



ORANGE COUNTY FIRE AUTHORITY AGENDA

Budget and Finance Committee Meeting
Wednesday, September 10, 2014
12:00 Noon

Orange County Fire Authority
Regional Fire Operations and Training Center
1 Fire Authority Road
Room AE117
Irvine, California 92602

Randall Bressette, Chair
Jerry McCloskey, Vice Chair
Sam Allevato Trish Kelley Al Murray Elizabeth Swift Steven Weinberg
Bruce Channing - Ex Officio

Unless legally privileged, all supporting documentation and any writings or documents provided to a majority of the Budget and Finance Committee after the posting of this agenda, which relate to any item on this agenda will be made available for public review in the office of the Clerk of the Authority located on the 2nd floor of the OCFA Regional Fire Operations & Training Center, 1 Fire Authority Road, Irvine, CA 92602, during regular business hours, 8:00 a.m. - 5:00 p.m., Monday through Thursday, and every other Friday, (714) 573-6040. In addition, unless legally privileged, all supporting documentation and any such writings or documents will be available online at <http://www.ocfa.org>.

This Agenda contains a brief general description of each item to be considered. Except as otherwise provided by law, no action or discussion shall be taken on any item not appearing on the following Agenda. Supporting documents, including staff reports, are available for review at the Orange County Fire Authority Regional Fire Operations and Training Center, 1 Fire Authority Road, Irvine, CA 92602 or you may contact Sherry A.F. Wentz, Clerk of the Authority, at (714) 573-6040 Monday through Friday from 8:00 a.m. to 5:00 p.m.

If you wish to speak before the Budget and Finance Committee, please complete a Speaker Form identifying which item(s) you wish to address. Please return the completed form to the Clerk of the Authority. Speaker Forms are available on the counter noted in the meeting room.



In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, you should contact the Clerk of the Authority at (714) 573-6040. Notification 48 hours prior to the meeting will enable the Authority to make reasonable arrangements to assure accessibility to the meeting.

CALL TO ORDER

PLEDGE OF ALLEGIANCE by Director Swift

ROLL CALL

PUBLIC COMMENTS

Any member of the public may address the Committee on items within the Committee's subject matter jurisdiction but which are not listed on this agenda during PUBLIC COMMENTS. However, no action may be taken on matters that are not part of the posted agenda. We request comments made on the agenda be made at the time the item is considered and that comments be limited to three minutes per person. Please address your comments to the Committee as a whole, and do not engage in dialogue with individual Committee Members, Authority staff, or members of the audience.

MINUTES

- 1. Minutes for the August 13, 2014, Budget and Finance Committee Meeting**
Submitted by: Sherry Wentz, Clerk of the Authority

Recommended Action:
Approve as submitted.

CONSENT CALENDAR

No items.

DISCUSSION CALENDAR

- 2. Monthly Investment Reports**
Submitted by: Patricia Jakubiak, Treasurer

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of September 18, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

- 3. Monthly Status Update – Orange County Employees' Retirement System**
Submitted by: Lori Zeller, Assistant Chief, Business Services Department

Recommended Action:
Receive and file the report.

- 4. Fourth Quarter Financial Newsletter – July 2013 to June 2014**
Submitted by: Lori Zeller, Assistant Chief, Business Services Department

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of September 18, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

5. Rebudget of FY 2013/14 Uncompleted Projects

Submitted by: Lori Zeller, Assistant Chief, Business Services Department

Recommended Action:

Review the proposed agenda item and direct staff to place this item on the agenda for the Board of Directors meeting of September 25, 2014, with the Budget and Finance Committee’s recommendation that the Board of Directors take the following actions:

Authorize the following budget adjustments:

Fund	Increase Revenue	Increase Appropriations	Appropriate Fund Balance
121	\$567,420	\$690,809	\$123,389
12270	872,780	861,300	
123	4,056,050	5,749,437	1,693,387
124		6,753,008	6,753,008
133	643,106	5,807,347	5,164,241
171		216,213	216,213

REPORTS

No items.

COMMITTEE MEMBER COMMENTS

ADJOURNMENT – The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, October 8, 2014, at 12:00 noon.

AFFIDAVIT OF POSTING

I hereby certify under penalty of perjury under the laws of the State of California, that the foregoing Agenda was posted in the lobby and front gate public display case of the Orange County Fire Authority, Regional Training and Operations Center, 1 Fire Authority Road, Irvine, CA, not less than 72 hours prior to the meeting. Dated this 4th day of September 2014.

Sherry A.F. Wentz, CMC
Clerk of the Authority

UPCOMING MEETINGS:

Executive Committee Meeting	Thursday, September 18, 2014, 6:00 p.m.
Claims Settlement Committee Meeting	Thursday, September 25, 2014, 5:30 p.m.
Board of Directors Meeting	Thursday, September 25, 2014, 6:00 p.m.
Human Resources Committee Meeting	Tuesday, October 7, 2014, 12:00 noon
Budget and Finance Committee Meeting	Wednesday, October 8, 2014, 12:00 noon

MINUTES ORANGE COUNTY FIRE AUTHORITY

Budget and Finance Committee Meeting
Wednesday, August 13, 2014
12:00 Noon

Regional Fire Operations and Training Center
Room AE117
1 Fire Authority Road
Irvine, CA 92602

CALL TO ORDER

A regular meeting of the Orange County Fire Authority Budget and Finance Committee was called to order on August 13, 2014, at 12:00 p.m. by Chair Swift.

PLEDGE OF ALLEGIANCE

Director Murray led the assembly in the Pledge of Allegiance to our Flag.

ROLL CALL

Present: Sam Allevato, San Juan Capistrano
Randal Bressette, Laguna Hills
Jerry McCloskey, Laguna Niguel
Al Murray, Tustin
Elizabeth Swift, Buena Park
Steven Weinberg, Dana Point

Absent: Trish Kelley, Mission Viejo

Also present were:

Fire Chief Keith Richter
Deputy Chief Craig Kinoshita
Assistant Chief Brian Stephens
Assistant Chief Lori Zeller
Assistant Clerk Lydia Slivkoff

General Counsel David Kendig
Interim Assistant Chief Jon Jones
Assistant Chief Lori Smith
Clerk of the Authority Sherry Wentz

PUBLIC COMMENTS (F: 12.02B3)

Chair Swift opened the Public Comments portion of the meeting. Chair Swift closed the Public Comments portion of the meeting without any public comments.

MINUTES

1. **Minutes for the July 9, 2014, Budget and Finance Committee Meeting** (F: 12.02B2)

On motion of Director Murray and second by Vice Chair Bressette, the Committee voted unanimously to approve the minutes of the July 9, 2014, Budget and Finance Committee Meeting, as submitted. Director Allevato was absent for the vote.

Director Allevato arrived at this point (12:02 p.m.)

CONSENT CALENDAR

Agenda Item No. 3 was pulled for separate consideration.

2. **Monthly Investment Reports** (F: 11.10D2)

On motion of Director Murray and second by Vice Chair Bressette, the Committee voted unanimously to direct staff to place the item on the agenda for the Executive Committee meeting of August 21, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

3. **Monthly Status Update - Orange County Employees' Retirement System** (F: 17.06B)

Director Murray pulled this item to discuss the impacts of the OCERS Triennial Study of Actuarial Assumptions, and thanked Assistant Chief Lori Zeller and Treasurer Tricia Jakubiak for their due diligence on the matter.

On motion of Vice Chair Bressette and second by Director Murray, the Committee voted unanimously to receive and file the report.

4. **Acceptance of DHS/FEMA Administrative Preparedness Grant** (F: 16.02B1)

On motion of Director Murray and second by Vice Chair Bressette, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of August 28, 2014, with the Budget and Finance Committee's recommendation that the Board of Directors:

1. Adopt the submitted resolution to accept the Department of Homeland Security/Federal Emergency Management Agency's (DHS/FEMA) Administrative Preparedness Grant.
2. Authorize a budget adjustment increasing the FY 2014/15 General Fund (121) revenues and appropriations in the amount of \$1,164,131 for the US&R Program.

5. Acceptance of California Fire and Rescue Training Authority Urban Search & Rescue Mobilization Exercise and Training Grant (F: 16.02B)

On motion of Director Murray and second by Vice Chair Bressette, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of August 28, 2014, with the Budget and Finance Committee's recommendation that the Board of Directors:

1. Adopt the proposed resolution to accept the California Fire and Rescue Training Authority Agreement for a grant in the amount of \$100,000.
2. Approve and authorize the Fire Chief or his designee to execute the proposed grant agreement.
3. Authorize a budget adjustment increasing the FY 2014/15 General Fund (121) revenues and appropriations in the amount of \$100,000 for the US&R mobilization and deployment exercise.

DISCUSSION CALENDAR

6. Annual Investment Report (F: 11.10D1)

Assistant Treasurer Jane Wong provided an overview of the Annual Investment Report.

On motion of Director McCloskey and second by Vice Chair Bressette, the Committee voted unanimously to direct staff to place the item on the agenda for the Executive Committee meeting of August 21, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

7. Implementation of Internal Control Audit Recommendations - Community Risk Reduction Department (F: 15.02A1)

Assistant Chief Zeller introduced Part-time/Limited-Term Finance Manager Irwin Bornstein who provided a report on the Community Risk Reduction Department audit recommendations and accomplishments.

A lengthy discussion ensued.

On motion of Vice Chair Bressette and second by Director Murray, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of August 28, 2014, with the Budget and Finance Committee's recommendation that the Board of Directors:

1. Receive and file the report.
2. Approve continuation of the professional services provided by Mr. Irwin Bornstein, on a part-time basis and at six-month intervals, for an estimated cost of \$10,000 at each six-month interval through calendar year 2015.

3. Authorize a budget adjustment increasing the FY 2014/15 General Fund (121) appropriations by \$10,000 to fund the cost of continued-intermittent services provided by Mr. Bornstein, with one six-month review scheduled to occur during 2014/15 (January 2015).

REPORTS (F: 12.02B6)

There were no items to report.

ELECTION OF CHAIR/VICE CHAIR (F: 12.02B1)

On motion of Director Murray and second by Director Allevato, the Committee voted unanimously to elect Randy Bressette as Chair of the Budget and Finance Committee for the ensuing term.

On motion of Director Swift and second by Director Allevato, the Committee voted unanimously to elect Jerry McCloskey as Vice Chair of the Budget and Finance Committee for the ensuing term.

COMMITTEE MEMBER COMMENTS (F: 12.02B4)

Director Allevato thanked Assistant Fire Marshal Dennis Grubb for assisting residents in San Juan Capistrano with a tree issue.

Director Murray thanked Mr. Bornstein and Assistant Chief Smith for their work in resolving issues in Community Risk Reduction Department and continuing to support development in the City of Tustin. He also thanked Director Swift for her leadership as Chair of the Budget and Finance Committee.

Director Swift thanked Assistant Chief Zeller for the helpful agenda review meetings, and encouraged the new Chair to do the same.

Director McCloskey thanked Director Swift for running efficient meetings and indicated she did a great job.

Chair Bressette thanked Director Swift for her leadership and service as the Budget and Finance Committee Chair.

Fire Chief Richter thanked Director Swift for her service as the Budget and Finance Committee Chair.

ADJOURNMENT – Chair Bressette adjourned the meeting at 1:00 p.m. The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, September 10, 2014, at 12:00 noon.

Sherry A. F. Wentz, CMC
Clerk of the Authority

**DISCUSSION CALENDAR - AGENDA ITEM NO. 2
BUDGET AND FINANCE COMMITTEE MEETING
September 10, 2014**

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Patricia Jakubiak, Treasurer

SUBJECT: **Monthly Investment Reports**

Summary:

This agenda item is submitted to the Committee in compliance with the investment policy of the Orange County Fire Authority and with Government Code Section 53646.

