Orange County Fire Authority

AGENDA STAFF REPORT

Board of Directors Meeting
November 15, 2018

Agenda Item No. 5A
Discussion Calendar

2018 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

As this is an annual report, the last presentation to the Board of Directors was at its October 26, 2017, meeting.

This item is to be considered at the November 14, 2018, Budget and Finance Committee meeting, the Committee Chair will include the Committee's recommendation during his regular report at the November 15, 2018, Board of Directors meeting.

RECOMMENDED ACTION(S)

1. Direct staff to continue the Accelerated Pension Payment Plan as indicated in the Updated Snowball Strategy.
2. Direct staff to adjust the FY 2018/19 General Fund budget to increase expenditures by $10 million for the purpose of allocating $10 million of the $13 million of available unencumbered funds identified in the FY 2017/18 financial audit to OCFA's unfunded pension liability.
3. Direct staff to return to the Board of Directors in January, with the mid-year financial review, to consider any allocation of the remaining $3 million of available unencumbered funds identified in the FY 2017/18 financial audit.

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

During the past five years, the OCFA Board of Directors' support of the Accelerated Pension Payment Plan has enabled OCFA to make accelerated payments totaling $75.6 million, resulting in interest savings of $18.3 million on behalf of the Orange County citizens and taxpayers whom 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 pension liability.

Accelerated Pension Payment Plan

During FY 2017/18, OCFA made additional payments towards its Unfunded Actuarially Accrued Liability (UAAL) totaling $19.9 million. To evaluate progress associated with the accelerated funding of OCFA's pension liability, OCFA requested OCERS' actuary, Segal Consulting, to update the following:

At the request of the Board of Directors, Segal Consulting was also asked to determine 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 $18.3 million in interest by making additional payments towards its UAAL and will achieve 85% funding by December 31, 2020, and 100% funding by December 31, 2026, assuming all other actuarial inputs are held constant (Attachment 2).

The OCFA has already taken 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.

At the request of Director Spitzer, attached is a hypothetical allocation of OCFA's pension liability to our member cities (Attachment 3).

Attachment(s)

1. 2018 Long Term Liability Study
2. Updated Snowball Strategy
3. Hypothetical Allocation of Pension Liability Per City

Attachment 1

ORANGE COUNTY FIRE AUTHORITY

2018

LIABILITY STUDY

OCFA'S LONG TERM LIABILITES

NOVEMBER 2018

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:

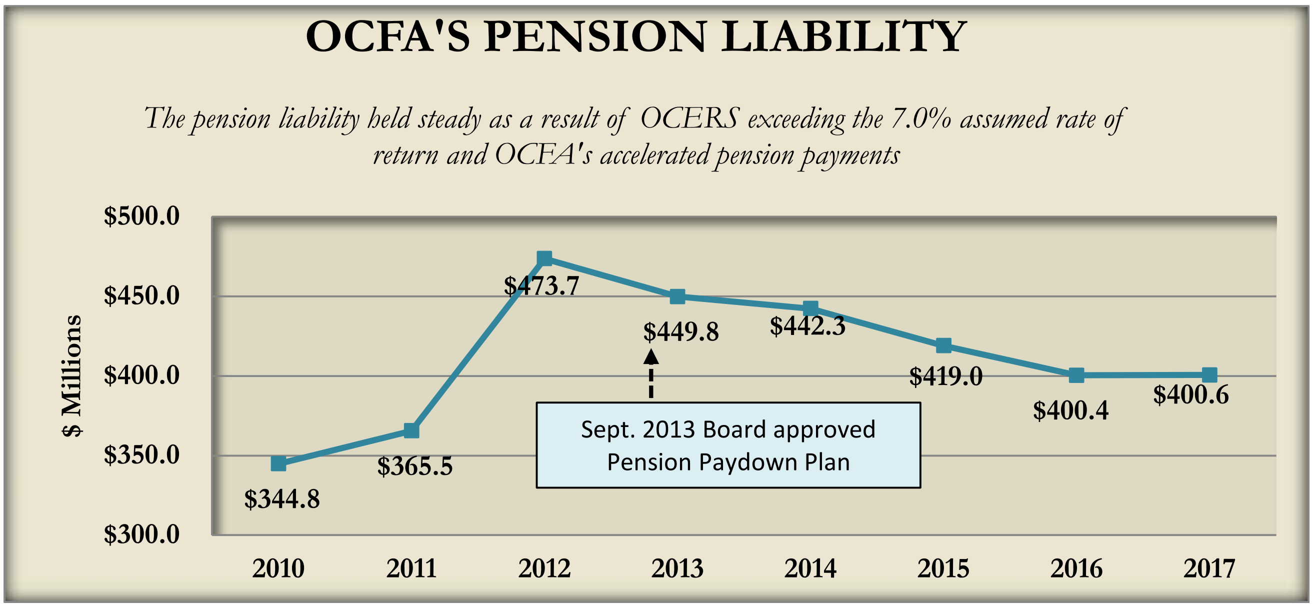
	Hired Prior to July 1, 2012	**Hired Between July 1, 2012 – Dec. 31, 2012**	**Hired on or after Jan. 1, 2013 (w/out reciprocity)**
Safety	3% @ 50	3% @ 55	2.7% @ 57

