Orange County Fire Authority

AGENDA STAFF REPORT

Board of Directors Meeting — **Agenda Item No. 2E**
January 27, 2022 — **Consent Calendar**

2021 Long Term Liability Study & Accelerated Pension Payment Plan

Contact(s) for Further Information

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Summary
This annual agenda item is submitted to provide information on the Orange County Fire Authority's (OCFA) total long term liabilities and strategies for mitigating and/or funding the liabilities.

Prior Board/Committee Action
On January 12, 2022, the Budget and Finance Committee reviewed the proposed agenda item and directed staff to place on the Board of Directors agenda for approval by a vote of 7-0 (Directors Kuo and Tettemer absent).

RECOMMENDED ACTION(S)
1. Receive and file the report.
2. Direct staff to adjust the FY 2021/22 General Fund budget to increase expenditures and operating transfers out by a combined value of $4,590,935, the amount identified as the unencumbered fund balance in the FY 2020/21 financial audit, and to allocate 50% or $2,295,467.50 of the funding to replenish the contingency reserve to 10% of expenditures as required by the OCFA's Financial Stability Policy, and $2,295,467.50 to the Structural Fire Fund Entitlement Fund as required under the 2010 First Amendment to the Amended Joint Powers Agreement. The specific technical budget adjustment to carry-out this action will be included in the March mid-year budget adjustment agenda item for final approval by the Board.

Impact to Cities/County
Strategic planning to reduce liabilities where possible and provide early funding for those liabilities which cannot be reduced, will assist OCFA in sustaining frontline emergency services for our member agencies and the citizens we serve. Attachment 3 provides a hypothetical distribution of liabilities by member agency.

Fiscal Impact
During the past eight years, the OCFA Board of Directors' support of the Accelerated Pension Payment Plan has enabled OCFA to make accelerated payments totaling $124.3 million, resulting in interest savings of $46.8 million on behalf of the Orange County citizens and taxpayers who fund our services.

Background

In order to determine an agency's financial stability, one must look at all of its long-term obligations or liabilities, not just pensions. The Liability Study (Attachment 1) examines all of OCFA's long-term liabilities, with primary focus on the pension liability and retiree medical liability.

Accelerated Pension Payment Plan

During FY 2020/21, OCFA made additional payments towards its Unfunded Actuarially Accrued Liability (UAAL) totaling $15.8 million to the Orange County Employees' Retirement System (OCERS). To evaluate progress associated with the accelerated funding of OCFA's pension liability, OCFA requested OCERS' actuary, Segal Consulting, to update the following:

- How much OCFA saved in interest annually since 2013 by making additional payments towards its UAAL?
- When would OCFA achieve 85% funding and 100% funding if it continued to make additional UAAL payments under its Snowball Plan?

The actuary reported back that OCFA has saved $46.8 million in interest by making additional payments towards its UAAL and has achieved 87.7% funding as of December 31, 2020, and will achieve 100% funding by December 31, 2025, assuming all other actuarial inputs are held constant.

Irvine Settlement Agreement

As part of the Irvine Settlement Agreement, OCFA agreed to establish a 115 Trust and to make annual deposits of $2 million, dedicated solely for future application to OCFA's pension liability. On May 23, 2019, the OCFA Board approved establishing the 115 Trust with the Public Agency Retirement Services (PARS), and the initial deposit of $2 million was made on July 1, 2019. OCFA is to continue to make annual deposits of $2 million in July of each year. However, if OCFA has not funded 85% of its pension liability as determined by OCERS by June 30, 2021, then the required 115 Trust payment will be reduced to $1,500,000 per fiscal year until OCFA achieves the targeted 85% funding level and the $500,000 reduction will instead be contributed to OCERS as an additional employer pension contribution. Since OCFA's pension plan is currently 87.7% funded, for FY 2021/22 the full $2 million will be deposited into the PARS 115 Trust to reduce the pension liability.

A hypothetical allocation of OCFA's pension liability by member city can be found in Attachment 3, and the allocation of the PARS 115 trust assets by member city can be found in Attachment 4.

The OCFA has already taken many steps to reduce some of its long-term liabilities and accelerate funding of other liabilities. Staff is committed to continue seeking additional ways to mitigate liability impacts, fund the accrued liabilities, and ensure the long-term viability of the organization.

Attachment(s)

1. 2021 Long Term Liability Study
2. Updated Snowball Strategy
3. Hypothetical Allocation of Pension Liability Per City
4. Allocation of PARS 115 Trust Assets by City
5. January 12, 2022 B&FC PowerPoint Presentation

Attachment 1

O R A N G E   C O U N T Y   F I R E   A U T H O R I T Y

2021
LIABILITY STUDY

OCFA'S LONG TERM LIABILITES

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OCFA'S LONG TERM LIABILITY STUDY

I. OBJECTIVE

One of the key components of fiscal responsibility is prudent management of long-term liabilities. The objective of this annual study is to provide an accurate assessment of the OCFA's ***total*** long-term obligations and to continuously identify strategies to reduce and/or fund the liabilities.

II. BACKGROUND

OCFA's long term liabilities include:

A. Defined Benefit Pension Plan
B. Defined Benefit and Defined Contribution Retiree Medical Plans
C. Workers Compensation Claims
D. Accrued Compensated Absences (accumulated sick and vacation payouts)
E. Leases (new this year)

The liabilities above, and strategic funding for each, remain a focus for OCFA as discussed in more detail below.

A. DEFINED BENEFIT PENSION PLAN

In a *defined benefit plan,* employees receive *specific benefits* upon retirement, based on a pre-established formula. For example, a pension plan may provide retirees an annual retirement income which is determined in accordance with an agreed-upon formula, such as a predetermined percentage of annual earnings multiplied by the number of years of service.

The OCFA participates in the Orange County Employees' Retirement System (OCERS), a cost sharing multiple-employer, defined benefit pension plan. All OCFA regular, full-time, and part-time employees become members of OCERS upon employment, and the OCFA makes periodic contributions to OCERS as part of the funding process. The contributions submitted to OCERS are divided into employer and employee contributions. The combination of these contributions and investment income from OCERS' investments are structured to fund the employees' retirement benefits by the time the employees retire.

The OCFA's employees are distributed into two employee categories for purposes of retirement benefits, identified as Safety members and General members. Both the Safety and General categories include three tiers of retirement benefit formulas each, depending on date of hire:

	Hired Prior to July 1, 2012	**Hired Between July 1, 2012 – Dec. 31, 2012**	**Hired on or after Jan. 1, 2013 (w/out reciprocity)**
Safety	3% @ 50	3% @ 55	2.7% @ 57

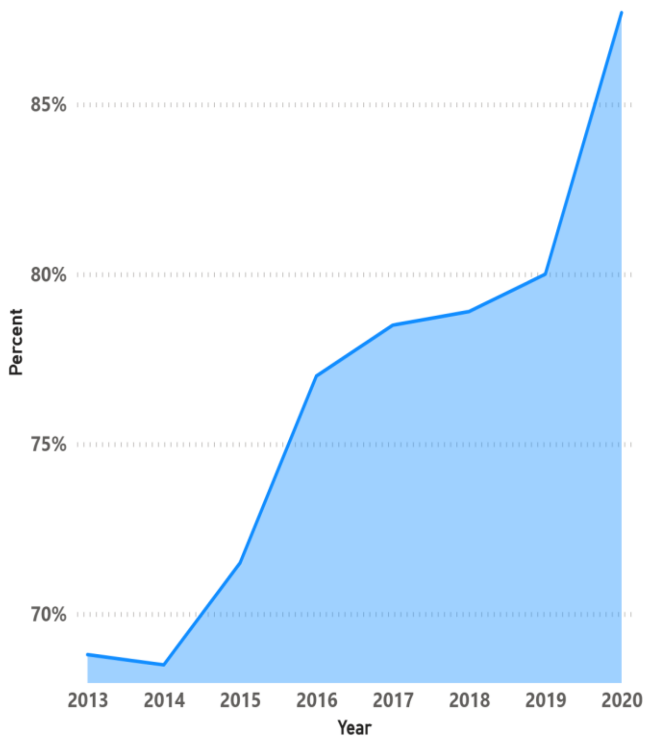
	Hired Prior to July 1, 2011	**Hired Between July 1, 2011 – Dec. 31, 2012**	**Hired on or after Jan. 1, 2013 (w/out reciprocity)**
General	2.7% @ 55	2% @ 55	2.5% @ 67

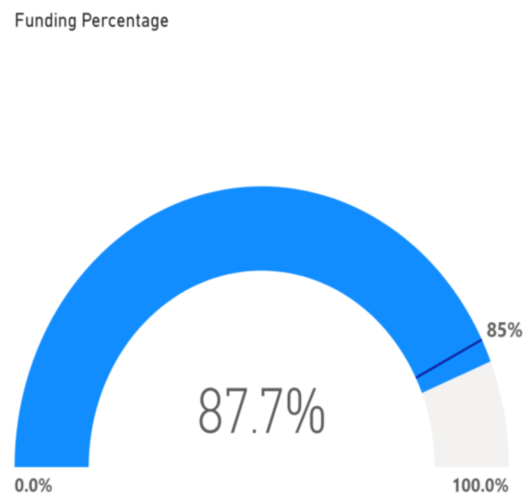
OCFA Retirement Costs, Liabilities and Funding

OCFA's annual retirement costs (mandatory costs plus voluntary accelerated payments) represent approximately $96 million or 21% of the Authority's FY 2021/22 General Fund budget. Each year, the Authority receives its retirement rates from OCERS. The total retirement rate has two components: the Normal Cost Component plus the current year's cost for the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost Component is the cost to pay for the current year's value of retirement benefits as earned. The UAAL Component is the accrued liability for past services which were not funded by prior contributions and investments.

The UAAL is determined by the actuary and is the difference between the present value of accrued liabilities and the value of assets as of a specific date. This amount changes over time as a result of changes in accrued benefits, pay levels, rates of return on investments, changes in actuarial assumptions, and changes in the demographics of the employee base.

Pension Liability Funding Level





Based on the December 31, 2020, valuation by OCERS, the Authority's total UAAL was $275.6 million with $241.4 million or 88% attributed to Safety members and $34.2 million or 12% attributed to General members. As shown above, OCFA's pension plan is 87.7% funded. The OCFA reduces its UAAL over time as part of the annual required pension contribution to OCERS as shown below:

General Members (2.7% @ 55, 2.0% @ 55, and 2.5% @ 67 combined)

*Employer Rate **	**2020 Valuation** (FY 22/23 rates)	**2019 Valuation** (FY 21/22 rates)
Normal Cost	12.90%	12.34%
UAAL	11.49%	14.06%
Total	24.39%	26.40%

Safety Members (3.0% at 50, 3% @ 55 and 2.7% @ 57 combined)

*Employer Rate **	**2020 Valuation** (FY 22/23 rates)	**2019 Valuation** (FY 21/22 rates)
Normal Cost	24.29%	24.33%
UAAL	16.36%	23.79%
Total	40.65%	48.12%

* Totals do not include *Employee Rates*, which vary based on age of entry and retirement formula. *Employee Rates* range from 5.26% - 12.16% for General and 9.08% - 14.19% for Safety. Rates are also after adjustment for additional UAAL contributions made from 2014 to 2021.

