
Bucks County Fire Officials Compiled A Report on Foreign Fire Insurance 2% Tax that by Law is Required to be Distributed to Volunteer Relief Funds

The latest information on our missing Relief Funds was provided by the The Bucks County Fire Chiefs' & Firefighters' Association. Ed Pfeiffer reported attending the PA House Veterans Affairs & Emergency Preparedness Committee Insurance Hearing on August 20th and provided an overview that reviewed the House Bill 759 referencing the Fire Department Reimbursement. He provided a copy of the full report which is posted on LCFA.com web page and provided an overview report to the Bucks County Chiefs and Firefighters meeting (*see report below*) that included Mr. Sam Marshal, President and CEO of the PA Insurance Association, as quoted at an August meeting in Harrisburg. His comments are worth the read. Also included is an announcement from three Representatives.

He also provided the attached chart (see page 14) that shows that we normally received approximately 30% of all the monies that were paid into the Foreign Fire Fund. The last two columns on the right side of the chart show the actual percentages as well as the projected income minus what we actually received. The difference is what we lost. Our total loss from 2012 to 2019 is \$185 million. This doesn't include the loss from the Innovate in PA Tax Credit program.

Remember – The diverted money was generated by the insured local property owners for the purpose of providing funds to protect their local volunteer firefighters. It must not be used for any other purpose, no matter how pressing the need.

It is obvious that our money has been diverted to support the Municipal Pension obligations. As such, local governments are not anxious to help correct our losses, as our loss is their gain regarding pension liabilities. Our meeting should discuss what our next step should be in our attempt to recover our money.

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Ed Pfeiffer Summary Report on the Volunteer Relief Funds to the Bucks County Fire Chiefs & Firefighters Meeting

Relief update - On August 20, 2019 a presentation was held in Harrisburg on proposed House Bill 759. Seventeen pages of the transcript are attached to this newsletter. Mr. Sam Marshall, President and CEO of the Insurance Federation of PA spoke regarding this bill and other pertinent issues regarding the current status of Relief Funds in PA. Mr. Marshall has excellent insight and his entire comments are worth reading. A summary of his key statements follows:

Page 75 – No, we realized that the financial problems of volunteer fire companies are real, and we are not shrinking away from our commitment to them. Historically, that's been done through the dedication of a large portion of insurance premium taxes, those based on foreign fire premiums with those taxes going

to the fire insurance tax fund. We've heard that revenue has been declining, and proponents have said the bill is needed to fix that. And, as noted in the panel before, there's a rumor--- and I think it should be fact--- that that's going to be coming.

Page 76 – We noted that's part of Recommendation 13 of S.R.6 in the S.R. 6 Report. We do think more analysis on the tax question is needed. Recommendation 13 said the revenue from this tax is declining and that between 6 and 7 million fewer insurance policies were being subject to the tax in just the past two years. It suggested that that's because insurers are taking advantage of a loophole and that they self-report. I can tell you something's missing here.

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Conclusions from the Foreign Fire Fund Income & Loss Speculation Chart

1. All numbers used were "Certified" by the PA Dept. of the Auditor General.
2. Income from the 2% tax on fire insurance premiums (written by foreign fire insurance companies) has continued to increase as the state experiences construction growth and is the sole source of income to the Foreign Fire Fund.
3. Tax return income by foreign insurance companies isn't pre-selective as to the Municipal Pension or to the Fire Fund. That decision lies with the Dept. of Revenue. This is based on Mr. Marshal's testimony.
4. The Auditor General only distributes what money it is given by the Dept. of Revenue.
5. There is no "dedicated" income from this tax for the PA Volunteer Firefighters. It is unknown how the split is determined, but it does appear arbitrary (% variation) as it varies too much to be created by law.
6. This chart doesn't reflect any loss as a result of the \$100 million tax credit 'Innovate in PA' program authorized by legislation passed in 2013. That tax credit money went into the Dept. of Revenue as general income, therefore by-passing the Foreign Fire Funds account. (A right-to-know request for a Innovate in PA financial statement failed. See newsletter.)
7. Lost Innovate in PA funds amounted to \$20 million a year for the years 2017, 18 & 19. It will continue to be missed in 2020 & 2021.
8. The lost Innovate in PA \$20 million in 2019 represents approximately 5% of the \$384 million actually received. It