	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 $85 million or 23% of the Authority's FY 2018/19 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, 2017, valuation by OCERS, the Authority's total UAAL was $400.6 million with $345.4 million or 86% attributed to Safety members and $55.2 million or 14% attributed to General members. OCFA's plan is 78.6% 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 **	**2017 Valuation** (FY 19/20 rates)	**2016 Valuation** (FY 18/19 rates)
Normal Cost	13.22%	12.05%
UAAL	15.74%	18.35%
Total	28.96%	30.40%

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

*Employer Rate **	**2017 Valuation** (FY 19/20 rates)	**2016 Valuation** (FY 18/19 rates)
Normal Cost	25.44%	25.04%
UAAL	20.80%	22.27%
Total	46.24%	47.31%

* Totals do not include *Employee Rates*, which vary based on age of entry and retirement formula. *Employee Rates* range from 7.52% - 17.76% for General and 11.41% - 21.22% for Safety. Rates are also after adjustment for additional UAAL contributions made in 2014, 2015, 2016 and 2017.

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

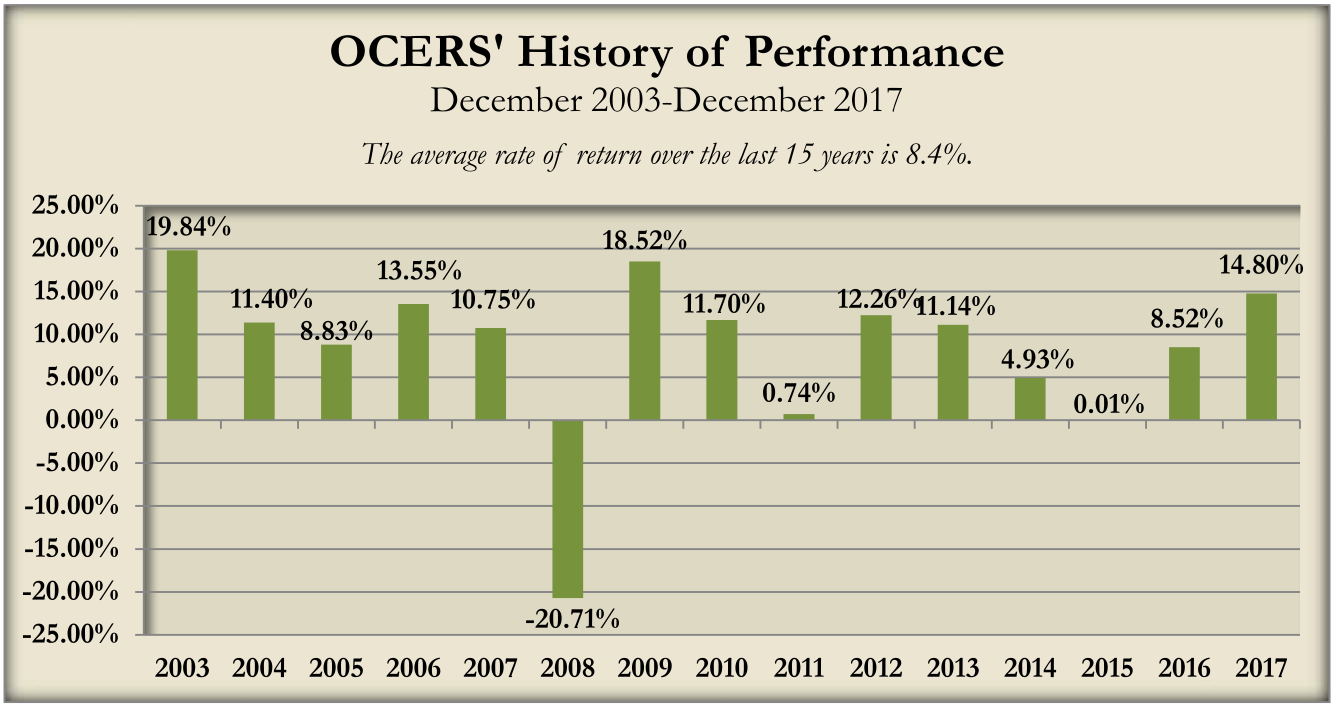
The assumed rate of return, also known as the discount rate, is a critical issue impacting OCFA's UAAL. The higher the discount rate, the lower the present value of pension assets needed to meet future pension obligations. A lower discount rate increases the current unfunded pension liabilities.

