Orange County Fire Authority

AGENDA STAFF REPORT

Board of Directors Meeting | **Agenda Item No. 5A**
November 21, 2019 | **Discussion Calendar**

2019 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

Budget and Finance Committee Recommendation: *APPROVE*

At its regular November 13, 2019, meeting, the Budget and Finance Committee reviewed and recommended approval of this item by a 3-2 vote with Directors Muller, Sachs, and Ta in support; Director Hernandez and Vice Chair Sedgwick opposed, and Chair Hasselbrink and Director Farias absent. In approving the item by a 3-2 vote, the Committee proposed a substitute recommendation to allocate 80% (roughly $4 million) of the $5 million unencumbered fund balance to the Accelerated Pension Payment Plan and to allocate the remaining 20% (roughly $1 million) to the Capital Improvement Program (CIP) to fund fire station improvement projects.

The Committee made its substitute recommendation contingent upon staff confirming that this modified recommendation is in alignment with the Accelerated Pension Payment Plan provisions that are now adopted as part of the OCFA Joint Powers Authority Agreement (JPA). Staff has confirmed that the provisions adopted with the Accelerated Pension Payment Plan and the JPA provide for allocation of all, or a portion thereof, of the year-end unencumbered fund balance and does not require allocation of 100% of the fund balance. Therefore, this substitute recommendation is aligned with these provisions.

RECOMMENDED ACTION(S)

1. Direct staff to continue the Accelerated Pension Payment Plan as indicated in the Updated Snowball Strategy.
2. Direct staff to implement one of the following options:
   a. **Option 1** (Substitute Recommendation by Budget and Finance Committee):
      i. Direct staff to adjust the FY 2019/20 General Fund budget to increase expenditures by $4,030,172, or 80% of the unencumbered fund balance identified in the FY 2018/19 financial audit, for the purpose of making a payment towards OCFA's unfunded pension liability; and,
      ii. Direct staff to transfer the remaining $1,007,542, or 20%, of the unencumbered fund balance identified in the FY 2018/19 financial audit, from the General Fund (121) to

the Capital Improvement Program (CIP) Fund 12110 to fund fire station improvement Projects

b. **Option 2** (Original Staff Recommendation):

i. Adjust the FY 2019/20 General Fund budget to increase expenditures by $5,037,714, the amount identified as the unencumbered fund balance identified in the FY 2018/19 financial audit, for the purpose of making a payment towards OCFA's unfunded 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 the OCFA in sustaining frontline emergency services for our member agencies and the citizens we serve.

Fiscal Impact

During the past six years, the OCFA Board of Directors' support of the Accelerated Pension Payment Plan has enabled OCFA to make accelerated payments totaling $94.8 million, resulting in interest savings of $24.6 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 2018/19, OCFA made additional payments towards its Unfunded Actuarially Accrued Liability (UAAL) totaling $19.2 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 that the OCFA has saved $24.6 million in interest by making additional payments towards its UAAL and will achieve 85% funding by December 31, 2022, and 100% funding by December 31, 2028, assuming all other actuarial inputs are held constant as identified in Attachment 2.

Last year, the actuary projected that the OCFA would achieve 85% funding by December 2020 and 100% funding by December 2026. The reason for the two-year delay is primarily due to the 2018 investment return being lower than the 7.00% return assumption in the December 31, 2018, valuation. OCERS had a net loss of 1.67 %.

Irvine Settlement Agreement

As part of the Irvine Settlement Agreement, the 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 will continue to make annual deposits of $2 million in July of each year; however, if the

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. The $500,000 reduction will instead be contributed to OCERS as an additional employer pension contribution.

A hypothetical allocation of OCFA's pension liability by member city can be found in Attachment 3 and the allocation of the PARS 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. 2019 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

ORANGE COUNTY FIRE AUTHORITY

2019

LIABILITY STUDY

OCFA'S LONG TERM LIABILITES

NOVEMBER 2019

OCFA'S LONG TERM LIABILITY STUDY

I. OBJECTIVE

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

II. BACKGROUND

OCFA's long term liabilities include:

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.

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:

