Moraga-Orinda Fire Protection District

BOARD OF DIRECTORS
SPECIAL BOARD MEETING MINUTES
March 15, 2018
(Approved April 18, 2018)

1. Opening Ceremonies

The Board of Directors convened in Open Session at 5:03 P.M. on March 15, 2018 at the Sarge Littlehale Room, Orinda, California. President Barber called the meeting to order. Present were the following Directors and Staff:

President Barber	Director Jex	Gloriann Sasser, Admin Services Director
Director Anderson	Director Jorgens	Judith Propp, District Counsel
Director Famulener	Dave Winnacker, Fire Chief	Patricia Edwards, Interim District Clerk

2. Public Comment

There was no comment from the public.

3. Regular Calendar

3.1 Public Workshop

President Barber stated that the purpose of the meeting is a public workshop for the preparation of the Long Range Financial Plan. The first year is a plan and subsequent years are projections of assumptions. Director Famulener noted that Judith Propp is attending the meeting as substitute counsel for Jonathan Holtzman.

Chief Winnacker provided the report. The Plan projects District revenue and expenditures over a forward-looking 15-year period. The Ad Hoc Labor Negotiations Committee requested a public financial workshop to discuss the Long Range Financial Plan. He noted that Version A continues what was done in the past and Version B uses a more conservative methodology. Questions from the Board of Directors prior to the meeting included: medical cost increases; transfers to the General Fund; expenditures for Stations 43, 45, and 41; whether the schedule included all the capital projects; and OPEB funding at 3% per year. Chief Winnacker noted that additional projections with changed assumptions are included in Version C. The Board discussed staff recommendations by item. Chief Winnacker reviewed the projections for each Version.

Property Tax Revenue at HdL Projections or 3%

President Barber noted that HdL projects property tax revenue to increase by 4-4.5%. Director Famulener recommended using the HdL projection. Director Anderson recommended that the Board consider the economy and the impact of real estate in California and supported using a conservative 3%. Director Jex concurred with 3-3.5%. Director Jorgens noted that the HdL projections were made before the change in the tax laws and recommends 3.5%.

Steve Cohn suggested that the Board consider a medium range of 4-4.5% as 3% is ridiculously low. He anticipates that most of the tax base increase will come from unrealized gains in the property pool. President Barber agreed with Director Anderson's recommendation that the Board err on the side of a lower annual increase but strive to be as accurate as possible. He added that long term projections are sure to be inaccurate. He recommended a 3.5% range. Mark McCullah, Local 1230, asked if these were action items or for information only. President Barber said the workshop was to provide advice to the staff and action would be taken at a subsequent regular meeting. Mr. McCullah stated that property tax value is not a concern for this area and recommended deferring to the expert opinion.

Director Anderson requested more discussion on the actual percentage prior to the motion. He supports a conservative fiscally prudent view. Using 3% might be low but prepares the District if there is an economic downturn. Director Anderson's motion to adopt the 3% in Version B for property tax revenue increases was seconded by Director Jex. Director Famulener noted that HdL's projections are 4.51% to 4%. She stated that if the Directors believe that the professional assessment is wrong, that HdL should be brought back with an updated plan. Director Anderson noted that the HdL report was made before the federal tax law changes and that a professional opinion is an "opinion". He added that both Moraga and Orinda support a more conservative figure. He does not support the consultant's opinion. Director Jex believes that the assumptions used by HdL are not reliable. Director Jorgens agreed with Director Anderson and that 3-3.5% seems more realistic. There were no comments from the public. Said motion carried a 4-1 roll-call vote (Ayes: Anderson, Barber, Jex, and Jorgens; Noes: Famulener).

OPEB Contributions per Actuarial Calculations or $500,000

Chief Winnacker said that staff seeks direction on whether the OPEB contributions should remain at the actuarial calculations or at the rate of $500,00 per year. Director Jorgens asked if the actuarial calculations from last year were a long term forecast. Chief Winnacker stated that the actuarial recommended contributions increase over time: $374,000 in 2017-18; $385,000 in 2018-19; $396,00 in 2019-20; and $408,000 in 2020-21. Version B provides a $500,00 flat rate per year. The UAL is amortized over 20 years with a 6.25% discount rate. Director Anderson recommended a commitment to the trust using a higher percentage. He believes that the 3% recommended in Version B is not fiscally prudent. Director Jex noted that if the $500,000 amount is used, the existing unfunded liability is not fully covered in fifteen years. Director Jorgens supports a fiscally conservative approach. Director Jex noted that $500,000 gets the District closer to funding this liability. Director Jorgens asked what is a reasonable amortization period. President Barber noted that all of the projections assume a uniform growth over time. He asked if it would it be relatively easy for purposes of projections to assume one rate over a short period and a different growth rate over a longer period. Chief Winnacker responded affirmatively. President Barber opened the OPEB item for public comment.

