



Moraga-Orinda Fire District

TO: Board of Directors

FROM: Gloriann Sasser, Administrative Services Director

DATE: April 19, 2023

SUBJECT: **Item 10.3 Long Range Financial Forecast April 2023**

BACKGROUND

The draft updated Long Range Financial Forecast (Forecast) was presented to the Board during a public workshop held during the March 15, 2023 Board meeting. The Board directed the following changes which have been included in the updated Forecast (Attachment A):

- The residential fuels mitigation and home hardening grant program should be \$500K per year (see line 24)
- Remove grant activity from General Fund
- Budget strike team vehicle charges revenue in the Capital Projects Fund instead of in the General Fund (see lines 13 and 38)
- Update the FY2023 projected expenditures for the Station 41/Administration Rebuild Project to reflect FY2023 projected expenditures of \$7K. An additional \$1M was added to the FY2024 projected expenses for this project (see line 39.)

Please Note: Subsequent to the March 2023 Board meeting, Contra Costa County Employees' Retirement Association (CCCERA) released updated 5-year employer cost projections that reflect 2022 investment earnings of -10.6%. The updated projections from CCCERA have been used to calculate pension cost amounts in the Forecast.

The Forecast covers a forward-looking 10-year period. The Forecast uses several significant assumptions, which are explained below.

Budget Development – Fiscal Year 2024 Annual Operating Budget

The FY2024 Annual Operating Budget is being developed and will be presented to the Board in a public budget workshop on April 19, 2023. The Forecast amounts for FY2024 are based on the draft budget which may be altered based on direction provided by the board during the upcoming budget development process.

Property Tax Revenue

Property tax revenue for FY23/24 has been projected by HdL, the District's property tax revenue consultants. The property tax revenue increase for FY23/24 is projected to be 5.04% or \$1.54M. The property sales that occurred in calendar year 2022 impact the District's FY23/24 property tax revenue.

The Property Tax Revenue California Consumer Price Index granted for all taxing entities in the State per Proposition 13 for 23/24 is 2.0%. The history of the Property Tax Revenue California Consumer Price Index is as follows:

Fiscal Year	Property Tax Revenue California Consumer Price Index
23/24	2.0%
22/23	2.0%
21/22	1.036%
20/21	2.0%
19/20	2.0%
18/19	2.0%
17/18	2.0%
16/17	1.525%

Median sale prices of single-family homes in the District (both cities) increased 13.03% in 2021 over the previous calendar year, and those median prices increased an additional 5.48% in 2022. This means that house sale prices within the District are continuing to increase, but at lower levels overall likely due to higher interest rates and continued economic uncertainty. In 2022 there was a decrease in the number of homes sold by 301 transactions in the District. This means that there were 39% fewer homes sold in calendar year 2022 when compared with the prior year and these 2022 sales impacted the FY23/24 projected property tax revenue.

The properties that sold in 2022 added an increase of 85.9% to the market value when compared to the value of the property on the tax roll before the sale transaction. This increase in the tax roll values will result in increased property tax revenue to the District.

HdL property tax revenue projections for the District are as follows:

- 24/25 4.15%
- 25/26 4.48%
- 26/27 4.60%
- 27/28 4.81%

The Forecast uses the following property tax revenue projections:

- 2% in FY24/25, then 3.5% throughout the remaining years

Other General Fund Revenues

Ambulance fees – Projected to increase 1.5%

Strike team revenue (net of overtime costs) – FY23/24 is projected at \$200,000, then increase 3% throughout. The vehicle charges strike team revenue was moved from the General Fund to the Capital Projects Fund (\$100K.) As discussed during the March meeting, this revenue is highly volatile based on wildfire activity and the participation of district members in reimbursable deployments.

Other revenue (fuel break administrative fee) – The administrative fee for the Tunnel East Bay Hills Fuel Break is projected to be received in the General Fund in FY24/25 (\$683,632.)

General Fund Expenditures

Regular salaries – +5% effective July 1, 2023 per the MOUs, then an assumed +3% throughout.

Overtime – +5% effective July 1, 2023 per the MOUs, then +3% throughout

Benefits – +3% throughout

Retiree health insurance – Capped per the MOUs, no increases

Operating expenses – Projected actuals for FY22/23, draft budget for FY23/24, then increase +3% throughout.

