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Article for Minnesota Fire Chief

Municipal Contributions

By Rebecca Otto, State Auditor

Volunteer fire relief associations receive and manage public and nonpublic money to provide retirement benefits for firefighters and emergency first responders. These retirement benefits are firefighters' primary source of compensation.

One of the main revenue sources for relief associations is municipal contributions. Municipal contributions may be required or can be made voluntarily by a local community, based on the relief association's financial situation. The Office of the State Auditor regularly receives questions from relief associations about municipal contributions and when they must be paid to a relief association. The following article answers many of those frequently-asked questions.

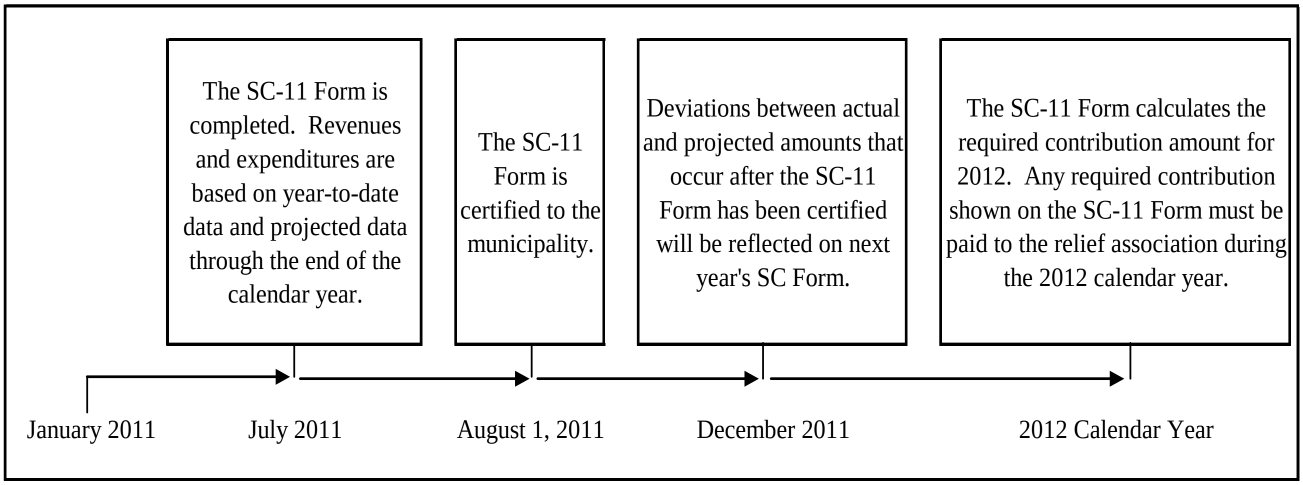
The Schedule Form

For lump-sum plans, municipal contribution requirements are calculated each year using the Schedule Form. Relief associations are to complete the Schedule Form during the month of July, and must certify the Form to the affiliated municipality by August 1 in order for the city to set their tax levy in time. If a relief association is affiliated with an independent nonprofit firefighting corporation rather than a city or town fire department, the Form should be certified to the independent board. Obtaining the signature of the appropriate municipal or independent board official on the last page of the Schedule Form satisfies the certification requirement, although some municipalities also request that the Form be presented to the city council or town board.

Because the Schedule Form is required to be completed in July and certified by August 1, revenue and expenditure amounts for the year must be projections made based on the available mid-year information. Each July, relief associations should determine their year-to-date investment returns as well as revenues received and expenses paid. Based on this data, the relief association should project investment, revenue, and expense amounts that seem reasonable for the remaining portion of the year. Many relief associations work with their investment advisors, brokers, and auditors when making these projections.

The Schedule Form is intended to provide estimates of a relief association's assets and liabilities and to calculate contribution requirements based on those estimates. Revenue and expenditure amounts that are projected on the Schedule Form will almost always differ from the final year-end amounts. Since the Schedule Form is completed annually, any deviations between projected amounts and the actual year-end amounts will be reflected on the next year's Form. Relief associations should not make changes to the projections after the Schedule Form has been certified.