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of September 18, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

Background:

Attached is the final monthly investment report for the month ended July 31, 2014. A preliminary investment report as of August 22, 2014, is also provided as the most complete report that was available at the time this agenda item was prepared.

Impact to Cities/County:

Not Applicable.

Fiscal Impact:

Not Applicable.

Staff Contact for Further Information:

Patricia Jakubiak, Treasurer

Triciajakubiak@ocfa.org

(714) 573-6301

Attachment:

Final Investment Report – July 2014 / Preliminary Report – August 2014

Orange County Fire Authority Monthly Investment Report



Final Report – July 2014

Preliminary Report – August 2014



Monthly Investment Report Table of Contents

<i>Final Investment Report – July 31, 2014</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Benchmark Comparison</i>	<i>3</i>
<i>Portfolio Size, Yield, & Duration</i>	<i>3</i>
<i>Portfolio Summary</i>	<i>4</i>
<i>Portfolio Details</i>	<i>5</i>
<i>Aging Report</i>	<i>8</i>
<i>Notes to Portfolio Management Report</i>	<i>9</i>
<i>Local Agency Investment Fund</i>	<i>10</i>
<i>Preliminary Investment Report – August 22, 2014</i>	<i>12</i>
<i>Portfolio Summary</i>	<i>13</i>
<i>Portfolio Details</i>	<i>14</i>
<i>Aging Report</i>	<i>17</i>
<i>Notes to Portfolio Management Report</i>	<i>18</i>



Orange County Fire Authority

Final Investment Report

July 31, 2014



EXECUTIVE SUMMARY

Portfolio Activity & Earnings

During the month of July 2014, the size of the portfolio increased to \$173.1 million from \$159.3 million. Significant receipts for the month included proceeds from the issuance of the Tax & Revenue Anticipation Note in the amount of \$44.3 million and various receipts for property tax apportionments, charges for current services and intergovernmental agency payments totaling \$9.7 million. Significant disbursements for the month included two biweekly payrolls, which were approximately \$8.5 million each with related benefits, and a one-time payment of \$18.3 from the cashflow reserve to OCERS to pay down the pension UAAL (Unfunded Actuarial Accrued Liability). Total July cash outflows for operating expenditures amounted to approximately \$23.1 million. The portfolio's balance is expected to decrease in the following month as there are no major receipts expected for August.

In July, the portfolio's yield to maturity (365-day equivalent) edged up by 1 basis point to 0.25% from the prior month as the new fiscal year began. The effective rate of return stayed unchanged at 0.24% for the month, and the average maturity of the portfolio also remained the same at 185 days to maturity.

Economic News

In July 2014, U.S. economic activity picked up moderately. Employment conditions continued to pick up, albeit at a slightly slower pace than the prior month. There were a total of 209,000 new jobs created for July, a weaker report compared to the prior month, but still a solid employment report. The unemployment rate, however, edged up by one basis point to 6.2% from 6.1% previously. Durable goods orders increased significantly more than expected by 22.6% in July. Both the manufacturing and non-manufacturing sectors reversed and increased for the month. Industrial production also increased. The LEI (Leading Economic Index) and the NFIB (National Federation of Independent Business) rose in July. On the other hand, consumer confidence measures were mixed and retail sales were unexpectedly unchanged for the month. Housing activity improved, although remained mixed and slow. Inflation stayed tamed. On July 30, 2014, at the second day of the Federal Open Market Committee's meeting, the Committee voted, as expected, to keep the federal funds rate unchanged at a target range of 0 – 0.25%. The Committee also slightly upgraded its outlook on the economy and decided to further reduce its asset purchase program from \$35 billion to \$25 billion per month beginning in August.



BENCHMARK COMPARISON AS OF JULY 31, 2014

3 Month T-Bill:	0.03%	1 Year T-Bill:	0.11%
6 Month T-Bill:	0.06%	LAIF:	0.24%
		OCFA Portfolio:	0.24%

PORTFOLIO SIZE, YIELD, & DURATION

	<u>Current Month</u>	<u>Prior Month</u>	<u>Prior Year</u>
Book Value-	\$173,140,893	\$159,315,564	\$143,622,094
Yield to Maturity (365 day)	0.25%	0.24%	0.32%
Effective Rate of Return	0.24%	0.24%	0.32%
Days to Maturity	185	185	289



ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
July 31, 2014

Orange County Fire Authority
 1 Fire Authority Road
 Irvine, CA 92602
 (714)573-6301

(See Note 1 on page 9) (See Note 2 on page 9)

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	21,719,762.12	21,719,762.12	21,719,762.12	12.55	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	16,000,000.00	15,996,320.00	15,997,884.44	9.24	106	45	0.093	0.094
Federal Agency Coupon Securities	38,333,333.33	38,156,500.00	38,338,771.26	22.15	1,285	704	0.666	0.675
Federal Agency Disc. -Amortizing	47,000,000.00	46,992,210.00	46,992,160.00	27.16	138	88	0.058	0.058
Local Agency Investment Funds	50,000,000.00	50,014,937.50	50,000,000.00	28.89	1	1	0.241	0.244
Investments	173,053,095.45	172,879,729.62	173,048,577.82	100.00%	332	185	0.241	0.245

(See Note 4 on page 9)

Cash								
Passbook/Checking (not included in yield calculations)	186,481.48	186,481.48	186,481.48		1	1	0.000	0.000
Total Cash and Investments	173,239,576.93	173,066,211.10	173,235,059.30		332	185	0.241	0.245

Total Earnings	July 31 Month Ending	Fiscal Year To Date
Current Year	35,290.94	35,290.94
Average Daily Balance	176,176,387.46	176,176,387.46
Effective Rate of Return	0.24%	0.24%

"I certify that this investment report accurately reflects all pooled investments and is in compliance with the investment policy adopted by the Board of Directors to be effective on January 1, 2014. A copy of this policy is available from the Clerk of the Authority. Sufficient investment liquidity and anticipated revenues are available to meet budgeted expenditure requirements for the next thirty days and the next six months."

Patricia Jakubiak 8/1/14
 Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	\$ 173,235,059.30
GASB 31 Adjustment to Books (See Note 3 on page 9)	\$ (94,166.47)
Total	\$ 173,140,892.83

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
July 31, 2014

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity	
(See Note 1 on page 9) (See Note 2 on page 9)											
(See Note 4 on page 9)											
Money Mkt Mutual Funds/Cash											
SY5528	528	High Mark 100% US Treasury MMF	20,441,575.96		21,719,762.12	21,719,762.12	21,719,762.12	0.001	0.001	1	
		Subtotal and Average			21,719,762.12	21,719,762.12			0.001	1	
Commercial Paper Disc. -Amortizing											
36959JHF3	825	GEN ELEC CAP CRP		04/24/2014	7,000,000.00	6,999,650.00	6,999,809.44	0.070	0.071	14 08/15/2014	
36959JKA0	829	GEN ELEC CAP CRP		07/01/2014	9,000,000.00	8,996,670.00	8,998,075.00	0.110	0.112	70 10/10/2014	
		Subtotal and Average	15,997,267.78		16,000,000.00	15,996,320.00	15,997,884.44		0.094	45	
Federal Agency Coupon Securities											
3133ECM76	809	Federal Farm Credit Bank (Callable anytime)		04/25/2013	9,000,000.00	8,978,930.00	8,986,367.41	0.400	0.424	630 04/22/2016	
3133804V6	787	Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,975,040.00	6,000,000.00	1.000	0.981	1,104 08/09/2017	
3133813R4	800	Fed Home Loan Bank (Callable 8-9-14)		12/20/2012	9,000,000.00	8,899,380.00	9,009,643.66	1.000	0.966	1,196 11/09/2017	
313382DC4	803	Fed Home Loan Bank (Callable anytime)		03/15/2013	5,333,333.33	5,322,400.00	5,332,760.19	0.470	0.477	584 03/07/2016	
3130A2MX1	833	Fed Home Loan Bank (Callable 10-29-14)		07/29/2014	9,000,000.00	8,979,750.00	9,000,000.00	0.550	0.550	89 07/29/2016	
		Subtotal and Average	37,228,620.99		38,333,333.33	38,156,500.00	38,338,771.26		0.675	704	
Federal Agency Disc. -Amortizing											
313589N58	831	Fed Natl Mortg Assoc		07/01/2014	9,000,000.00	8,998,020.00	8,998,530.00	0.060	0.062	98 11/07/2014	
313397F55	827	Freddie Mac		04/24/2014	5,000,000.00	4,999,800.00	4,999,825.00	0.030	0.031	42 09/12/2014	
313396BF9	832	Freddie Mac		07/01/2014	9,000,000.00	8,996,130.00	8,995,905.00	0.090	0.093	182 01/30/2015	
313385D78	826	Fed Home Loan Bank		04/24/2014	6,000,000.00	5,999,890.00	5,999,860.00	0.030	0.031	28 08/29/2014	
313385H33	828	Fed Home Loan Bank		06/19/2014	9,000,000.00	8,999,550.00	8,999,300.00	0.050	0.051	56 09/28/2014	
313385L79	830	Fed Home Loan Bank		07/01/2014	9,000,000.00	8,998,830.00	8,998,740.00	0.060	0.062	84 10/24/2014	
		Subtotal and Average	52,507,143.39		47,000,000.00	46,992,210.00	46,992,160.00		0.058	88	
Local Agency Investment Funds											
SY5336	336	Local Agency Investmt Fund			50,000,000.00	50,014,937.50	50,000,000.00	0.244	0.244	1	
		Subtotal and Average	50,001,779.34		50,000,000.00	50,014,937.50	50,000,000.00		0.244	1	
		Total and Average	176,176,387.46		173,053,095.45	172,879,729.62	173,048,577.82		0.245	185	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
July 31, 2014

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10104	10104	American Benefit Plan Admin		07/01/2014	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2014	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank of California		07/01/2014	-98,518.52	-98,518.52	-98,518.52		(See Note 4 on page 9)	1
SYS361	361	YORK		07/01/2014	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	0.00							1
Total Cash and Investments					173,239,576.93	173,066,211.10	173,235,059.30		0.245	185

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of August 1, 2014

Orange County Fire Authority
 1 Fire Authority Road
 Irvine, Irvine, CA 92602
 (714)573-6301

Aging Interval:					Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
0 days	(08/01/2014 - 08/01/2014)	6 Maturities	0 Payments		71,906,243.60	41.51%	71,906,243.60	71,921,181.10
1 - 30 days	(08/02/2014 - 08/31/2014)	2 Maturities	0 Payments		13,000,000.00	7.50%	12,999,669.44	12,999,550.00
31 - 60 days	(09/01/2014 - 09/30/2014)	2 Maturities	0 Payments		14,000,000.00	8.08%	13,999,125.00	13,999,350.00
61 - 91 days	(10/01/2014 - 10/31/2014)	2 Maturities	0 Payments		18,000,000.00	10.39%	17,996,815.00	17,995,500.00
92 - 121 days	(11/01/2014 - 11/30/2014)	1 Maturities	0 Payments		9,000,000.00	5.19%	8,998,530.00	8,998,020.00
122 - 152 days	(12/01/2014 - 12/31/2014)	0 Maturities	0 Payments		0.00	0.00%	0.00	0.00
153 - 183 days	(01/01/2015 - 01/31/2015)	1 Maturities	0 Payments		9,000,000.00	5.19%	8,995,905.00	8,996,130.00
184 - 274 days	(02/01/2015 - 05/02/2015)	0 Maturities	0 Payments		0.00	0.00%	0.00	0.00
275 - 365 days	(05/03/2015 - 08/01/2015)	0 Maturities	0 Payments		0.00	0.00%	0.00	0.00
366 - 1095 days	(08/02/2015 - 07/31/2017)	3 Maturities	0 Payments		23,333,333.33	13.47%	23,329,127.60	23,282,080.00
1096 - 1825 days	(08/01/2017 - 07/31/2019)	2 Maturities	0 Payments		15,000,000.00	8.66%	15,009,643.66	14,874,420.00
1826 days and after	(08/01/2019 -)	0 Maturities	0 Payments		0.00	0.00%	0.00	0.00
				Total for	19 Investments	100.00	173,235,059.30	173,066,211.10



NOTES TO PORTFOLIO MANAGEMENT REPORT

- Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The MUFU Union Bank (formerly Union Bank) Trust Department provides market values of the remaining investments.
- Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.
- Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2014 includes an increase of \$14,938 to the LAIF investment and a decrease of \$(109,104) to the remaining investments.
- Note 4: The Highmark money market mutual fund functions as the Authority's sweep account. Funds are transferred to and from the sweep account to/from OCFA's checking account in order to maintain a target balance of \$1,000,000 in checking. Since this transfer occurs at the beginning of each banking day, the checking account sometimes reflects a negative balance at the close of the banking day. The negative closing balance is not considered an overdraft since funds are available in the money market mutual fund. The purpose of the sweep arrangement is to provide sufficient liquidity to cover outstanding checks, yet allow that liquidity to be invested while payment of the outstanding checks is pending.