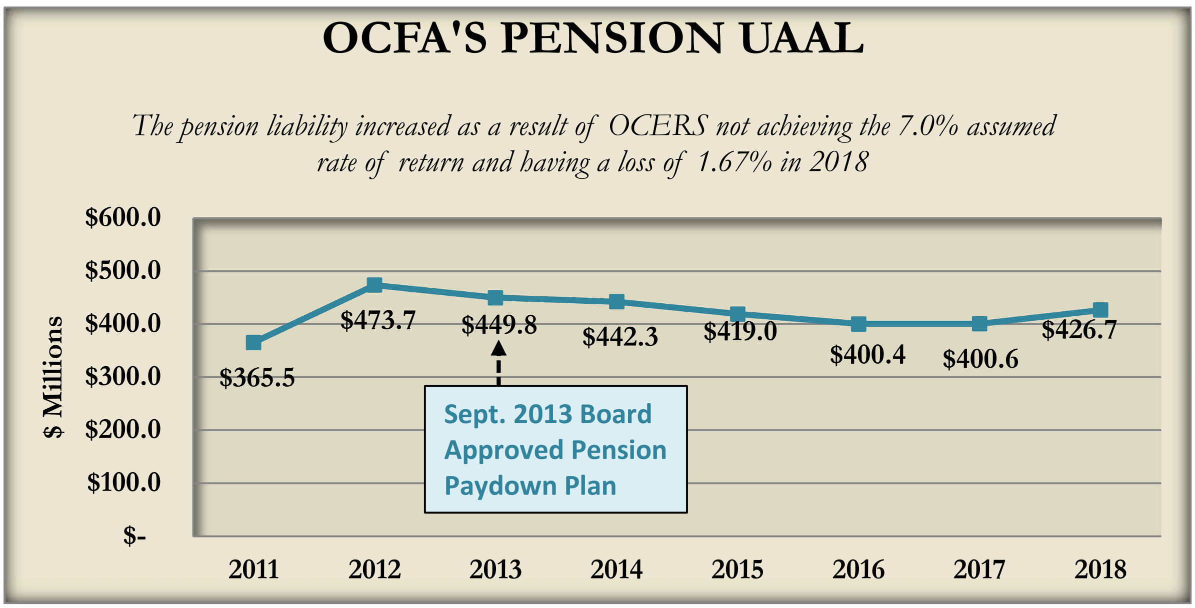
	Hired Prior to July 1, 2012	**Hired Between July 1, 2012 – Dec. 31, 2012**	**Hired on or after Jan. 1, 2013 (w/out reciprocity)**
Safety	3% @ 50	3% @ 55	2.7% @ 57

	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 $88 million or 21% of the Authority's FY 2019/20 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, 2018, valuation by OCERS, the Authority's total UAAL was $426.7 million with $379.5 million or 89% attributed to Safety members and $47.2 million or 11% attributed to General members. OCFA's plan is 78.9% 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 **	**2018 Valuation** (FY 20/21 rates)	**2017 Valuation** (FY 19/20 rates)
Normal Cost	13.04%	13.12%
UAAL	14.96%	15.74%
Total	28.00%	28.86%

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

*Employer Rate **	**2018 Valuation** (FY 20/21 rates)	**2017 Valuation** (FY 19/20 rates)
Normal Cost	24.76%	25.01%
UAAL	23.84%	20.80%
Total	48.60%	45.81%

* Totals do not include *Employee Rates*, which vary based on age of entry and retirement formula. *Employee Rates* range from 5.40% - 11.86% for General and 9.10% - 14.15% for Safety. Rates are also after adjustment for additional UAAL contributions made in 2014, 2015, 2016, 2017 and 2018.

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

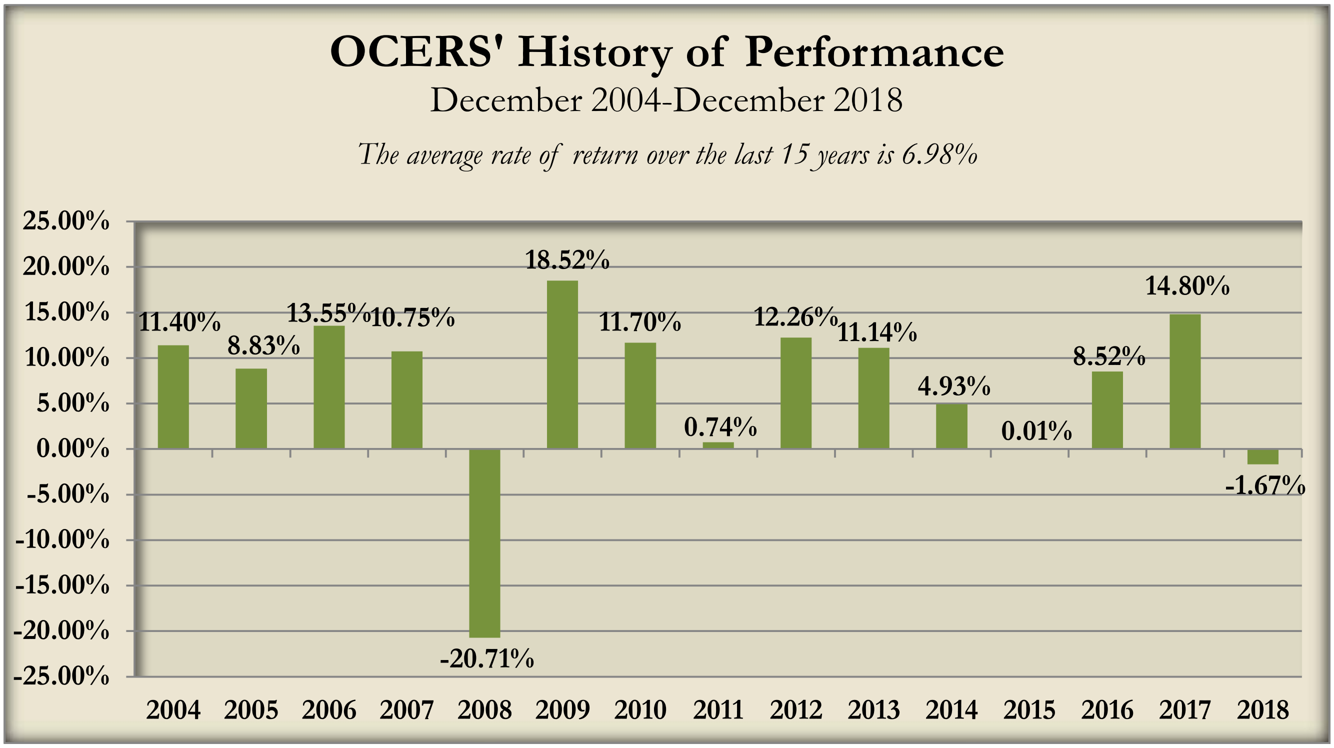
The assumed rate of return, also known as the discount rate, is a critical issue impacting OCFA's UAAL. The higher the discount rate, the lower the present value of pension assets needed to meet future pension obligations. A lower discount rate increases the current unfunded pension liabilities.

