

Minnesota Volunteer Fire Relief Association
Working Group Meeting

Office of the State Auditor
Tuesday, September 25, 2018
11 a.m. to 1 p.m.

- I. Call to Order**
Chair Auditor Otto.
- II. Introductions**
- III. Review and Approval of Working Group Meeting Minutes**
Exhibit A. Draft January 31, 2018 Meeting Minutes
- IV. Working Group Process Discussion**
Exhibits B through E.
 - Working Group Meeting Schedule (B)
 - Working Group Purpose Statement (C)
 - Working Group Process (D)
 - Working Group Membership List (E)
- V. Update on 2018 Relief Association Legislation**
- VI. Discussion of Working Group Topic Suggestions**
Exhibit F.
- VII. Discussion of Deferred Interest - Technical Change**
Exhibit G.
- VIII. Discussion of Legal Compliance Audits Clarification – Technical Change**
Exhibit H.
- IX. Other Business**
- X. Next Meeting**
Thursday, October 4, 2018
11 a.m. to 1 p.m.
Office of the State Auditor
- XI. Adjournment**

Individuals with disabilities who need a reasonable accommodation to participate in this event, please contact Rose Hennessy Allen at (651) 296-5985 or (800) 627-3529 (TTY) by September 24, 2018.

Volunteer Fire Relief Association Working Group

Office of the State Auditor
Wednesday, January 31, 2018
11 a.m. to 1 p.m.

Members Present

Bruce Hemstad, Bemidji Fire Relief Association Secretary (defined benefit lump sum plans)
Dave Jaeger, Mahnommen Fire Relief Association Vice President (defined benefit lump sum plans)
Ron Johnson, Minnesota State Fire Department Association Representative (defined contribution plans)
Aaron Johnston, Coon Rapids Fire Relief Association Treasurer (defined contribution plans)
Philip Jones, Eden Prairie Fire Relief Association Trustee (defined benefit monthly/lump sum plans)
Michael Kruse, Falcon Heights Fire Relief Association Treasurer (defined contribution plans)
Susan Lenczewski, Legislative Commission on Pension and Retirement Executive Director
Rebecca Otto, State Auditor
Nealon Thompson, Minnesota State Fire Chiefs Association Representative (defined benefit monthly/lump sum plans)
Kevin Wall, Lower Saint Croix Valley Fire Relief Association President (defined benefit lump sum plans)
Nyle Zikmund, City of Mounds View

Members Excused

Steve Donney, City of Harmony Mayor

Others Present

Ramona Advani, Deputy State Auditor and General Counsel
Erik Bal, Rice, Michels & Walther LLP Representative
Rachel Barth, Legislative Commission on Pension and Retirement Deputy Director
Bill Braun, Public
Dave Callister, City of Plymouth City Manager
Gary Carlson, League of Minnesota Cities Intergovernmental Relations Director
Melinda Coleman, City of Maplewood City Manager
Rodger Coppa, City of Plymouth Fire Chief
George Esbensen, Eden Prairie Fire Chief
Mike Funk, City of Maplewood Assistant City Manager/Director of Human Resources
Colleen Hartmon Bollom, Harmon & Hartmon Financial Group
Eric Hayes, Eden Prairie Firefighter Relief Association Vice President
Rose Hennessy Allen, Office of the State Auditor Pension Director
Tracy Imm, Maplewood Fire Fighters' Relief Association President
Lynn Gorski, City of Owatonna Human Resources Director
Mike Luger, Eden Prairie Firefighter Relief Association President
Steve Lukin, City of Maplewood Fire Chief
Mike Mondor, City of Maplewood Chief of EMS
Sherry Munyon, Capital Access Representative
Scott Nadeau, City of Maplewood Public Safety Director
Sharyn North, Public Employees Retirement Association Representative
Robyn Rowen, Legislative and Regulatory Solutions Representative
Mark Schulte, Van Iwaarden Associates Representative

Mike Stroeing, Public
Maddison Zikmund, Spring Lake Park, Blaine, Mounds View Fire Department Representative

The following motions were duly made, seconded and approved:

RESOLVED to adopt January 17, 2018 Working Group meeting minutes; and
RESOLVED to support the proposal in the 2018 Omnibus Retirement Bill that would increase the maximum allowable benefit level to \$15,000.

I. Call to Order

Auditor Otto called the meeting to order.

