

DESCRIPTION OF THE DETERMINATION OF STATE FIRE AID FOR 2011

Purpose: The purpose of state fire aid is to subsidize (1) the service pensions paid to retired firefighters, (2) the disability benefits paid to disabled firefighters, and (3) the survivor benefits paid to the surviving spouses and children of deceased firefighters. Municipalities may use their state fire aid for other limited purposes (see MN Statutes, 424A.08) if their firefighters are not members of a local volunteer firefighters relief association and are not members of the Police and Fire Fund of PERA.

Qualifying local units: State fire aid is paid to municipal (city and town) fire departments and independent nonprofit firefighting corporations. Qualifying municipal fire departments may receive state fire aid whether or not they have a subsidiary firefighters relief association. Qualifying independent nonprofit firefighting corporations may receive state fire aid only if they have a duly incorporated firefighters relief association.

The Property Tax Division of the Minnesota Department of Revenue is responsible for the determination of state fire aid. In order to receive state aid, municipalities and independent nonprofit firefighting corporations (hereafter referred to collectively as “fire departments”) must apply for state fire aid and be determined to qualify for this aid.

Fire departments apply for state fire aid annually by completing a Fire Equipment Certification (Form FA-1) and submitting this document to the Property Tax Division. This document lists the minimum equipment and manpower requirements of Minnesota Statutes, Section 69.011, Subd. 4. For aid year 2011, each applicant fire department certified as to whether or not it met each of the minimum equipment and manpower requirements as of December 31, 2010. (The Form FA-1 is mailed out to all known eligible fire departments in December of the year preceding the aid payment year.)

There is a statutory filing deadline of March 15 for the Form FA-1. A fire department that has not submitted its completed Form FA-1 to the Property Tax Division, by this date, risks receiving an aid penalty. If the Form FA-1 is not received by the Property Tax Division by the March 15 deadline, a letter is sent to the fire department notifying it that a portion or all of its current year state fire aid will be forfeited if the Form FA-1 is not received within ten days of the postmark date of the letter. The amount of aid forfeited is equal to the fire department’s current year state fire aid amount multiplied by five percent for each week or fraction of a week that the Form FA-1 is late. The penalty is assessed starting ten days after the postmark date of the letter, and is calculated from March 16. All forfeited aid amounts revert to the general fund in the state treasury. For aid year 2011, there were 9 fire departments that submitted Forms FA-1 after the 10-day “grace period”, and subsequently received a penalty against their 2011 fire aid amounts.

In addition to the Form FA-1, each fire department applying for state aid must annually certify the status of its fire service area coverage as of December 31 of the preceding year. For aid year 2011, this was done on the form entitled “Certification of Service Areas Protected in 2010.” This document was prepared by the Property Tax Division, and listed the “service areas” protected by the fire department in 2010, along with the percentage of coverage. A “service area” is all (100%) or a portion (less than 100%) of a city or town. (Many townships and some

cities are protected by more than one fire department. In these situations, the fire departments involved sign an apportionment agreement that stipulates the percentage of the township or city covered by each of the fire departments involved. These percentages must reflect the percentage of the city's or township's population and market valuation located within each of the "service areas.") Each fire department was required to return the "Certification of Service Areas Protected in 2010," either indicating no change or indicating changes (e.g., service areas added in 2010, service areas dropped in 2010, or percent of coverage changed for one or more service areas in 2010). (The "Certification of Service Areas Protected" is mailed out to each known eligible fire department in December of the year preceding the aid payment year.)

Other documents required by the Property Tax Division include current fire service agreements (contracts) and current apportionment agreements. The fire service agreements are proof of coverage for a city or town, and the apportionment agreements are proof of the percentage of coverage.

The documents required to be submitted to the Property Tax Division enable a fire department to be included in the fire aid distribution. However, a fire department is not actually paid its state fire aid until the Property Tax Division has received a positive certification from the State Auditor that the fire department is qualified to be paid. A fire department qualifies to be paid by complying with the financial reporting requirements of Minnesota Statutes, Sections 6.495 and 69.051.

Aid Distribution

After the Property Tax Division has determined (in accordance with M.S. 69.021, Subd. 4) all of the fire departments that are eligible to be included in the current year fire aid distribution, the process of the aid distribution begins. Minnesota Statutes, Section 69.021, Subd. 7 provides for a fire aid distribution based on an initial fire aid allocation and a minimum fire aid allocation. The total amount of aid to be distributed as initial fire aid is based on the net insurance premiums taxes collected by the Department of Revenue on insurance premiums received by insurance companies in the preceding calendar year with respect to fire, lightning, sprinkler leakage, and extended coverage insurance (M.S. 69.021, Subd. 5). The initial fire aid amount to be distributed is certified by the Special Taxes Division of the Minnesota Department of Revenue to the Property Tax Division. The amount of aid distributed as minimum fire aid is based on 30% of the total amortization and supplementary amortization aid which is not distributed to paid fire departments as a result of full funding (and the "13th check" reductions for the Minneapolis Police and Fire Relief Associations). The total amount of minimum fire aid to be distributed is determined by the Property Tax Division.