Two events have the greatest impact on plan funding: (1) plan changes, namely benefit formula changes and (2) differing actual experience requiring a modification in assumptions to reflect reality such as life expectancy. Other assumptions that impact the funding and UAAL include:

1. The assumed rate of return
2. The rate of increase in salaries
3. Member mortality
4. The age at which members choose to retire
5. How many members become disabled
6. How many members terminate their service earlier than anticipated

The assumed rate of return, also known as the discount rate, is a critical issue impacting OCFA's UAAL. The higher the discount rate, the lower the present value of pension assets needed to meet future pension obligations. A lower discount rate increases the current unfunded pension liabilities.

In 2013, the OCERS Board voted to lower the interest rate assumption from 7.75% to 7.25% which increased OCFA's annual retirement costs by $7.5 million. This increase was phased in over a two-year period starting in FY 2014/15.

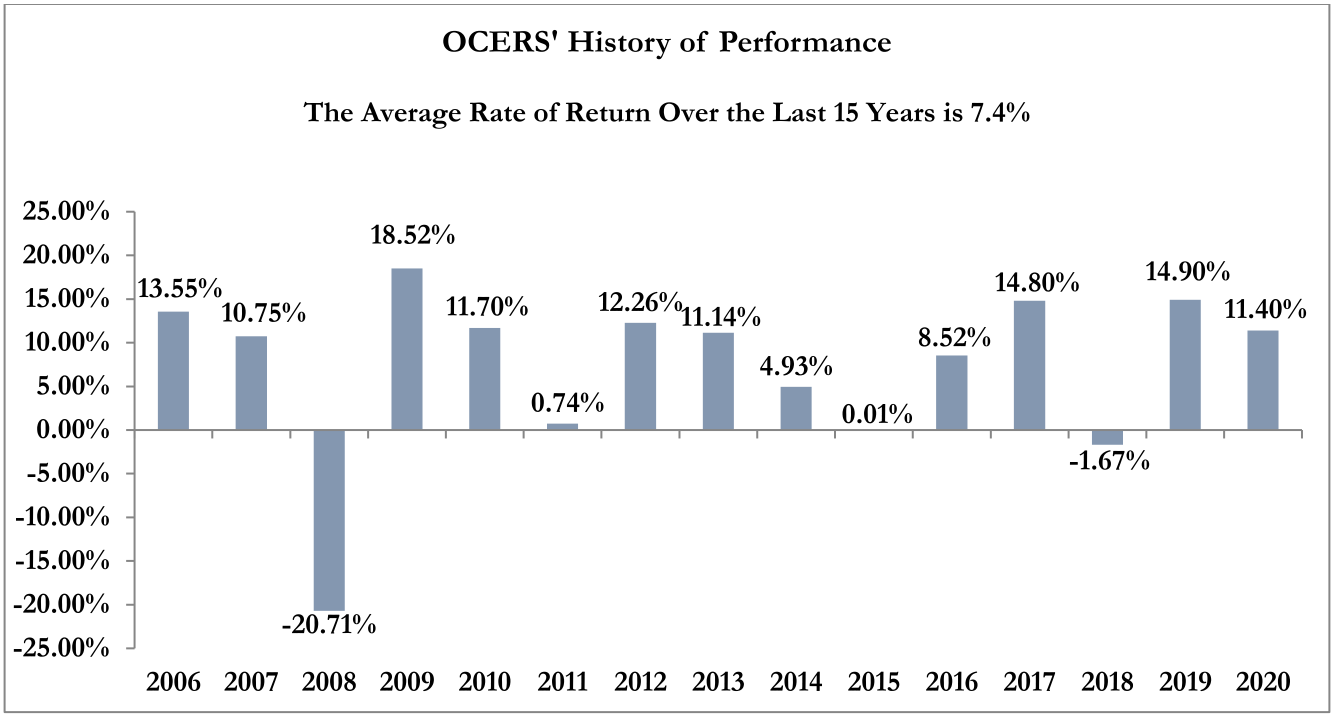
In October 2017, the OCERS Board voted to lower the interest rate assumption again from 7.25% to 7.0%. It also voted to update the mortality tables based on generational mortality. The updated mortality tables indicate that people are living longer which means they will collect a pension longer resulting in an increase in retirement costs. These new assumption changes increased OCFA's retirement contribution rates by 3.73% of pay or approximately $5 million per year beginning in July 2019.

In 2018, OCERS investment return was negative 1.67% and less than its assumed rate of return of 7.0%. This resulted in an increase to OCFA's UAAL from $400.6 million in 2017 to $426.7 million in 2018.

In 2019, OCERS investment return was 14.4%. However, despite exceeding its 7.0% assumed rate of return and additional payments made by OCFA towards its UAAL, OCFA's UAAL did increase by $8.0 million from $426.7 million to $434.7 million. Most of the UAAL increase was attributed to prior years' investment losses and higher actual versus expected retiree cost of living adjustment (COLA). In addition, actual experience for mortality, rate of retirement, turnover, and disability came in higher than the actuary projected resulting in an actuarial loss.

In 2020, OCERS exceeded its 7% assumed rate of return and earned 11.4%. OCERS' strong market performance, along with changes to its long-term actuarial assumptions and additional payments OCFA has made towards its unfunded pension liability, significantly decreased OCFA's UAAL. The UAAL decreased by $159.1 million from $434.7 million in 2019 to $275.6 million in 2020.

The following chart shows a history of OCERS' investment performance over the past fifteen years. Although there have been years in which OCERS exceeded its assumed rate of return, the years in which OCERS incurred significant losses, such as the 21% loss in 2008, have a dramatic negative impact. OCERS' average return for the 15 years reflected below is 7.4%, which is slightly above its assumed rate of return of 7.0%.



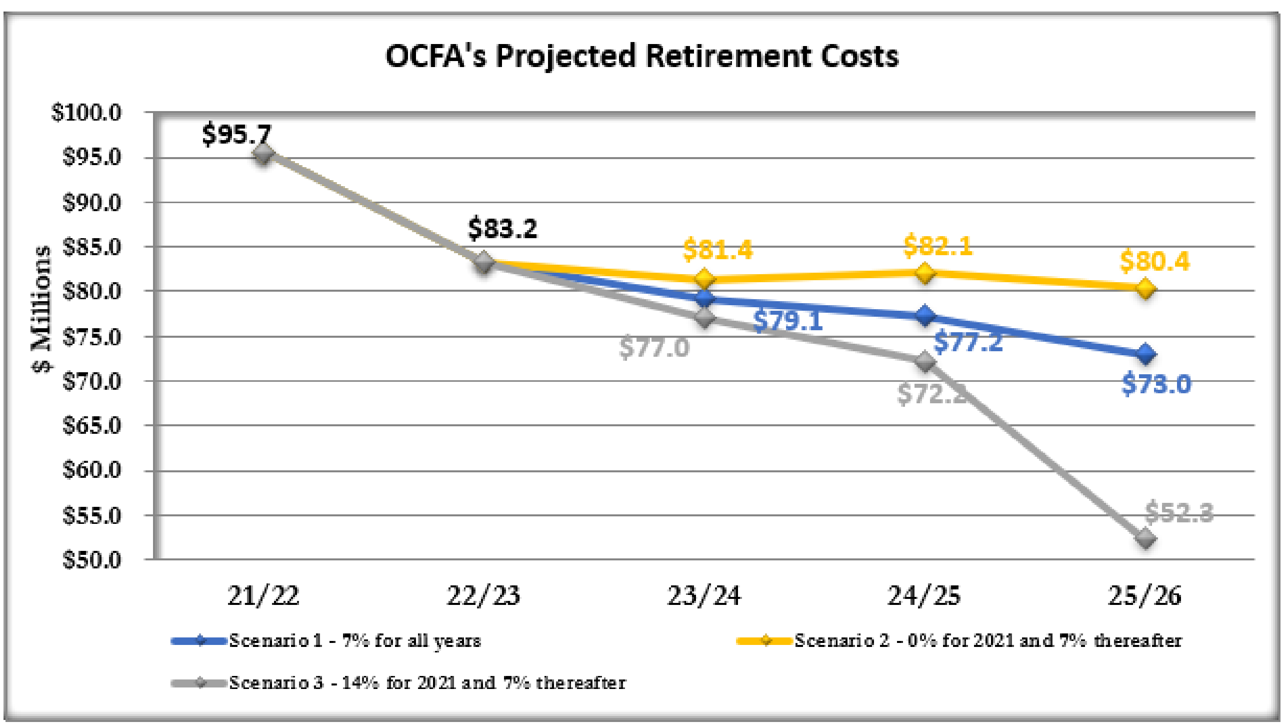
OCERS' investment return also impacts the funding level of the entire system, as demonstrated in the following chart. After the 21% loss in 2008, OCERS UAAL increased, and its funding level began to drop. The funding level started to improve in 2013 when OCERS rate of return exceeded the assumed rate of return. The funding level continued to improve in 2020.

OCERS' Schedule of Funding Progress
(Dollars in Thousands)

Actuarial Valuation Date December 31	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total UAAL (b-a=c)	Funded Ratio (a/b)
2001	$4,586,844	$4,843,899	$257,055	94.69%
2002	4,695,675	5,673,754	978,079	82.76%
2003	4,790,099	6,099,433	1,309,334	78.53%
2004	5,245,821	7,403,972	2,158,151	70.85%
2005	5,786,617	8,089,627	2,303,010	71.53%

2006	6,466,085	8,765,045	2,298,960	73.77%
2007	7,288,900	9,838,686	2,549,786	74.08%
2008	7,748,380	10,860,715	3,112,335	71.34%
2009	8,154,687	11,858,578	3,703,891	68.77%
2010	8,672,592	12,425,873	3,753,281	69.79%
2011	9,064,355	13,522,978	4,458,623	67.03%
2012	9,469,208	15,144,888	5,675,680	62.52%
2013	10,417,125	15,785,042	5,367,917	65.99%
2014	11,449,911	16,413,124	4,963,213	69.76%
2015	12,228,009	17,050,357	4,822,348	71.72%
2016	13,102,978	17,933,461	4,830,483	73.06%
2017	14,197,125	19,635,427	5,438,302	72.30%
2018	14,994,420	20,703,349	5,708,929	72.43%
2019	16,036,869	21,916,730	5,879,861	73.17%
2020	17,525,117	22,904,975	5,379,858	76.51%

The chart below provides three OCERS rate of return scenarios. Scenario 1 assumes OCERS will earn its assumed rate of return of 7.0% in 2021 and future years. Scenario 2 assumes that OCERS will not earn its assumed rate of return, and instead will earn 0.0% in 2021 and 7.0% in future years. Scenario 1 contrasts with Scenario 2 and demonstrates the significant increase to retirement contribution rates when OCERS does not earn its assumed rate of return. Scenario 3 assumes a 14% return in 2021 and a 7% return in future years. Note here that the opposite impact occurs, with a significant decrease to retirement contribution rates when OCERS significantly exceeds its assumed rate of return. This data is presented to demonstrate the potential impacts that can (and do) occur from time to time when the system earns less (or more) than assumed. OCERS' year-to-date 2021 preliminary return as of November is 13.6%. It has an assumed rate of 7.0% and is on a calendar year basis.