Vince Wells, President Firefighters Local 1230, asked for clarification of the issue. President Barber stated that the question is the assumption that should be used to fund the OPEB trust. Mr. Wells noted that there were significant health care changes in the last contract which should impact the future OPEB obligation. MOFD is the only fire district in the county that does not offer retiree health care for those hired after this contract so future employees will not create OPEB. He is concerned about the impact of OPEB contributions on the operating budget. President Barber asked if the assumptions for paying down the unfunded OPEB obligation considered this matter. Ms. Sasser stated that the actuarial evaluation is based on how much retiree health is provided for all active employees. President Barber noted that the unfunded OPEB liability is $15 million. Ms. Sasser stated that the actuarial evaluation was based on a 20-year amortization.

Mr. Cohn stated that these numbers should be presented on a spreadsheet in order to be clear. Director Famulener stated that the Board decided last year on a 20-year payoff at 6.25%. This is a long range position paper and not a budget. She agreed with Director Jorgens' suggestion that $250,000 be put in the General Fund to make it more secure. President Barber asked if there is an amortization table which shows what happens to the unfunded liability over time. Ms. Sasser responded that a table is not in the actuarial evaluation. Director Jex stated that the $374,000 figure came from the actuary and asked if the $500,000 is an arbitrary number. Ms. Sasser stated that $500,000 is an arbitrary alternative number. Director Jorgens supports the Board's earlier decision of 6.25% rate over 20 years and assume Plan A numbers and apply this to the trust funding needs. For clarity, Director Anderson suggested that the direction to staff start with the base in Exhibit A and annually add whatever amount is recommended by the actuary. Director Jorgens noted that there should be a zero balance if the actuary is correct. President Barber agreed with Director Jorgens and requested that staff prepare an amortization table. President Barber stated that the consensus of the Board is to use the assumption in Version A. Director Anderson requested clarification that using the numbers in Version A with the projected rate of return within the trust will amortize the OPEB liability in 20 years. Director Jorgens asked staff to confirm with the actuary. Ms. Sasser responded that staff will.

Pension Rate Stabilization Trust (PRST) Contributions at Actuarial Calculations or $500, 000

Director Famulener stated that the Board previously decided on a 20-year plan at 6.25% which is a projection and that the amount can be changed if needed. Director Anderson stated that the magnitude of the PRST amortization is more than that of the OPEB fund. Director Jex concurred and stated that, if the objective of the PRST is to fully fund it, the rate needs to be increased. Director Jorgens recommended that the Board use the same assumptions as used for OPEB: 6.25% investment earning rate and 6.25% discount rate. He requested that the beginning date for the earning rate and for the discount rate be consistent with the other assumptions in the model. CCCCERA's projections would pay down the existing liability by 2032. President Barber noted that, in Version C, unfunded actuarial liability payments to CCCCERA end in 2030 but payments into the Pension Stabilization Trust would continue for two more years. Director Famulener stated that, in two years, $2 million will come into the General Fund when the bond is paid off. Director Jex agreed with President Barber and supports Version C. Director Anderson stated that Version A allows the unfunded liability to continue to increase. Director Jorgens stated that Version B also allows the unfunded liability to continue. He noted that it was important to get the history and starting part correct for the obligations and assets. President Barber stated that, using this methodology, the Board needs to start contributions in 2017-18. Director Jorgens stated that the payment should start in 2018-19. Director Famulener asked if the PRST payment of $2 million would be paid in 2018-19. President Barber said that the purpose of this payment should not be confused with labor negotiation discussions. Director Famulener asked if the District takes $2 million from the General Fund, will it have the money needed to pay for salary increases. Chief Winnacker responded that he could not answer the question. Director Anderson noted that the Board needs to address the liabilities realistically. He noted that Version A is not realistic. He suggested that the PRST fund contributions be significantly increased in 2018-19. Director Jex stated that the Board should address this significant issue now and not delay this obligation. Director Jorgens noted that a significant pension unfunded liability remains if the CCCCERA assumptions are used. President Barber questioned Director Jorgens that the assumptions for the Pension Rate Stabilization Fund trust is 6.25% in Version C but the OPEB funding continues at 3%. Director Jorgens stated that the percentages are not the growing rate. President Barber opened the discussion to public comment.

