

OCFA's long-term liabilities, with primary focus on the pension liability and retiree medical liability.

Accelerated Pension Payment Plan

Currently, OCFA's pension liability funding level is 94.7% which exceeds the Board's target of 85%. Therefore, in FY 2024/25, OCFA directed \$21.8 million of additional payments towards its Retiree Medical Unfunded Actuarial Accrued Liability (UAAL) to the Orange County Employees' Retirement System (OCERS).

To continue 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 100% funding?

The actuary reported back that OCFA has saved \$94.8 million in interest by making additional payments towards its UAAL and has achieved 94.7% funding as of December 31, 2023. The steady performance of OCERS has led to continued improvements in its funded status, with full funding (100%) now projected by December 31, 2029, assuming all other actuarial inputs are held constant.

Irvine Settlement Agreement

As part of the Irvine Settlement Agreement, OCFA agreed to establish a 115 Trust and to make annual deposits of \$2 million, dedicated solely for future application to OCFA's pension liability. On May 23, 2019, the OCFA Board approved establishing the 115 Trust with the Public Agency Retirement Services (PARS), and the initial deposit of \$2 million was made on July 1, 2019. OCFA is to continue to make annual deposits of \$2 million each year. However, if OCFA has not funded 85% of its pension liability as determined by OCERS, 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 94.7% funded, for FY 2024/25 the full \$2 million was deposited into the PARS 115 Trust to reduce the pension liability.

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

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

Attachment(s)

1. 2024 Long Term Liability Study
2. Updated Snowball Strategy
3. Hypothetical Allocation of Pension Liability Per City
4. Allocation of PARS 115 Trust Assets by City
5. PowerPoint presentation from B&FC meeting

ORANGE COUNTY FIRE AUTHORITY



2024

LIABILITY STUDY

OCFA'S LONG TERM LIABILITES

MARCH 2025

OCFA'S LONG TERM LIABILITY STUDY

I. OBJECTIVE

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

II. BACKGROUND

OCFA's long term liabilities include:

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

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

A. DEFINED BENEFIT PENSION PLAN

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

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

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

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

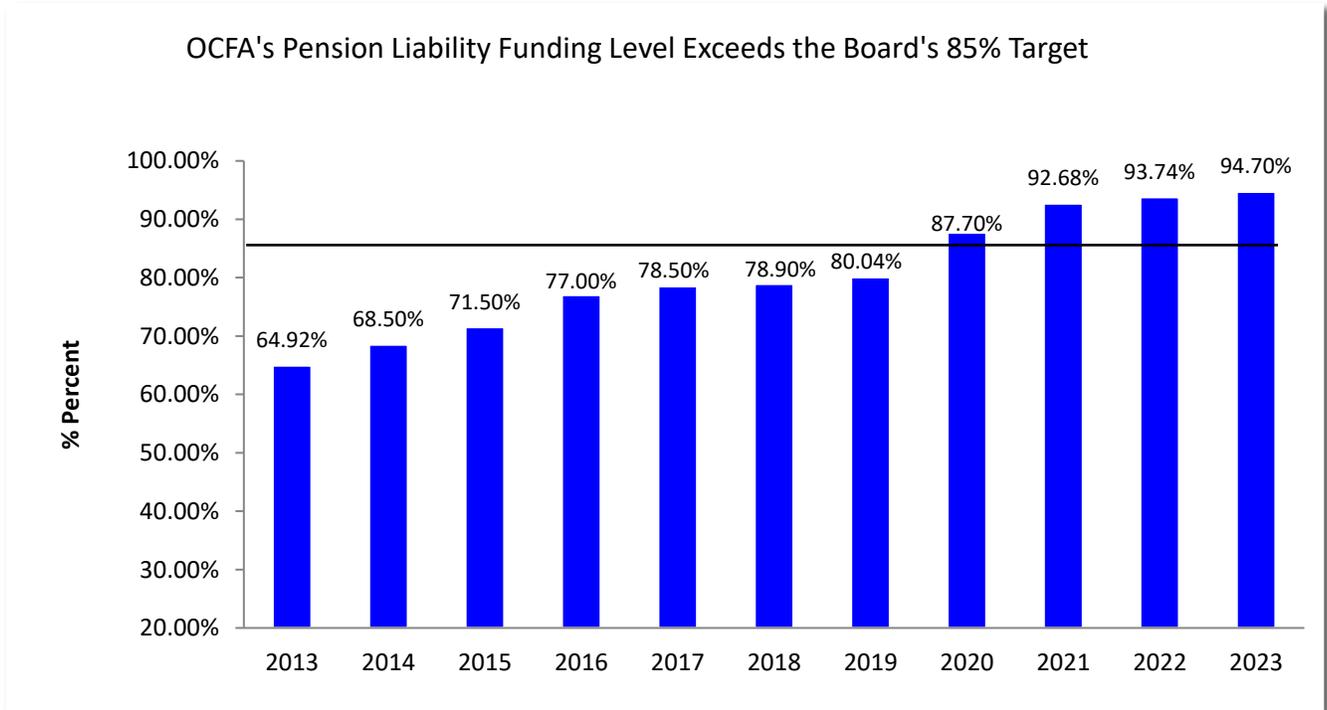
	Hired Prior to July 1, 2011	Hired Between July 1, 2011 – Dec. 31, 2012	Hired on or after Jan. 1, 2013 (w/out reciprocity)
General	2.7% @ 55	2% @ 55	2.5% @ 67

OCFA Retirement Costs, Liabilities and Funding

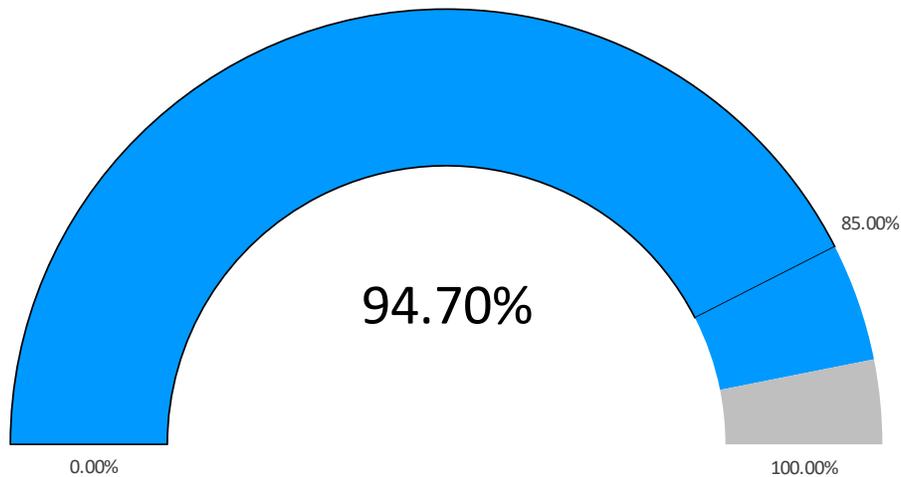
OCFA’s annual retirement costs represent approximately \$88 million or 17.04% of the Authority’s FY 2024/25 General Fund budget. Each year, the Authority receives its retirement rates from OCERS. The total retirement rate has two components: the Normal Cost Component plus the current year’s cost for the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost Component is the cost to pay for the current year’s value of retirement benefits as earned. The UAAL Component is the accrued liability for past services which were not funded by prior contributions and investments.

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

Pension Liability Funding Level



Based on the December 31, 2023 valuation by OCERS, the Authority’s total UAAL was \$142.9 million with \$122.0 million or 85% attributed to Safety members and \$20.9 million or 15% attributed to General members. As shown below, OCFA’s pension plan is 94.7% funded.



The OCFA reduces its UAAL over time as part of the annual required pension contribution to OCERS as shown below:

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

<u>Employer Rate *</u>	<u>2023 Valuation</u> (FY 25/26 rates)	<u>2022 Valuation</u> (FY 24/25 rates)
Normal Cost	12.63%	12.63%
<u>UAAL</u>	<u>10.51%</u>	<u>10.50%</u>
Total	23.14%	23.13%

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

<u>Employer Rate *</u>	<u>2023 Valuation</u> (FY 25/26 rates)	<u>2022 Valuation</u> (FY 24/25 rates)
Normal Cost	21.66%	22.45%
<u>UAAL</u>	<u>12.62%</u>	<u>12.96%</u>
Total	34.28%	35.41%

* Totals do not include *Employee Rates*, which vary based on age of entry and retirement formula. *Employee Normal Costs (excluding UAAL costs)* range from 7.91% - 17.12% for General and 13.03% - 21.24% for Safety. Rates are also after adjustment for additional Employer UAAL contributions made from 2014 to 2023.