OCFA has taken steps to increase employee contributions, reduce benefits by establishing new tiers, and accelerate the paydown of the UAAL with the long-term goal to ensure adequate pension funding. However, other factors (such as OCERS' investment performance) are beyond the OCFA's control, yet these factors have a significant impact on determining retirement rates and ensuring adequate funding.

Accelerated Pension UAAL Payment Plan

In September 2013, the OCFA Board of Directors approved an Accelerated Pension UAAL Payment Plan. The accelerated plan has the following benefits:

- Results in OCFA's pension liability being paid off sooner
- Earlier and larger contributions into the pension system result in greater investment income earned
- Greater investment income earned results in less money paid by the employer over the long term

OCFA's accelerated payment plan originally involved three components including (1) use of year-end fund balance available, (2) contributing additional funds each year using savings achieved under PEPRA or other annual actuarial gains, and (3) contributing an additional $1 million per year in budgeted funds, with the annual budget allocation building to $5 million per year by year five.

The number of employees who fall under PEPRA continues to increase as shown in the table below. Over time, this will lower OCFA's retirement costs since PEPRA employees receive a less costly benefit.

	General		Safety		Total	
PEPRA	180	12.10%	422	28.36%	602	40.46%
Legacy	141	9.47%	745	50.07%	886	59.54%
Total	**321**	**21.57%**	**1,167**	**78.43%**	**1,488**	**100%**

In FY15/16, the plan was modified to include the following:

- Contributing an additional $1 million each year starting in 2016/17 and increasing by $2 million each year until it reaches $15 million and continuing at $15 million thereafter
- Contributing $1 million per year from surplus fund balance available in the Workers' Compensation Self Insurance Fund starting in 2016/17 for five years

In FY16/17, the plan was modified again to include the following:

- Contributing $7,633,021 in FY 2017/18 from General Fund surplus and continuing in different amounts until OCFA's funding goal is achieved
- Reduced the accelerated funding goal from 100% to 85% for OCFA's pension liability with the added policy to redirect expedited payment dollars to OCFA's retiree medical liability after achieving the 85% target for the pension liability.

To date, OCFA has made the following additional payments towards its UAAL:

FY 13/14 $ 5.5 million

FY 14/15	21.3 million
FY 15/16	15.4 million
FY 16/17	13.5 million
FY 17/18	19.9 million
FY 18/19	19.2 million
FY 19/20	13.7 million
FY 20/21	15.8 million
Total	**$124.3 million**

The outcomes from the accelerated payment plan implementation in FY 2013/14 through FY 2020/21 along with OCFA's anticipated future year accelerated payments were submitted to OCERS' actuary to determine:

1. How much OCFA saved in interest annually since 2013 by making additional payments towards its UAAL?
2. When would OCFA achieve 85% funding and 100% funding if it continued to make additional UAAL payments under its Snowball Plan?

The actuary reported back that OCFA has saved $46.8 million in interest by making additional payments towards its UAAL. The noted $46.8 million in interest savings has accumulated, as shown below, in correlation with our accelerated payments:

CY 2014	$ 1,012,937
CY 2015	2,084,402
CY 2016	3,295,068
CY 2017	4,322,897
CY 2018	6,059,497
CY 2019	7,839,455
CY 2020	9,855,226
CY 2021	12,330,862
Total	**$46,800,344**

OCFA is 87.7% funded as of December 31, 2020 and is expected to achieve 100% funding by December 31, 2025, assuming all other actuarial inputs are held constant**.**

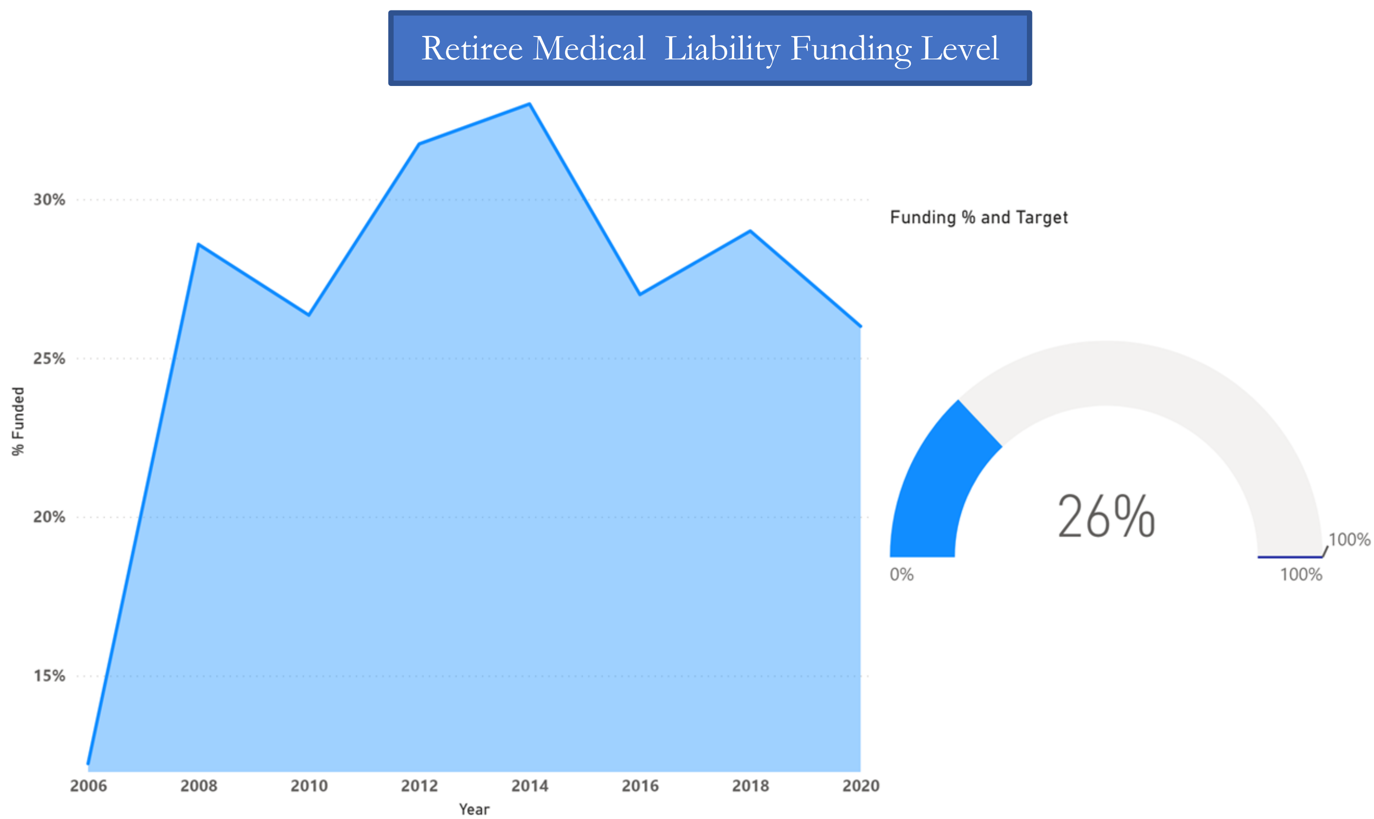
All of the above strategies will reduce the OCFA's existing UAAL more rapidly, and effectively shorten the weighted-average amortization period. Shortening the amortization period will have many benefits to OCFA. Although it causes our employer contributions to rise during the expedited payment period, it results in our liability being paid off sooner. Earlier payments of contributions will result in greater investment income earned and less money paid from the employer over the long-term.

B. DEFINED *BENEFIT* RETIREE MEDICAL PLAN

In addition to the OCFA's retirement plan administered by OCERS, the OCFA provides a post-employment medical retirement plan (Retiree Medical Plan) for certain employees. Employees hired prior to January 1, 2007, are in a *defined benefit plan* that provides a monthly grant toward the cost of retirees' health insurance coverage based on years of service. The Plan's assets are held in an irrevocable trust for the exclusive benefit of Plan participants and are invested by OCERS. As such, if OCERS does not earn its assumed rate of return of 7.0%, the UAAL increases. Current active employees hired prior to January 1, 2007, are required to contribute 4% of their gross pay toward the Retiree Medical Plan.

Based on a Funding Adequacy Analysis prepared by Nyhart, a third-party actuary, as of June 30, 2020, the OCFA's Unfunded Actuarial Accrued Liability (UAAL) for the Retiree Medical defined benefit plan is $106.5 million and it is 26% funded. The UAAL continues to increase because there are no new entrants into the Plan to contribute to the funding, each year additional employees retire and begin collecting the grant, the medical grant increases each year based on the 5% maximum, and occasionally changes are made to the underlying assumptions such as the investment return and mortality tables.

Under the Government Accounting Standards Board (GASB) Statement No. 45, OCFA was required to have an actuarial valuation performed on its Retiree Medical Plan every two years. Even though GASB 45 has now been replaced by GASB 74 and 75, OCFA will continue its practice of updating the funding analysis every two years with the next update taking place in 2022.



Note: Does not include implicit subsidy and uses OCERS assumed rate of return of 7.75% in 2012, 7.25% up to 2016, and 7.00% thereafter.

The benefit provided under the OCFA's Retiree Medical Plan is a negotiated benefit included in the various Memorandums of Understanding and the Personnel & Salary Resolution for employees hired prior to January 1, 2007.

The OCFA has previously approached funding issues and plan sustainability issues relating to this Plan collaboratively with its labor groups in order to identify options for improving the funding status. Similar to previous approaches, following receipt of the 2012 Actuarial Study for this Plan, management met with representatives of all three labor groups to review the findings. In 2013, we gathered ideas from labor for options that may be considered in the future to improve the funding status of the Plan and had the actuary perform a special actuarial study to evaluate the various options and associated impacts on plan funding. The results of the special study were shared with each of the labor groups.