Local Agency Investment Fund (LAIF)

As of July 31, 2014, OCFA has \$50,000,000 invested in LAIF. The fair value of OCFA's LAIF investment is calculated using a participant fair value factor provided by LAIF on a quarterly basis. The fair value factor as of June 30, 2014 is 1.00029875. When applied to OCFA's LAIF investment, the fair value is \$50,014,938 or \$14,938 above cost. Although the fair value of the LAIF investment is higher than cost, OCFA can withdraw the actual amount invested at any time.

LAIF is included in the State Treasurer's Pooled Money Investment Account (PMIA) for investment purposes. The PMIA market valuation at July 31, 2014 is included on the following page.

State of California
Pooled Money Investment Account
Market Valuation
7/31/2014

Description	Carrying Cost Plus Accrued Interest Purch.	Fair Value	Accrued Interest
United States Treasury:			
Bills	\$ 12,936,056,080.37	\$ 12,944,734,000.00	NA
Notes	\$ 21,964,444,237.50	\$ 21,969,601,500.00	\$ 18,996,462.00
Federal Agency:			
SBA	\$ 579,945,675.61	\$ 576,523,440.50	\$ 530,681.18
MBS-REMICs	\$ 117,362,737.93	\$ 125,463,633.49	\$ 559,088.97
Debentures	\$ 1,781,758,935.04	\$ 1,780,247,050.00	\$ 4,593,521.80
Debentures FR	\$ -	\$ -	\$ -
Discount Notes	\$ 1,519,393,499.98	\$ 1,519,515,000.00	NA
GNMA	\$ -	\$ -	\$ -
Supranational Debentures	\$ 149,917,129.22	\$ 149,998,000.00	\$ 229,514.00
CDs and YCDs FR	\$ -	\$ -	\$ -
Bank Notes	\$ 400,000,000.00	\$ 399,976,535.59	\$ 119,972.22
CDs and YCDs	\$ 7,800,075,728.99	\$ 7,795,014,371.07	\$ 4,155,347.23
Commercial Paper	\$ 3,958,635,580.58	\$ 3,958,664,497.21	NA
Corporate:			
Bonds FR	\$ -	\$ -	\$ -
Bonds	\$ -	\$ -	\$ -
Repurchase Agreements	\$ -	\$ -	\$ -
Reverse Repurchase	\$ -	\$ -	\$ -
Time Deposits	\$ 4,881,740,000.00	\$ 4,881,740,000.00	NA
AB 55 & GF Loans	\$ 1,478,722,721.22	\$ 1,478,722,721.22	NA
TOTAL	\$ 57,568,052,326.44	\$ 57,580,200,749.08	\$ 29,184,587.40

Fair Value Including Accrued Interest \$ 57,609,385,336.48

Repurchase Agreements, Time Deposits, AB 55 & General Fund loans, and Reverse Repurchase agreements are carried at portfolio book value (carrying cost).



Orange County Fire Authority
Preliminary Investment Report
August 22, 2014



ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
August 22, 2014

Orange County Fire Authority
 1 Fire Authority Road
 Irvine, CA 92602
 (714)573-6301

(See Note 1 on page 18) (See Note 2 on page 18)

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	11,054,840.85	11,054,840.85	11,054,840.85	7.11	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	9,000,000.00	8,998,290.00	8,998,680.00	5.79	101	48	0.110	0.112
Federal Agency Coupon Securities	38,333,333.33	38,247,073.33	38,338,741.74	24.67	1,285	682	0.666	0.675
Federal Agency Disc. -Amortizing	47,000,000.00	46,995,720.00	46,993,791.67	30.24	138	66	0.058	0.058
Local Agency Investment Funds	50,000,000.00	50,014,937.50	50,000,000.00	32.18	1	1	0.241	0.244
Investments	155,388,174.18	155,310,861.68	155,386,054.26	100.00%	365	191	0.266	0.269
Cash								
Passbook/Checking (not included in yield calculations)	631,282.26	631,282.26	631,282.26		1	1	0.000	0.000
Total Cash and Investments	156,019,456.44	155,942,143.94	156,017,336.52		365	191	0.266	0.269

Total Earnings	August 22 Month Ending	Fiscal Year To Date
Current Year	25,681.67	60,972.61
Average Daily Balance	161,866,192.76	170,236,306.64
Effective Rate of Return	0.26%	0.25%

"I certify that this investment report accurately reflects all pooled investments and is in compliance with the investment policy adopted by the Board of Directors to be effective on January 1, 2014. A copy of this policy is available from the Clerk of the Authority. Sufficient investment liquidity and anticipated revenues are available to meet budgeted expenditure requirements for the next thirty days and the next six months."

Patricia Jakubiak
 Patricia Jakubiak, Treasurer
 8/29/14

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	\$ 156,017,336.52
GASB 31 Adjustment to Books (See Note 3 on page 18)	\$ (94,166.47)
Total	\$ <u>155,923,170.05</u>

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
August 22, 2014

(See Note 1 on page 18) (See Note 2 on page 18)

CUSIP	Investment #	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash												
SY5528	528		High Mark 100% US Treasury MMF			11,054,840.85	11,054,840.85	11,054,840.85	0.001	0.001	1	
			Subtotal and Average	13,081,543.61		11,054,840.85	11,054,840.85			0.001	1	
Commercial Paper Disc. -Amortizing												
36959JKA0	829		GEN ELEC CAP CRP		07/01/2014	9,000,000.00	8,998,290.00	8,998,680.00	0.110	0.112	48	10/10/2014
			Subtotal and Average	13,452,880.40		9,000,000.00	8,998,290.00	8,998,680.00		0.112	48	
Federal Agency Coupon Securities												
3133ECM76	809		Federal Farm Credit Bank (Callable anytime)		04/25/2013	9,000,000.00	8,990,910.00	8,998,496.10	0.400	0.424	608	04/22/2016
3133804V6	787		Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,985,600.00	6,000,000.00	1.000	0.981	1,082	08/08/2017
3133813R4	800		Fed Home Loan Bank (Callable 9-9-14)		12/20/2012	9,000,000.00	8,954,280.00	9,009,463.56	1.000	0.968	1,174	11/09/2017
313382DC4	803		Fed Home Loan Bank (Callable anytime)		03/15/2013	5,333,333.33	5,326,453.33	5,332,782.08	0.470	0.477	562	03/07/2018
3130A2MX1	833		Fed Home Loan Bank (Callable 10-29-14)		07/29/2014	9,000,000.00	8,988,830.00	9,000,000.00	0.550	0.550	67	07/29/2016
			Subtotal and Average	38,338,756.83		38,247,073.33	38,338,741.74			0.675	682	
Federal Agency Disc. -Amortizing												
313589N58	831		Fed Natl Mortg Assoc		07/01/2014	9,000,000.00	8,998,190.00	8,998,860.00	0.060	0.062	76	11/07/2014
313397F55	827		Freddie Mac		04/24/2014	5,000,000.00	4,999,950.00	4,999,916.67	0.030	0.031	20	09/12/2014
313396BF9	832		Freddie Mac		07/01/2014	9,000,000.00	8,997,300.00	8,998,400.00	0.090	0.093	160	01/30/2015
313385D78	826		Fed Home Loan Bank		04/24/2014	6,000,000.00	6,000,000.00	5,999,970.00	0.030	0.031	6	08/29/2014
313385H33	828		Fed Home Loan Bank		06/19/2014	9,000,000.00	8,999,820.00	8,999,575.00	0.050	0.051	34	09/26/2014
313385L79	830		Fed Home Loan Bank		07/01/2014	9,000,000.00	8,999,460.00	8,999,070.00	0.060	0.062	62	10/24/2014
			Subtotal and Average	46,993,012.92		47,000,000.00	46,995,720.00	46,993,791.67		0.058	66	
Local Agency Investment Funds												
SY5336	336		Local Agency Investmt Fund			50,000,000.00	50,014,937.50	50,000,000.00	0.244	0.244	1	
			Subtotal and Average	50,000,000.00		50,000,000.00	50,014,937.50	50,000,000.00		0.244	1	
			Total and Average	161,866,192.76		155,388,174.18	155,310,861.68	155,386,054.26		0.269	191	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
August 22, 2014

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10104	10104	American Benefit Plan Admin		07/01/2014	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2014	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank of California		07/01/2014	346,282.26	346,282.26	346,282.26		0.000	1
SYS361	361	YORK		07/01/2014	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	0.00							1
Total Cash and Investments			161,866,192.76		156,019,456.44	155,942,143.94	156,017,336.52		0.269	191

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of August 23, 2014

Orange County Fire Authority
 1 Fire Authority Road
 Irvine, Irvine, CA 92602
 (714)573-6301

Aging Interval:				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
0 days	(08/23/2014 - 08/23/2014)	6 Maturities	0 Payments	61,686,123.11	39.54%	61,686,123.11	61,701,060.61
1 - 30 days	(08/24/2014 - 09/22/2014)	2 Maturities	0 Payments	11,000,000.00	7.05%	10,999,886.67	10,999,950.00
31 - 60 days	(09/23/2014 - 10/22/2014)	2 Maturities	0 Payments	18,000,000.00	11.54%	17,998,255.00	17,998,110.00
61 - 91 days	(10/23/2014 - 11/22/2014)	2 Maturities	0 Payments	18,000,000.00	11.54%	17,997,930.00	17,998,650.00
92 - 121 days	(11/23/2014 - 12/22/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
122 - 152 days	(12/23/2014 - 01/22/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
153 - 183 days	(01/23/2015 - 02/22/2015)	1 Maturities	0 Payments	9,000,000.00	5.77%	8,996,400.00	8,997,300.00
184 - 274 days	(02/23/2015 - 05/24/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
275 - 365 days	(05/25/2015 - 08/23/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
366 - 1095 days	(08/24/2015 - 08/22/2017)	4 Maturities	0 Payments	29,333,333.33	18.80%	29,329,278.18	29,292,793.33
1096 - 1825 days	(08/23/2017 - 08/22/2019)	1 Maturities	0 Payments	9,000,000.00	5.77%	9,009,463.56	8,954,280.00
1826 days and after	(08/23/2019 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
		Total for	18 Investments		100.00	156,017,336.52	155,942,143.94



NOTES TO PORTFOLIO MANAGEMENT REPORT

- Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The MUFG Union Bank Trust Department provides market values of the remaining investments.
- Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.
- Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2014 includes an increase of \$14,938 to the LAIF investment and a decrease of \$(109,104) to the remaining investments.
- Note 4: The Highmark money market mutual fund functions as the Authority's sweep account. Funds are transferred to and from the sweep account to/from OCFA's checking account in order to maintain a target balance of \$1,000,000 in checking. Since this transfer occurs at the beginning of each banking day, the checking account sometimes reflects a negative balance at the close of the banking day. The negative closing balance is not considered an overdraft since funds are available in the money market mutual fund. The purpose of the sweep arrangement is to provide sufficient liquidity to cover outstanding checks, yet allow that liquidity to be invested while payment of the outstanding checks is pending.

