

PUBLIC AFFAIRS COMMITTEE AGENDA

***October 16, 2023 ~ 5:00 p.m.
City Hall***

(Administration, Personnel, Legal, Finance, PEG Access, Municipal Liquor, Police & Fire)

1. CALL TO ORDER
2. VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION PENSION BENEFIT
3. ADJOURN

MISSION STATEMENT

Provide leadership and coordination for the City Council in public policy areas related to:

- *Internal council policies and procedures*
- *External relations to other units of government and service providers*
- *Community governance and civic relations*
- *Advisory boards and commissions*

Bemidji Pioneer Firefighters Relief Association

2023 Presentation to the Public Affairs Committee on 10.16.2023

Prepared on 10.12.2023 by Karl Mork, Treasurer, Relief Association

The relief board has 9 trustees, 6 of which are paid-on-call firefighters, plus Josh Peterson, Justin Sherwood and current we have once vacancy that was previously held by Ron Eischens and will be filled with a new municipal representative.

Current Municipal guaranteed benefit level - \$8,328 per year of service @ 20 years

Current non-guaranteed benefit level - \$9,750

Paid-on-call firefighters become 48% vested after 7 years of service and gain 4% per year until they reach 20 years.

According to the most recent Office of State auditor (OSA) annual pension report (2021) Bemidji Relief ranks as follows out of 433 defined benefit plans:

98th percentile in protection value and population, reflected by state aid amount.

97th percentile in pension assets

98th percentile for benefit level

75th percentile for 20-year market performance

Our numbers are audited annually by Miller McDonald, in 2022 the Relief Association paid out about \$1.4 million in pension benefits and weathered a \$800,000 decrease in market returns and ended 2022 with approximately \$3.4 million in pension assets. At \$9,750 per year of service this represents approximately 117.6% funded position, which demonstrates our Trustees dedication to prudent choices and investing to sustain a \$2.2 million dollar contraction. These choices included not increasing our non-guaranteed rate since 2021 even though we would have been legally allowed to. Substituting the \$8,328 guaranteed benefit level our internal calculations show that we would have over a 134% funding ratio.

The Relief contracts Ryan Welle & First National Bank as our financial advisor and is currently invested in a conservative 60%/40% stock bond ratio. In a simple analysis that presumes our bond position will not materially decrease in value, it would take nearly a 56% stock decline to place the municipality in an underfunded position, a level of decline that has not happened since the great depression.

With this in mind, we would like to request the Public Affairs committee recommend a 3% increase to the municipally guaranteed rate to be effective 1/1/2024 as part of the city council consent agenda. This is in line with what has been presented to this group for the last 2 years in a row and would conclude a 3-year verbal roadmap that our two bodies have shared (Numbers below have been rounded so that its divisor of 12 is a whole number for ease of payout math).

3% - \$252 increase to \$8,580 – Based on internal math would approximately reduce guaranteed overfunding to 131%

4% - \$336 increase to \$8,664 – 130%

5% - \$420 increase to \$8,748 – 129%

Lastly, to plant a seed for future conversations, according to the most recent OSA annual report, over 40% of reliefs receive a voluntary (non-mandatory) annual contribution from their associated municipalities, with an average allocation of \$19,600 per year. Reliefs who have a state aid amount in the 95th percentile or above who received a municipal contribution received an average of \$50,900 in 2021 and a median contribution of \$30,000.

PUBLIC AFFAIRS AGENDA ITEM

Meeting Date: October 17, 2022

Action Discussed: Consider Bemidji Pioneer Volunteer Fire Department Relief Association (FRA) Pension Benefit

Prepared By: Ben Hein, President, Relief Association
Karl Mork, Treasurer, Relief Association

Our prior three-year understanding with the City of Bemidji regarding our pension benefit expired on December 31, 2021. Over the last several months City staff discussed this and other issues with FRA officers.

The current pension benefit guaranteed by the City is \$8,086 per year of service. The FRA membership increased the benefit level to \$9,750 independently on January 1, 2022 to continue to demonstrate their willingness to shoulder some financial risk. We believe investment portfolio is able to safely grant this benefit increase and still withstand a significant stock market correction before the City would be liable to contribute to cover the guarantee.

A positive development is the FRA Trustee's decision to maintain a surplus position of 115%, versus the 105% stated in their By-Laws. The FRA actively manages their investment portfolio with the help of Ryan Welle from FNB Bemidji and the State Board of Investments. This provides a cushion against future market downturns, minimizing the risk of a required City contribution.

FRA Trustees believe it is in our joint interests to continue our agreement for the remaining two-year period, years 2023 to 2024. The City is legally unable to approve a multi-year agreement regarding the pension benefit, but during our previous discussions, both sides were comfortable with a multi-year "understanding" based on recently negotiated union contract terms. These increases are subject to annual review and approval, of the following:

- **Pension benefit increase:**
 - 3% for 2022 - \$8,086 per year of service - Completed
 - 3% for 2023 - \$8,328 per year of service
 - 3% for 2024 - \$8,578 per year of service

The FRA does not take lightly the fact that Council approval of any pension benefit increase carries with it a "financial guarantee", meaning if the FRA is unable to fund the pension benefit, the City is financially obligated to maintain the benefit level. This liability is amortized over ten years. The Rural Fire Association is also guaranteeing their portion of any pension shortfall through their contract for fire services with the City.

Requested Outcome:

Approve the FRA request for a pension benefit increase of \$236, or 3%, to a level of \$8,328 per year of service, effective 1/1/2023 with an annual review thereafter. Continuing the multi-year understanding includes proposed future increases as follows: \$250, or 3%, effective 1/1/2024 for an annual benefit of \$8,578.

Ben Hein, President, Bemidji Pioneer Volunteer Fire Department Relief Association