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Foreign Fire Fund Income & Loss Speculation

	Total paid into Fund by 2% Insurance tax	Municipal Pensions	Paid into Fire Fund	Fire Pension	Send to VFRAs	% of Total placed into Fire Fund	If 30% was used as it was 1985-2010	Lost to arbitrary % decrease
2007	281,483,207	187,530,268	83,952,934	15,957,734	67,995,180	29.85		
2008	279,969,617	193,449,553	86,520,064	16,427,249	70,092,815	30.90		
2009	278,648,748	200,072,787	78,575,961	14,738,493	63,837,467	28.12		
2010	298,503,656	210,185,276	88,318,380	16,800,905	71,517,475	29.59		
2011	480,718,720	342,422,299	138,296,421	25,625,923	112,570,497	28.77	144,215,610	5,519,190
2012	306,190,673	227,727,370	78,463,303	14,455,622	64,007,680	25.65	91,857,201	13,393,898
2013	329,616,671	241,533,379	88,083,292	15,542,808	72,540,483	26.78	98,885,001	10,801,709
2014	325,760,815	241,631,926	84,128,889	15,560,701	68,568,188	25.85	97,728,243	13,559,354
2015	324,329,983	243,173,686	81,156,297	15,219,040	65,937,256	25.02	97,298,994	16,142,697
2016	340,570,898	269,526,396	81,044,482	15,375,363	65,669,118	23.80	102,171,260	21,127,000
2017	336,637,133	261,673,960	74,963,173	14,295,970	60,667,201	22.29	100,991,130	26,028,000
2018	354,004,095	289,507,582	68,486,513	13,176,114	69,496,513	19.35	106,201,220	37,307,000
2019	384,983,149	310,680,725	74,302,424	14,176,772	60,125,651	19.30	115,494,940	41,192,000
Total Lost 2011 to 2019								185,073,000

LOSS SPECULATIONS *from Page 14*

never would have been noticed had the Act 52 legislation not come to light.

9. Even though the \$100 million Innovate in PA loss affects the total Foreign Fire Fund, it was felt as a total loss of Fire Fund income. By reducing the percentages, the PA Dept. of Revenue saw fit to grow the Municipal Pension Funds at the expense of the Pennsylvania Volunteer Firefighters.

10. The last two columns on the chart are speculation. The next to last column assumes a 30% split, 30% for the Fire Fund – 70% for the Municipal Pension Funds. This appears to be close to the split used in the first 26 years of the existence of the Foreign Fund. 30% of the total in column one is the number in the next to last column. Subtracting the “Paid into the Fire Fund” from the next to last column produces the projected “loss” in the last column.

11. The diverted money was generated by the insured local property owners for the purpose of providing funds to protect their local volunteer firefighters. It must not be used for any other purpose, no matter how pressing the need. It is obvious that out money has be diverted to support the Municipal Pension obligations. As such, local governments are not anxious to help correct our losses, as our loss is their gain regarding pension liabilities.

RELIEF FUNDS *from Page 12*

We’ve attached to our testimony a chart for the past decades. And it shows that the tax revenues here have been fairly consistent. One year was way up and another, you know, just in the recent past, was down, but there’s not a declining trend in that. Maybe that premium tax formula needs adjustment, but I don’t know that you embark on a bill because of a flawed understanding of those tax revenues.

Page 78 – I can’t tell you where the money goes from there. It’s a little interesting. Even in the year that was down, by our calculations, the fund generated even in that off year --- usually, it’s up in the \$85 million zone. But that year, 2016/2017. It was at \$63 million. At the same time, we noticed the Auditor General had a press release with considerable fanfare saying it was releasing \$55 million to the fire companies across the Commonwealth. I have no idea what happened to the remaining \$8 million.

So, you know, we can see what we pay in taxes that are meant to go to the volunteer fire companies. How much of that is apportioned to fire companies and where it goes is a legitimate question. And if there’s some adjustment to that tax revenue, that makes a lot of sense. And I say because I talk about a consistent revenue stream. I think the tax revenue overall is fairly consistent.

