Orange County Fire Authority

AGENDA STAFF REPORT

Board of Directors Meeting
November 19, 2015

Agenda Item No. 5A
Discussion Calendar

2015 Long Term Liability Study & Expedited Pension Payment Plan

Contact(s) for Further Information

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Summary
This annual agenda item is submitted to provide information on the Orange County Fire Authority's (OCFA) total long term liabilities and strategies for mitigating and/or funding the liabilities.

Prior Board/Committee Action – Committee Recommendation: *APPROVE*
At its regular November 4, 2015, meeting, the Budget and Finance Committee reviewed and recommended approval of this item. Director Sachs voted in opposition, indicating his desire to (1) consider modifying the funding goal for the Expedited Pension Payment Plan from 100% funding of the liability to 85%, and (2) better understand what other priorities may exist.

RECOMMENDED ACTION(S)
1. Direct staff to continue the Expedited Pension Payment Plan as indicated in the Updated Snowball Strategy.
2. Approve a budget adjustment in Fund 121 to allocate the $12.6 million of available unencumbered funds identified in the FY 2014/15 financial audit to OCFA's unfunded pension liability.
3. Direct staff to evaluate options identified through discussions with the joint-labor groups to address the Retiree Medical unfunded liability.
4. Direct staff to continue seeking cost-saving options related to Workers' Compensation.

Impact to Cities/County
Strategic planning to reduce liabilities where possible, and provide early funding for those liabilities which cannot be reduced, will assist OCFA in sustaining frontline emergency services for our member agencies and the citizens we serve.

Fiscal Impact
The Adopted Budget for FY 2015/16 and the five-year financial forecast already included a $2.8 million payment for the Expedited Pension Payment Plan. The additional accelerated payments to OCERS proposed herein are recommended for implementation in a manner which minimizes the impact to cash contract city charges. Continuous pursuit of the recommended actions will lower OCFA's salary and benefit costs over the long term, ultimately reducing OCFA's expenditure budget and positively impacting our annual charges to cash contract cities.

Background

In order to determine an agency's financial stability, one must look at all of its long term obligations or liabilities, not just pensions. The Liability Study (Attachment 1) examines all of OCFA's long-term liabilities, with primary focus on pension liability.

In an effort to continue the accelerated funding of OCFA's pension liability (Unfunded Actuarially Accrued Liability, or UAAL), the OCFA submitted a request to OCERS to have its actuary, Segal Consulting, estimate the impact on OCFA's UAAL amortization period and retirement contribution rates based on an updated accelerated funding plan. Segal was asked to look at the combination of the following four strategies for funding the UAAL:

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

All of the above strategies would reduce the OCFA's existing UAAL more rapidly, and effectively shorten the weighted-average amortization period. Shortening the amortization period would have many benefits to OCFA. Although it would cause our employer contributions to rise during the expedited payment period, it would result 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. Segal consulting reported that the above expedited payment strategies are collectively estimated to reduce OCFA's amortization period significantly, with payoff anticipated in 12 years (including the current fiscal year), instead of the current amortization period of 20 years required by OCERS.

Staff evaluated the affordability of various expedited payment options, using the OCFA's long term financial forecast. The long-term financial forecast (Attachment 2) includes the impact of the updated snowball strategy (Attachment 3). The value of the proposed expedited payments from these combined strategies results in a "snowball" effect with growing annual values that add up to a cumulative $254.5 million over 12 years. This projected $254.5 million UAAL payment is *in addition to* the minimum annual required UAAL payments that OCFA currently makes each year, and will continue to make each year until the UAAL is paid in full. Alternatively, future events could cause retirement contribution rates to rise rather than fall. When that occurs, OCFA staff will present options to the OCFA Board for funding those required increases, while also continuing to work on progress with accelerated payment of OCFA's UAAL.

The OCFA has already taken steps to reduce some of its long-term liabilities and accelerate funding of other liabilities. Staff is committed to continue seeking additional ways to mitigate liability impacts, fund the accrued liabilities, and ensure the long term viability of the organization. In pursuing these actions, staff also seeks to assist OCFA's member agencies through financial efficiencies that will positively impact our cost of service.

Attachment(s)

1. 2015 Long Term Liability Study
2. OCFA's Long Term Financial Forecast
3. Updated Snowball Strategy

Attachment 1

ORANGE COUNTY FIRE AUTHORITY

2015

LIABILITY STUDY

OCFA'S LONG TERM LIABILITES

NOVEMBER 2015

OCFA'S LONG TERM LIABILITY STUDY

I. OBJECTIVE

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

II. BACKGROUND

OCFA's long term liabilities include:

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

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

DEFINED BENEFIT PENSION PLAN

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

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

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

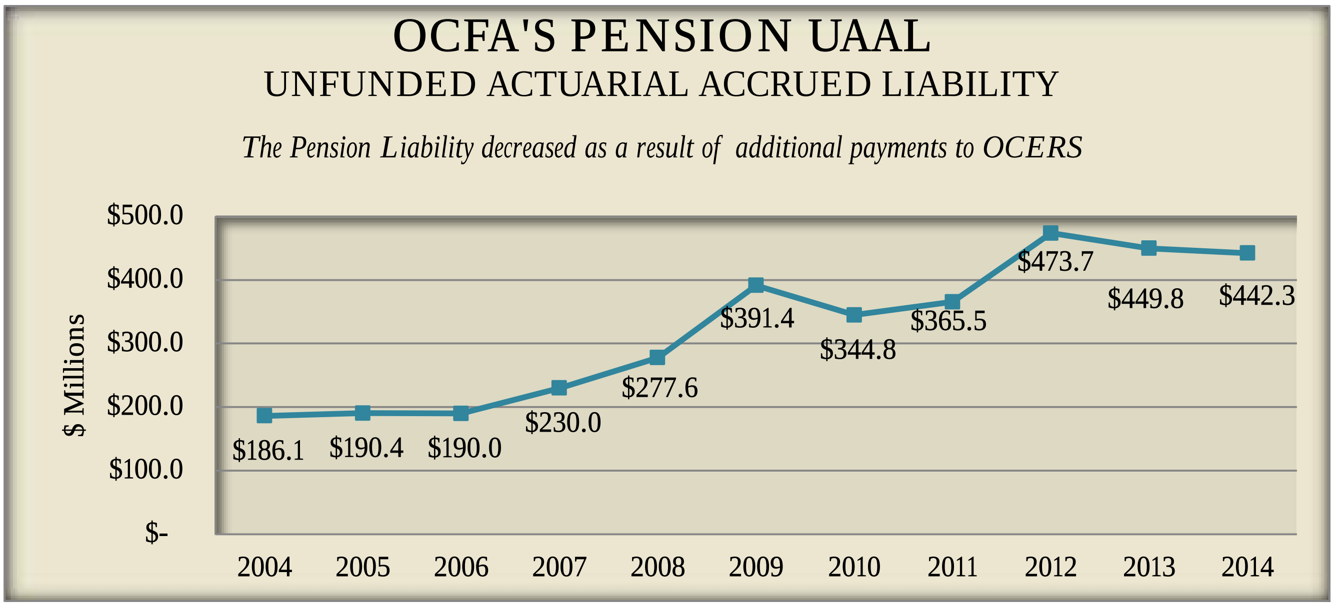
	Hired Prior to July 1, 2012	Hired Between July 1, 2012 – Dec. 31, 2012	Hired on or after Jan. 1, 2013 (w/out reciprocity)
Safety	3% @ 50	3% @ 55	2.7% @ 57

