Orange County Fire Authority

AGENDA STAFF REPORT

Board of Directors Meeting	**Agenda Item No. 5B**
November 17, 2016	**Discussion Calendar**

2016 Long Term Liability Study & Expedited 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) long term liabilities and strategies for mitigating and funding the liabilities.

Prior Board/Committee Action

Budget and Finance Committee Recommendation: *APPROVE*

At its regular November 9, 2016, meeting, the Budget and Finance Committee reviewed this item and directed staff to modify the recommendations to include: (1) alter the funding target for the Pension Payment Plan from 100% to 85%; (2) after achieving the 85% target, redirect expedited payment dollars to the unfunded Retiree Medical liability; and (3) obtain an actuarial calculation of interest savings achieved by expediting payment of OCFA's pension liability. With these modifications, the Committee unanimously recommended approval of this item.

RECOMMENDED ACTION(S)

1. Direct staff to continue the Expedited 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.
2. Direct staff to return to the Board of Directors in January with the mid-year financial review, to consider allocation of the $9.8 million of available unencumbered funds identified in the FY 2015/16 financial audit to OCFA's unfunded pension liability.
3. Direct staff to continue seeking cost-saving options related to Workers' Compensation.
4. Direct staff to obtain an actuarial calculation (for the 2017 Long Term Liability Study) of interest savings achieved by expediting payment of OCFA's pension liability.

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.

Fiscal Impact

The Adopted Budget for FY 2016/17 and the five-year financial forecast include a $3.6 million payment for the Expedited Pension Payment Plan. The accelerated payments proposed herein are recommended in a manner which phases-in the impact to cash contract city charges slowly over time. Continuous pursuit of the recommended actions will lower OCFA's salary and benefit costs over the long term, ultimately reducing OCFA's expenditure budget and positively impacting our annual charges to cash contract cities.

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 pension liability.

Unfunded Pension Liability – Funding Study vs. CAFR

It should be noted that the November Board agenda packet contains two separate staff reports that both contain data relating to OCFA's pension liability; one report (Agenda Item No. 5B) is for the Annual Long Term Liability Study, and the other report (Agenda Item No. 5C) is for the Comprehensive Annual Financial Report (CAFR). These two reports provide two different numbers for the OCFA's pension liability. The technical description for why these two numbers are different is provided in Agenda Item No. 5C. A very simplified description, for ease of understanding, is provided below.

The unfunded pension liability number, as reported in this Annual Long Term Liability Study, is $419.0 million. The unfunded pension liability number, as reported in the CAFR, is $517.7 million. Very simply stated, the majority of the difference is caused by how investment earnings are recognized. During calendar year 2015, the pension system only earned 0.10%; however, actuarial assumptions were that the system would earn 7.25%. The loss of earnings, as compared to the assumption, was recognized immediately for the CAFR (thus a larger liability); however, that same loss of earnings for the Liability Study will be spread over the next five years.

Expedited Pension Payment Plan

In 2015, OCFA requested OCERS' actuary, Segal Consulting, to estimate the impact on the amortization period for OCFA's Unfunded Actuarially Accrued Liability (UAAL) based on an updated accelerated funding plan, which included the following:

1. Contributing an additional $12,609,380 from FY 2014/15 unencumbered fund balance with an additional $3 million each year thereafter
2. Contributing additional funds each year using projected savings that will be realized under new Public Employees' Pension Reform Act (PEPRA) starting at $2,802,122 in 2015/16 and continuing in different amounts until payment is complete
3. 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 until payment is complete
4. Contributing $1 million per year from surplus fund balance available in the Workers' Compensation Self Insurance Fund starting in 2016/17 for 5 years

Segal reported that the strategies were estimated to reduce OCFA's amortization period significantly, with payoff anticipated by FY 2026/27. The expedited strategies result in a "snowball" effect with growing annual values that add up to a cumulative $254.5 million over the accelerated payment timeline, resulting in 100% funding of the UAAL. Some members of the OCFA Board previously discussed lowering the funding target to 80%; however, that dialogue was placed on hold until the November 2016 meeting of the Budget and Finance Committee, when the Committee formally recommended reducing the target to 85%.

The OCFA has taken many steps to reduce and fund its liabilities, and staff will continue seeking additional steps, while ensuring the long term viability of the organization.

Attachment(s)

1. 2016 Long Term Liability Study
2. Updated Snowball Strategy

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

2016

LIABILITY STUDY

OCFA'S LONG TERM LIABILITES

N O V E M B E R   2 0 1 6

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 continuously identify strategies to reduce and/or fund the liabilities.

II. BACKGROUND

OCFA's long term liabilities include:

1. Defined Benefit Pension Plan
2. Defined Benefit Retiree Medical Plan
3. Lease Purchase Agreements (helicopters)
4. Workers Compensation Claims
5. Accrued Compensated Absences (accumulated sick and vacation payouts)

OCFA's biggest long-term challenges are pensions, retiree medical for retired employees, and workers' compensation claims. Both the Defined Benefit Pension Plan and the Defined Benefit Retiree Medical Plan currently have unfunded liability balances, as further described below.