Page 92 – You may also want to readjust some of the tax revenues, you know, how much of this should be going to the pension versus should be going to the volunteer fire companies is a legitimate concern.

Representative Farry: And that’s a good lead-in. With the revenue for the relief funds, the foreign insurance tax, just to run through some quick numbers, so 11, 12 your stats from the Department of Revenue, there was \$78 million collected, only \$63 million went to the volunteers. The next year 87 collected, 72 to the volunteers; 84 collected in 13, 14, 68 to the volunteers; 81 collected the next year. 65 to the volunteers; 63 collected the next year, 60 to the volunteers, 89, almost 90 collected in 17/18, only \$55 million to the volunteers.

Mr. Marshal: Yes.

Representative Farry: So, you can see that declining, you know, 72, 68, 65, 65, 60, and 55.

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RELIEF FUNDS *from Page 16*

And again, that's why the S.R. 6 Commission discussed it at length. **The Chairman and I were in a meeting earlier today with Revenue trying to figure that out, but that's a significant drop in taxes that are being collected with the intent of helping the volunteers, and we're trying to find where that money is going.** It's being collected

Page 93 – Mr. Marshall: Yes, because actually it's not a significant drop in the taxes being collected. It's a significant drop –

Representative Farry; In the distribution.

Mr. Marshall: -- in the distribution of that tax collection. And, as I mentioned before, I get involved with the taxes that come to you. After they come to you, you guys really don't consult with us that much, but I'd be very curious as to what's happening to that money.

Representative Farry: Sure. Do you know why in 16/17 collections went from 80 the previous year to \$63 million?

Mr. Marshal: No, and frankly I don't know why they went up in 2010, 11. You know there was a spike there. It may have been that a given carrier reported on a different time frame, something like that. I would have been --- if it hadn't bounced right back up the year after, I'd be more --- I'd say, gee, did somebody come, you know, go from being a foreign company to a domestic company or something like that? But that may be. And again, you'd have to consult with the Department of Revenue and maybe the insurance department as to why that went down

Page 101 – And I think --- I mean. I've outlined --- you know, we've talked about it and Representative Farry mentioned **the disparity between what we pay in taxes and what somehow isn't going into, you know, the wallets of the volunteer fire companies. I have no idea of what that variance is.**

Page 106 – Mr. Marshall: The question is how much money and how is it going to be apportioned? **And I would suggest that it would be – because we are just as committed as anybody else to the well-being of the fire company system in Pennsylvania. We depend on it, too.** I suggest that you'd be better off having a more stable revenue source than the

somewhat random source that can happen particularly in rural areas where you're saying, God, it all depends on how many claims I can get in a given year because that can go way up and way down.

Right to Know request fruitless.

The request, "Please send me a financial statement of the Innovate in PA program showing all expenses and income from the inception. I am also interested in seeing the amounts placed back into the VFRA account."

The reply, "Revenue conducted a good-faith investigation into whether it had responsive documents. The Department has determined that it does not have the records that you requested under its custody or control. For a document to be subject to disclosure under the RTKL, an agency must have the document in its possession or under its custody or its control. 65 P.S. § 67.705. The Department does not maintain or have possession, custody or control of the financial statement for the Innovate in PA program.

Revenue also does not have documentation showing amounts placed back into the VFRA account, as the Department of Auditor General acts as the agent in charge of VFRA funds."

Fire Insurance Tax Fund Update from Representatives Frank Farry and Gene DiGirolamo and Senator Tommy Tomlinson

Over the last several months we have been working through a lot of bureaucratic red tape, with several different agencies, to uncover the process of fund transfers into and out of the Fireman's Relief Fund. We did learn that money transferred to Innovate PA from Fireman's Relief is being replenished by the General Fund. The reconciliation process used by the Department of Revenue creates a timing difference in when the deposits are transferred. The good news is that by the time the Innovate PA program ends all of the fire relief funds will have been replenished by the General Fund. What we have discovered is that a change in how insurance companies classify themselves has caused less funds to be directed to fireman's relief and more funds transferred to municipal pensions. Given what we have just learned we will be working with our colleagues to bring about a legislative fix for the volunteer fire companies.