Vince Wells, President Firefighters Local 1230, noted that the Board established funding for various accounts at a previous meeting and that it is inappropriate to make changes before the labor negotiations. Doubling or tripling down on the payments may be viewed as “bad faith”. Steve Cohn stated that Version C is dangerous to the General Fund reserve balance. Director Anderson stated that any funds in the OPEB and PRST can only be used to pay those trust obligations.

President Barber commented that the PRST unfunded liability would never be paid off using the prior analysis. It is necessary to consider the District’s future financial stability. He stated that it is hard to determine the optimal time to begin based on the spreadsheet provided. Ms. Sasser stated that payments are included monthly to pay down the unfunded liability based on CCCERA’s actuarial evaluations. Director Jorgens noted that there are three sets of numbers. CCCCERA assumes a 7% earning rate and a 7% discount rate. He believes that 6.25% is more realistic. Director Famulener stated that the District should pay $375,00 this year and suggested that staff look into amortization with the additional $1.5 million in 2018-19. Director Anderson noted that labor negotiations became dicey last year because of a lack of long range financial planning and the issue needs to be realistically addressed. He is uncomfortable adding $2 million in 2017-18 and 2018-19 because it does not bode well during negotiations.

President Barber suggested that it is important to think of what is best for the District’s long term sustainability without service cutbacks or compensation reductions. He does not support a delay as this will result in an increase in the liability. Director Jex stated that the purpose of the PRST was to accumulate monies to meet the obligation if the District was unable to fund it during a shortfall. President Barber noted that it can be viewed as deferred compensation. He believes that the long range projections do not include any “bad” times and this option allows the District to respond during those times. He opened the item for public comment. There was no public comment.

Director Jorgens proposed: using 6.25% earning rate and 6.25% discount rate; updating the model with the appropriate earnings and salary increases to date; make a $375,000 payment in 2017-18; increase the payment in 2018-19 by half of the 2019-20 figure and then let the model determine the amount needed after 2019-20. Director Famulener clarified that the payments would be $374,000 in 2017-18 and $500,000 in 2018-19 and 2019-20. Director Anderson clarified that the payments would be $374,000 in 2017-18; $1.1 million in 2018-19; and in 2019-20 use the model’s algorithm assumptions. The motion was seconded by Director Anderson. President Barber opened the public comment.

Mark McCullah, Local 1230, stated that this is poor timing for this discussion but there is a liability which needs to be addressed. He added that the District has a problem with retention and recruiting firefighters in large part due to staff being undercompensated. Director Famulener agreed that the timing is poor and added that this is a projection and not a budget. Funds should not be taken from the General Fund and put into a trust. Director Jex stated the purpose of the discussion for a long range plan is to plan for known and anticipated expenditures. The plan can be refined to add what should be included in order to increase and enhance the financial viability of the District. Director Jorgens noted that this item was discussed last year. Director Famulener disagreed and stated that the Board decided on $374,000 and paid that last year. President Barber stated that the purpose of the meeting is to provide advice to Chief Winnacker to develop a new spreadsheet and not to adopt final numbers. This is a public record which is discussed in public to see alternatives without prejudicing how a Director would vote on final approval. Director Anderson asked if another compromise could be presented. He withdrew his second on Director Jorgens’ motion and asked for alternatives.