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:

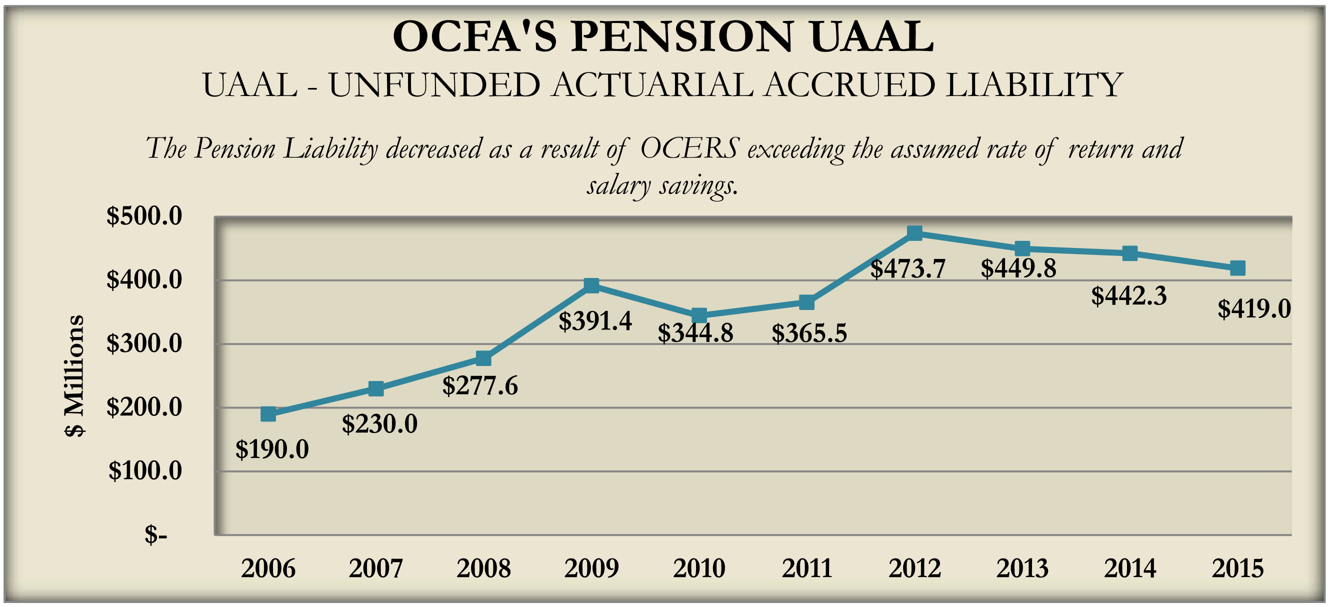
	Hired Prior to July 1, 2012	**Hired Between July 1, 2012 – Dec. 31, 2012**	**Hired on or after Jan. 1, 2013 (w/out reciprocity)**
Safety	3% @ 50	3% @ 55	2.7% @ 57

	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 $74 million or 23% of the Authority's FY 2016/17 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.



Based on the December 31, 2015, valuation by OCERS, the Authority's total UAAL was $419.0 million with $356.8 million or 85% attributed to Safety members and $62.2 million or 15% attributed to General members. The Safety member plans are currently 75% funded, and the General member plans are 68% 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 **	**2015 Valuation**	**2014 Valuation**
Normal Cost	12.51%	12.69%
UAAL	20.53%	20.28%
Total	33.04%	32.97%

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

*Employer Rate **	**2015 Valuation**	**2014 Valuation**
Normal Cost	25.98%	26.47%
UAAL	22.40%	24.42%
Total	48.38%	50.89%

* Totals do not include *Employee Rates*, which vary based on age of entry and retirement formula. *Employee Rates* range from 4.77% - 15.98% for General and 4.54% - 14.03% for Safety (See Exhibit A). Rates are also after adjustment for additional UAAL contributions made in 2014 and 2015.