**DISCUSSION CALENDAR – AGENDA ITEM NO. 3
BUDGET AND FINANCE COMMITTEE MEETING
September 10, 2014**

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **Monthly Status Update - Orange County Employees' Retirement System**

Summary:

This agenda item is submitted to provide a status update regarding steps taken during the month of August 2014, to improve the Orange County Employees' Retirement System's (OCERS) financial policies, procedures, and practices.

Recommended Action:

Receive and file the report.

Background:

OCFA staff has been providing routine updates to the Budget and Finance Committee regarding financial activities occurring at OCERS since 2010. The following report is an update on actions taken during the last month.

Actions Taken/Financial Policies & Practices – August 2014

OCERS BOARD OF RETIREMENT August 27, 2014:

SECOND DISCUSSION OF TRIENNIAL STUDY OF ACTUARIAL ASSUMPTIONS

Every three years, the OCERS Board and actuary review the many different assumptions used in determining funding policy such as life expectancy, assumed earnings rate, inflation rate, and projected rate of retirements. At the July meeting, Mr. Angelo, OCERS' actuary with the Segal Company, presented an opening discussion of the topic, but no action was taken by the Board. Mr. Angelo continued the review and discussion of this topic with the Board at the August meeting, but again no action was taken. A total package of updated assumptions will be voted upon by the OCERS Board at a special meeting on September 23, 2014 (Attachment).

OCFA staff will continue to monitor actions taken by OCERS to improve its financial policies and practices, and will report back in October regarding progress made during the next month.

Impact to Cities/County:

Not Applicable.

Staff Contacts for Further Information:

Lori Zeller, Assistant Chief/Business Services Department

LoriZeller@ocfa.org

(714) 573-6020

Tricia Jakubiak, Treasurer

TriciaJakubiak@ocfa.org

(714) 573-6301

Attachment:

OCERS' Triennial Review of Actuarial Assumptions package includes a letter from OCERS' fiduciary counsel, Reed Smith and two presentations by OCERS' actuary, the Segal Company, August 27, 2014. Note: the full package is on file with the Clerk of the Authority and available upon request.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

MEMORANDUM

DATE: August 15, 2014
TO: Members, Board of Retirement
FROM: Steve Delaney, Chief Executive Officer
SUBJECT: Triennial Study of Actuarial Assumptions (Continuation)

Recommendation:

Receive and file.

Background:

Paul Angelo of the Segal Company will continue his Triennial Review of Actuarial Assumptions.

Two PowerPoint slide packs are attached:

ACTUARIAL EXPERIENCE STUDY – 2nd Meeting is a continuation of the presentation begun on July 21.

REVIEW OF ECONOMIC ASSUMPTIONS – Payroll Growth Assumption Used in UAAL Amortization, is a return of material that we did not have time to address on July 21, and considers the question raised by some Trustees as to what might be the appropriate payroll growth assumption.

A third attachment is a letter from Mr. Harvey Leiderman of ReedSmith, dated August 11, 2014. Mr. Leiderman provides some guidance to the Board in their consideration of how to treat OCERS administrative expenses in light of recent direction from the Government Accounting Standards Board (GASB).

Please note, this session is a “receive and file” session only. As at least one Board member will not be present, the Board has indicated that another date will be chosen to take up this topic and put any possible changes to current assumptions to vote when all members of the Board are likely to be present. Please bring your calendars with you, as the Board will be asked to indicate at least tentatively, a future date for a special meeting of the Board to take up this issue in particular. Early indications are that we will be looking for a date somewhere in the period

following the September 18th OCERS Board Strategic Planning workshop, and prior to the next regularly scheduled meeting of the Board on October 20, 2014.

Submitted by:

A handwritten signature in blue ink that reads "Steve Delaney". The signature is written in a cursive style and is positioned above a horizontal line.

Steve Delaney
Chief Executive Officer

Reed Smith LLP
 101 Second Street
 Suite 1800
 San Francisco, CA 94105-3659
 +1 415 543 8700
 Fax +1 415 391 8269
 reedsmith.com

From: Harvey L. Leiderman
 Direct Phone: 415.659.5914
 Email: hleiderman@reedsmith.com

To: Board of Retirement
 Orange County Employees' Retirement System

Cc: Steve Delaney, Chief Executive Officer

Date: August 11, 2014

Subject: Actuarial Treatment of Administrative Expenses

OCERS' actuary, Segal Consulting, has prepared its "Review of Economic Actuarial Assumptions for the December 31, 2014 Actuarial Valuation" ("Review"). As part of the Review, Segal recommends that the Board adopt a change in the method for calculating and reporting administrative expenses of the system, in order to make the treatment of administrative expenses consistent for both funding and financial reporting purposes. *See*, Review, pp. 11, 15-20. We have analyzed the recommendation in the context of applicable law and provide the following guidance to the Board.

THE CURRENT PRACTICE

For the past several decades, OCERS' treatment of administrative expenses of the system has followed the mandate of section 31580.2 of the County Employees' Retirement Law of 1937 ("CERL"). That section provides that the retirement board "*shall annually adopt a budget covering the entire expense of administering the retirement system, which expense shall be charged against the earnings of the retirement fund.*" In most CERL counties, this section superseded a predecessor section, section 31580, which had required the County itself to "appropriate annually from the proper county funds the amount necessary to defray the entire expense of the administration of the retirement system based upon budget estimates prepared by the treasurer."

OCERS' recent history shows that by charging administrative expenses against the earnings of the fund, through reduction of the investment return assumption, the net rate of return available to credit to the system's valuation reserves has been reduced by approximately .16%. As a consequence, the investment return assumption (net of administrative expenses) is lower than it otherwise would be, and therefore both employer and employee contribution rates are higher than they otherwise would be. This lower discount rate results in higher employer and employee Normal Cost contributions, and higher employer UAAL contributions. As Segal states, "these administrative expenses have been funded implicitly by both the employer and the employees." Review, p. 19, item 2.

Put another way, as administrative costs are paid for out of the earnings of the system, both employers and employees end up defraying those costs through slightly higher contribution rates.

THE ACTUARY'S RECOMMENDATION

The actuary recommends that going forward, administrative costs still be charged against the earnings of the system but be separately accounted for outside of the investment return assumption, consistent with the way administrative expenses are to be reported in the future for GASB-compliant financial reporting purposes.

LEGAL ANALYSIS

The legislative history of AB 470 (1973), which enacted section 31580.2, indicates that it was well known at the time that charging administrative expenses against investment earnings would increase both employer and employee contribution rates. The bill that passed the Legislature that year had two parts: First, shifting the authority to appoint retirement staff from the county treasurers to the retirement boards (which became CERL sec. 31522.1); and second, shifting the funding of retirement system expenses from the counties' annual budgets to the earnings of the retirement system. AB 470 drew almost universal opposition from CERL county treasurers, counties and the State Association of County Retirement Administrators. They all asked the Governor to veto the legislation, on a number of grounds, including, as the Sacramento County Treasurer noted: "Although A.B. 470 would reduce the direct [county] cost of the administration of the retirement system, it would also cause a comparable percentage increase in county and employee contributions." Then-Orange County Treasurer Robert L. "Bob" Citron complained: "At the outset it would appear that the cost of operating the system would be financed not by the County but by the system itself. But since the County General Fund would still continue to contribute an equal amount of what the County employee contributes monthly, County funds would still be used for the operation of the system."

So long as there is no cost-shifting between employers and employees, we do not believe that there is any legal impediment to excluding administrative expenses from the calculation of the investment return assumption for funding purposes, and separately charging employers and employees for those administrative expenses. Segal refers to this charge in its Review as an "explicit loading for administrative expenses." Review, p. 17.

The explicit funding of administrative expenses through employer and employee direct contributions is comparable to the implicit funding of such expenses through a reduction in the investment return assumption. Both are consistent with the design of the defined benefit system, where Normal Cost contributions made by both employers and employees are supposed to be "sufficient to provide for the payment of all prospective benefits" and employer UAAL contributions are only supposed to cover the "liability not provided by the normal contribution rate." CERL sec. 31453.5. Administrative expenses are incurred necessarily so the system can "provide for the payment of all prospective benefits." *Accord*, CERL sec. 31621 ("[t]he normal rates of [members'] contribution...shall be such as will provide an average annuity at age 60...")

Interestingly, moving to an explicit charge from an implicit charge might even inure to the benefit of employees, because it would increase the balances in their member accounts at OCERS. Employee contributions are credited 100% to OCERS' member accounts, whereas only a portion of investment returns are credited to member accounts.

As for how to make the change from implicit to explicit funding "cost neutral" between employers and employees, Segal cautions that "[i]t is not straightforward to quantify precisely the current implicit sharing of administrative expenses between employers and employees. This means that an exact reproduction of that allocation on an explicit basis will be difficult to develop." Review, p. 19, item 4. The methodology suggested by Segal on p. 20 of its Review, however, appears reasonable under the circumstances.

Finally, we advise against the Board considering an alternative suggestion appearing in the Review. At p. 19 the actuary notes: "Alternatively, OCERS could decide to treat administrative expenses as a loading applied only to the employer contribution rates, which is the practice followed by private plans, both single employer and multi-employer." We do not believe that alternative is appropriate under applicable law. Charging only the employer for the administrative expenses of the system would run counter to the design of the defined benefit system, as discussed above, and would also run counter to the Legislature's recently stated intent in the "Public Employees' Pension Reform Act of 2012," ("PEPRA"), applicable to new members after January 1, 2013. PEPRA directs that employers and employees share 50/50 in the Normal Cost of funding future benefits. *See* PEPRA sec. 7522.30. Shifting the entire expense of administration to employers where employees have historically contributed towards that expense through their Normal Cost contributions under CERL sec. 31580.2, and where the Legislature has recently sought to increase, not decrease, the employees' share of contributions, does not appear to be supported by existing law.

Orange County Employees Retirement System

Review of Economic Assumptions - Payroll Growth Assumption Used in UAAL Amortization

July 21, 2014 and August 27, 2014

Paul Angelo, FSA

Segal Consulting

San Francisco

2013 and 2014 Review of Actuarial Funding Policy

- Funding policy elements approved
 - Continuation of Entry Age actuarial cost method
 - Continuation of 5-year asset smoothing method
 - UAAL amortization policy starting with 12/31/2013 valuation
 - UAAL layers from 12/31/2012 combined and reamortized over 20 years
 - Amortization policy for changes after 12/31/2012

Source		
Actuarial gains or losses		20
Assumption or method changes		20
Plan amendments		15
ERIPs		Up to 5
Actuarial surplus		30

- Continuation of level percent of payroll amortization

Level Percent of Payroll UAAL Amortization

- UAAL payments structured to increase with total payroll
 - Payroll increases with inflation and real wage growth
 - Currently assumed at $3.25\% + 0.50\% = 3.75\%$
 - Assumes constant active head count
 - Shortfall in UAAL contributions if actual payroll increase is less than assumed (currently 3.75%)
- Short term approach: Minimum UAAL payment
 - Consider setting employer's UAAL contributions as the greater of:
 - (1) Estimated UAAL payment amount calculated in valuation and
 - (2) UAAL contribution rate times actual fiscal year payroll
 - Requires “true-up” contribution based on actual payroll
 - March 17, 2014 Board discussion
 - Report from OCERS staff on some of the administrative and implementation issues raised by the participating employers

Payroll Growth Assumption for UAAL Amortization

- Longer term approach: modify payroll growth assumption
 - Continue to use current assumption for projecting member benefits
 - Use lower assumption solely for UAAL amortization
- Could use lower assumption for entire 20 year period
 - “Margin for adverse deviation”, not necessarily “best estimate”
 - Could use inflation only, currently 3.25%
 - Could use arbitrary value less than 3.75%, e.g., 2.00%
 - Today’s illustrations use this approach
- Could use lower assumption only for a few years
 - Looks more like a specific payroll prediction than a margin
 - Need to both select lower rate and short period (fixed or rolling)
- Full 20-year period still required to amortize the entire UAAL!

