked how this mechanism would impact the balance of the St. Paul Teacher's fund. Mr. Waschbusch stated that actuarial work was done on the cost of this proposal as introduced last year by Rep. Dawkins and the cost was 2.2% of payroll.

Rep. Johnson stated that 2.2% of a \$40,000 income would be approximately \$900. He asked

whether Mr. Waschbusch expected that cost to be divided between the employer and employee. Mr. Waschbusch responded affirmatively.

Sen. Riveness stated that the proposal would provide a post retirement enhancement that would be effective upon passage and that would be of immediate benefit to current retirees but would be paid for by active members and the employer contribution. Discussion followed.

J. Michael Stoffel, DTRFA, began his presentation and provided a handout. He testified that the DTRFA pensions are not keeping up with inflation or even with the other funds. The policy issues that the DTRFA Board are looking at are benefit adequacy and the erosion of retirees' purchasing power. He stated that the 1993 early retirement incentive caused DTRFA to triple the number of retirements for that year. They lost high salaried teachers who were replaced by lower salaried teachers, had to pay high pensions to the new retirees, lower salaried teachers made lower contributions, the asset base did not grow, and investment earnings were low so their one percent remained stable. Another policy issue the board is looking at is financing. They are considering an employee contribution increase of one percent and a matching one percent employer contribution increase. Mr. Stoffel continued with his presentation and noted that DTRFA is fully funded. Rep. Greiling asked if there was information on the erosion of purchasing power for the active teachers and how that compares with the retirees. Mr. Stoffel stated that he does not have hard data.

Dick Wasko, Gordy Grant, John Pearson, members of the StPTRFA For Retirement Fairness, came forward. Mr. Wasko made a statement on behalf of their organization and noted that their purpose in organizing was to help St. Paul teachers achieve equity in benefits and a meaningful cost of living adjustment. Mr. Wasko spoke in opposition to the StPTRFA proposed post retirement adjustment mechanism and testified that it provides an inadequate solution to retirees trying to keep up with the cost of living. He stated that the proposal does not address alternative, long range, and permanent solutions to funding, member benefits, contributions, and possible consolidation.

Mr. Grant testified that the StPTRFA For Retirement Fairness is working on organizing but it has been difficult because their assets are limited. He further noted that the first class teacher funds are moving toward making changes proving that their organization is having an impact but he is opposed to the current StPTRFA proposal. Mr. Wasko provided members with handouts and continued with his testimony. Discussion followed.

Sen. Riveness stated that although DTRFA and StPTRFA may not have kept up with TRA retirees or the CPI, the financial impact of consolidating StPTRFA into TRA is too expensive. The StPTRFA proposal appears to be an effort to move in the right direction.

Mr. Grant testified that StPTRFA's unfunded liability affects active and retired teachers. He recommended that all parties keep the future and an eventual solution to the problem in mind when looking at these proposals. Discussion followed.

The meeting adjourned at 4:25 P.M.

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November 30, 1994
Room 15 Capitol

Senator Phil Riveness, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 10:25 A.M.

LCPR Commission members present:

Representatives Mindy Greiling, Bob Johnson, Phyllis Kahn, Gerald Knickerbocker, and Leo Reding
Senators Steven Morse, Lawrence Pogemiller, Phil Riveness, LeRoy Stumpf, and Roy Terwilliger

Rep Reding moved that the LCPR send a letter to the Senate Sergeant at Arms when the Senate chairs the Commission and the House Sergeant at Arms when the House chairs the Commission requesting that Pension Commission meetings have a Page assigned to them.
MOTION PREVAILED.

A. Volunteer Fire Regulation Revision and Clarification - Selection of Issues For Further Development (Third Consideration)

Lawrence A. Martin, LCPR Executive Director, noted that the staff memo briefly summarizes all 31 issues identified at the previous two Commission meetings on this topic. He stated that the Commission now needs to determine which issues it wishes to pursue further and on which it would like more staff work.

Sen. Riveness recommended the Commission pursue A-2, A-3, A-7, B-1, and A-5.

Sen. Morse also recommended B-9 and is interested in what the Commission would be pursuing in the area of B-1 (Increase Fire Insurance Premium Tax To Two Percent For All Insurers.)

Rep. Reding stated that when the 2% tax was decreased for township mutual insurance companies, the effect was to shift the taxes away from the mutuals onto local units of government. His last choice on this item would be to require municipalities to continue to make up the difference. Rep. Reding also recommended C-1 for further review. Mr. Martin briefly summarized this item. Rep. Reding asked whether this is a method of circumventing the cap on volunteer fire pensions. Mr. Martin stated that converting a defined benefit plan to a defined contribution plan is an alternate way of providing a split-the-pie pension benefit that is not subject to benefit limitations. Rep. Reding stated that he is concerned about this issue and would like the Commission to clarify for volunteer fire associations what the process and terms should be to convert a plan.

Rep. Johnson asked for discussion on item B-3. Mr. Martin stated that this topic was recommended by the State Fire Department Association. The association proposed development of a second actuarial liability table with an investment return assumption of less than 5%. This may add confusion to currently complicated laws and it may be perceived, from a policy standpoint, as the Commission giving approval to investment returns of less than 5%. Discussion followed and Rep. Johnson stated that he would like to keep the options open on further discussion of some of the items recommended by the State Fire Department Association and the League of Minnesota Cities even though the Commission may not select them today for further study.

Rep. Kahn recommended an issue that was not included in the 31 issues identified in the staff memo. She would like to see a study of the recruitment procedures used by volunteer fire departments to recruit new members and how open department membership is to all members of a community. Discussion followed.

Rep. Knickerbocker moved to direct the LCPR staff to expand on volunteer firefighter issues B-9, A-2, A-3, A-7, B-1, A-5, and C-1. **MOTION PREVAILED.**

B. Consideration of Federal Tax Code Compliance For Certain Section 403(b) Annuity Plans - Commission Discussion of Potential Report Conclusions and Recommendations (Third Consideration)

Mr. Martin provided background on this issue and referred to a draft of the Commission's report due to be completed and distributed by January 15, 1995. He noted that the Commission needs to determine its recommendation and whether draft legislation may be required. Mr. Martin then reviewed the four options identified by staff as potential Commission recommendations.

Rep. Johnson recommended Option C. He stated that after reviewing the previous meeting's expert testimony from Andrew Larson (Universal Pensions), Richard Skillman Washington D.C.), Mark Meyer (William M. Mercer), and Michael King (Universal Pensions), Option C seems to be the proper choice.

Sen. Pogemiller recommended Option D.3.

Sheryll Soderdahl, Teachers Security Alliance, testified that the alliance is an alliance of professionals who assist public school employees to prepare for financial independence at retirement. She testified in support of Option D.3. She stated that Option C would just be one more mandate to the school districts and she would like to avoid that situation.

Mr. Hengelfelt testified in support of Option D.3. He stated that it would be the safest way to

protect teachers, school districts, and the state from problems that might arise if the 403(b) matching contribution program did not meet federal regulations.

Steve Jacobson testified in support of Option D.3. and read a memo he had faxed to members.

Mark Meyer testified that he agreed with previous testimony that the addition of matching employer contributions complicates compliance requirements. Mr. Meyer stated that MEA retained William M. Mercer to assist school districts in meeting federal compliance requirements and this assistance was provided in the form of the book the TSA Guide For Minnesota Public School Districts. He testified in support of Option A and his second choice Option C, although Option C is unnecessary since school districts must comply with federal regulations whether the state acts or not. Sen. Pogemiller asked Mr. Meyer what the overriding public policy reasons were for the state to continue the 403(b) matching contribution program. Mr. Meyer testified that his position at this meeting was to explain the federal regulations that apply to the state's 403(b) matching program.

Rep. Johnson moved to recommend Option C and requested that Mr. Martin find the language passed last session mandating this study. Mr. Martin referred members to the language enacted in the 1994 session. Rep. Johnson read the language mandating this study.


Rep. Knickerbocker recommended Option B because it would keep the issue alive and permit incorporation of any federal regulation changes that might come along. Sen. Riveness stated that he is reluctant to answer this mandate with a recommendation for further study.

Rep. Kahn stated her support for Option C and her belief that it allowed for broadening if the federal regulations were broadened.

Sen. Pogemiller asked Rep. Johnson what the policy reasons were for continuing the employer matching contribution program. Rep. Johnson responded that his original bill did not restrict the number of qualified insurance companies to ten. The original bill would have allowed the market to drive the 403(b) employer matching contribution program and the number of insurance companies involved. Discussion followed and Sen. Pogemiller stated that he is concerned that the state will ultimately be responsible for any problems with federal compliance. He believes the issue is employer matching contributions and those contributions are a trade-off in addressing salaries and class size. Sen. Riveness stated that as a result of the testimony at Commission meetings on this issue, he has come to the conclusion that either these plans are not at risk or school districts, with minimal requirements, can meet the requirements. He further noted that in some instances, trade-offs have been made at the collective bargaining table and this option has been deemed valuable.

Rep. Johnson moved to recommend Option C. **MOTION PREVAILED.**

The meeting adjourned at 11:35 A.M.


Jean Lieb Gott, Secretary

Appendix

3/29/94

SELECTED VOLUNTEER FIREFIGHTER RELIEF ASSOCIATIONS:
COMPARISON OF ACTUAL AND COMPUTED ADMINISTRATIVE EXPENSE AMOUNTS
1986 - 1989

ACTUAL indicates the actual amount of administrative expenditures for a relief association for the calendar year indicated.