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

OCFA Retirement Costs, Liabilities and Funding

OCFA's annual retirement costs represent approximately $72.3 million or 22% of the Authority's FY 2015/16 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, 2014 valuation by OCERS, the Authority's total UAAL was $442.3 million with $380.4 million or 86% attributed to Safety members and $61.9 million or 14% attributed to General members. The Safety member plans are currently 71% funded, and the General member plans are 66% 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 *	2014 Valuation	2013 Valuation
Normal Cost	12.99%	13.73%
UAAL	20.28%	23.34%
Total	33.27%	37.07%

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

Employer Rate *	2014 Valuation	2013 Valuation
Normal Cost	26.47%	25.70%
UAAL	24.42%	24.14%
Total	50.89%	49.84%

* Totals do not include *Employee Rates*, which vary based on age of entry and retirement formula. *Employee Rates* range from 6.60% - 17.15% for General and 10.49% - 20.41% for Safety (See Exhibit A).

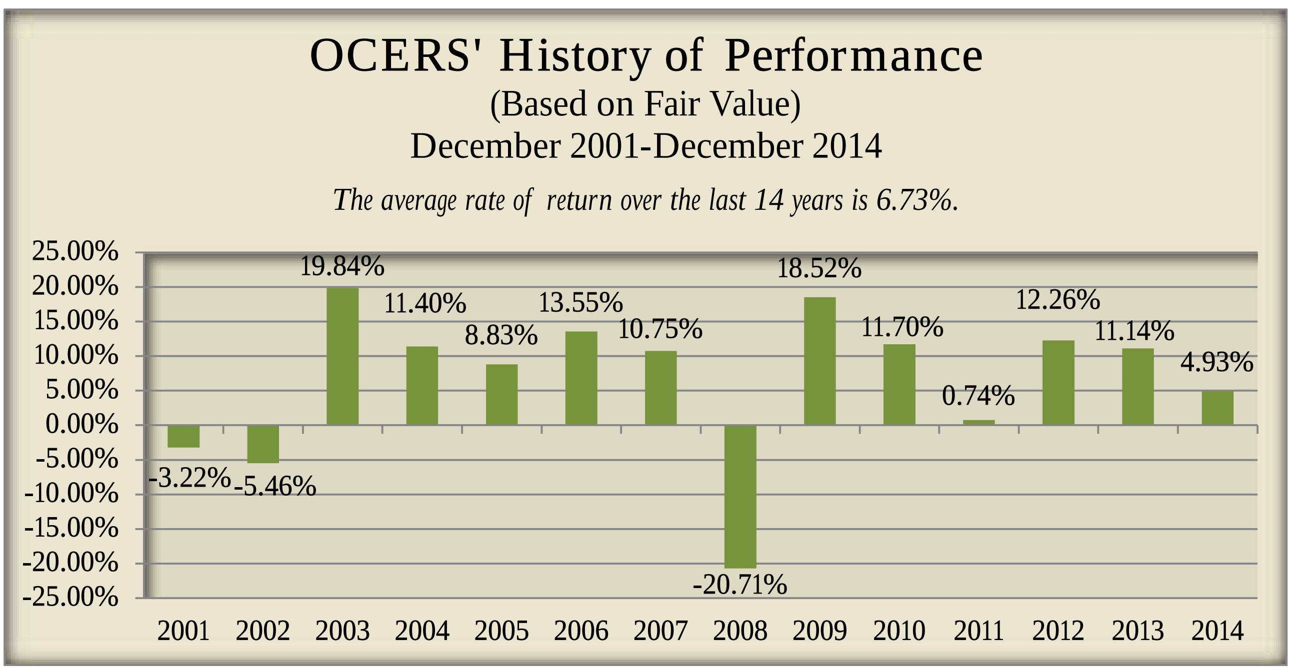
Two events have the greatest impact on plan funding: (1) plan changes, namely benefit formula changes and (2) differing actual experience requiring a modification in assumptions to reflect reality such as life expectancy. Other assumptions that impact the funding and UAAL include:

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 2014, OCERS actual return was 4.93% which is below its assumed rate of return of 7.25%. This would typically result in an increase in the UAAL. However, this year OCFA paid $21.3 million in additional contributions which along with salary savings lowered OCFA's UAAL by $7.5 million from $449.8 million in 2013 to $442.3 million in 2014. Of the $7.5 million decline in the UAAL, Safety's UAAL increased by $700,000 million (due to offsetting impacts from mortality) and General's UAAL declined by $8.2M for a net decrease of $7.5 million.

The following chart shows a history of OCERS' investment performance over the past fourteen 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 14 years reflected below is 6.73%, which is below its assumed rate of return of 7.25%. When OCERS' actual return falls below its assumed rate of return, OCFA incurs higher retirement rates/costs.



OCERS' investment return also impacts the funding level of the entire system, as demonstrated in the following chart. After the 21% loss in 2008, OCERS UAAL increased and its funding level began to drop. The funding level improved in 2013 when OCERS' return exceeded the assumed rate of return.

