



Orange County Fire Authority  
**AGENDA STAFF REPORT**

Board of Directors Meeting  
January 28, 2021

Agenda Item No. 3B  
Discussion Calendar

**2020 Long Term Liability Study  
& Accelerated Pension Payment Plan**

**Contact(s) for Further Information**

Robert Cortez, Assistant Chief  
Business Services Department

[robertcortez@ocfa.org](mailto:robertcortez@ocfa.org)

714.573.6012

Tricia Jakubiak, Treasurer  
Treasury & Financial Planning

[triciajakubiak@ocfa.org](mailto:triciajakubiak@ocfa.org)

714.573.6301

**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 November 21, 2019 meeting. Budget and Finance Committee reviewed and approved recommendation at their January 13, 2021, Regular meeting by a 7-0 vote (Rossini absent).

**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 2020/21 General Fund budget to increase expenditures and operating transfers out by a combined value of \$13,534,587 the amount identified as the unencumbered fund balance identified in the FY 2019/20 financial audit, and to allocate the funding among three of OCFA's high-priority funding areas including \$3,000,000 to the Accelerated Pension Payment Plan, \$3,949,257 to the Workers' Compensation Program, and \$6,585,330 to the General Fund to replenish the required 10% contingency reserve. 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.

**Fiscal Impact**

During the past seven years, the OCFA Board of Directors' support of the Accelerated Pension Payment Plan has enabled OCFA to make accelerated payments totaling \$108.5 million, resulting in interest savings of \$34.4 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 the pension liability.

### ***Accelerated Pension Payment Plan***

During FY 2019/20, OCFA made additional payments towards its Unfunded Actuarially Accrued Liability (UAAL) totaling \$13.6 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 \$34.4 million in interest by making additional payments towards its UAAL and will achieve 85% funding by December 31, 2021, and 100% funding by December 31, 2026, assuming all other actuarial inputs are held constant as identified in Attachment 2.

### ***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, 2020, 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 80% funded, this year the \$500,000 will be sent to OCERS as an additional source of funds 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. 2020 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

## **Exhibit(s)**

Presentation on the 2020 Long Term Liability Study

ORANGE COUNTY FIRE AUTHORITY



2020

# LIABILITY STUDY

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OCFA'S LONG TERM LIABILITES

JANUARY 2021

# OCFA'S LONG TERM LIABILITY STUDY

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## I. OBJECTIVE

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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.

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## II. BACKGROUND

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OCFA's long term liabilities include:

1. Defined Benefit Pension Plan
2. Defined Benefit Retiree Medical Plan
3. Workers Compensation Claims
4. 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.

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### DEFINED BENEFIT PENSION PLAN

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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:

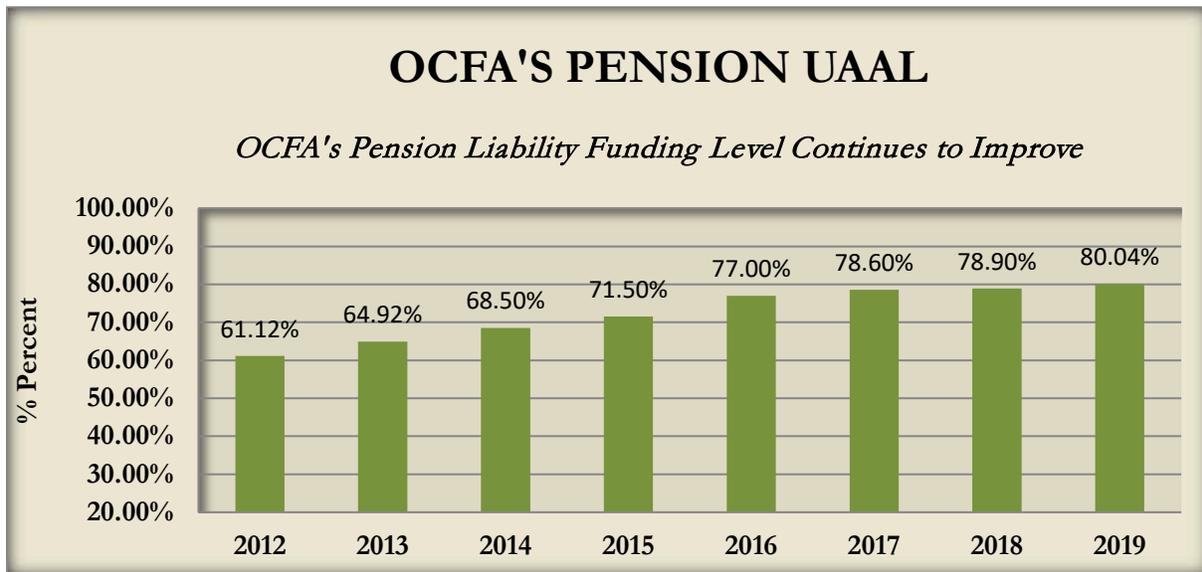
	Hired Prior to July 1, 2012	Hired Between July 1, 2012 – Dec. 31, 2012	Hired on or after Jan. 1, 2013 (w/out reciprocity)
Safety	3% @ 50	3% @ 55	2.7% @ 57

	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 \$93 million or 22% of the Authority’s FY 2020/21 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, 2019, valuation by OCERS, the Authority’s total UAAL was \$434.7 million with \$388.6 million or 89% attributed to Safety members and \$46.1 million or 11% attributed to General members. OCFA’s plan is 80.04% 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)

<u>Employer Rate</u> *	<u>2019 Valuation</u> (FY 21/22 rates)	<u>2018 Valuation</u> (FY 20/21 rates)
Normal Cost	12.64%	12.64%
<u>UAAL</u>	<u>14.06%</u>	<u>14.96%</u>
Total	26.70%	27.60%

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

<u>Employer Rate</u> *	<u>2019 Valuation</u> (FY 21/22 rates)	<u>2018 Valuation</u> (FY 20/21 rates)
Normal Cost	24.92%	24.00%
<u>UAAL</u>	<u>23.79%</u>	<u>23.84%</u>
Total	48.71%	47.84%

\* Totals do not include *Employer Rates*, which vary based on age of entry and retirement formula. *Employer Rates* range from 5.42% - 11.86% for General and 9.10% - 14.47% for Safety. Rates are also after adjustment for additional UAAL contributions made from 2014 to 2019.

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 earned 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.

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 7.2%, which is slightly above its assumed rate of return of 7.0%.

## OCERS' History of Performance

(Based on Fair Value)

*The average rate of return over the last 15 years is 7.2%*



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 2019.