COMPUTED indicates the prior year's administrative expense multiplied by the factor 1.035 as required by Minnesota Statutes, Section 69.772, Subdivision 3, or Section 69.773, Subdivision 4.

DIFFERENCE indicates the percentage relationship between the computed expense amount and the actual expense amount.

****** indicates a percentage figures that is outside printing parameters, either in excess of 999.99 or below 0.1%.

RELIEF ASSOCIATION	ACTUAL 1986	COMPUTED 1987	ACTUAL 1987	DIFF- PERCENT	COMPUTED 1988	ACTUAL 1988	DIFF- PERCENT	COMPUTED 1989	ACTUAL 1989	DIFF- PERCENT
Ads	141	146	170	85.8	176	147	119.6	152	548	27.7
Adams	135	140	175	79.9	181	175	103.5	181	175	103.5
Adrian	717	743	755	101.	781	752	103.9	778	826	94.2
Aitkin	369	382	285	134.	295	335	88.	347	704	49.2
Albert Lea Township	0	0	0	0.0	0	200	0.	207	0	0.0
Alexandria	1269	1417	2877	49.2	2978	1627	183.	1684	3457	48.7
Almelund	0	0	0	0.0	0	0	0.0	0	0	0.0
Annandale	0	0	0	0.0	0	0	0.0	0	0	0.0
Anoka	2806	2904	5472	53.	5665	3265	142.8	4104	8927	45.9
Apple Valley	6184	6400	6470	94.9	6694	6740	99.2	6976	7232	96.4
Appleton	278	291	2349	11.4	2466	682	504.2	706	573	123.1
Argyle	582	602	276	218.2	286	322	88.7	323	308	108.2
Arlington	484	501	550	91.	548	792	71.8	820	850	149.
Atwater	170	176	217	81.	225	188	132.6	174	163	106.6
Audobon	51	52	52	101.5	54	0	0.0	0	28	0.
Aurora	1009	1044	1082	96.5	1120	1926	57.8	2093	1666	120.2
Avon	503	521	424	119.9	448	416	107.8	421	227	181.4
Babbitt	944	977	941	102.8	974	1145	82.5	1206	2328	51.5
Beckus	30	31	50	82.1	52	176	29.4	182	847	21.5
Bagley	227	235	224	104.8	222	272	85.2	282	249	113.
Barnesville	629	651	823	102.5	681	661	98.4	684	516	74.4
Base Brook	0	0	0	0.0	0	497	0.	514	1144	44.9

SELECTED VOLUNTEER FIREFIGHTER RELIEF ASSOCIATIONS:
COMPARISON OF ACTUAL AND COMPUTED ADMINISTRATIVE EXPENSE AMOUNTS
1989 - 1992

ACTUAL indicates the actual amount of administrative expenditures for a relief association for the calendar year indicated.

COMPUTED indicates the prior year's administrative expense multiplied by the factor 1.035 as required by Minnesota Statutes, Section 69.772, Subdivision 3, or Section 69.773, Subdivision 4.

DIFFERENCE indicates the percentage relationship between the computed expense amount and the actual expense amount.

****** indicates a percentage figure that is outside printing parameters, either in excess of 999.99 or below 0.1%.

RELIEF ASSOCIATION	ACTUAL 1989	COMPUTED 1990	ACTUAL 1990	DIFF- PERCENT	COMPUTED 1991	ACTUAL 1991	DIFF- PERCENT	COMPUTED 1992	ACTUAL 1992	DIFF- PERCENT	TOTAL COMPUTED	TOTAL ACTUAL	DIFF- PERCENT
Ads	548	567	213	181.2	324	287	112.8	297	155	193.6	1442	1620	102.6
Adams	175	181	75	241.5	78	75	103.5	78	75	103.5	828	750	111.7
Adrian	826	855	901	94.8	933	1175	79.2	1216	1178	103.2	5326	5587	95.2
Aitkin	704	729	460	156.4	476	515	92.4	533	520	102.5	2741	2813	97.9
Albert Lea Township	0	0	0	0.0	0	0	0.0	0	0	0.0	207	200	103.5
Alexandria	3457	3578	5543	64.5	5737	4528	126.4	4697	6417	73.1	20090	24459	92.1
Almelund	0	0	0	0.0	0	100	0.	103	265	38.4	103	349	28.
Annandale	0	0	0	0.0	0	0	0.0	0	381	1.4	0	387	1.6
Anoka	8927	9239	2804	329.5	2902	8272	35.	8562	17215	49.7	33275	46656	71.5
Apple Valley	7232	7485	19390	17.4	10680	8263	150.2	8552	10507	41.7	56799	69202	82.
Appleton	573	593	703	84.3	728	1964	37.	2033	809	251.2	7916	8080	97.9
Argyle	308	319	443	71.9	459	298	115.7	410	470	87.2	2408	2215	108.7
Arlington	850	869	870	84.9	892	850	126.	569	590	103.6	3721	2462	101.6
Atwater	163	169	226	71.4	244	220	111.	228	17077	1.2	1215	16081	6.7
Audobon	28	29	989	2.9	1024	142	720.8	147	100	146.9	1206	1211	99.6
Aurora	1464	1724	16261	10.4	16820	1790	929.6	1862	1841	100.4	24562	24545	99.9
Avon	237	245	510	48.	528	293	132.2	412	0	0.0	2586	1396	129.5
Babbitt	2328	2420	1462	165.5	1512	1257	120.2	1201	1197	108.6	8390	8360	100.2
Beckus	847	877	50	*****	52	0	0.0	0	350	0.	1193	1473	81.
Bagley	249	258	242	75.2	354	261	135.6	270	212	86.5	1620	1660	98.2
Barnesville	516	548	15113	8.2	15642	688	*****	688	651	105.8	19285	18826	102.2
Base Brook	1144	1184	1225	89.2	1371	1284	98.9	1425	1290	111.2	4504	5642	79.8