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.

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 6.98%, which is slightly below 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. There was only a small increase to the funding level in 2018.

OCERS' Schedule of Funding Progress

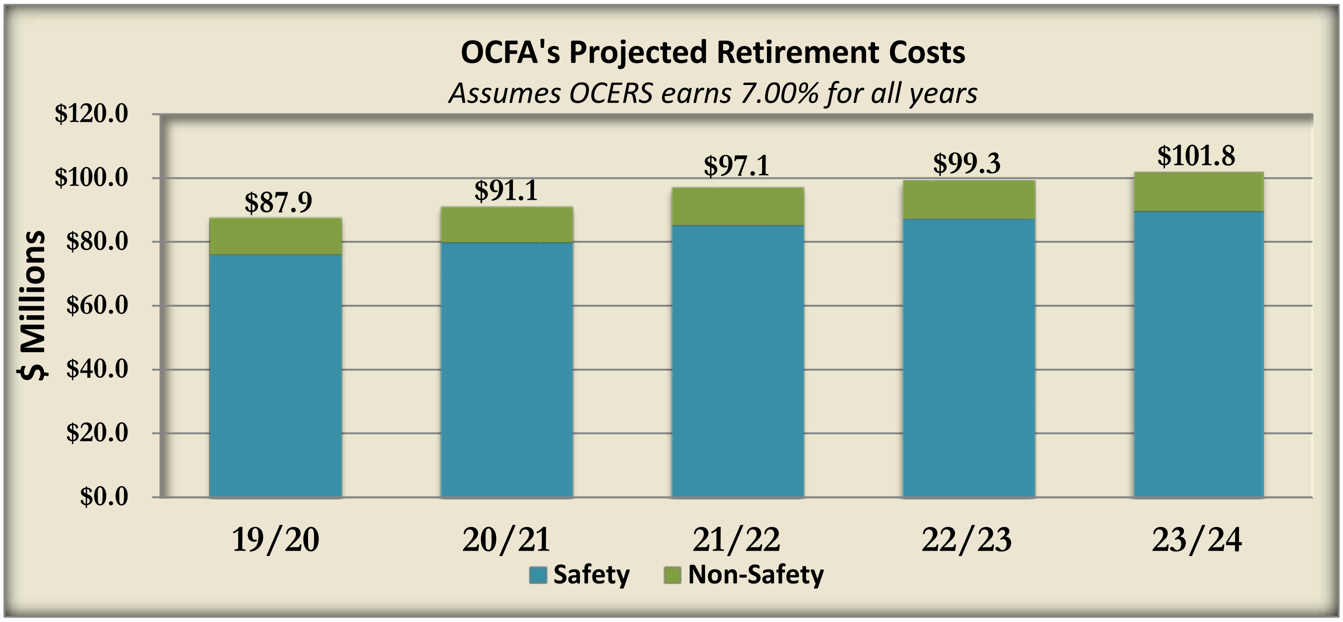
(Dollars in Thousands)