On November 17, 2016, the OCFA Board directed staff to continue the Accelerated Pension Payment Plan as indicated in the Updated Snowball Strategy, with a modification to alter the funding target from 100% to 85% and redirect expedited payment dollars to Retiree Medical after achieving the 85% target.

- As of December 31, 2020, OCFA's pension liability became 87.7% funded; therefore, snowball payments effective in the FY 2021/22 Adopted Budget (and in years moving forward) are now being directed to the Retiree Medical Liability.
- Projected snowball payments for FY 2021/22 and moving forward (see Attachment 2), when applied to the current $106.5 million UAAL for Retiree Medical, demonstrate that this liability may achieve 100% funding by approximately 2025 or 2026.

In addition to the snowball strategy funding for Retiree Medical, in April 2017, the OCFA Board approved a renewed Health Plan Agreement with the Orange County Professional Firefighters Association from January 1, 2017 to December 31, 2021. One of the related provisions is as follows:

> *… to continue return of "excess fund balance" to OCFA with returned funds to be allocated to OCFA's Retiree Medical Trust Fund.*

2016 Firefighter Medical Trust Review: An excess fund balance in the amount of $2,275,829 was credited to OCFA and used as a payment to the Retiree Medical Trust per the Firefighter Medical Agreement. The payment was approved by the Board as part of the FY 2017/18 Mid-Year Budget Adjustments.

2020 Firefighter Medical Trust Review: An excess fund balance in the amount of $1,954,775 will be credited to OCFA and used as a payment to the Retiree Medical Trust per the Firefighter Medical Agreement. The payment will be submitted to the Board as part of the FY 2021/22 Mid-Year Budget Adjustments.

Management and labor will continue to meet on this topic as needed.

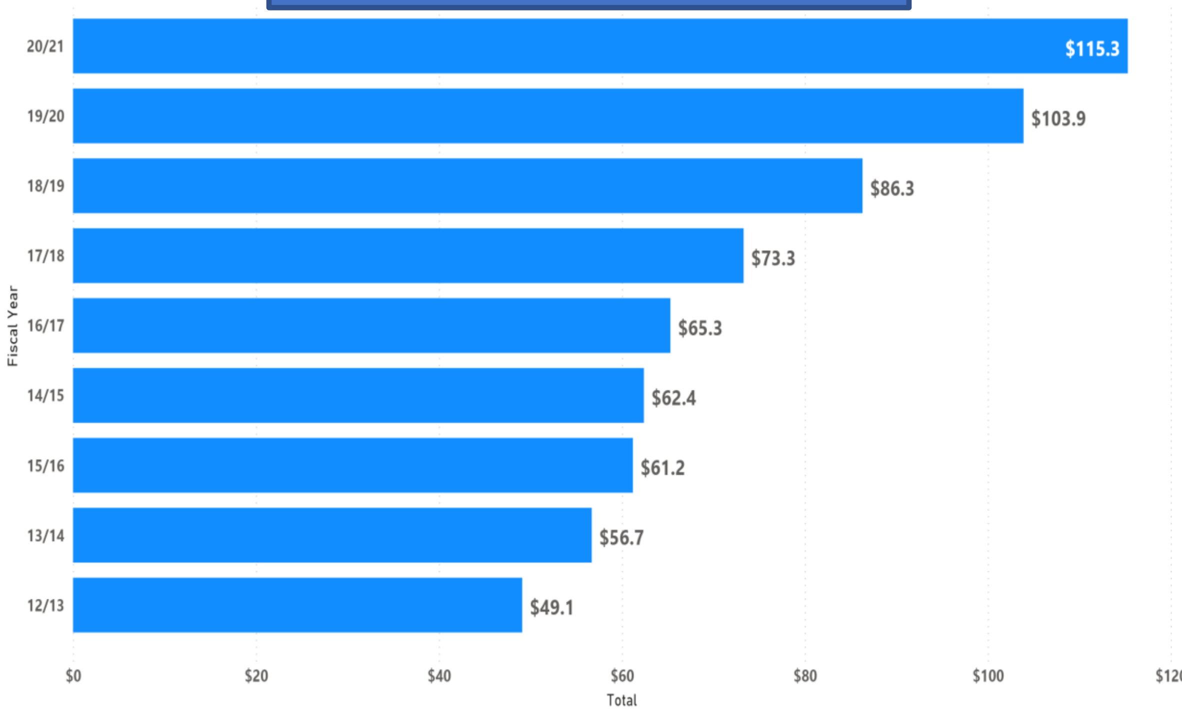
B. DEFINED *CONTRIBUTION* RETIREE MEDICAL PLAN

For employees hired on or after January 1, 2007, the OCFA created a *defined contribution plan* that is administered by Further. The Plan provides for the reimbursement of medical, dental, and other healthcare expenses of retirees. Employees are required to contribute 4% of their gross pay. Account assets are invested as directed by the participant and all contributions, investment income, realized gains and losses are credited to the individual's account. Under this plan structure, there is no UAAL.

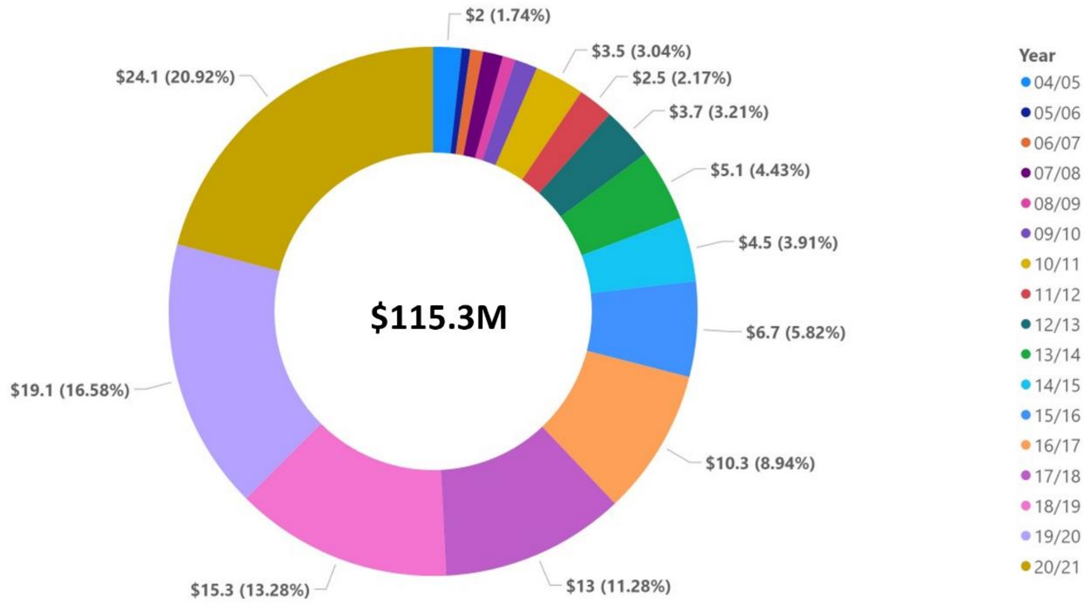
C. WORKERS' COMPENSATION CLAIMS

In March 2002, OCFA implemented a workers' compensation self-insurance program. A separate fund called Fund 190: Self Insurance was established in May 2003 to track funding and expenditures for workers' compensation claims liability. The funding sources include revenue from the General Fund and interest earnings. The Fiscal Year 2021-22 Budget includes $113.0 million set-aside in reserves to pay this liability as the various medical claims and bills become due. The December 2021 Actuarial report is currently in process and expected to be completed in early January. Staff will be recommending for Board approval any necessary budget adjustments at mid-year to fully fund the Workers Compensation Fund.

Cumulative Outstanding Workers' Compensation Claims (in millions)



Cumulative Outstanding Workers' Compensation Claims by Year (in millions)



The outstanding liability reflected in the above charts reflect the fact that although the entire future cost of claims is recorded in the year of injury, the actual payment of that claim does not occur immediately. The cash flow payments for many workers' compensation cases occur slowly over time; therefore, it is a natural occurrence that the unpaid liability for a self-insured system will grow as the unpaid liabilities build upon each other over the years. Continued increases can also be driven by other forces, such as increased medical costs, increased claim activity, legislative changes, and case law.

The workers' compensation liability reflects the present value of estimated outstanding losses at the 50% confidence level. A confidence level is the statistical certainty that an actuary believes funding will be sufficient. For example, a 50% confidence level means that the actuary believes funding will be sufficient (i.e., greater-than or equal to actual costs incurred) in five out of ten years. OCFA's Board-adopted workers' compensation funding policy sets the funding at the 50% confidence level.

The main factors which are increasing the workers' compensation liability include increased medical costs, an increase in the frequency and severity of claims, COVID-19 cases, a growing number of mental health cases, and an aging workforce which contributes to a longer recovery time and higher permanent disability benefits. Additional factors include workers' compensation reform that increased the statute of limitation for cancer from five to ten years, injury presumption for safety personnel, and increases to the workforce including April 2012 with the addition of the City of Santa Ana and August 2019 with the addition of the City of Garden Grove. Both cities reimburse OCFA for injuries that initially occurred on or before they joined OCFA.