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

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

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

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

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

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

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

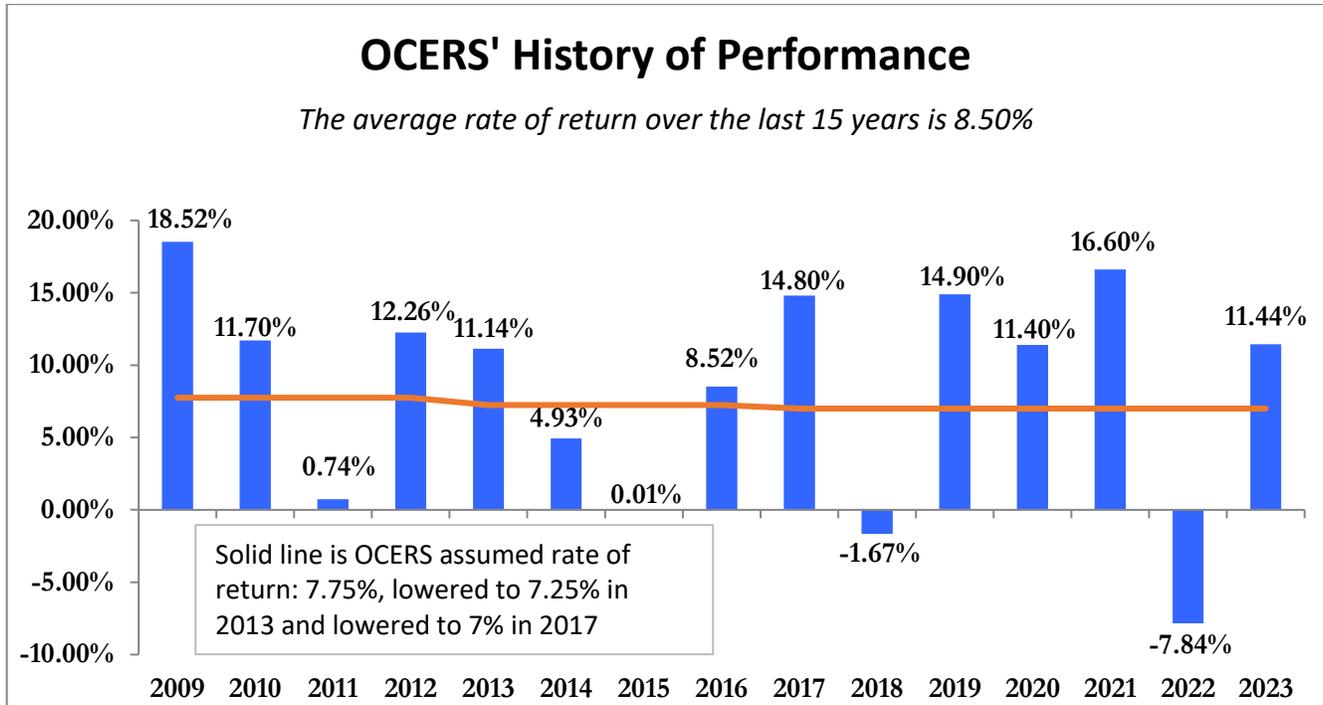
In 2020, OCERS exceeded its 7% assumed rate of return and earned 11.4%. OCERS' strong market performance, along with changes to its long-term actuarial assumptions and additional payments OCFA has made towards its unfunded pension liability, significantly decreased OCFA's UAAL. The UAAL decreased by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

In 2021, OCERS exceeded its 7% assumed rate of return and earned 16.6%. OCERS' strong market performance along with additional payments OCFA has made towards its unfunded pension liability, significantly decreased OCFA's UAAL. The UAAL decreased by \$101.2 million from \$275.6 million in 2020 to \$174.4 million in 2021.

In 2022, OCERS investment return was negative 7.84% which is below its assumed rate of return of 7.0%. However, because of strong investment performance in prior years along with additional payments OCFA has made towards its unfunded pension liability, there was actually a decrease in OCFA's UAAL. The UAAL decreased by \$16 million from \$174.4 million in 2021 to \$158.4 million in 2022.

In 2023, OCERS exceeded its 7% assumed rate of return and earned 11.44%. OCERS' strong market performance along with additional payments OCFA has made towards its unfunded pension liability, significantly decreased OCFA's UAAL. The UAAL decreased by \$15.5 million from \$158.4 million in 2022 to \$142.9 million in 2023.

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 losses, such as the 7.84% loss in 2022, have a negative impact. OCERS' average return for the 15 years reflected below is 8.49%, which is above its assumed rate of return of 7.0%.



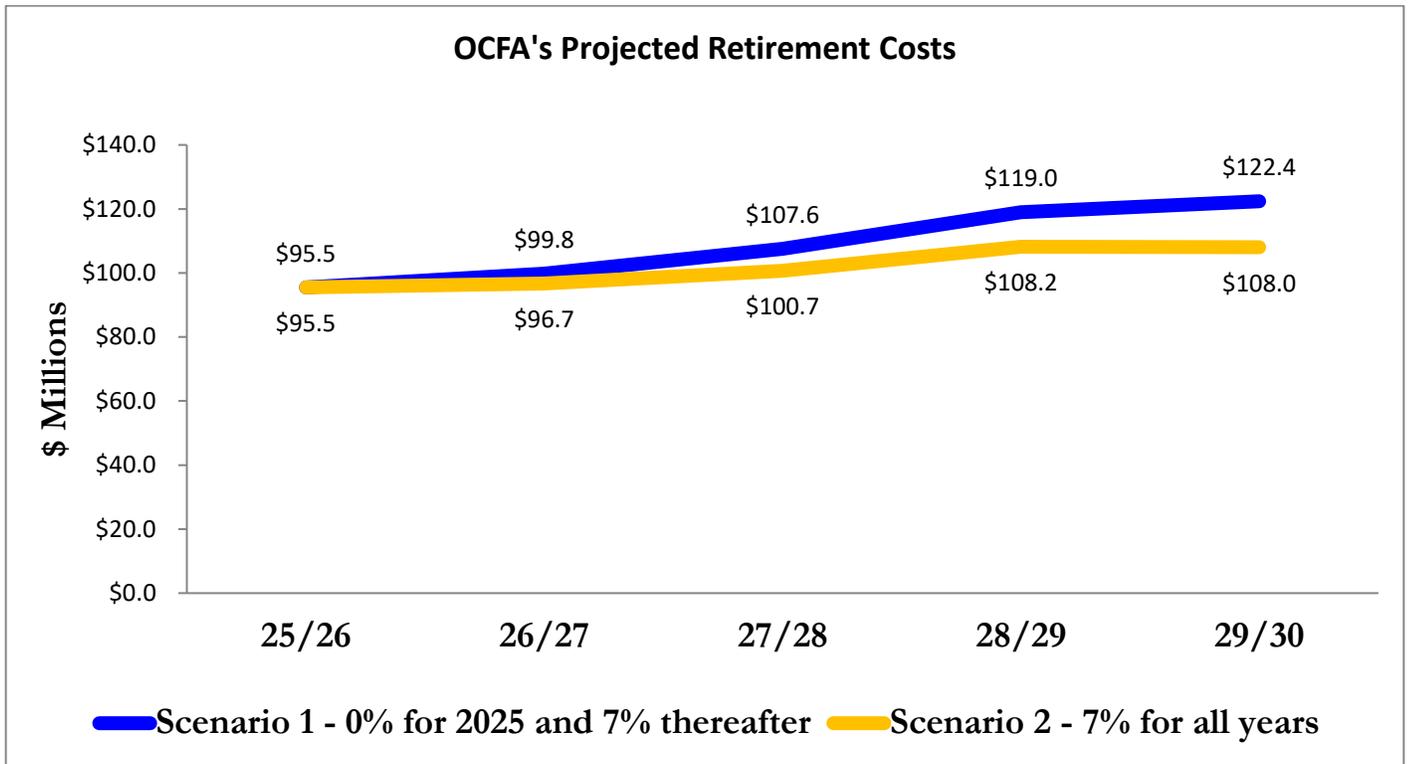
OCERS' investment return also impacts the funding level of the entire system, as demonstrated in the following chart. After a 21% loss in 2008, OCERS UAAL increased, and its funding level began to drop. The funding level started to improve in 2013 when OCERS rate of return exceeded the assumed rate of return. The funding level continued to improve in 2023 and is now at 82.63%.

OCERS' Schedule of Funding Progress

(Dollars in Thousands)

Actuarial Valuation Date December 31	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total UAAL (b-a=c)	Funded Ratio (a/b)
2001	\$4,586,844	\$4,843,899	\$257,055	94.69%
2002	4,695,675	5,673,754	978,079	82.76%
2003	4,790,099	6,099,433	1,309,334	78.53%
2004	5,245,821	7,403,972	2,158,151	70.85%
2005	5,786,617	8,089,627	2,303,010	71.53%
2006	6,466,085	8,765,045	2,298,960	73.77%
2007	7,288,900	9,838,686	2,549,786	74.08%
2008	7,748,380	10,860,715	3,112,335	71.34%
2009	8,154,687	11,858,578	3,703,891	68.77%
2010	8,672,592	12,425,873	3,753,281	69.79%
2011	9,064,355	13,522,978	4,458,623	67.03%
2012	9,469,208	15,144,888	5,675,680	62.52%
2013	10,417,125	15,785,042	5,367,917	65.99%
2014	11,449,911	16,413,124	4,963,213	69.76%
2015	12,228,009	17,050,357	4,822,348	71.72%
2016	13,102,978	17,933,461	4,830,483	73.06%
2017	14,197,125	19,635,427	5,438,302	72.30%
2018	14,994,420	20,703,349	5,708,929	72.43%
2019	16,036,869	21,916,730	5,879,861	73.17%
2020	17,525,117	22,904,975	5,379,858	76.51%
2021	19,488,761	24,016,073	4,527,312	81.15%
2022	20,691,659	25,386,669	4,695,010	81.51%
2023	22,135,285	26,788,041	4,652,756	82.63%

The chart below provides two OCERS rate of return scenarios. Scenario 1 assumes OCERS will earn its assumed rate of return of 7.0% in 2024 and future years. Scenario 2 assumes that OCERS will not earn its assumed rate of return, and instead will earn 0.0% in 2024 and 7.0% in future years. Scenario 1 contrasts with Scenario 2 and demonstrates the significant increase to retirement contribution rates when OCERS does not earn its assumed rate of return. This data is presented to demonstrate the potential impacts that can (and do) occur from time to time when the system earns less (or more) than assumed. OCERS' year-to-date return as of December 31, 2024 is 9.96%. 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.