RELIEF ASSOCIATION	ACTUAL 1984	COMPUTED 1987	ACTUAL 1987	DIFF- ERENCE	COMPUTED 1988	ACTUAL 1988	DIFF- ERENCE	COMPUTED 1989	ACTUAL 1989	DIFF- ERENCE	RELIEF ASSOCIATION	ACTUAL 1989	COMPUTED 1990	ACTUAL 1990	DIFF- ERENCE	COMPUTED 1991	ACTUAL 1991	DIFF- ERENCE	COMPUTED 1992	ACTUAL 1992	DIFF- ERENCE	TOTAL COMPUTED	TOTAL ACTUAL	DIFF- ERENCE
Battle Lake	4262	6482	1062	609.8	1100	973	1127	1007	1048	96.	Battle Lake	1048	1085	1050	102.3	1087	1056	102.9	1093	1050	104.	11853	6240	189.9
Bayport	117	121	642	18.8	664	474	140.1	491	1293	14.6	Bayport	1293	1408	1180	107.1	1291	0	0.0	0	4125	0.	7975	11714	68.
Becker	529	548	416	88.8	638	414	164.	428	317	135.1	Becker	317	328	778	42.1	805	1483	64.2	1535	1413	108.6	6281	5011	85.2
Belle Plaine	264	277	1263	25.8	1307	4132	31.6	4277	4974	87.7	Belle Plaine	4874	5045	5152	97.9	5222	2314	220.4	2295	2150	111.3	18732	19885	94.2
Belle Prairie	0	0	0	0.0	0	300	0.	311	0	0.0	Belle Prairie	0	0	0	0.0	0	0	0.0	0	0	0.0	310	300	103.5
Benidji	1211	1253	4782	26.2	4949	8664	57.1	8967	7000	128.1	Benidji	7000	7245	8748	125.6	8970	1645	142.7	3773	8142	46.3	32157	38002	84.6
Benson	1354	1401	1264	110.8	1308	448	292.	464	585	79.2	Benson	585	605	539	112.3	658	3548	15.4	3493	1304	283.1	8025	7708	104.1
Big Lake	130	135	94	143.1	97	0	0.0	0	0	0.0	Big Lake	0	0	596	0.	617	1000	61.6	1035	1471	70.3	1683	3181	59.5
Bigfork	100	103	110	94.	114	110	103.5	114	35	125.2	Bigfork	35	36	225	16.1	233	150	155.2	155	200	77.6	755	830	91.
Bird Island	50	52	75	69.	78	90	86.2	93	52	179.1	Bird Island	52	54	100	53.8	103	311	33.2	322	50	643.7	701	678	103.5
Biwabik	237	245	0	0.0	0	526	0.	544	368	147.9	Biwabik	368	381	225	169.2	232	220	105.8	228	0	0.0	1421	1329	121.8
Blooming Prairie	0	0	0	0.0	0	0	0.0	0	35	0.	Blooming Prairie	35	36	65	55.7	67	0	0.0	0	3	0.	102	103	100.4
Blue Earth	444	501	746	67.1	772	852	90.5	883	1237	71.3	Blue Earth	1237	1280	470	272.4	486	539	90.3	558	539	102.5	4480	4384	102.2
Bovey	292	364	402	90.6	416	364	113.6	379	344	109.4	Bovey	344	358	344	103.5	358	492	72.7	509	1328	44.7	2384	3090	77.1
Brainard	1801	1864	1600	116.5	1656	2865	57.8	2965	3382	87.6	Brainard	3382	3500	3928	89.1	4065	4826	84.	5005	4875	102.8	19056	21446	86.4
Breckenridge	75	78	1651	4.7	1709	1771	96.4	1823	2447	74.9	Breckenridge	2447	2533	4977	50.8	5151	1918	268.5	1985	1687	117.6	13288	14451	91.9
Brooklyn Center	14419	15338	20538	74.4	21257	19746	107.6	20437	5896	346.6	Brooklyn Center	5896	6102	8159	74.7	8445	14293	59.	14793	10776	137.2	86371	79408	108.7
Brooten	162	168	315	53.1	326	300	163.	207	325	92.	Brooten	325	233	100	232.8	103	343	30.1	355	262	99.	1392	1545	90.1
Browns Valley	285	295	285	103.5	295	287	102.7	297	350	84.8	Browns Valley	350	362	353	102.6	365	380	56.1	393	395	99.5	2007	2050	97.9
Brownsdale	271	280	328	85.5	339	317	107.	328	328	100.	Brownsdale	328	339	375	90.5	388	413	93.9	427	455	93.9	2103	2216	94.9
Buffalo	210	228	1040	21.8	1076	1978	54.4	2047	1457	140.5	Buffalo	1457	1508	2814	52.5	2912	2263	128.7	2342	2480	94.4	10214	12022	84.
Buhl	147	152	134	113.5	139	50	277.3	52	80	64.6	Buhl	80	83	1928	4.2	1995	17	*****	18	48	36.6	2438	2357	108.
Caledonia	768	795	776	102.4	803	796	100.8	824	1104	74.6	Caledonia	1104	1143	1124	100.7	1174	1085	108.1	1123	1095	102.5	5861	5990	97.8
Calumet	453	469	423	110.8	438	427	102.5	442	545	81.	Calumet	545	564	419	31.1	441	448	38.8	671	623	105.8	3224	3295	97.8
Cambridge	1672	1731	2012	86.	2082	3161	65.8	3272	2568	127.4	Cambridge	2568	2658	3220	82.5	3333	2830	117.7	2929	1002	292.3	16004	14793	104.1
Canby	1507	1560	980	159.1	1014	925	108.4	968	1720	56.2	Canby	1720	1780	1658	107.3	1716	1619	105.9	1676	1851	90.5	8713	8763	95.4
Cannon Falls	542	561	694	80.8	718	727	97.4	763	942	80.9	Cannon Falls	942	975	698	139.6	722	1163	62.3	1204	460	261.6	4843	4694	105.3
Carlton	0	0	0	0.0	0	3789	0.	3922	744	527.	Carlton	744	770	968	79.5	1002	0	0.0	0	0	0.0	5693	5501	102.5
Cass Lake	187	194	227	85.2	235	226	59.5	244	215	113.6	Cass Lake	215	223	405	54.9	419	492	85.1	509	489	104.1	1823	2064	88.3
Centennial	668	692	876	78.9	907	2222	40.8	2300	1165	197.4	Centennial	1165	1206	3023	39.8	3129	2915	107.3	3017	2853	105.7	11249	12054	84.1
Chanassen	4807	4975	4841	102.7	5010	7650	65.4	7918	6740	117.4	Chanassen	6740	6976	6465	107.9	6691	8721	76.7	9026	8418	107.2	40596	42828	94.7
Chaska	1329	1376	3966	34.4	4105	1086	177.9	1124	1236	90.9	Chaska	1236	1279	3716	22.3	3914	2203	266.4	2379	2819	80.8	16078	17025	94.4
Chatfield	0	0	0	0.0	0	0	0.0	0	7	0.	Chatfield	7	7	100	7.3	103	100	103.5	103	100	103.5	214	307	69.7
Chisago	0	0	100	0.	103	0	0.0	0	0	0.0	Chisago	0	0	7	0.	7	8751	0.	9057	24	*****	9168	8882	102.2
Chisholm	434	449	5211	8.6	5393	737	731.8	763	770	99.	Chisholm	770	787	947	84.1	980	1184	82.7	1225	3560	34.4	9607	12409	77.4
Clara City	50	52	156	33.1	161	200	80.7	207	165	125.4	Clara City	165	171	124	137.7	128	371	34.5	384	680	56.4	1103	1696	65.
Clear Lake	0	0	50	0.	52	104	49.7	108	50	215.2	Clear Lake	50	52	279	18.5	289	104	277.6	108	303	53.	607	790	76.9
Clearbrook	365	378	405	33.2	419	559	74.9	579	468	122.6	Clearbrook	468	484	419	115.6	424	408	104.	423	408	103.7	2716	2668	101.8
Cokato	555	574	4419	12.9	4574	345	*****	378	591	63.9	Cokato	591	612	325	182.5	347	458	75.7	474	744	63.7	6958	6912	100.6

RELIEF ASSOCIATION	ACTUAL	COMPUTED	ACTUAL	DIFF-	COMPUTED	ACTUAL	DIFF-	COMPUTED	ACTUAL	DIFF-	RELIEF ASSOCIATION	ACTUAL	COMPUTED	ACTUAL	DIFF-	COMPUTED	ACTUAL	DIFF-	COMPUTED	ACTUAL	DIFF-	TOTAL	TOTAL	DIFF-
	1985	1987	1987	ERENCE	1988	1988	ERENCE	1989	1989	ERENCE		1989	1990	1990	ERENCE	1991	1991	ERENCE	1992	1992	ERENCE	COMPUTED	ACTUAL	ERENCE
Cold Spring	809	837	523	160.	541	555	97.5	874	18175	3.1	Cold Spring	18175	18811	17493	107.5	18105	937	*****	970	2233	43.4	39839	39916	95.8
Coleraine	189	196	190	102.9	197	240	81.9	248	286	86.6	Coleraine	286	296	332	91.9	333	401	83.1	415	594	69.4	1684	2033	82.8
Columbia Heights	7301	7557	7038	107.3	7284	7328	99.4	7594	7331	104.8	Columbia Heights	7331	7484	8173	91.5	8459	10300	82.1	10661	0	0.0	49026	40070	122.3
Comfrey	117	121	50	242.1	52	126	41.	130	200	65.2	Comfrey	200	207	178	116.2	184	240	76.7	248	106	234.3	942	900	104.7
Coon Rapids	11884	12300	14235	86.4	14733	17477	84.3	18089	14549	124.3	Coon Rapids	14549	15058	25119	42.8	26348	36681	99.6	37758	50315	75.	134284	168176	75.8
Cottage Grove	2423	2508	1007	248.8	1042	5059	20.9	5238	6654	78.6	Cottage Grove	6654	6887	8224	131.6	8407	6480	83.4	6707	8816	76.	27784	33340	85.5
Crowell	484	501	326	153.6	337	3070	10.9	3177	325	977.6	Crowell	325	336	620	54.2	642	451	142.2	467	575	81.1	5460	5387	101.7
Crosby	0	0	225	0.	233	240	97.	248	6537	3.7	Crosby	6537	6766	1384	488.8	1432	0	0.0	0	1650	0.	8679	10036	86.4
Crystal	6172	6388	9382	68.	9710	9190	105.6	9512	9458	100.5	Crystal	9458	9789	10167	96.3	10519	15931	86.	16489	4604	358.1	62406	56728	106.2
Dassel	804	832	871	95.5	901	1874	48.1	1940	1234	157.1	Dassel	1234	1277	1454	87.8	1505	588	255.9	609	1542	39.4	7063	7562	92.4
Dawson	230	238	175	126.	191	197	91.9	204	200	101.9	Dawson	200	207	267	77.5	274	249	79.1	363	240	150.5	1467	1429	102.7
Dayton	205	212	532	39.8	551	526	104.6	544	295	184.5	Dayton	295	305	530	57.8	549	672	81.6	696	445	156.2	2856	3000	95.2
Deer River	622	644	628	102.5	650	639	101.7	661	842	78.5	Deer River	842	871	460	189.4	476	460	102.5	476	600	72.1	3778	3689	102.4
Deerwood	90	93	119	78.2	123	56	219.9	88	114	50.8	Deerwood	114	118	0	0.	0	0	0.0	0	0	0.0	392	289	135.7
Delano	178	184	193	95.4	200	224	89.1	232	231	100.3	Delano	231	239	252	94.5	362	201	130.2	208	266	78.2	1324	1268	96.8
Dent	0	0	144	0.	170	327	51.8	338	0	0.0	Dent	0	0	243	0.	252	121	207.8	125	86	145.6	884	941	94.
Detroit Lakes	1211	1253	1131	110.8	1171	3866	30.3	4001	3938	101.6	Detroit Lakes	3938	4076	3907	104.3	4044	4403	91.4	4557	5582	81.6	19101	22827	83.6
Dilworth	378	391	499	78.4	516	111	465.2	115	988	11.6	Dilworth	988	1023	1576	64.8	1631	884	184.5	915	500	182.9	4591	4558	100.7
Dodge Center	0	0	0	0.0	0	0	0.0	0	0	0.0	Dodge Center	0	0	0	0.	0	0	0.0	0	0	0.0	0	0	0
Egan	13219	13785	15127	91.1	15656	13229	118.3	13692	14647	93.4	Egan	14647	15160	22058	68.7	22830	20312	113.5	20816	8468	245.0	101939	93643	108.8
Eagle Lake	168	174	110	158.	114	378	30.1	291	274	142.7	Eagle Lake	274	284	100	382.5	303	315	90.	119	7	*****	1185	984	120.4
East Bethel	113	117	113	103.5	117	241	48.5	249	410	60.8	East Bethel	410	424	116	389.	119	15	792.5	16	24	64.6	1042	910	112.5
East Grand Forks	1164	1205	1670	72.1	1728	1715	100.7	1778	2250	78.8	East Grand Forks	2250	2329	2090	111.4	2163	3943	54.8	4081	4392	92.9	13281	16060	82.4
Eden Prairie	4247	4499	4188	72.7	6405	7097	90.2	7245	18479	44.8	Eden Prairie	18479	17056	19627	86.8	20224	24378	84.	25024	27842	89.5	80683	101522	79.4
Edgerton	0	0	0	0.0	0	28	0.	29	0	0.0	Edgerton	0	0	80	0.	83	110	75.2	114	125	91.	225	349	65.7
Edina	11918	12335	30028	41.	31079	32237	96.4	33365	39479	84.5	Edina	39479	40861	24772	111.1	38059	78749	48.3	81505	49807	163.3	237204	267172	88.7
Elbow Lake	222	230	286	80.3	296	328	87.5	350	381	91.8	Elbow Lake	381	394	287	137.3	297	1026	28.9	1062	0	0.0	2626	2318	113.4
Elk River	791	819	1232	66.4	1275	1152	110.6	1192	1225	97.3	Elk River	1225	1268	2900	42.7	3001	2952	101.6	3055	1764	173.2	10610	11225	94.5
Ely	1405	1454	1418	102.5	1498	1467	100.	1518	1405	108.	Ely	1405	1454	1339	108.6	1386	1269	109.2	1313	1666	78.6	8593	8564	100.3
Excelsior	3907	4044	2019	133.9	3125	2548	122.6	2637	17433	15.1	Excelsior	17433	18043	4267	412.1	4520	3565	126.7	3690	18749	19.6	34058	45681	72.5
Fairfax	505	523	863	80.5	893	709	125.9	734	1074	68.3	Fairfax	1074	1112	1512	72.5	1586	1654	95.8	1712	2204	77.6	6558	8036	81.6
Fairmont	6821	7060	7763	90.9	8034	6418	125.1	6642	13746	48.3	Fairmont	13746	14227	21978	64.7	22747	17408	130.6	18017	12361	145.7	76727	79673	96.3
Farmington	845	875	1748	50.	1809	1468	123.2	1519	1520	99.9	Farmington	1520	1573	1791	97.8	1854	1828	101.4	1892	1816	104.1	9522	10171	92.4
Fergus Falls	529	548	497	110.1	514	596	86.3	617	636	96.2	Fergus Falls	636	658	359	68.6	993	944	105.1	877	858	112.8	4206	4490	95.3
Fertile	50	52	0	0.0	0	58	0.	52	0	0.0	Fertile	0	0	0	0.	8	8	0.	8	325	3.6	111	283	39.4
Floodwood	150	155	520	29.8	538	560	96.1	580	480	130.7	Floodwood	480	497	840	59.1	869	761	114.2	788	828	125.4	3426	3789	90.4
Foley	96	99	120	82.8	124	1516	8.1	1569	1559	100.6	Foley	1559	1614	1799	89.6	1862	2039	91.3	2110	2326	90.7	7378	9359	78.8
Forest Lake	1305	1351	2099	43.5	2207	1178	272.3	1219	1816	67.1	Forest Lake	1816	1880	1439	130.6	1489	1324	112.4	1370	1648	83.1	10516	10504	100.1
Freeport	125	129	125	103.5	129	75	172.5	78	1150	6.7	Freeport	1150	1190	75	*****	78	75	103.5	78	75	103.5	1681	1575	106.7