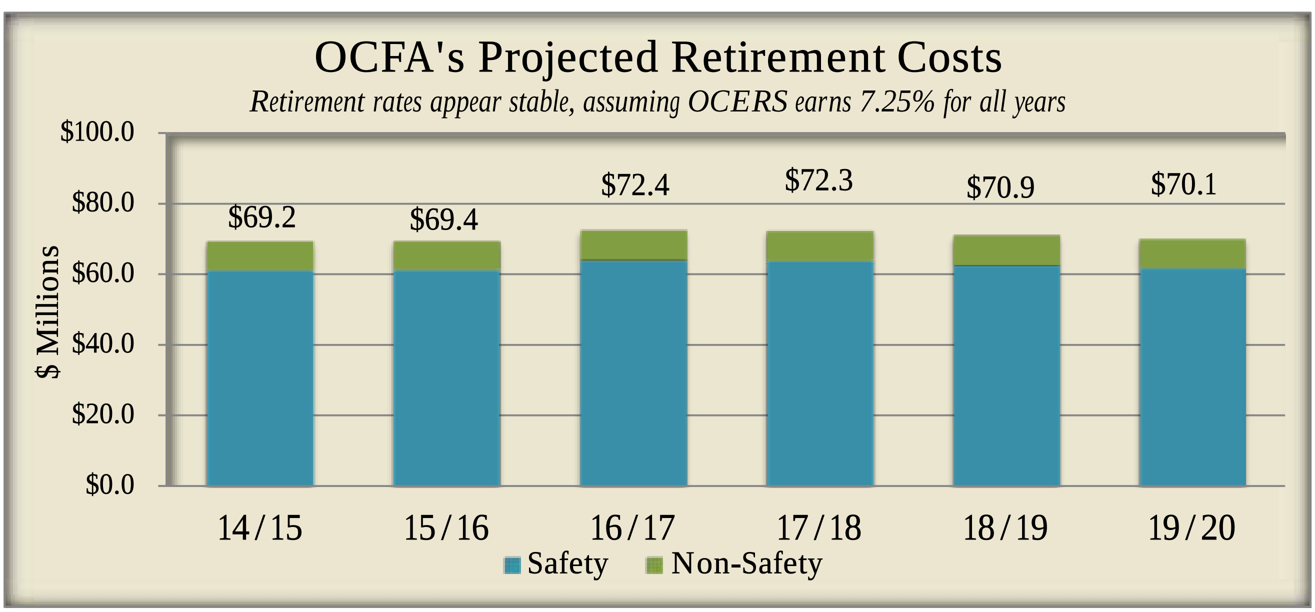
OCERS' Schedule of Funding Progress

(Dollars in Thousands)

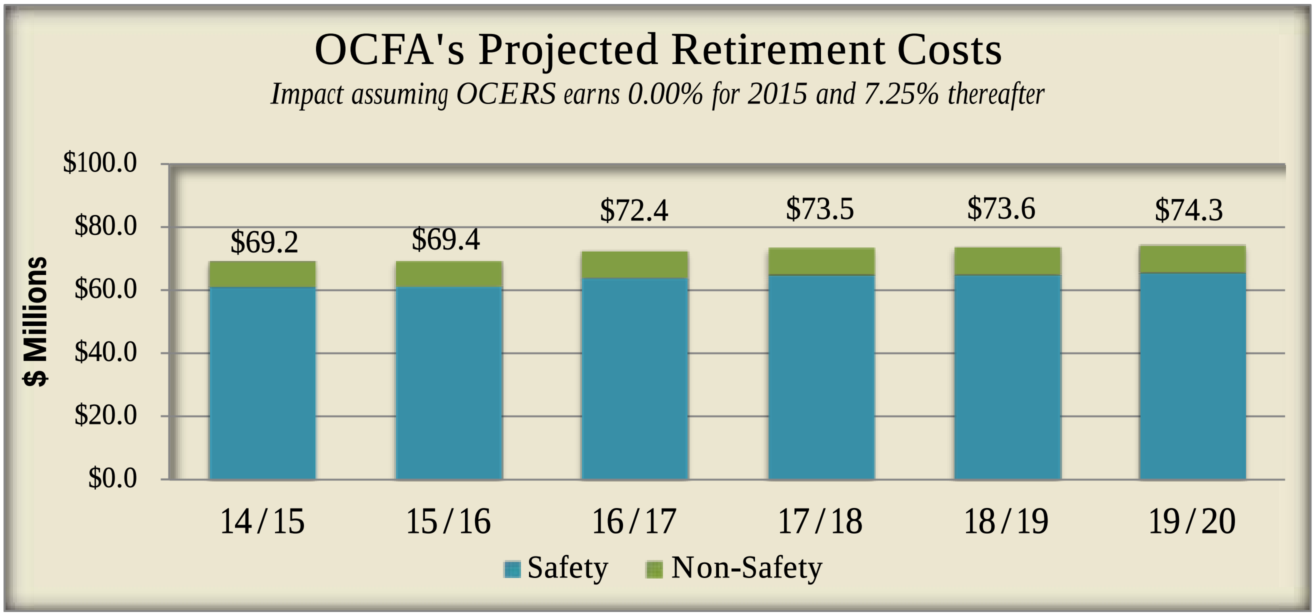
OCERS' funding level has declined recently

Actuarial Valuation Date December 31	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total UAAL (b-a=c)	Funded Ratio (a/b)
2001	$4,586,844	$4,843,899	$257,055	94.69%
2002	4,695,675	5,673,754	978,079	82.76%
2003	4,790,099	6,099,433	1,309,334	78.53%
2004	5,245,821	7,403,972	2,158,151	70.85%
2005	5,786,617	8,089,627	2,303,010	71.53%
2006	6,466,085	8,765,045	2,298,960	73.77%
2007	7,288,900	9,838,686	2,549,786	74.08%
2008	7,748,380	10,860,715	3,112,335	71.34%
2009	8,154,687	11,858,578	3,703,891	68.77%
2010	8,672,592	12,425,873	3,753,281	69.79%
2011	9,064,355	13,522,978	4,458,623	67.03%
2012	9,469,208	15,144,888	5,675,680	62.52%
2013	10,417,125	15,785,042	5,367,917	65.99%
2014	11,449,911	16,413,124	4,963,213	69.76%

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



The chart below assumes OCERS will not earn its assumed rate of return, and instead will earn 0.00% in 2015 and 7.25% in future years. This chart is very relevant since OCERS' year-to-date 2015 return as of August is -0.08%. Note the increased retirement contributions starting in FY 17/18.



Note: Retirement costs are net of employee contributions, recently implemented new tiers, and include savings from OCERS prepayment of 50% each year. For FY 2015/16 and FY 2016/17, OCERS lowered the discount rate from 7.25% to 5.80% on prepayments. Going forward, the assumed discount rate on prepayments is 5.0%. The assumed rate of return still stands at 7.25%.

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

OCFA has taken steps to increase employee contributions, reduce benefits by establishing new tiers, and accelerate the paydown of the UAAL with the long-term goal to ensure adequate pension funding. However, other factors (such as OCERS' investment performance) are beyond the OCFA's control, yet these factors have a significant impact on determining retirement rates, and ensuring adequate funding.

Expedited Pension UAAL Payment Plan

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

- Results in OCFA's pension liability being paid off sooner
- Earlier and larger contributions into the pension system result in greater investment income earned
- Greater investment income earned results in less money paid by the employer over the long term

OCFA's expedited payment plan involved three components including (1) use of year-end fund balance available, (2) contributing additional funds each year using savings achieved under PEPRA or other annual actuarial gains, and (3) contributing an additional $1 million per year in budgeted funds, with the annual budget allocation building to $5 million per year by year 5.

The outcomes from the expedited payment plan implementation in FY 2013/14 and 2014/15 (detailed below) along with OCFA's anticipated future year expedited payments were submitted to OCERS' actuary for determination of how long it would take OCFA to achieve full payment of the UAAL. ***The actuary reported back that the expedited payment plan would achieve full payment of OCFA's UAAL in 12 years, assuming all other actuarial inputs are held constant.***

FY 2013/14 Additional Payments to Lower UAAL

In FY 2013/14, OCFA contributed the same Safety rate as FY 2012/13, which was higher than the required contribution rate. The additional contribution of $2.5 million was used to pay down the UAAL. In addition, the Board allocated $3 million of available unencumbered funds identified in the FY 2012/13 annual financial audit to OCFA's UAAL. As a result, OCFA made a total of $5.5 million in additional payments to OCERS to pay down the UAAL during FY 2013/14.