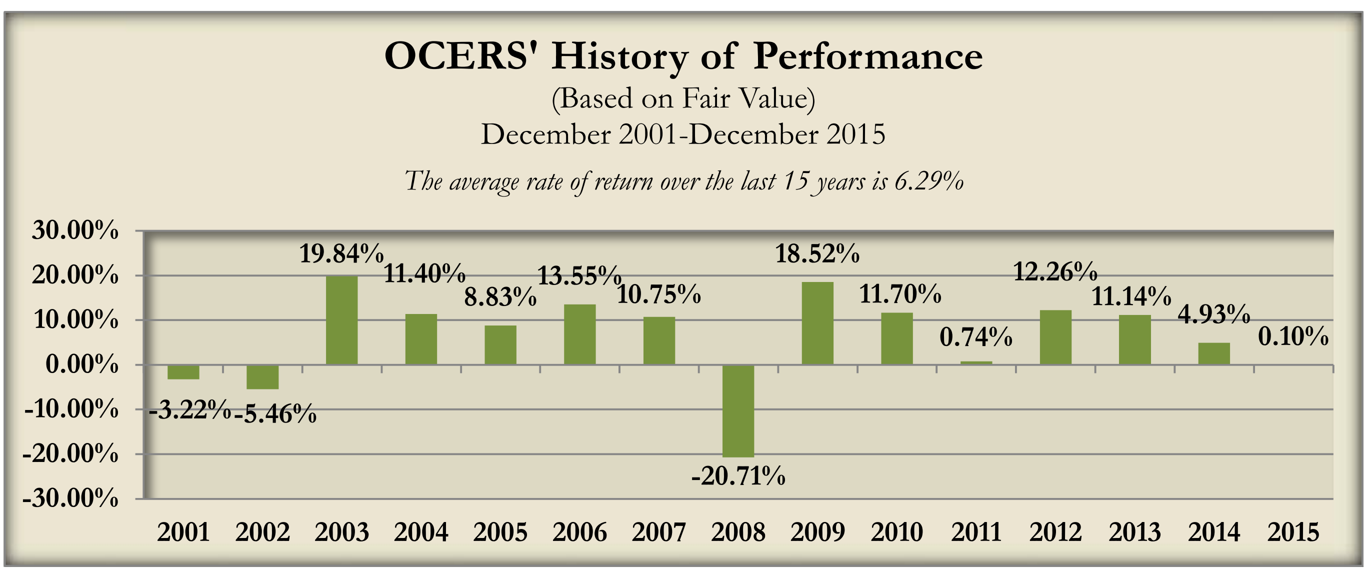
Two events have the greatest impact on plan funding: (1) plan changes, namely benefit formula changes and (2) differing actual experience requiring a modification in assumptions to reflect reality such as life expectancy. Other assumptions that impact the funding and UAAL include:

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 2015, OCERS actual return was 0.10%, significantly below its assumed rate of return of 7.25%. This would typically result in a noticeable increase in the UAAL. However, this year OCFA paid $15.4 million in additional contributions which, along with salary savings, lowered OCFA's UAAL by $23.3 million from $442.3 million in 2014 to $419.0 million in 2015. Of the $23.3 million decline in the UAAL, Safety's UAAL decreased by $23.6 million and General's UAAL increased slightly by $300,000 for a net decrease of $23.3 million.

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 6.29%, which is below its assumed rate of return of 7.25%. When OCERS' actual return falls below its assumed rate of return, OCFA incurs higher retirement rates/costs.



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 improved in 2013 when OCERS rate of return exceeded the assumed rate of return.

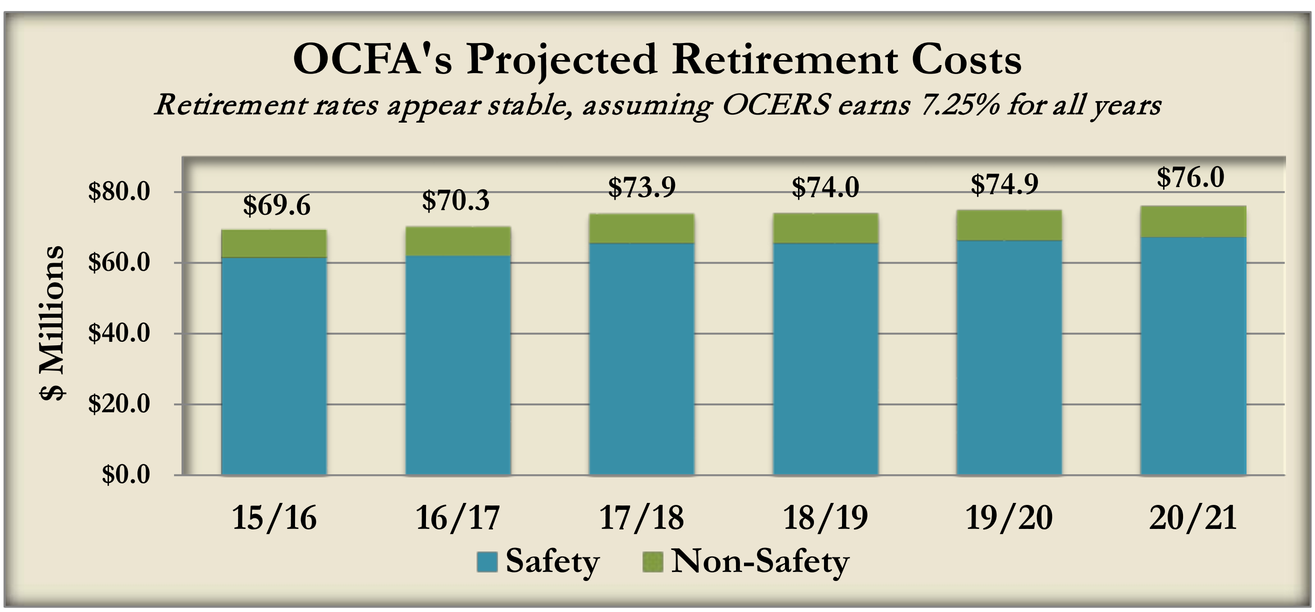
OCERS' Schedule of Funding Progress

(Dollars in Thousands)