Illustration of Payroll Growth Assumption

➤ \$1,000,000 initial UAAL, 7.25% investment return assumption

	20 years % of pay	20 years % of pay	20 years % of pay	20 years Flat dollar
Interest	7.25%	7.25%	7.25%	7.25%
Payroll Growth	3.75%	3.25%	2.00%	0.00%
Increase in AAL	1,000,000	1,000,000	1,000,000	1,000,000
Amortization factor (first year)	13.8568 0.072167	13.3105 0.075129	12.0669 0.082871	10.3912 0.096235
Amortization amount				
Year 1	\$ 72,167	\$ 75,129	\$ 82,871	\$ 96,235
Year 15	\$ 120,828	\$ 117,562	\$ 109,347	\$ 96,235
Year 20	\$ 145,248	\$ 137,948	\$ 120,728	\$ 96,235
Total amount paid				
Principal	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Interest	1,094,084	1,070,862	1,013,550	924,697
Total	\$ 2,094,084	\$ 2,070,862	\$ 2,013,550	\$ 1,924,697

Illustration of Payroll Growth Assumption

➤ Annual payment amounts for \$1,000,000 initial UAAL

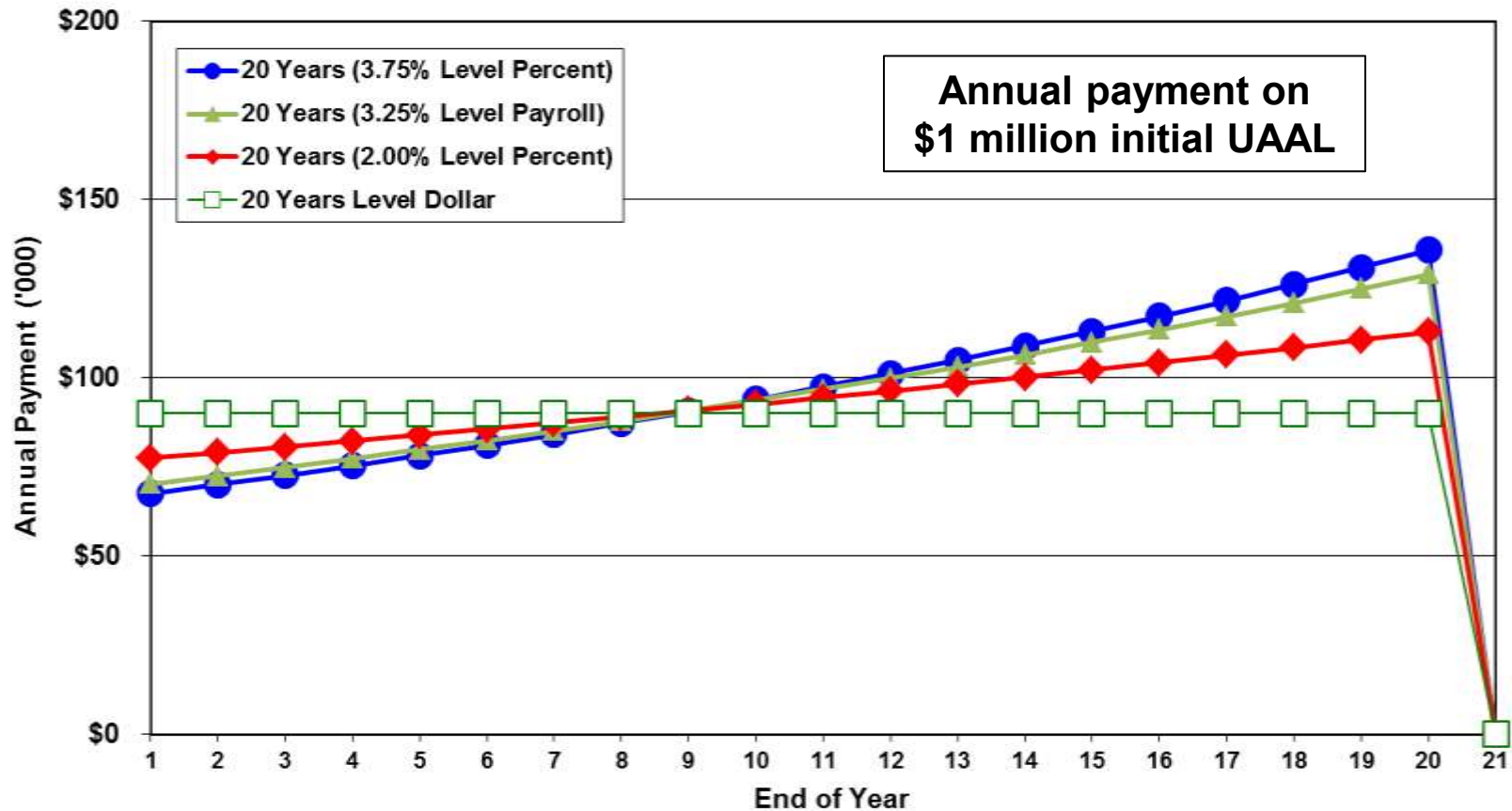
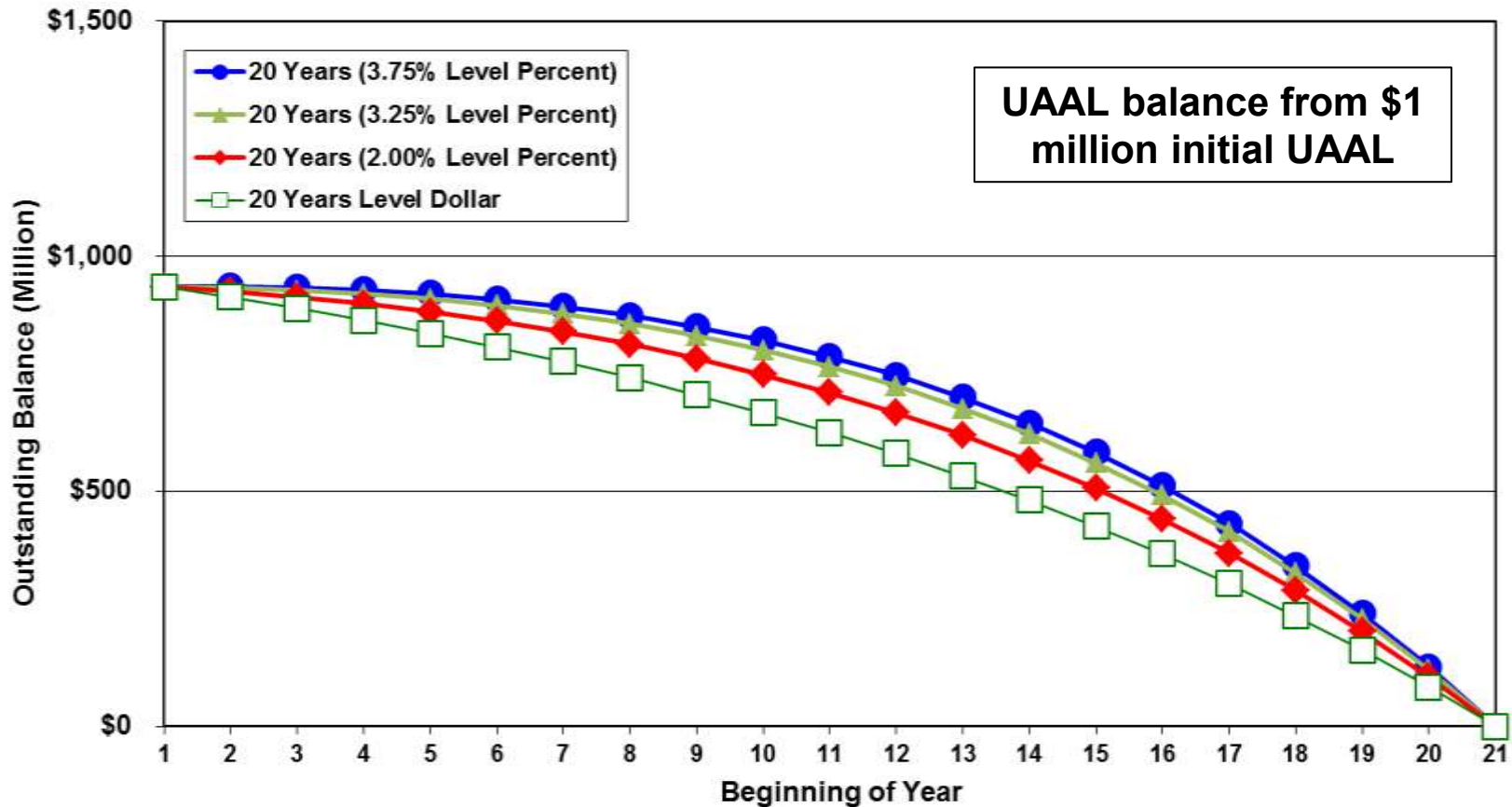


Illustration of Payroll Growth Assumption

➤ Outstanding UAAL balance for \$1,000,000 initial UAAL



Payroll Growth Assumption for UAAL Amortization

- Selecting an alternative long term payroll growth assumption
- Use past experience for the System or future budget projection from individual employers?
 - Reference: actual change in payroll over 2003-2013 provided in the next slide
- Immediate cost impact if (presumably) applied to current UAAL
 - Lower payroll growth assumption trades higher initial payments for (relatively) lower future payments
 - Lower risk of future contribution shortfalls
 - Higher risk of future contribution overpayments
 - Reference: UAAL rate impact of lower payroll growth assumption if applied to all UAAL layers in 12/31/2013 valuation
 - 3.25% and 2.00%

Level Percent of Payroll Amortization

➤ Actual growth in payroll from 2003 to 2013

Year Ended Dec 31	Active Members	Year-to-Year (Incr)/Decr	Payroll (\$000)	Year-to-Year (Incr)/Decr
2003	22,672		1,243,964	
2004	22,502	-0.7%	1,257,085	1.1%
2005	22,467	-0.2%	1,276,764	1.6%
2006	22,791	1.4%	1,322,952	3.6%
2007	23,618	3.6%	1,457,160	10.1%
2008	23,720	0.4%	1,569,765	7.7%
2009	22,633	-4.6%	1,618,493	3.1%
2010	21,742	-3.9%	1,579,239	-2.4%
2011	21,421	-1.5%	1,619,474	2.5%
2012	21,256	-0.8%	1,609,601	-0.6%
2013	21,368	0.5%	1,604,496	-0.3%
Average Change		-0.6%		2.7%

Increase in 2015/2016 Employer UAAL Contribution Rates if 3.25% or 2.00% Payroll Growth Assumptions used in 2013 Valn

Contribution Rate Increase Under Alternative Payroll Growth Assumption (% of payroll)

Payroll Growth	3.25% per year	2.00% per year
Rate Group #1	0.51%	1.87%
Rate Group #2	1.08%	3.92%
Rate Group #3	0.99%	3.62%
Rate Group #5	0.68%	2.51%
Rate Group #9	0.45%	1.97%
Rate Group #10	1.05%	3.85%
Rate Group #11	0.24%	1.21%
Rate Group #6	0.89%	3.26%
Rate Group #7	1.46%	5.36%
Rate Group #8	1.11%	4.00%
Total Plan	1.06%	3.88%