Pension Costs

There are several significant items to note related to administration of the District's pension benefits at CCCERA:

- CCCERA investment amounts included in the valuation report are the amounts reported by CCCERA's investment consultant as of December 31. There are some CCCERA private equity investments that report performance with a quarter delay (this information was obtained from CCCERA based on a question asked by a board member during the March 15, 2023 Board meeting.)
- The CCCERA Board decreased the discount rate/assumed rate of return from 7.00% to 6.75% effective with the December 31, 2021 valuation. This resulted in an increase to the District's pension rates beginning in FY23/24 which are reflected in the Forecast.
- The most recent CCCERA actuarial valuation as of 12/31/2021 was calculated using a 6.75% investment earnings assumption in all future years including 2022.
- Actual year-to-date CCCERA investment returns for the period January 1, 2022 through December 31, 2022 were -10.6%.
- Based on the 12/31/2021 actuarial valuation, Segal projected the District's Safety cost group will reach full funding as of the 12/31/2026 actuarial valuation (FY28/29 rates.) However, Segal noted that this projection was based on plan assets as of 12/31/2021 and that market conditions have changed significantly since 12/31/2021. The updated projections from Segal state full funding is projected after 2027.
- The 12/31/2021 actuarial valuation included the impact of a recent change in benefit amount for one District retiree due to resolved litigation between the retiree and CCCERA.
- CCCERA set the District's pension rates for FY23/24 based on the 12/31/2021 actuarial valuation. The District's Safety pension rates increased 10% primarily due to the discount rate decrease from 7.00% to 6.75%. The actual rates set by CCCERA for FY23/24 have been used in the Forecast.
- Updated five-year projections were provided by Segal, CCCERA's actuary, in March 2023 and reflect the 2022 investment earnings of -10.6% as follows:

FY2024	Actual rates set by the CCCERA board of directors (80.80% for Safety Classic and 69.94% for Safety PEPRA)
FY2025	+6.65%
FY2026	+3.58%
FY2027	+3.81%
FY2028	+2.98%
FY2029	+1.29%
FY2030	-14.85%
FY2031 forward	No projections are provided by CCCERA. The remaining years use calculations provided by GovInvest software.

OPEB Funding

The Forecast includes OPEB contributions based on actuarial calculations used in the GASB 75 OPEB Valuation Report as of June 30, 2022 which were calculated using a discount rate of 6.25% and 15-year closed amortization period. The Forecast assumes the District continues to fund the full actuarially recommended contribution throughout the Forecast. As of January 31, 2023 (most recent), the OPEB trust fund 1-year investment return is -6.55%.

Pension Rate Stabilization Trust Fund Contributions

Pension trust contributions are based on GovInvest software calculations using a discount rate of 6.25%,

salary increases of 4% effective July 1, 2022 and 5% effective July 1, 2023, 2022 CCCERA actual investment earnings of -10.6% and investment earnings of 6.25% throughout the remaining years. The Forecast includes this trust contribution throughout the Forecast.

Capital Projects Fund

The Long Range Financial Forecast - Capital Expenditures (Attachments B and C), have been updated to reflect a projected construction cost increase of 20%. In light of recent increases in construction costs throughout the region, this amount may require further adjustment. Major expenses include:

Rebuild Fire Station 41/Administration as follows:

FY2024	\$5,800,000 (+20%)
FY2025	\$4,800,000 (+20%)

Remodel of Fire Station 45 as follows:

FY2026	\$618,000 (+20%)
FY2027	\$2,472,000 (+20%)

Purchase of two Type 1 fire engines for a total of \$2.2M in FY2024.

The pension obligation bonds were paid-in-full effective July 1, 2022. The District has one outstanding debt issue that paid for the construction of Fire Station 43 with an annual debt service payment of \$322K. The Forecast includes a transfer of money that was previously used to pay for the pension obligation bonds from the General Fund to the Capital Projects Fund to pay for the construction of Fire Station 41/Administration and to pay for the remodel of Fire Station 45. This would allow the District to pay cash for the two projects.

