



H.F. 298

(Runbeck)

S.F. 251

(Chamberlain)

Executive Summary of Commission Staff Materials

<i>Affected Pension Plan(s):</i>	Centennial Volunteer Firefighters Relief Association
<i>Relevant Provisions of Law:</i>	Special law provision
<i>General Nature of Proposal:</i>	Post-dissolution retirement coverage
<i>Date of Summary:</i>	March 5, 2015

Specific Proposed Changes

- Provides a resolution to the future retirement coverage for Lino Lakes firefighters after the dissolution of the current three-city form of the Centennial Joint Powers Fire Department by permitting, with local approval by all three cities, the current Centennial Volunteer Firefighter Relief Association to cover Lino Lakes firefighters for future firefighting service rendered or the newly established Lino Lakes Fire Department.

Policy Issues Raised by the Proposed Legislation

1. Current financial condition of the Centennial Volunteer Firefighters Relief Association.
2. Appropriateness of disconnecting the pension plan from the employer personnel system.
3. Appropriateness of the municipal funding obligation allocation method.
4. Enforceability of funding requirements of the Centennial Volunteer Firefighter Relief Association.
5. Prospect for local law approval by the three cities.

Potential Amendments

No suggested amendments by Commission staff.

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TO: Members of the Legislative Commission on Pensions and Retirement

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

RE: H.F. 298 (Runbeck); S.F. 251 (Chamberlain): Centennial Joint Powers Fire Department Dissolution; Post-Dissolution Retirement Coverage

DATE: March 3, 2015

Summary of H.F. 298 (Runbeck); S.F. 251 (Chamberlain)

H.F. 298 (Runbeck); S.F. 251 (Chamberlain) is a proposed special law relating to the Centennial Joint Powers Fire Department, its volunteer firefighter relief association, and the cities of Lino Lakes, Circle Pines, and Centerville, that provides for a continuation of current Centennial Volunteer Firefighter Relief Association as a single relief association providing retirement coverage for the two fire departments resulting from the Lino Lakes withdrawal from the Centennial Fire Department joint powers agreement, primarily allocating municipal representation on the volunteer firefighter relief association board of trustees and allocating any future relief association municipal tax levy support requirement.

Centennial Joint Powers Fire Department and City of Lino Lakes Pension Issue

The Centennial Joint Powers Fire Department currently provides, under a joint powers agreement, fire prevention and fire suppression services to three communities, Centerville, Circle Pines, and Lino Lakes, and has a defined benefit retirement plan, the Centennial Volunteer Firefighters Relief Association, to provide retirement benefit coverage for its firefighters. Lino Lakes has exercised its option under the joint powers agreement to withdraw from the joint fire department, has hired its own fire chief, is forming a fire department, plans to build a fire hall, and has joined the voluntary statewide lump-sum volunteer firefighter retirement plan administered by the Public Employees Retirement Association (PERA). Lino Lakes plans to retain some of the current Centennial Joint Powers Fire Department firefighters to serve in its fire department. Firefighters who do join the Lino Lakes Fire Department will have future retirement coverage by the Lino Lakes Fire Department account of the Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan, but likely will wish to transfer from their current retirement plan, the Centennial Volunteer Firefighters Relief Association, their past retirement coverage, their appropriate portion of accrued liability, and proportional portion of assets.

As a Minnesota nonprofit firefighter corporation after the withdrawal of Lino Lakes from the Centennial Fire Department, the Centennial Volunteer Firefighter Relief Association could continue in its current operation, with a smaller active membership and a diminished base for the receipt of volunteer fire related state aids and the spread of any required municipal tax levies or it could dissolve pending the formation of a new relief association. If the relief association continued in a diminished form, Minnesota Statutes, Chapter 424A, would continue to apply, but current Centennial Volunteer Firefighter Relief Association active members who would become Lino Lakes Fire Department firefighters would lose past pension coverage if they are not vested or would have potentially diminished pension coverage for their past service if they are vested but are not old enough for an immediate service pension. If the relief association dissolves in preparation for a reformulation as a new volunteer firefighter relief association, Minnesota Statutes, Section 424A.20, would be the sole applicable law, liquidating the relief association with an immediate disbursement of relief association assets to active firefighters, after non-benefit debts are settled, for the firefighters who are vested.

Discussion and Analysis

H.F. 298 (Runbeck); S.F. 251 (Chamberlain) provides a resolution to the future retirement coverage for Lino Lakes firefighters after the dissolution of the current three-city form of the Centennial Joint Powers Fire Department by permitting, with local approval by all three cities, the current Centennial Volunteer Firefighter Relief Association to cover Lino Lakes firefighters for future firefighting service rendered or the newly established Lino Lakes Fire Department.

