



ORANGE COUNTY FIRE AUTHORITY

P. O. Box 57115, Irvine, CA 92619-7115 • 1 Fire Authority Road, Irvine, CA 92602

Keith Richter, Fire Chief

(714) 573-6000

www.ocfa.org

October 19, 2011

Mr. Raymond Kromer, City Manager
City of Fountain Valley
10200 Slater Avenue
Fountain Valley, CA 92708

Dear Mr. Kromer:

On November 12, 2009, the OCFA submitted a Fire Service Proposal to the City of Fountain Valley. The proposal was prepared using OCFA's standard costing methodology, which included OCFA's full retirement costs per employee.

In March 2011, OCFA reviewed a modified costing methodology with its Board of Directors, in connection with fire service proposal discussions that were underway at that time. The intent of the modified costing methodology was to ensure that the unfunded pension liability component of OCFA's retirement costs would be excluded from any cost proposals to new cities looking to join OCFA. In past years when cities joined OCFA, the issues of unfunded pension liabilities were insignificant; therefore, exclusion of the liability from the costing methodology had not been previously explored with the OCFA Board.

The modified costing methodology is explained and presented in the Attachment and resulted in a reduction to our proposed costs by approximately 10% for each option. Furthermore, we have updated the cost proposal from FY 2009/10 values to FY 2011/12 values. We also revised the Cost Savings calculation to reflect the fact that the City will remain responsible for funding its existing pension liability with PERS that has accrued for current fire department employees and retirees.

OCFA has recently prepared proposals for Fountain Valley and Costa Mesa and is currently preparing a proposal for the city of Santa Ana potentially creating an opportunity for additional savings through regionalization. OCFA is open to further dialog regarding a regional look at services with other cities that have requested proposals for fire service. OCFA believes the greatest savings are available in a full service contract but are open to discuss regional administrative service delivery.

In light of the upcoming City Council review of fire service options, we found it timely to send you updated information pertaining to OCFA's proposed costs. Please don't hesitate to contact us if you have any questions, they can be directed to Battalion Chief Bryan Brice at (714) 573-6026.

Sincerely,

Keith Richter
Fire Chief

Attachments

Serving the Cities of: Aliso Viejo • Buena Park • Cypress • Dana Point • Irvine • Laguna Hills • Laguna Niguel • Laguna Woods • Lake Forest • La Palma • Los Alamitos • Mission Viejo • Placentia • Rancho Santa Margarita • San Clemente • San Juan Capistrano • Seal Beach • Stanton • Tustin • Villa Park • Westminster • Yorba Linda and Unincorporated Areas of Orange County

RESIDENTIAL SPRINKLERS AND SMOKE ALARMS SAVE LIVES

Orange County Fire Authority
Fire Service Proposal - City of Fountain Valley

October 19, 2011 Updated & Modified Submittal

Assumptions:

- (1) OCFA's cost proposal to the City of Fountain Valley has been updated from FY 2009/10 to FY 2011/12.
- (2) OCFA's proposed annual service costs, as shown below, exclude OCFA's unfunded pension liability, producing a modified retirement benefit ratio of 34.21%.
- (3) Cost savings shown below assume that Fountain Valley will remain responsible for the unfunded pension liability attributable to their current fire department employees and retirees, if they contract with OCFA.
- (4) Based upon estimates provided by the interim Fountain Valley Fire Chief, we've included an annual pension payment for the City's unfunded pension liability at \$409,304 per year.
- (5) The actual terms and amounts for paying down the City's unfunded pension liability is an element that would require further information from PERS; however, it was necessary to produce estimates in order to estimate annual savings for the City, including the impacts of both agencies' existing pension liabilities.

Proposed Modified Table 3: Cost savings when contracting with OCFA

Cost Savings - FY 2011/12			
<i>Current Fountain Valley Fire Department Costs</i>			
Fountain Valley Fire Department Operating Cost		\$	9,620,644
Less Annual Revenue Relating to Fire Department		\$	(1,375,500)
Current Annual Fire Department Net Costs		\$	8,245,144
<i>Proposed Fountain Valley Costs - Contracting with OCFA</i>			
	<u>OCFA Option 1</u>	<u>OCFA Option 2</u>	<u>OCFA Option 3</u>
City's Annual Contract Payment to OCFA	\$8,312,829	\$6,797,074	\$7,411,538
Plus City's Annual Pension Liability Payment to PERS	\$409,304	\$409,304	\$409,304
One-Time Transition Costs	\$163,563	\$163,563	\$163,563
Offsetting Fire Department Revenue Retained by City	(\$1,111,000)	(\$1,111,000)	(\$1,111,000)
Proposed Fountain Valley Cost - Contracting w/OCFA	\$7,774,696	\$6,258,941	\$6,873,405
First Year Reduction	(\$470,448)	(\$1,986,203)	(\$1,371,739)
<i>Savings as a % of City's current FD Net Costs</i>	<i>5.7%</i>	<i>24.1%</i>	<i>16.6%</i>

Orange County Fire Authority
Fire Service Proposal - City of Fountain Valley

November 12, 2009 Original Submittal

Original Assumptions:

(1) OCFA's proposed 2009 annual service costs were based on our standard Truck & Engine Company Cost methodology, which included OCFA's retirement costs for safety members, applied as a percentage of salary.

(2) Using that methodology, OCFA's retirement benefit ratio was calculated at 64.33%. We have since determined that this 64.33% retirement ratio included costs attributable to OCFA's unfunded pension liability for OCFA's current safety members and retirees, and that it would be appropriate to exclude these costs from our proposal to the City. Therefore, we've modified our cost proposal to exclude OCFA's unfunded pension liability (see page 2).

(3) In addition, cost savings proposed to the City of Fountain Valley in 2009 (recapped below) assumed that Fountain Valley's entire Fire Department budget, including retirement costs, would be eliminated if contracting with OCFA. We have since determined that the City would remain responsible for their unfunded pension liability that has already accrued for current Fountain Valley Fire Department employees and retirees, if they contracted with OCFA. Therefore, we've modified and updated the cost savings analysis previously provided to the City to reflect this change in assumptions (see page 2).

<u>Recap from page 6 of OCFA's 2009 Proposal to Fountain Valley</u>			
<i>Table 3: Cost savings when contracting with OCFA</i>			
Cost Savings - FY 2009/10			
Fountain Valley Fire Department Budget		\$	9,121,940
<i>OCFA Annual Service Cost</i>			
OCFA Services Contract	Option 1	Option 2	Option 3
	\$8,839,750	\$7,223,553	\$7,876,433
First Year Reduction	(\$282,190)	(\$1,898,387)	(\$1,245,507)