Transfers from the General Fund to the Capital Projects Fund are as follow:

FY2023 (approved by Board February 2023)	\$3,100,000
FY2024 and 2025	\$3,000,000
FY2026 and 2027	\$2,000,000
FY2028 and ongoing	\$1,100,000

Fund Balance Policy and Fund Balance Goal

The District’s Fund Balance Policy states the District will maintain a minimum unrestricted fund balance in the General Fund of at least 17% of budgeted General Fund revenue at fiscal year-end with a goal of achieving a 50% year-end General Fund balance in the long term. The projected fund balance as a percentage of forecasted budgeted General Fund revenue as of June 30 each year is forecast to be 36% to 83% (line 35.)

Growth of Reserves

	Unrestricted Reserves	General Fund Unrestricted Reserves as a Percentage of Budgeted Revenue	OPEB Trust Fund	Pension Stabilization Trust Fund
2016	\$9,753,441	19%	\$176,437	\$0
2017	\$11,485,547	23%	\$472,933	\$304,836

2018	\$12,319,249	28%	\$882,129	\$700,449
2019	\$12,846,486	31%	\$1,358,338	\$1,879,809
2020	\$13,960,991	38%	\$1,999,673	\$3,022,693
2021	\$16,887,812	43%	\$2,948,603	\$5,582,483
2022	\$19,618,860	49.68%	\$2,798,054	\$6,845,315
2023 Projected	\$23,226,938	47.54%	\$3,339,572	\$9,513,510

Long Range Financial Forecast Results

The Forecast shows a deficit in the General Fund in the next four years beginning in FY2024 as follows: \$533K, \$1.2M, \$188K, \$261K. A surplus in the General Fund with revenue exceeding expenditures (including OPEB and pension trust contributions) is forecast in the last six years of the Forecast. The Forecast shows a Capital Projects Fund deficit in the next two years primarily due to the planned construction of Station 41/Administration (\$10.6M) and the purchase of two fire engines (\$2.2M.)

Summary of Unfunded Liabilities

The section titled Summary of Unfunded Liabilities includes projections of the District’s unfunded pension liabilities calculated using the GovInvest software presenting both CCCERA’s actuarial assumptions and the District’s actuarial assumptions. It also includes projections of the District’s OPEB unfunded liabilities based on the District’s OPEB actuarial assumptions and planned trust contributions.

Conclusion

Staff will continue to carefully monitor the District's finances. Staff requests Board direction regarding the Long Range Financial Forecast.

RECOMMENDATION

Staff Recommendation: 1) Discuss; 2) Deliberate; 3) Provide direction to Staff.

ATTACHMENT

[Attachment A - LRFF April 2023.pdf](#)

[Attachment B - Capital April 2023.pdf](#)

[Attachment C - Apparatus April 2023.pdf](#)

Moraga-Orinda Fire Protection District
 Long Range Financial Forecast - Capital Expenditures
 Draft Update
 April 2023

	DESCRIPTION	AGE	REPLACEMENT DATE	BOOK VALUE	2018 REPLACEMENT COST	PROJ 23/24	PROJ 24/25	PROJ 25/26	PROJ 26/27	PROJ 27/28	PROJ 28/29	PROJ 29/30	PROJ 30/31	PROJ 31/32	PROJ 32/33
	BUILDINGS & GROUNDS														
	STATION-41/TRAINING	62	2022	579,367	8,500,000	5,800,000	3,600,000								
	ADMINISTRATION	50	2022	340,435	1,500,000		1,200,000								
	STATION-42	17	2041	1,992,000	2,721,437										
	STATION-43	2	2058		4,093,000										
	STATION-44	12	2046	2,648,802	2,478,819										
	STATION-45	48	2022	475,488	2,500,000			618,000	2,472,000						
	CAPITAL IMPROVEMENTS - OTHER					524,200	74,160	76,385	78,676	81,037	83,468	85,972	88,551	91,207	93,944
	TOTAL FACILITIES EXPENDITURES					6,324,200	4,874,160	694,385	2,550,676	81,037	83,468	85,972	88,551	91,207	93,944
	TOTAL APPARATUS EXPENDITURES/VEHICLE					2,200,000	0	38,312	210,000	0	1,167,375	215,000	0	0	0
	FIREFIGHTING CAPITAL EQUIPMENT					870,780	51,500	53,045	54,636	56,275	57,964	59,703	61,494	63,339	65,239
	IT CAPITAL EXPENDITURES						20,000	20,600	21,218	21,855	22,510	23,185	23,881	24,597	25,335
	OTHER CAPITAL EXPENDITURES						20,600	21,218	21,855	22,510	23,185	23,881	24,597	25,335	26,095
	TOTAL CAPITAL					\$ 9,394,980	\$ 4,966,260	\$ 827,560	\$ 2,858,385	\$ 181,677	\$ 1,354,502	\$ 407,741	\$ 198,523	\$ 204,479	\$ 210,613