Director Anderson’s substitute motion suggested easing into the PRST as follows: $374,000 in 2017-18; add $1.2 million in 2018-19; $1.7 million in 2019-20; $2.5 million in 2010-21; $3 million in 2021-22. Director Famulener seconded the motion. Director Jorgens clarified that this option would cost less than the

CCCCERA estimate. Director Jex is concerned that $5 million per year across the board will take almost ten years at the current funding before there is sufficient money in the trust to use. Director Jorgens stated that it important to understand what base figure is being used from Version A or Version C. Director Famulener asked counsel if the $2 million payment in previously unseen Version C can be done. Attorney Propp stated that, from a legal standpoint because it is a workshop, a formal final action is not taken so the information can be considered. Chief Winnacker noted that Version C was prepared by staff in response to requested inputs. Staff is requesting direction form the Board in order to prepare an updated forecast. Director Anderson restated his substitute motion to fund PRST as follows: $374,000 in 2017-18; $1.1 million in 2018-19; $1.7 million in 2019-20; $2.5 million in 2020-21; $3 million in 2021-22; in 2022-23 the unfunded liability would be amortized over a 20-year period. Chief Winnacker asked if this is a "number" or 50% of the actuarial recommendation for 2018-19. Director Anderson stated that it is just a number. Director Jorgens corrected the figures to be $2.2 million in 2020-21 and $ 2.7 million in 2021-22.

At 6:54 p.m., President Barber requested a short break. The meeting reconvened at 7:02 p.m. with all Board and staff members present.

President Barber asked the Board to consider another substitution. He asked staff to do an analysis to ramp up from 2018 to 2022-23 or 2023-24 in an orderly fashion and meet with an Ad Hoc Committee and present this information at a later meeting. Chief Winnacker asked what the starting point should be. President Barber suggested using the starting point in Version A and then ramp up to 2022-23. Director Jorgens noted that there is money in the General Fund and suggested that various scenarios be run. President Barber's request to start in 2018-19 and implement the plan evenly through 2022-23 using a formula instead of numbers did not receive a second. President Barber reiterated Director Anderson's substitute motion to fund PRST as follows: $374,000 in 2017-18; $1.1 million in 2018-19; $1.7 million in 2019-20; $2.2 million in 2020-21; $2.7 million in 2021-22; and in 2022-23 the unfunded liability would be amortized over a 20-year period. This motion was seconded by Director Jorgens. Said motion carried a 4-1 roll-call vote (Ayes: Anderson, Barber, Jex and Jorgens; Nay: Famulener). President Barber noted that the Board is not committed to these numbers but will evaluate them at the next meeting. Director Jorgens clarified that the Board voted to put numbers on a spreadsheet for long term planning purposes and did not direct staff to spend any funds.

General Fund Reserve Requirements – 17% or 50%

President Barber noted that staff requests the Board provide direction regarding increasing minimum fund balance reserve levels from 17% to 50%. Chief Winnacker stated that a 17% minimum unrestricted fund balance in the General Fund was adopted by the Board in 2017. Staff Director Famulener questioned where the 50% figure came from. Chief Winnacker responded that the 50% came from the Ad Hoc Committee. Director Anderson suggested that the Board stay with 17% in light of the changes to OPEB and the PRST. Director Jex reported that he looked at General Fund Reserve figures for 2016 and 2017 for several cities and that the average reserve was 60% in terms of total revenues. He suggested that the Board target 60% rather than 50% as he felt that 17% is grossly inadequate. Funds can be transferred into the reserve as restricted balance for unplanned events. Director Jorgens noted that 17% is only two months of operating fund needs and having reserves is a fiscally responsible way to operate an organization. He stated that 50% should be a long term "goal" or "target". Director Famulener noted that none of the agencies referenced by Director Jex have a Fire Flow Tax. The Fire Flow Tax is part of the Capital Fund but can be used as part of the General Fund. President Barber asked staff where the Fire Flow Tax appears in the budget. Ms. Sasser stated that the Fire Flow Tax is in Capital Fund revenues. President Barber asked if it would make any difference if the Fire Flow Tax was listed in General Fund and then appropriated out to Capital. Ms. Sasser responded that the Board requested Fire Flow Tax to be used for capital expenditures and that is why it is presented there. Director Anderson stated that the intent of the Fire Flow Tax was for Capital projects. President Barber summarized the Board's discussion that the Fire Flow Tax (line 5g) be eliminated and that line 7a be retitled from Capital Fund Revenues to Fire Flow Tax. Director Famulener disagreed and noted that the Fire Fund Tax (line 5g) be populated with actual numbers and off set transfer to Capital appear elsewhere on the spreadsheet. President Barber opened the public comment

Steve Cohn stated that the Fire Flow Tax is not just for capital projects. He suggested that all taxes go into the General Fund and be allocated out of the General Fund. President Barber agreed with Director Famulener's recommendation to put the Fire Flow Tax into General Fund Revenues and then showing appropriations to Capital. Director Jorgens concurred. Chief Winnacker confirmed the Board's direction to move the Fire Flow Tax to line 5g and then move into Capital Funds having been funded from the General Fund.