## OCERS' Schedule of Funding Progress

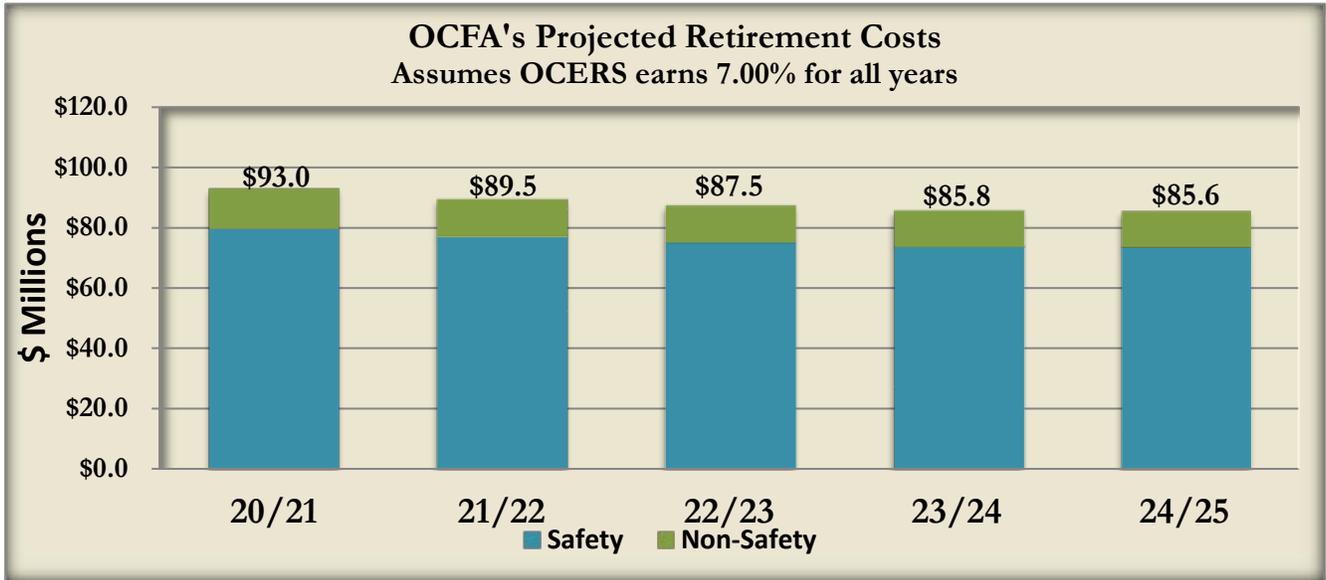
(Dollars in Thousands)

*OCERS' funding level continues to improve*

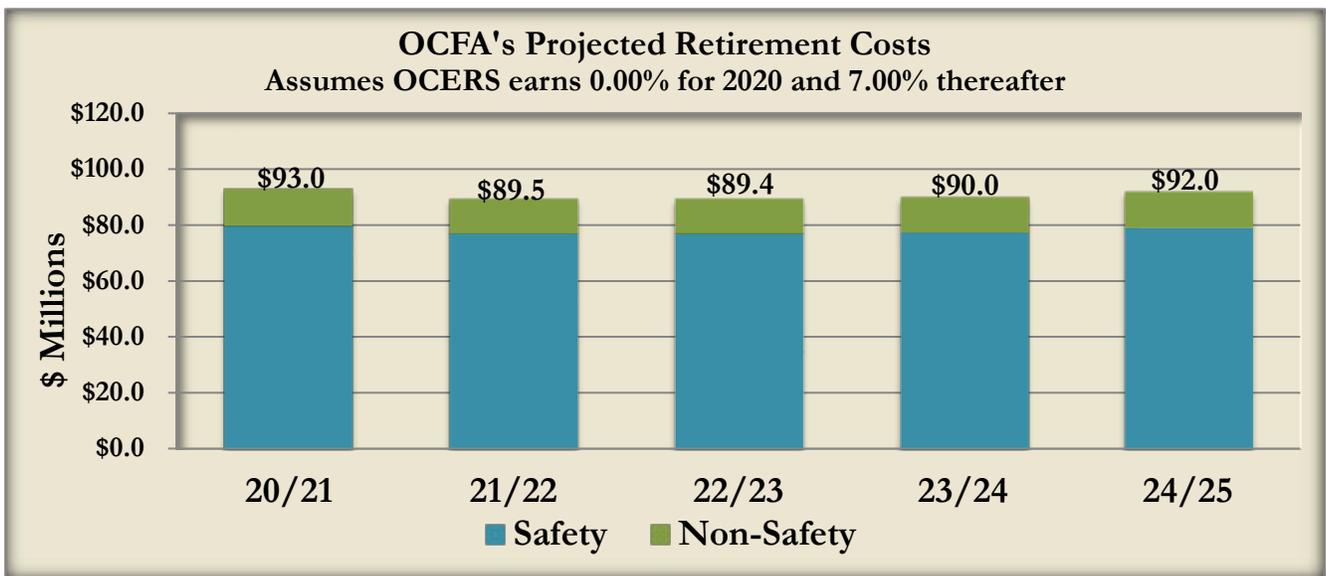
Actuarial Valuation Date December 31	Actuarial Value of Plan Assets (a)	Actuarial Liability (b)	Total UAAL (b-a=c)	Funded Ratio (a/b)
2001	\$4,586,844	\$4,843,899	\$257,055	94.69%
2002	4,695,675	5,673,754	978,079	82.76%
2003	4,790,099	6,099,433	1,309,334	78.53%
2004	5,245,821	7,403,972	2,158,151	70.85%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

The chart below assumes OCERS will earn its assumed rate of return of 7.0% in 2020 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 2020 and 7.0% in future years. Note the increased retirement contributions that would result starting in FY 2022/23 in the event OCERS has a 0.00% return in that one year. 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 2020 preliminary return as of November is 7.2%. 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
FY 18/19	19.2 million
<u>FY 19/20</u>	<u>13.7million</u>
<b>Total</b>	<b>\$108.5 million</b>

The outcomes from the accelerated payment plan implementation in FY 2013/14 through FY 2019/20 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 \$34.4 million in interest by making additional payments towards its UAAL. The noted \$34.4 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	9,838,621
<b>Total</b>	<b>\$34,452,877</b>

The actuary projects OCFA will achieve 85% funding by December 31, 2021 and 100% funding by December 31, 2026, 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.

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### **DEFINED *BENEFIT* RETIREE MEDICAL PLAN**

