

RODEO HERCULES FIRE PROTECTION DISTRICT
MEMORANDUM

TO: Board of Directors
FROM: Rebecca Ramirez, Interim Fire Chief
DATE: June 12, 2024
SUBJECT: Budget 101

BACKGROUND:

To give the public a more transparent understanding of District finances, staff have prepared a presentation for review prior to adoption of the Fiscal Year 2024-2025 Preliminary Budget.

The Rodeo-Hercules Fire Protection District (RHFD) is a single service Special District governed by a 5-member Board of Directors and the Fire Protection District Law of 1987 (Health & Safety Code §13800, et seq.)

BUDGET PROCESS:

CA H&S § 13890 requires that on or before June 30th of each year, a district board shall adopt a preliminary budget with the final budget adoption occurring by September 30th. The budget is developed using a collaborative process with staff, Board ad hoc committee, and other stakeholders.

MAJOR REVENUE SOURCES

The Fire District has historically received most of its revenue from property taxes generated within its service boundary. There are several components to the property tax income, but the largest source of that category has been the Fire District's share of the ad valorem (1% of assessed value) property tax collected by the County and distributed to qualifying agencies.

The Fire District historically received a "pass-through" of 100% of the ad valorem property tax received by the County in the Rodeo redevelopment project area and a portion in the City of Hercules redevelopment project areas. The dissolution of the Redevelopment Agency has reduced the passthrough.

Other revenue sources are generated through voter-approved special taxes, including two longstanding fire district benefit assessments and the 2016 Measure O parcel tax that became effective on July 1, 2017.

Property taxes, the Benefit Assessment, and Measure O equal 87% of the revenues received annually, Miscellaneous/other revenues equal 13% of total revenue.

The Contra-Costa County Auditor-Controller's Office maintains the District's funds, which are:

General Fund: *(Unrestricted- can be used for many things)*

General fund revenues are comprised of property taxes, two benefit assessments, miscellaneous revenues, and possible grant revenues.

Measure O Fund: *(Restricted- has rules regarding usage)*

Measure O is a special tax held in its own account, used in accordance with Ordinance 2016-01.

Capital Fund: *(Restricted- has rules regarding usage)*

The Capital account is reserved for funds allocated for capital improvements.

Hercules Developer Impact Fees: *(Restricted- has rules regarding usage)*

Rodeo Developer Impact Fees: *(Restricted- has rules regarding usage)*

Developer Fees are placed in their own accounts and used in accordance with Government Code §66000.

Expenditures

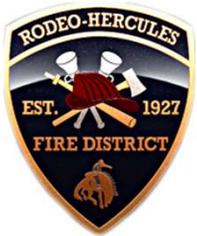
All expenditures by the RHFD are in furtherance of its Mission Statement, focusing on Health & Safety, Operations, and Personnel. The two reoccurring areas most often focused on are Personnel and Supplies/Services.

Capital Facilities (equipment, buildings and facilities) maintenance have a replacement cost of more than \$5,000 is a major Fire District obligation that include higher cost periodic funding. These are expenditures that are less frequent and require planning to accomplish.

Fund Balances

The overall "fund balance" includes all unspent funds which remain at the end of the fiscal year, June 30th. It can be thought of as a savings account held in reserve. That fund balance is often further distributed into several "fund balances" which exist to essentially earmark and/or designate how certain money not included in the recurring budget (personnel and supplies/ services) will be spent. Some fund balances are held as reserve, while others are intended to be utilized during a specific fiscal cycle.

Ideally the budget expenditure should not exceed budget revenues. The result is what is referred to as a balanced budget. If budget expenditures exceed budget revenues it is not balanced and referred to as deficit spending.



RODEO-HERCULES FIRE
PROTECTION DISTRICT

June 12, 2024

BUDGET 101



Budget Process
*CA Health and
Safety Code*



As a special district, CA H&S § 13890 requires that on or before June 30 of each year, a district board shall adopt a preliminary budget with the final budget adoption occurring by October 1.