II. Review and Approval of Working Group Meeting Minutes

The members reviewed the January 17, 2018, meeting minutes that had been provided in advance. Jones requested that an addition to the minutes be made to reflect his reminder to the members that the benefit level increase proposal was discussed by the Working Group during a 2017 meeting. Johnson also requested that “by phone” be stricken from the “Members Present” section as he attended the meeting in person. Jones made a motion to adopt the minutes as amended. Johnson seconded the motion that was then adopted unanimously. Thompson abstained as he was not in attendance at the January 17, 2018, meeting.

III. Discussion of Existing Proposal to Raise Maximum Allowable Lump-Sum Benefit Level to \$15,000

Auditor Otto explained that one of the provisions in the 2018 Omnibus Retirement Bill that will be before the Legislative Commission on Pensions and Retirement (LCPR) this session would increase the maximum allowable lump-sum benefit level to \$15,000 per year of active service. This was not a Working Group proposal, and started two years ago as an Eden Prairie-only provision. When the LCPR heard the proposal the LCPR changed it to a general provision that would be applicable to all defined-benefit relief associations. The proposal was included in the 2017 Omnibus Retirement Bill that was passed by the legislature but vetoed by Governor Dayton. The Working Group has been asked to weigh in on the proposal.

The Working Group members reviewed the 1979 LCPR memo that explains why the benefit level maximums were put into statute.

Auditor Otto asked the members if the Working Group wanted to take a position on the proposal. Thompson and Hemstad said that the fire service organizations they represent prefer general legislation over special legislation. The Working Group members agreed that the Working Group should take a position on the proposal. Jones made a motion to support the proposal in the 2018 Omnibus Retirement Bill that would increase the maximum allowable benefit level to \$15,000. Jaeger seconded the motion that was then adopted unanimously. Zikmund abstained.

IV. Discussion of Municipal Ratification of Benefit Levels

Hennessy Allen explained the authority that relief associations have to increase benefit levels without municipal ratification if certain conditions are met. This authority has existed in statute for decades, and there are currently about 30 relief associations operating at unratified levels. The Working Group members discussed approaches for changes to the current law, such as requiring that a waiting period before service pensions can be paid at unratified benefit levels. There was interest in this topic for future discussion and consideration.

V. Other Business

Auditor Otto thanked the Working Group members and others in attendance for the thoughtful discussion.

VI. Next Meeting

None was scheduled.

VII. Adjournment

The meeting was adjourned at 12:50.

Exhibit B
Working Group Meeting Schedule

Tuesday, September 25, 2018

Thursday, October 4, 2018

Tuesday, October 16, 2018

Thursday, November 29, 2018

Thursday, December 6, 2018

State Auditor Rebecca Otto, Chair
Office of the State Auditor Conference Room
11:00 a.m. to 1:00 p.m.

Exhibit C
Working Group Purpose Statement

To identify and work through current and pressing relief association issues while maintaining effective and efficient Office of the State Auditor oversight. We will do this by bringing together the major volunteer fire relief association stakeholders to develop relationships, facilitate communication, discuss relief association issues and make the Pension Process easier and more effective. The ultimate goal is to help volunteer fire relief association plans be successful.

Exhibit D

Working Group Process

- Identify and discuss topics and make recommendations to clarify state laws,*
- Forward suggested statutory changes to the Legislative Commission on Pensions and Retirement, and
- Identify ways to simplify reporting forms, identify training needs and other issues.

*Unanimous consent is required for all proposals to move forward, although proposals that receive only one dissenting vote may be revisited and reconsidered.

Exhibit E
Working Group Membership List
2018/2019

1. Municipal Official

Steve Donney, Mayor
City of Harmony
PO Box 175
Harmony, MN 55939
(507) 951-4320
stdonney2002@yahoo.com

2. Municipal Official

Sue Virnig, Finance Director
City of Golden Valley
7800 Golden Valley Road
Golden Valley, MN 55427
(763) 593-8010
svirnig@goldenvalleymn.gov

3. Defined Benefit Monthly/Lump Sum Combination Plans

Thomas Wilson, Secretary
Eden Prairie Fire Relief Association
14800 Scenic Heights Road
Eden Prairie, MN 55344
(952) 594-4411
tomwilson52@hotmail.com

4. Defined Benefit Lump Sum Plans

Bruce Hemstad, Secretary
Bemidji Fire Relief Association
318 – 5th Street N.W.
Bemidji, MN 56601
(218) 766-0014
bruce.hemstad@gmail.com