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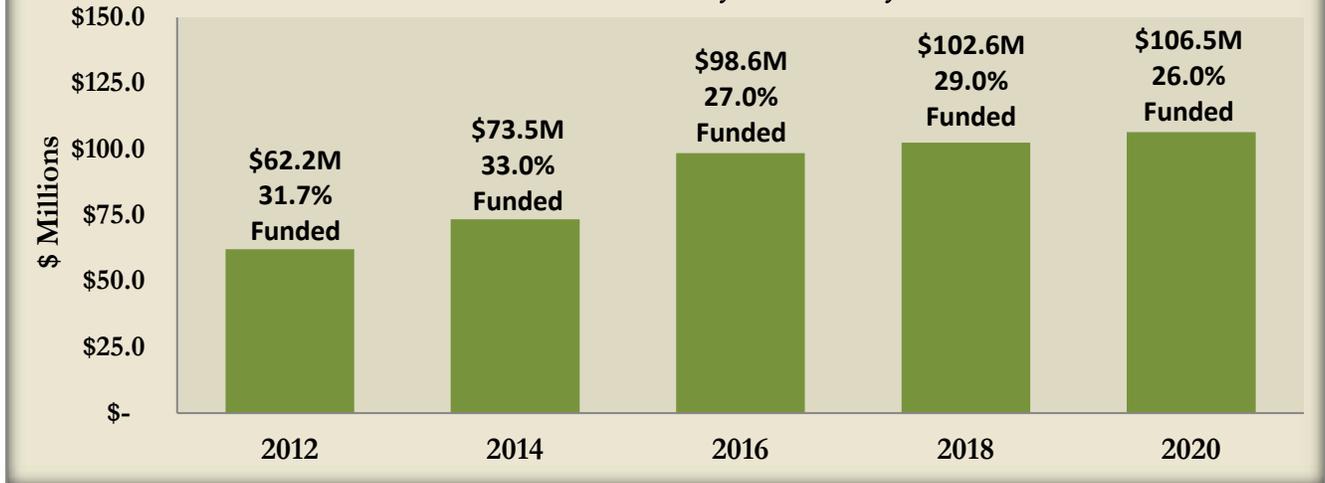
In addition to the OCFA's retirement plan administered by OCERS, the OCFA provides a post-employment medical retirement plan (Retiree Medical Plan) for certain employees. Employees hired prior to January 1, 2007, are in a *defined benefit plan* that provides a monthly grant toward the cost of retirees' 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. 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.

## OCFA's Retiree Medical UAAL

*The Retiree Medical Liability has steadily increased*



*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.

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.

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## DEFINED CONTRIBUTION RETIREE MEDICAL PLAN

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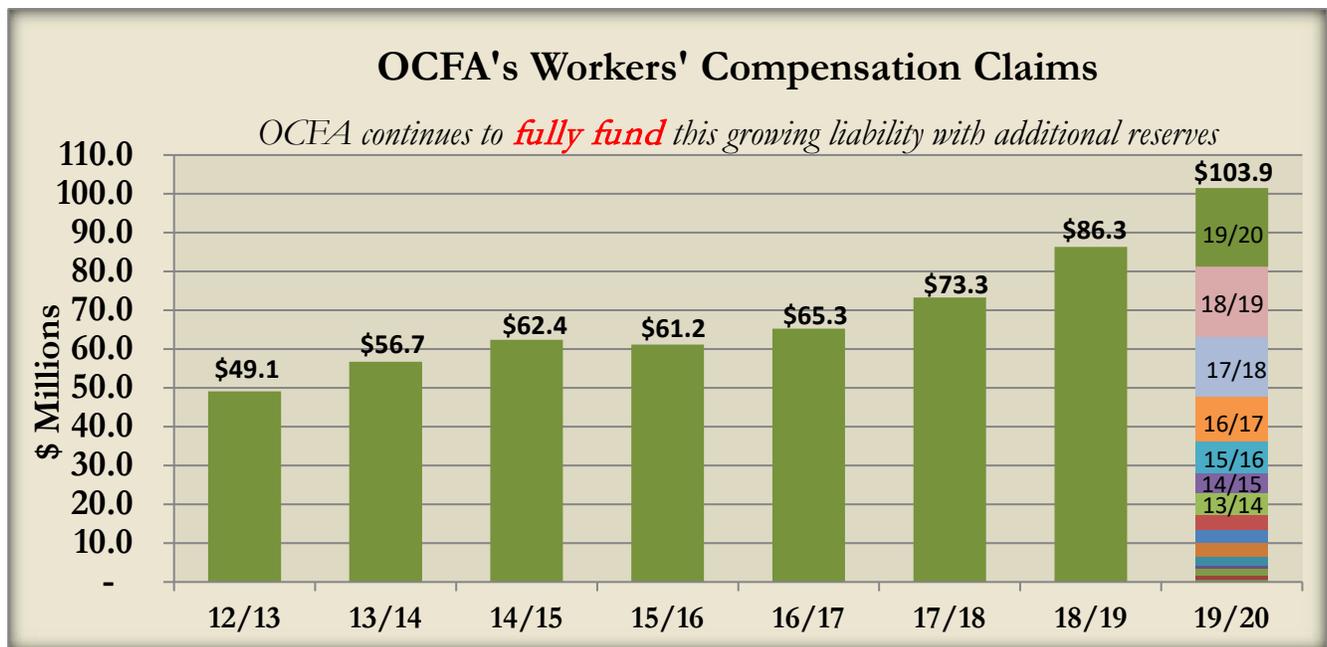
For employees hired on or after January 1, 2007, the OCFA created a *defined contribution plan* that is administered by Further. The Plan provides for the reimbursement of medical, dental, and other healthcare expenses of retirees. Employees are required to contribute 4% of their gross pay. Account assets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

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## WORKERS' COMPENSATION CLAIMS

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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 2020-21 Budget includes \$100.4 million set-aside in reserves to pay this liability as the various medical claims and bills become due. However, based on the 2020 Actuarial Study, OCFA's total workers' compensation liability is \$103.9 million as of June 30, 2020. Therefore, staff will be recommending for Board approval a \$3.9 million mid-year budget adjustment to fully fund the Workers Compensation Fund.



The outstanding liability reflected in the above chart reflects 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 stack on top of each other over the years (as demonstrated by the color-coding of the FY 19/20 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 April 2012 with the addition of the City of Santa Ana and in 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.

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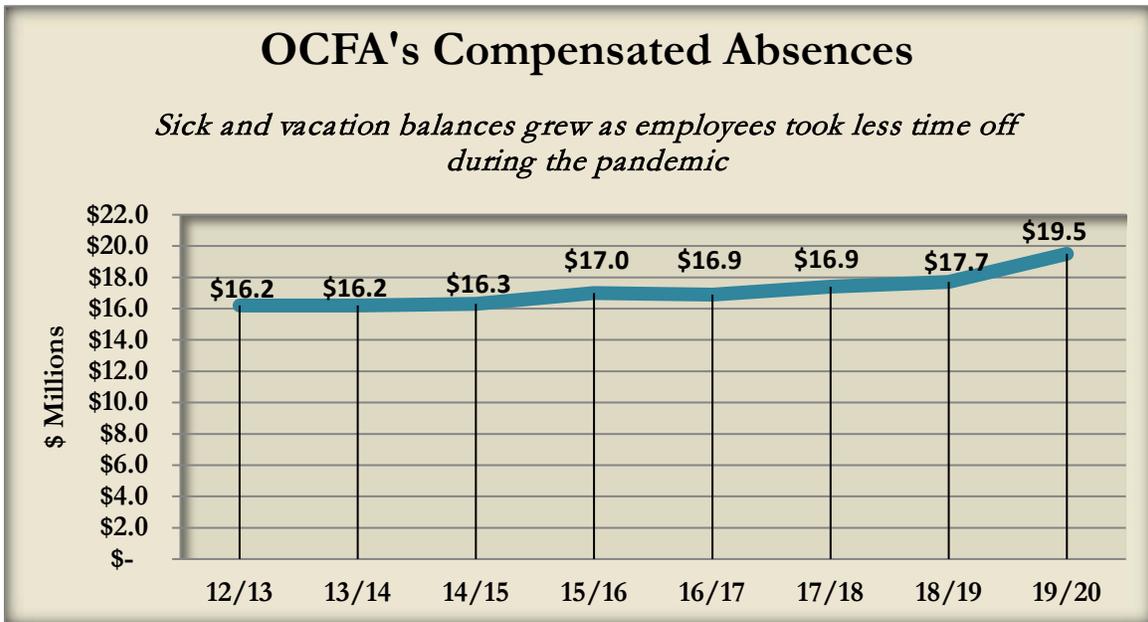
### ACCRUED COMPENSATED ABSENCES

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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 \$4.3 million for sick and vacation payouts in FY 2020/21 based on historical trends and expected retirements. OCFA's total liability for compensated absences as of June 30, 2020, is \$19.5 million.