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 will increase OCFA's retirement contribution rates by 3.73% of pay or approximately $5 million per year beginning in July 2019.

In 2017, OCERS actual return was 14.8%, double its assumed rate of return of 7.0% which helped to offset the increases in the UAAL due to the change in assumptions. In addition, OCFA paid $32.1 million in additional contributions which kept its UAAL almost flat. OCFA's UAAL increased slightly from $400.4 million in 2016 to $400.6 million in 2017.

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 8.4%, which is above its assumed rate of return of 7.0%. 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 started to improve in 2013 when OCERS rate of return exceeded the assumed rate of return. In 2017, the funding level declined mostly as a result of assumption changes previously discussed.

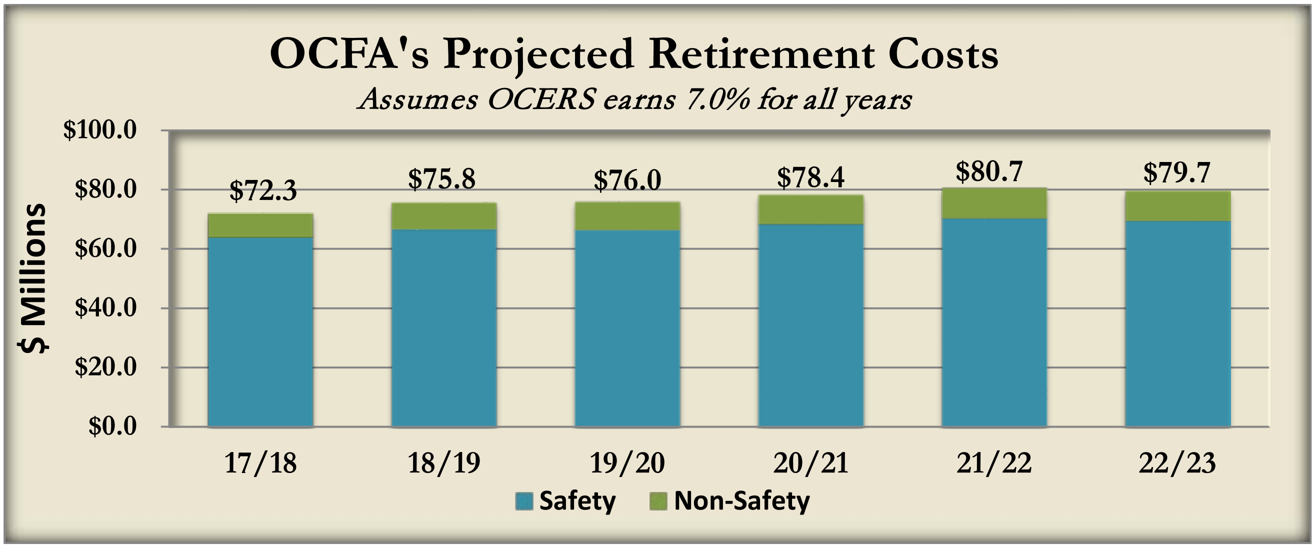
OCERS' Schedule of Funding Progress

(Dollars in Thousands)