OCERS' funding level increased slightly

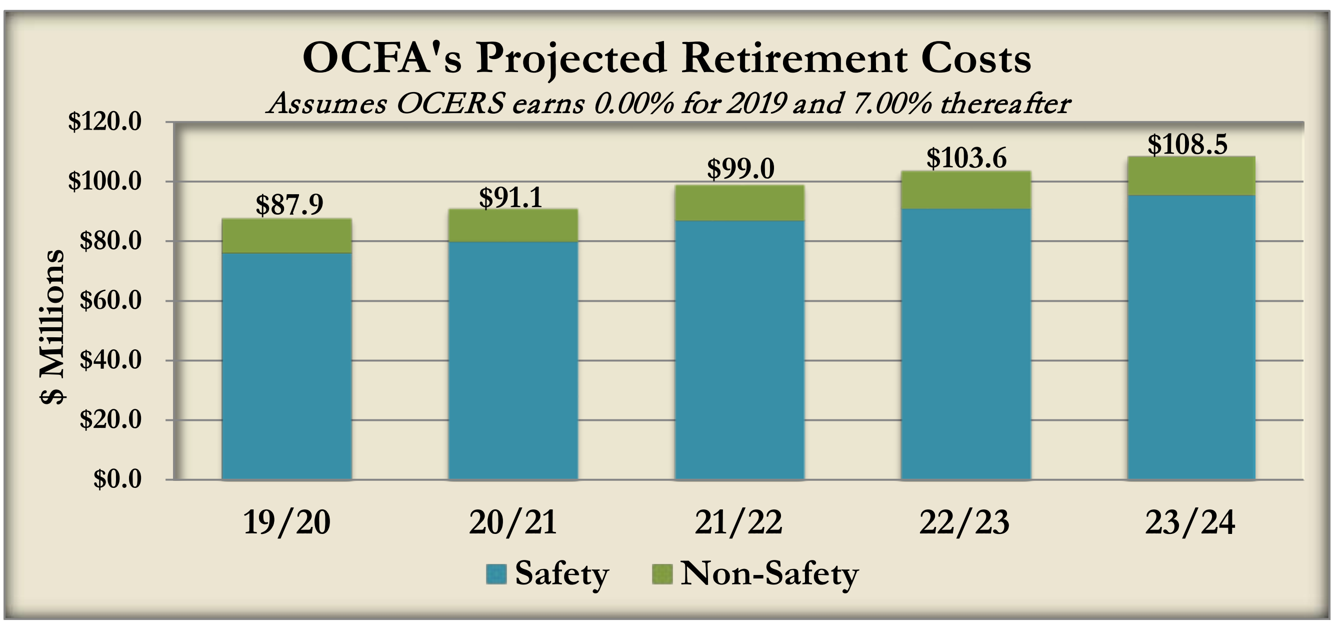
Actuarial Valuation Date December 31	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total UAAL (b-a=c)	Funded Ratio (a/b)
2001	$4,586,844	$4,843,899	$257,055	94.69%
2002	4,695,675	5,673,754	978,079	82.76%
2003	4,790,099	6,099,433	1,309,334	78.53%
2004	5,245,821	7,403,972	2,158,151	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%
2018	14,994,420	20,703,349	5,708,929	72.43%

The chart below assumes OCERS will earn its assumed rate of return of 7.0% in 2019 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 2019 and 7.0% in future years. Note the increased retirement contributions that would result starting in FY 2021/22 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 2019 preliminary return as of September is 10.36%. 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
Total	**$94.8 million**

The outcomes from the accelerated payment plan implementation in FY 2013/14 through Fiscal year 2018/19 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 $24.6 million in interest by making additional payments towards its UAAL. The noted $24.6 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	7,807,975
Total	**$24,582,776**

The actuary projects OCFA will achieve 85% funding by December 31, 2022 and 100% funding by December 31, 2028, assuming all other actuarial inputs are held constant. Last year, the actuary projected that OCFA would achieve 85% funding by December 2020 and 100% funding by December 2026. The reason for the two-year delay is primarily due to the 2018 investment return being lower than the 7.00% return assumption in the December 31, 2018 valuation. OCERS had a net loss of 1.67%.

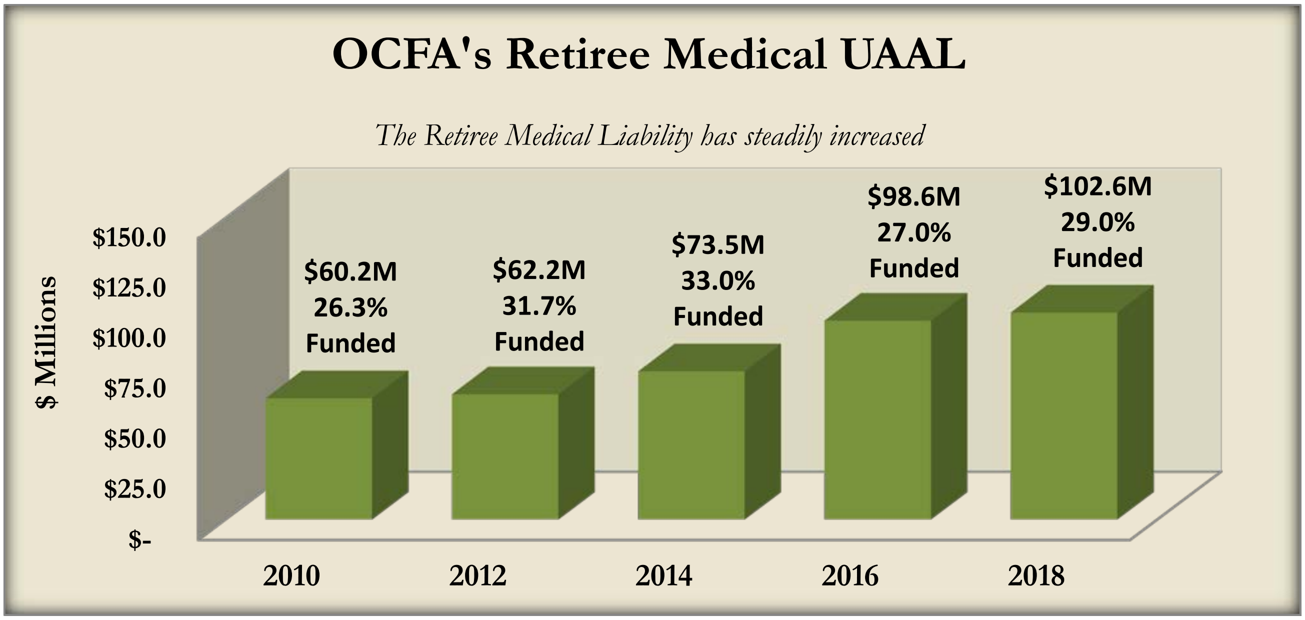
All of the above strategies will reduce the OCFA's existing UAAL more rapidly, and effectively shorten the weighted-average amortization period. Shortening the amortization period will have many benefits to OCFA. Although it causes our employer contributions to rise during the expedited payment period,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