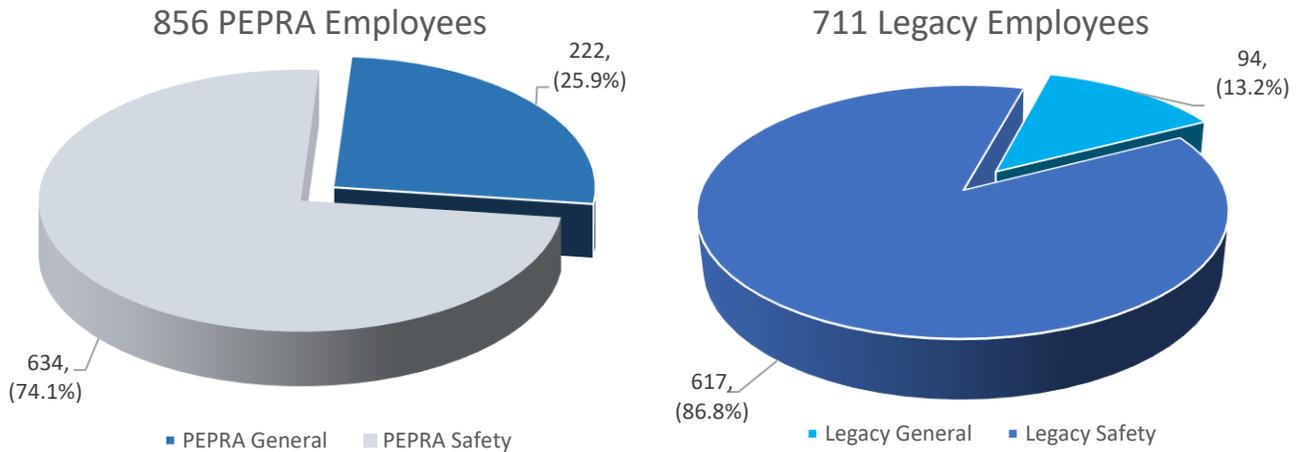
Accelerated Pension UAAL Payment Plan

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 PEPR or other annual actuarial gains, and (3) contributing an additional \$1 million per year in budgeted funds, with the annual budget allocation building to \$5 million per year by year five.

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



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

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

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

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

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

FY 13/14	\$ 5.5 million
FY 14/15	21.3 million
FY 15/16	15.4 million
FY 16/17	13.5 million
FY 17/18	19.9 million
FY 18/19	19.2 million
FY 19/20	13.7 million
FY 20/21	15.8 million
Total	\$124.3 million

The outcomes from the accelerated payment plan implementation in FY 2013/14 through FY 2020/21 along with OCFA’s anticipated future year additional 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 100% funding if it continued to make additional UAAL payments under its Snowball Plan?

The actuary reported back that OCFA has saved \$94.8 million in interest by making additional payments towards its UAAL. The noted \$94.8 million in interest savings has accumulated, as shown below, in correlation with our additional 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	9,843,583
CY 2021	12,346,336
CY 2022	14,033,430
CY 2023	15,908,889
CY 2024	18,097,247
TOTAL	\$94,843,741

OCFA is 94.7% funded as of December 31, 2023 and is expected to achieve 100% funding by December 31, 2029, assuming all other actuarial inputs are held constant.

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

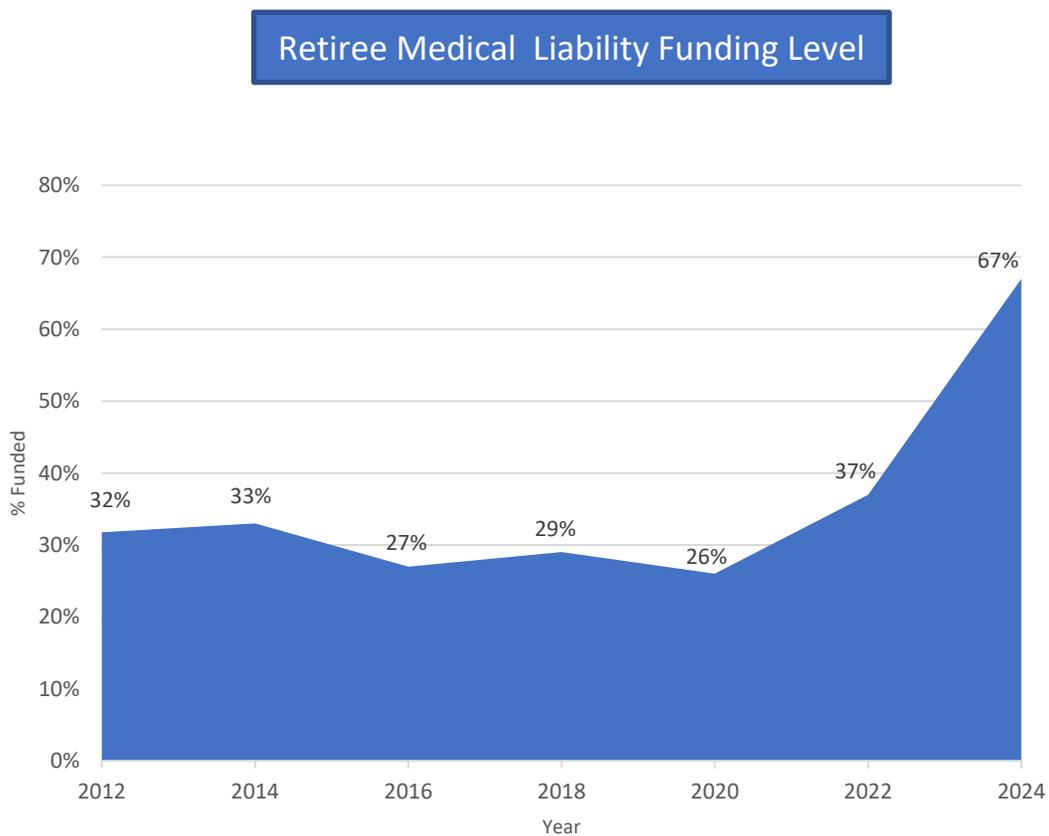
B. DEFINED *BENEFIT* RETIREE MEDICAL PLAN

In addition to the OCFA’s retirement plan administered by OCERS, the OCFA provides a post-employment medical retirement plan (Retiree Medical Plan) for certain employees. Employees hired prior to January 1, 2007, are in a *defined benefit plan* that provides a monthly grant toward the cost of retirees’ health insurance coverage based on years of service. The Plan’s assets are held in an irrevocable trust for the exclusive benefit of Plan participants and are invested by OCERS. As such, if

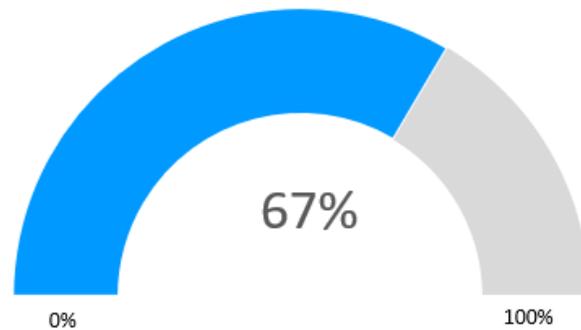
OCERS does not earn its assumed rate of return of 7.0%, the UAAL increases. Current active employees hired prior to January 1, 2007, are required to contribute 4% of their gross pay toward the Retiree Medical Plan.

Based on a Funding Adequacy Analysis prepared by Nyhart, a third-party actuary, as of June 30, 2024, the OCFA's Unfunded Actuarial Accrued Liability (UAAL) for the Retiree Medical defined benefit plan is \$53.3 million and it is 67% funded. This is a significant improvement since the 2020 Funding Analysis where the UAAL was \$106 million and 26% funded.

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. GASB 45 was replaced by GASB 74 and 75, which kept the two year requirement. OCFA, however, will have the actuarial funding analysis performed on an annual basis.