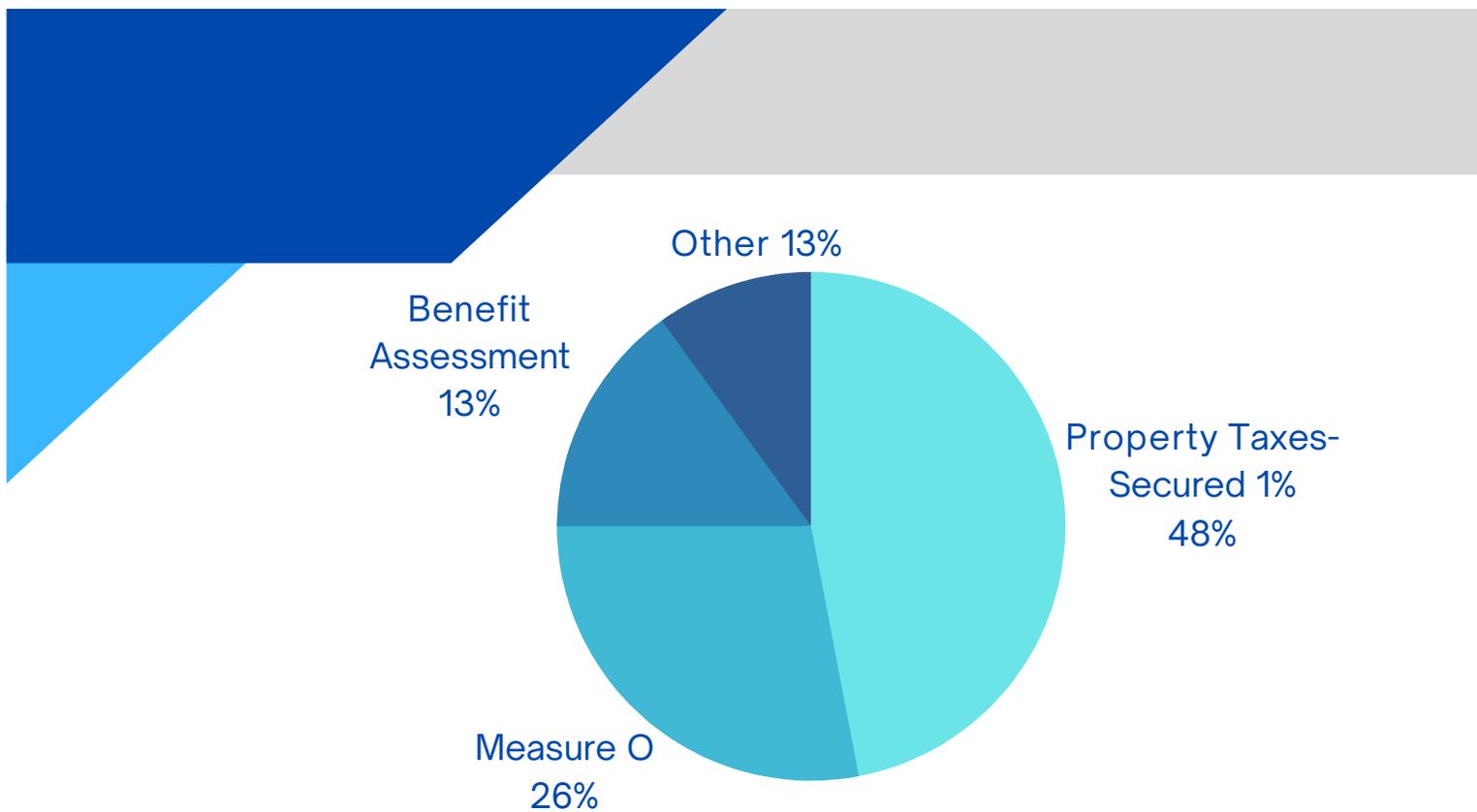
Revenue



Revenues Include

- ▶ Property Taxes
- ▶ Measure O
- ▶ Benefit Assessment
- ▶ Miscellaneous other

Major Sources of Revenue



Strike Team Reimbursements



Cal OES
GOVERNOR'S OFFICE
OF EMERGENCY SERVICES



Personnel

Reimbursement for personnel on strike teams. Covers OT for personnel on strike team and backfill

Administrative

10% fee. Amount reimbursed to Permanent Salaries.

Apparatus

Reimbursement for use of District equipment on strike teams.

Types of Funds

- Assigned Fund Balance - intended to be used by the Fire District for a specific purpose; with some leeway
- Committed Fund Balance - funds that can only be used for a specific purpose
- Restricted Fund Balance - funds that can only be spent for specific purposes out of agency control i.e.
 - employee retirement, medical and other funds
 - funds required for surety for debt obligations.
- Unassigned Fund Balance - any remaining fund balance.



Fire Chief Expectations & Budgeting Philosophy



- ▶ Evaluate the Organization Across All Areas – Including Budget
- ▶ Responsible for Developing and Managing the Budget
- ▶ Budget Reflects Priorities of Board