The proposed legislation raises several pension and related public policy issues for consideration by and possible discussion between members of the Commission, including the following:

1. Current (12/31/2012) Condition of the Centennial Volunteer Firefighters' Relief Association. The policy issue is the current condition of the Centennial Volunteer Firefighters' Relief Association and any complications that its condition may entail in a partial dissolution of the relief association.

The following sets forth a summary of the most current available relief association report, as of December 31, 2012, setting forth the funded condition and financing of the Centennial Volunteer Firefighters Relief Association:

Centennial Volunteer Firefighters Relief Association

	CY2012
Membership	
Active Members	50
Deferred Members	21
Total Membership	71
Funded Condition	
Accrued Liability	\$2,246,268
Assets	\$2,437,034
Unfunded Accrued Liability	(\$190,766)
Funded Ratio	108%
Financing Requirements	
Normal Cost	\$209,498
Administrative Expenses	\$9,449
Amortization Requirement	(\$190,77)
Total Requirements	\$199,870
Total Requirements	\$199,870
5% Expected Interest	(\$121,852)
Expected Fire State Aid	(\$105,271)
Minimum Municipal Oblig.	--
Actual Municipal Contribution	\$25,500
Service Pension Amount	\$4,000 per year of service

While as an undissolved whole, for calendar year 2012, the Centennial Volunteer Firefighters Relief Association had few funding problems. With a partial dissolution of the Centennial Volunteer Firefighters Relief Association, there will be reduced fire state aid, potentially smaller municipal support, uncertainties about the number of remaining active firefighters, and potential complications if the asset division causes a forced liquidation of relief association securities.

2. Appropriateness of Disconnecting the Pension Plan from the Employer Personnel System. The policy issue is whether or not it is appropriate to separate the retirement system and the personnel system of the employer by utilizing a relief association primarily of another governmental unit. In Minnesota, the retirement plan of an employing unit is either a retirement plan associated with the governmental subdivision directly or through participation as a joint powers entity or a statewide retirement plan. The city of Lino Lakes, having exercised its option to leave a joint powers fire department, the Centennial Fire Department, and formed its own fire department, would continue to have its firefighters covered by the Centennial Volunteer Firefighter Relief Association under the proposed legislation. Because the Lino Lakes withdrawal from the joint powers fire department was not accomplished without animosity, if the proposed legislation were to govern the situation, it would separate an important benefit of firefighting service from the employing city and place it in the hands of individuals without any allegiance or loyalty to Lino Lakes and its fire department. Frequently, relief associations do not specify requirements for crediting allowable service independent of the firefighter in good standing requirements of the fire department. Further complicating the situation is the apparent decision by Lino Lakes to join the Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan for 2016, which presumably is intended to provide full non-overlapping retirement coverage.
3. Appropriateness of the Municipal Funding Obligation Allocation Method. The policy issue is the appropriateness of the method in the proposed legislation for allocating the municipal funding obligation of the Centennial Volunteer Firefighter Relief Association between the two cities remaining in the joint powers Centennial Fire Department and the city leaving the joint powers fire department. The allocation would be based on the relationship that each city's total fire state aid and police and fire retirement supplemental state aid bears to the total fire state aid and police and fire retirement supplemental state aid received by all three, applied on municipal funding obligation of the Centennial Volunteer Firefighter Relief Association calculated under Minnesota Statutes, Section 424A.093. The

method thereby measures the relative need for firefighting services to the extent that the need is reflected in relative property value and relative population, but the relative retirement plan funding burden may not match the mix of firefighters in the two fire departments as it changes.

4. Enforceability of Funding Requirements of the Centennial Volunteer Firefighter Relief Association. The policy issue is how enforceable the statutory funding requirements of the Centennial Volunteer Firefighter Relief Association will be with respect to the cities that remain part of the joint powers fire department and the city that has a separate fire department. Minnesota Statutes, Sections 424A.091 to 424A.095, are enforceable by discontinuing state funding to the relief association and de-authorizing any municipal contributions to the relief association, presumably to create locally a need to correct whatever caused the non-compliance to occur. With a multiplicity of fire departments and cities involved, simply curbing the relief association's future funding may not be sufficient to prompt curative changes.
5. Prospect for Local Law Approval by the Three Cities. The policy issue is the likelihood that the special legislation has the support of the cities of Centerville, Circle Pines, and Lino Lakes and that, if the potential legislation proceeds, it would be approved by the city councils. If the special legislation is not supported by the three city councils and the three mayors, the Commission and the Legislature would not be well advised to spend legislative time processing the potential legislation during this legislative session.