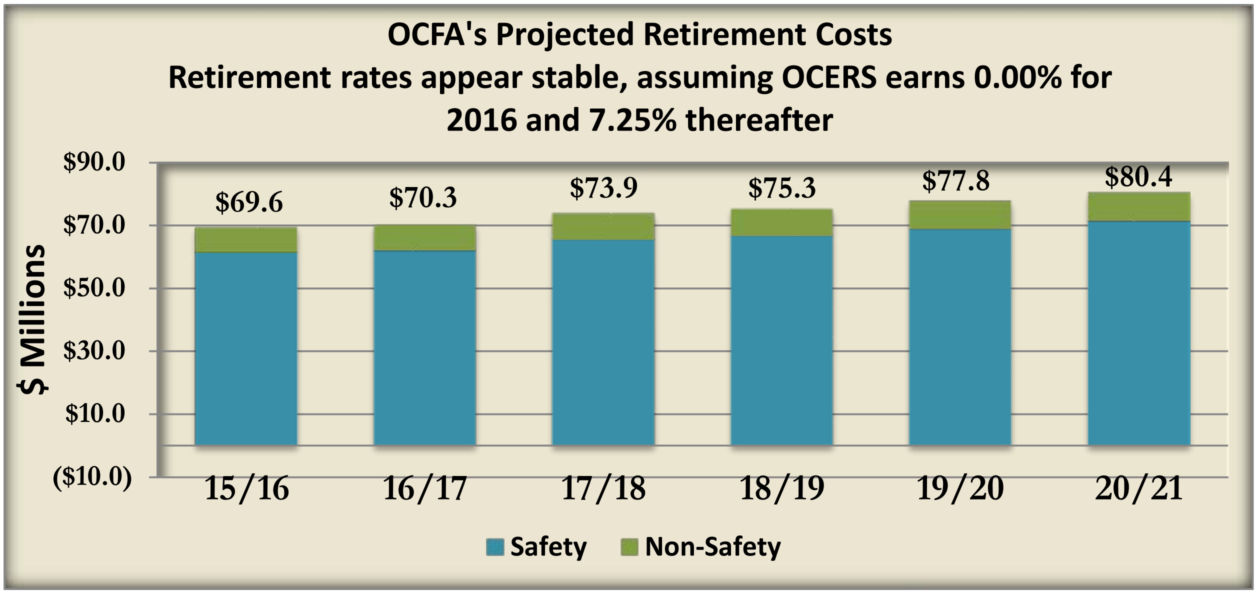
OCERS' funding level has improved recently

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%

The chart below assumes OCERS will earn its assumed rate of return of 7.25% in 2015 and future years. This chart should be contrasted with the chart on the following page to demonstrate the significant impact on retirement contribution rates, when OCERS does not earn its assumed rate of return.



The chart below assumes OCERS will not earn its assumed rate of return, and instead will earn 0.00% in 2016 and 7.25% in future years. OCERS' year-to-date 2016 return as of August is 6.2%. Note the increased retirement contributions starting in FY 18/19.



The analysis of long-term obligations, including pensions, is an important part of credit rating agencies' review of local governments. A number of these agencies have been downgraded due in part to pension funding issues.

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.

<u>Expedited Pension UAAL Payment Plan</u>

In September 2013, the OCFA Board of Directors approved an Expedited Pension UAAL Payment Plan. The expedited plan will have 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 expedited 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 5.

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

1. 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
2. Contributing $1 million per year from surplus fund balance available in the Workers' Compensation Self Insurance Fund starting in 2016/17 for 5 years

The outcomes from the expedited payment plan implementation in FY 2013/14 and 2014/15 along with OCFA's anticipated future year expedited payments were submitted to OCERS' actuary for determination of how long it would take OCFA to achieve full payment of the UAAL. ***In 2015, the actuary reported back that the expedited payment plan would achieve full payment of OCFA's UAAL by FY 2026/27, assuming all other actuarial inputs are held constant.***

Additional Payments Made to-date to Lower UAAL

FY 13/14 $5.5 million
FY 14/15 $21.3 million
FY 15/16 $15.4 million

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.