Priorities



01

Health and Safety

Personnel, Equipment,
Facilities



02

Operational

Ensure Response
Capabilities

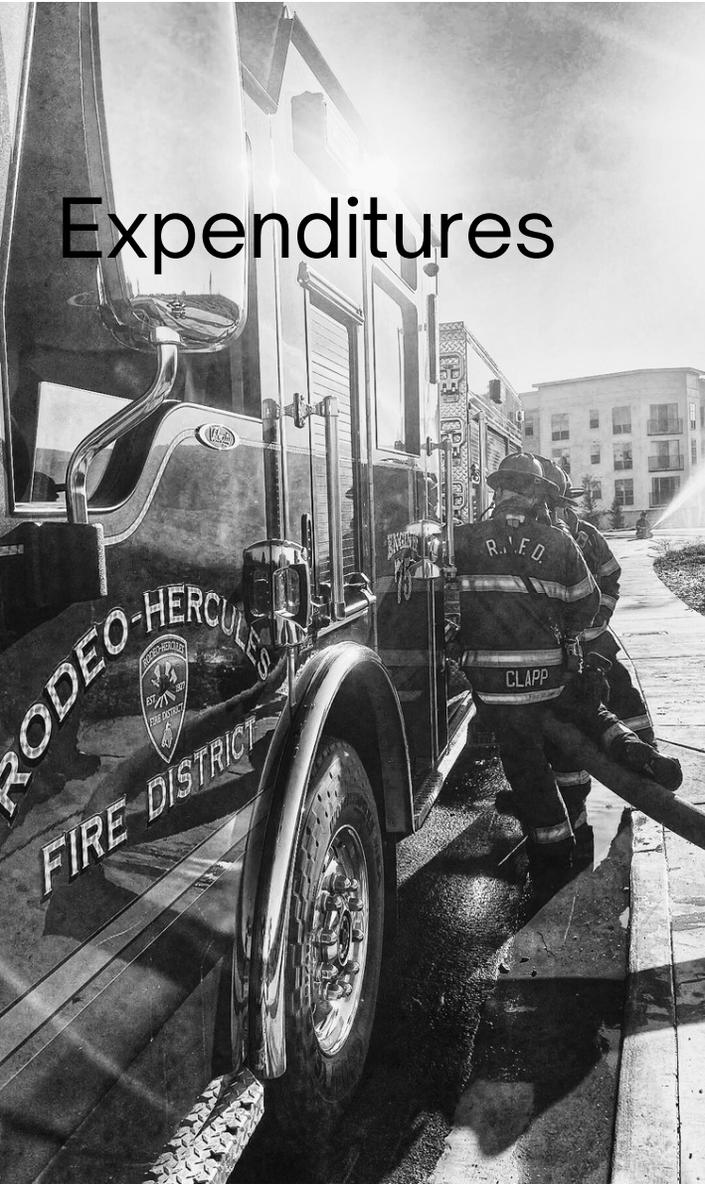


03

Quality of Life

Repair and/or replace
facilities and equipment

Remain good fiscal stewards and look for efficiencies in spending



Expenditures

Budget Breakdown

- ▶ Personnel / Compensation
- ▶ Supplies & Services
- ▶ Fund Balances and Capital Outlay

Item 5
20%

Item
20%

Item 4

20%

Item 3

Personnel/ Compensation Budget

Regular and Recurring



- ▶ Salaries & Benefits Include
 - Wages
 - Overtime
 - Health care
 - Taxes
 - Workers Compensation
 - Retirement planning
- ▶ Greatest Portion of Overall Budget (85% approximately)
- ▶ Least Flexibility for Fire Chief to Manage
- ▶ Expenses are largely non-discretionary and dictated by external sources and agreements

