

EAST CONTRA COSTA FIRE PROTECTION DISTRICT

Brian Helmick
Fire Chief



SERVING THE COMMUNITIES OF:
Bethel Island Discovery Bay
Brentwood Knightsen
Byron Morgan Territory
Oakley

Introduction

Thank you for this opportunity to present East Contra Costa Fire Protection District's ("District") response to CCCERA's actuarial consultant's August 2020 report on our District's request to de-pool from Cost Group No. 8. As I presented to you on July 24, 2019, our District requests that it be de-pooled from ConFire based upon the accrued liability method, effective as of the December 31, 2019 valuation. Our District should only be responsible for contribution rates based upon assets and member demographics.

We propose to de-pool prospectively and avoid attempting to reconcile the historical financial inequities from this Board's 2009 initial decision, which was retroactive to 2002. Further, in return for a favorable decision today, our District is willing to waive any challenge to the detrimental financial impact caused by ConFire's pension obligation bond.

Our Request is Reasonable

Our requested Actuarial Accrued Liability (AAL) method is fair to both parties and will accurately reflect each agency's own pension costs.

In 2017 our appointed, and now elected, governing board grew concerned about what they perceived as an unjustified Unfunded Actuarial Accrued Liability (UAAL). Our directors, just like this Board, must exercise their fiduciary responsibilities. Our Board initiated an evaluation of Cost Group No. 8 and concluded that the financial burden imposed on our District is inequitable with ConFire and that this burden has and will continue to detrimentally affect our service delivery, our

EAST CONTRA COSTA FIRE PROTECTION DISTRICT

Brian Helmick
Fire Chief



SERVING THE COMMUNITIES OF:
Bethel Island Discovery Bay
Brentwood Knightsen
Byron Morgan Territory
Oakley

employees, and our strategic planning. The estimated 38% decrease in unfunded liability (Segal, Slide 4) that would flow from de-pooling helps to rectify these impacts.

CCCERA’s Actuary Report Supports our District’s Request

Quite simply, our request to de-pool based on actual liabilities is necessary due to the historical differences in demographics (active vs. retired) between ConFire and East Contra Costa Fire Protection District. Our requested AAL method best reflects our District’s, and ConFire’s, true pension status.

On the other hand, the payroll method fails to reflect the significant demographic differences between our two agencies and creates significant financial inequities. In fact, Segal concedes in Slide 17 that the “AAL Method [is] more consistent with how assets would be allocated if employers had never been pooled.”

Further, on Slide 16 Segal concedes that the AAL method “recognizes different proportions of payrolls vs. liabilities for different employers” and is “[a]ppropriate for permanent change in proportion of payroll among employers...”

On Slide 17 Segal also recognizes that the AAL Method “eliminates any historical cross subsidies across employers.”

The Segal chart at page 13 confirms the significant financial detriment the current pooling and active payroll allocation imposes on our District. It should be noted, however, that Segal *does not show the asset split under the payroll and AAL methods*. Those differences are significant:

| | |
|--------------------------|------------------------------------|
| Allocation Method | Estimated 12/31/18 District |
|--------------------------|------------------------------------|

EAST CONTRA COSTA FIRE PROTECTION DISTRICT

Brian Helmick
Fire Chief



SERVING THE COMMUNITIES OF:
Bethel Island Discovery Bay
Brentwood Knightsen
Byron Morgan Territory
Oakley

| | Valuation Value of Assets |
|------------|---------------------------|
| Payroll | \$31.8 million |
| AAL | \$38.9 million |
| Difference | \$7.1 million |

To put these numbers in perspective, the \$7.1 million difference above represents over 2 times the District \$3.344 million pension pay shown on slide 18 of Segal’s presentation. While we recognize that no asset allocation method is perfect, this wide range is unacceptable to our District’s ratepayers and employees. As we have explained, the AAL method *is more equitable*.

There is no CCCERA Policy Preventing De-pooling by the Accrued Liability Method; CCCERA already uses this Method.

Significantly, Segal further notes that CCCERA’s Funding Policy “*does not specify the method used to allocate assets when de-pooling.*” Segal also observes at Slide 21 that “*EastFire’s request to de-pool based on AAL does not deviate from any provisions of the Funding Policy.*”

It should be also be noted that the Segal Report at Slide 12 acknowledges that the AAL method is used by CCCERA in its declining employer payroll policy for employers with substantive and permanent decline in payrolls. This is necessary to accurately allocate the costs between agencies. This is the same situation we have here. Allocation by active payroll does not accurately allocate pension costs.

Segal’s Report Acknowledges Problems with the Payroll Method

EAST CONTRA COSTA FIRE PROTECTION DISTRICT

Brian Helmick
Fire Chief



SERVING THE COMMUNITIES OF:
Bethel Island Discovery Bay
Brentwood Knightsen
Byron Morgan Territory
Oakley

There are deficiencies in the “payroll method” as shown by Segal’s own descriptions:

Slide 17 assumes that the UAAL is proportional to active payroll yet Slide 18 clearly shows that the AAL is *not* proportional to active payroll, so the UAAL would also *not* be proportional to payroll.

Segal also implicitly assumes a similar proportion of active to retired members for all employers, whereas Slide 18 clearly shows that there is *not* a similar proportion of active to retired members between the District and ConFire. In fact, Segal shows the retiree/active ratio is 71% for the District and 200% for ConFire.

Finally, at Slide 17 Segal admits that the payroll method maintains any historical cross subsidies across employers. These inequitable historical cross subsidies are precisely the problem we face today.

Response to ConFire’s Opposition

By letter dated April 10, 2020 ConFire opposes our District’s de-pooling request, and, if granted, asks for a delay until December 2022. ConFire’s position is understandable: For some 11 years ConFire has enjoyed a rich financial benefit as the far larger demographic member of Cost Group No. 8 and it has reaped benefits from its Pension Obligation Bond. In simple words, East Contra Costa has historically cross-subsidized ConFire. Any further delay simply compounds the inequities imposed upon East Contra Costa.

EAST CONTRA COSTA FIRE PROTECTION DISTRICT

Brian Helmick
Fire Chief



SERVING THE COMMUNITIES OF:
Bethel Island Discovery Bay
Brentwood Knightsen
Byron Morgan Territory
Oakley

Closing

We strongly believe that CCCERA has a fiduciary duty to rectify these historical inequities that have been imposed upon our agency, our employees, and our ratepayers.

Any delay in this Board's decision-making will simply cause further financial hardship upon our District. Moreover, if you vote to allow de-pooling, but restrict it to the payroll method, the historical cross-subsidy of ConFire pension costs by East Contra Costa will go unrectified with significant negative impacts on our critical service delivery and future planning.

Therefore, we ask that you decide today to allow de-pooling based upon the AAL Method.

Thank you again for this opportunity to speak to you.