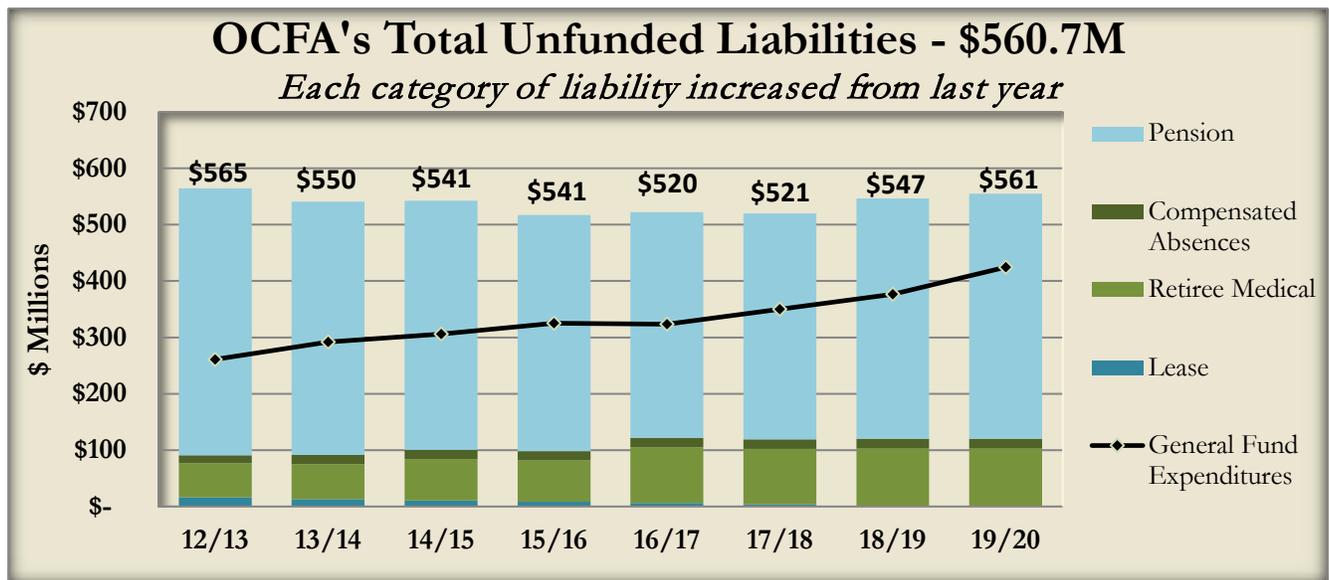
### III. SUMMARY

OCFA's total long term, unfunded liabilities as of June 30, 2020,\* are as follows:

	<i>\$ Amount in Millions</i>	<i>% of Total</i>
Defined Benefit Pension Plan *	\$ 434.7	77.5%
Defined Benefit Retiree Medical Plan	106.5	19.0
Accrued Compensated Absences	19.5	3.5
<b>Total</b>	<b>\$560.7</b>	<b>100.0%</b>

\*Note: the valuation date for the pension plan is December 31, 2019, instead of June 30, 2020, consistent with OCERS' calendar year basis for financial reporting.

When OCFA presented its first 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 were implemented, OCFA was able to reduce its total long term, unfunded obligations.



*Note: Workers' Compensation is not included since a \$3.9 million mid-year budget adjustment is pending Board approval to fully fund the reserve.*

### ACTIONS TAKEN

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

1. 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.
2. 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.
3. In FY 2015/16 and again in FY 2016/17, OCFA modified its Accelerated Pension Paydown Plan to include additional sources of funding.
4. During 2015 and 2016, OCFA completed negotiations with all four labor groups resulting in increased employee contributions towards retirement.
5. 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.
6. 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 \$108.5 million in payments to OCERS to lower its UAAL.
7. 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.
8. 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.
9. 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.
10. Used a trigger formula during down economic cycles to connect pay raises for all OCFA employees to OCFA's financial health.
11. Implemented lower retirement formulas for all labor groups.
12. Refinanced the helicopter lease to lower the interest rate. Last payment made in December 2018.
13. Implemented annual prepayment of retirement contributions to achieve a discount.
14. Provided a study to the Board of Directors regarding the feasibility of Pension Obligation Bonds.
15. 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.

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## RECOMMENDATIONS

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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 2020/21 General Fund budget to increase expenditures and operating transfers out by a combined value of \$13,534,587, the amount identified as the unencumbered fund balance identified in the FY 2019/20 financial audit, and to allocate the funding among three of OCFA's high-priority funding areas including \$3,000,000 to the Accelerated Pension Payment Plan, \$3,949,257 to the Workers' Compensation Program, and \$6,585,330 to the General Fund to replenish the required 10% contingency reserve. 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.

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## **CONCLUSION**

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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 August 2020

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	Irvine Settlement Agreement	Annual Snowball Amount	Cumulative Expedited UAAL Payment
			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	1	20/21	3,000,000	2,368,859	9,000,000	1,000,000		500,000	15,868,859	124,315,394
9	2	21/22	3,000,000	3,279,280	11,000,000				17,279,280	141,594,674
10	3	22/23	3,000,000	4,787,217	13,000,000				20,787,217	162,381,891
11	4	23/24	3,000,000	5,772,547	15,000,000				23,772,547	186,154,438
12	5	24/25	3,000,000	6,814,115	15,000,000				24,814,115	210,968,553
13	6	25/26	3,000,000	14,242,631	15,000,000				32,242,631	243,211,184
14	7	26/27	3,000,000	19,647,456	15,000,000				37,647,456	280,858,640
15	8	27/28	3,000,000	20,807,106	15,000,000				38,807,106	319,665,746
16	9	28/29	3,000,000	26,075,871	15,000,000				44,075,871	363,741,617
17	10	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  
Distribution of Liabilities by Member Agency  
As of June 30, 2020