Supplies and Services Budget

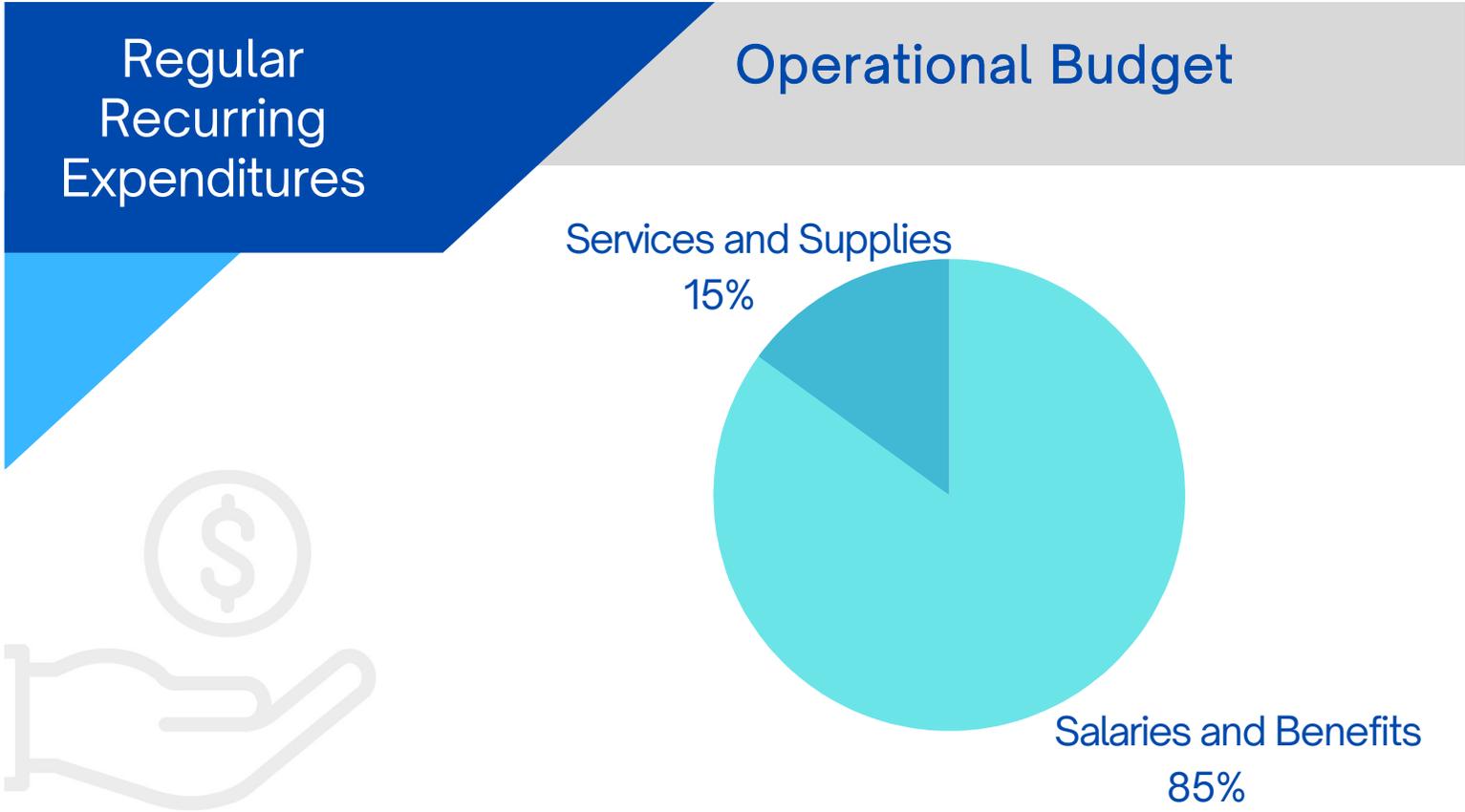
Regular and Recurring



- ▶ Supplies and Services
 - EMS supplies and medications
 - Tires
 - Tools
 - Personal Protective Equipment (PPE)
 - Class/training tuition / books
 - Contracts for services
 - Dispatch services

- ▶ Smaller Portion of Overall Budget (15% approximately)

- ▶ Most Flexibility for Fire Chief to Manage Throughout the Year



Fund Balances and Capital Outlay



- ▶ Large Equipment and Facilities Over \$5,000
 - Renovation/repair to facilities
 - Apparatus
 - Equipment
 - Large single purchase/one time
 - Subject to procurement rules

- ▶ Not included in regular budget, Assigned or Committed Fund

- ▶ Significant Flexibility for Fire Chief to manage

Planning for the Future

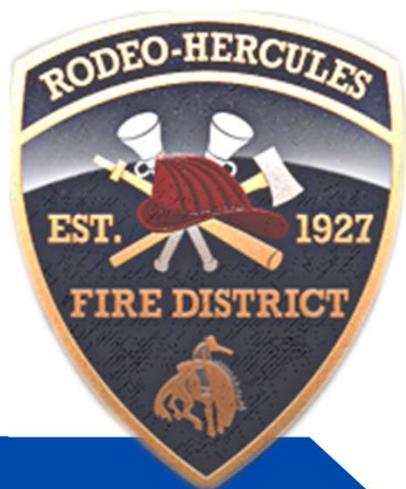
2024/25 and beyond



- ▶ Use Incremental and Intentional Approach
 - Evaluate and adjust personnel budget to align with actual expected costs
 - Evaluate capital assets and allocate funds for ongoing facility/equipment needs
 - Evaluate apparatus and develop apparatus replacement plan
- ▶ Provide Board of Directors with information and options to set direction and policy
- ▶ Be good fiscal stewards while making meaningful, positive progress



Questions?



RODEO-HERCULES FIRE PROTECTIN DISTRICT**MEMORANDUM**

TO: Board of Directors, Rodeo-Hercules Fire Protection District

FROM: Patty J. Kong, CPA SAS Finance Consultant

DATE: June 12, 2024

SUBJECT: Pension Information and Analysis

BACKGROUND

The Rodeo-Hercules Fire Protection District (RHFD) is a member of the Contra Costa County Employee Retirement Association (CCCERA) to provide its employees with retirement benefits.

Definitions

To assist with the explanation of the actuarial valuation and rates, the following definitions are used to describe terms in the remainder of the report.

- **Normal Cost** is the portion of the value of projected benefits for active members that is allocated to each plan year. Normal Cost is shared between employees and employer.
- **Actuarial Accrued Liability (AAL)** measures Normal Costs from past years. For retired members, AAL is the entire value of their benefit.
- **Actuarial Value of Assets (AVA)** The value of the Fund's assets as of a given date.
- **Unfunded Actuarial Accrued Liability (UAAL)** is the difference between the AVA and the AAL.
- **Actuarial assumption** is an estimate or forecast of an uncertain variable or event normally for the purposes of calculating benefits. Actuarial assumptions involve mathematical and statistical models designed to evaluate risk and probabilities for a particular event.
- **Asset Smoothing** reduces year-to-year volatility in a pension plan's funding level and required cost.

CCCERA contracts with the Actuary, Segal, to annually perform an updated valuation as of December 31st. This valuation analyzes the information to calculate the UAAL and the contribution rates for each agency that is a member of CCCERA.

The UAAL is similar to, but not precisely the same as, the Net Pension Liability (NPL) that is used for financial statement purposes. The major difference is the methodology used to value the assets. The UAAL uses an actuarial value of assets while the NPL is calculated using the market value of assets.

RHFD has been experiencing rate fluctuations for Fiscal Years 2023-24 and 2024-25 and requested Strategic Advisory Services (SAS) to review the reasons for the rate fluctuations.