The following chart shows when the 2011 Schedule Form (SC-11) is to be completed and certified, and when any required contributions must be paid:



The SC-11 Form is an online form which is available through the State Auditor's Form Entry System (SAFES). Check with your relief association treasurer for more information about the Form.

Answers to Frequently Asked Questions

The staff of our Pension Division often field calls from relief association members, investment advisors, brokers, and auditors on municipal contribution issues. The following are some of the questions that are asked most often.

Q: *Our Schedule Form shows that a municipal contribution is required. When must the contribution be paid to our relief association?*
A: The Schedule Form calculates required contribution amounts that must be paid during the upcoming calendar year. For example, the 2011 Schedule Form calculates the required contribution amount for 2012. The contribution must be paid in full during the 2012 calendar year.

Q: *What happens if the municipality doesn't pay the required contribution amount?*
A: If the benefit level that your relief association is operating at was properly established and approved by your affiliated municipality, the municipality is required under state law to make any contributions that become due at that benefit level. If the municipality does not include the full required contribution amount in its levy for any year, the officers of your relief association must certify the unpaid amount to the county auditor, who will spread a levy for that amount on the taxable property of the municipality.

Q: *I've heard that deficits are amortized over a ten-year period. What does that mean?*
A: If your relief association has a deficit, at least 10% of that deficit is retired each year. The amount retired, or amortized, is included as a charge when the required municipal contribution is calculated. The deficit amortization payment is only one component in the formula used to calculate municipal contribution requirements. While deficits are amortized over a 10-year period, any required municipal contributions that are calculated must be paid in full during the calendar year for which they are due.

Q: *I have heard that there has been some discussion about changing the deficit amortization period to a longer period of time. Would a longer amortization period be appropriate?*
A: The Volunteer Fire Relief Association Working Group discussed proposals to extend the period of time over which deficits are amortized, but decided not to pursue any legislative changes. Sufficient assets are needed at the time of a member's retirement because lump-sum plans pay the entire benefit as a single lump-sum payment. By contrast, relief associations that pay monthly benefits have a longer period of time over which the payments are being made, so they don't need assets to cover the entire benefit amount when the member retires. In addition, the population of relief association members statewide has aged. A significant percentage of members are at or near retirement age, so relief associations could see an increase in the number and frequency of retirements and required benefit payments.

Finally, extending the deficit amortization period would decrease the amount that municipalities would be required to contribute each year, but would increase the number of years for which contributions would be required. When relief associations receive smaller contributions they have less money to invest, and they may miss opportunities for investment gains.

Q: *Our relief association projected on the Schedule Form that we would earn $10,000 on our investments for the year. At the end of the year, we found that we actually earned $15,000 on our investments. Can we change the amount we projected on the Form to reflect the higher earnings?*
A: No. The Schedule Form is required to be completed during July and be certified to the municipality or independent nonprofit firefighting corporation by August 1. After it's been certified, the Form should not be revised to update revenue or expenditure amounts that deviated from the projected amounts. Any deviations between forecast and actual revenues and expenditures will be reflected on the next year's Schedule Form.

To Learn More

Additional information about municipal contributions is available on the Office of the State Auditor's website at www.auditor.state.mn.us. A Statement of Position, Required Municipal Contributions to Volunteer Firefighters' Pension Plans, can be found by going to "Local Officials" on the home page and clicking on "Statements of Position." The Statement can be found on that page under the heading "Pensions."

An article entitled "Municipal Contributions to Volunteer Fire Relief Associations" is also available on the Office of the State Auditor website. Go to "Latest News" on the homepage and click on "Articles." The article is listed under "2009."

If you have more questions, please contact Rose Hennessy Allen of our Pension Division at (651) 296-5985 or at Rose.Hennessy-Allen@state.mn.us.