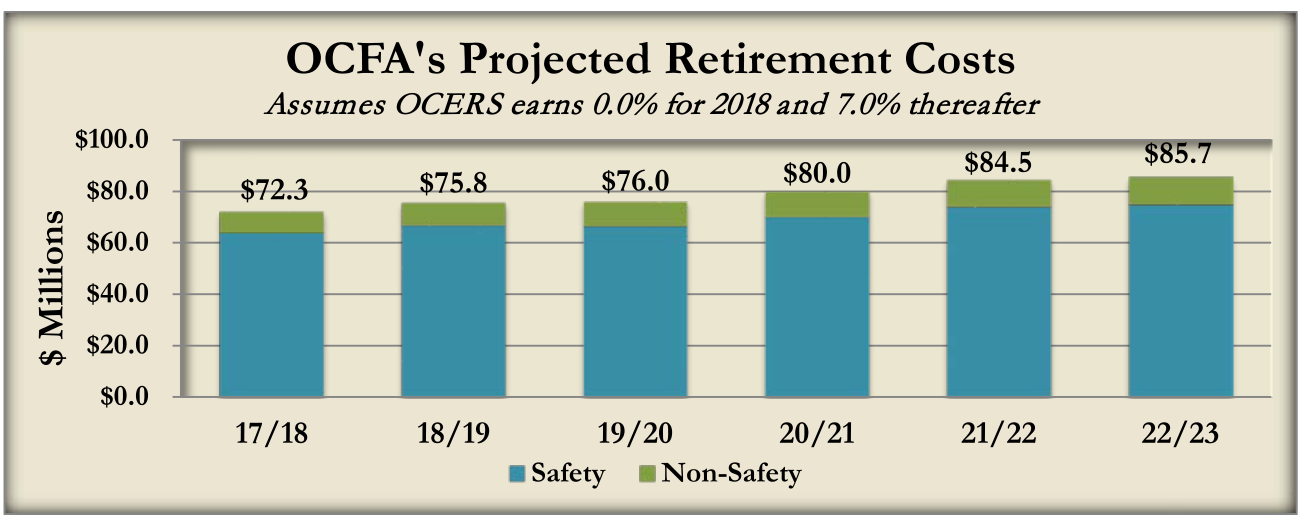
OCERS' funding level declined slightly

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%

The chart below assumes OCERS will earn its assumed rate of return of 7.0% in 2018 and future years. This chart should be contrasted with the second chart below 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 0.0% in 2018 and 7.0% in future years. Note the increased retirement contributions that would result starting in FY 2020/21 in the event OCERS has a year of 0.00% returns. This data is presented to demonstrate the potential negative impacts that can (and do) occur from time to time when the system earns less than assumed. OCERS' year-to-date 2018 preliminary return as of September is 3.16%. 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.

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
Total	**$75.6 million**

The outcomes from the accelerated payment plan implementation in FY 2013/14 through Fiscal year 2017/18 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 $18.3 million in interest by making additional payments towards its UAAL and will achieve 85% funding by December 31, 2020 and 100% funding by December 31, 2026, assuming all other actuarial inputs are held constant**.** The noted $18.3 million in interest savings has accumulated, as shown below, in correlation with our accelerated payments:

CY 2014	$ 1,337,082
CY 2015	2,565,428
CY 2016	3,781,337
CY 2017	4,625,500
CY 2018	6,022,737
Total	**$18,332,084**

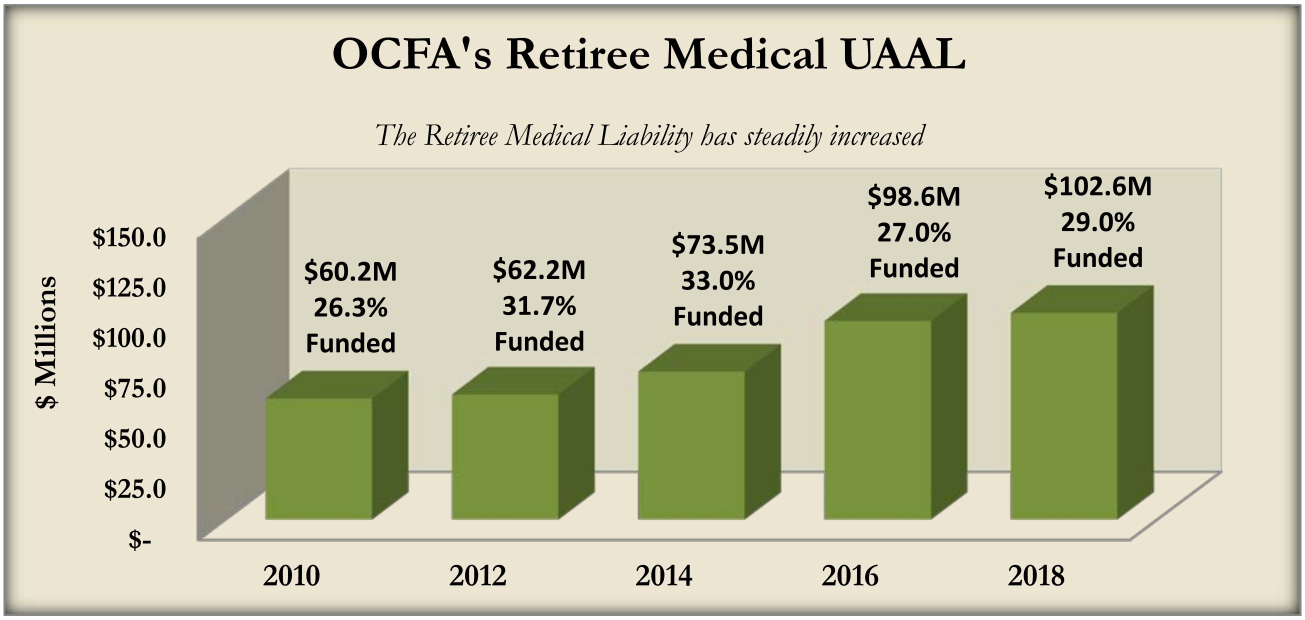
All of the above strategies will reduce the OCFA's existing UAAL more rapidly, and effectively shorten the weighted-average amortization period. Shortening the amortization period will have many benefits to OCFA. Although it causes our employer contributions to rise during the expedited payment period, 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.