**Orange County Employees
Retirement System**

Actuarial Experience Study – 2nd Meeting

August 27, 2014

Paul Angelo, FSA

Segal Consulting

San Francisco

5328785v4

Topics for Review and Discussion

- Demographic (or non-economic) assumptions
 - Slides from July 21, 2014 provided in Appendix A
- Economic assumptions
 - Investment return, also price inflation
 - Implicit/explicit treatment of administrative expenses
 - Related to setting investment return assumption for GASB 67/68 financial reporting
- Payroll growth assumption used in amortizing the UAAL (separate PowerPoint presentation)

Always remember

$$\mathbf{C + I = B + E}$$

Contributions + Investment Income
equals

Benefit Payments + Expenses

- Actuarial valuation determines the current or “measured” cost, not the ultimate cost
- Assumptions and funding methods affect only the timing of costs

Recommendations – Demographic Assumptions

- Summary of recommendations:
 - Retirement rates:
 - Slightly later retirements for both General and Safety
 - Termination rates:
 - Change to service based structure
 - Overall, the termination rates have been decreased except for General OCTA members
 - Separate assumption for how many elect a refund
 - Disability incidence:
 - Decreased at some ages for both General and Safety
 - Mortality rates:
 - Recommend use of static mortality projection (using scale BB projected to 2020) to achieve approximately 10% margin for future mortality improvement

Economic Assumptions

- Price Inflation (CPI):
 - Investment Return, Salary Increases, COLA
- Salary Increases
 - “Across the board” increases
 - Includes price inflation plus real wage growth
 - Promotional & Merit: based on experience
 - Really is a “demographic” assumption
- Investment Return (Investment Earnings)
 - Components include price inflation, real return, expenses (administrative and/or investment)
 - Generally based on passive returns

Current Economic Assumptions

- Last full review was for 12/31/2012
 - Price inflation (CPI): 3.25%
 - Wage inflation: 3.75%
 - So real wage growth is 0.50%
 - Investment return: 7.25%
 - So net real return is 4.00%

Economic Assumptions - Recommended

➤ Price inflation (CPI)

- Maintain at 3.25%
- Consider lowering to 3.00% (from 1st meeting)

➤ Salary increases

- Maintain price inflation at 3.25% or lower to 3.00%
- Maintain the “Across the Board” real wage at 0.50%
- Total wage inflation maintained at 3.75% or lower to 3.50%
- Promotional and merit: slight increases to rates overall for Safety and decreases for General

Economic Assumptions - Recommended

➤ Investment return:

Based on 3.25% inflation

- Recommendation #1A: 7.50% gross of admin expenses
- Recommendation #1B: 7.50% net of admin expenses
- Recommendation #2A: 7.25% gross of admin expenses
- Recommendation #2B: 7.25% net of admin expenses

And if inflation assumption is lowered to 3.00%

- Recommendation #3A: 7.25% gross of admin expenses
- Recommendation #3B: 7.25% net of admin expenses

➤ Explicit Administrative Expense Load (goes with 1A/2A/3A)

- 0.9% of payroll allocated between the employer and member

Economic Assumptions – From Segal Report

	<u>Recommended</u>		<u>Alternative</u>		<u>12/31/13 Valuation</u>	
	<u>Return</u>	<u>Pay</u>	<u>Return</u>	<u>Pay</u>	<u>Return</u>	<u>Pay</u>
Price Inflation	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
Real Wages	n/a	0.50%	n/a	0.50%	n/a	0.50%
Merit (20+ years)	n/a	0.75%*	n/a	0.75%*	n/a	1.00%
Net Real Return	4.25%**	n/a	4.00%**	n/a	4.00%	n/a
Total	7.50%	4.50%	7.25%	4.50%	7.25%	4.75%

* For General members (Safety is 1.50%)

** Recommended return is gross of administrative expenses

Economic Assumptions – For Discussion

	<u>Rec. #1A/B</u>		<u>Rec. #2A/B</u>		<u>Rec. #3A/B</u>	
	<u>Return</u>	<u>Pay</u>	<u>Return</u>	<u>Pay</u>	<u>Return</u>	<u>Pay</u>
Price Inflation	3.25%	3.25%	3.25%	3.25%	3.00%	3.00%
Real Wages	n/a	0.50%	n/a	0.50%	n/a	0.50%
Merit (20+ years)	n/a	0.75%*	n/a	0.75%*	n/a	0.75%*
Net Real Return	4.25%**	n/a	4.00%**	n/a	4.25%**	n/a
Total	7.50%	4.50%	7.25%	4.50%	7.25%	4.25%

* For General members (Safety is 1.50%)

** Recommended return is gross (A) or net (B) of administrative expenses

Price Inflation (CPI)

- Historical Consumer Price Index
 - Median 15-year moving average = 3.4%
 - Median 30-year moving average = 4.2%
- 15-year averages have been declining due to recent low inflation
- NASRA Survey
 - Median inflation assumption is 3.00%
- Social Security Forecast = 2.8%
- Segal recommending 3.25% inflation for all our California public system clients in 2014
- From 1st meeting: Considering a lower inflation assumption
 - Segal analysis could justify lower inflation assumption of 3.00%

Salary Increase Assumption - Recommended

➤ Three components

- Price inflation: maintain at 3.25% **or consider 3.00%**
- Real increases: maintain at 0.50%
 - Department of Labor: Annual State and Local Government real productivity increase: 0.4% - 0.7% over 10 - 20 years
- Promotional & Merit: from experience study
 - Based on years of service
 - General: Currently 10.00% (0-1 years) to 1.00% (16+ years)
 - » Overall minor decrease at most years of service
 - Safety: Currently 14.00% (0-1 years) to 1.00% (16+ years)
 - » Overall minor increase at most years of service

➤ Net reduction for General and net increase for Safety in assumed future salary increases

Payroll Growth Assumption

- Active member payroll based on wage inflation
- Includes price inflation and real wage increases
 - Price inflation: maintain at 3.25% **or lower to 3.00%**
 - Real increases: maintain at 0.50%
 - Total is maintained at 3.75% **or lower to 3.50%**
- Currently used to project total payroll growth for UAAL amortization

Payroll Growth Assumption/Method for UAAL Contribution Rate

- Issue: control increases in UAAL from contribution losses when actual total payroll grows less than assumed
 - Prior discussion: change method to determine the actual UAAL contribution amount to be the greater of:
 - (a) the UAAL contribution rate times the actual total payroll for the fiscal year (current method) or
 - (b) the estimated UAAL payment amount from actuarial valuation
 - Implementation issues already discussed with County staff
 - New approach to UAAL amortization (separate presentation)
 - Assume payroll growth less than that assumed when projecting individual salary increases for members
 - » Current 3.75% (or possible 3.50%) combines inflation and real “across the board”
 - Lower payroll growth could be short term or over entire 20 year amortization period
 - » “Margin for adverse deviation”

Investment Earnings Assumption

- Also called the discount rate
- Used for contribution requirements
- Affects timing of Plan cost
 - Lower assumed rate means higher current cost
 - Ultimately, actual earnings determine cost
 - **C + I = B + E**
 - “Can’t pay benefits with assumed earnings!”

Setting the Earnings Assumption

- Four components
 - Inflation: consistent with salary increase assumption
 - Real returns by asset class
 - Weighted by asset allocation
 - Reduced by assumed expenses
 - Currently both investment and administrative
 - Recommend reflecting only investment expenses, with separate assumption for administrative expenses
 - Reduced by “risk adjustment”
 - Margin for adverse deviation
 - Expressed as confidence level above 50%

OCERS Earnings Assumption

➤ Preview: Components of Preliminary Investment Return Assumption

	Current	Rec. #1	Rec. #2	Rec. #3
Assumed Inflation	3.25%	3.25%	3.25%	3.00%
Portfolio Real Rate of Return	4.94%	5.33%	5.33%	5.33%
Assumed Expenses *	(0.60%)	(0.60%)	(0.60%)	(0.60%)
Risk Adjustment	<u>(0.34%)</u>	<u>(0.48%)</u>	<u>(0.73%)</u>	<u>(0.48%)</u>
Assumed Investment Return	7.25%	7.50%	7.25%	7.25%
Confidence level	55%	56%	59%	56%

* Includes both investment and administrative expenses

When to Change Earnings Assumption?

- Easy: change in asset allocation
- Hard: change in estimated future real returns for asset classes
- Source of data:
 - Investment consultants (industry)
 - Investment consultant (your Fund)
- Actuaries are neither economists nor investment consultants

Real Returns by Asset Class

- Segal uses an average of 9 investment advisory firms retained by Segal public clients
 - Used results from NEPC for asset categories unique to OCERS

OCERS Real Rate of Return

Asset Class	Target Allocation	Real Return	Weighted Return
Large Cap Equity	14.90%	5.92%	0.88%
Small/Mid Cap Equity	2.73%	6.49%	0.18%
Developed Int'l Equity	10.88%	6.90%	0.75%
Emerging Int'l Equity	6.49%	8.34%	0.54%
Core Bonds	10.00%	0.73%	0.07%
Global Bonds	2.00%	0.30%	0.01%
Emerging Market Debt	3.00%	4.00%	0.12%
Real Estate	10.00%	4.96%	0.50%
Diversified Credit (U.S.)	8.00%	4.97%	0.40%
Diversified Credit (non-U.S.)	2.00%	6.76%	0.14%
Hedge Funds	7.00%	4.13%	0.29%
GTAA	7.00%	4.22%	0.30%
Real Return	10.00%	5.86%	0.59%
Private Equity	6.00%	9.60%	0.58%
Total	100.00%		5.33%

Administrative and Investment Expenses

Administrative and Investment Expenses as a Percentage of Valuation Value of Assets (All dollars in 000's)

Plan Year	Valuation Value of Assets	Admin. Expenses	Investment Expenses	Admin. %	Investment %	Total %
2009	\$7,748,380	\$10,893	\$34,819	0.14%	0.45%	0.59%
2010	8,154,687	12,448	68,027	0.15	0.83*	0.98
2011	8,672,592	15,479	39,023	0.18	0.45	0.63
2012	9,064,355	14,295	40,992	0.16	0.45	0.61
2013	9,469,208	14,904	38,759	<u>0.16</u>	<u>0.41</u>	<u>0.57</u>
Average				0.16%	0.52%	0.68%

*Included some one-time expenses.

➤ Based on this experience, we have maintained the future expense component at 0.60%.