Attachment 3

Member Agency	# of EEs	2019 Incidents	% of Total EEs	Proportional Share		Total
				Pension UAAL	Retiree Medical	
<b>County Unincorporated (SFF)</b> Station 8, 15, 18, 21, 25, 33, 40, 58, 56	101		12.48%	54,268,087	13,297,581	67,565,667
<b>Aliso Viejo (SFF)</b> Station 57	16		1.98%	8,596,925	2,106,547	10,703,472
<b>Buena Park (CCC)</b> Stations 61, 62, 63	52		6.43%	27,940,005	6,846,279	34,786,284
<b>Cypress (SFF)</b> Station 17	23		2.84%	12,358,079	3,028,162	15,386,241
<b>Dana Point (SFF)</b> Stations 29, 30	25		3.09%	13,432,695	3,291,480	16,724,175
<b>Placentia (CCC)</b> Stations 34, 35	36		4.45%	19,343,080	4,739,732	24,082,812
<b>Irvine (SFF)</b> Stations 4, 6, 20, 26, 27, 28, 36, 38, 47, 51, 55	163		20.15%	87,581,169	21,460,452	109,041,621
<b>Laguna Hills (SFF)</b> Station 22 (serving both LGH & LGW)	39	3,303	1.84%	8,006,290	1,961,821	9,968,111
<b>Laguna Woods (SFF)</b> Station 22 (serving both LGH & LGW)		5,342	2.98%	12,948,714	3,172,888	16,121,602
<b>Laguna Niguel (SFF)</b> Stations 5, 39, 49	32		3.96%	17,193,849	4,213,095	21,406,944
<b>Lake Forest (SFF)</b> Stations 19, 42, 54	26		3.21%	13,970,002	3,423,140	17,393,142
<b>La Palma (SFF)</b> Station 13	10		1.24%	5,373,078	1,316,592	6,689,670
<b>Los Alamitos (SFF)</b> Station 2	11		1.36%	5,910,386	1,448,251	7,358,637
<b>Mission Viejo (SFF)</b> Stations 9, 24, 31	46		5.69%	24,716,158	6,056,324	30,772,482
<b>Rancho Santa Margarita (SFF)</b> Station 45	27		3.34%	14,507,310	3,554,799	18,062,109
<b>San Clemente (CCC)</b>	37		4.57%	19,880,388	4,871,391	24,751,779

Orange County Fire Authority  
Distribution of Liabilities by Member Agency  
As of June 30, 2020

Member Agency	# of EEs	2019 Incidents	% of Total EEs	Proportional Share		Total
				Pension UAAL	Retiree Medical	
Stations 50, 59, 60					-	
<b>San Juan Capistrano (SFF)</b> Station 7	15		1.85%	8,059,617	1,974,888	10,034,505
<b>Seal Beach (CCC)</b> Stations 44, 48	20		2.47%	10,746,156	2,633,184	13,379,340
<b>Stanton (CCC)</b> Station 46	14		1.73%	7,522,309	1,843,229	9,365,538
<b>Tustin (CCC)</b> Stations 37, 43	23		2.84%	12,358,079	3,028,162	15,386,241
<b>Villa Park (SFF)</b> Station 23	13		1.61%	6,985,001	1,711,570	8,696,571
<b>Westminster (CCC)</b> Stations 64, 65, 66	35		4.33%	18,805,773	4,608,073	23,413,845
<b>Yorba Linda (SFF)</b> Stations 10, 32, 53	45		5.56%	24,178,850	5,924,665	30,103,515
<b>Totals</b>	<b>809</b>		<b>100.00%</b>	<b>434,682,000</b>	<b>106,512,305</b>	<b>541,194,305</b>

Allocation of 115 Trust - Fund 139

Attachment 4

Agency	FY 2019/20	FY 2020/21	Total
Aliso Viejo	\$ 33,313	\$ 25,075	\$ 58,388
Cypress	-	-	-
Dana Point	222,223	183,564	405,787
Irvine	1,143,817	938,075	2,081,892
La Palma	-	-	-
Laguna Hills	-	-	-
Laguna Niguel	93,236	81,334	174,570
Laguna Woods	-	-	-
Lake Forest	62,767	54,812	117,579
Los Alamitos	-	-	-
Mission Viejo	-	-	-
Rancho Santa Margarita	27,625	22,504	50,129
San Juan Capistrano	-	-	-
Villa Park	13,406	9,805	23,211
Yorba Linda	-	-	-
Unincorporated	434,898	292,224	727,122
<b>Total</b>	<b>\$ 2,031,285</b>	<b>\$ 1,607,393</b>	<b>\$ 3,638,678</b>