RELIEF ASSOCIATION	ACTUAL	COMPUTED	ACTUAL	DIFF-	COMPUTED	ACTUAL	DIFF-	COMPUTED	ACTUAL	DIFF-	RELIEF ASSOCIATION	ACTUAL	COMPUTED	ACTUAL	DIFF-	COMPUTED	ACTUAL	DIFF-	COMPUTED	ACTUAL	DIFF-	TOTAL	TOTAL	DIFF-
	1986	1987	1987	ERENCE	1988	1988	ERENCE	1989	1989	ERENCE		1989	1990	1990	DIFF-	1991	1991	ERENCE	1992	1992	ERENCE	COMPUTED	ACTUAL	ERENCE
Fridley	13334	13801	68471	20.1	70867	6252	*****	6471	10863	59.5	Fridley	10863	11243	8922	126.	9234	8472	104.9	8769	8344	58.	120384	111924	107.5
Fulda	158	144	183	89.2	189	550	34.4	569	591	97.9	Fulda	581	601	282	213.2	292	272	107.3	282	254	110.8	2096	2122	98.8
Garrison	0	0	0	0.0	0	0	0.0	0	0	0.0	Garrison	0	0	0	0	0	0	0.0	0	0	0.0	0	0	0
Gaylord	959	993	1326	74.8	1372	1331	98.6	1440	1550	92.8	Gaylord	1550	1604	2205	72.7	2282	5483	41.6	5675	2895	189.4	13365	14950	85.4
Gilbert	6087	6200	667	84.5	690	655	105.3	678	650	104.2	Gilbert	650	673	750	89.7	776	750	103.5	776	750	103.5	9493	4022	234.3
Glencoe	3570	3655	7040	52.4	7286	3565	204.3	3690	4371	84.4	Glencoe	4371	4524	7278	61.3	7632	4122	185.1	4266	2652	116.7	31093	30125	109.2
Glennwood	261	270	306	88.2	317	657	48.2	880	767	88.6	Glennwood	767	794	895	84.6	926	800	115.7	828	1324	62.5	3815	4749	80.3
Golden Valley	12234	12444	13472	94.	13944	15975	87.2	16534	22980	71.9	Golden Valley	22980	23784	21624	109.9	23381	28844	86.1	26873	48562	55.3	116179	148577	78.1
Govnick	0	0	273	0.	283	0	0.0	0	57	0.	Govnick	57	59	66	89.3	68	66	102.5	68	82	83.3	478	544	87.8
Goodview	1620	1677	2264	74.	2343	1636	138.1	1755	1854	94.6	Goodview	1854	1919	1920	99.4	1958	1821	109.6	1885	0	0.0	11576	9565	121.
Grand Marais	319	330	291	113.4	301	369	81.6	382	360	106.	Grand Marais	360	373	374	99.6	387	400	96.7	414	405	102.2	2186	2199	39.4
Grand Rapids	838	867	2783	31.1	2880	814	353.8	842	495	170.2	Grand Rapids	495	512	1191	43.	1233	1370	89.9	1418	1008	141.7	7753	7653	101.3
Granite Falls	764	780	605	128.9	628	210	298.1	217	210	103.5	Granite Falls	210	217	212	102.5	219	213	103.	220	244	90.3	2281	1694	134.6
Grey Eagle	0	0	0	0.0	0	0	0.0	0	184	0.	Grey Eagle	184	190	385	49.4	338	481	82.8	498	12	*****	1088	1062	102.3
Grove City	226	224	341	68.5	353	261	135.2	270	50	540.2	Grove City	50	52	220	23.5	228	229	99.4	227	232	102.1	1373	1333	102.
Hackensack	1967	2036	440	462.6	455	446	102.1	462	360	128.2	Hackensack	360	373	413	90.2	427	400	106.8	414	400	103.5	4166	2459	169.4
Hallock	0	0	0	0.0	0	0	0.0	0	0	0.0	Hallock	0	0	141	0.	146	135	108.1	140	0	0.0	285	276	102.5
Ham Lake	312	323	508	63.5	526	6518	9.	6746	1358	456.7	Ham Lake	1358	1406	1627	85.8	1694	1108	152.9	1147	1066	107.5	11041	12195	97.1
Harmony	734	740	638	119.	660	615	107.3	637	682	93.3	Harmony	682	706	746	94.6	772	627	121.1	648	1023	63.4	4183	4330	96.6
Hastings	4102	4246	5218	81.3	5401	5777	93.4	5978	5005	118.4	Hastings	5005	5180	4564	113.5	4724	5712	82.6	5912	9175	64.4	31441	35451	88.6
Hayfield	1019	1055	1912	55.1	1979	446	443.7	462	540	85.4	Hayfield	540	559	635	88.	657	581	113.1	601	578	104.	5212	4692	113.2
Hector	164	170	62	279.7	64	146	43.9	151	227	66.5	Hector	227	235	75	212.2	78	75	103.5	78	75	103.5	775	640	117.4
Hermantown	1804	1867	1349	128.4	1396	1322	105.6	1368	1428	55.8	Hermantown	1428	1478	1368	108.	1416	1241	114.	1284	1602	80.1	8809	8310	106.
Hibbing	751	777	923	84.3	955	944	101.1	977	877	100.	Hibbing	877	1011	898	112.4	929	1156	80.4	1196	1412	84.7	5846	6310	92.8
Hinckley	217	225	200	112.2	207	551	37.5	570	793	71.9	Hinckley	793	821	343	226.1	376	456	82.3	472	660	71.5	2670	3023	88.3
Holdingford	240	248	869	28.5	899	0	0.0	0	0	0.0	Holdingford	0	0	0	0	0	0	0.0	0	0	0.0	1147	869	132.
Hopkins	2253	2332	2222	104.9	2300	3783	60.7	3915	2720	143.8	Hopkins	2720	2815	2636	106.7	2738	8171	52.7	5352	4262	125.5	19442	20794	93.5
Houston	228	226	377	82.5	390	948	41.3	979	1150	85.1	Houston	1150	1190	800	148.7	828	1000	82.8	1035	900	115.	4658	5173	90.
Howard Lake	576	596	847	70.3	877	881	99.5	912	1965	46.4	Howard Lake	1965	2034	2947	49.	3050	1785	170.8	1847	1910	96.7	9316	10235	90.1
Hoyt Lakes	240	248	240	103.5	248	718	34.5	743	900	82.5	Hoyt Lakes	900	931	924	100.8	956	987	96.8	1022	2079	49.1	4149	5848	70.9
Hugo	0	0	500	0.	518	0	0.0	0	3833	0.	Hugo	3833	3967	0	0	0	0	0.0	0	0	0.0	4484	4333	102.5
Hutchinson	1629	1696	1638	46.4	1765	3015	124.8	3121	1552	201.	Hutchinson	1552	1606	1569	102.3	1624	4506	36.	4664	1888	247.	16476	16168	101.9
International Falls	3174	3285	3082	106.5	3190	4308	74.	4459	2123	210.	International Falls	2123	2197	2340	93.1	2442	4116	59.3	4260	4322	98.5	19833	20212	97.6
Inver Grove Hghts	2700	2795	2825	98.9	2924	5025	50.1	6029	6345	35.	Inver Grove Hghts	6345	6567	5400	121.6	5589	6117	91.3	6221	5910	107.1	30274	32422	93.2
Isanti	1882	1943	498	291.3	515	522	98.7	540	2746	19.6	Isanti	2746	2842	3719	76.4	3849	3865	99.5	4000	3963	100.9	13696	15213	89.4
Jackson	601	622	840	74.	869	727	119.5	752	759	99.1	Jackson	759	786	1423	55.2	1471	850	173.2	880	792	111.	5382	5391	99.8
Janesville	475	492	470	104.6	486	448	108.5	464	472	98.2	Janesville	472	489	534	21.4	553	490	112.7	507	525	96.6	3990	2939	101.7
Jordan	594	617	210	293.7	217	849	25.	899	720	134.9	Jordan	720	745	843	88.3	873	1146	76.1	1186	1230	96.4	4537	5018	90.4
Kasson	1075	1113	1731	64.2	1792	1781	100.5	1843	2296	80.2	Kasson	2296	2376	2367	100.3	2450	2491	98.3	2578	2584	99.7	12151	12250	91.7