Risk Adjustment Model and Confidence Level

- Compares the System's risk position over time
- Confidence level is a relative, not absolute measure
 - Can be reevaluated and reset for future comparisons
- Confidence level is based on standard deviation
 - Measure of volatility based on portfolio assumptions
- Results should be evaluated for reasonableness

Risk Adjustment Model and Confidence Level

➤ Most useful for comparing risk position over time

Valuation (Dec. 31)	Assumed Return	Confidence Level	Risk Adjustment
2004	7.75%	56%	39 bp's
2007	7.75%	61%	80 bp's
2011 not adopted	7.25%	53%	27 bp's
2011 not adopted	7.50%	50%	2 bp's
2011 as adopted	7.75%	<50%	-23 bp's
2012 not adopted	7.50%	51%	9 bp's
2012 as adopted	7.25%	55%	34 bp's
2014 Rec. #1 (3.25% inflation)	7.50%	56%	48 bp's
2014 Rec. #2 (3.25% inflation)	7.25%	59%	73 bp's
2014 Rec. #3 (3.00% inflation)	7.25%	56%	48 bp's

Investment Earnings Assumption - 2014

- 7.50% w/ 3.25% inflation (Rec. #1) gives slightly higher confidence level than 7.25% did in 2012
 - 56% for 7.50% in 2014 vs. 55% for 7.25% in 2012
 - Primary reason: portfolio real return up from 4.94% to 5.33%
 - With corresponding increase in risk
 - “Standard deviation” increased from 10.3% to 12.3%
 - 7.25% w/ 3.25% inflation (Rec. #2) gives an even higher confidence level of 59%
 - 7.25% w/ 3.00% inflation (Rec. #3) gives the same 56% confidence level as 7.50% w/ 3.25% inflation (Rec. #1)
- Comparison with other systems
 - Median is 7.90% but trending down nationwide
 - California public systems – most at 7.50% to 7.75%
 - Contra Costa County ERA and Fresno County ERA also recently adopted 7.25%

OCERS Earnings Assumption

➤ Components of Preliminary Investment Return Assumption

	Current	Rec. #1	Rec. #2	Rec. #3
Assumed Inflation	3.25%	3.25%	3.25%	3.00%
Portfolio Real Rate of Return	4.94%	5.33%	5.33%	5.33%
Assumed Expenses *	(0.60%)	(0.60%)	(0.60%)	(0.60%)
Risk Adjustment	<u>(0.34%)</u>	<u>(0.48%)</u>	<u>(0.73%)</u>	<u>(0.48%)</u>
Assumed Investment Return	7.25%	7.50%	7.25%	7.25%
Confidence level	55%	56%	59%	56%

* Includes both investment and administrative expenses

Developing an Investment Return Assumption for use in GASB 67 and 68 Financial Reporting

- For funding, current investment return assumption is net of both investment and administrative expenses
- For financial reporting, GASB 67 and 68 require this assumption to be gross of administrative expense
- Advantages to using same assumption for funding and for financial reporting
 - Take advantage of consistency between new GASB rules and current funding practices
 - Entry Age cost method
 - Discount rate based on expected investment return
 - Consistency of liability and normal cost measures
 - The only difference is in how changes in liability are recognized

Developing an Investment Return Assumption for use in GASB 67 and 68 Financial Reporting

- Complication associated with eliminating administrative expenses from this assumption
 - Administrative expense funded implicitly by employer and employees
 - Difficult to precisely reproduce current implicit cost sharing
 - Allocate explicit load to employer/employees based on portion of contributions paid by each
 - Employee NC, Employer NC, Employer UAAL payment
- Current implicit method may “overcharge” for admin expenses
 - 0.16% of assets not the same as a 0.16% change in investment return assumption
 - 0.16% of assets is about \$15 million annually or 0.9% of payroll
 - 0.16% change in return assumption costs about \$37 million annually or 2.3% of payroll

Developing an Investment Return Assumption for use in GASB 67 and 68 Financial Reporting

- Review: Advantages to using same assumption for funding and for financial reporting
 - Consistency of liability and normal cost measures
- Two ways to do this:
 - Option “A” – Set the investment return assumption for funding on a gross of administrative expenses basis
 - Use same assumption for financial reporting
 - Add and allocate explicit contribution load for admin. expenses
 - Option “B” – Continue to set investment return assumption for funding on a net of administrative expenses basis
 - Use same value for financial reporting but assumed to be gross of administrative expenses
 - » Return is assumed net of administrative expenses for funding
 - » Same return is assumed gross of administrative expenses for financial reporting

Option A 7.50% (Rec. #1) – Investment Return Assumption for Funding on a Gross of Administrative Expenses Basis

- Same investment return assumption for both funding and financial reporting that is gross of administrative expenses
- Introduce explicit administrative expenses loading of 0.9% of payroll or \$15 million annually (allocated 0.7% employer and 0.2% employee)

	Rec. #1 if Used only for Funding	Rec. #1 for both Funding and Financial Reporting
Assumed Inflation	3.25%	3.25%
Portfolio Real Rate of Return	5.33%	5.33%
Assumed Expenses	(0.60%)	(0.44%)
Risk Adjustment	<u>(0.48%)</u>	<u>(0.64%)</u>
Assumed Investment Return	7.50%	7.50%
Confidence level	56%	58%
Administrative Expense Load	Not Applicable	0.9% of pay

Option B 7.50% (Rec. #1) – Investment Return Assumption for Funding on a Net of Administrative Expenses Basis

- “Same” investment return assumption for both funding and financial reporting
 - Recommended 7.50% return is net of administrative expenses for funding
 - Recommended 7.50% return is gross of administrative expenses for financial reporting

	Rec. #1 if Used only for Funding	Rec. #1 for Financial Reporting
Assumed Inflation	3.25%	3.25%
Portfolio Real Rate of Return	5.33%	5.33%
Assumed Expenses	(0.60%)	(0.44%)
Risk Adjustment	<u>(0.48%)</u>	<u>(0.64%)</u>
Assumed Investment Return	7.50%	7.50%
Confidence level	56%	58%
Administrative Expense Load	Not Applicable	Not Applicable

Option A 7.25% (Rec. #2) – Investment Return Assumption for Funding on a Gross of Administrative Expenses Basis

- Same investment return assumption for both funding and financial reporting that is gross of administrative expenses
- Introduce explicit administrative expenses loading of 0.9% of payroll or \$15 million annually (allocated 0.7% employer and 0.2% employee)

	Rec. #2 if Used only for Funding	Rec. #2 for both Funding and Financial Reporting
Assumed Inflation	3.25%	3.25%
Portfolio Real Rate of Return	5.33%	5.33%
Assumed Expenses	(0.60%)	(0.44%)
Risk Adjustment	<u>(0.73%)</u>	<u>(0.89%)</u>
Assumed Investment Return	7.25%	7.25%
Confidence level	59%	61%
Administrative Expense Load	Not Applicable	0.9% of pay

Option B 7.25% (Rec. #2) – Investment Return Assumption for Funding on a Net of Administrative Expenses Basis

- “Same” investment return assumption for both funding and financial reporting
 - Recommended 7.25% return is net of administrative expenses for funding
 - Recommended 7.25% return is gross of administrative expenses for financial reporting

	Rec. #2 if Used only for Funding	Rec. #2 for Financial Reporting
Assumed Inflation	3.25%	3.25%
Portfolio Real Rate of Return	5.33%	5.33%
Assumed Expenses	(0.60%)	(0.44%)
Risk Adjustment	<u>(0.73%)</u>	<u>(0.89%)</u>
Assumed Investment Return	7.25%	7.25%
Confidence level	59%	61%
Administrative Expense Load	Not Applicable	Not Applicable

Option A 7.25% (Rec. #3) – Investment Return Assumption for Funding on a Gross of Administrative Expenses Basis

- Same investment return assumption for both funding and financial reporting that is gross of administrative expenses
- Introduce explicit administrative expenses loading of 0.9% of payroll or \$15 million annually (allocated 0.7% employer and 0.2% employee)

	Rec. #3 if Used only for Funding	Rec. #3 for both Funding and Financial Reporting
Assumed Inflation	3.00%	3.00%
Portfolio Real Rate of Return	5.33%	5.33%
Assumed Expenses	(0.60%)	(0.44%)
Risk Adjustment	<u>(0.48%)</u>	<u>(0.64%)</u>
Assumed Investment Return	7.25%	7.25%
Confidence level	56%	58%
Administrative Expense Load	Not Applicable	0.9% of pay

Option B 7.25% (Rec. #3) – Investment Return Assumption for Funding on a Net of Administrative Expenses Basis

- “Same” investment return assumption for both funding and financial reporting
 - Recommended 7.25% return is net of administrative expenses for funding
 - Recommended 7.25% return is gross of administrative expenses for financial reporting

	Rec. #3 if Used only for Funding	Rec. #3 for Financial Reporting
Assumed Inflation	3.00%	3.00%
Portfolio Real Rate of Return	5.33%	5.33%
Assumed Expenses	(0.60%)	(0.44%)
Risk Adjustment	<u>(0.48%)</u>	<u>(0.64%)</u>
Assumed Investment Return	7.25%	7.25%
Confidence level	56%	58%
Administrative Expense Load	Not Applicable	Not Applicable

OCERS Earning Assumption

➤ Components of Investment Return Assumption

	Rec. #1		Rec. #2		Rec. #3	
	7.50% w/ 3.25%		7.25% w/ 3.25%		7.25% w/ 3.00%	
	Option A	Option B	Option A	Option B	Option A	Option B
Assumed Inflation	3.25%	3.25%	3.25%	3.25%	3.00%	3.00%
Portfolio Real Rate of Return	5.33%	5.33%	5.33%	5.33%	5.33%	5.33%
Assumed Expenses	(0.44%)	(0.60%)	(0.44%)	(0.60%)	(0.44%)	(0.60%)
Risk Adjustment	<u>(0.64%)</u>	<u>(0.48%)</u>	<u>(0.89%)</u>	<u>(0.73%)</u>	<u>(0.64%)</u>	<u>(0.48%)</u>
Assumed Investment Return	7.50%	7.50%	7.25%	7.25%	7.25%	7.25%
Confidence level	58%	56%	61%	59%	58%	56%
Administrative Expense Load	0.9% of pay	N/A	0.9% of pay	N/A	0.9% of pay	N/A

Anticipated Impact on Valuation Results

➤ Modeled as of December 31, 2013 for illustration

	Rec. #1		Rec. #2		Rec. #3	
	7.50% w/ 3.25%		7.25% w/ 3.25%		7.25% w/ 3.00%	
	Option A	Option B	Option A	Option B	Option A	Option B
<u>Impact on Employer</u>						
Change due to demographic assumptions	0.39%	0.39%	0.39%	0.39%	0.39%	0.39%
Change due to economic assumptions	(2.69%)	(2.69%)	0.00%	0.00%	(0.32%)	(0.32%)
Change due to administrative expenses	<u>0.70%</u>	<u>0.00%</u>	<u>0.70%</u>	<u>0.00%</u>	<u>0.70%</u>	<u>0.00%</u>
Total change in ER rate*	(1.60%)	(2.30%)	1.09%	0.39%	0.77%	0.07%
<u>Impact on Employee</u>						
Change due to demographic assumptions	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%
Change due to economic assumptions	(0.72%)	(0.72%)	0.00%	0.00%	(0.32%)	(0.32%)
Change due to administrative expenses	<u>0.20%</u>	<u>0.00%</u>	<u>0.20%</u>	<u>0.00%</u>	<u>0.20%</u>	<u>0.00%</u>
Total change in EE rate	(0.48%)	(0.68%)	0.24%	0.04%	(0.08%)	(0.28%)

* Before adjustment for 18-month delay



APPENDIX A

**Demographic Assumptions as Reviewed
at 1st Meeting on July 21, 2014**

Selection of Actuarial Assumptions

- Objective, long term
- Recent experience or future expectations
 - Demographic: recent experience
 - Economic: not necessarily!
- Client specific or not
- Consistency among assumptions
- Desired pattern of cost incidence
 - Good assumptions produce level cost
 - Beware “results based” assumptions!