FY 2014/15 Additional Payments to Lower UAAL

In FY 2014/15, OCFA made an additional $21.3 million in payments to OCERS to pay down the UAAL. The payments were a combination of $3 million in unencumbered fund balance and $18.3 million from the Cash-Flow Reserve, in accordance with OCPFA and OCEA Memorandum of Understanding side letters, which stated: "as of June 30, 2014, any remaining funds in the General Fund Cash Flow Reserve shall be used to pay down OCFA's unfunded retirement liability with the Orange County Employees Retirement System".

FY 2015/16 Additional Payments to Lower UAAL- Proposed Update to Snowball Strategy

The FY 2015/16 Budget included a $2.8 million payment to OCERS from rate savings. In an effort to continue the accelerated funding of OCFA's UAAL, the OCFA submitted a request to OCERS to have its actuary, Segal Consulting, estimate the impact on OCFA's UAAL amortization period and retirement contribution rates if the OCFA continues its acceleration of the UAAL. Segal was asked to look at the combination of the following four strategies for lowering the UAAL:

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

All of the above strategies would reduce the OCFA's existing UAAL more rapidly, and effectively shorten the weighted-average amortization period. Shortening the amortization period would have many benefits to OCFA. Although it would cause our employer contributions to rise during the expedited payment period, it would result 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. Segal Consulting reported that the above expedited payment strategies are collectively estimated to reduce OCFA's amortization period significantly, with payoff anticipated in 12 years (including the current fiscal year), instead of the current period of 20 years required by OCERS.

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

NEW ACCOUNTING RULES

In the past, many governments disclosed pension information in the footnotes of their financial statements and generally only reported the contributions they are required to make in a given year, as well as what they actually paid. On June 25, 2012 the Government Accounting Standards Board (GASB) approved new standards that will affect how local governments report their obligation for pension benefits. Previously, no liability was recognized for a local government's obligation for pensions earned by employees as long as the local government paid the actuarially determined annual required contribution (ARC) for funding. Under GASB Statement 68, *Accounting and Financial Reporting for Pensions*, beginning with fiscal years ending June 30, 2014, most governments began reporting a liability in their financial statements for the unfunded portion of their retirement plans. Recognition in the financial statements alongside other liabilities such as outstanding bonds, claims and judgments, and long-term leases, will put the pension liability on an equal footing with other long-term obligations. OCFA started reporting its pension liability in its financial statements as of June 30, 2015.

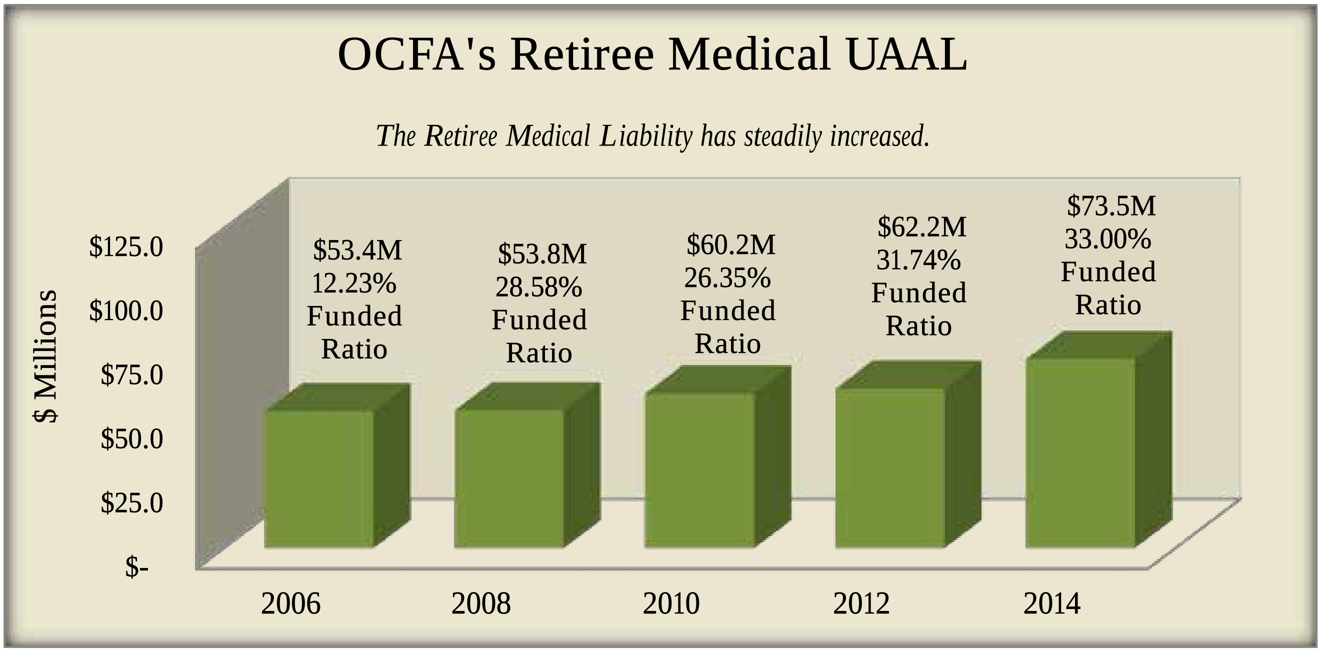
GASB also changed the formula states and local governments use to convert projected pension benefit payments into present value, based on an assumed "discount rate". The rate used will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments, as long as the plan's net position is projected to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve the return; or (b) a yield or index rate on tax-exempt 20-year, AA-or-higher rated municipal bonds to the extent that the conditions for use of the long term expected rate of return are not met. If the projected benefit payments are discounted using the lower rate, then the present value will be higher and the liability will be larger.

DEFINED ***BENEFIT*** RETIREE MEDICAL PLAN

In addition to the OCFA's retirement plan administered by OCERS, the OCFA provides a post-employment medical retirement plan (Retiree Medical Plan) for certain employees. Employees hired prior to January 1, 2007 are in a *defined benefit plan* that provides a monthly grant toward the cost of retirees' health insurance coverage based on years of service. The Plan's assets are held in an irrevocable trust for the exclusive benefit of Plan participants and are invested by OCERS. As such, if OCERS does not earn its assumed rate of return of 7.25%, the UAAL increases. Current active employees hired prior to January 1, 2007, are required to contribute 4% of their gross pay toward the Retiree Medical Plan.

Based on an actuarial study prepared by Nyhart Epler as of July 1, 2014, the OCFA's Unfunded Actuarial Accrued Liability (UAAL) for the Retiree Medical defined benefit plan is $73.5 million. The UAAL is impacted by future retirees, spouses of retirees, a maximum 5% annual increase in the medical grant, and the investment return of the trust.