Retiree Medical Funding % and Target



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

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

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

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

- As of December 31, 2020, OCFA's pension liability became 87.7% funded; therefore, snowball payments effective in the FY 2021/22 Adopted Budget (and in years moving forward) are now being directed to the Retiree Medical Liability.
- Projected snowball payments for FY 2024/25 and moving forward (see Attachment 2), when applied to the current \$53.3 million UAAL for Retiree Medical, demonstrate that this liability is projected to achieve 100% funding by June 30, 2026.

In addition to the snowball strategy funding for Retiree Medical, in April 2017, the OCFA Board approved a renewed Health Plan Agreement with the Orange County Professional Firefighters Association from January 1, 2017 to December 31, 2024. One of the related provisions is as follows: *“to continue return of “excess fund balance” to OCFA with returned funds to be allocated to OCFA’s Retiree Medical Trust Fund.”*

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

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

2021 Firefighter Medical Trust Review: An excess fund balance in the amount of \$6,999,438 will be credited to OCFA and used as a payment to the Retiree Medical Trust per the Firefighter Medical Agreement. The payment was submitted to the Board as part of the FY 2022/23 Mid-Year Budget Adjustments.

2022 Firefighter Medical Trust Review: An excess fund balance in the amount of \$7,836,090 will be credited to OCFA and used as a payment to the Retiree Medical Trust per the Firefighter Medical Agreement. The payment was submitted to the Board as part of the FY 2023/24 Mid-Year Budget Adjustments.

2023 Firefighter Medical Trust Review: An excess fund balance in the amount of \$3,484,786 will be credited to OCFA and used as a payment to the Retiree Medical Trust per the Firefighter Medical Agreement. The payment will be submitted to the Board as part of the FY 2024/25 Mid-Year Budget Adjustments.

2024 Firefighter Medical Trust Review: Pending the calendar year 2024 audit, any excess fund balance may still be credited to the OCFA and applied as a payment to the retiree medical trust.

In March 2025, the OCFA Board approved a renewed Health Plan Agreement with OCPFA and removed the provision to return “excess fund balance” to OCFA and therefore excess fund balance will remain with the OCPFA going forward.

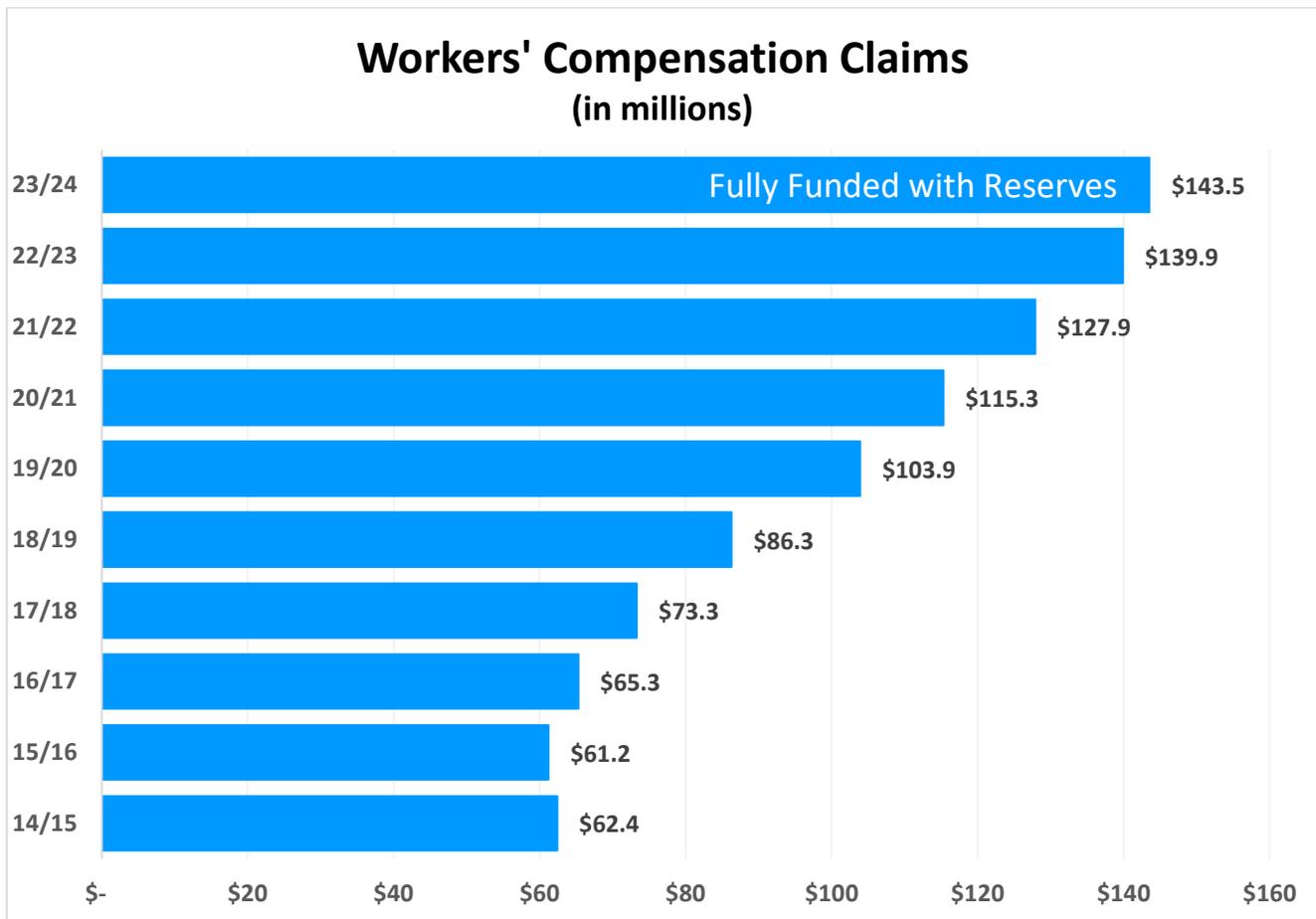
B. DEFINED CONTRIBUTION RETIREE MEDICAL PLAN

For employees hired on or after January 1, 2007, the OCFA created a *defined contribution plan* that is administered by Keenan & Associates. 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. In 2024, labor group Local 3631 received approval to reduce the required contribution to 3%. In 2025, labor group OCFAMA followed suit, also lowering their required contribution to 3%. Account assets are

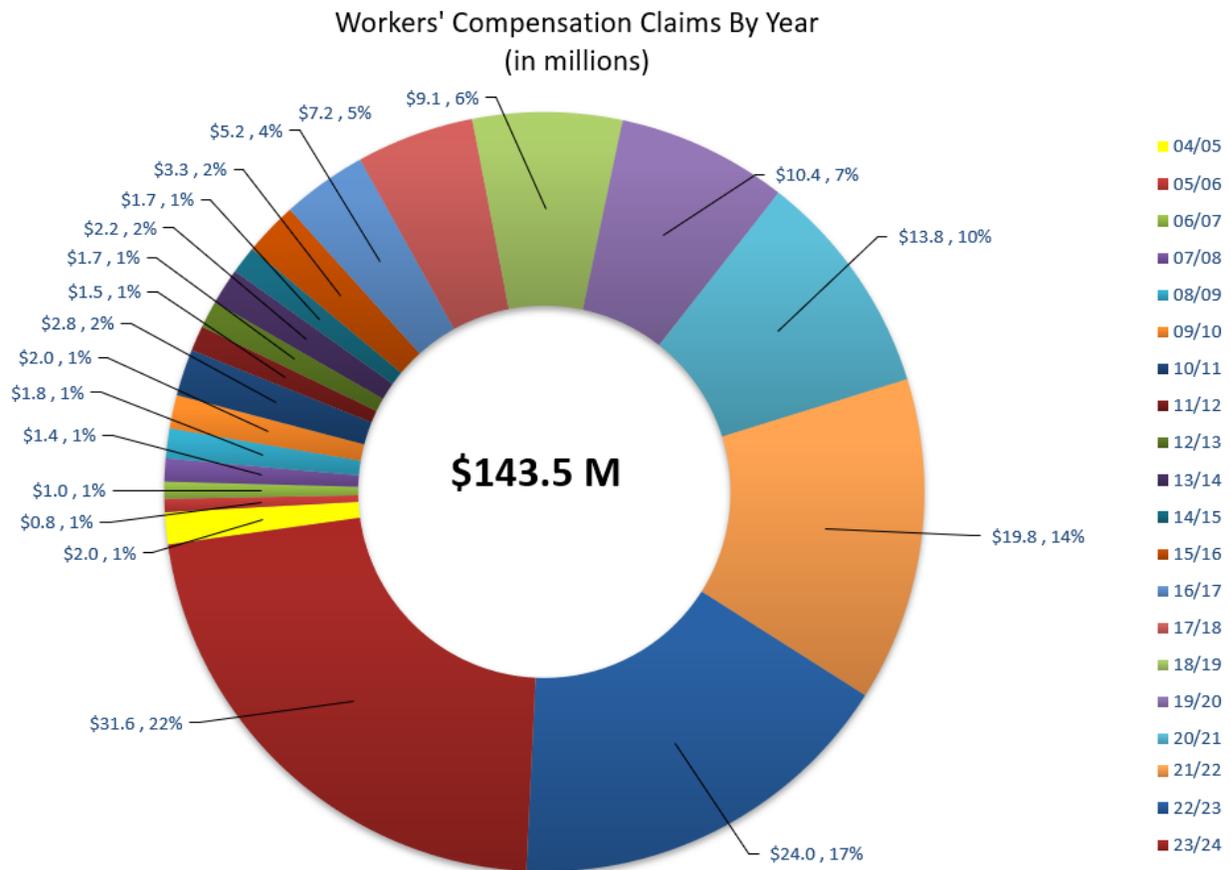
invested as directed by the participant and all contributions, investment income, realized gains and losses are credited to the individual’s account. Under this plan structure, there is no UAAL.