SAS met with RHFD and CCCERA staff to inquire as to the variances in the rates in question. Based on discussions and documents provided by CCCERA, SAS has ascertained the following:

- Rates for Fiscal Year 2023-24
 - The primary cause of the increase in rates are the changes to the assumptions adopted by the CCCERA board.
 - Net investment returns assumption was adjusted downward from 7.0% to 6.75%
 - Inflation rate assumption was adjusted downward from 2.75% to 2.5%
 - Other major factors:
 - Other experience losses
 - Higher salary increases than expected
- UAAL as of December 31, 2021
 - Overall increase in the UAAL
 - Most significant impact is the assumption changes
- Rates for Fiscal Year 2024-25
 - Primary cause of the decrease in rates is the full amortization of the restart of liability from 2007
- UAAL as of December 31, 2022
 - Although rates declined the UAAL is still increasing
 - Most significant factor is salary increases greater than expected
 - Also, a factor is actual investment returns less than expected

RHFD will see an increase in its rates for the UAAL based on CCCERA’s projection of rates. Staff will continue to monitor the pension rates and UAAL for the fire district.

RECOMMENDATION:

The Board of Directors receive and accept a presentation on the CCCERA pension fund regarding fiscal year 2023-24 and 2024-25 rates and unfunded actuarial accrued liability.

ATTACHMENTS:

1. Presentation on Actuarial Basics and Pension Information

RODEO-HERCULES FIRE DISTRICT



ACTUARIAL BASICS AND PENSION INFORMATION

JUNE 12, 2024



DISCUSSION

- RHFD pension rates for FY 23-24 increased
- RHFD adopted budget insufficient for FY 23-24
- RHFD pension rates for FY 24-25 decreasing

PURPOSE/ AGENDA

- Describe basics of an Actuarial Valuation
- Review pension and CCCERA rates for FY 23-24 and FY 24-25
- Reasons for increases and decreases
- Review of Unfunded Actuarial Accrued Liability (UAAL)
- Next Steps/Conclusion

BACKGROUND

- RHFD is a member of the Contra Costa County Employee Retirement Association (CCCERA)
- CCCERA contracts with an Actuary annually to perform an updated valuation as of December 31
 - The Actuary develops rates and UAAL for each agency
- The Actuary performs an Experience Study every 3 years
- The CCCERA Board approves recommendations to the actuarial assumptions

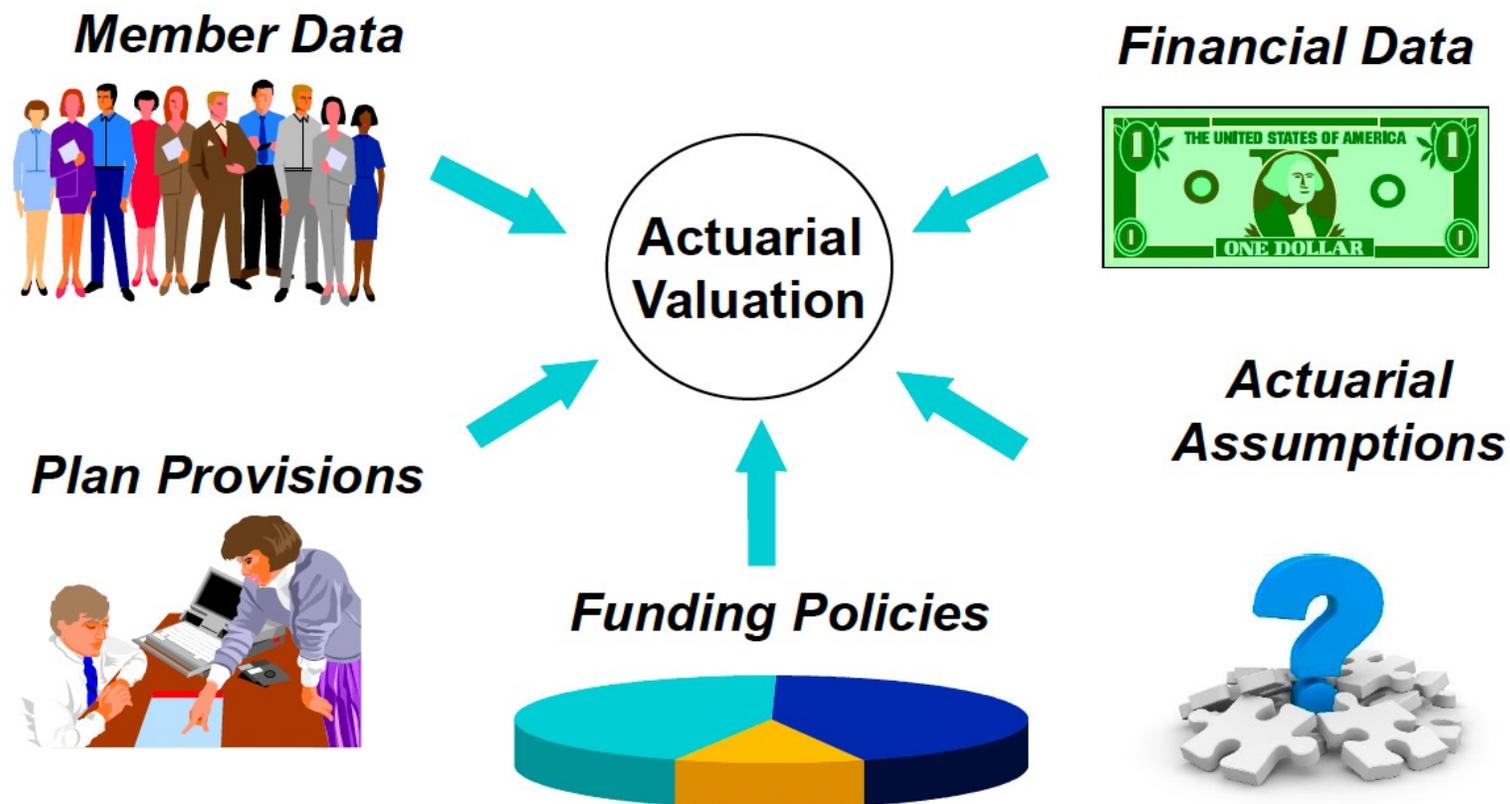
WHAT DOES AN ACTUARY DO?