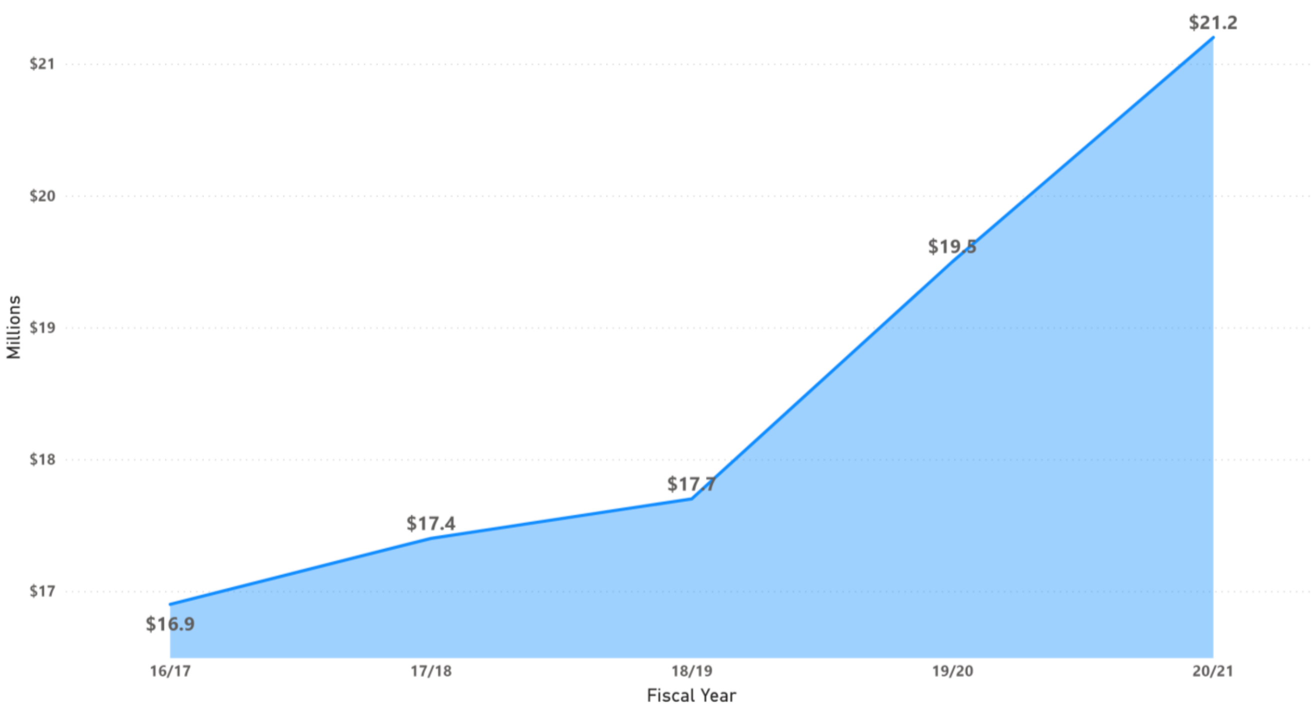
D. ACCRUED COMPENSATED ABSENCES

Compensated absences are commonly described as paid time off made available to employees in connection with sick and vacation time. If employees do not use all of such compensated absences, a liability is accrued for the unused portion. The OCFA's policy allows employees to accumulate earned but unused sick and vacation pay benefits.

OCFA's labor agreements allow employees to cash out sick and vacation time throughout their career with the exception of the Local 3631 Firefighter unit, which can only cash out vacation time. However, the majority of sick and vacation payouts occur at the time an employee retires.

The OCFA has budgeted $6.8 million for sick and vacation payouts in FY 2021/22 based on historical trends and expected retirements. OCFA's total liability for compensated absences as of June 30, 2021, is $21.2 million. This liability has continued to grow in the last two years as employees have taken less sick and vacation time during the pandemic, and as MOU salary increases cause the value of accrued leave to increase.

Compensated Absences



E. CAPITAL LEASES

During FY 2020/21, OCFA implemented Government Accounting Standards Board (GASB) Statement No. 87 which requires all leases to be reported as capital leases and eliminates the classification of an operating lease unless the lease is a short-term lease, defined as 12 months or less. Contracts for these leases must appear on the balance sheet as a liability. OCFA's long-term lease liabilities total $5.1 million and are listed in the table below.

	$ Amount
Land Lease	$ 4,679,622
Helicopter Training Tower	238,888
Copier	174,672
Utility Trucks	55,204
Total	**$ 5,148,386**

Prior to the capital leases listed above, in December 2008, the OCFA entered into a ten-year Lease Purchase Agreement to purchase two helicopters and related equipment for a purchase price of $21.5 million. The final payment was made in December 2018.

III. SUMMARY

OCFA's total long term, unfunded liabilities as of June 30, 2021,* are as follows:

	$ Amount in Millions	*% of Total*
Defined Benefit Pension Plan *	$ 275.6	67.5%
Defined Benefit Retiree Medical Plan	106.5	26.1
Accrued Compensated Absences	21.2	5.2
Capital Leases	5.1	1.2
Total	**$408.4**	**100.0%**

*Note: the valuation date for the pension plan is December 31, 2020, instead of June 30, 2020, consistent with OCERS' calendar year basis for financial reporting. Workers' Compensation will be fully funded at mid-year and therefore not reflected as an unfunded liability.

IV. ACTIONS TAKEN

OCFA has taken several additional steps to manage its long-term obligations:

1. As of December 31, 2020, OCFA's pension liability is 87.7% funded. Based on Board policy to achieve 85% funding, future snowball payments will now be directed to the Retiree Medical Liability
2. As part of the 2019 Irvine Settlement Agreement, OCFA agreed to establish a 115 Trust and to make annual deposits of $2 million, dedicated solely for future application to OCFA's pension liability. After the initial $2 million payment in July 2019, if OCFA's pension is less than 85% funded, the annual deposit is reduced to $1.5 million and $500,000 is directed towards the UAAL paydown.
3. In 2017, OCFA negotiated a five year Health Plan Agreement with the firefighter labor group which contained a provision to return excess fund balance and allocate those funds to the Retiree Medical Trust Fund.
4. In FY 2015/16 and again in FY 2016/17, OCFA modified its Accelerated Pension Paydown Plan to include additional sources of funding.
5. During 2015 and 2016, OCFA completed negotiations with all four labor groups resulting in increased employee contributions towards retirement.
6. On June 26, 2014, the Board approved an Alternative Dispute Resolution process for disputed workers' compensation cases, also known as a Carve-Out program. The State has approved the program and it was implemented on October 1, 2014.
7. On September 26, 2013, the Board approved a strategy to accelerate the pay down of OCFA's pension liability. Under this Plan, the actuary, the Segal Company, estimates this liability will be paid by December 2025. To date, OCFA has made an additional $124.3 million in payments to OCERS to lower its UAAL.
8. Completed a special actuarial study relating to the OCFA's Retiree Medical Defined Benefit Plan to evaluate options for potential plan amendments which could improve plan funding, subject to future negotiation with OCFA's labor groups. The results of the study were shared with the labor groups.
9. Evaluated the financial feasibility of paying off the outstanding lease financing obligations associated with the OCFA's helicopters, as part of the 2014/15 budget development process.
10. Directed staff to evaluate options for mitigating the budget and liability impacts of payouts for accumulated sick and vacation balances, subject to future negotiation with OCFA's labor groups.
11. Used a trigger formula during down economic cycles to connect pay raises for all OCFA employees to OCFA's financial health.
12. Implemented lower retirement formulas for all labor groups.
13. Refinanced the helicopter lease to lower the interest rate. Last payment made in December 2018.
14. Implemented annual prepayment of retirement contributions to achieve a discount.
15. Provided a study to the Board of Directors regarding the feasibility of Pension Obligation Bonds.
16. Provided a study to the Board of Directors regarding the feasibility of changing automatic Cost of Living Allowance (COLA) increases for pensions; transmitted a copy of the report to the County Board of Supervisors and OCERS Board of Retirement, for their consideration of potential cost-containment actions relating to Pension COLAs under the authority granted by the '37 Act.

V. RECOMMENDATIONS

Recommended actions pending approval of this staff report include:

1. Receive and file the report.
2. Direct staff to adjust the FY 2021/22 General Fund budget to increase expenditures and operating transfers out by a combined value of $4,590,935, the amount identified as the unencumbered fund balance in the FY 2020/21 financial audit, and to allocate 50% or $2,295,467.50 of the funding to

the General Fund to replenish the contingency reserve to 10% of expenditures as required by the OCFA's Financial Stability Policy, and $2,295,467.50 to the Structural Fire Fund Entitlement Fund as required under the 2010 First Amendment to the Amended Joint Powers Agreement. The specific technical budget adjustment to carry-out this action will be included in the March mid-year budget adjustment agenda item for final approval by the Board.

VI. CONCLUSION

In order to strategically fund long-term liabilities, OCFA must continue to strategically balance present-day needs with future commitments. The goal is for OCFA's budget over the long-term to fund all of its long-term liabilities

Exhibit A

OCFA Member Retirement Contributions

Safety Members' Retirement

Firefighter Safety members:
Effective September 2016, 2017, 2018, and 2019, employees paid an additional 3.50%, 3.49%, 2.00%, and 0.54% in employee retirement contributions, respectively, increasing their employee contributions depending on age of entry. Thereafter, these employees will pay any subsequent increases in the employee retirement contributions. Employee rates from the most recent actuarial valuation are footnoted on Page 3. Employees hired on or after January 1, 2013, when PEPRA was enacted will continue to be subject to PEPRA requirements of 50% of normal cost for employee retirement contributions, which vary based on age of entry.

Chief Officer Safety members:
Effective July 2016, 2017, 2018, and 2019,employees paid an additional 3.50%, 3.49%, 3.30%, and 0.93% in employee retirement contributions, respectively, increasing the employee contributions depending upon their age of entry. Thereafter, these employees will pay any subsequent increases in the employee retirement contributions. Employee rates from the most recent actuarial valuation are footnoted on Page 3. Employees hired on or after January 1, 2013, when PEPRA was enacted will continue to be subject to PEPRA requirements of 50% of normal cost for employee retirement contributions, which vary based on age of entry.

General Members' Retirement

OCEA members:
Effective March 2015, 2016 and 2017, employees hired prior to January 1, 2013, paid an additional 2%, 2.5% and 3% in employee retirement contributions, respectively, increasing the employee contributions depending upon their age of entry. Thereafter, these employees will pay any subsequent increases in the cost for employee retirement contributions. Employee rates from the most recent actuarial valuation are footnoted on Page 3. Employees hired after PEPRA was enacted will continue to be subject to PEPRA requirements of 50% of normal cost for employee retirement contributions, which vary based on age of entry.

Administrative Management members:
Effective July 2015, January 2016, and January 2017, employees hired prior to January 1, 2013, paid an additional 4%, 2%, and 2.25% in employee retirement contributions, respectively, increasing the employee retirement contributions depending upon their age of entry. Thereafter, these employees will pay any subsequent increases in the cost for employee retirement contributions. Employee rates from the most recent actuarial valuation are footnoted on Page 3. Employees hired after PEPRA was enacted will continue to be subject to PEPRA requirements of 50% of normal cost for employee retirement contributions, which vary based on age of entry.

Executive Management:
Some members of Executive Management fall under Safety and others fall under General member categories. Regardless, all Executive Management employees who are not subject to the provisions of PEPRA were paying 9% in employee retirement contributions prior to March 2015. Effective March 2015, they began phased-in increases to their contribution rate with a 2% increase in employee contributions in year one, a 2.5% increase in year two and payment of full member contributions in year three, which vary based on age of entry.