RELIEF ASSOCIATION	ACTUAL	COMPUTED	ACTUAL	DIFF-	COMPUTED	ACTUAL	DIFF-	COMPUTED	ACTUAL	DIFF-	RELIEF ASSOCIATION	ACTUAL	COMPUTED	ACTUAL	DIFF-	COMPUTED	ACTUAL	DIFF-	COMPUTED	ACTUAL	DIFF-	TOTAL	TOTAL	DIFF-	
	1986	1987	1987	ERENCE	1988	1988	ERENCE	1989	1989	ERENCE		1989	1990	1990	ERENCE	1991	1991	ERENCE	1992	1992	ERENCE	1992	1992	ERENCE	COMPUTED
Keewatin	188	196	359	54.4	372	351	105.8	363	366	93.3	Keewatin	346	378	715	53.9	740	782	94.6	809	2694	30.	2858	5267	56.2	
Kettle River	115	119	100	119.	103	648	15.4	691	671	103.	Kettle River	671	694	645	107.6	668	666	100.2	689	748	92.	2365	3499	84.7	
Kimball	0	0	433	0.	448	652	68.7	675	411	166.1	Kimball	411	425	352	130.8	364	652	55.8	675	365	184.8	2587	2660	30.3	
Kinney	81	84	213	39.3	220	184	119.8	190	273	69.7	Kinney	273	283	349	80.9	361	282	128.	392	788	37.	1430	2089	68.4	
LaCrescent	402	416	250	166.4	259	361	71.6	374	851	43.9	LaCrescent	851	881	560	157.2	580	603	36.1	624	909	68.6	3132	3534	88.6	
Lake Benton	276	286	282	101.2	293	298	97.9	308	267	115.5	Lake Benton	267	276	1267	21.4	1311	279	470.	289	313	135.5	2762	2604	106.	
Lake City	446	462	356	180.3	265	482	54.8	500	360	138.8	Lake City	360	373	0	0	0	0	0.0	0	0	0.0	1599	1099	145.5	
Lake Crystal	443	459	375	122.2	388	375	107.5	388	475	81.7	Lake Crystal	475	492	512	36.	530	510	103.9	528	665	79.3	2784	2912	35.6	
Lake Elmo	350	300	500	60.	518	6482	31.5	4840	1255	369.7	Lake Elmo	1255	1399	1665	78.	1733	1285	134.1	1320	1763	75.8	9809	10941	89.4	
Lake Johanna	1278	1323	1963	67.3	2032	4254	47.7	4402	4006	109.9	Lake Johanna	4006	4146	2403	121.8	2522	6720	52.4	6955	11626	59.8	22380	31972	70.	
Lakefield	659	682	1984	34.3	1053	1509	126.	1562	2067	75.5	Lakefield	2067	2138	2090	102.3	2162	1244	173.8	1288	1744	73.8	9887	10638	39.9	
Lakeville	1500	1552	1900	101.5	1552	9812	15.8	10154	5448	186.4	Lakeville	5448	5639	4828	116.7	4997	8062	82.4	6274	8074	68.1	30171	36725	82.1	
Lamberton	0	0	0	0.0	0	240	0.	248	0	0.0	Lamberton	0	0	0	0	0	0	0.0	0	0	0.0	248	240	101.5	
Le Sueur	234	242	441	54.9	456	147	310.5	152	165	92.2	Le Sueur	165	171	424	40.2	439	177	247.9	183	1294	16.1	1643	2648	62.	
Lewiston	857	887	879	100.9	910	702	129.5	727	1210	60.	Lewiston	1210	1252	1202	104.1	1244	1057	117.6	1094	909	120.3	6113	5959	102.5	
Lexington	202	209	840	24.8	869	216	402.5	224	0	0.0	Lexington	0	0	4	0.	4	0	0.0	0	0	0.0	1304	1060	133.2	
Lindstrom	24106	27020	9395	287.5	9724	27988	34.7	28968	21586	134.1	Lindstrom	21586	22342	27	*****	28	46	63.5	46	676	6.7	88126	59716	147.5	
Linwood	0	0	327	0.	338	620	54.5	642	0	0.0	Linwood	0	0	327	0.	349	556	62.7	575	35	*****	1904	1865	102.1	
Litchfield	656	720	810	88.9	838	690	121.6	714	690	102.5	Litchfield	690	714	1008	70.8	1043	810	128.8	838	791	105.9	4868	4799	101.4	
Little Canada	850	880	2873	20.6	2974	5367	55.4	5555	0	0.0	Little Canada	0	0	0	0	0	0	0.0	0	3026	0.	9408	11266	83.5	
Little Falls	877	908	1392	65.2	1443	1354	106.4	1481	1527	91.7	Little Falls	1527	1580	1708	92.5	1768	2066	85.5	2138	1889	113.1	8236	8926	32.9	
Long Lake	0	0	0	0.0	0	699	0.	723	720	99.1	Long Lake	720	754	881	120.	601	0	0.0	0	1289	0.	2080	3299	63.	
Long Prairie	1324	1381	354	390.	366	698	52.4	722	375	192.6	Long Prairie	375	388	721	53.8	746	85	877.9	88	125	70.3	2691	2358	156.5	
Lonsdale	26	26	29	89.2	30	474	6.3	491	459	98.2	Lonsdale	459	516	670	109.8	486	479	101.5	496	228	217.4	2045	2179	93.8	
Lower St. Croix V.	245	257	300	119.	311	300	103.5	311	350	88.7	Lower St. Croix V.	350	363	400	30.5	414	400	103.5	414	525	78.8	2168	2275	35.2	
Luverne	4074	4217	1324	318.	1381	1350	102.2	1397	1391	108.2	Luverne	1391	1324	1385	94.4	1433	1467	97.7	1518	1433	105.9	11282	8260	136.5	
Madellie	713	728	504	144.4	523	784	88.2	791	542	145.6	Madellie	542	662	327	171.8	338	400	84.6	414	322	128.5	2364	2860	117.4	
Madison	753	779	735	106.	741	823	92.4	852	832	102.2	Madison	832	861	782	110.1	809	855	94.6	886	992	89.1	4947	5020	39.3	
Mahnomen	0	0	0	0.0	0	0	0.0	0	325	0.	Mahnomen	325	333	0	0	0	0	0.0	0	0	0.0	232	225	102.5	
Mahtomedi	0	0	0	0.0	0	0	0.0	0	0	0.0	Mahtomedi	0	0	0	0	0	0	0.0	0	0	0.0	0	0	0	
Maple Grove	4228	4386	28248	15.5	29227	4471	653.9	4627	6174	74.9	Maple Grove	6174	6390	8662	95.9	6895	7615	50.5	7882	8336	94.5	59417	61506	96.6	
Maple Plain	2732	2828	2673	105.7	2767	2975	92.9	3079	3029	80.2	Maple Plain	3029	3072	2815	104.1	2949	4002	38.6	4142	6317	65.5	20737	23921	87.7	
Mapleton	901	923	1041	89.5	1077	1392	79.6	1399	871	160.6	Mapleton	871	901	1155	78.	1195	985	121.3	1019	678	150.3	6526	6082	107.2	
Maplewood	4826	4955	7214	68.2	7570	7705	98.2	7975	8785	90.7	Maplewood	8785	9092	6937	131.	7180	10941	65.6	11324	10721	105.6	48135	52403	91.4	
Marble	327	349	320	112.5	321	2041	15.7	2112	2832	74.5	Marble	2832	2921	4775	61.3	4942	877	505.8	1011	512	197.4	11666	11447	101.9	
Marshall	7294	7549	8423	89.6	8718	8848	98.5	9158	9623	95.	Marshall	9623	9970	9407	105.9	9736	10780	30.3	11157	3915	284.9	56288	51006	110.3	
Mayer	8	8	150	5.5	155	102	152.2	106	182	58.	Mayer	182	188	243	77.5	252	227	106.1	245	596	41.1	954	1310	63.1	
McGregor	287	403	425	34.2	440	784	58.3	780	475	164.2	McGregor	475	492	145	239.	150	1415	10.8	1465	0	0.0	3727	3214	115.9	
Melrose	311	324	298	108.7	308	389	79.2	403	2250	17.8	Melrose	2250	2329	522	446.1	540	551	98.	570	469	121.5	4474	4479	39.8	