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



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

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

The OCFA has previously approached funding issues and plan sustainability issues relating to this Plan collaboratively with its labor groups in order to identify options for improving the funding status. Similar to previous approaches, following receipt of the 2012 Actuarial Study for this Plan, management met with representatives of all three labor groups to review the findings. In 2013, we gathered ideas from labor for options that may be considered in the future to improve the funding status of the Plan and had the actuary perform a special actuarial study to evaluate the various options and associated impacts on plan funding. The results of the special study were shared with each of the labor groups. The labor groups recently requested to jointly meet with management to discuss funding options for the Plan. These discussions are just beginning; therefore, it is too soon to know what outcomes may be recommended.

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 the International City Management Association Retirement Corporation (ICMA-RC). The Plan provides for the reimbursement of medical, dental and other healthcare expenses of retirees. Employees are required to contribute 4% of their gross pay. Account assets are invested as directed by the participant and all contributions, investment income, realized gains and losses are credited to the individual's account. Under this plan structure, there is no UAAL.

LEASE PURCHASE AGREEMENTS

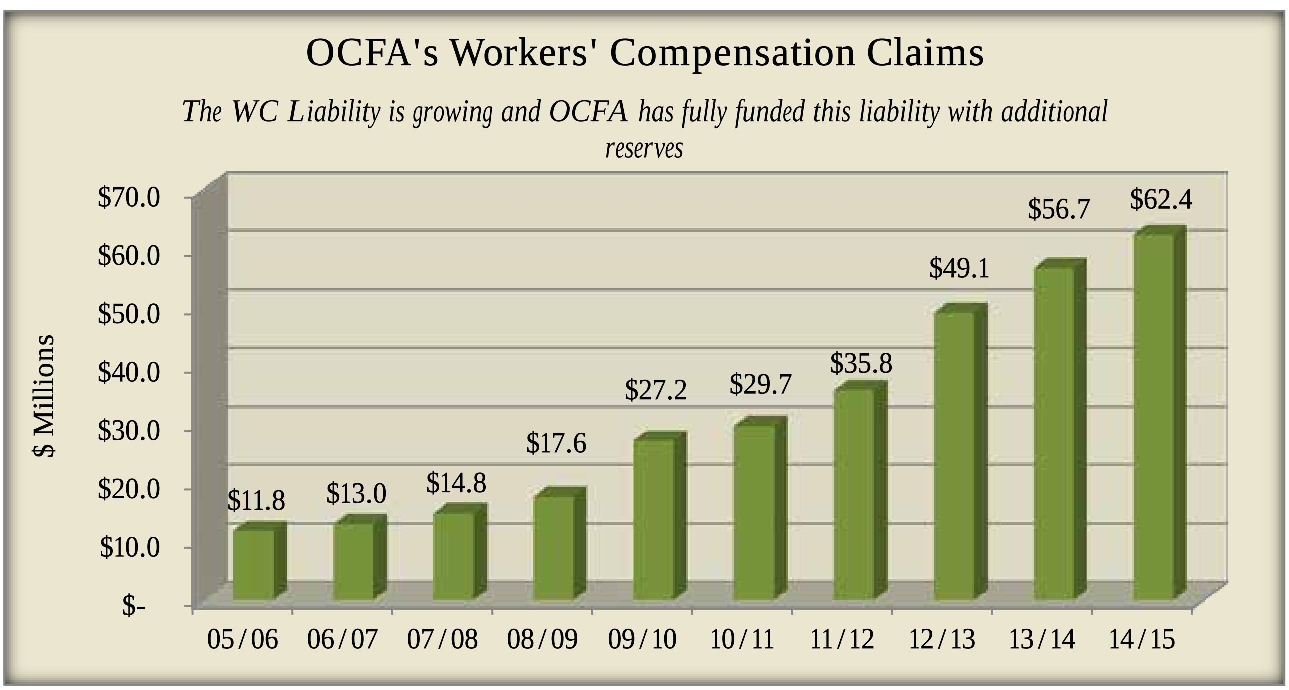
A Lease Purchase Agreement is a form of long-term debt used by government agencies to acquire buildings, vehicles, equipment and other capital assets. Within this type of lease, a lessee can apply lease payments annually toward the purchase of the property. In December 2008, the OCFA entered into a ten-year Lease Purchase Agreement to purchase two helicopters and related equipment for a purchase price of $21.5 million. In 2011, OCFA refinanced the helicopters and lowered its interest rate from 3.76% to 2.58% saving $444,000 over the remaining six years of the lease. As of June 30, 2015, $8.4 million remains due, including interest and principal. The final maturity is in 2018.

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

WORKERS' COMPENSATION CLAIMS

In March 2002, OCFA implemented a workers' compensation self-insurance program. A separate fund called Fund 190: Self Insurance was established in May 2003 to track funding and expenditures for workers' compensation claims liability. The funding sources include revenue from the General Fund and interest earnings. The required funding levels are determined by an independent actuarial study. As of June 30, 2015, OCFA's total workers' compensation liability is $62.4 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 $68 million set-aside in reserves to pay this liability as the various medical claims and bills become due, reflecting a funding surplus of $5.6 million.

This liability reflects the present value of estimated outstanding losses at the 50% confidence level. A confidence level is the statistical certainty that an actuary believes funding will be sufficient. For example, a 50% confidence level means that the actuary believes funding will be sufficient in five out of ten years. The Workers' Compensation Funding Policy that was adopted by the Board on May 27, 2010, had set the funding level at 50% for outstanding losses and 60% for projected losses.



As part of the FY 2015/16 Budget adoption, the Board approved lowering the confidence level for projected losses from 60% to 50%. Actual workers' compensation expenditures have remained well below the actuary's estimates for several years. The reduced confidence level should align the annual funding more closely with actual workers' compensation experience.

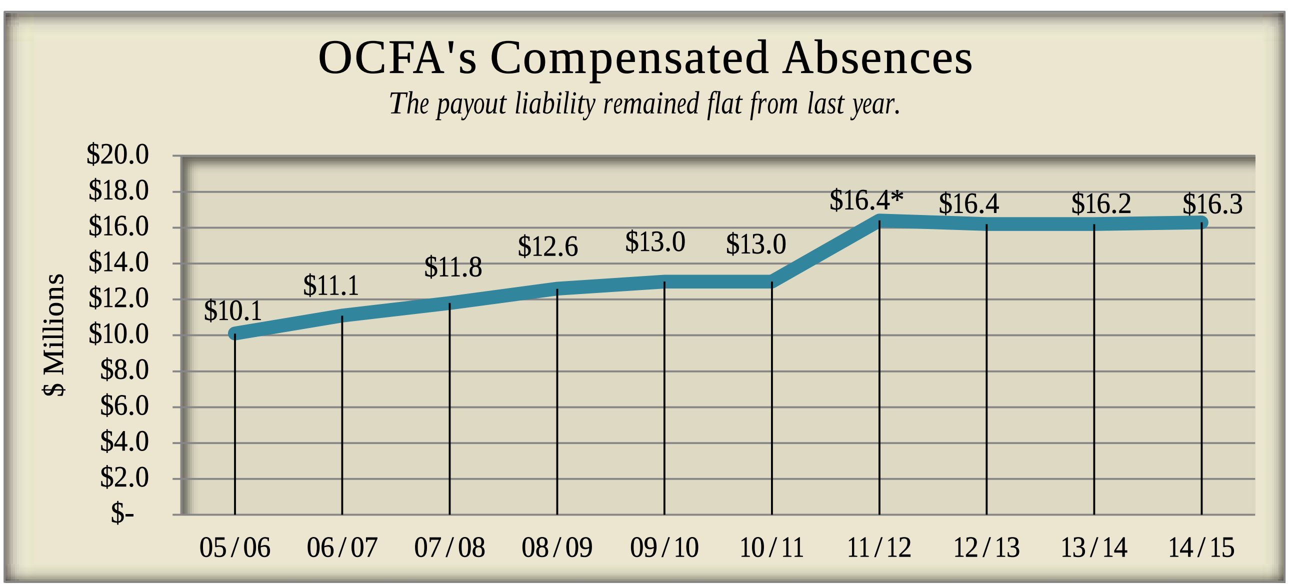
There are several contributing factors to the liability increase including workers' compensation reform that increased the statute of limitation for cancer from five to ten years; injury presumption for safety personnel; an aging workforce which contributes to a longer recovery time and higher permanent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