Orange County Fire Authority
Expedited Payment of UAAL
Snowball Effect of Multiple Strategies
Updated October 7, 2021

Attachment 2

Years From Start of Plan	Remaining Years to Completion	Fiscal Year	Unencumbered Fund Balance Available	Annual Savings from PEPRA Reductions to Retirement Contribution Rates	Budget Increase of $1M, grows by $2M/year to $15M	Budget Increase of $1M/year Funded by Excess W/C Reserves	50% of General Fund Surplus	Irvine Settlement Agreement	Annual Snowball Amount	Cumulative Expedited UAAL Payment
			Estimated Annual UAAL Payments from Various Strategies / Sources							
			Part A	Part B	Part C	Part D	Part E	Part F		
1		13/14	3,000,000	2,500,000	-	-			5,500,000	5,500,000
2		14/15	21,290,238	-	-	-			21,290,238	26,790,238
3		15/16	12,609,380	2,802,122	-	-			15,411,502	42,201,740
4		16/17	9,814,477	1,653,114	1,000,000	1,000,000			13,467,591	55,669,331
5		17/18	13,174,516	1,886,420	3,000,000	1,000,000	870,041		19,930,977	75,600,308
6		18/19	10,000,000	3,167,397	5,000,000	1,000,000			19,167,397	94,767,705
7		19/20	4,030,172	1,648,658	7,000,000	1,000,000			13,678,830	108,446,535
8		20/21	3,000,000	2,368,859	9,000,000	1,000,000		500,000	15,868,859	124,315,394
9	1	21/22	3,000,000	3,279,280	11,000,000				17,279,280	141,594,674
10	2	22/23	3,000,000	4,787,217	13,000,000				20,787,217	162,381,891
11	3	23/24	3,000,000	5,772,547	15,000,000				23,772,547	186,154,438
12	4	24/25	3,000,000	6,814,115	15,000,000				24,814,115	210,968,553
13	5	25/26	3,000,000	14,242,631	15,000,000				32,242,631	243,211,184
14	6	26/27	3,000,000	19,647,456	15,000,000				37,647,456	280,858,640
15	7	27/28	3,000,000	20,807,106	15,000,000				38,807,106	319,665,746
16	8	28/29	3,000,000	26,075,871	15,000,000				44,075,871	363,741,617
17	9	29/30	3,000,000	26,858,147	15,000,000				44,858,147	408,599,764
			103,918,783	144,310,940	154,000,000	5,000,000	870,041	500,000	408,599,764	

Orange County Fire Authority **Attachment 3**
Hypothetical Distribution of Liabilities by Member Agency
As of June 30, 2021

Member Agency	# of EEs	2020 Incidents	% of Total EEs	Proportional Share: Pension UAAL	Proportional Share: Retiree Medical	Total
County Unincorporated (SFF)	89		10.99%	30,287,579	11,703,204	41,990,783
Station 8, 15, 18, 25, 33, 40, 58, 56						
Aliso Viejo (SFF)	16		1.98%	5,444,958	2,103,947	7,548,905
Station 57					-	
					-	
Buena Park (CCC)	51		6.30%	17,355,804	6,706,330	24,062,134
Stations 61, 62, 63					-	
					-	
Cypress (SFF)	25		3.09%	8,507,747	3,287,417	11,795,164
Station 17					-	
					-	
Dana Point (SFF)	30		3.70%	10,209,296	3,944,900	14,154,196
Stations 29, 30					-	
Irvine (SFF)	173		21.36%	58,873,609	22,748,924	81,622,533
Stations 4, 6, 20, 26, 27, 28, 36, 38, 47, 51, 55					-	
					-	
Laguna Hills (SFF)*	41	3,122	1.95%	5,385,133	2,080,830	7,465,964
Station 22 (serving both LGH & LGW)					-	
					-	
Laguna Woods (SFF)*		4,967	3.11%	8,567,571	3,310,533	11,878,105
Station 22 (serving both LGH & LGW)					-	
					-	
Laguna Niguel (SFF)	33		4.07%	11,230,226	4,339,390	15,569,616
Stations 5, 39, 49					-	
					-	
Lake Forest (SFF)	29		3.58%	9,868,986	3,813,404	13,682,390
Stations 19, 42, 54					-	
					-	
La Palma (SFF)	8		0.99%	2,722,479	1,051,973	3,774,452
Station 13					-	
					-	
Los Alamitos (SFF)	10		1.23%	3,403,099	1,314,967	4,718,065
Station 2					-	
					-	
Mission Viejo (SFF)	58		7.16%	19,737,973	7,626,807	27,364,780
Stations 9, 24, 31					-	
					-	
Rancho Santa Margarita (SFF)	27		3.33%	9,188,367	3,550,410	12,738,777
Station 45					-	
					-	
San Clemente (CCC)	33		4.07%	11,230,226	4,339,390	15,569,616
Stations 50, 59, 60					-	
					-	
San Juan Capistrano (SFF)	16		1.98%	5,444,958	2,103,947	7,548,905

Orange County Fire Authority **Attachment 3**
Hypothetical Distribution of Liabilities by Member Agency
As of June 30, 2021

Member Agency	# of EEs	2020 Incidents	% of Total EEs	Proportional Share: Pension UAAL	Proportional Share: Retiree Medical	Total
Station 7					-	
					-	
Seal Beach (CCC)	21		2.59%	7,146,507	2,761,430	9,907,938
Stations 44, 48					-	
					-	
Stanton (CCC)	17		2.10%	5,785,268	2,235,443	8,020,711
Station 46					-	
					-	
Tustin (CCC)	39		4.81%	13,272,085	5,128,370	18,400,455
Stations 21, 37, 43					-	
					-	
Villa Park (SFF)	14		1.73%	4,764,338	1,840,953	6,605,292
Station 23					-	
					-	
Westminster (CCC)	36		4.44%	12,251,156	4,733,880	16,985,036
Stations 64, 65, 66					-	
					-	
Yorba Linda (SFF)	44		5.43%	14,973,635	5,785,854	20,759,488
Stations 10, 32, 53						
Totals	**810**		**100.00%**	**275,651,000**	**106,512,305**	**382,163,305**

Note: Santa Ana and Garden Grove are excluded since the UAAL being paid down originated prior to their joining OCFA.
* Laguna Hills and Laguna Woods use a different methodolgy in calculating proportional share.

Allocation of 115 Trust - Fund 139

Attachment 4

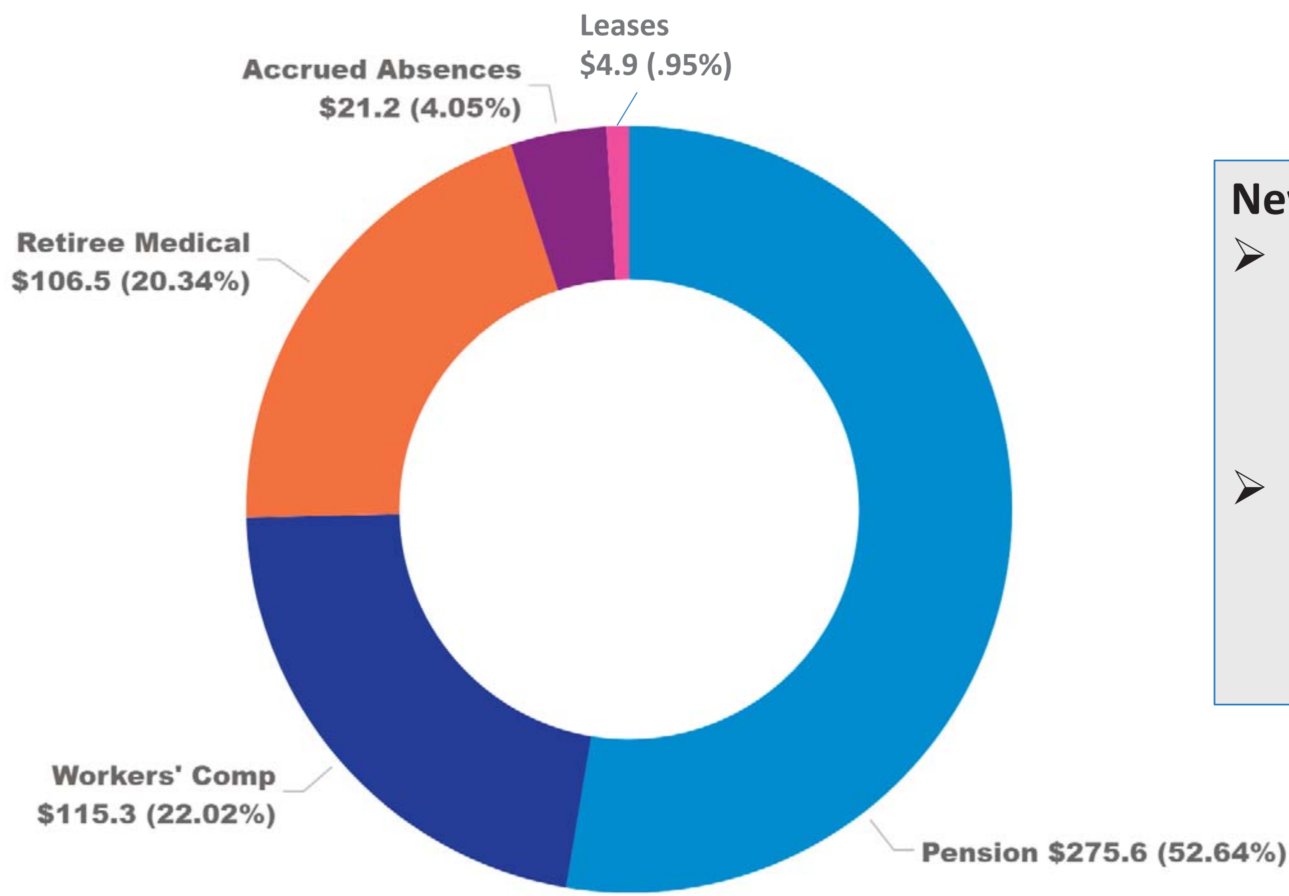
Agency	FY 2019/20	FY 2020/21	FY 2021/22	Total
Aliso Viejo	$ 33,313	$ 25,075	$ 25,707	$ 84,095
Cypress	-	-	-	-
Dana Point	222,223	183,564	183,452	589,239
Irvine	1,143,817	938,075	1,098,374	3,180,266
La Palma	-	-	-	-
Laguna Hills	-	-	42,232	42,232
Laguna Niguel	93,236	81,334	89,472	264,042
Laguna Woods	-	-	-	-
Lake Forest	62,767	54,812	-	117,579
Los Alamitos	-	-	-	-
Mission Viejo	-	-	-	-
Rancho Santa Margarita	27,625	22,504	2,003	52,132
San Juan Capistrano	-	-	-	-
Villa Park	13,406	9,805	12,019	35,230
Yorba Linda	-	-	-	-
Unincorporated	434,898	292,224	216,002	943,124
Total	**$ 2,031,285**	**$ 1,607,393**	**$ 1,669,261**	**$ 5,307,939**