- Actuaries analyze the financial costs of risk and uncertainty
 - Uses mathematics, statistics and financial theory
 - Gathers data inputs, such as employee ages, length of service,
 - Makes assumptions regarding the probability of likely outcomes based on data
 - Assists with the development of pension plan policies
 - Are fellows of the Society of Actuaries and members of the American Academy of Actuaries

WHAT IS AN ACTUARIAL VALUATION?

- An analysis performed by an actuary that compares the assets and liabilities of a pension plan at a point in time.
- Purposes of an Actuarial Valuation
 - To assess the long-term sustainability of a plan
 - To determine the funded status of a plan
 - To calculate contribution requirements
 - Secondarily provides disclosure requirements for financial reporting purposes (GASB 68)

VALUATION INPUTS



ACTUARIAL TERMS AND DEFINITIONS

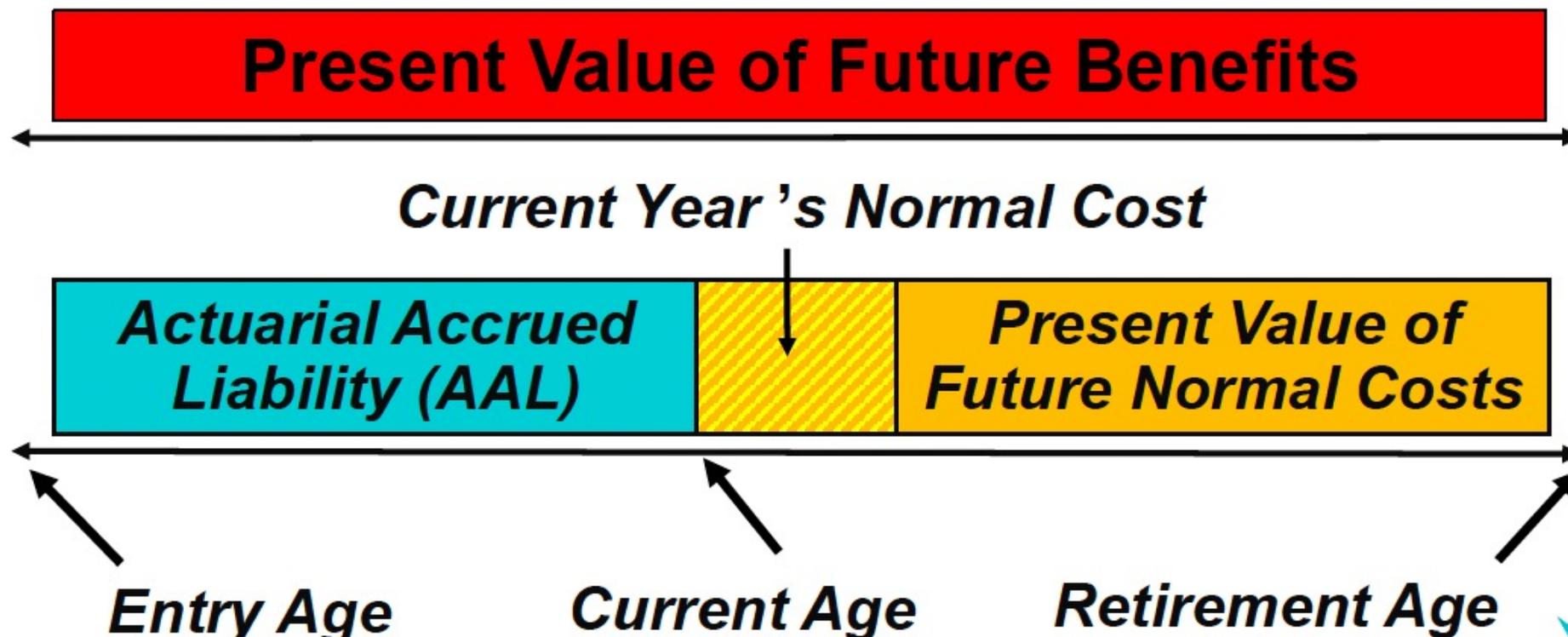
- **Normal Cost** is the portion of the value of projected benefits for active members that is allocated to each plan year. Normal Cost is shared between employees and employer
- **Actuarial Accrued Liability (AAL)** is the present value of benefits earned as of the valuation date. For retired members, AAL is the entire value of their benefit
- **Actuarial Value of Assets (AVA)** The value of the Fund's assets as of a given date
- **Unfunded Actuarial Accrued Liability (UAAL)** is the difference between the AVA and the AAL

ACTUARIAL TERMS AND DEFINITIONS (Cont.)