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 an actuarial study prepared by Nyhart Epler as of July 1, 2018, the OCFA's Unfunded Actuarial Accrued Liability (UAAL) for the Retiree Medical defined benefit plan is $102.6 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 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.



Note: Does not include implicit subsidy and uses OCERS assumed rate of return of 7.75% up to 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.

In April 2017, the OCFA Board approved the renewed Health Plan Agreement with the Orange County Professional Firefighters Association. The 5 year term of the Agreement is 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.

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

DEFINED *CONTRIBUTION* RETIREE MEDICAL PLAN

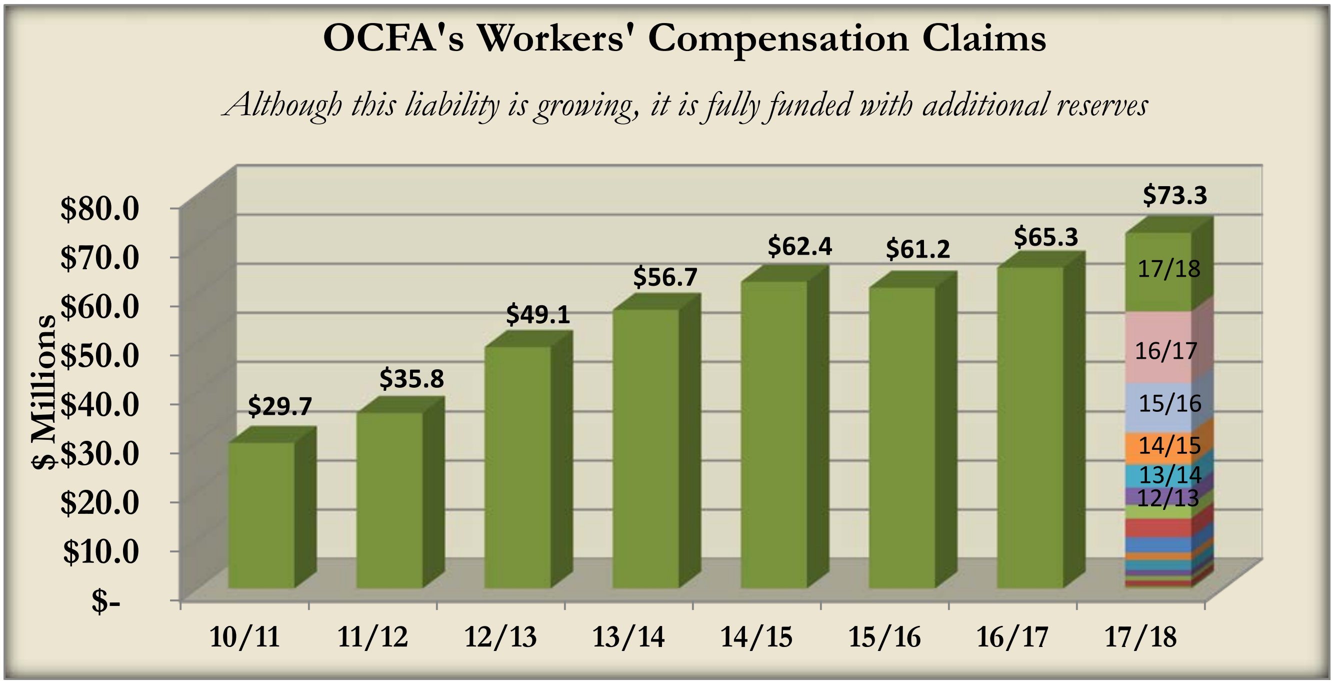
For employees hired on or after January 1, 2007, the OCFA created a *defined contribution plan* that is administered by Further. The Plan provides for the reimbursement of medical, dental, and other healthcare expenses of retirees. Employees are required to contribute 4% of their gross pay. Account assets 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.