Apparatus Costs

April 2023				PROJ 23/24	PROJ 24/25	PROJ 25/26	PROJ 26/27	PROJ 27/28	PROJ 28/29	PROJ 29/30	PROJ 30/31	PROJ 31/32	PROJ 32/33
DESCRIPTION	AGE	REPLACE DATE	COST										
ENGINES - STRUCTURE PROTECTION													
1998 ENGINE TYPE 1 SPARTAN, HI-TEC (RESERVE APPARATUS)	25	2023	585,163	1,100,000									
2008 ENGINE TYPE 1 PIERCE	15	2028	585,163	1,100,000									
2012 ENGINE TYPE 1 PIERCE	11	2032	585,163										
2017 ENGINE TYPE 1 PIERCE	6	2037	602,834										
2017 ENGINE TYPE 1 PIERCE	6	2037	602,834										
ENGINES - WILDLAND													
2002 ENGINE TYPE 3 WESTATES	21	N/A	386,428										
2002 ENGINE TYPE 3 WESTATES	21	2024	386,428										
2008 ENGINE TYPE 3 PIERCE	15	2028	386,428						480,475				
2010 ENGINE TYPE 3 PIERCE	13	2028	386,428						480,475				
ENGINES -													
2018 ENGINE TYPE 6	5	2038	151,250										
2023 ENGINE TYPE 6	0	2043	250,000										
AERIAL LADDER TRUCKS													
2017 TILLER TRUCK - 100' PIERCE	6	2033	1,286,924										
SPECIALIZED APPARATUS													
2009 WATER TENDER PIERCE-KENWORTH	14	2034	300,000										
AMBULANCES													
2015 AMBULANCE NAVISTAR TERRASTAR LEADER	8	2028	212,277										
2015 AMBULANCE NAVISTAR TERRASTAR LEADER	8	2028	212,277										
2017 AMBULANCE	6	2027	180,645				210,000						
2017 AMBULANCE	6	2029	180,645							215,000			
2023 AMBULANCE F-450	0	2033	175,000										
2023 AMBULANCE F-450	0	2033	175,000										
COMMAND VEHICLES													
2008 COMMAND-CHEVY SUBURBAN - SELL IN 2022	15	N/A	60,000										
2017 COMMAND-CHEVY TAHOE	6	2028	52,048						64,715				
2019 COMMAND-DODGE 2500	4	2029	70,000						100,000				
2023 COMMAND-DODGE 2500	0	2033	64,190										
SUPPORT VEHICLES													
2011 CHEVY TAHOE	12	N/A	34,700										
2012 FORD EXPLORER	11	2025	34,700				38,312						
2017 FORD EXPLORER	6	2028	33,546						41,710				
2019 DODGE 5500 AIR LIGHT UNIT	4	N/A	250,000										
UTILITY VEHICLES													
2000 UTILITY FORD F250	23	N/A	60,000										
2005 FORD RANGER - SELL IN 2023	18	N/A	18,769										
2005 FORD RANGER - SELL IN 2023	18	2023	18,769										
2005 FORD RANGER - SELL IN 2023	18	2023	18,769										
2019 DODGE 2500	4	2034	40,000										
2022 DODGE 1500	1	2034	64,000										
2022 DODGE 1500	1	2034	64,000										
2023 FORD RANGER	0	2038	35,000										
2023 FORD RANGER	0	2038	35,000										
TOTAL APPARATUS EXPENDITURES/VEHICLE				2,200,000	0	38,312	210,000	0	1,167,375	215,000	0	0	0
FIREFIGHTING/RESCUE APPARATUS													
AMBULANCES													
COMMAND/SUPPORT/STAFF VEHICLES													