Attachment 5

2021 Long-Term Liability Study

Budget and Finance Committee
January 12, 2022

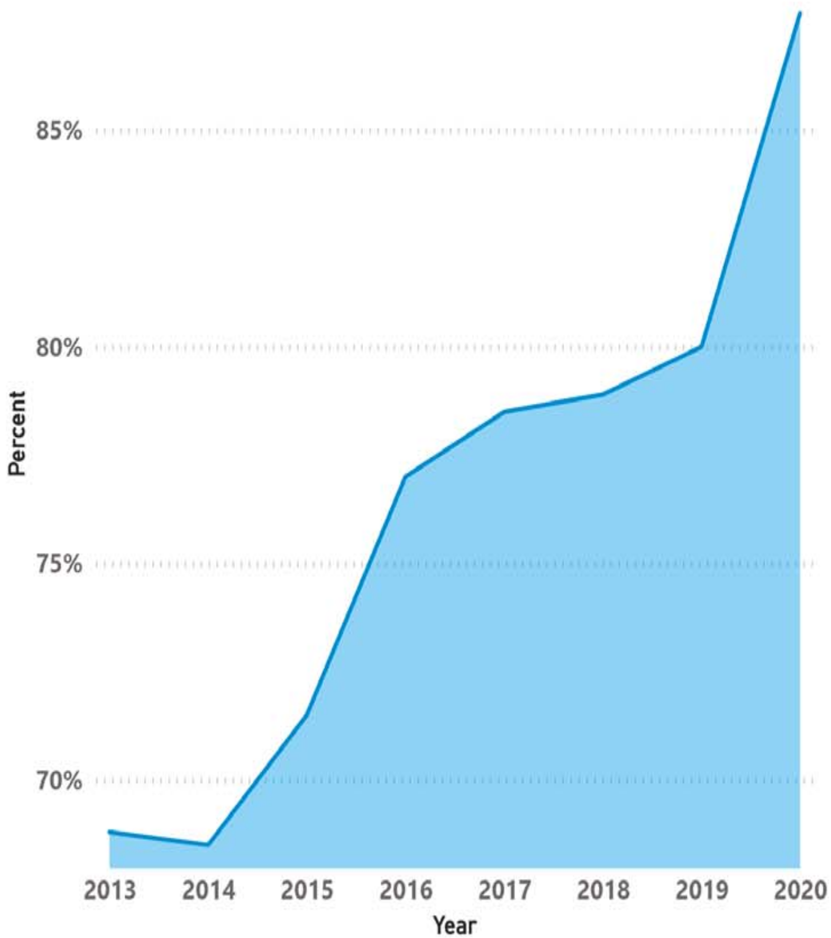
OCFA'S Long Term Liabilities
(Total $523.5 M)

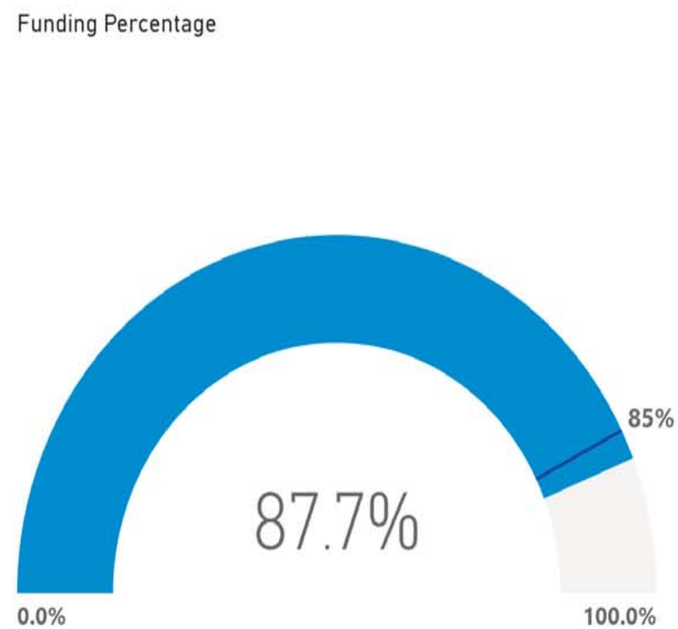


New this year -

- GASB 87 now requires Leases to be capitalized and recorded on the Balance Sheet.
- Lease category includes helicopter training tower, copiers, Fullerton Airport land lease and utility trucks.

Pension Liability Funding Level





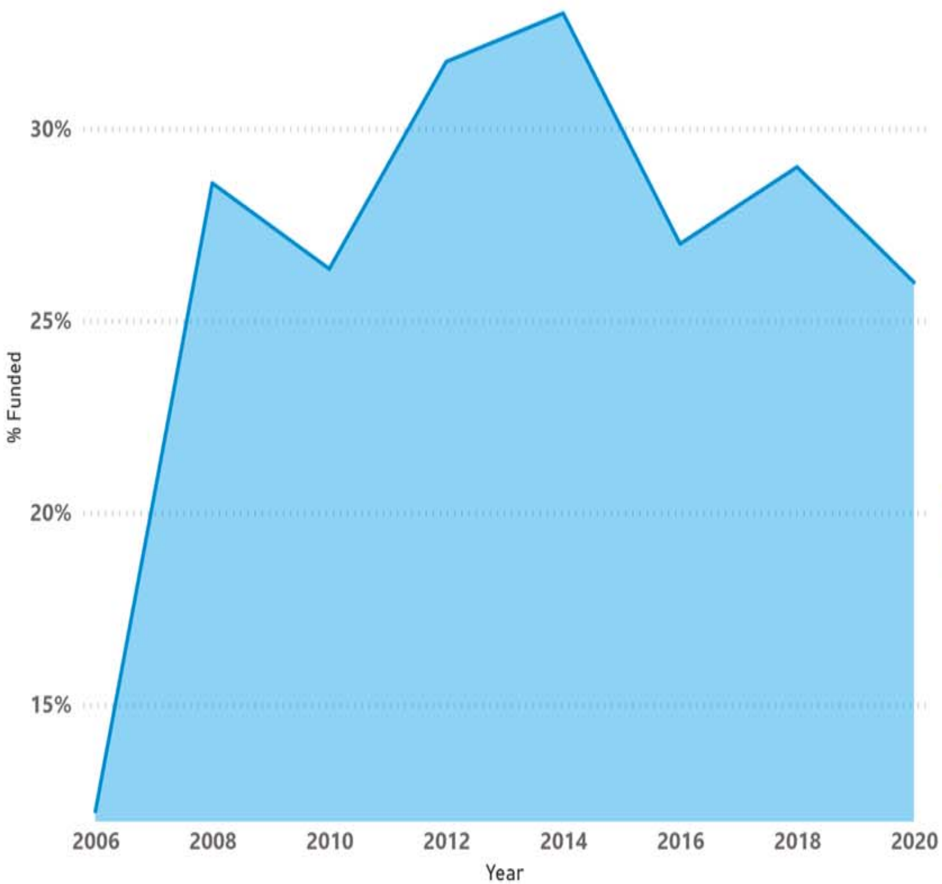
Board Directive -

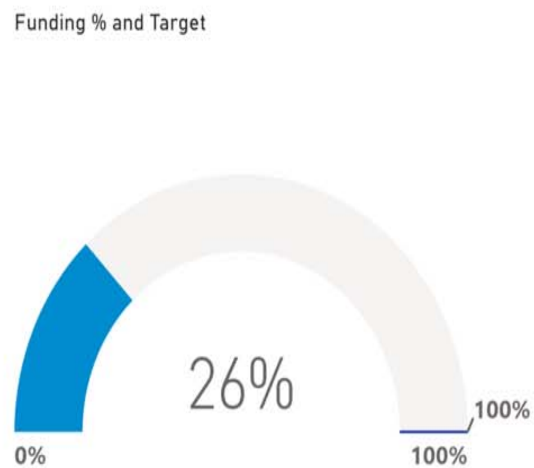
- Make additional annual payments to achieve 85% funding level

Results Thus Far -

- Exceeded 85% target in 2021
- $124.3M in additional payments
- Saved $46.8M in interest

Retiree Medical Liability Funding Level

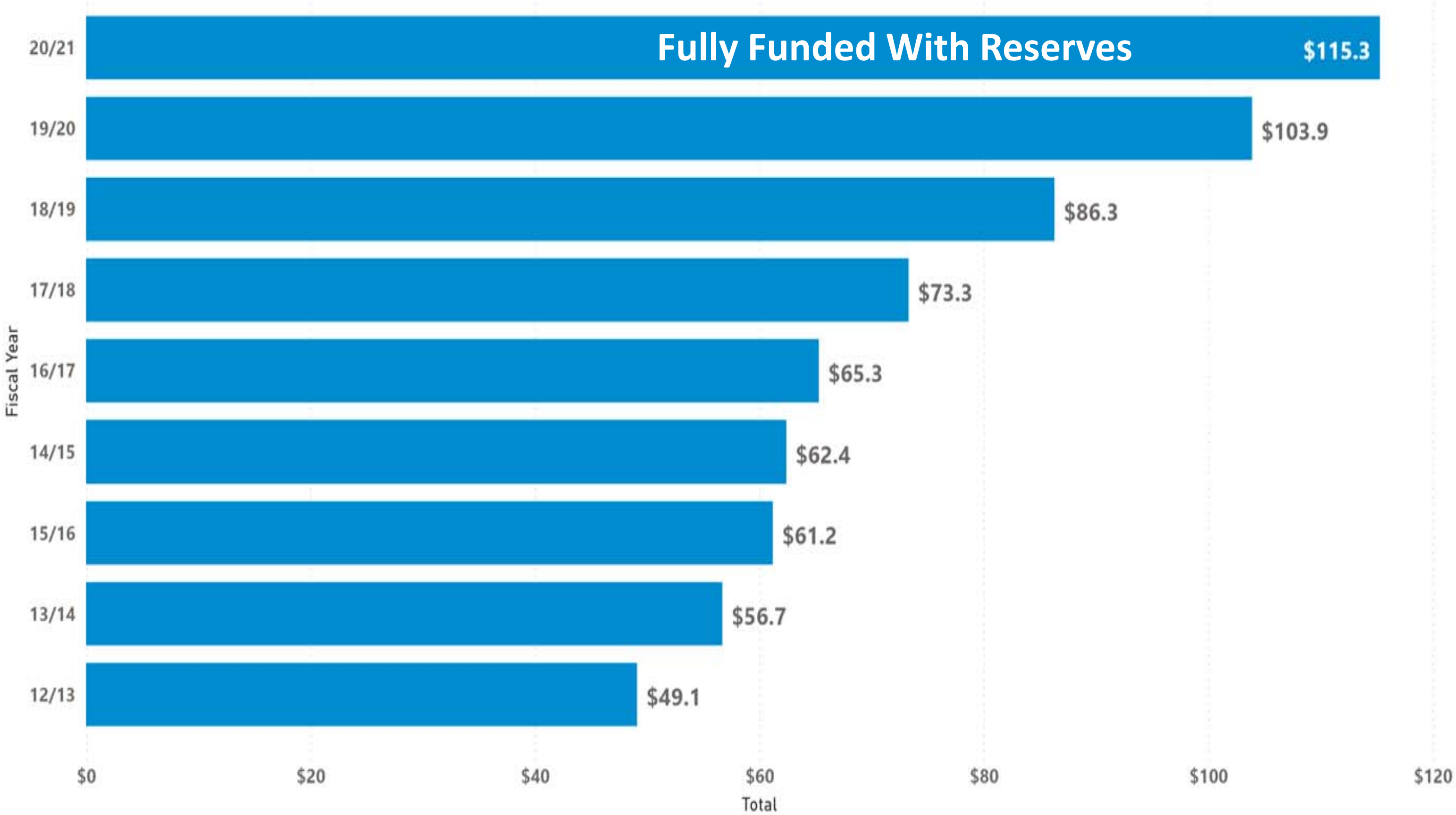




Board Directive -

- Once pension liability reaches 85% funded level, additional annual payments will go to the retiree medical liability