RELIEF ASSOCIATION	ACTUAL 1986	COMPUTED 1987	ACTUAL 1987	DIFF- ERRNCE	COMPUTED 1988	ACTUAL 1988	DIFF- ERRNCE	COMPUTED 1989	ACTUAL 1989	DIFF- ERRNCE	RELIEF ASSOCIATION	ACTUAL 1989	COMPUTED 1990	ACTUAL 1990	DIFF- ERRNCE	COMPUTED 1991	ACTUAL 1991	DIFF- ERRNCE	COMPUTED 1992	ACTUAL 1992	DIFF- ERRNCE	TOTAL COMPUTED	TOTAL ACTUAL	DIFF- ERRNCE
Menahga	260	269	335	80.3	347	326	103.1	348	327	103.1	Menahga	327	349	327	103.5	349	327	103.5	349	327	103.5	2009	2019	99.5
Milaca	204	315	80	293.3	83	215	38.5	223	665	47.8	Milaca	465	481	482	59.8	499	0	0.0	0	294	0.	1600	1926	97.8
Minnesota	467	483	898	97.	515	782	65.9	809	548	147.6	Minnesota	548	567	868	65.1	898	692	129.8	716	804	89.	3989	4192	95.1
Minnetonka	18911	19573	17853	109.6	18478	17548	105.2	18162	14422	125.9	Minnetonka	14422	14927	12429	120.	12864	18295	70.3	18935	11871	155.3	102839	92418	111.3
Montevideo	1204	1246	2012	81.9	2082	1076	193.5	1114	0	0.0	Montevideo	0	0	970	0.	1004	20	*****	21	0	0.0	5466	4078	124.
Montgomery	386	400	380	105.1	393	633	62.1	655	775	84.5	Montgomery	775	802	739	108.5	765	885	86.4	916	504	181.7	3930	3916	100.3
Monticello	102	107	561	19.	581	685	84.7	709	474	149.5	Monticello	474	491	942	52.	975	830	117.4	859	923	93.	3720	4435	84.3
Moose Lake	0	0	0	0.0	0	1916	0.	1982	723	274.2	Moose Lake	723	748	0	0	84	84	0.	87	1759	4.9	2818	4482	62.8
Nora	88	91	100	91.	103	194	53.3	201	87	220.7	Nora	87	90	102	88.2	106	128	82.4	132	146	90.7	723	757	95.5
Norgan	240	269	287	93.7	287	1467	20.2	1518	670	226.6	Norgan	670	693	2191	31.6	2268	423	536.	438	1095	39.9	5482	6133	89.4
Norris	985	1019	1073	95.	1111	1222	90.8	1265	1305	36.9	Norris	1305	1351	984	127.2	1018	941	108.2	974	829	117.4	6737	6354	106.
Norristown	533	552	140	194.	145	302	47.9	313	1408	22.1	Norristown	1408	1457	650	224.1	672	78	862.5	81	0	0.0	3219	2578	124.8
Norton	92	95	377	35.3	390	197	198.	204	357	57.1	Norton	357	369	140	263.9	143	200	72.4	207	182	113.7	1410	1453	97.
Hotley	110	114	110	103.5	114	0	0.0	0	201	0.	Hotley	201	208	143	128.4	168	122	137.4	126	372	33.9	729	947	75.4
Mound	7391	7650	7958	96.1	8237	10087	81.6	10440	9222	113.2	Mound	9222	9545	11141	85.6	11531	12227	87.1	13690	18165	75.3	61091	69800	87.5
Mountain Lake	0	0	96	0.	98	185	53.7	191	379	50.5	Mountain Lake	379	392	371	105.7	384	428	89.7	443	675	65.6	1510	2134	70.7
Nashvauk	350	362	370	97.9	383	385	99.4	398	375	106.2	Nashvauk	375	388	375	103.5	388	400	87.	414	450	92.	2323	2355	99.1
New Brighton	2350	2432	2121	114.6	2195	5439	40.3	5629	6801	82.7	New Brighton	6801	7039	8364	84.1	8657	10957	79.	11240	8174	128.7	37293	41856	89.
New Hope	16235	16803	11182	150.2	11573	17076	67.7	17674	8481	208.3	New Hope	8481	8778	9301	94.3	9627	21417	44.9	22167	17846	124.2	86621	85303	101.5
New London	467	483	796	60.7	824	322	248.1	344	477	72.	New London	477	494	821	60.1	850	822	103.3	851	1270	66.9	3845	4518	85.1
New Prague	138	143	140	102.	145	115	126.	119	115	103.5	New Prague	115	119	165	72.1	171	165	102.9	171	165	103.5	847	865	100.2
New Richland	186	193	195	98.7	202	263	76.7	272	228	119.3	New Richland	228	226	338	69.8	350	222	157.5	230	341	67.3	1482	1587	93.3
New Ulm	2809	2907	2437	113.2	2522	1978	127.5	2047	6544	31.2	New Ulm	6544	6773	3739	181.1	3870	5915	65.4	6122	8302	73.7	24241	28915	83.8
New York Mills	526	544	785	69.3	812	590	127.7	611	807	75.6	New York Mills	807	835	827	100.9	856	687	124.5	711	837	84.9	4269	4532	94.3
Newport	2193	2270	3332	68.1	2469	4096	84.1	4239	17960	23.6	Newport	17960	18589	3856	308.4	3784	4348	86.4	4521	5022	90.	36851	38434	95.8
Nicollet	240	248	358	69.3	371	450	82.3	466	421	110.6	Nicollet	421	436	220	198.	228	626	36.3	648	425	152.4	2396	2500	95.8
Nisawa	0	0	0	0.0	0	0	0.0	0	0	0.0	Nisawa	0	0	0	0	0	0	0.0	0	0	0.0	0	0	0
North Branch	543	580	733	75.4	759	702	108.	727	809	90.2	North Branch	805	833	968	86.	1002	960	104.3	994	1078	92.1	4896	5246	93.3
North Mankato	130	135	420	32.	435	690	63.	714	775	92.1	North Mankato	775	802	530	151.3	549	1815	30.2	1879	1599	117.4	4512	5829	77.4
North St. Paul	2460	2581	5617	66.1	5607	7273	77.	7528	10889	69.1	North St. Paul	10889	11270	8189	137.6	8476	9188	92.3	9510	10243	92.8	45970	51199	89.7
Northfield	997	1032	1325	77.8	1371	1103	124.2	1142	1775	64.3	Northfield	1775	1837	4624	39.7	4786	7610	62.8	7876	9836	80.	18044	26273	68.6
Oakdale	2883	2984	2655	112.3	2748	5170	51.1	5558	5400	102.9	Oakdale	5400	5589	6808	82.	7046	8078	87.2	8261	7814	106.9	32285	36125	89.3
Olivia	216	224	322	69.4	323	471	70.7	487	866	56.2	Olivia	866	896	568	157.8	588	546	107.6	565	540	104.6	3093	3312	92.3
Onamia	161	167	207	80.5	214	163	131.4	169	197	85.6	Onamia	197	204	315	64.7	326	206	158.2	213	206	103.5	1282	1294	99.9
Ortonville	1170	1211	968	125.	1002	1994	50.2	2064	1539	134.	Ortonville	1539	1593	1096	145.3	1134	1324	85.6	1370	98	*****	8374	7019	119.3
Osakis	558	578	416	138.8	431	401	107.3	415	613	67.7	Osakis	613	634	571	111.1	591	665	88.8	688	656	104.9	3336	3222	100.4
Osseo	321	329	572	94.3	592	2577	32.9	2667	726	267.2	Osseo	726	751	0	0	0	41	0.	42	0	0.0	4592	3916	117.2
Owatonna	739	755	1645	45.8	1703	1578	107.8	1633	1831	89.1	Owatonna	1831	1895	1524	124.2	1577	1603	98.3	1459	1541	107.6	9221	9721	94.8
Palo	288	402	330	121.4	342	279	122.4	289	2513	11.4	Palo	2513	2601	289	899.9	299	283	105.6	293	647	45.2	4224	4241	97.3