5. Defined Benefit Lump Sum Plans

Dave Jaeger, Vice President
Mahnomen Fire Relief Association
116 SW Roosevelt Street
Mahnomen, MN 56557
(218) 935-5668
jaegerd68@gmail.com

6. Minnesota State Fire Department Association

Ron Johnson, Treasurer
Maple Grove Fire Relief Association
P.O. Box 1174
Maple Grove, MN 55311
(612) 245-0012
ron@johnsonmn.com

7. Defined Contribution Plans

Aaron Johnston, Treasurer
Coon Rapids Fire Relief Association
2831 – 113th Avenue NW
Coon Rapids, MN 55433
(763) 767-6477
ajohnston@coonrapidsmn.gov

8. Defined Contribution Plans

Michael Kruse, Treasurer
Falcon Heights Fire Relief Association
2077 West Larpenteur Avenue
Falcon Heights, MN 55113
(651) 792-7635
mikek1716@hotmail.com

9. Legislative Commission on Pensions & Retirement

Susan Lenczewski, Executive Director
55 State Office Building
Saint Paul, MN 55155
(651) 296-1309
susan.lenczewski@lcpr.leg.mn

10. Minnesota State Fire Chiefs Association

Tim O'Neill, Chief
Roseville Fire Department
2701 Lexington Avenue North
Roseville, MN 55113
(651) 792-7305
tim.oneill@cityofroseville.com

11. Defined Benefit Lump Sum Plans

Kevin Wall, President
Lower Saint Croix Valley Fire Relief Association
P.O. Box 234
Lake St. Croix Beach, MN 55043
(763) 401-2289
wallkcw@gmail.com

12. State Auditor Rebecca Otto

Suite 500
525 Park Street
Saint Paul, MN 55103
(651) 296-2551
state.auditor@osa.state.mn.us

Volunteer Fire Relief Association Working Group

2018/2019 Potential Topic List

<u>Topic</u>	<u>Description</u>
Ancillary Benefits (424A.016, subd. 7 and 424A.02, subd. 9)	<ol style="list-style-type: none">1. Discuss ancillary benefit language and whether the benefit level at the time of the member's separation should be used to determine the benefit amount if the separation date is different than the date of death or disability.2. Consider whether relief associations should be required to provide a longer time period during which firefighters with an occupational disability may apply for the disability benefit distribution.3. Consider broadening eligibility for supplemental survivor benefits so they can be paid to a designated beneficiary or to an estate.4. Consider allowing relief associations to limit the total amount payable to a surviving spouse or surviving child if the benefits are paid as monthly benefits.
Definitions (424A.001, subd. 10)	<ol style="list-style-type: none">5. Consider reviewing the definition of "volunteer firefighter" in the relief association statutes for consistency with definitions in other statutes.
Return to Service (424A.01, subd. 6)	<ol style="list-style-type: none">6. Consider allowing firefighters who return to service after being paid a service pension to have different (lower) vesting requirements than other relief association members.7. Discuss allowing members who return to service to keep any interest that had been accrued during their period of deferral.
Service Credit (424A.015, subd. 6)	<ol style="list-style-type: none">8. Discuss permitting relief associations to use the benefit level in effect when a firefighter's leave of absence begins, instead of the benefit level in effect on the firefighter's date of separation, to calculate service pensions when the leave of absence occurs at the end of the firefighter's career.9. Consider ways in which a relief association could allow for a bonus payment from the special fund for firefighters with at least 20 years of service, for example, as a way to retain firefighters. Ideas include authorizing a higher per-year-of-service benefit level for these years.10. Consider allowing relief associations to provide different benefit levels per year of service depending on the percent of calls or other requirements that a firefighter completes.
Special Fund Disbursements (424A.05, subd. 3)	<ol style="list-style-type: none">11. Consider allowing for emergency or hardship distributions to firefighters.12. Consider allowing for IRS fines and penalties for late filing to be paid from a relief association's special fund.13. Consider updating the insurance premiums language on the list of authorized special fund disbursements to remove the requirement that the insurance company offer casualty insurance.
Vesting (424A.016, subd. 3 and 424A.02, subd. 2)	<ol style="list-style-type: none">14. Consider allowing vesting percentages to be prorated monthly for fractional years of service.