In addition, the outstanding and growing 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 new self-insured system will grow as the unpaid liabilities stack on top of each other over the years. Upon maturity, the amount of unpaid liability should level out, 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.

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.

The majority of sick and vacation payouts occur at the time an employee retires. The OCFA has budgeted $3.5 million for sick and vacation payouts in FY 2015/16 based on historical trends and expected retirements. OCFA's total liability for compensated absences as of June 30, 2015 is $16.3 million.



**FY 11/12 corrected to include Santa Ana General Leave Balances. The City of Santa Ana reimburses the OCFA for uses of transferred Leave Balances.*

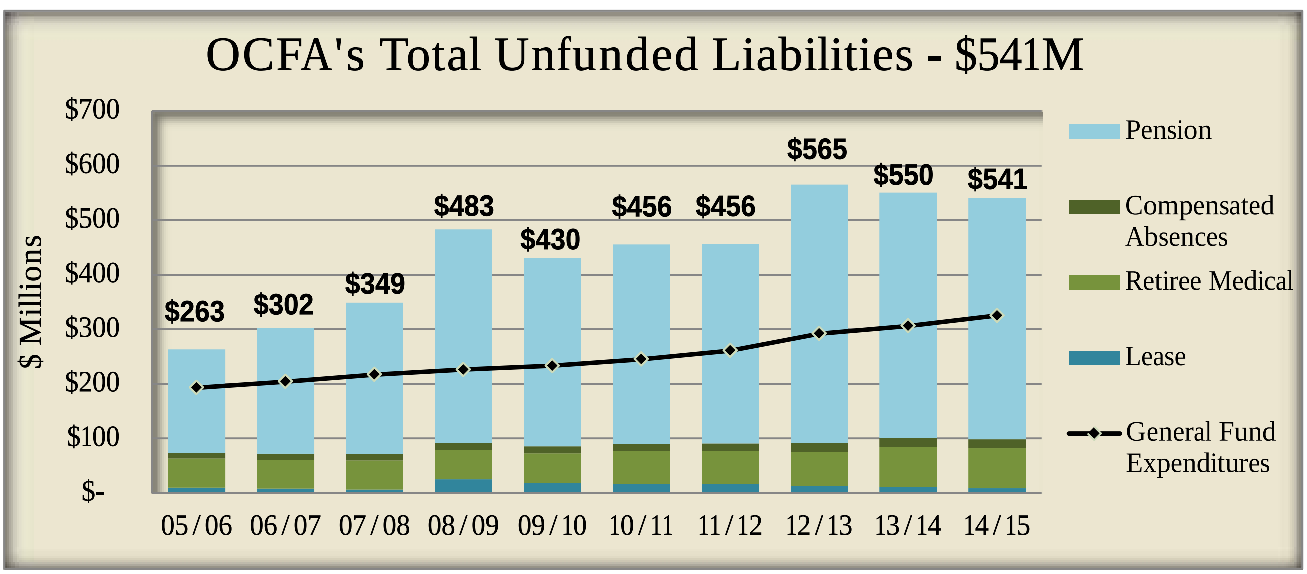
III. SUMMARY

OCFA's total long term, unfunded liabilities as of June 30, 2015* are as follows:

	$ Amount in Millions	*% of Total*
Defined Benefit Pension Plan *	$442.3	81.8%
Defined Benefit Retiree Medical Plan	73.5	13.6
Helicopter Lease Purchase Agreement	8.4	1.6
Accrued Compensated Absences	16.3	3.0
Total	$540.5	100.0%

*Note: the valuation date for the pension plan is December 31, 2014, instead of June 30, 2015, consistent with OCERS' calendar year basis for financial reporting.

When OCFA presented its first Liability Study to the Board in September 2012, the Board directed staff to identify strategies to lower and/or mitigate OCFA's long term liabilities. As shown in the chart below, as some of these strategies have been implemented, OCFA has reduced its total long term, unfunded obligations in the last 3 years by $24.5 million.



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

ACTIONS TAKEN

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

1. 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.
2. On September 26, 2013, the Board approved a strategy to expedite the pay down of OCFA's pension liability. Under this Plan, the actuary, the Segal Company, estimates this liability will be paid in 12 years. To date, OCFA has made an additional $29.6 million in payments to OCERS to lower its UAAL.
3. 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.
4. 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.
5. 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.
6. Used a trigger formula during down economic cycles to connect pay raises for all OCFA employees to OCFA's financial health.
7. Implemented lower retirement formulas for all labor groups.
8. Implemented increased employee retirement contributions, phasing in to 50% of normal costs, for labor groups with MOUs negotiated in 2014/15.
9. Refinanced the helicopter lease to lower the interest rate.
10. Implemented annual prepayment of retirement contributions to achieve a discount.
11. Provided a study to the Board of Directors regarding the feasibility of Pension Obligation Bonds.
12. Provided a study to the Board of Directors regarding the feasibility of changing automatic Cost of Living Allowance (COLA) increases for pensions; transmitted a copy of the report to the County Board of Supervisors and OCERS Board of Retirement, for their consideration of potential cost-containment actions relating to Pension COLAs under the authority granted by the '37 Act.

RECOMMENDATIONS

Recommended actions pending approval of this staff report include:

1. Direct staff to continue the Expedited Pension Payment Plan as indicated in the Updated Snowball Strategy.
2. Approve a budget adjustment in Fund 121 to allocate the $12.6 million of available unencumbered funds identified in the FY 2014/15 financial audit to OCFA's unfunded pension liability.
3. Direct staff to evaluate options identified through discussions with the joint-labor groups to address the Retiree Medical unfunded liability.
4. Direct staff to continue seeking cost-saving options related to Workers' Compensation.

CONCLUSION

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

Exhibit A

OCFA Member Retirement Contributions

Safety Members' Retirement

Firefighter Safety members:
Employees hired prior to January 1, 2013 pay 11% in employee retirement contributions. Employees hired on or after January 1, 2013 when PEPRA was enacted will continue to be subject to PEPRA requirements of 50% of normal cost for employee retirement contributions, which vary based on age of entry.

