THE REVIEW

Central Arizona Fire and Medical - 8603 E. Eastridge Dr., Prescott Valley, AZ 86314 – **August 6, 2021**

This Edition:

"Chaotic people often have chaotic lives, and I think they create that. But if you try and have an inner peace and a positive attitude, I think you attract that."
– Imalda Staunton

The Chief's Desk

Upcoming Events:

August 9: Meeting with DEMA, Meeting with Stifel. Try to visit a station in between.
August 10: Meeting – fire service wellness, Chino Council Meeting
August 11: Meet with National District Association Rep
August 12: Meet with Yavapai College, PV Council Meeting

Board Meetings:

August 23 Administration
CAFMA – 1700-1830

At a special board meeting held on Wednesday this week, the Chino Valley Fire District, Central Yavapai Fire District, and Central Arizona Fire and Medical Authority Board of Directors each unanimously approved the use of Certificates of Participation (COPs) to refinance our unfunded pension liability. Since the creation of the fire authority, CAFMA has owned the pension debt created under the two individual districts. That is a result of CAFMA assuming responsibility for all employees, i.e. we are all employees of CAFMA, not the individual Districts. The pension debt follows the current and future pensioners.

So, what are COPs you might ask? COPs are offered through a third-party financial institution to investors looking for more stable investment opportunities. In this case, investors purchase the COPs at a fixed rate of return over a specified period of time. As with any loan, collateral is required to ensure the investor's assets, or at least a portion of their assets, are covered should we default on the loan. Given we are a tax-supported fire service agency with an obligation to provide fire and rescue services under statute, it's a fair bet that we will not default. That means it's about as secure an investment as you can get outside a general obligation (GO) bond. More on collateral later.

Prior to the passing of legislation earlier this year, Fire Districts could not access COPs for pension obligations. We have had the ability to issue them for infrastructure, e.g. new fire station, engines, etc., however, historically the interest rates were too high and GO bonds have made more sense fiscally-speaking.

Some may ask, is there another way for us to approach paying down our unfunded liability? That is a fair question with a simple answer - No. Our only option for paying down the debt, prior to COPs, was to continue incremental raises in our property tax rate to cover the ever-increasing annual costs. Both the projections provided by PSPRS, as well as our own software models, indicated that our current course was unsustainable. To that end, the Board had approved additional payments to PSPRS above our annual minimum payment that would escalate by $250,000 per year each year moving forward, e.g. $250,000 year one, $500,000 year two, and so on. Even with the additional payments, the outlook was not one that provided our Staff or Board any level of comfort. Could we max the tax rate? Yes. However, the fiscal outlook regarding the unfunded liability and our annual payments remained bleak.

PSPRS has performed well in the market this year for the first time in the nearly eight years I've been in Arizona. That is fantastic! Kudos to the new staff and investment strategists, as well as the healthy market. However, one good year does not erase a decade or more of poor investment strategies.

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First on scene: Leaders reflect on their 9/11 experiences, how public safety has evolved

By: Janelle Foskett

“We knew this was going to be the worst day of our lives.”

FDNY Commissioner (ret.) Sal Cassano described the initial moments of September 11, 2001. Cassano was serving as an Operations officer at the time but would later, in the aftermath of the tragedy, go on to help redesign and rebuild the department after losing 343 members.

Cassano, along with other leaders who were instrumental in leadership and operational roles during the terrorist attacks, shared reflections on 9/11 as part of a 20-year anniversary memorial tribute and panel discussion at the IAFC’s flagship conference, Fire-Rescue International 2021, happening this week in Charlotte, N.C.

Like Cassano, the other leaders who addressed the industry-shaking event are members of the IAFC’s Terrorism and Homeland Security Committee:

Chief Joe Pfeifer: Senior Fellow, Program on Crisis Leadership, Harvard Kennedy School; Director of Crisis Leadership, Columbia University; Chief of Counterterrorism and Emergency Preparedness for FDNY.
Jim Schwartz: Deputy County Manager, Arlington County, Virginia; Former Fire Chief, Arlington County, Va.
Chris Combs: National Security Executive and Special Agent in Charge, FBI.
This was the first time these four men have spoken together about their 9/11 experiences and how public safety agencies have built and improved preparedness after the attacks.

PLAY BY PLAY: “THE FOG OF WAR”
Chief Pfeifer was the first chief on scene at the World Trade Center attack. He recalls working a call for a smell of gas, when he heard the loud roar of jet engines – a rarity in Manhattan – and looked up to see the first plane slam into the North Tower.

“There were hundreds of thoughts going through my mind,” he said. “I had to slow my thinking down a bit. The plane was aiming for the building.”

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Transformational Change and Fire Service Survival

By: Todd LeDuc

I recently had the honor of co-presenting with Dr. Lori Moore-Merrell, formerly of the International Association of Firefighters and now chief executive officer of the International Public Safety Data Institute, at the 2021 Florida Fire Chief’s Association Executive Development Conference in Panama City Beach, Florida. The topic was “Transformational Leadership Issues During Turbulent Times.” Certainly there appears to be consensus that the past year has brought widespread environmental turbulent times, including a global pandemic, civil unrest, political strife, and economic hardships.