Technical Corrections

1. Update the deferred interest provisions so that instead of referring to the payment of interest the provisions refer to the credit of interest.
2. Update the definition of political subdivision to include relief associations to clarify that audits must be legal compliance audits.

Exhibit G

Deferred Interest Technical Changes

424A.016 DEFINED CONTRIBUTION VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION SPECIFIC REGULATION.

Subd. 6. Deferred service pensions. (a) A member of a relief association is entitled to a deferred service pension if the member separates from active service and membership and has completed the minimum service and membership requirements in subdivision 2. The requirement that a member separate from active service and membership is waived for persons who have discontinued their volunteer firefighter duties and who are employed on a full-time basis under section 424A.015, subdivision 1.

(b) The deferred service pension is payable when the former member reaches at least age 50, or at least the minimum age specified in the bylaws governing the relief association if that age is greater than age 50, and when the former member makes a valid written application.

(c) A defined contribution relief association may, if its governing bylaws so provide, credit interest or additional investment performance on the deferred lump-sum service pension during the period of deferral. If provided for in the bylaws, the interest must be **paid**~~credited~~:

(1) at the investment performance rate actually earned on that portion of the assets if the deferred benefit amount is invested by the relief association in a separate account established and maintained by the relief association;

(2) at the investment performance rate actually earned on that portion of the assets if the deferred benefit amount is invested in a separate investment vehicle held by the relief association; or

(3) at the investment return on the assets of the special fund of the defined contribution volunteer firefighters relief association in proportion to the share of the assets of the special fund to the credit of each individual deferred member account through the accounting date on which the investment return is recognized by and credited to the special fund.

(d) Unless the bylaws of a relief association that has elected to pay interest or additional investment performance on deferred lump-sum service pensions under paragraph (c) specifies a different interest or additional investment performance method, including the interest or additional investment performance period starting date and ending date, the interest or additional investment performance on a deferred service pension is creditable as follows:

(1) for a relief association that has elected to **pay**~~credit~~ interest or additional investment performance under paragraph (c), clause (1) or (3), beginning on the date that the member separates from active service and membership and ending on the accounting date immediately before the deferred member commences receipt of the deferred service pension; or

(2) for a relief association that has elected to **paycredit** interest or additional investment performance under paragraph (c), clause (2), beginning on the date that the member separates from active service and membership and ending on the date that the separate investment vehicle is valued immediately before the date on which the deferred member commences receipt of the deferred service pension.

424A.02 DEFINED BENEFIT RELIEF ASSOCIATIONS; SERVICE PENSIONS.

Subd. 7. Deferred service pensions. (a) A member of a defined benefit relief association is entitled to a deferred service pension if the member separates from active service and membership and has completed the minimum service and membership requirements in subdivision 1. The requirement that a member separate from active service and membership is waived for persons who have discontinued their volunteer firefighter duties and who are employed on a full-time basis under section 424A.015, subdivision 1.

(b) The deferred service pension is payable when the former member reaches at least age 50, or at least the minimum age specified in the bylaws governing the relief association if that age is greater than age 50, and when the former member makes a valid written application.

(c) A defined benefit relief association that provides a lump-sum service pension governed by subdivision 3 may, when its governing bylaws so provide, **paycredit** interest on the deferred lump-sum service pension during the period of deferral. If provided for in the bylaws, interest must be **paidcredited** in one of the following manners:

(1) at the investment performance rate actually earned on that portion of the assets if the deferred benefit amount is invested by the relief association in a separate account established and maintained by the relief association;

(2) at the investment performance rate actually earned on that portion of the assets if the deferred benefit amount is invested in a separate investment vehicle held by the relief association; or

(3) at an interest rate of up to five percent, compounded annually, as set by the board of trustees.

(d) Any change in the interest rate set by the board of trustees under paragraph (c), clause (3), must be ratified by the governing body of the municipality served by the fire department to which the relief association is directly associated, or by the independent nonprofit firefighting corporation, as applicable.

(e) Interest under paragraph (c), clause (3), is **payablecredited** beginning on the January 1 next following the date on which the deferred service pension interest rate as set by the board of trustees was ratified by the governing body of the municipality served by the fire department to which the relief association is directly associated, or by the independent nonprofit firefighting corporation, as applicable.