Chief Officer Safety members:
Chief Officers hired prior to January 1, 2013 pay 9% in employee retirement contributions. Employees hired on or after January 1, 2013 when PEPRA was enacted will continue to be subject to PEPRA requirements of 50% of normal cost for employee retirement contributions, which vary based on age of entry.

General Members' Retirement

OCEA members:
Effective March 2015, 2016 and 2017, employees hired prior to January 1, 2013, will pay an additional 2%, 2.5% and 3% in employee retirement contributions, respectively, increasing the employee contributions from 9% to 16.5%, depending upon their age of entry. Thereafter, these employees will pay any subsequent increases in the cost for employee retirement contributions. Employees hired after PEPRA was enacted will continue to be subject to PEPRA requirements of 50% of normal cost for employee retirement contributions, which vary based on age of entry.

Administrative Management members:
Effective July 2015, January 2016, and January 2017, employees hired prior to January 1, 2013, will pay an additional 4%, 2%, and 2.25% in employee retirement contributions, respectively, increasing the employee retirement contributions from 8.25% to 16.5%, depending upon their age of entry. Thereafter, these employees will pay any subsequent increases in the cost for employee retirement contributions. Employees hired after PEPRA was enacted will continue to be subject to PEPRA requirements of 50% of normal cost for employee retirement contributions, which vary based on age of entry.

Executive Management:

Some members of Executive Management fall under Safety and others fall under General member categories. Regardless, all Executive Management employees who are not subject to the provisions of PEPRA were paying 9% in employee retirement contributions prior to March 2015. Effective March 2015, they began phased-in increases to their contribution rate with a 2% increase in employee contributions in year one, a 2.5% increase in year two and payment of full member contributions in year three, which vary based on age of entry..

Attachment 2

Five-Year Forecast With Proposed UAAL Snowball Strategy

	ADJUSTED FY 2014/15	ADOPTED FY 2015/16	PROJECTED FY 2016/17	PROJECTED FY 2017/18	PROJECTED FY 2018/19	PROJECTED FY 2019/20
A. BEGINNING FUND BALANCE	**171,491,991**	**144,229,026**	**139,115,275**	**134,696,146**	**132,151,995**	**132,639,473**
GENERAL FUND REVENUES						
Property Taxes	204,827,822	214,445,545	224,253,862	234,524,853	243,965,087	253,218,171
State Reimbursements	4,429,534	4,893,198	4,893,198	4,893,198	4,893,198	4,893,198
Federal Reimbursements	100,000	100,000	100,000	100,000	100,000	100,000
One-Time Grant/ABH/RDA	8,425,989	1,455,104	-	-	-	-
Community Redevelopment Agency Pass-thru	8,226,435	9,948,979	10,643,280	11,094,201	11,594,173	12,107,860
Cash Contracts	87,862,963	90,778,591	93,937,833	96,634,497	99,922,475	103,285,847
Community Risk Reduction Fees	6,448,604	6,448,604	6,448,604	6,448,604	6,448,604	6,448,604
ALS Supplies & Transport Reimbursement	4,570,574	4,570,574	4,570,574	4,570,574	4,570,574	4,570,574
Interest Earnings	389,728	658,828	818,348	1,177,188	1,291,766	1,330,782
Other Revenue	1,437,660	1,230,268	1,230,268	1,230,268	1,230,268	1,230,268
Transfers from General Fund Cashflow Fund (OCERS Pre-Pay)	18,290,238	-	-	-	-	-
TOTAL REVENUES	**345,009,547**	**334,529,691**	**346,895,966**	**360,673,383**	**374,016,145**	**387,185,304**
GENERAL FUND EXPENDITURES						
New Positions for New Stations	-	-	1,509,791	3,103,738	3,190,240	8,428,418
Employee Salaries	172,482,949	177,621,404	185,010,557	191,903,913	198,132,024	201,682,573
Retirement - Regular Annual Payments	69,246,953	69,352,168	69,469,699	67,143,203	65,011,644	65,363,341
Retirement - Paydown of UAAL (Rate Savings)	-	2,802,122	1,653,114	1,886,420	3,167,397	1,648,658
Retirement - Paydown of UAAL (Unencumbered Funds)	21,290,238	-	-	-	-	-
Retirement - Paydown of UAAL ($1M per Year from WC)	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Retirement - Paydown of UAAL ($1M per Year)	-	-	1,000,000	3,000,000	5,000,000	7,000,000
Workers' Comp Transfer out to Self-Ins. Fund	13,811,667	12,272,172	11,614,715	11,903,604	12,541,804	12,948,058
Other Insurance	23,273,037	25,430,748	27,834,436	30,432,565	33,224,693	36,273,432
Medicare	2,307,455	2,440,147	2,576,295	2,579,586	2,579,586	2,631,069
One-Time Grant/ABH Expenditures	4,378,980	510,504	-	-	-	-
Salaries & Employee Benefits	306,791,280	290,429,265	301,668,607	312,953,029	323,847,387	336,975,548
Equity Payments	6,989,875	7,848,048	8,760,646	10,413,173	11,435,694	12,302,032
Services & Supplies/Equipment	28,012,394	27,027,847	28,314,599	27,939,824	28,611,364	28,523,118
New Station/Enhancements S&S Impacts	-	-	63,708	127,416	127,416	328,096
One-Time Grant Expenditures	999,394	801,578	-	-	-	-
Debt Service: Interest on TRAN	329,083	318,050	-	-	-	-
TOTAL EXPENDITURES	**343,122,025**	**326,424,788**	**338,807,560**	**351,433,442**	**364,021,861**	**378,128,793**
NET GENERAL FUND REVENUE	**1,887,522**	**8,104,903**	**8,088,406**	**9,239,940**	**9,994,284**	**9,056,511**
B. Incremental Increase in GF 10% Contingency	**-**	**498,400**	**1,293,126**	**874,005**	**828,492**	**1,275,933**
GENERAL FUND SURPLUS / (DEFICIT)	**1,887,522**	**7,606,503**	**6,795,280**	**8,365,935**	**9,165,792**	**7,780,577**
C. Operating Transfers (from) Operating Contingency	-	-	-	-	-	-
Transfers to CIP Funds						
Transfers to CIP from General Fund Surplus	1,887,522	7,606,503	6,795,280	8,365,935	9,165,792	7,780,577
Total Operating Transfers to CIP	1,887,522	7,606,503	6,795,280	8,365,935	9,165,792	7,780,577
Capital Improvement Program/Other Fund Revenues						
Interest Earnings	343,261	1,511,303	2,888,483	3,880,400	3,726,842	3,764,563
State/Federal Reimbursement	872,780	-	-	-	-	-
Cash Contracts	1,381,161	1,428,656	1,471,516	1,515,662	1,561,132	1,607,966
Developer Contributions	7,771,556	1,576,744	-	-	928,706	1,744,683
Workers' Comp Transfer in from GF	13,811,667	12,272,172	11,614,715	11,903,604	12,541,804	12,948,058
Miscellaneous	559,279	-	-	-	-	-
Lease Purchase Proceeds	-	-	-	-	-	-
Operating Transfers In	1,887,522	7,606,503	6,795,280	8,365,935	9,165,792	7,780,577
Total CIP, W/C, Other Revenues	26,627,226	24,395,378	22,769,994	25,665,601	27,924,276	27,845,848
Capital Improvement Program/Other Fund Expenses						
Fund 12110 - General Fund CIP	1,515,430	5,234,000	947,250	1,520,600	1,347,100	1,456,100
Fund 123 - Fire Stations and Facilities	7,403,228	854,248	6,500,000	6,500,000	6,500,000	6,500,000
Fund 124 - Communications & Information Systems	6,612,023	6,531,152	6,379,394	6,092,500	3,717,500	-
Fund 133 - Fire Apparatus	12,961,164	10,011,393	6,698,786	6,458,921	7,277,660	7,172,441
Sub-Total CIP Expenses	28,491,845	22,630,793	20,525,430	20,572,021	18,842,260	15,128,541
Fund 171 - SFF Entitlement	216,213	-	-	-	-	-
Fund 190 - WC Self-Ins. (Cashflow Payments per Actuary)	6,891,895	7,376,736	7,956,819	8,511,736	9,423,031	10,431,892
Lease Purchase Payments	-	-	-	-	-	-
Total CIP, W/C, Other Expenses	35,599,953	30,007,529	28,482,249	29,083,757	28,265,291	25,560,433
D. CIP SURPLUS/(DEFICIT)	**(8,972,727)**	**(5,612,151)**	**(5,712,255)**	**(3,418,156)**	**(341,015)**	**2,285,414**
ENDING FUND BALANCE (A+B+C+D) [a]	**144,229,026**	**139,115,275**	**134,696,146**	**132,151,995**	**132,639,473**	**136,200,820**
Fund Balances						
Operating Contingency (10% of Expenditures)	30,947,854	31,446,254	32,739,380	33,613,385	34,441,877	35,717,810
Reserve for Cash Contract City Station Maintenance	405,000	405,000	405,000	405,000	405,000	405,000
Donations & Developer Contributions	4,923	4,923	4,923	4,923	4,923	4,923
Fund 171 - Structural Fire Fund Entitlement	571,287	583,982	608,246	640,841	672,146	703,769
Capital Improvement Program	44,316,928	33,172,629	22,585,560	14,140,724	9,110,818	7,294,056
Fund 190 - WC Self-Insurance	67,983,033	73,502,486	78,353,037	83,347,122	88,004,709	92,075,262
Total Fund Balances	144,229,026	139,115,275	134,696,146	132,151,995	132,639,473	136,200,820