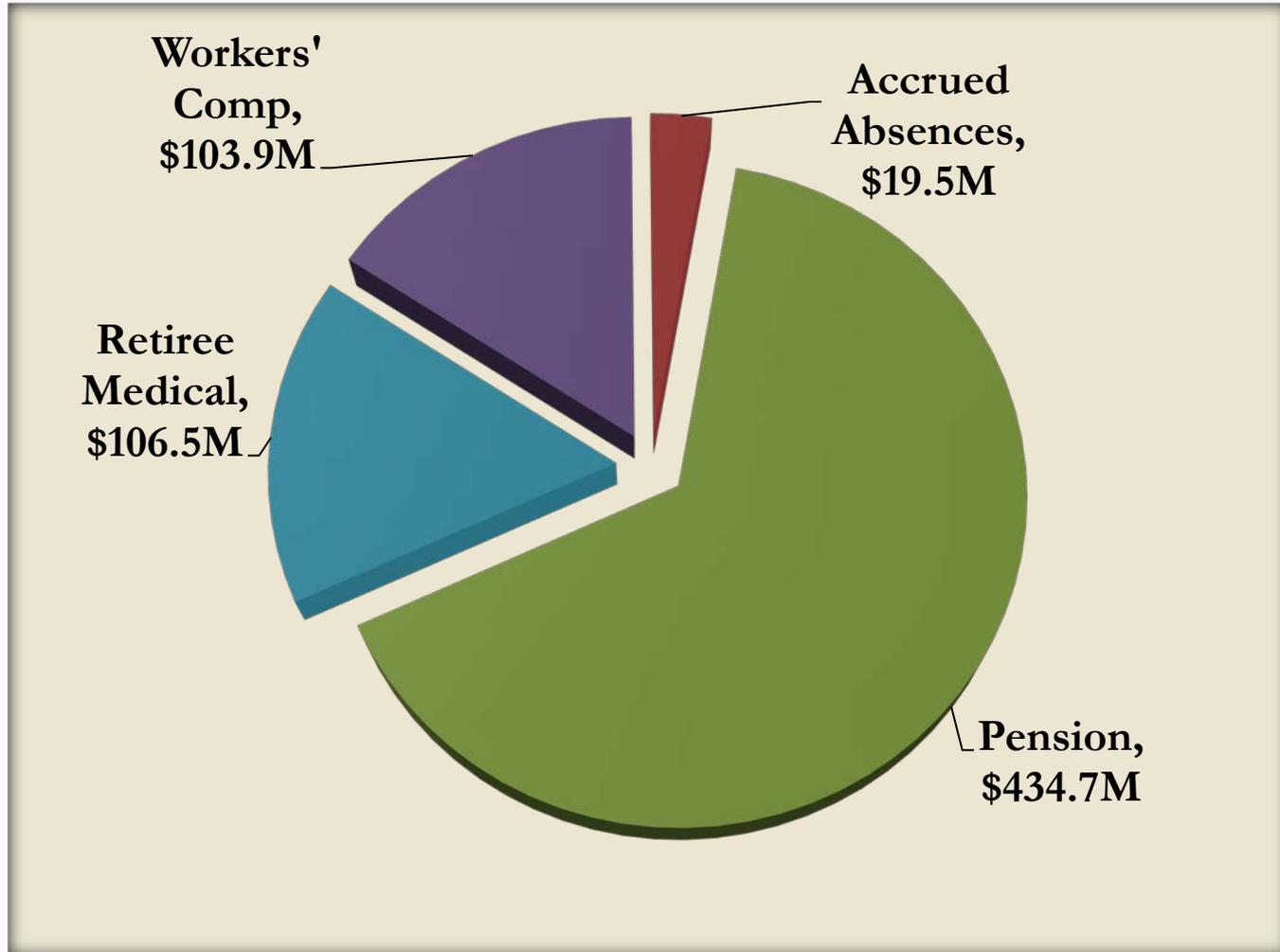
# **Orange County Fire Authority**

## **Long Term**

## **Liability Study – 2020**



# OCFA's Long Term Liabilities

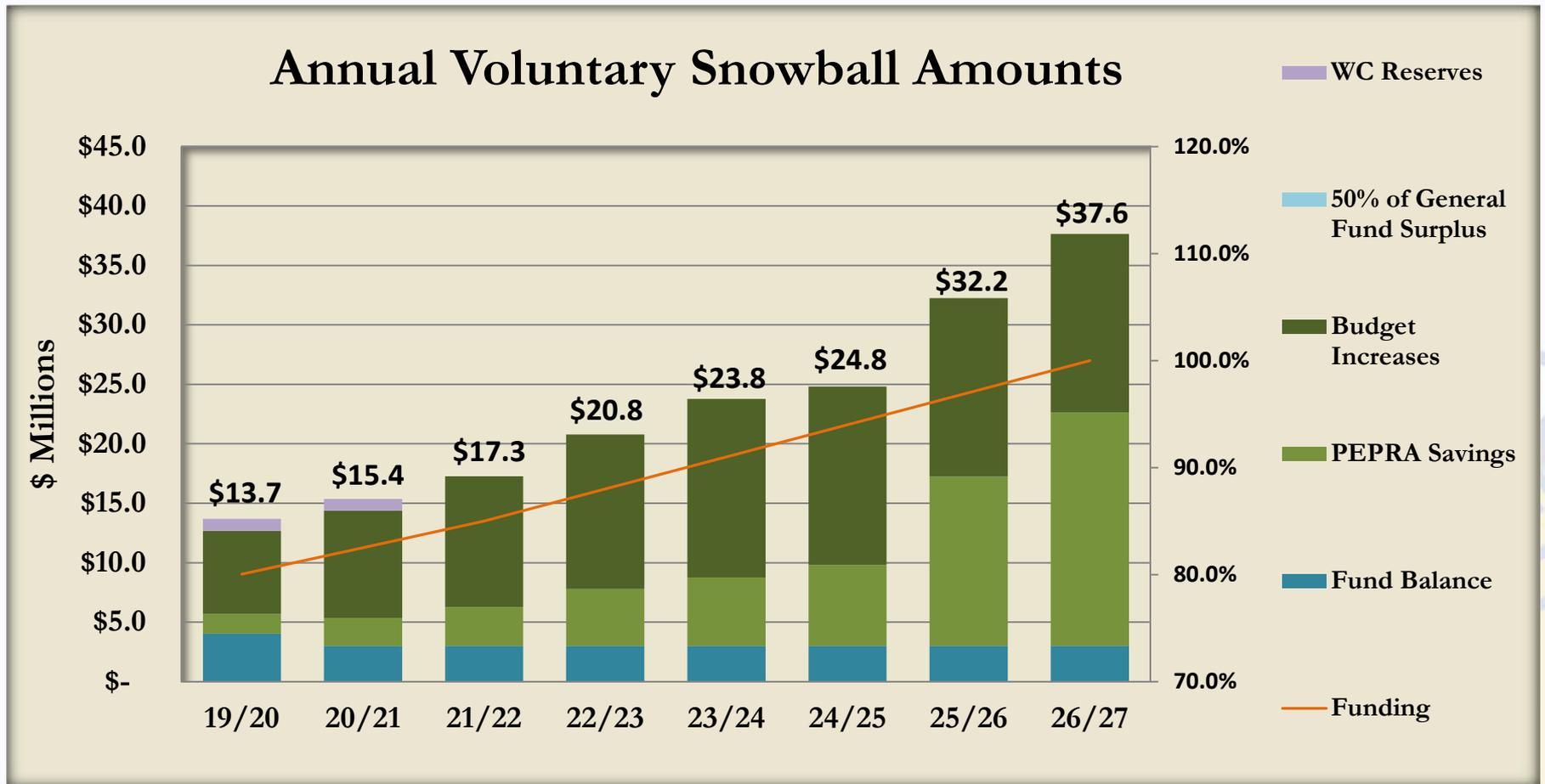


# OCFA's Pension Liability

*OCFA's Pension Liability Funding Level  
Continues to Improve*



# Accelerated Pension Paydown Plan



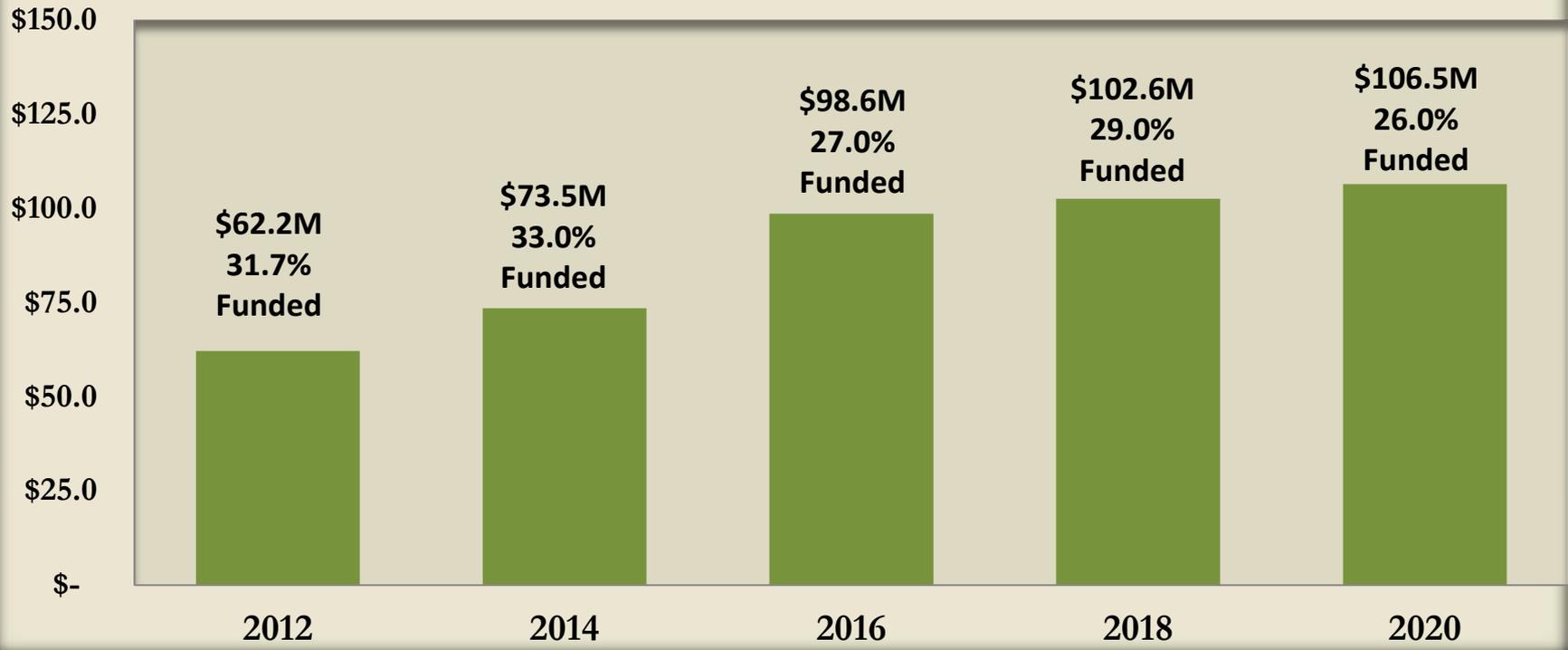
**\$108.5M in additional payments saved \$34.4M in interest**