- *Actuarial assumption* is an estimate or forecast of an uncertain variable or event normally for the purposes of calculating benefits. Actuarial assumptions involve mathematical and statistical models designed to evaluate risk and probabilities for a particular event.
- *Asset Smoothing* reduces year-to-year volatility in a pension plan's funding level and required cost.

1.

THE ACTUARIAL COST METHOD



THE ACTUARIAL VALUATION

Contributions + Investment Income

equals

Benefit Payments + Expenses

Actuarial valuation determines the current or “measured” cost, not the ultimate cost

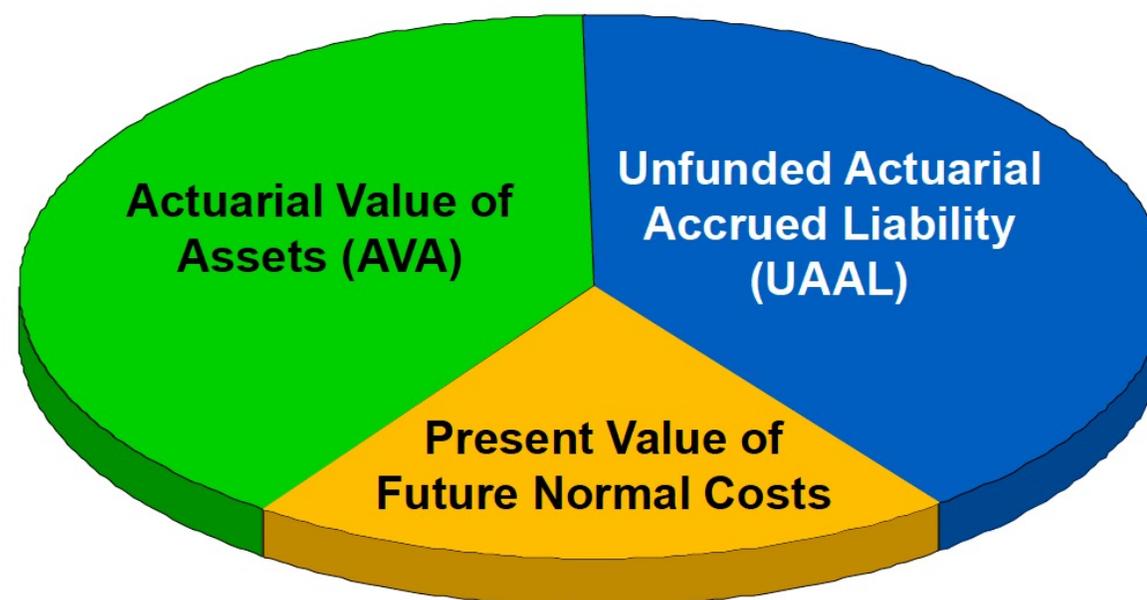
Assumptions and funding methods affect the timing of costs