(f) Unless the bylaws of a relief association that has elected to **paycredit** interest or additional investment performance on deferred lump-sum service pensions under paragraph (c) specifies a different interest or additional investment performance method, including the interest or additional investment performance period starting date and

ending date, the interest or additional investment performance on a deferred service pension is creditable as follows:

(1) for a relief association that has elected to **paycredit** interest or additional investment performance under paragraph (c), clause (1) or (3), beginning on the first day of the month next following the date on which the member separates from active service and membership and ending on the last day of the month immediately before the month in which the deferred member commences receipt of the deferred service pension; or

(2) for a relief association that has elected to **paycredit** interest or additional investment performance under paragraph (c), clause (2), beginning on the date that the member separates from active service and membership and ending on the date that the separate investment vehicle is valued immediately before the date on which the deferred member commences receipt of the deferred service pension.

(g) For a deferred service pension that is transferred to a separate account established and maintained by the relief association or separate investment vehicle held by the relief association, the deferred member bears the full investment risk subsequent to transfer and in calculating the accrued liability of the volunteer firefighters relief association that pays a lump-sum service pension, the accrued liability for deferred service pensions is equal to the separate relief association account balance or the fair market value of the separate investment vehicle held by the relief association.

Exhibit H

Legal Compliance Audits

Topic:

A volunteer fire relief association is a governmental entity that receives and manages public money to provide retirement benefits. Under Minn. Stat. § 6.65, the Office of the State Auditor (OSA) prescribes minimum procedures and the audit scope for auditing the books, records, accounts, and affairs of political subdivisions in Minnesota. This law provides that the minimum scope of such audits “must include financial and legal compliance audits.” This is why the OSA promulgates the legal compliance audit guides that CPAs use when they audit local governments and relief associations.

Prior to 2008, Minn. Stat. § 6.65 referred not to “political subdivisions,” but to “counties and local governments in Minnesota,” which clearly included relief associations. The 2008 change in the statute was accompanied by a general definition of “political subdivision,” as it is used in Minn. Stat., Ch. 6, which can be found in Minn. Stat. § 6.465, subd. 2. This definition works for the rest of Minn. Stat., Ch. 6, but has the unfortunate and unintended consequence of rendering unclear the application Minn. Stat. § 6.65’s legal compliance audit requirement to relief association audits.

An optional change provided below clarifies that relief association audits are required to follow the minimum audit procedures prescribed by the OSA. This change is in keeping with the practice that auditors followed for decades prior to the 2008 law change, is in keeping with the practice that auditors should already be following, and is consistent with the requirements of all other local units of government.

69.051 FINANCIAL REPORT, BOND, EXAMINATION.

Subdivision 1. **Financial report and audit.** (a) The board of the Bloomington Fire Department Relief Association and each volunteer firefighters relief association as defined in section 424A.001, subdivision 4, with assets of at least \$500,000 or liabilities of at least \$500,000 in the prior year or in any previous year, according to the applicable actuarial valuation or according to the financial report if no valuation is required, shall prepare a financial report covering the special and general funds of the relief association for the preceding fiscal year, file the financial report, and submit financial statements.

(b) The financial report must contain financial statements and disclosures which present the true financial condition of the relief association and the results of relief association operations in conformity with generally accepted accounting principles and in compliance with the regulatory, financing and funding provisions of this chapter and any other applicable laws. The financial report must be countersigned by:

(1) the municipal clerk or clerk-treasurer of the municipality in which the relief association is located if the relief association is a firefighters relief association which is directly associated with a municipal fire department; or

(2) by the municipal clerk or clerk-treasurer of the largest municipality in population which contracts with the independent nonprofit firefighting corporation if the volunteer firefighter relief association is a subsidiary of an independent nonprofit firefighting corporation and by the secretary of the independent nonprofit firefighting corporation; or

(3) by the chief financial official of the county in which the volunteer firefighter relief association is located or primarily located if the relief association is associated with a fire department that is not located in or associated with an organized municipality.

(c) The financial report must be retained in its office for public inspection and must be filed with the governing body of the government subdivision in which the associated fire department is located after the close of the fiscal year. One copy of the financial report must be furnished to the state auditor after the close of the fiscal year.

(d) Audited financial statements must be attested to by a certified public accountant or by the state auditor and must be filed with the state auditor within 180 days after the close of the fiscal year. Audits must be conducted in compliance with generally accepted governmental auditing standards, and section 6.65 governing audit procedures. The state auditor may accept this report in lieu of the report required in paragraph (c).