[a] Calculation removes fund balance transfers shown under General Fund Revenues as these are already included in Beginning Fund Balance.

Orange County Fire Authority
Expedited Payment of UAAL
Snowball Effect of Multiple Strategies

Attachment 3

			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 based on Projected Reductions to Retirement Contribution Rates (PEPRA)**	**Budget Increase of $1M, Growing by $2M Annually to $15M**	**Annual Increase of $1M/year to OCFA Budget for Retirement Contributions**	**Annual Snowball Amount**	**Cumulative Expedited UAAL Payment**
			Part A of Plan	**Part B of Plan**	**Part C of Plan (modified)**	**Proposed new Part D**		
1		13/14	3,000,000	2,500,000	-	-	5,500,000	5,500,000
2		14/15	21,290,238	-	-	-	21,290,238	26,790,238
3	1	15/16	12,609,380	2,802,122	-	-	15,411,502	42,201,740
4	2	16/17	3,000,000	1,653,114	1,000,000	1,000,000	6,653,114	48,854,854
5	3	17/18	3,000,000	1,886,420	3,000,000	1,000,000	8,886,420	57,741,274
6	4	18/19	3,000,000	3,167,397	5,000,000	1,000,000	12,167,397	69,908,671
7	5	19/20	3,000,000	1,648,658	7,000,000	1,000,000	12,648,658	82,557,329
8	6	20/21	3,000,000	2,368,859	9,000,000	1,000,000	15,368,859	97,926,188
9	7	21/22	3,000,000	3,279,280	11,000,000		17,279,280	115,205,468
10	8	22/23	3,000,000	4,787,217	13,000,000		20,787,217	135,992,685
11	9	23/24	3,000,000	5,772,547	15,000,000		23,772,547	159,765,232
12	10	24/25	3,000,000	6,814,115	15,000,000		24,814,115	184,579,347
13	11	25/26	3,000,000	14,242,631	15,000,000		32,242,631	216,821,978
14	12	26/27	3,000,000	19,647,456	15,000,000		37,647,456	254,469,434
			69,899,618	70,569,816	109,000,000	5,000,000	254,469,434	

ORANGE COUNTY
PROFESSIONAL FIREFIGHTERS ASSOCIATION
IAFF LOCAL 3631
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November 19, 2015

Sent via email, original available upon request

Gene Hernandez, Chairman
And Honorable Board Members
Orange County Fire Authority
1 Fire Authority Road
Irvine, CA 92602

Subject: November 18, 2015 OCFA Board of Directors Meeting Agenda Item #5, 2015 Long Term Liability Study & Expedited Pension Payment Plan

Dear Chairman Hernandez and Honorable Board Members:

Tonight I will speak at the OCFA board meeting on behalf of your firefighters. I wanted to express their opposition to continuing the original Expedited Pension Payment Plan and the new hyper accelerated plan that staff is recommending now.

OCFA's staff recommendation of dramatically increasing the accelerated pay down is solely focused on only one issue, that of the pension liability. A public agency should not focus exclusively on debt reduction. There are many other issues that require the OCFA's financial attention. Issues such as assuring the employees are adequately compensated, that the defined benefit plan is adequately funded and there is sufficient funds to assure the public's emergency needs are met.

The OCFA's original snowball plan was devised at the height of the recession and when the rates were going through the roof due to the changes made by the than Orange County Employees Retirement System (OCERS) board of directors. Most notably, the reduction from 7.75% expected return to 7.25% expected return and the re-amortization of the funds.

OCERS has stabilized and is addressing the various issues responsibly. OCERS reduced the payoff from 30 years to 20 years only one month after the OCFA began their accelerated plan. The OCFA plan was necessary because OCERS was not doing enough to address the issue. However, when OCERS refinanced the loan down to 20 years the cost to plan sponsors was minimal, yet the amortization period was reduced. It was a good governance issue and a win for everyone. It makes the necessity of present plan questionable. To attempt to pay off the unfunded liability in 12 years is akin to acquiring a 30 year loan on your home, then refinancing it to 20 years and then putting every dollar into paying it off within 12 years while not assuring the financial wellbeing of your family. It just isn't sound business practice to do this.

Sincerely,

Raymond Geagan

Ray Geagan, President
OC Firefighters, IAFF Local 3631