**OCFA's Pension is currently 80.04% funded**

**85% funding projected by 12/31/2021**

# OCFA's Retiree Medical Liability

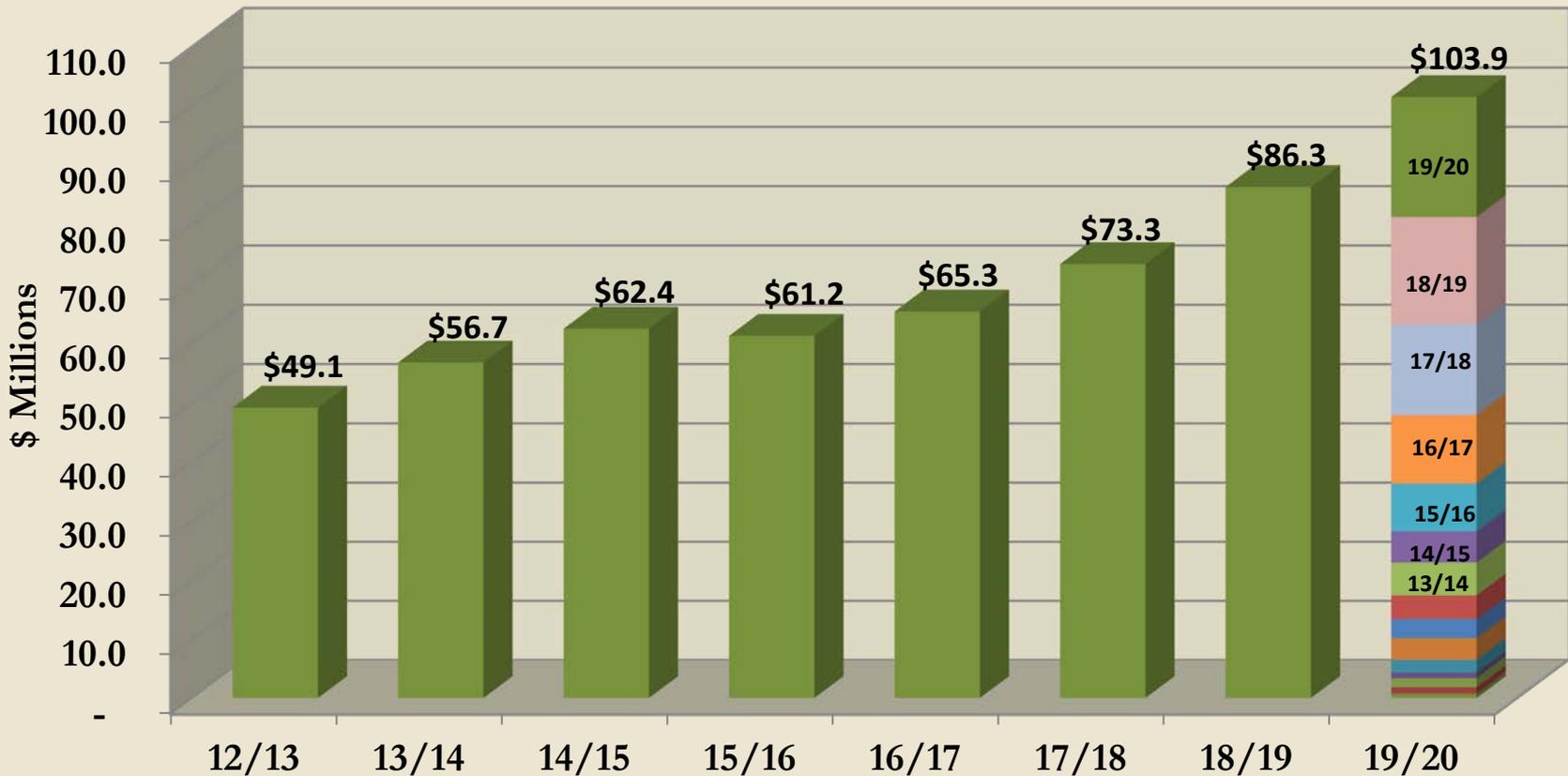
*The Retiree Medical Liability has steadily increased*



Note: Does not include implicit subsidy and uses OCERS assumed rate of return of 7.75% in 2012, 7.25% up to 2016 and 7.0% thereafter.