Initial Fire Aid Distribution

The total initial aid amount certified for distribution in 2011 was \$21,832,004. This amount was reduced to \$21,511,656 to pay the state fiscal year 2011 costs of \$320,348 for the State Auditor's audits and exams of the firefighters relief associations. This reduction was made pursuant to M.S. 69.021, Subd. 5.

Under the state fire aid law, 50% of the initial fire aid based on insurance premiums in 2011 was distributed on the basis of population, and the other 50% was distributed on the basis of market

value. The allocations to each fire department were based on the population and market value of the service areas protected by the fire department. A fire department's portion of the aid based on population was determined by dividing its total service area population by the total population of all the service areas in the state and multiplying that ratio by 50% of the total aid. Similarly, a fire department's portion of the aid based on market value was determined by dividing its total service area market value by the total market value of all of the service areas in the state and multiplying that ratio by 50% of the total aid. The fire department's portion of aid based on population and portion of aid based on market value were then added to determine the fire department's initial fire aid for 2011.

The populations used in the aid year 2011 distribution were the 2010 federal census population. The law requires that the most recent decennial federal census be used for the state fire aid distribution.

The market value amounts used in the 2011 initial aid distribution were the following: (1) the payable 2011 market value of taxable real and personal property excluding the market value of mineral property, (2) the payable 2010 manufactured home market value, and (3) the 2010 exempt property market value. The payable 2011 real and personal market values were used because they relate to the 2010 assessment year, as do the payable 2010 manufactured home market value amounts. Exempt property is valued every six years and was most recently valued in 2010. The initial aid distribution for 2011 relates to fire service agreements and apportionment agreements in effect in as of December 31, 2010, and is based on the taxes imposed on insurance premiums paid in 2010. The market value data used is contained in abstracts certified and submitted by the county assessors and county auditors to the Property Tax Division.

Minimum Fire Aid Distribution

The total amount available for distribution as minimum fire aid for 2011 was \$1,339,436. This amount was distributed to qualifying departments so that each qualifying department received a minimum aid amount per firefighter. In order to be included in the minimum fire aid distribution, a fire department must have a relief association and must have filed a financial reporting form to the State Auditor listing the number of active relief association members for calendar year 1993. Annually, newly established fire relief associations are certified to the Property Tax Division by the Office of the State Auditor for inclusion in the minimum fire aid distribution.

For aid year 2011, the minimum aid per firefighter was determined to be \$436.45. If a qualifying department's initial aid per firefighter was less than \$436.38, the department received a share of the total of \$1,339,436 which, when combined with the department's initial aid, brought the minimum aid per firefighter up to at least \$436.38 per firefighter. For example, a fire department's initial aid (based on market value and population) is \$1,000 and there were 10 active relief association members listed for calendar year 1993. In this case, the initial aid per firefighter is \$100. In order to receive a minimum of \$436.38 per firefighter, the aid in total must be increased to \$4,363. The difference between the initial aid and the minimum aid (\$3,363) comes from the total available for distribution as minimum fire aid (\$1,339,436).

If a qualifying department's initial aid was less than \$436.38 per firefighter, the department's final aid was its initial aid plus its minimum aid. If a qualifying department's initial aid per firefighter was more than \$436.38, the department's final aid was its initial aid.

After final aid amounts were determined, penalties for those fire departments which submitted their FA-1 forms late (as mentioned above) and prior year adjustments resulted in a 2011 fire aid distribution of \$22,827,042.

The final fire aid is paid to each city or township treasurer where a qualifying fire department is located. Upon receiving the state fire aid payment, the city or township treasurer has 30 days to transmit the payment to the treasurer of the duly incorporated firefighters relief association that is subsidiary to the fire department, or to PERA if the firefighters are salaried and are members of the Police and Fire Fund of PERA. If the firefighters are volunteer and there is no duly incorporated relief association, the state fire aid payment is kept by the city or township to be used only for authorized fire department purposes as provided in M.S. 424A.08 (firefighting equipment, construction, repair, or maintenance of fire halls, and payment of the dues for membership in the Minnesota State Fire Department Association and the State Volunteer Firefighters' Benefit Association). If a municipality or an independent nonprofit firefighting corporation is covered by the voluntary statewide lump-sum volunteer firefighter retirement plan under chapter 353G, the executive director of PERA credits the fire state aid against future municipal contribution requirements under section 353G.08 and annually notifies the municipality or independent nonprofit firefighting corporation of the aid credited.

Upon receipt of the state fire aid from the city or township treasurer, the treasurer of a local volunteer firefighters relief association must deposit the aid in the special fund of the relief association to be used for paying retirement benefits, disability benefits, and survivor benefits with respect to members of the relief association.

In 2011, fire departments which were certified as qualifying by the State Auditor by September 15, 2011 received their state fire aid by October 1, 2011. Fire departments certified as qualifying by the State Auditor after September 15, 2011 had their aid payments delayed.

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Property Tax Division
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