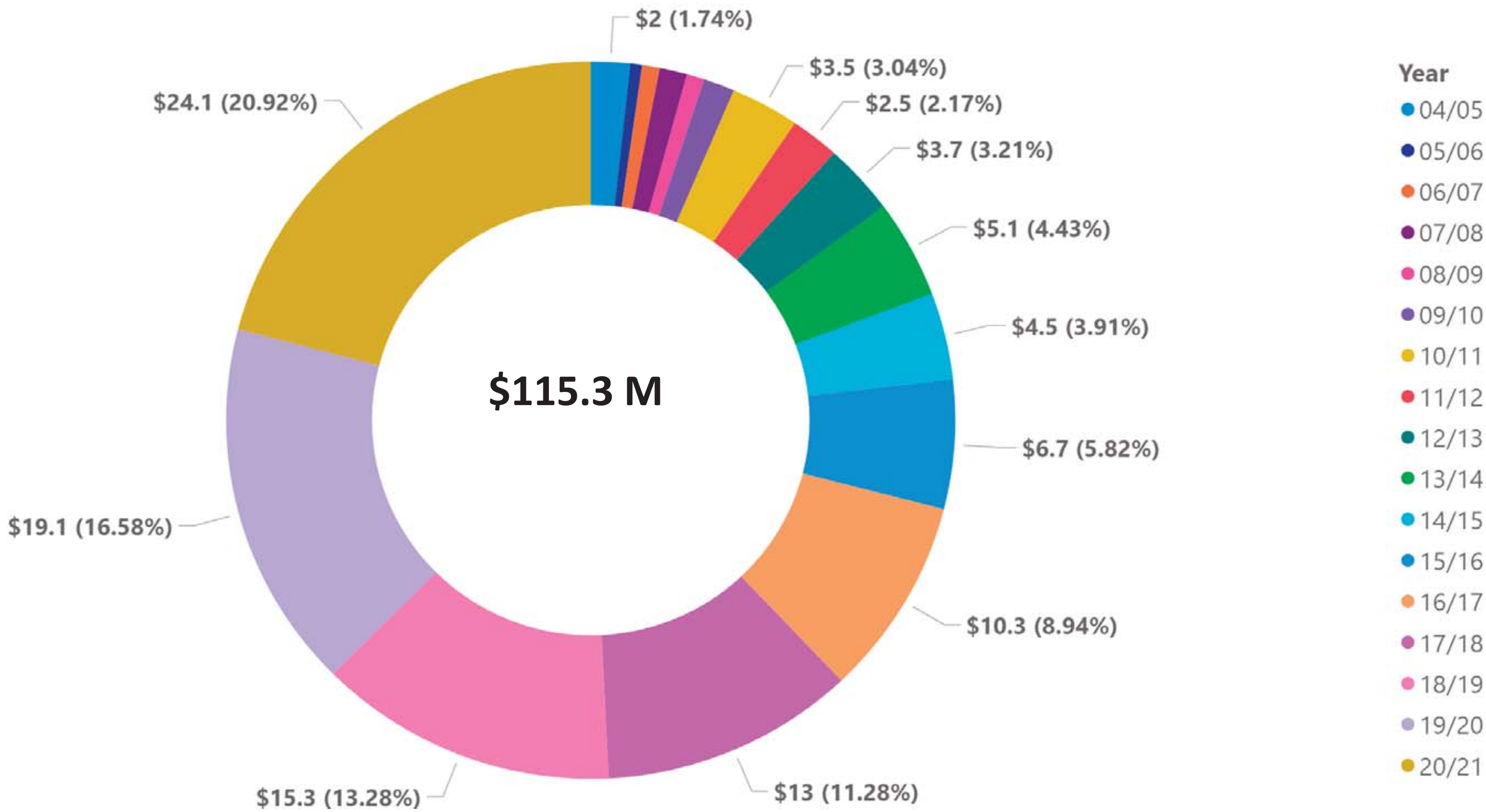
Cumulative Outstanding Workers' Compensation Claims (in millions)



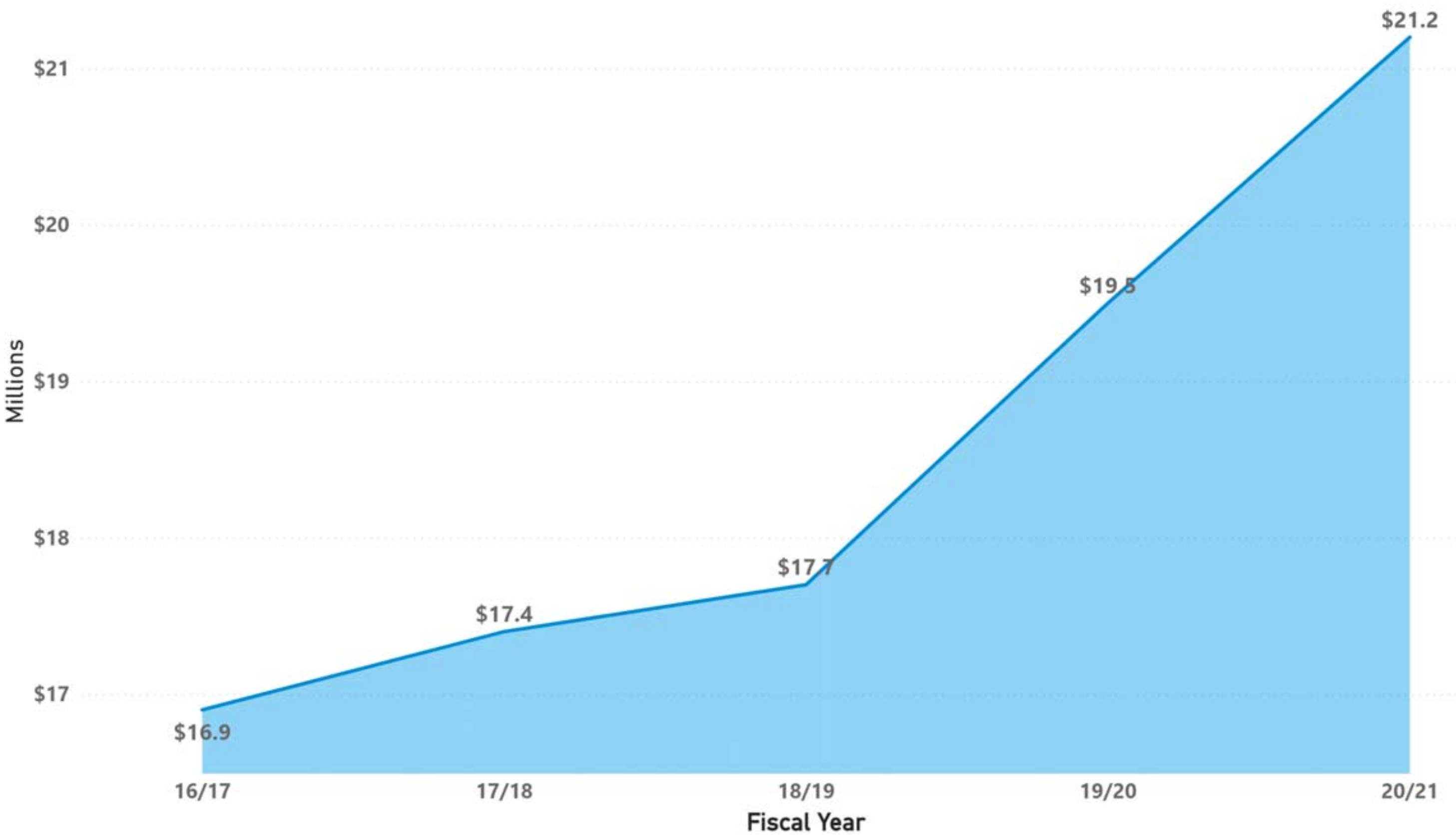
Driving Factors -

- Increase in the number of employees
- Aging workforce
- Increase in the number and frequency of claims
- Covid cases
- Growing mental health cases
- Increase in medical costs

Cumulative Outstanding Workers' Compensation Claims by Year (in millions)



Compensated Absences (in millions)



Driving Factors -

- Employees have taken less sick and vacation time during the pandemic
- MOU salary increases have caused the value of accrued leave to increase

Total Unfunded Liabilities (in millions)

	$ Amount in Millions	% of Total
Defined Benefit Pension Plan *	$ 275.6	67.5%
Defined Benefit Retiree Medical Plan	106.5	26.1
Accrued Compensated Absences	21.2	5.2
Capital Leases	5.1	1.2
Total	**$408.4**	**100.0%**

- Total liabilities have decreased by $153M since last year
- Workers' Compensation will require a Mid-Year Budget Adjustment to bring it to 100% funding level

Recommended Actions

- Receive and file the report.

- Adjust the FY 2021/22 General Fund Budget to increase expenditures and operating transfers out by a combined value of $4,590,935, the amount identified as the unencumbered fund balance in the FY 2020/21 financial audit, and to allocate 50% or $2,295,467.50 of the funding to the General Fund to replenish the contingency reserve to 10% of expenditures as required by the OCFA's Financial Stability Policy, and $2,295,467.50 to the Structural Fire Fund Entitlement Fund as required under the 2010 First Amendment to the Amended JPA.

The specific technical budget adjustment to carry-out this action will be included in the March mid-year budget adjustment agenda item for final approval by the Board