RELIEF ASSOCIATION	ACTUAL 1986	COMPUTED 1987	ACTUAL 1987	DIFF- ERENCE	COMPUTED 1988	ACTUAL 1988	DIFF- ERENCE	COMPUTED 1988	ACTUAL 1989	DIFF- ERENCE	RELIEF ASSOCIATION	ACTUAL 1989	COMPUTED 1990	ACTUAL 1990	DIFF- ERENCE	COMPUTED 1991	ACTUAL 1991	DIFF- ERENCE	COMPUTED 1992	ACTUAL 1992	DIFF- ERENCE	TOTAL COMPUTED	TOTAL ACTUAL	DIFF- ERENCE
Park Rapids	864	894	1089	82.1	1127	551	203.8	572	0	0.0	Park Rapids	0	0	0	0	18	0.	20	0	0.0	2613	1661	157.3	
Parkers Prairie	0	0	0	0.0	0	0	0.0	0	0	0.0	Parkers Prairie	0	0	0	0	300	0.	311	0	103.5	310	600	51.7	
Paynesville	67	69	34	103.9	35	87	40.4	50	89	101.1	Paynesville	89	92	87	105.8	90	587	15.3	608	12	*****	984	896	109.8
Pelican Rapids	346	358	271	96.5	384	426	90.1	441	645	88.3	Pelican Rapids	645	668	841	79.3	870	547	153.1	566	859	85.9	3287	3689	89.1
Requot Lakes	256	265	682	54.9	499	342	261.2	347	303	73.0	Requot Lakes	303	210	343	114.8	189	314	88.5	221	254	87.2	1531	1478	103.6
Perham	659	682	658	103.4	681	348	195.6	380	340	105.9	Perham	340	252	540	65.1	559	445	123.5	461	340	135.4	3094	2671	115.6
Pierz	950	983	991	99.2	1024	1014	101.1	1049	1098	95.6	Pierz	1098	1136	1105	102.8	1344	1506	75.9	1559	1370	122.7	6897	6984	38.7
Pillager	300	311	201	102.8	313	899	34.7	930	0	0.0	Pillager	0	0	674	0.	698	1578	44.2	1633	1163	140.4	3884	4616	84.1
Pine City	1840	1904	2988	63.7	3093	4079	75.8	4222	2859	118.6	Pine City	2859	3884	2294	149.5	2374	6206	45.6	5248	0	0.0	20664	18126	114.
Pine Island	0	0	0	0.0	0	0	0.0	0	0	0.0	Pine Island	0	0	0	0	0	9	0.	9	0	0.0	9	9	102.5
Pine River	447	463	809	57.1	837	585	149.1	605	760	79.6	Pine River	760	787	848	92.7	878	1133	77.4	1173	1336	88.4	4742	5461	86.8
Pipestone	1395	1340	947	141.5	980	3469	26.7	3797	1020	373.3	Pipestone	1020	1054	872	121.	903	942	95.8	975	2942	32.9	9051	10412	86.9
Plymouth	8386	8680	8937	125.1	7180	11387	63.	11788	25481	44.2	Plymouth	25481	26373	30933	85.2	32016	13224	242.	13689	8067	149.6	99722	96021	103.8
Preston	0	0	24	0.	25	0	0.0	0	0	0.0	Preston	0	0	0	0	0	0	0.0	0	10	0.	24	24	73.
Princeton	1094	1132	3580	31.6	3705	2985	123.9	3094	5592	55.7	Princeton	5592	5746	3778	182.1	2908	4411	88.6	4565	4078	111.9	23151	24386	90.6
Prior Lake	243	252	572	43.9	592	250	236.8	259	3103	8.3	Prior Lake	3103	3212	5588	57.4	5784	6390	90.5	6614	419	*****	16711	14322	102.3
Proctor	12	12	15	82.8	14	18	86.2	19	46	40.5	Proctor	46	48	6	792.5	6	24	18.2	35	12	293.1	135	131	103.5
Redwood Falls	0	0	0	0.0	0	0	0.0	0	0	0.0	Redwood Falls	0	0	0	0	0	0	0.0	0	0	0.0	0	0	0
Reaser	100	103	100	103.5	103	100	103.5	103	131	79.	Reaser	131	136	247	80.7	276	300	274.3	103	300	103.5	825	798	102.5
Renville	0	0	510	0.	528	305	173.	318	370	85.3	Renville	370	383	359	106.6	372	435	85.4	450	307	146.6	2048	2286	89.6
Rice	343	353	216	183.3	224	112	199.4	118	634	18.3	Rice	634	656	519	126.4	537	409	131.3	423	1449	28.8	2309	2359	68.7
Rice Lake	0	0	0	0.0	0	3210	0.	3322	2316	84.8	Rice Lake	2316	4052	4181	96.9	4327	4881	88.6	5052	5599	90.2	14754	21787	74.9
Robbinsdale	8385	8878	8352	134.6	6574	10108	65.	10462	7800	134.1	Robbinsdale	7800	8072	7496	107.6	7758	13246	58.5	13710	9934	138.	55255	54936	100.5
Rockford	0	0	0	0.0	0	0	0.0	0	0	0.0	Rockford	0	0	0	0	0	0	0.0	0	0	0.0	0	0	0
Roseau	239	209	289	103.5	309	549	56.3	568	559	101.6	Roseau	559	579	672	86.	696	685	101.5	709	350	202.5	3170	3114	101.8
Rosemount	802	823	2256	26.4	2438	3032	80.4	3138	1827	171.7	Rosemount	1827	1891	620	204.9	642	874	71.4	805	1241	71.7	8826	8970	96.4
Roseville	13010	13465	17185	78.2	17784	20996	84.7	21731	19749	110.	Roseville	19749	20440	24754	82.5	25620	21440	119.4	22190	45949	48.2	121333	150093	80.7
Rothsay	317	328	333	98.5	345	298	115.2	309	324	95.5	Rothsay	324	335	302	111.	313	305	102.4	316	106	297.8	1945	1669	116.5
Rush City	802	830	549	151.1	568	171	332.2	177	248	71.3	Rush City	248	257	371	150.1	177	471	27.5	487	147	231.6	2496	1757	142.
Sacred Heart	0	0	215	0.	223	350	67.5	362	228	158.8	Sacred Heart	228	236	725	32.5	750	950	78.9	983	740	132.8	2554	3208	79.6
Sandstone	720	745	655	113.7	678	651	104.1	674	655	102.8	Sandstone	655	678	846	80.1	876	796	110.	824	800	102.9	4474	4403	101.6
Sartell	474	493	769	64.	796	662	120.2	685	592	115.7	Sartell	592	613	1320	46.4	1286	1785	76.5	1847	2136	86.4	5800	7264	79.9
Sauk Centre	470	486	378	84.1	598	585	102.2	605	622	97.1	Sauk Centre	622	645	620	104.	642	611	105.	632	866	73.	3609	3883	92.9
Sauk Rapids	1249	1293	1339	96.5	1386	1321	104.9	1367	1358	100.6	Sauk Rapids	1358	1406	1542	89.9	1617	231	899.8	239	1462	16.3	7307	7273	100.4
Savage	10647	10916	6749	161.7	6985	11786	59.2	12189	8616	141.6	Savage	8616	8918	12054	73.9	12476	11029	113.1	13415	17147	66.5	62908	67383	93.2
Scanlon	0	0	0	0.0	0	0	0.0	0	500	0.	Scanlon	500	518	0	0	0	5	0.	5	0	0.0	522	505	103.5
Shakopee	1478	1530	1702	89.8	1742	2380	74.	2483	2083	118.2	Shakopee	2083	2156	2256	95.5	2335	2304	101.3	2385	1255	190.	12630	11980	105.4
Sherburn	330	331	484	44.4	708	671	81.3	901	586	153.8	Sherburn	586	607	462	131.2	478	1056	45.2	1093	411	265.9	4118	4070	101.1
Silver Bay	306	317	374	84.6	387	314	133.2	325	314	101.5	Silver Bay	314	325	410	79.2	424	344	123.2	356	255	139.6	2134	2011	106.1

