



# Moraga-Orinda Fire District

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**TO:** Board of Directors

**FROM:** Gloriann Sasser, Administrative Services Director

**DATE:** May 15, 2024

**SUBJECT:** **Item 9.8 Long Range Financial Forecast May 2024**

## **BACKGROUND**

The Long Range Financial Forecast (Forecast) was presented to the Board during a public workshop held on March 20, 2024. The Board directed an additional scenario with property tax revenue increases of 2.5% throughout (sensitivity analysis - Scenario B.)

Subsequent to the March 2024 Board meeting, Contra Costa County Employees' Retirement Association (CCCERA) released updated 6-year employer cost projections that reflect 2023 investment earnings of +9%. The updated projections from CCCERA have been used to calculate pension cost amounts in the Forecast.

The Forecast was presented to the Board a second time at the April 17, 2024 Board meeting. The following changes were directed and have been incorporated into Attachments A and B:

1. Investment earnings: project based on investment balances and interest rate assumptions for US Treasury Bills: 5% in 2025, 4% in 2026 and 3% in 2027 ongoing
2. Salaries: +3.5% throughout
3. Add depreciation information and increase transfer to Capital Projects Fund to include depreciation for District assets

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

## **Budget Development – Fiscal Year 2025 Annual Operating Budget**

The FY2025 Annual Operating Budget is being developed. The Forecast amounts for FY2025 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 FY24/25 has been projected by HdL, the District's property tax revenue consultants. The total property tax revenue increase for FY24/25 is projected to be 3.97% or \$1.28M. The property sales that occurred in calendar year 2023 impact the District's FY24/25 property tax revenue as a result of reassessment to market rates at the time of sale.

At the March 2024 Board meeting, the Board requested staff to contact HdL to acquire updated property tax figures in light of the recent court case involving the National Association of Realtors and the expected decrease in property values. HdL responded that the changes involve realtor commissions, not the value of the property sold which is what is important in setting the value for taxation. HdL does not

expect to see any measurable impact on the value of property sold for taxation purposes in the District and that it is too soon for any significant analysis.

The Property Tax Revenue California Consumer Price Index granted for all taxing entities in the State per Proposition 13 for 24/25 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
24/25	2.0%
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) decreased 5.41% in 2023 over the previous calendar year and there was a decrease in the number of homes sold by 106 transactions (365 homes sold in 2023 v. 471 in 2022.) This means that there were 22% fewer homes sold in calendar year 2023 when compared with the prior year and these 2023 sales impacted the FY24/25 projected property tax revenue. The homes that sold in 2023 saw a 71% increase in assessed value compared to the value 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:

- 25/26 3.95%
- 26/27 4.87%
- 27/28 4.88%
- 28/29 4.90%

The Forecast uses HDL's projections for FY24/25 and then, as directed by the Board, 3.5% property tax revenue growth throughout in Scenario A and 2.5% property tax revenue growth throughout in Scenario B.

**Other General Fund Revenues**

- Ambulance fees – Projected to increase 1.5%
- Strike team revenue (net of overtime costs) – FY24/25 is projected at \$200,000, then increase 3% throughout
- 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 FY25/26 (\$683,632.)

**General Fund Expenditures**

- Regular salaries – +3.5% effective July 1, 2024 subject to ongoing MOU negotiations, then +3.5% throughout. For context, a 1% salary increase District-wide equates to \$224K. Forecast includes two new positions effective July 1, 2024 subject to Board approval: Deputy Fire Chief and Office Specialist and Safety roster strength of 57.
- Overtime – +3.5% effective July 1, 2024 subject to ongoing MOU negotiations, then +3.5% throughout

Benefits – +3% throughout

Retiree health insurance – Capped per MOUs, no increases

Operating expenses – Projected actuals for FY23/24, proposed budget amounts for FY24/25 based on budget work completed to date (+6.6%), then increase +3% throughout

Residential fuels mitigation and home hardening grant program - \$300K projected expenditures for FY23/24, then \$500K throughout

**Pension Costs**

There are several significant items to note related to administration of the District's pension benefits at the Contra Costa County Employees' Retirement Association (CCCERA):