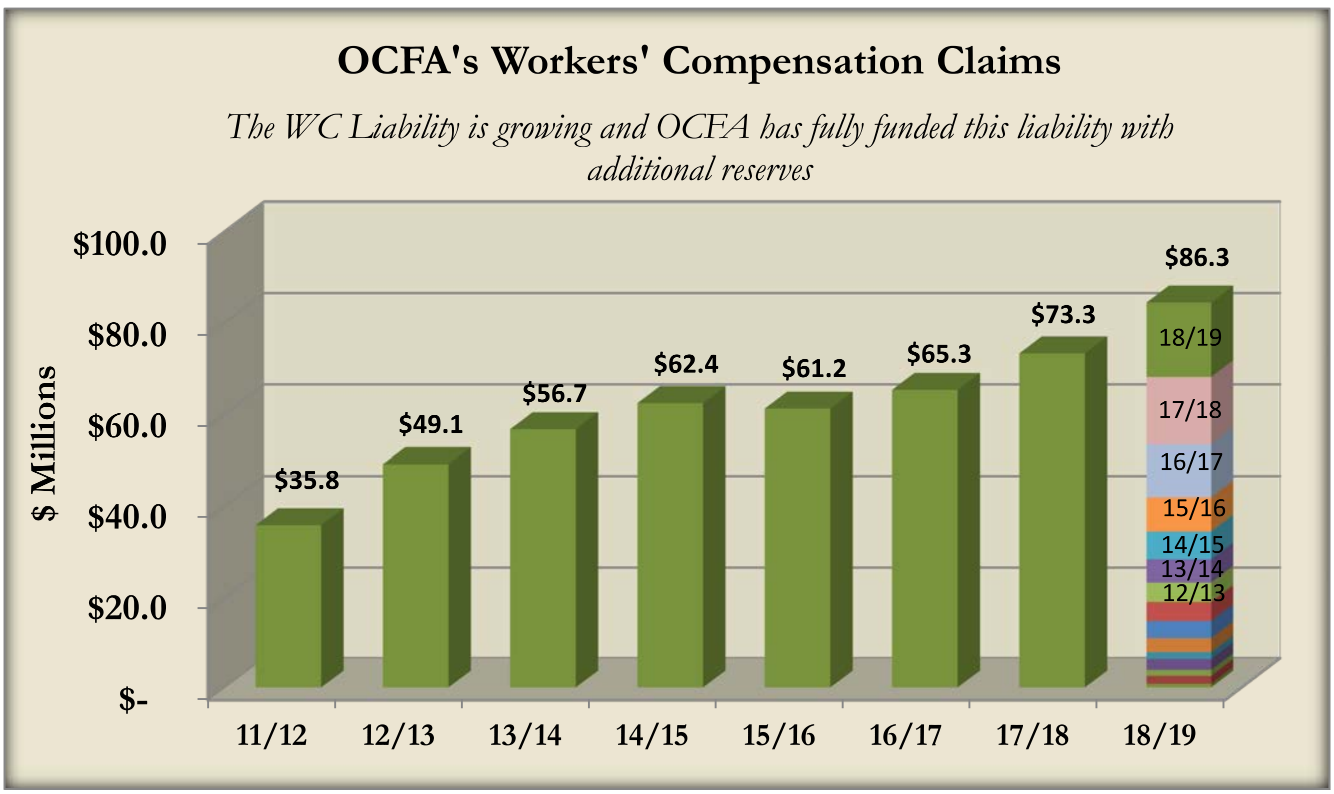
Management and labor will continue to meet on this topic as needed.

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.

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, 2019, OCFA's total workers' compensation liability is $86.3 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 $97.7 million set-aside in reserves to pay this liability as the various medical claims and bills become due, reflecting a funding surplus of $11.4 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 18/19 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