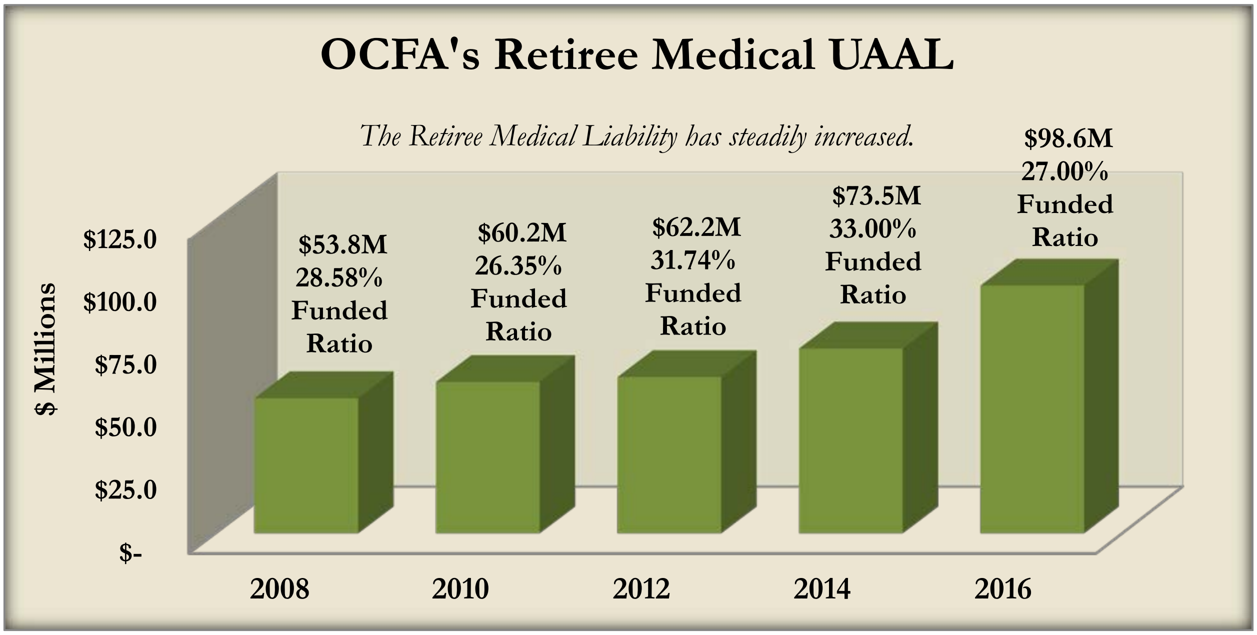
Staff evaluated the affordability of these expedited payment options, using the OCFA's long term financial forecast. We concluded that combining multiple strategies yields positive benefits for OCFA, while also retaining flexibility in the event that OCFA's financial environment should change significantly in the coming years.

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 7.25%, 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 an actuarial study prepared by Nyhart Epler as of July 1, 2016, the OCFA's Unfunded Actuarial Accrued Liability (UAAL) for the Retiree Medical defined benefit plan is $98.6 million. The UAAL is impacted by future retirees, spouses of retirees, a maximum 5% annual increase in the medical grant, the investment return of the trust, and the underlying assumptions such as the mortality tables.

Under the Government Accounting Standards Board (GASB) Statement No. 45, OCFA is required to have an actuarial valuation performed on its Retiree Medical Plan every two years.



Note: Does not include implicit subsidy and uses OCERS assumed rate of return of 7.75% up to 2012 and 7.25% 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. Periodic discussions on this topic continue with management and labor seeking options for future funding of the plan.

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 SelectAccount. 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.

