



Follow-up Report: Volunteer Fire and Rescue Finances

The 2013–15 Program Evaluation Division (PED) work plan directed the division to review state-administered funds related to fire, rescue, and emergency management services departments, including the eligibility criteria for these funds, benefits received, and oversight of funds. During this evaluation, PED issued four reports. Findings and recommendations included

- **Firefighters' and Rescue Squad Workers' Relief Fund** monies were not being spent by local boards and non-profit associations at the rate intended, were spent on non-permitted uses, and were invested without regulation. PED recommended the General Assembly either consolidate state and local firefighters' relief funds and make administration of that fund along with the **Rescue Squad Workers' Relief Fund** the responsibility of the Department of Insurance (DOI) or improve oversight of all relief funds under their current structures.
- Without an increase in the revenue base, annual expenditures by the **Volunteer Safety Workers' Compensation Fund** will exceed total assets beginning in Fiscal Year 2020–21. PED recommended the General Assembly direct the State Fire and Rescue Commission to increase annual member premium income, modify DOI's actuarial responsibilities, require the commission to enhance the Fund's cost-containment efforts by using a more data-driven approach, and amend statute to clarify eligibility conditions.
- The **Firefighters' and Rescue Squad Workers' Pension Fund** is adequately funded, but the State's annual required contribution now exceeds the amount of tax proceeds going to the General Fund. The Department of State Treasurer overstated appropriation requests due to overly conservative actuarial assumptions; accepted delinquent member contributions without

collecting additional costs to compensate for lost investment earnings; and minimally enforced the prohibition against paying benefits to members still working as firefighters or rescue workers. PED recommended the General Assembly require annual reports on the department's progress in addressing these issues.

- DOI's failure to compare actual to projected receipts for the **Volunteer Fire Department Fund** and **Volunteer Rescue/EMS Fund** – which provide matching grants to departments – resulted in an \$8 million surplus in the former fund. Additionally, DOI's oversight of the grant award and distribution process could be improved. PED recommended the General Assembly determine how to apply the surplus in the Volunteer Fire Department Fund and direct DOI to improve oversight of both programs.

As a result of these studies, the General Assembly passed Session Law 2014-64:

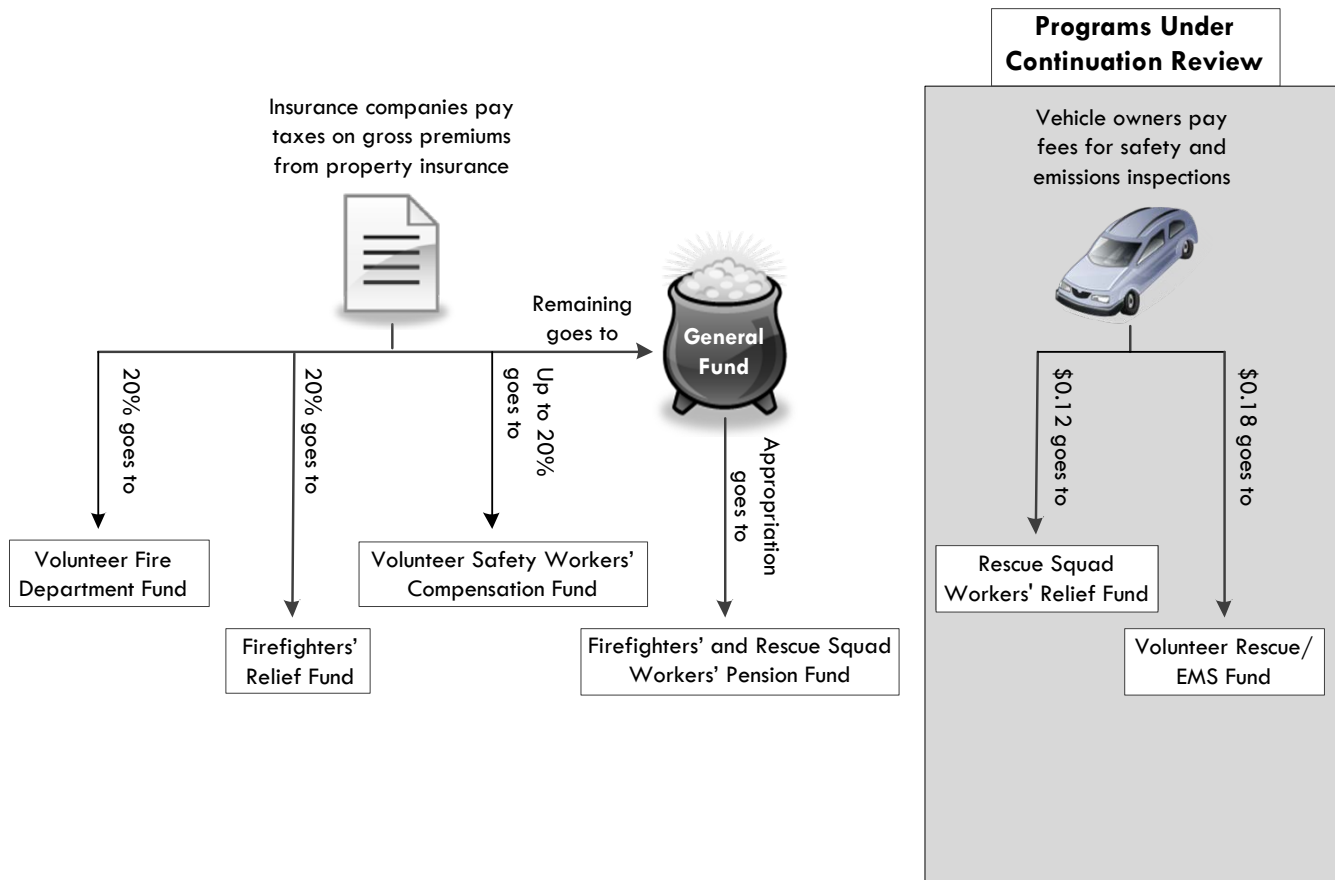
- Section 1 provided guidance on minimum and maximum local relief fund balances and required DOI to create a new database of relief fund expenditures and to provide annual reporting.
- Section 2 required DOI to conduct an annual actuarial study of the Workers' Compensation Fund; provided a list of requirements for the State Fire and Rescue Commission to include in its contract with the fund's third-party administrator; and amended statutes to correspond to practice by removing the requirement that an "eligible unit" be a volunteer unit and by adding certain statewide associations to the list of eligible units.

- Section 3 required the Department of State Treasurer to report on its progress toward building appropriate lapse assumptions into the State's annual required contribution to the pension fund and collecting timely member contributions to the pension fund. The session law also reduced the percentage of the insurance premium tax going to the Volunteer Fire Department Fund by 5% to allow the pension fund to make distributions to all participants aged 55 and over, regardless of whether they have retired from firefighting or rescue squad work.
- Section 4 allowed fire departments with less than \$50,000 of income to match Volunteer Fire Department Fund grants on a lower 25/75 match rate; required DOI to annually report the fund balance at the beginning of the grant cycle, cash receipts through the grant cycle, cash disbursements through the grant cycle, and the fund balance at the end

of the grant cycle; changed an eligibility standard to receive grants from the Volunteer Fire Department Fund from serving a response area with a population of 12,000 or less to having a national fire suppression rating of five or higher, regardless of district size; and required that a dissolved department transfer all equipment purchased with grant funds to a successor department and that a department reimburse a fund if the department disposes of equipment purchased with grants.

Subsequently, Session Law 2015-241 placed the Rescue Squad Workers' Relief Fund and Volunteer Rescue/EMS Fund under continuation review, a process of program evaluation conducted by state agencies to justify continued funding of identified programs. Both funds are administered by DOI and financed by transfers from the Highway Fund (see Exhibit 1). The General Assembly will decide whether to continue these programs.

Exhibit 1: S.L. 2015-241 Placed Two Programs Under Continuation Review



Source: Program Evaluation Division.

Stakeholders from each of the four evaluations provided the following updates in March and April 2016.