C. WORKERS’ COMPENSATION CLAIMS

In March 2002, OCFA implemented a workers’ compensation self-insurance program. A separate fund called Fund 190: Self Insurance was established in May 2003 to track funding and expenditures for workers’ compensation claims liability. The funding sources include revenue from the General Fund and interest earnings. Based on the Annual Comprehensive Financial Report, as of June 30, 2024, the Workers’ Compensation liability is \$143.5 million. The Fiscal Year 2023-24 Budget includes reserves to pay this liability as the various medical claims and bills become due.



Workers Compensation Claims By Year (in millions)



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

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

The main factors which are increasing the workers' compensation liability include increased medical costs, an increase in the frequency and severity of claims, COVID-19 cases, a growing number of mental health cases, and an aging workforce which contributes to a longer recovery time and higher permanent disability benefits. Additional factors include workers' compensation reform that increased the statute of limitation for cancer from five to ten years, injury presumption for safety personnel, and

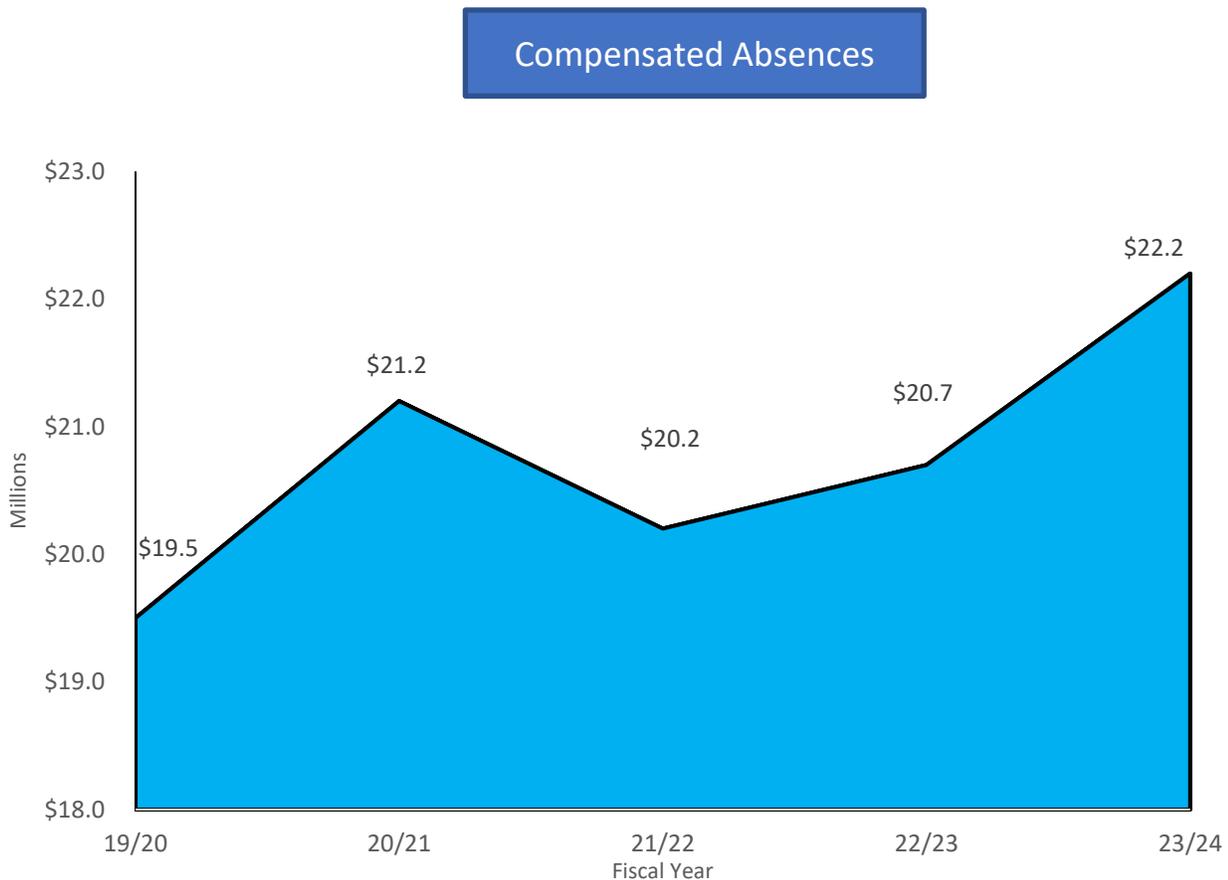
increases to the workforce including April 2012 with the addition of the City of Santa Ana and August 2019 with the addition of the City of Garden Grove. Both cities reimburse OCFA for injuries that initially occurred on or before they joined OCFA.

D. ACCRUED COMPENSATED ABSENCES

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

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

The OCFA has budgeted \$4.1 million for sick and vacation payouts in FY 2024/25 based on historical trends and expected retirements. OCFA’s total liability for compensated absences as of June 30, 2024, is \$22.2 million. MOU salary increases cause the value of accrued leave to increase. This liability is up 7.2% when compared to last year’s \$20.7 million, as employees resume using sick and vacation time now that the pandemic has subsided.



E. CAPITAL LEASES

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

In November, 2022 OCFA executed a Lease Purchase Agreement to finance the purchase of two Firehawk helicopters. The term of the lease financing is 15 years with an interest rate of 3.13%. OCFA's long-term lease liabilities as of June 30, 2024 total \$59.9 million and are listed in the table below.

	<i>\$ Amount</i>
2 Firehawk Helicopters	\$55,111,628
Fullerton Airport Land Lease (Stn. 41)	4,673,913
Helicopter Training Tower	173,259
Total	\$59,958,800

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

III. SUMMARY

OCFA's total long term, unfunded liabilities as of June 30, 2024,* are as follows:

	<i>\$ Amount in Millions</i>	<i>% of Total</i>
Defined Benefit Pension Plan *	\$142.9	51.3%
Defined Benefit Retiree Medical Plan	53.3	19.2
Accrued Compensated Absences	22.2	8.0
Capital Leases**	59.9	21.5
Total***	\$278.3	100.0%

* The valuation date for the pension plan is December 31, 2023, instead of June 30, 2024, consistent with OCERS' calendar year basis for financial reporting.

** Capital Leases reflect the November 2022 purchase of two helicopters.

*** Workers' Compensation is fully funded with reserves and therefore not reflected as an unfunded liability.

IV. ACTIONS TAKEN

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

1. As of December 31, 2023, OCFA's pension liability is 94.7% funded, therefore, snowball payments continue to be directed to the Retiree Medical Liability.
2. As of December 31, 2022, OCFA's pension liability is 93.7% funded, therefore, snowball payments continue to be directed to the Retiree Medical Liability.
3. As of December 31, 2021, OCFA's pension liability is 92.68% funded. Based on Board policy to achieve 85% funding, future snowball payments are now being directed to the Retiree Medical Liability
4. 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.
5. 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.
6. In FY 2015/16 and again in FY 2016/17, OCFA modified its Accelerated Pension Paydown Plan to include additional sources of funding.
7. During 2015 and 2016, OCFA completed negotiations with all four labor groups resulting in increased employee contributions towards retirement.
8. 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.
9. 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, estimated this liability will be paid by December 2025. To date, OCFA has made an additional \$124.3 million in payments to OCERS to lower its UAAL.
10. 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.
11. 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.
12. 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.
13. Used a trigger formula during down economic cycles to connect pay raises for all OCFA employees to OCFA's financial health.
14. Implemented lower retirement formulas for all labor groups.
15. Refinanced the helicopter lease to lower the interest rate. Last payment made in December 2018.
16. Implemented annual prepayment of retirement contributions to achieve a discount.

17. Provided a study to the Board of Directors regarding the feasibility of Pension Obligation Bonds.
18. Provided a study to the Board of Directors regarding the feasibility of changing automatic Cost of Living Allowance (COLA) increases for pensions; transmitted a copy of the report to the County Board of Supervisors and OCERS Board of Retirement, for their consideration of potential cost-containment actions relating to Pension COLAs under the authority granted by the '37 Act.

V. RECOMMENDATIONS

Recommended action pending approval of this staff report is to receive and file the report.

