

**Fact Sheet**  
**LB&FC Report on the Distribution of State Aid to**  
**Volunteer Firefighters' Relief Associations**

**Background:**

Each year a portion of the revenues from the state's Gross Premiums Tax is allocated to help support local volunteer fire-fighting efforts. Revenues come from the foreign fire insurance premium tax, a 2 percent tax on insurance premiums written by foreign (i.e., out-of-state) companies operating in Pennsylvania. By law, the Department of the Auditor General is responsible for allocating this funding based on a formula which takes into account each municipality's population and the market value of its real estate. House Resolution 319 of 1998 directed the LB&FC to examine the equity of this formula.

**Overview (Pages 1-47):**

1. *The Formula and How Funding Is to Be Used.* The formula that currently governs the allocation of foreign fire insurance premium tax revenues was established in 1984 by the Foreign Fire Insurance Tax Distribution Law. Under this formula, each of the Commonwealth's municipalities is entitled to an allocation calculated 50% based on its population and 50% based on the market value of real estate within its boundaries. Funding derived through the formula is to be used to provide financial protections for volunteer firefighters and their dependents, survivors, and heirs; and to purchase equipment and other "safeguard" items for volunteer firefighters. A reasonable interpretation of the law, however, is that spending for the "financial protection" of volunteer firefighters is the priority.
2. *The 1997 Allocations.* In 1997 the statutory formula allocated \$42.5 million to municipalities served exclusively by volunteers or a combination of paid and volunteer firefighters. Allocations ranged from a low of \$117 to a high of \$534,965. About 38% of the municipalities received less than \$5,000 in state aid while about 2% received \$100,000 or more.
3. *Observations on the Equity of the Allocation Formula:* (a) Despite the substantial variations in allocation amounts, it appears that population and market value of real estate are fair and equitable factors upon which to base such a funds distribution. The greater the number and market value of buildings and structures, the greater the potential size and complexity of exposures (i.e., incidents) that require fire protection services. (b) The current formula applies only to the allocation of monies to the municipal level. Thus, even if the statutory formula yields an allocation which is "equitable" when applied at the state level, various factors and considerations may be present at the municipal and fire relief association level which could create inequities in the local distribution and expenditure of funds. (c) We found that the primary focus of local spending of the state formula funding appears to be on equipment purchases, repair and maintenance. Only about one-quarter of the spending we examined was for what could be classified as "financial protections" for firefighters. At the same time, an undetermined number of volunteer fire companies apparently do not have adequate resources to provide insurance and other necessary financial protections for their firefighters. While this does not mean that the associations are not spending monies for financial protections or that the formula itself is inequitable, it does suggest that the formula has not promoted equity in terms of the ability of individual firefighters' relief associations to provide financial protections for their members.

**Recommendations (pp. S-5 and S-6):**

The State Fire Commissioner should take the lead in conducting a survey of all Pennsylvania volunteer fire departments to determine the extent to which they are presently able to provide insurance and other "financial protections" for their firefighters. If this survey finds that a significant number of FRAs are not receiving adequate funding under the current allocation formula to provide such protections, the General Assembly should consider amending the Foreign Fire Insurance Tax Distribution Law. This amendment should provide that a portion of the annual revenues available from the foreign fire insurance premium tax be set aside to reimburse FRAs for the cost of providing a basic level of "financial protections" for all volunteer firefighters. The remainder could then be distributed according to the current formula.