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State of Minnesota

HOUSE OF REPRESENTATIVES

EIGHTY-NINTH SESSION

H. F. No. 298

01/22/2015 Authored by Runbeck

The bill was read for the first time and referred to the Committee on Government Operations and Elections Policy

1.1 A bill for an act
1.2 relating to retirement; Centennial Volunteer Firefighters Relief Association and
1.3 the cities of Lino Lakes, Circle Pines, and Centerville; providing for continued
1.4 retirement coverage by the current relief association upon the withdrawal of one
1.5 city from the Centennial Fire Department joint powers agreement.

1.6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.7 Section 1. CENTENNIAL VOLUNTEER FIREFIGHTERS RELIEF
1.8 ASSOCIATION; COVERAGE FOR MULTIPLE FIRE DEPARTMENTS.

1.9 (a) Notwithstanding any provision of Minnesota Statutes, chapters 424A and 424B,
1.10 to the contrary, if one of the cities covered by the Centennial Fire Department joint
1.11 powers agreement withdraws from the agreement under the terms of the agreement, the
1.12 Centennial Volunteer Firefighters Relief Association, by action of its board of trustees,
1.13 may continue to provide service pension and ancillary retirement benefit coverage to the
1.14 active firefighters of the fire department of the withdrawing city in the same manner as in
1.15 effect before the withdrawal from the joint powers agreement.

1.16 (b) If the Centennial Volunteer Firefighters Relief Association board of trustees
1.17 approves the coverage continuation under paragraph (a), service credit, vesting eligibility,
1.18 and pension or benefit computation after the joint powers agreement withdrawal must
1.19 recognize the postwithdrawal period as a continuation of the prewithdrawal period.

1.20 (c) If coverage continuation under paragraph (a) is implemented, the terms of the
1.21 prewithdrawal municipal representatives on the board of trustees ends at the end of the
1.22 month next following the month in which the paragraph (a) approval action occurred. New
1.23 municipal representatives must be designated for the remainder of the one-year term. The
1.24 fire chief position on the board of trustees must alternate annually between the fire chief of
1.25 the joint powers fire department and the fire chief of the withdrawing city. If the fire chief

2.1 board position is filled by the fire chief of the withdrawing city fire department, the other
 2.2 two municipal board representatives must be filled by the governing bodies of the cities
 2.3 remaining in the joint powers fire department agreement. If the fire chief board position is
 2.4 filled by the joint powers fire department fire chief, one of the other two municipal board
 2.5 representatives must be filled by the governing body of the withdrawing city and the other
 2.6 municipal board representative must be filled by the joint powers governing board.

2.7 (d) If coverage continuation under paragraph (a) is implemented, all fire state aid
 2.8 and all police and fire supplemental retirement state aid received by the cities covered
 2.9 by the joint powers fire department agreement and by the city withdrawing from the
 2.10 joint powers fire department agreement must be deposited in the Centennial Volunteer
 2.11 Firefighters Relief Association.

2.12 (e) If a minimum municipal obligation for the Centennial Volunteer Firefighters
 2.13 Relief Association is determined and certified by the relief association officers under
 2.14 Minnesota Statutes, section 424A.092, after the coverage continuation under paragraph (a)
 2.15 is implemented, the required municipal levy must be allocated between all cities served
 2.16 by fire departments covered by the relief association. The allocation must be made in
 2.17 proportion to the total fire state aid and police and fire supplemental retirement state aid
 2.18 received by each city to the sum of the total state aids of all cities.

2.19 (f) If coverage continuation under paragraph (a) is implemented and bylaw
 2.20 amendment approval is required under Minnesota Statutes, sections 424A.02, subdivision
 2.21 10, and 424A.092, subdivision 6, that approval must be obtained by all cities with fire
 2.22 departments with Centennial Volunteer Firefighters Relief Association service pension
 2.23 coverage.

2.24 **Sec. 2. EFFECTIVE DATE; LOCAL APPROVAL REQUIREMENT.**

2.25 This section is effective the day after the latest date on which the governing bodies and
 2.26 the chief clerical officers of the cities of Centerville, Circle Pines, and Lino Lakes timely
 2.27 complete their compliance with Minnesota Statutes, section 645.021, subdivisions 2 and 3.