VI. CONCLUSION

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

Exhibit A

OCEA 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 June 30, 2024

Attachment 2

			Estimated Annual UAAL Payments from Various Strategies / Sources							
Years From Start of Plan	Remaining Years to Completion	Fiscal Year	Unencumbered Fund Balance Available	Annual Savings from PEPRA Reductions to Retirement Contribution Rates	Budget Increase of \$1M, grows by \$2M/year to \$15M	Budget Increase of \$1M/year Funded by Excess W/C Reserves	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	20/21		3,000,000	2,368,859	9,000,000	1,000,000		500,000	15,868,859	124,315,394
Pension Plan Contributions			76,918,783	16,026,570	25,000,000	5,000,000	870,041	500,000		
Retiree Medical Plan Contributions										
1	21/22			3,279,280	11,000,000	-			14,279,280	14,279,280
2	22/23			4,787,217	13,000,000	-			17,787,217	32,066,497
3	23/24		-	5,772,547	15,000,000	-			20,772,547	52,839,044
4	24/25		-	6,814,115	15,000,000	-			21,814,115	74,653,159
5	25/26		-	14,242,631	15,000,000	-			29,242,631	103,895,790
Total Snowball Plan Contributions			76,918,783	50,922,360	94,000,000	5,000,000	870,041	500,000		

Orange County Fire Authority
 Distribution of Liabilities by Member Agency
 As of June 30, 2024

Member Agency	# of EEs	2022 Incidents	% of Total EEs	Proportional Share		Total
				Pension UAAL	Retiree Medical	
County Unincorporated (SFF) Station 8, 15, 18, 25, 33, 40, 56, 58, 67	125		14.60%	20,880,841	7,784,516	28,665,357
Aliso Viejo (SFF) Station 57	20		2.34%	3,340,935	1,245,523	4,586,457
Buena Park (CCC) Stations 61, 62, 63	50		5.84%	8,352,336	3,113,807	11,466,143
Cypress (SFF) Station 17	21		2.45%	3,507,981	1,307,799	4,815,780
Dana Point (SFF) Stations 29, 30	26		3.04%	4,343,215	1,619,179	5,962,394
Irvine (SFF) Stations 4, 6, 20, 26, 27, 28, 36, 38, 47, 51, 55	179		20.91%	29,901,364	11,147,427	41,048,792
Laguna Hills (SFF) Station 22 (serving both LGH & LGW)	36	3,990	1.69%	2,421,739	902,840	3,324,580
Laguna Woods (SFF) Station 22 (serving both LGH & LGW)		5,918	2.51%	3,591,943	1,339,100	4,931,043
Laguna Niguel (SFF) Stations 5, 39, 49	33		3.86%	5,512,542	2,055,112	7,567,654
Lake Forest (SFF) Stations 19, 42, 54	34		3.97%	5,679,589	2,117,388	7,796,977
La Palma (SFF) Station 13	11		1.29%	1,837,514	685,037	2,522,551
Los Alamitos (SFF) Station 2	11		1.29%	1,837,514	685,037	2,522,551
Mission Viejo (SFF) Stations 9, 24, 31	47		5.49%	7,851,196	2,926,978	10,778,174
Rancho Santa Margarita (SFF) Station 45	30		3.50%	5,011,402	1,868,284	6,879,686
San Clemente (CCC) Stations 50, 59, 60	37		4.32%	6,180,729	2,304,217	8,484,946

Orange County Fire Authority
 Distribution of Liabilities by Member Agency
 As of June 30, 2024

Member Agency	# of EEs	2022 Incidents	% of Total EEs	Proportional Share		Total
				Pension UAAL	Retiree Medical	
San Juan Capistrano (SFF) Station 7	18		2.10%	3,006,841	1,120,970	4,127,811
					-	
					-	
Seal Beach (CCC) Stations 44, 48	19		2.22%	3,173,888	1,183,246	4,357,134
					-	
					-	
Stanton (CCC) Station 46	20		2.34%	3,340,935	1,245,523	4,586,457
					-	
					-	
Tustin (CCC) Stations 21, 37, 43	40		4.67%	6,681,869	2,491,045	9,172,914
					-	
					-	
Villa Park (SFF) Station 23	11		1.29%	1,837,514	685,037	2,522,551
					-	
					-	
Westminster (CCC) Stations 64, 65, 66	39		4.56%	6,514,822	2,428,769	8,943,592
					-	
					-	
Yorba Linda (SFF) Stations 10, 32, 53	49		5.72%	8,185,290	3,051,530	11,236,820
Totals	856		100.00%	142,992,000	53,308,368	196,300,368

Note: Santa Ana and Garden Grove are excluded since the UAAL being paid down originated prior to their joining OCFA.

Allocation of PARS 115 Trust

Attachment 4

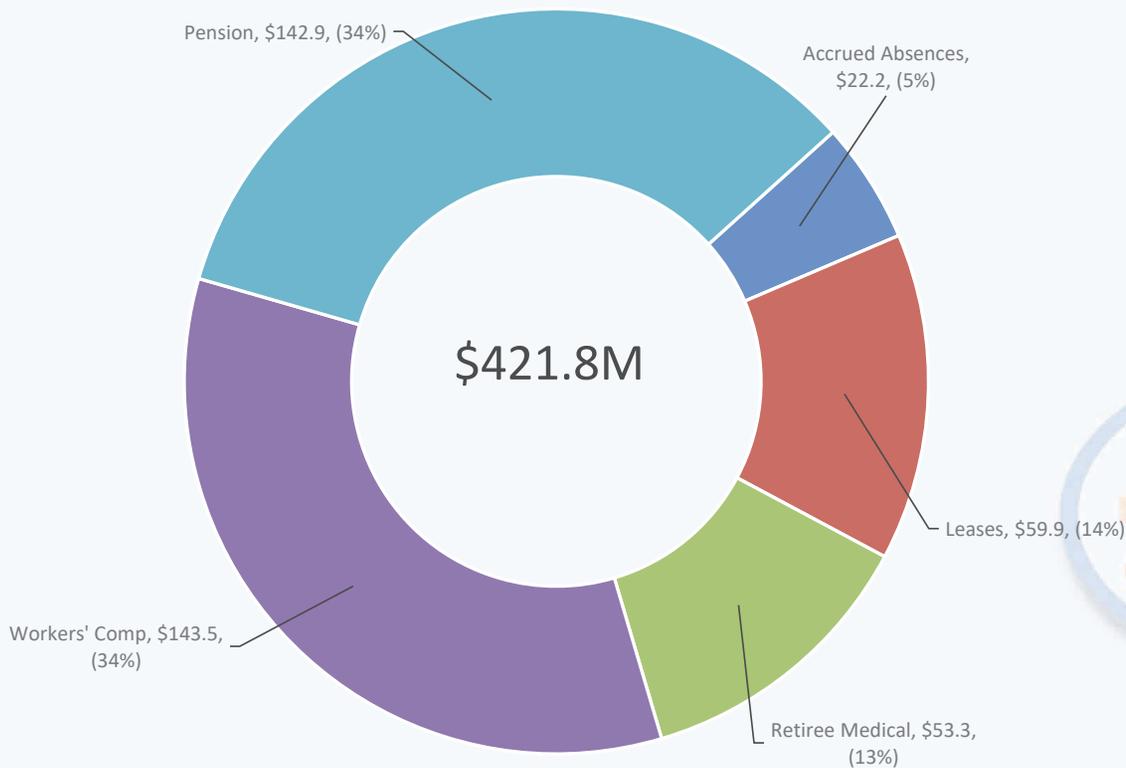
Agency	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	Total
Aliso Viejo	\$ 33,313	\$ 25,075	\$ 25,707	\$ 6,538	\$ 9,208	\$ -	\$ 99,841
Cypress	-	-	-	-	-	-	-
Dana Point	222,223	183,564	183,452	212,402	291,408	277,401	1,370,450
Irvine	1,143,817	938,075	1,098,374	1,267,502	1,572,011	1,481,725	7,501,504
La Palma	-	-	-	-	-	-	-
Laguna Hills	-	-	42,232	-	-	-	42,232
Laguna Niguel	93,236	81,334	89,472	90,602	118,454	92,788	565,886
Laguna Woods	-	-	-	-	-	-	-
Lake Forest	62,767	54,812	-	36,988	79,633	59,770	293,970
Los Alamitos	-	-	-	-	-	-	-
Mission Viejo	-	-	-	-	-	-	-
Rancho Santa Margarita	27,625	22,504	2,003	3,176	33,346	12,291	100,945
San Juan Capistrano	-	-	-	747	-	37,115	37,862
Villa Park	13,406	9,805	12,019	14,197	16,673	17,594	83,694
Yorba Linda	-	-	-	49,691	68,186	55,914	173,791
Unincorporated	434,898	292,224	216,002	186,249	299,620	375,492	1,804,485
Total	\$ 2,031,285	\$ 1,607,393	\$ 1,669,261	\$ 1,868,092	\$ 2,488,539	\$ 2,410,089	\$ 12,074,660

2024 Long Term Liability Study

Budget & Finance Committee Meeting
March 12, 2025

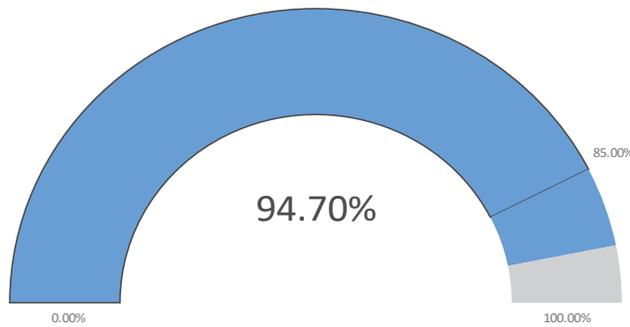


OCFA's Long Term Liabilities



- Total liabilities decreased \$50.7M as pension liability, retiree medical, and leases decreased
- Workers' compensation and accrued absences slightly increased.