With adversity comes opportunity, it has been said. Timothy P. Flynn, chairman of KPMG, has commented: "today's environment represents and opportunity to transform an organization. While the current environment is unsettling and very difficult, it does present a once in a generation opportunity for leaders to examine every aspect of their business model." Forbes Magazine has suggested that during turbulent times leaders should have a heightened focus on the health of their people, seize the unexpected advantages that troubling times trigger, and seize on the turbulence as a sense of urgency for lasting change of the status quo.

These doctrines of opportunity provide for a leadership transformation period to make lasting change to change the dynamic of continuing leading causes of fire service deaths and disabilities. While we have made tremendous inroads addressing fireground deaths from inhalation, burns, and collapse, we continue to suffer a scourge of largely preventable deaths and disabilities from cancer, cardiovascular death and behavioral health impairment and suicide.

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Chief's Desk Continued

You may ask, what does this look like moving forward. Let me start by saying, the approval by the Board Wednesday starts a series of things in motion. First, our bond ratings will be made public by S&P as well as Fitch Rating Service. Our S&P rating is very good and in-line with what we have seen from other fire districts issuing COPs. As was explained Wednesday by representatives of Stifel, S&P does consider things that are outside of our Agency's span of control. For example, they take into consideration that our area is a tourist destination which ebbs and flows with the season, pandemics, wildland fires, etc. Our rating from Fitch is absolutely outstanding! Fitch relies on our operations, fiscal management, area growth, etc. Chief Tharp and I participated in an interview with Fitch and answered question after question over 90 minutes to provide clarity regarding fire authorities, districts, and financial planning. The ratings should be public by the end of this week.

I mentioned collateral earlier. In order to secure COPs we have to enter into agreements known as leasebacks. This means that some of our Agency properties have been used as collateral to secure the loan. We still own the properties; however, should we default on our payments, the COP holders would have the legal right to take over ownership. This is why the decision to go with COPs took a lot of time and research before the Staff and Board were willing to recommend taking this course of action. In the end, we all determined that the likelihood of default by our Agency was so miniscule that it was in our best interest to move forward and take control of our debt. Not all properties were listed as collateral, only a limited number were used.

Stifel hopes to have the offering public the week of August 23rd and close the deal by mid-September. We are working to take advantage of the still historically low interest rates. To that end, the Board approved COPs not to exceed $58.5 million and not to exceed an interest rate of 3.5%. Our hope is to obtain an interest rate between 2.5% and 3%.

If you remember, we are basically paying 7.3% interest today, so dropping our rate by over 4% will make a significant difference over the life of the loan. It is estimated that the COPs will save our taxpayers approximately $20 million over the next 17 years. That amount could increase if we are able to pay the loan off in 12 years. Think of it as refinancing your home – it's a very similar situation.

The COP monies are not issued to CAFMA. Rather, the funds are transferred straight from Zion, the financial institution handling the transactions, to PSPRS to pay off the unfunded liability. Stifel is working with PSPRS to determine our exact payoff amount. To that end, I will use some simple round numbers to illustrate how the monies are distributed. Let's say we issue $58 million in COPs and assume our payoff to PSPRS is $48 million. Zion will send the payoff amount directly to PSPRS wiping out our unfunded liability. The remaining 10 million would then be deposited into a special account held with the County effectively creating a pension reserve fund. These dollars are considered obligated for pension liabilities. Because the funds are considered obligated and are held outside of our general and/or capital accounts we do not have access to the monies for anything other than pension obligations.

The reason for the additional funds is to ensure we are in a position to cover market challenges PSPRS may face in the future. It also puts us in a position to cover adjustments made to the system by PSPRS, which may include a reduction in the assumed earnings rate, an increase in the life expectancy assumptions for retirees, and/or adjustments to the annual assumed payroll increase. Each of the listed adjustments would have a positive effect on the system in the long-term, but would have upfront financial implications, i.e. they would cause increases in our annual payments.

Have we budgeted for this? The short answer is yes. Using round numbers, our annual payment to PSPRS to cover our regular annual contribution as well as our unfunded liability is just over $4 million; this is a number that increases year-over-year. Let's say our annual payment based on payroll would be just over a million if our unfunded liability is zero. However, because of the unfunded liability we pay an additional amount of just over $3 million annually. With the COPs we would pay the $1 million to PSPRS and the other $3 million would go towards the COPs. This is overly simplified, but I think it illustrates the general idea. Basically, we break up our budgeted annual premium to PSPRS with a portion going to them, and a portion going to cover the COP payments. Same amount of money divided and paid to two different places.

Ultimately, our annual payments will increase over the next several years until we hit a point where they level off based on the structure of the COPs. Estimates figured early in the process indicated that our total annual contributions would level off around year four or five at an estimated $5.5 million – *again, this is just an estimate based on earlier numbers*. Without COPs, our annual contribution in the next ten years could have surpassed $10 million, and possibly run north of $12 million.

The COPs allow us to better plan for our future, stabilize an otherwise out of control annual contribution rate, save tax payers millions of dollars, and allow us some breathing room as we deal with other future challenges. We don't know what those will be, but we know there will always be some challenge to face.

I know this is a lot to digest. If you have any questions at all, please contact a Senior Staff member and we would be happy to visit with you.