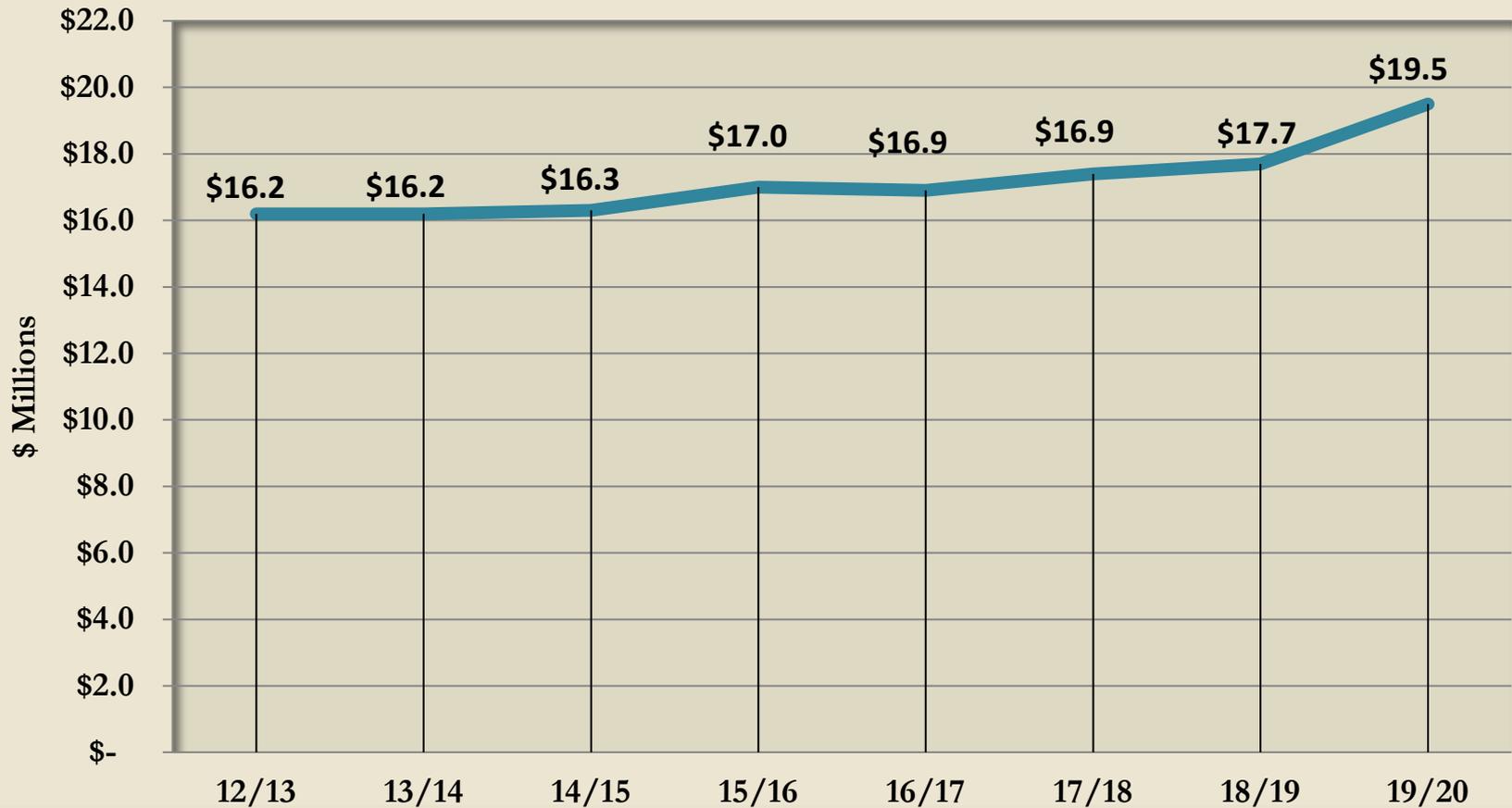
# OCFA's Workers' Compensation Claims

*OCFA continues to **fully fund** this growing liability with additional reserves*



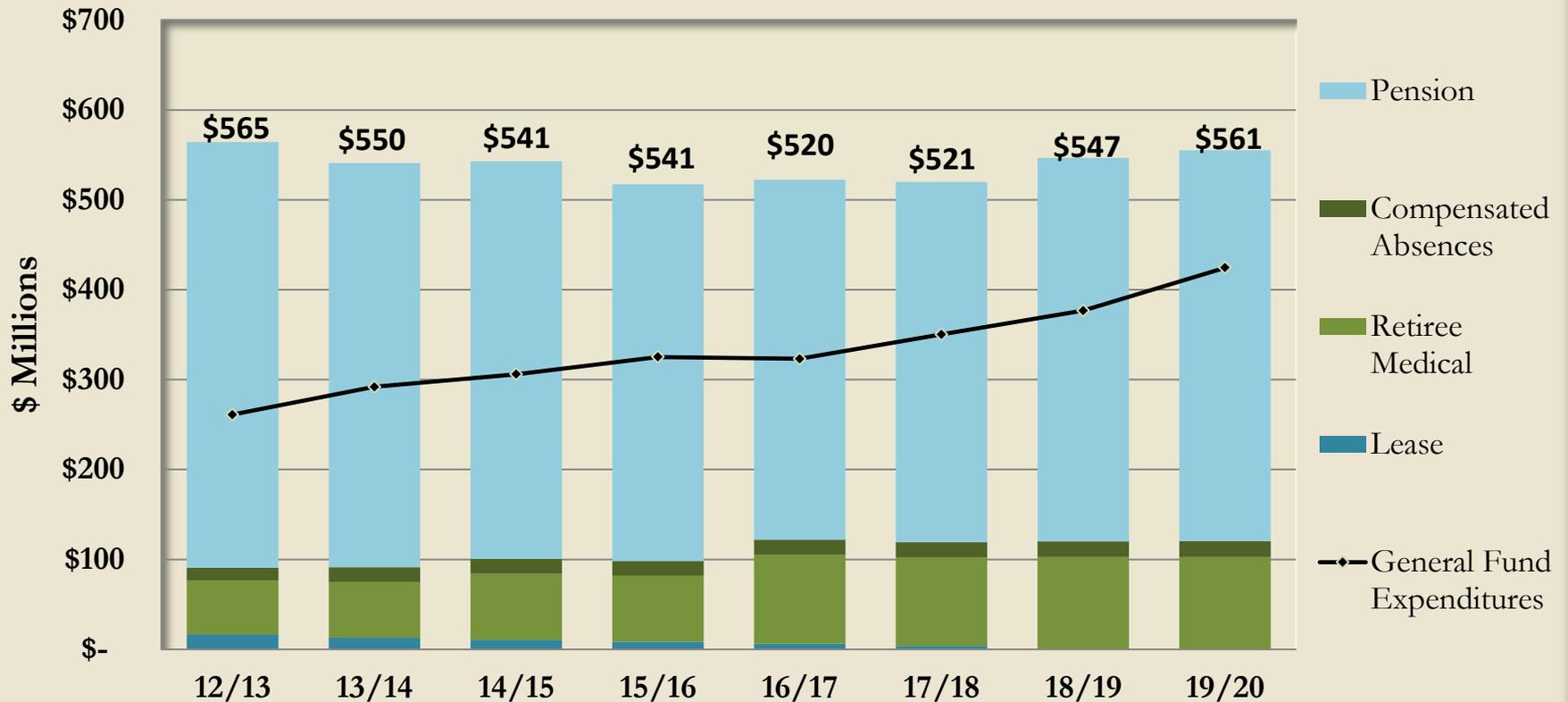
# OCFA's Compensated Absences

*Sick and vacation balances grew as employees took less time off during the pandemic*



# OCFA's Total Unfunded Liabilities

*Each category of liability increased from last year*



*Note: Workers Compensation is not included since a \$3.9M mid-year budget adjustment is pending to fully fund the reserve.*

# Recommended Actions

## Direct Staff to:

- Continue the Accelerated Pension Liability Paydown Plan.
- Allocate \$13,534,587 of FY 2019/20 Fund Balance among three of OCFA's high-priority funding areas including:
  - \$3,000,000 to the Accelerated Pension Payment Plan
  - \$3,949,257 to the Workers' Compensation Program, and
  - \$6,585,330 to the General Fund to Replenish the 10% Contingency Reserve.

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.