LEASE PURCHASE AGREEMENTS

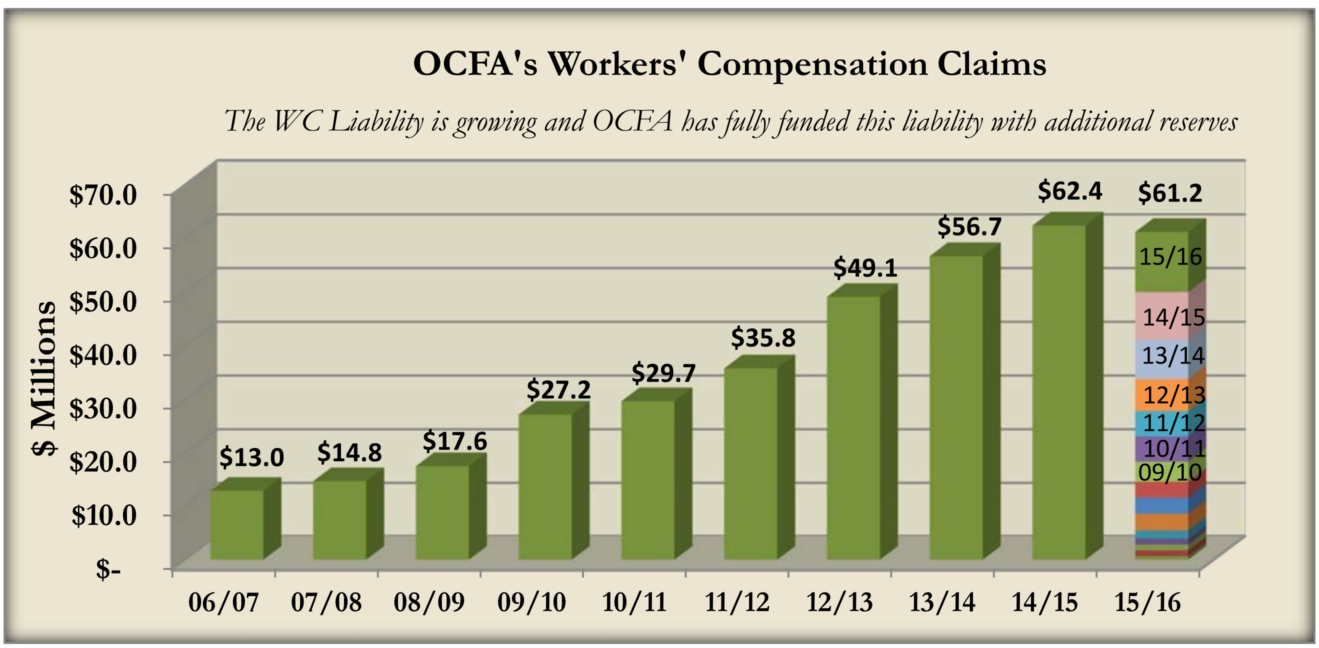
A Lease Purchase Agreement is a form of long-term debt used by government agencies to acquire buildings, vehicles, equipment and other capital assets. Within this type of lease, a lessee can apply lease payments annually toward the purchase of the property. In December 2008, the OCFA entered into a ten-year Lease Purchase Agreement to purchase two helicopters and related equipment for a purchase price of

$21.5 million. In 2011, OCFA refinanced the helicopters and lowered its interest rate from 3.76% to 2.58% saving $444,000 over the remaining six years of the lease. As of June 30, 2016, $6.3 million remains due, including interest and principal. The final maturity is in 2018.

During the FY 2014/15 budget development process, staff analyzed the feasibility of paying off the outstanding helicopter lease. Staff concluded that the early payoff of the obligation would have detrimental impacts on Fund 133: Vehicle Replacement Fund. The Fund would go negative within two years of paying off the lease which means there would be no funding available to purchase needed fire apparatus; therefore, staff is no longer pursuing early payoff of the lease agreement.

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 required funding levels are determined by an independent actuarial study. As of June 30, 2016, OCFA's total workers' compensation liability is $61.2 million. Although the workers' compensation program represents a large liability for OCFA, it is important to note that it is a ***fully-funded*** liability. OCFA has $73.7 million set-aside in reserves to pay this liability as the various medical claims and bills become due, reflecting a funding surplus of $12.5 million.



The outstanding liability reflected in the above chart reflects the fact that although the entire future cost of claims are 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 stack on top of each other over the years (as demonstrated by the color-coding of the FY 15/16 bar in the above chart). Upon maturity of a self-insured system, the amount of unpaid liability should level out (as demonstrated in the above chart in the most recent years), and continued increases at that point in time are more likely 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 in five out of ten years. The Workers' Compensation Funding Policy that was adopted by the Board in 2010 had set the funding level at 50% for outstanding losses and 60% for projected losses. However, in FY 2015/16, the Board approved lowering the confidence level for projected losses from 60% to 50%. Actual workers' compensation expenditures have remained well below the actuary's estimates for several years. The reduced confidence level should align the annual funding more closely with actual workers' compensation experience.