Relief Funds

DOI reports that with new reporting requirements in place, it is able to perform more detailed oversight of fund operations and uses.

The North Carolina State Firemen's Association (NCSFA) reports it has accomplished all actions required by S.L. 2014-64, including providing guidance to local departments and boards on minimum and maximum fund balances, tracking approvals and denials in a database, adding required information to its annual report to DOI, and creating a Relief Fund Guide for local boards. Meanwhile, the North Carolina Association of Rescue & E.M.S., Inc. (NCAREMS) is reporting information on expenditures to DOI and is adding identifying fields to its database that match DOI listings in order to enhance the efficiency and accuracy of data transfers regarding fund expenditures.

The continuation review issued by DOI regarding the Rescue Squad Workers' Relief Fund stated that NCAREMS's new reporting requirements enable DOI to confirm proper distribution of funds as well as track and reconcile fund utilization by category. The review recommends the General Assembly direct NCAREMS to develop a repayment plan for the state funds it used to purchase its office in 2014, provide guidelines for acceptable investment uses of fund monies, and refine language regarding parameters of acceptable fund disbursement. DOI believes discontinuing funding would place workers and families at risk and believes the source and use of funds are directly related and appropriate.

As Exhibit 2 illustrates, relief fund balances have continued to grow since PED's evaluation was conducted in 2013.

Workers' Comp

The publication of PED's report coincided with the Board's decision to raise member premiums for Fiscal Year 2014-15, thereby increasing the income of the Volunteer Safety Workers' Compensation Fund. Trends in claim costs will still need to be monitored to determine if this change will be sufficient to keep the program well-funded.

DOI reports that an actuarial study has not yet been completed. The department plans to either conduct

the study itself or contract with a third-party actuary to do so, though additional funding would be needed in the latter scenario.

Pension Fund

The Department of State Treasurer reports the process of building appropriate lapse assumptions should be completed by June 30, 2016 thanks to an appropriation of \$350,000 in the 2015-16 budget for a data audit. However, the department continues to wrestle with a dearth of available funds to complete all necessary IT improvements and ensure they are sustainable. The department also reports that 85% of fire and rescue departments submitted contributions in advance of the March 31, 2016 deadline and that agencies submitting contributions after the deadline were given three choices: 1) to post money to accounts to apply as contributions for future years; 2) to purchase the 2014 contributions pursuant to G.S. 58-86-45; or 3) to have the funds returned. No exceptions to this policy were granted.

Grants

DOI reports that an audit found the Volunteer Fire Department Fund has a fund balance in excess of \$7.7 million as of March 2016 that will be applied towards the next cycle of grant awards. Its controller's office will now be directly involved in determining availability of funds for distribution of grant awards and will ensure that all recommendations are based on documented analyses of current receipts, projected revenues, and unexpended prior year fund balances. Procedures are now in place to rely on actual receipts rather than projected receipts.