Pension Liability Funding Level

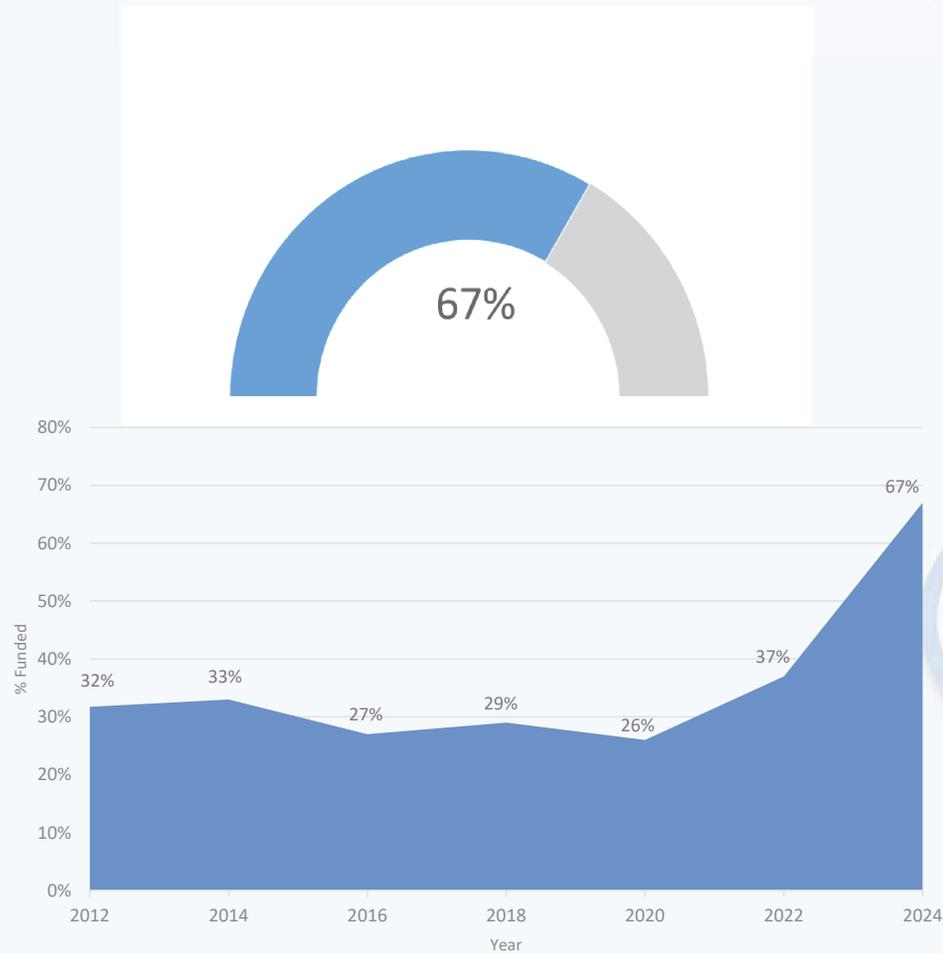


OCFA's Pension Liability Funding Level Exceeds the Board's 85% Target



- Funding level of 85% achieved in 2020.
- Saved \$94.8M in interest.
- Additional snowball plan payments have been redirected to retiree medical liability fund.

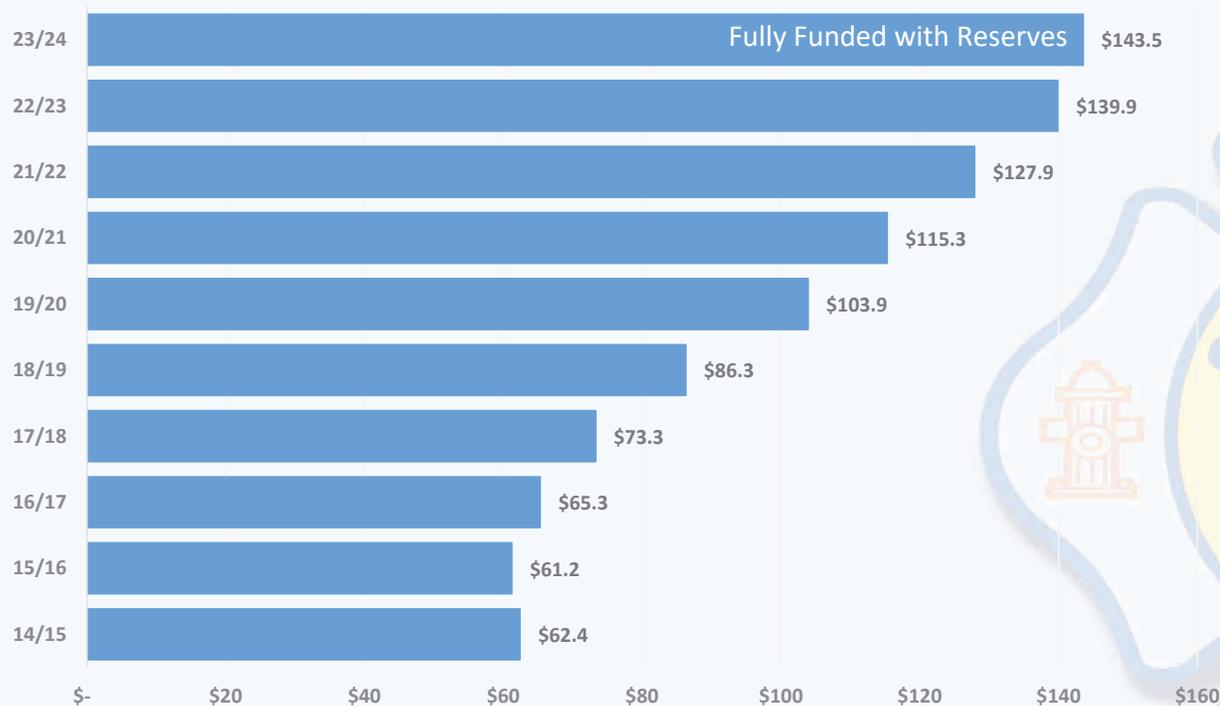
Retiree Medical Liability Funding Level



- The UAL is \$53.3M and is 67% funded.
- Pension snowball payments redirected to this fund.
- Additional payments of \$53M have been made the past 3 fiscal years.
- Projected 100% funding by 2026.

Cumulative Outstanding Workers' Compensation Claims (in millions)