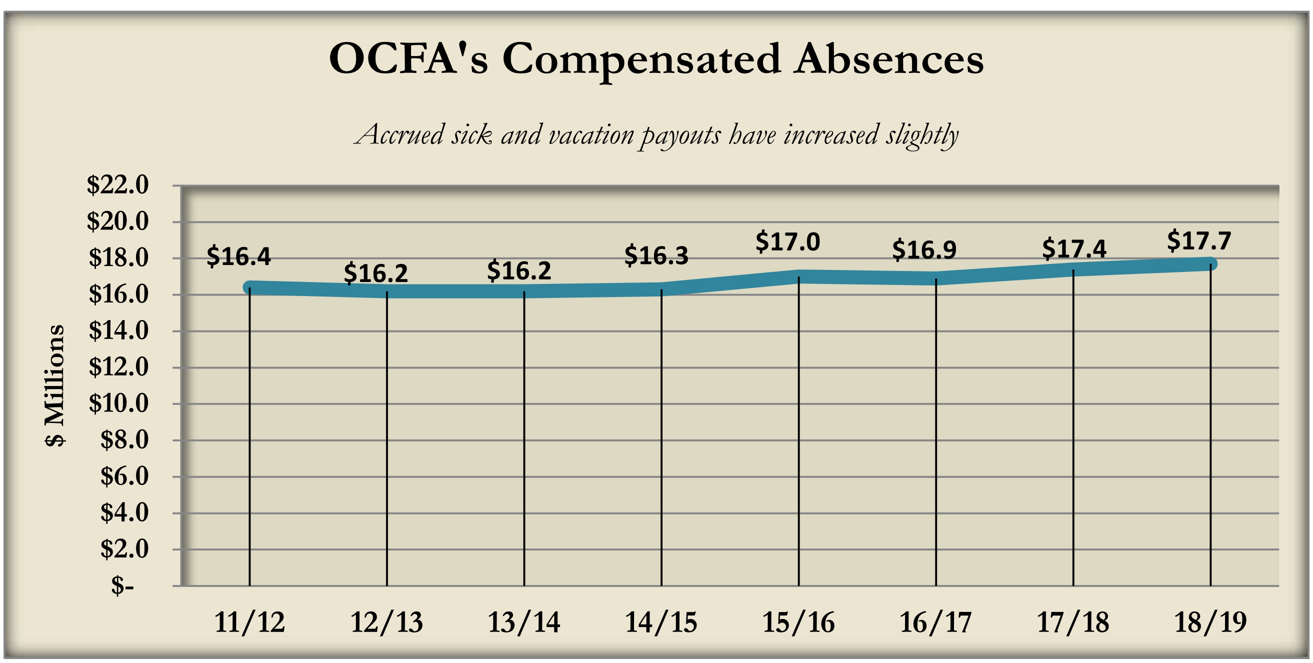
There are several factors that contribute to the liability including workers' compensation reform that increased the statute of limitation for cancer from five to ten years; injury presumption for safety personnel; an aging workforce which contributes to a longer recovery time and higher permanent disability 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 $6.2 million for sick and vacation payouts in FY 2019/20 based on historical trends and expected retirements. OCFA's total liability for compensated absences as of June 30, 2019, is $17.7 million.



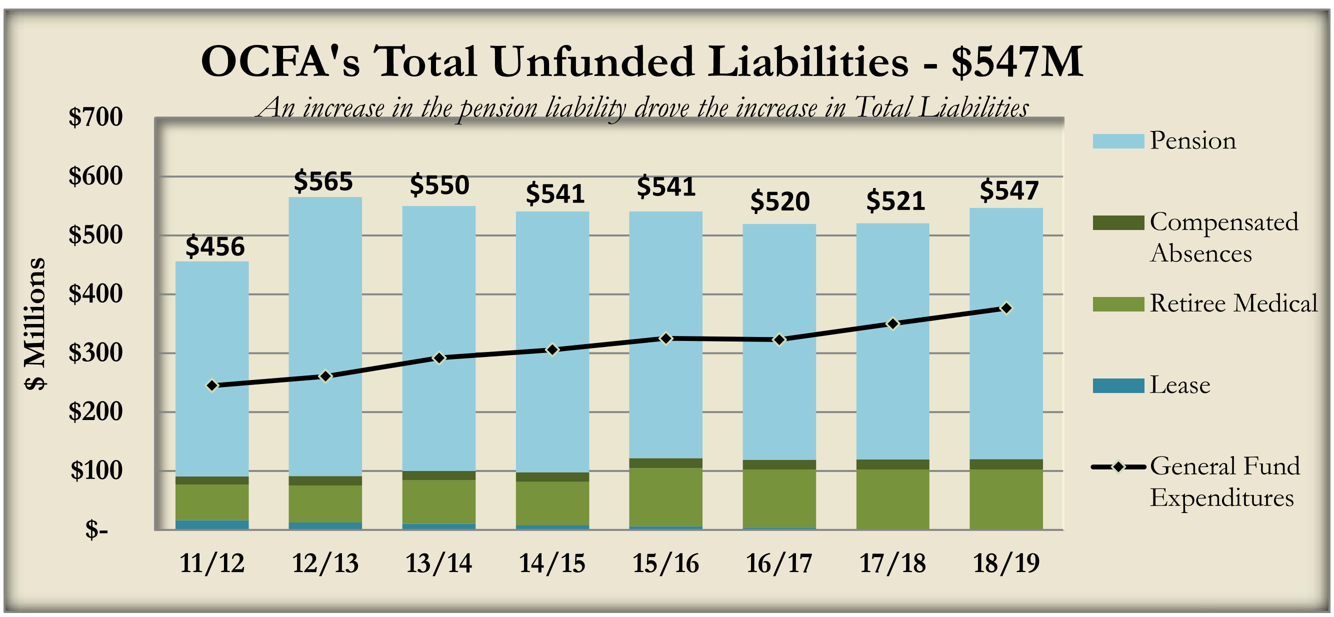
III. SUMMARY

OCFA's total long term, unfunded liabilities as of June 30, 2019,* are as follows:

	$ Amount in Millions	*% of Total*
Defined Benefit Pension Plan *	$ 426.7	78.0%
Defined Benefit Retiree Medical Plan	102.6	18.8
Accrued Compensated Absences	17.7	3.2
Total	**$ 547.0**	**100.0%**

*Note: the valuation date for the pension plan is December 31, 2018, instead of June 30, 2019, 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 were implemented, OCFA was able to reduce its total long term, unfunded obligations. The increase in total liabilities this year is being driven by the increase in the pension liability as discussed on Page 4.