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, 2018 $1.2 million remains due, including interest and principal. The final payment will be made in December 2018, therefore it is no longer a long term liability.

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, 2018, OCFA's total workers' compensation liability is $73.3 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 $81.9 million set-aside in reserves to pay this liability as the various medical claims and bills become due, reflecting a funding surplus of $8.6 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 17/18 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. OCFA's Board-adopted Workers' Compensation Funding Policy sets the funding at the 50% confidence level

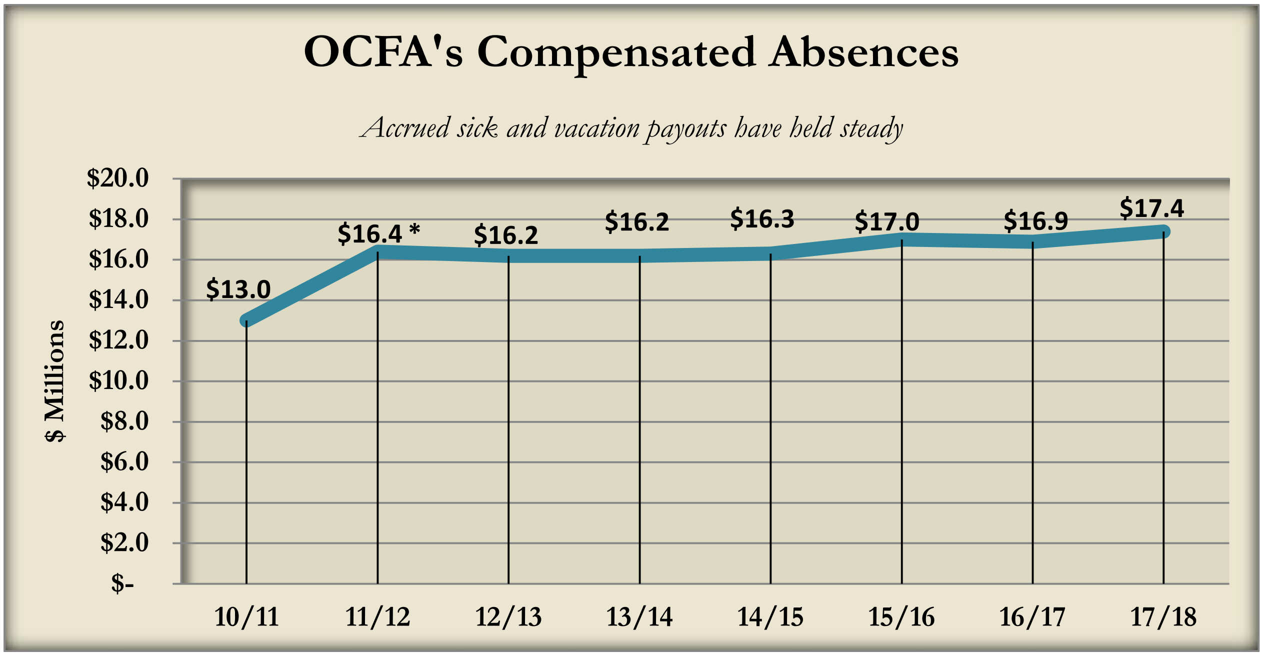
There are several factors that contribute to the liability including workers' compensation reform that increased the statute of limitation for cancer from five to ten years; injury presumption for safety personnel; an aging workforce which contributes to a longer recovery time and higher permanent disability 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 $4.0 million for sick and vacation payouts in FY 2018/19 based on historical trends and expected retirements. OCFA's total liability for compensated absences as of June 30, 2018, is $17.4 million.