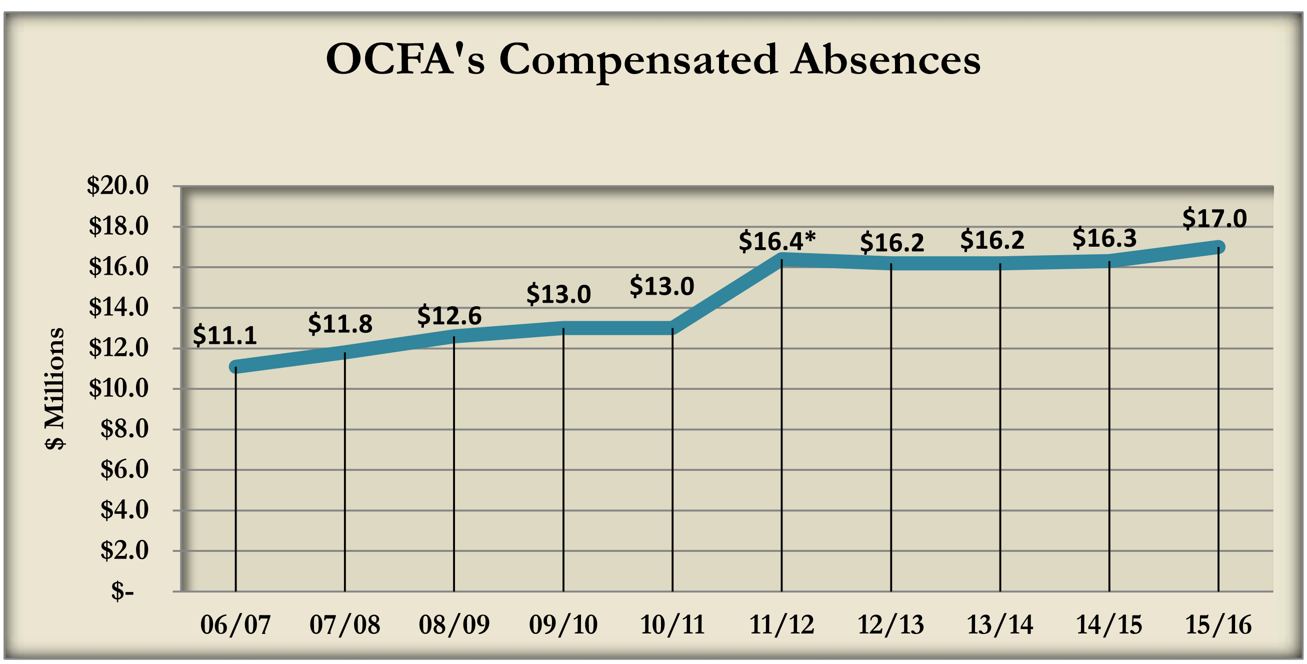
There are several factors that contribute to the liability including workers' compensation reform that increased the statute of limitation for cancer from five to ten years; injury presumption for safety personnel; an aging workforce which contributes to a longer recovery time and higher permanent disability benefits; increased medical costs; and an increase to the workforce in 2012 with the addition of the City of Santa Ana. Santa Ana reimburses OCFA for injuries that initially occurred on or before April 20, 2012.

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 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 $3.9 million for sick and vacation payouts in FY 2016/17 based on historical trends and expected retirements. OCFA's total liability for compensated absences as of June 30, 2016, is $17.0 million.



** FY 11/12 includes Santa Ana General Leave Balances; Santa Ana reimburses OCFA for uses of transferred Leave Balances.*

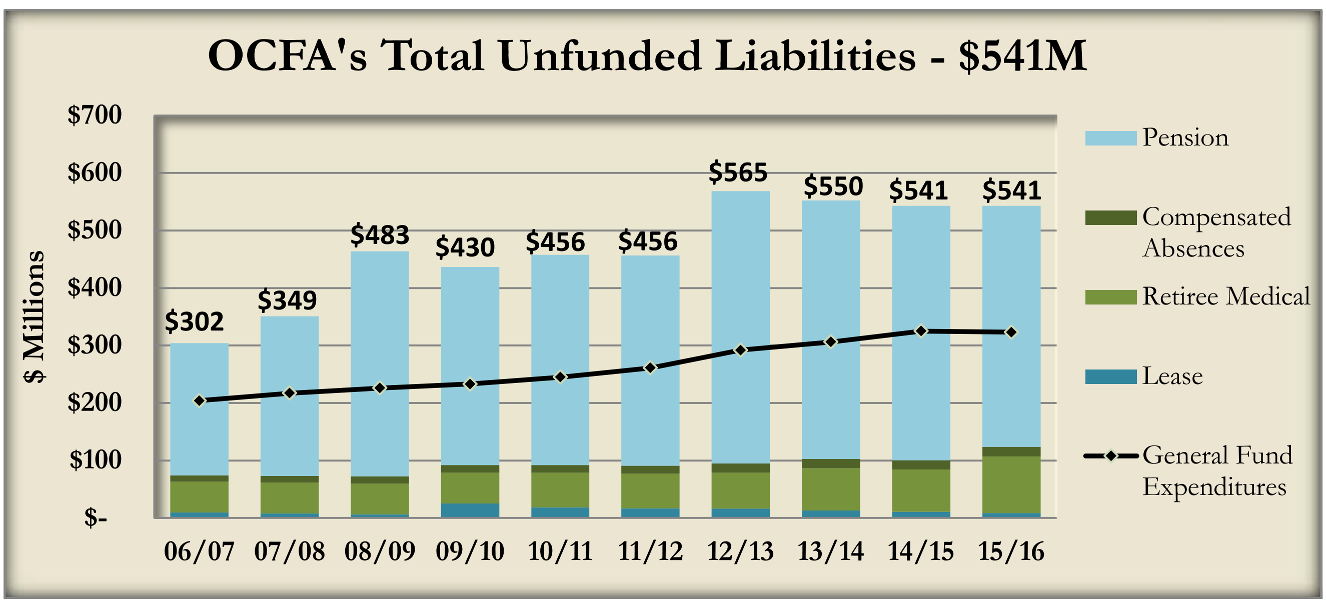
III. SUMMARY

OCFA's total long term, unfunded liabilities as of June 30, 2016,* are as follows:

	$ Amount in Millions	*% of Total*
Defined Benefit Pension Plan *	$419.0	77.5%
Defined Benefit Retiree Medical Plan	98.6	18.2
Helicopter Lease Purchase Agreement	6.3	1.2
Accrued Compensated Absences	17.0	3.1
Total	**$540.9**	**100.0%**

*Note: the valuation date for the pension plan is December 31, 2015, instead of June 30, 2016, consistent with OCERS' calendar year basis for financial reporting.

When OCFA presented its first Liability Study to the Board in September 2012, the Board directed staff to identify strategies to lower and/or mitigate OCFA's long term liabilities. As shown in the chart below, as some of these strategies have been implemented, OCFA has reduced its total long term, unfunded obligations in the last few years.



Note: Workers Compensation was removed since it is fully funded by a reserve fund.

ACTIONS TAKEN

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

1. During 2015 and 2016, OCFA completed negotiations with all four labor groups resulting in increased employee contributions towards retirement.
2. 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.
3. On September 26, 2013, the Board approved a strategy to expedite the pay down of OCFA's pension liability. Under this Plan, the actuary, the Segal Company, estimates this liability will be paid by 2026/27. To date, OCFA has made an additional $45 million in payments to OCERS to lower its UAAL.
4. 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.
5. 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.
6. 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.
7. Used a trigger formula during down economic cycles to connect pay raises for all OCFA employees to OCFA's financial health.
8. Implemented lower retirement formulas for all labor groups.
9. Refinanced the helicopter lease to lower the interest rate.
10. Implemented annual prepayment of retirement contributions to achieve a discount.
11. Provided a study to the Board of Directors regarding the feasibility of Pension Obligation Bonds.
12. 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.

RECOMMENDATIONS

Recommended actions pending approval of this staff report include:

1. Direct staff to continue the Expedited Pension Payment Plan as indicated in the Updated Snowball Strategy.
2. Direct staff to return with the mid-year financial review to consider allocation of the $9.8 million of available unencumbered funds identified in the FY 2015/16 financial audit to OCFA's unfunded pension liability.
3. Direct staff to continue seeking cost-saving options related to Workers' Compensation.

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 will pay an additional 3.50%, 3.49%, 2.00%, and 0.54% in employee retirement contributions, respectively, increasing their employee contributions from 11% to 20.53% depending upon their age of entry. 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 will pay an additional 3.50%, 3.49%, 3.30%, and 0.93% in employee retirement contributions, respectively, increasing the employee contributions from 9% to 20.22% depending upon their age of entry. Thereafter, these employees will pay any subsequent increases in the employee retirement contributions. 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, will pay an additional 2%, 2.5% and 3% in employee retirement contributions, respectively, increasing the employee contributions from 9% to 16.5%, depending upon their age of entry. Thereafter, these employees will pay any subsequent increases in the cost for employee retirement contributions. 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, will pay an additional 4%, 2%, and 2.25% in employee retirement contributions, respectively, increasing the employee retirement contributions from 8.25% to 16.5%, depending upon their age of entry. Thereafter, these employees will pay any subsequent increases in the cost for employee retirement contributions. 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

Attachment 2

			Estimated Annual UAAL Payments from Various Strategies / Sources					
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	Annual Snowball Amount	Cumulative Expedited UAAL Payment
			Part A	Part B	Part C	Part D		
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	3,000,000	1,653,114	1,000,000	1,000,000	6,653,114	48,854,854
5	1	17/18	3,000,000	1,886,420	3,000,000	1,000,000	8,886,420	57,741,274
6	2	18/19	3,000,000	3,167,397	5,000,000	1,000,000	12,167,397	69,908,671
7	3	19/20	3,000,000	1,648,658	7,000,000	1,000,000	12,648,658	82,557,329
8	4	20/21	3,000,000	2,368,859	9,000,000	1,000,000	15,368,859	97,926,188
9	5	21/22	3,000,000	3,279,280	11,000,000		17,279,280	115,205,468
10	6	22/23	3,000,000	4,787,217	13,000,000		20,787,217	135,992,685
11	7	23/24	3,000,000	5,772,547	15,000,000		23,772,547	159,765,232
12	8	24/25	3,000,000	6,814,115	15,000,000		24,814,115	184,579,347
13	9	25/26	3,000,000	14,242,631	15,000,000		32,242,631	216,821,978
14	10	26/27	3,000,000	19,647,456	15,000,000		37,647,456	254,469,434
			69,899,618	70,569,816	109,000,000	5,000,000	254,469,434	