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. 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.
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 $94.8 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.
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.

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 2019/20 General Fund budget to increase expenditures by $5,037,714 million, the amount identified as the unencumbered fund balance identified in the FY 2018/19 financial audit for the purpose of making a payment towards OCFA's unfunded pension liability.

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 depending on age of entry. 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 will pay 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, will pay 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, will pay 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 **Attachment 2**

Accelerated Payment of UAAL

Snowball Effect of Multiple Strategies

Updated July 1, 2019

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
			Estimated Annual UAAL Payments from Various Strategies / Sources						
			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		18/19	10,000,000	3,167,397	5,000,000	1,000,000		19,167,397	94,767,705
7	1	19/20	3,000,000	1,648,658	7,000,000	1,000,000		12,648,658	107,416,363
8	2	20/21	3,000,000	2,368,859	9,000,000	1,000,000		15,368,859	122,785,222
9	3	21/22	3,000,000	3,279,280	11,000,000			17,279,280	140,064,502
10	4	22/23	3,000,000	4,787,217	13,000,000			20,787,217	160,851,719
11	5	23/24	3,000,000	5,772,547	15,000,000			23,772,547	184,624,266
12	6	24/25	3,000,000	6,814,115	15,000,000			24,814,115	209,438,381
13	7	25/26	3,000,000	14,242,631	15,000,000			32,242,631	241,681,012
14	8	26/27	3,000,000	19,647,456	15,000,000			37,647,456	279,328,468
15	9	27/28	3,000,000	20,807,106	15,000,000			38,807,106	318,135,574
16	10	28/29	3,000,000	26,075,871	15,000,000			44,075,871	362,211,445
17	11	29/30	3,000,000	26,858,147	15,000,000			44,858,147	407,069,592
			102,888,611	144,310,940	154,000,000	5,000,000	870,041	407,069,592	

Orange County Fire Authority
Unfunded Liabilities
Estimated & Hypothetical Distribution by Member Agency

Type of Unfunded Liability	Accumulated Through	Amount
Pension Unfunded Actuarial Accrued Liability	December 31, 2018	426,789,000
Accrued Compensated Absences	June 30, 2019	17,787,731
		444,576,731

Liabilities Excluded from Analysis	Accumulated Through	Amount	Reason for Exclusion
Workers' Compensation	June 30, 2019	86,616,986	Liability is fully funded in OCFA's reserves.
Helicopter Lease Financing	June 30, 2019	-	Liability was be paid-in-full in December 2018.
Retiree Medical Defined Benefit Plan	June 30, 2019	102,588,305	Benefit can be discontinued when funding runs out.
		189,205,291	

Total OCFA Long-Term Liabilities, Including Funded Liabilities	***633,782,022***

Orange County Fire Authority **Attachment 3**
Distribution of Liabilities by Member Agency
As of June 30, 2019

				Proportional Share		
Member Agency	**# of EEs**	**2018 Incidents**	**% of Total EEs**	**Pension UAAL**	**Retiree Medical**	**Total**
County Unincorporated (SFF)	105		12.54%	53,539,839	12,869,501	66,409,339
Station 8, 15, 18, 21, 25, 33, 40, 58, 56						
Aliso Viejo (SFF)	15		1.79%	7,648,548	1,838,500	9,487,048
Station 57					-	
					-	
Buena Park (CCC)	48		5.73%	24,475,355	5,883,200	30,358,555
Stations 61, 62, 63					-	
					-	
Cypress (SFF)	24		2.87%	12,237,677	2,941,600	15,179,278
Station 17					-	
					-	
Dana Point (SFF)	24		2.87%	12,237,677	2,941,600	15,179,278
Stations 29, 30					-	
					-	
Placentia (CCC)	36		4.30%	18,356,516	4,412,400	22,768,916
Stations 34, 35					-	
					-	
Irvine (SFF)	174		20.79%	88,723,161	21,326,601	110,049,762
Stations 4, 6, 20, 26, 27, 28, 36, 38, 47, 51, 55					-	
					-	
Laguna Hills (SFF)	36	3,947	1.83%	7,807,454	1,876,697	9,684,150
Station 22 (serving both LGH & LGW)					-	
					-	
Laguna Woods (SFF)		5,333	2.47%	10,549,063	2,535,704	13,084,766
Station 22 (serving both LGH & LGW)					-	
					-	
Laguna Niguel (SFF)	36		4.30%	18,356,516	4,412,400	22,768,916
Stations 5, 39, 49					-	
					-	
Lake Forest (SFF)	33		3.94%	16,826,806	4,044,700	20,871,507
Stations 19, 42, 54					-	

Orange County Fire Authority **Attachment 3**
Distribution of Liabilities by Member Agency
As of June 30, 2019