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

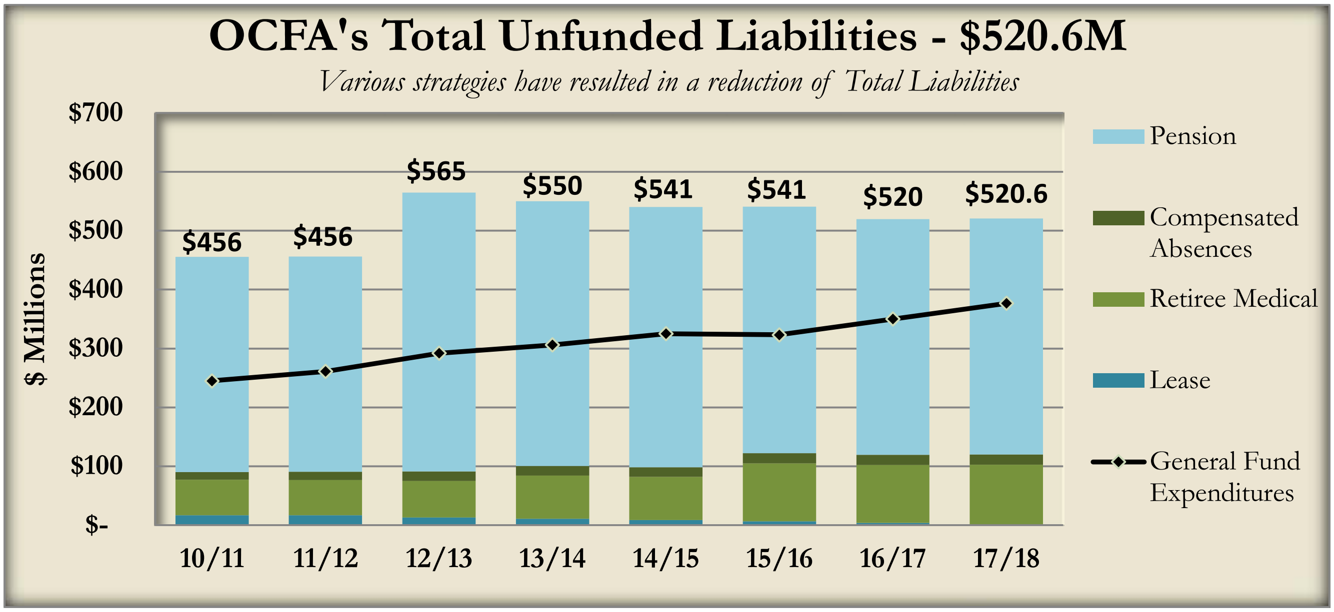
III. SUMMARY

OCFA's total long term, unfunded liabilities as of June 30, 2018,* are as follows:

	$ Amount in Millions	*% of Total*
Defined Benefit Pension Plan *	$ 400.6	77.0%
Defined Benefit Retiree Medical Plan	102.6	19.7
Accrued Compensated Absences	17.4	3.3
Total	**$ 520.6**	**100.0%**

*Note: the valuation date for the pension plan is December 31, 2017, instead of June 30, 2018, 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 taken several additional steps to manage its long-term obligations:

1. 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.
2. In FY 2015/16 and again in FY 2016/17, OCFA modified its Accelerated Pension Paydown Plan to include additional sources of funding.
3. During 2015 and 2016, OCFA completed negotiations with all four labor groups resulting in increased employee contributions towards retirement.
4. 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.
5. 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 2026/27. To date, OCFA has made an additional $75 million in payments to OCERS to lower its UAAL.
6. 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.
7. 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.

8. 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.
9. Used a trigger formula during down economic cycles to connect pay raises for all OCFA employees to OCFA's financial health.
10. Implemented lower retirement formulas for all labor groups.
11. Refinanced the helicopter lease to lower the interest rate.
12. Implemented annual prepayment of retirement contributions to achieve a discount.
13. Provided a study to the Board of Directors regarding the feasibility of Pension Obligation Bonds.
14. 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 Accelerated Pension Payment Plan as indicated in the Updated Snowball Strategy.
2. Direct staff to adjust the FY 2018/19 General Fund budget to increase expenditures by $10 million for the purpose of allocating $10 million of the $13 million available unencumbered funds identified in the FY 2017/18 financial audit to OCFA's unfunded pension liability.
3. Direct staff to return with the mid-year financial review to consider any allocation of the remaining $3 million of available unencumbered funds identified in the FY 2017/18 financial audit.