President Barber continued the discussion of the General Fund Reserve. Director Jorgens asked how the target would be implemented on the spreadsheet. Ms. Sasser stated that line 3a shows the percent of General Fund revenue. The minimum fund balance policy is shown throughout the Long Range Plan. Chief Winnacker added that it is a planning goal for the annual budget and that there is no enforcement mechanism. President Barber noted that the Board's desire to move to higher reserves leaves open the question of the rate. Director Famulener suggested a 20% reserve. President Barber stated that the reserve percentage is somewhat arbitrary. Director Anderson noted that the percentage is a 'target' and has no impact on the long range financial forecast. Director Jex noted that the District is already at 25% reserves. He stated that it is prudent to have adequate fund balances to meet existing obligations and provide for funding for any capital needs rather than borrowing. Director Jorgens stated that, rather than a percentage, the long term goal should be to earn money on the reserves for the entire year. He supports a larger reserve. President Barber agreed with Director Anderson and stated that having a goal of sufficient reserves to avoid borrowing funds is desirable. Chief Winnacker stated that, in the absence of guidance, staff will continue to use 17% as the desired threshold. President Barber asked what is the correct reserve number. Director Jex stated that a 50% reserve would fund the District for six months and probably would eliminate the need for the District to borrow. Director Anderson noted that 50% would be a policy goal and he does not want this goal to impact other expenditures. President Barber noted that there is no adverse consequence to having a Board goal of 50%. Director Famulener's motion that the Board retain its resolution (17-02) setting the reserve at 17% and set a long term goal of getting to 50% was seconded by Director Jorgens. President Barber opened the public comment.

Mark McCullah's remarks regarding Director Jex's comments included: questioning how the specific cities were selected; that it was hard to make a comparison based on tax revenue; that the District is meeting its obligations; and if the compensation packages for these cities were evaluated. Director Jex stated that the cities selected were based on proximity and the availability of CAFR data on the cities' websites. He acknowledged that there were differences in agency operations but there were similarities for the purpose of bench marking. Vince Wells, President Firefighters Local 1230, stated that the CAFR data did not relate to the cities' policies. He stated that the reserve policy does impact the budget. If reserve data from other agencies are being used, their policies should also be evaluated. Director Famulener's motion in long term planning to establish an aspirational goal of getting to a 50% reserve was seconded by Director Jorgens. Said motion carried a 5-0 roll-call vote (Ayes: Anderson, Barber, Famulener, Jex, and Jorgens).

Capital Expenditures – Issue Debt or Pay Cash for Construction of Stations 41 and 45 and Administration

Director Famulener recommended, for purposes of long term spreadsheet projections, that the District use the 3% cost projections. Director Anderson concurred. Director Jex doubted that the Board could borrow at 3% for 15-years for capital assets in today's market. Director Famulener stated that the Board should determine a percentage and use it for long term projections. Director Jex asked about the station construction costs. Chief Winnacker stated that there are no specific plans and that the existing estimates were taken from a previous staff report. Director Jorgens suggested that the Board borrow money over ten years. President Barber stated that there were many unknowns and data are needed regarding interest rates, available collateral, estimated construction costs, and inflation before the Board can give meaningful advice. Director Jex stated it is important to anticipate and plan for future needs. President Barber suggested revisiting the assumed construction costs and determining a range factoring in inflation. Chief Winnacker asked the Board to provide direction on the length of the loan cycle and the rate to use assuming that debt will be involved in the construction of future fire stations. Director Jorgens suggested contacting the lender for the current station. Chief Winnacker replied that a rate of 3.5% for 15-years was quoted but the issue of collateral was not included. President Barber opened the public comment. There was none.

At 8:04 P.M., President Barber called for adjournment of the special meeting.

Patricia Edwards

Interim District Secretary/Clerk

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http://www.mofd.org/board/meetings