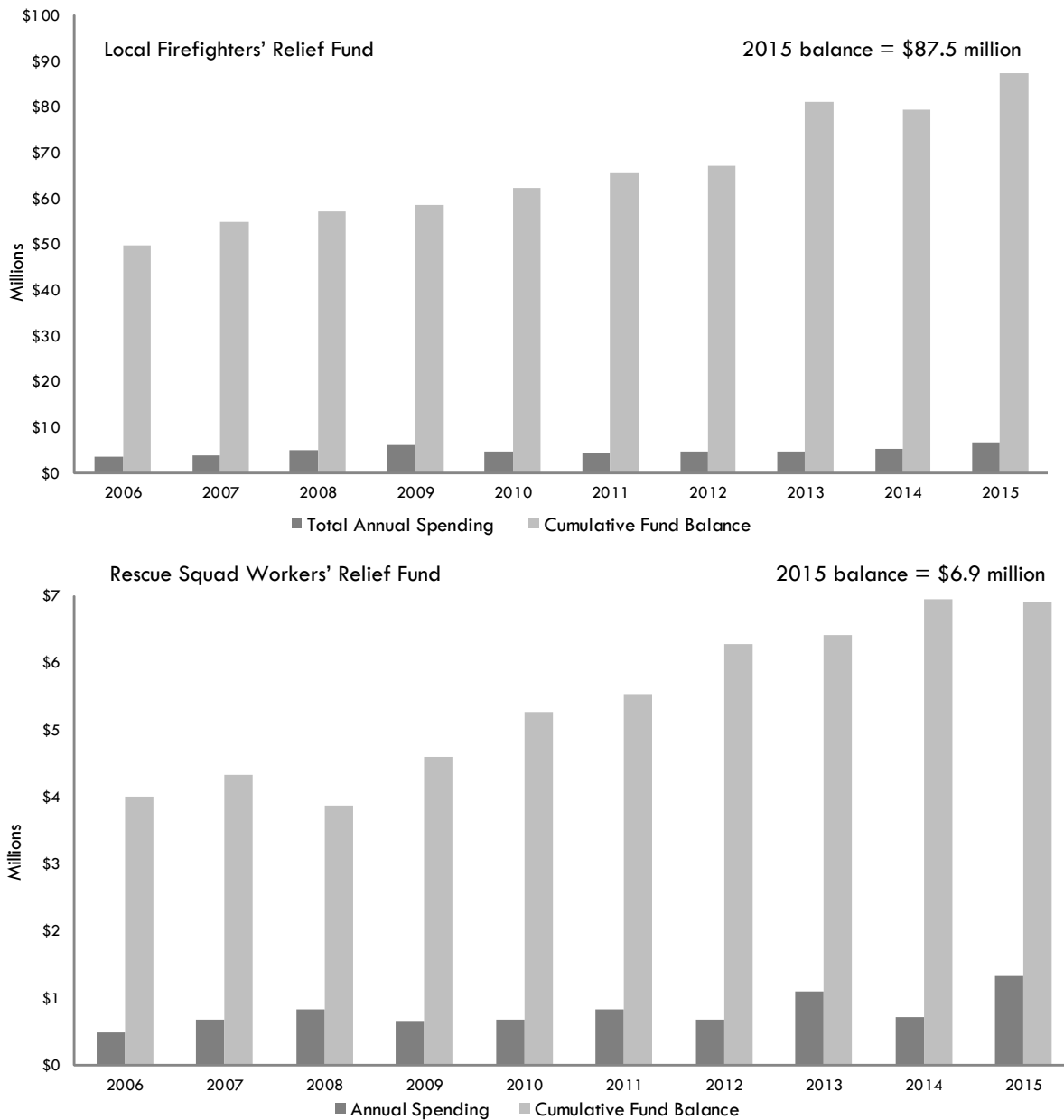
In addition, DOI reports it has implemented staffing and operational changes to ensure a greater level of oversight with both grant programs. It has drafted modified language regarding transfer of grant equipment by dissolved departments to nearby departments to be included in the payment form signed by grant recipient departments.

The continuation review issued by DOI regarding the Volunteer Rescue/EMS Fund showed grants awarded fell to \$800,000 in 2014 (the lowest level since 2004). Meanwhile, fund requests have risen significantly over the past three years. Though the fund met a lower percentage of requests in 2014 than in previous years, it was able to meet its goal of fully expending all available funds. DOI is

working through the rulemaking process to update Administrative Code provisions to improve aspects of fund operations and does not believe moving the program to the Department of Transportation would be in the best interests of efficiency or expertise. The continuation review recommends allowing the grant funds to be used for costs associated with putting property acquired from the Department of

Defense in service and endorses PED's recommendation that the General Assembly require units that disband within five years of receiving funds transfer grant-funded equipment to nearby units. DOI believes discontinuing funding would have a negative effect on services and believes the source and use of funds are directly related and appropriate.

Exhibit 2: Balances of Local Firefighters' and Rescue Squad Workers' Relief Funds, 2006–2015



Source: Program Evaluation Division based on data provided by NCSFA and NCAREMS.

For more information on this report, please contact Kiernan McGorty at kiernan.mcgorty@ncleg.net.

25 copies of this public document were printed at a cost of \$0.90, or \$0.04 per copy.