RELIEF ASSOCIATION	ACTUAL 1986	COMPUTED 1987	ACTUAL 1987	DIFF- ERENCE	COMPUTED 1988	ACTUAL 1988	DIFF- ERENCE	COMPUTED 1989	ACTUAL 1989	DIFF- ERENCE	RELIEF ASSOCIATION	ACTUAL 1989	COMPUTED 1990	ACTUAL 1990	DIFF- ERENCE	COMPUTED 1991	ACTUAL 1991	DIFF- ERENCE	COMPUTED 1992	ACTUAL 1992	DIFF- ERENCE	TOTAL COMPUTED	TOTAL ACTUAL	DIFF- ERENCE
Slayton	361	374	1430	26.1	1480	1644	30.	1702	825	206.2	Slayton	825	854	1643	51.9	1701	587	289.4	608	805	75.	6717	6938	36.8
Sleepy Eye	929	962	702	136.9	727	876	82.9	907	1136	79.8	Sleepy Eye	1136	1176	1115	105.4	1154	1209	95.4	1251	1256	39.6	6175	6294	98.1
Spicer	0	0	0	0.0	0	0	0.0	0	0	0.0	Spicer	0	0	0	0	0	100	0.	102	274	37.7	102	374	27.6
Spring Grove	3613	3760	175	****	181	175	103.5	181	175	103.5	Spring Grove	175	181	175	103.5	181	235	60.5	233	262	88.8	4717	1187	397.4
Spring Lake Park	15344	15881	19527	81.3	20210	16809	120.3	17397	18985	91.6	Spring Lake Park	18985	19649	14949	131.4	15472	38024	40.6	39355	51291	76.7	127945	159585	80.1
Spring Valley	314	325	436	74.5	451	478	34.4	495	875	56.5	Spring Valley	875	906	1019	88.8	1055	628	167.9	650	3145	20.6	3881	6581	58.9
Springfield	10045	10397	550	****	569	3550	16.	3674	550	668.	Springfield	550	569	650	87.5	673	750	89.7	776	950	81.7	16658	7000	237.9
St. Anthony	0	0	0	0.0	0	0	0.0	0	0	0.0	St. Anthony	0	0	0	0	0	0	0.0	0	872	0.	0	872	0.
St. Bonafacius	102	106	105	100.5	109	135	80.5	140	135	103.5	St. Bonafacius	135	140	157	88.9	163	157	103.5	162	165	38.4	818	854	35.8
St. Charles	450	466	504	92.4	522	582	89.6	602	774	77.8	St. Charles	774	801	487	164.4	504	735	68.5	761	1263	60.2	3655	4245	84.1
St. Clair	772	795	815	98.	844	1094	77.1	1132	1425	79.4	St. Clair	1425	1475	1715	85.9	1775	125	****	129	4252	3.	6154	9426	65.2
St. Cloud Township	2040	3146	4850	64.8	5020	3864	129.9	3999	3317	120.5	St. Cloud Township	3317	3493	5041	66.1	5217	4202	124.1	4349	4511	96.4	25164	25785	37.5
St. James	605	626	1375	45.5	1423	934	152.3	967	675	143.2	St. James	675	699	900	77.6	931	1000	93.1	1035	975	106.1	5681	5859	96.9
St. Joseph	1897	1784	1844	35.2	1909	2044	33.3	2116	1816	116.4	St. Joseph	1816	1880	3546	53.	3670	3660	137.9	2752	2184	126.	14083	14094	99.9
St. Paul Park	590	611	882	71.5	882	1189	74.2	1231	625	196.4	St. Paul Park	625	647	846	76.4	876	784	111.6	811	1077	75.3	5058	5374	94.1
St. Peter	1377	1425	1353	105.3	1400	1384	101.1	1432	1428	100.3	St. Peter	1428	1478	1495	98.8	1547	1474	104.9	1526	1618	107.5	9808	8552	102.
St. Stephen	275	285	275	103.5	285	486	58.5	503	3763	13.3	St. Stephen	3763	3895	427	312.1	442	382	115.6	395	392	100.8	5804	5725	101.3
Stacy	194	201	288	69.7	298	308	143.3	315	315	68.3	Stacy	315	326	362	90.	375	350	107.	362	362	100.	1777	1885	34.2
Staples	471	487	508	35.9	526	495	106.3	519	534	95.9	Staples	534	553	510	108.3	528	495	106.6	512	953	53.7	3118	3495	69.2
Stephen	90	93	96	37.	99	87	114.3	90	90	100.	Stephen	90	93	87	107.	90	99	90.9	102	87	117.7	568	546	104.
Stewart	287	401	170	235.6	176	77	228.5	80	1607	4.9	Stewart	1607	1663	224	704.7	244	220	111.	228	220	102.5	3791	2520	110.3
Stewartville	1167	1208	2256	53.5	2325	1358	171.9	1406	1044	134.6	Stewartville	1044	1081	1320	81.8	1366	1173	116.4	1214	1421	84.8	8609	8582	100.3
Stillwater	2070	2142	3102	69.	3211	4774	67.2	4941	2747	179.8	Stillwater	2747	2843	9809	28.9	10152	9951	102.	10299	11327	90.8	32588	41720	80.5
Taconite	45	47	119	39.1	123	138	89.2	143	109	131.	Taconite	109	113	104	108.4	108	120	89.7	124	0	0.0	657	590	111.3
Thief River Falls	1699	1758	1628	108.	1685	1858	90.6	1923	1435	134.	Thief River Falls	1435	1485	2218	66.9	2294	2453	33.5	2539	1871	135.6	11886	11463	101.9
Thomson	520	538	110	489.2	114	677	16.8	701	650	107.7	Thomson	650	673	6780	9.9	7017	540	****	580	757	76.5	3622	9534	100.9
Tracy	6163	6379	2702	236.	2797	1946	143.7	2014	1800	111.8	Tracy	1800	1863	1860	100.1	1925	1833	105.	1897	1831	103.6	16874	11972	140.9
Trisont	32	33	31	106.8	32	136	23.5	141	35	402.1	Trisont	35	36	35	103.5	36	37	97.9	38	35	109.4	316	309	102.4
Truman	583	603	630	95.7	652	691	94.3	715	403	177.4	Truman	403	417	709	58.8	734	706	103.9	731	706	103.5	3852	3845	100.1
Two Harbors	751	777	890	87.3	921	997	92.3	1032	926	111.4	Two Harbors	926	958	997	96.1	1032	942	109.5	975	0	0.0	5695	4752	119.8
Vadnais Heights	378	391	1628	34.	1685	1742	36.7	1803	495	164.2	Vadnais Heights	495	512	2765	18.5	2862	25297	11.2	26286	375	****	32539	32302	103.8
Victoria	0	0	250	0.	259	700	36.9	725	750	96.6	Victoria	750	776	1030	75.3	1066	1278	83.4	1323	1300	101.7	4188	5308	78.1
Wabasha	1690	1749	1746	100.1	1807	1963	92.	2032	2322	87.4	Wabasha	2322	2403	2467	97.4	2553	2385	107.	2468	2958	83.4	13013	13841	94.
Waconia	759	786	843	93.1	873	2350	37.1	2422	4049	60.	Waconia	4049	4191	2677	113.9	3806	6130	92.1	4275	1002	426.6	16361	16051	101.9
Wadena	66	68	69	39.	71	78	91.5	81	126	64.	Wadena	126	130	146	89.3	151	125	120.8	129	215	60.1	631	759	83.1
Waite Park	745	792	1140	69.4	1180	1007	117.1	1042	1123	92.8	Waite Park	1123	1162	1155	100.6	1195	1403	85.2	1452	710	204.5	6823	6518	104.3
Walker	74	77	75	102.1	78	100	77.8	103	100	103.5	Walker	100	103	875	15.3	699	475	103.5	699	675	103.5	1758	2300	76.4
Waseca	2241	2329	2657	87.3	2750	2245	122.4	2324	1947	119.3	Waseca	1947	2015	1062	189.5	1100	1283	79.5	1431	1735	82.5	11929	11030	108.3
Watertown	0	0	88	0.	91	46	202.4	47	0	0.0	Watertown	0	0	0	0	0	0	0.0	0	0	0.0	127	123	102.5

RELIEF ASSOCIATION	ACTUAL 1984	COMPUTED 1987	ACTUAL 1987	DIFF- ERENCE	COMPUTED 1988	ACTUAL 1988	DIFF- ERENCE	COMPUTED 1989	ACTUAL 1989	DIFF- ERENCE	RELIEF ASSOCIATION	ACTUAL 1989	COMPUTED 1990	ACTUAL 1990	DIFF- ERENCE	COMPUTED 1991	ACTUAL 1991	DIFF- ERENCE	COMPUTED 1992	ACTUAL 1992	DIFF- ERENCE	TOTAL COMPUTED	TOTAL ACTUAL	DIFF- ERENCE
Waterville	108	112	89	112.8	102	146	70.1	151	502	10.1	Waterville	502	520	52	999.1	54	50	107.6	53	50	103.5	990	899	110.1
Wayzata	4848	5018	2377	148.5	2495	2012	172.6	2083	3848	54.1	Wayzata	3848	3983	4554	87.4	4713	7046	66.8	7292	3165	230.4	26585	24003	110.7
Welcome	325	326	345	97.5	357	374	95.4	387	445	86.9	Welcome	445	461	483	95.3	500	574	87.	594	600	99.	2635	2821	92.4
Westbrook	176	182	185	98.4	191	205	93.4	212	541	19.2	Westbrook	541	560	812	68.9	840	565	148.7	585	0	0.0	2570	2308	111.3
Wheaton	105	108	1401	6.7	1657	400	414.2	414	325	127.3	Wheaton	325	336	355	94.7	367	479	76.7	496	643	77.1	3379	3802	88.8
White Bear Lake	5243	5427	127791	4.2	132264	5034	*****	6245	10047	62.1	White Bear Lake	10047	10399	9820	105.8	10164	13286	76.4	13751	15872	86.6	178248	182850	97.4
Willmar	160	166	773	21.4	800	56	*****	58	678	8.5	Willmar	678	702	4531	15.4	4690	1752	267.6	1812	1129	160.6	8228	8919	92.2
Window	99	102	159	64.4	165	155	106.1	160	480	30.4	Window	480	497	157	316.4	162	163	99.6	169	161	104.7	1255	1275	98.4
Winnebago	627	649	528	120.6	557	778	71.5	805	200	402.6	Winnebago	200	207	44	470.4	46	435	10.4	450	477	34.2	2713	2472	109.7
Winsted	0	0	61	0.	62	0	0.0	0	0	0.0	Winsted	0	0	0	0	0	0	0.0	0	0	0.0	63	61	103.5
Woodbury	2589	2680	1452	77.6	2572	4265	83.7	4414	4195	105.2	Woodbury	4195	4342	4020	107.7	4171	4613	90.4	4774	4940	96.2	23954	25515	92.8
Worthington	582	602	661	91.1	684	606	112.8	627	613	101.3	Worthington	613	641	629	100.2	661	945	68.5	999	851	117.3	4214	4341	97.
Wrenshall	443	469	449	102.1	488	312	148.7	322	845	28.2	Wrenshall	845	875	534	162.7	553	492	112.1	510	1832	27.8	3183	4465	71.3
Young America	225	222	324	187.6	128	234	84.8	242	208	116.4	Young America	208	218	202	106.8	209	214	97.6	221	222	99.3	1249	1208	102.6