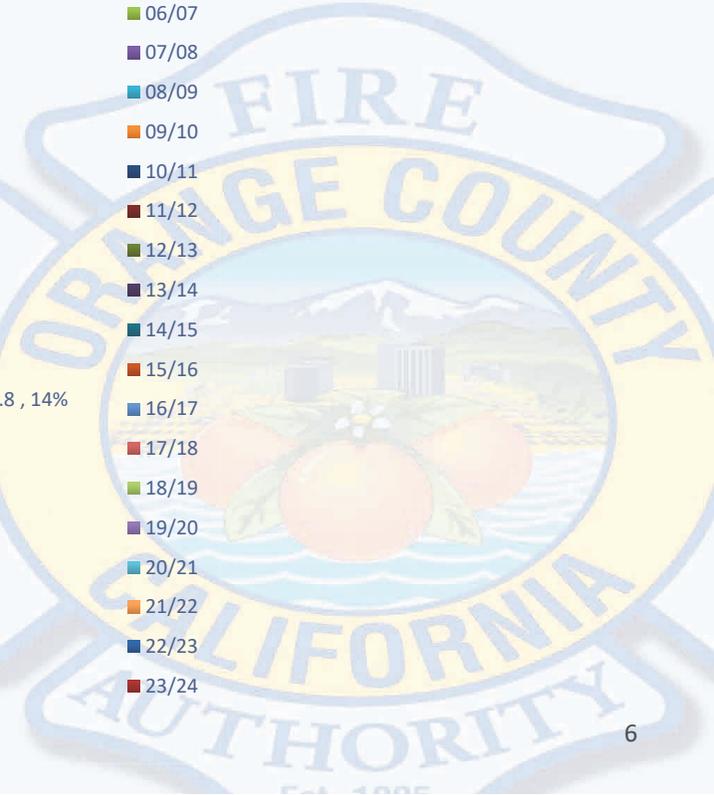
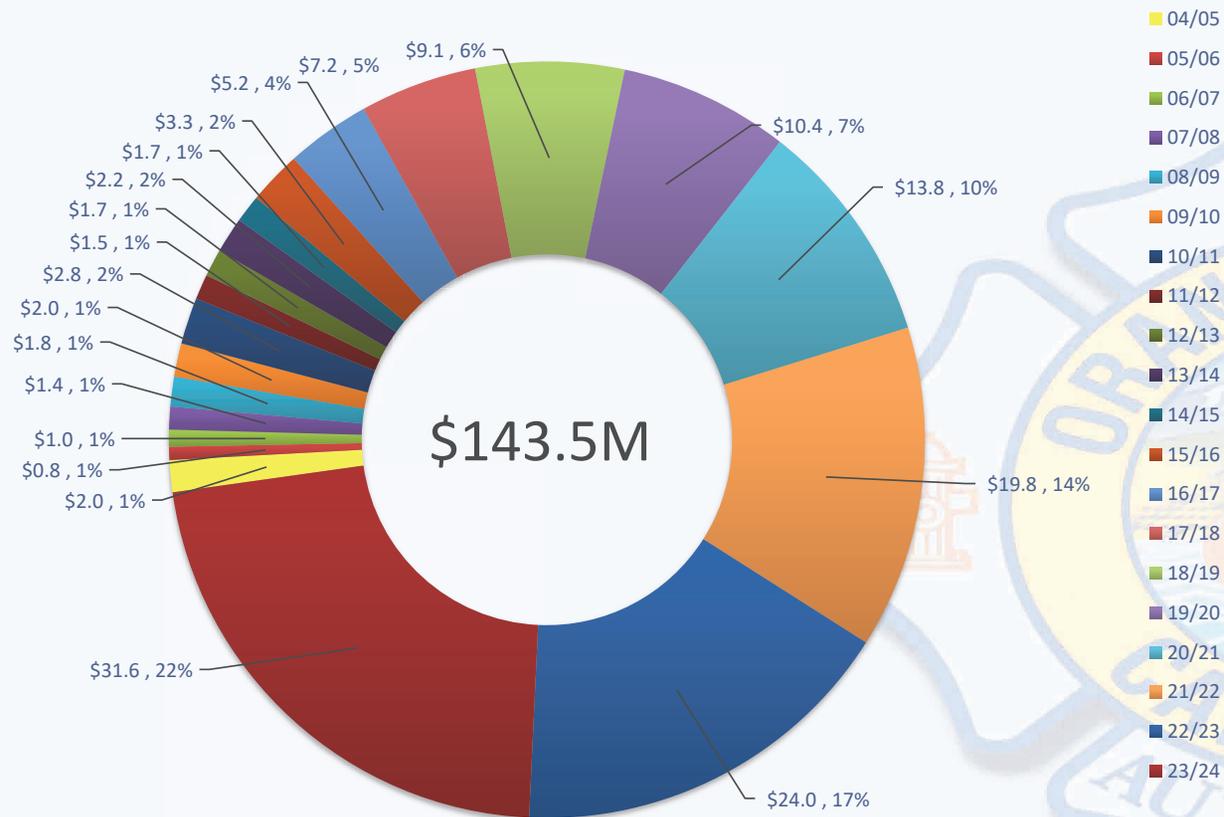
Workers' Compensation Claims
(in millions)



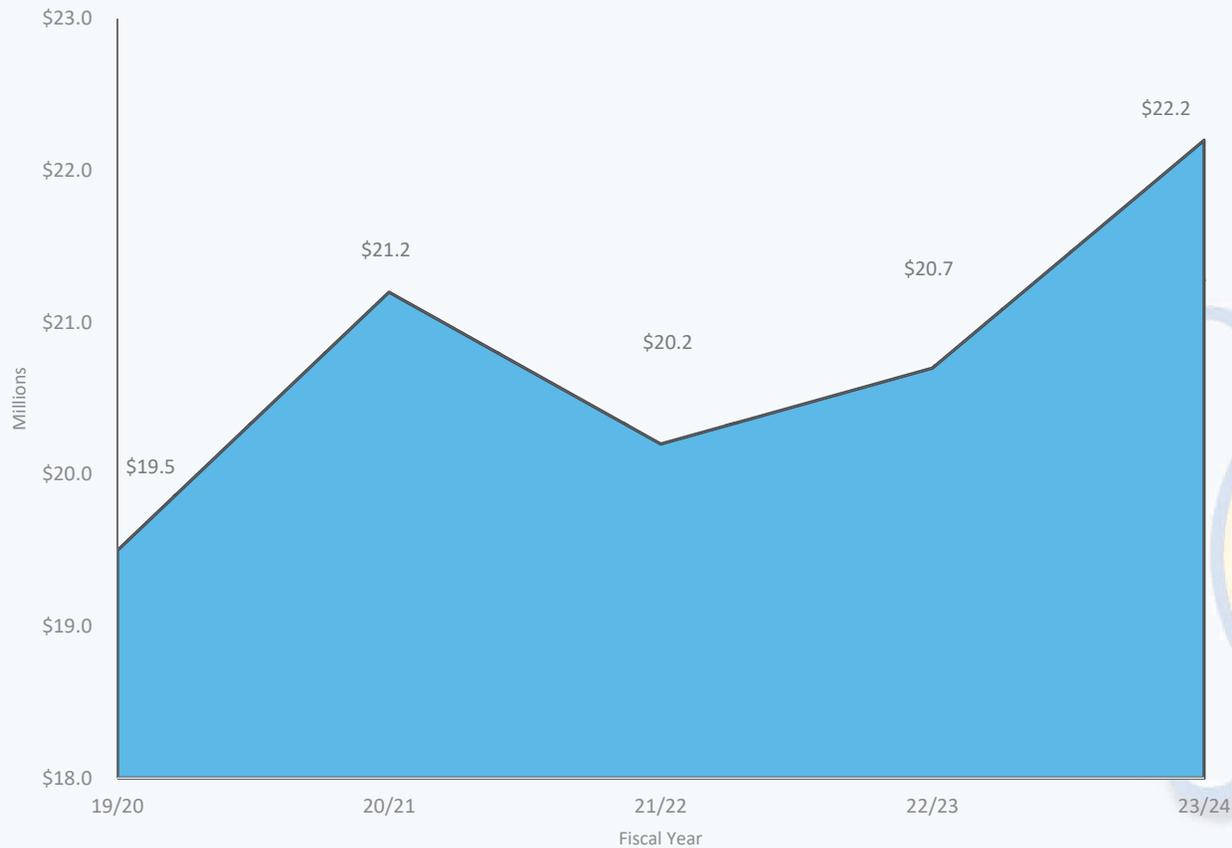
Driving Factors –

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

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

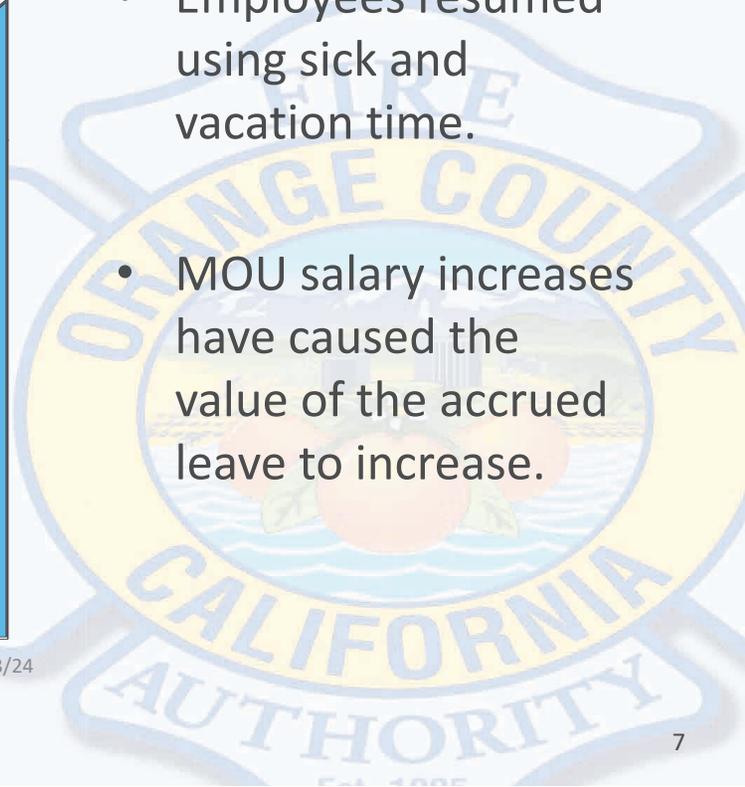


Compensated Absences (in millions)



Driving Factors

- Employees resumed using sick and vacation time.
- MOU salary increases have caused the value of the accrued leave to increase.



Total Unfunded Liabilities Decreased (in millions)

	\$ Amount in Millions	% of Total
Defined Benefit Pension Plan	\$ 142.9	51.3%
Defined Benefit Retiree Medical Plan	53.3	19.2
Accrued Compensated Absences	22.2	8.0
Capital Leases	59.9	21.5
Total*	\$278.3	100.0%

- Total unfunded liabilities have decreased \$54.3M since last year driven primarily from savings recognized in the Retiree Medical Plan (\$37.5M) and pension liability plan (\$15.5M).

*Workers Compensation is not reflected in the table as an unfunded liability as it is fully funded with reserves.

Recommended Action

- Receive and file the report