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 **Attachment 2**

Accelerated Payment of UAAL

Snowball Effect of Multiple Strategies

Updated August 2018

			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	50% of General Fund Surplus	Annual Snowball Amount	Cumulative Accelerated UAAL Payment
			Part A	Part B	Part C	Part D	Part E		
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	1	18/19	3,000,000	3,167,397	5,000,000	1,000,000	5,842,013	18,009,410	93,609,718
7	2	19/20	3,000,000	1,648,658	7,000,000	1,000,000	12,422,707	25,071,365	118,681,083
8	3	20/21	3,000,000	2,368,859	9,000,000	1,000,000	8,067,604	23,436,463	142,117,546
9	4	21/22	3,000,000	3,279,280	11,000,000		7,533,927	24,813,207	166,930,753
10	5	22/23	3,000,000	4,787,217	13,000,000		12,909,405	33,696,622	200,627,375
11	6	23/24	3,000,000	5,772,547	15,000,000		10,821,745	34,594,292	235,221,667
12	7	24/25	3,000,000	6,814,115	15,000,000		8,330,262	33,144,377	268,366,044
13	8	25/26	3,000,000	14,242,631	15,000,000		5,071,625	37,314,256	305,680,300
14	9	26/27	3,000,000	19,647,456	15,000,000		2,625,756	40,273,212	345,953,512
			86,888,611	70,569,816	109,000,000	5,000,000	74,495,085	345,953,512	

Orange County Fire Authority
Distribution of Liabilities by Member Agency
As of June 30, 2018

Attachment 3

				Proportional Share		
Member Agency	**# of EEs**	**2018 Incidents**	**% of Total EEs**	**Pension UAAL**	**Retiree Medical**	**Total**
County Unincorporated (SFF) Station 8, 15, 18, 21, 25, 33, 40, 58, 56	105		12.54%	50,250,717	12,869,501	63,120,217
Aliso Viejo (SFF) Station 57	15		1.79%	7,178,674	1,838,500 - -	9,017,174
Buena Park (CCC) Stations 61, 62, 63	48		5.73%	22,971,756	5,883,200 - -	28,854,957
Cypress (SFF) Station 17	24		2.87%	11,485,878	2,941,600 - -	14,427,478
Dana Point (SFF) Stations 29, 30	24		2.87%	11,485,878	2,941,600 - -	14,427,478
Placentia (CCC) Stations 34, 35	36		4.30%	17,228,817	4,412,400 - -	21,641,217
Irvine (SFF) Stations 4, 6, 20, 26, 27, 28, 36, 38, 47, 51, 55	174		20.79%	83,272,616	21,326,601 - -	104,599,218
Laguna Hills (SFF) Station 22 (serving both LGH & LGW)	36	3,078	1.52%	6,085,644	1,558,569 - -	7,644,212
Laguna Woods (SFF) Station 22 (serving both LGH & LGW)		5,636	2.78%	11,143,173	2,853,831 - -	13,997,005
Laguna Niguel (SFF) Stations 5, 39, 49	36		4.30%	17,228,817	4,412,400 - -	21,641,217
Lake Forest (SFF) Stations 19, 42, 54	33		3.94%	15,793,082	4,044,700 - -	19,837,783
La Palma (SFF) Station 13	12		1.43%	5,742,939	1,470,800 - -	7,213,739
Los Alamitos (SFF) Station 2	12		1.43%	5,742,939	1,470,800 - -	7,213,739
Mission Viejo (SFF) Stations 9, 24, 31	48		5.73%	22,971,756	5,883,200 - -	28,854,957
Rancho Santa Margarita (SFF) Station 45	27		3.23%	12,921,613	3,309,300 - -	16,230,913

Orange County Fire Authority
Distribution of Liabilities by Member Agency
As of June 30, 2018

Attachment 3

				Proportional Share		
Member Agency	**# of EEs**	**2018 Incidents**	**% of Total EEs**	**Pension UAAL**	**Retiree Medical**	**Total**
San Clemente (CCC)	36		4.30%	17,228,817	4,412,400	21,641,217
Stations 50, 59, 60					-	
					-	
San Juan Capistrano (SFF)	15		1.79%	7,178,674	1,838,500	9,017,174
Station 7					-	
					-	
Seal Beach (CCC)	24		2.87%	11,485,878	2,941,600	14,427,478
Stations 44, 48					-	
					-	
Stanton (CCC)	15		1.79%	7,178,674	1,838,500	9,017,174
Station 46					-	
					-	
Tustin (CCC)	24		2.87%	11,485,878	2,941,600	14,427,478
Stations 37, 43					-	
					-	
Villa Park (SFF)	12		1.43%	5,742,939	1,470,800	7,213,739
Station 23					-	
					-	
Westminster (CCC)	48		5.73%	22,971,756	5,883,200	28,854,957
Stations 64, 65, 66					-	
					-	
Yorba Linda (SFF)	33		3.94%	15,793,082	4,044,700	19,837,783
Stations 10, 32, 53						
Totals	**837**		**100.00%**	**400,570,000**	**102,588,305**	**503,158,305**