PRESENT VALUE OF FUTURE BENEFITS

Actuarial Accrued Liability

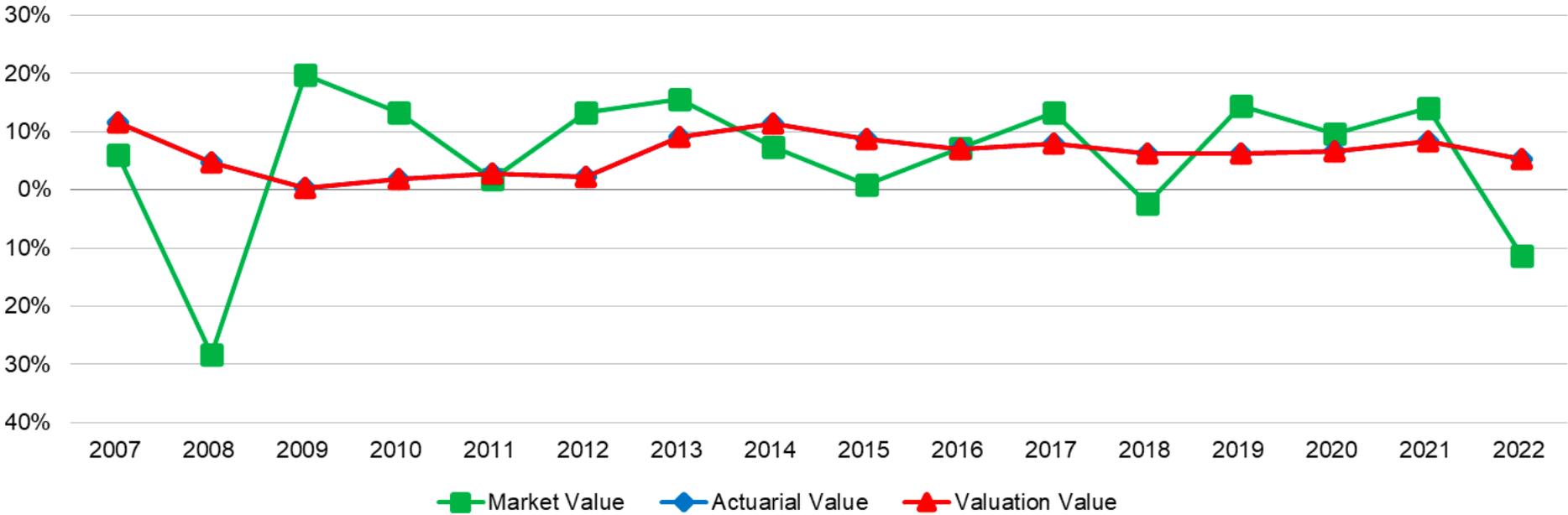
-Actuarial Value of Assets

=Unfunded Actuarial Accrued Liability



Investment Rates of Return MVA-AVA

Market Value, Actuarial Value and Valuation Value Rates of Return for Years Ended December 31, 2007 –2022



RESULTS OF AN ACTUARIAL VALUATION

- Funded status: Assets minus Liabilities
- Employer and member contributions rates
- Normal Cost and UAAL amortization

Reconciliation of Fiscal Year 2023- 24 Rates

Factors

AGENDA ITEM 3

Employer rate based on 12/31/20 valuation	90.21%	<ul style="list-style-type: none"> ➤ Based on latest experience study, the CCCERA Board adopted changes: <ul style="list-style-type: none"> ➤ Net Investment Return from 7.0% to 6.75% ➤ Inflation Rate from 2.75% to 2.5% ➤ Other Major Factors: <ul style="list-style-type: none"> ➤ Other experience losses ➤ Higher salary increases than expected
Changes in assumptions	5.48%	
Differences between actuals and estimated	0.81%	
Other miscellaneous	(0.78%)	
Employer rate based on 12/31/21 valuation	95.72%	

Reconciliation of UAAL December 31, 2020 to 2021

Factors

AGENDA ITEM 3

UAAL as of December 31, 2020	\$8,232,400	
Expected Changes	(1,144,546)	<p>Overall increase in the UAAL</p> <ul style="list-style-type: none"> ➤ Assumption Changes is the most significant impact ➤ Salaries higher than expected ➤ Other experience loss <ul style="list-style-type: none"> ➤ due to mortality, retirement, disability, termination, etc.
Assumption Changes	1,416,650	
Other miscellaneous	744,297	
UAAL as of December 31, 2021	\$9,248,801	

Reconciliation of Fiscal Year 2024- 25 Rates

Factors

AGENDA ITEM 3

Employer rate based on 12/31/21 valuation	95.72%	<ul style="list-style-type: none"> ➤ Largest factor, is the full amortization of the restart of liabilities ➤ Restart of liabilities in 2007 amortized over 15 years, fully amortized as of December 31, 2022 ➤ CCERA board recently adopted a "tail volatility" management philosophy that will smooth out these fluctuations in the future.
Changes in assumptions	(21.50%)	
Differences between actuals and estimated	17.24%	
Other miscellaneous	(2.11%)	
Employer rate based on 12/31/22 valuation	89.35%	

Reconciliation of UAAL December 31, 2021 to 2022

Factors

AGENDA ITEM 3

UAAL as of December 31, 2021	\$9,248,801	
Expected Changes	(1,319,283)	<p>Overall increase in the UAAL</p> <ul style="list-style-type: none"> ➤ Assumption Changes is the most significant impact ➤ Salaries higher than expected ➤ Other experience loss <ul style="list-style-type: none"> ➤ due to mortality, retirement, disability, termination, etc.
Salary increases greater than expected	1,562,461	
Other miscellaneous	1,038,296	
UAAL as of December 31, 2022	\$10,530,275	

Actual Salary vs. Projected (amounts in 000's)

2020	2021	2022	2023	FY 23-24 Projected	FY24-25 Projected
\$2,509	\$2,687	\$2,468	\$2,937	\$3,270	\$3,444

- Projected per actuarial valuation. \$2,779 \$2,535

- Actual payroll is higher than CCCERA projected payroll
- Actual salary increases higher than assumptions

These factors will contribute to future increases in UAAL and pension rates

Estimated Employer UAAL Rates

Employer UAAL rate as of 12/31/2022* Rates FY 24-25	66.17%
Employer UAAL rate as of 12/31/2023* Projected Rates FY 25-26	68.06%
Employer UAAL rate as of 12/31/2024* Projected Rates FY 26-27	70.46%
Employer UAAL rate as of 12/31/2025* Projected Rates FY 27-28	72.60%
Employer UAAL rate as of 12/31/2026* Projected Rates FY 28-29	70.68%
Employer UAAL rate as of 12/31/2027* Projected Rates FY 29-30	59.13%
Employer UAAL rate as of 12/31/2028* Projected Rates FY 30-31	47.43%

Next Steps / Conclusion

- Updated valuation as of December 31, 2023
- Receipt of reconciliation letter in the fall
- Monitor changes in salary
- Potential review/update of 5 year projections
- Future liability will continue to grow without
 - Constraints on salary increases greater than expected
 - Additional funding of UAAL