- The most recent CCCERA actuarial valuation as of 12/31/2022 was calculated using a 6.75% investment earnings assumption
- Actual year-to-date CCCERA investment returns net of fees for the period January 1, 2023 through December 31, 2023 was +9.0%.
- CCCERA set the District's pension rates for FY24/25 based on the 12/31/2022 actuarial valuation. The District's Safety pension rates increased 10.50% (Classic) and 10.87% (PEPRA) primarily due to an investment loss of -10.6% in 2022. The actual rates set by CCCERA for FY24/25 have been used in the Forecast.
- CCCERA's actuary, Segal Consulting, provided updated 6-year rate projections based on the 2023 actual CCCERA investment returns (+9%) as follows:

Fiscal Year	Employer Rate Change Safety Classic (3% @ 50)	Employer Rate as Percentage of Pensionable Compensation Safety Classic (3% @ 50)	Employer Rate as Percentage of Pensionable Compensation Safety PEPRA (2.7% @ 57)
FY2022	+0.40%	72.97%	62.44%
FY2023	-2.62%	70.35%	59.63%
FY2024	+10.45%	80.80%	69.94%
FY2025	+10.50%	91.30%	80.81%
FY2026*	+3.59% Projected	94.89%	84.40%
FY2027*	+3.42% Projected	98.31%	87.82%
FY2028*	+2.47% Projected	100.78%	90.29%
FY2029*	0.77% Projected	101.55%	91.06%
FY2030*	-15.42% Projected	86.13%	75.64%
FY2031*	-9.11% Projected	77.02%	66.53%
FY2032 forward*	No projections are provided by CCCERA. The remaining years use calculations provided by GovInvest software.		

\* These rates are projected and have not been set by the CCCERA Board.

**OPEB Funding**

The Forecast includes OPEB contributions based on actuarial calculations used in the GASB 75 OPEB Valuation Report as of June 30, 2023 which were calculated using a discount rate of 6.25% and 13-year closed amortization period. The Forecast assumes the District continues to fund the full actuarially recommended contribution throughout the Forecast. As of March 31, 2024 (most recent), the OPEB trust fund 1-year investment return is 22.14%.

**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 5% effective July 1 2023 and 3.5% throughout the remaining years, 2023 CCCERA actual investment earnings of +9.0% and investment earnings of 6.25% throughout the remaining years. The Forecast includes this trust contribution throughout the Forecast. As of March 31, 2024 (most recent), the pension trust fund 1-year investment return is 22.14%.

**Capital Projects Fund**

The Long Range Financial Forecast - Capital Expenditures (Attachments C and D), have been updated to reflect the revised timing of the Station 45 remodel and Station 41/Administration construction projects. Major expenses include:

Remodel Station 45 as follows:

FY2024 \$2,000,000 included  
in Budget  
FY2025 \$1,000,000

Rebuild Station 41/Administration as follows:

FY2026 \$7,000,000  
FY2027 \$3,600,000

Apparatus Purchases as follows:

FY2024 \$2,200,000 for two Type 1 fire engines included in budget  
\$250,686 for one Type VI fire engine included in budget  
\$374,647 for two ambulances included in budget

FY2025 \$330,000 for two ambulances  
\$75,000 for one fire chief vehicle replacement

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:

FY2024 (approved by Board February 2024)	\$3,000,000
FY2025	\$3,926,757
FY2026 and FY2027	\$2,926,757
FY2028 and ongoing	\$2,026,757

**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 40% 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. Results are 39% to 94% in Scenario A and 31% to 60% in Scenario B. Note these fund balance projections forecast a 3.5% salary increase throughout the Forecast.

**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	\$26,093,631	53.50%	\$3,548,145	\$10,003,244
2024 Projected	\$24,742,476	53.38%	\$4,233,457	\$12,295,806

### **Long Range Financial Forecast Results**

The Forecast Scenario A shows deficits in the General Fund beginning in FY2025 as follows: \$1.3M, \$114K, \$999K, \$112K, then surpluses in future years. The Forecast shows a Capital Projects Fund deficit in FY2026 primarily due to the planned construction of Station 41/Administration (\$10.6M estimated) and then surpluses throughout the other years. Scenario B shows deficits in the General Fund beginning in FY2025 as follows: \$1.3M, \$456K, \$1.7M, \$1.2M, \$1.4M, then surpluses in future years.

### **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.

### **RECOMMENDATION**

Staff Recommendation: 1) Receive and file

### **ATTACHMENT**

[Attachment A - LRFF May 2024 Scenario A.pdf](#)

[Attachment B - LRFF May 2024 Scenario B.pdf](#)

[Attachment C - Capital May 2024.pdf](#)

[Attachment D - Apparatus April 2024.pdf](#)