				Proportional Share		
Member Agency	**# of EEs**	**2018 Incidents**	**% of Total EEs**	**Pension UAAL**	**Retiree Medical**	**Total**
					-	
La Palma (SFF)	12		1.43%	6,118,839	1,470,800	7,589,639
Station 13					-	
					-	
Los Alamitos (SFF)	12		1.43%	6,118,839	1,470,800	7,589,639
Station 2					-	
					-	
Mission Viejo (SFF)	48		5.73%	24,475,355	5,883,200	30,358,555
Stations 9, 24, 31					-	
					-	
Rancho Santa Margarita (SFF)	27		3.23%	13,767,387	3,309,300	17,076,687
Station 45					-	
					-	
San Clemente (CCC)	36		4.30%	18,356,516	4,412,400	22,768,916
Stations 50, 59, 60					-	
					-	
San Juan Capistrano (SFF)	15		1.79%	7,648,548	1,838,500	9,487,048
Station 7					-	
					-	
Seal Beach (CCC)	24		2.87%	12,237,677	2,941,600	15,179,278
Stations 44, 48					-	
					-	
Stanton (CCC)	15		1.79%	7,648,548	1,838,500	9,487,048
Station 46					-	
					-	
Tustin (CCC)	24		2.87%	12,237,677	2,941,600	15,179,278
Stations 37, 43					-	
					-	
Villa Park (SFF)	12		1.43%	6,118,839	1,470,800	7,589,639
Station 23					-	
					-	
Westminster (CCC)	48		5.73%	24,475,355	5,883,200	30,358,555
Stations 64, 65, 66					-	

Orange County Fire Authority **Attachment 3**

Distribution of Liabilities by Member Agency

As of June 30, 2019

				Proportional Share		
Member Agency	**# of EEs**	**2018 Incidents**	**% of Total EEs**	**Pension UAAL**	**Retiree Medical**	**Total**
Yorba Linda (SFF) Stations 10, 32, 53	33		3.94%	16,826,806	- 4,044,700	20,871,507
Totals	**837**		**100.00%**	**426,789,000**	**102,588,305**	**529,377,305**

Attachment 4

Orange County Fire Authority
Final Equity Share Calculation
Simplified Option 2A - One Region
Updated FY 2017/18 Taxes, 3-FY Average Use, AV, POP

Agency	2018-19 Taxes/Fees	Equity %	Equity Share Simplified Option One Region	Amount Over/ (Under)	Amount Over	% of Total Over Funded	Allocation of 115 Trust - Fund 139 Including Interest
Contract Members:							
Buena Park**	$11,049,518	3.77%	$13,746,296	($2,696,778)			
Placentia	6,258,959	2.79%	10,172,988	(3,914,029)			
San Clemente	8,570,835	4.75%	17,319,604	(8,748,769)			
Santa Ana	38,845,152	13.73%	50,062,771	(11,217,619)			
Seal Beach	5,371,942	1.94%	7,073,691	(1,701,749)			
Stanton*	4,181,835	1.74%	6,344,444	(2,162,609)			
Tustin*	7,909,833	3.87%	14,110,919	(6,201,086)			
Westminster	11,693,717	4.81%	17,538,378	(5,844,661)			
Structural Fire Fund Members:							
Aliso Viejo	11,889,333	3.03%	11,048,084	841,249	$841,249	1.64%	33,313
Cypress**	6,253,798	2.30%	8,386,335	(2,132,537)	-	0.00%	0
Dana Point	14,440,383	2.42%	8,823,882	5,616,501	5,616,501	10.94%	222,223
Irvine**	94,888,210	18.10%	65,996,808	28,891,402	28,891,402	56.31%	1,143,817
La Palma**	1,959,684	0.75%	2,734,674	(774,990)	-	0.00%	0
Laguna Hills	7,407,349	2.19%	7,985,249	(577,900)	-	0.00%	0
Laguna Niguel	16,684,439	3.93%	14,329,693	2,354,746	2,354,746	4.59%	93,236
Laguna Woods	3,675,326	1.74%	6,344,444	(2,669,118)	-	0.00%	0
Lake Forest**	17,777,440	4.44%	16,189,272	1,588,168	1,588,168	3.09%	62,767
Los Alamitos	2,082,054	0.79%	2,880,524	(798,470)	-	0.00%	0
Mission Viejo**	18,890,644	5.36%	19,543,806	(653,162)	-	0.00%	0
Rancho Santa Margarita	10,615,818	2.72%	9,917,752	698,066	698,066	1.36%	27,625
San Juan Capistrano**	8,612,271	2.61%	9,516,667	(904,396)	-	0.00%	0
Villa Park	1,869,864	0.42%	1,531,418	338,446	338,446	0.66%	13,406
Yorba Linda**	14,594,551	4.09%	14,913,091	(318,540)	-	0.00%	0
Unincorporated**	39,100,286	7.71%	28,112,452	10,987,834	10,987,834	21.41%	434,898
Grand Total	$364,623,240	100.00%	$364,623,242	($2)	$51,316,410	100.00%	**2,031,286**

Footnotes:

* Property tax pass through for annexation included.

** RDA pass-through and residual revenues included.