Always remember

$$\mathbf{C + I = B + E}$$

Contributions + Investment Income
equals

Benefit Payments + Expenses

- Actuarial valuation determines the current or “measured” cost, not the ultimate cost
- Assumptions and funding methods affect only the timing of costs

Demographic Assumptions

➤ Rates of “decrement”

- Termination, mortality, disability, retirement
- Termination
 - Withdrawal
 - Deferred vested
- Mortality
 - Before and after retirement
 - Service connected or not
 - Service, disability, beneficiary

➤ Percent married

➤ Member/spouse age difference

➤ Reciprocity

➤ Assumptions can be different for General and Safety

Setting Demographic Assumptions

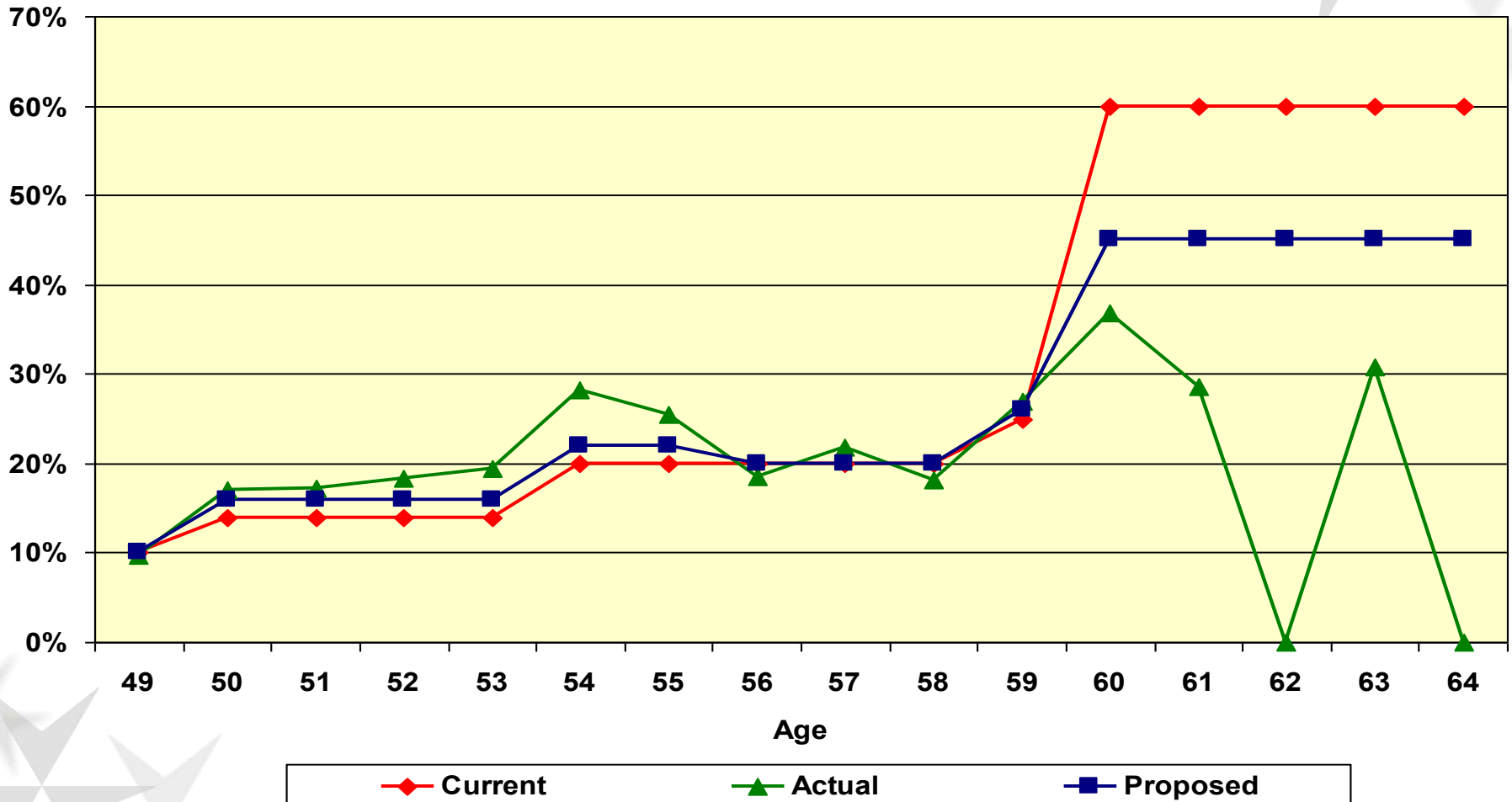
- To determine rates for each assumption we count the “decrements” and “exposures” for that event
 - Exposures = Number of employees who could have terminated, retired, etc.
 - Decrements = Number of employees who actually terminated, retired, etc.
 - This gives the “actual” decrement rates during the period
- Compare to the “current” assumed rates (or to expected number of decrements based on those current rates)
- Develop “proposed” new assumption based on both “current” assumption and recent “actual” experience
 - Weight the “actual” based on “credibility”

Setting Demographic Assumption – Retirement Rates

➤ Retirement Rates from Experience Study

Chart 3

Retirement Rates - Safety Law Enforcement Members (31664.1)



Recommendations - Demographic

- Retirement rates:
 - Slightly later retirements for both General and Safety
- Termination rates:
 - Change to service based structure
 - Overall, the termination rates have been decreased except for General OCTA members
 - Separate assumption for how many elect a refund
- Disability incidence:
 - Decreased at some ages for both General and Safety

Setting Demographic Assumptions – Mortality

➤ Mortality Rates

- Service retirement – Shorter life expectancies for General and longer life expectancies for Safety
- Disabled retirement – Longer life expectancies for General and Safety
- Preferable to have a margin of around 10%
 - Actual deaths during the study period around 10% greater than the expected deaths
- Can allow for margin using “age setbacks”, mortality improvement scales or both
- The Society of Actuaries has published scales to estimate future mortality improvements:
 - Scale AA - Has been standard since around 2000
 - » Does not accurately reflect recent improvements in mortality
 - Scale BB - Interim standard scale issued in 2012
 - Scale MP-2014 - Exposure draft issued in 2014

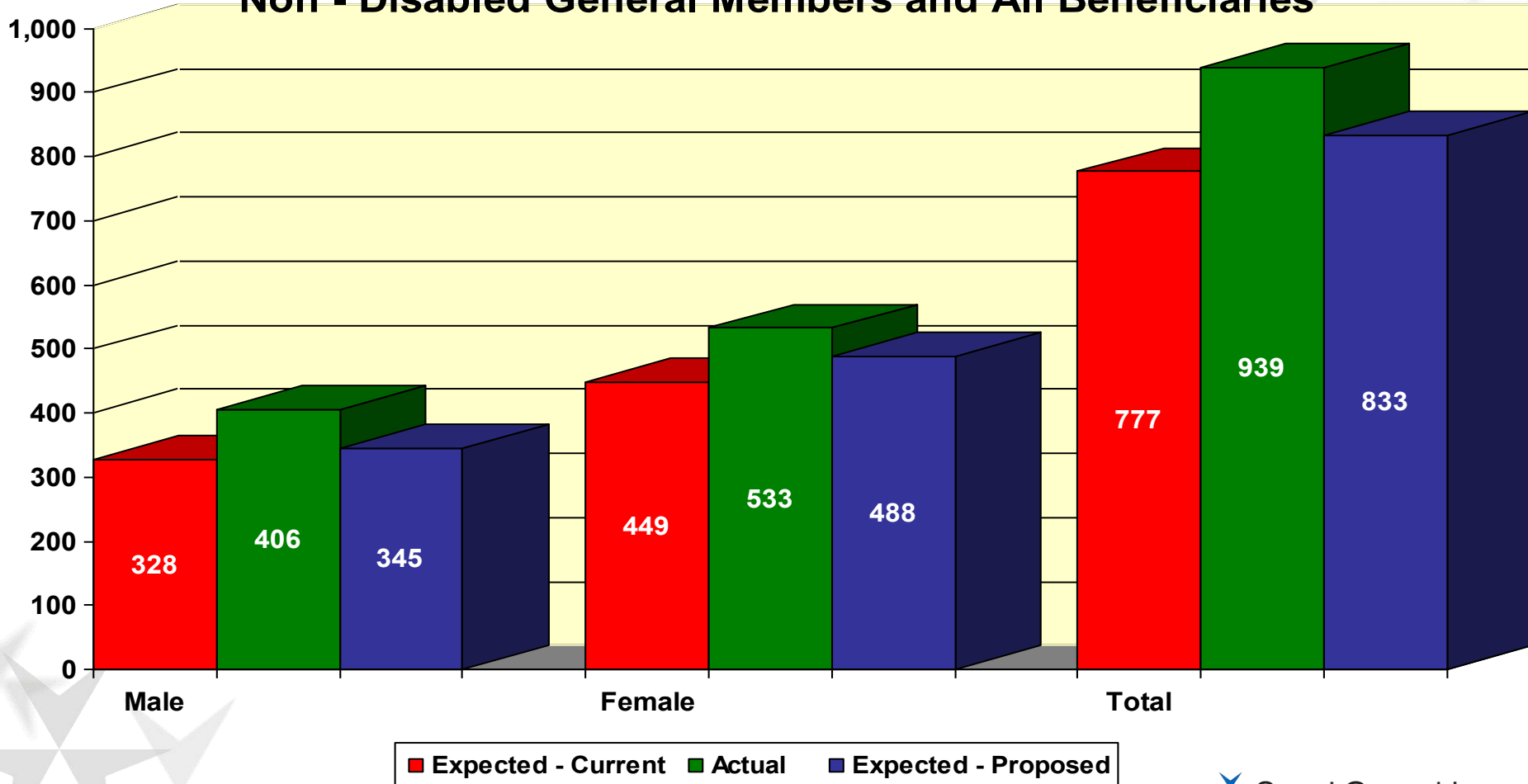
Setting Demographic Assumptions – Mortality Rates

➤ Mortality Experience from Experience Study

Chart 10

Post - Retirement Deaths

Non - Disabled General Members and All Beneficiaries



Setting Demographic Assumptions – Mortality

- Two ways to use mortality improvement scales to project future mortality improvements:
 - Static or Generational
- Static projection to a future year - reflect mortality at a future date, not as of today
 - Recommend use of static mortality projection to achieve approximately 10% margin for future mortality improvement
 - Use Scale BB projected to 2020
- Future studies might include a recommendation for generational mortality
 - Each future year has its own mortality table that reflects the forecasted improvements at every age
 - Younger participants have more future mortality improvement built in than for older participants
- CalPERS recently adopted a static projection

DISCUSSION CALENDAR - AGENDA ITEM NO. 4
BUDGET AND FINANCE COMMITTEE MEETING
September 10, 2014

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **Fourth Quarter Financial Newsletter – July 2013 to June 2014**

Summary:

This agenda item is submitted to provide information regarding revenues and expenditures in the General Fund and the Capital Improvement Program Funds through the end of FY 2013/14.

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of September 18, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

Background:

The Quarterly Financial Newsletter provides information about the General Fund's top five revenue sources as well as expenditures by department and type. Revenues and expenditures for the Capital Improvement Program (CIP) Funds are also included. Revenues and expenditures for the General Fund and the CIP Funds are within budgetary expectations for this reporting period. Any notable items are detailed in the attached newsletter.

Impact to Cities/County:

Not Applicable.

Fiscal Impact:

Not Applicable.

Staff Contacts for Further Information:

Deborah Gunderson, Budget Manager

DeborahGunderson@ocfa.org

(714) 573-6302

Tricia Jakubiak, Treasurer

triciajakubiak@ocfa.org

(714) 573-6301

Attachment:

Fourth Quarter Financial Newsletter – July 2013 to June 2014



Orange County Fire Authority

Fourth Quarter Financial Newsletter – July 2013 to June 2014

OVERVIEW

This report covers activities through the fourth quarter of Fiscal Year 2013/14 (FY 2013/14) and provides preliminary year-end results. Budget figures include all budget adjustments authorized by the Board through the end of the fiscal year.

Preliminary year-end Revenue receipts exceeded budget for the General Fund. Expenditures are less than budgeted for all funds.

GENERAL FUND

With the year completed, General Fund revenues are 100.7% of budget and expenditures are 98.7% as shown below:

General Fund	Budget	YTD Actual	Percent
Revenues	306,018,321	308,084,546	100.7%
Expenditures	306,032,304	301,909,489	98.7%

Top Five Revenues. Our top five revenue sources represent 96.8% of our total revenue in FY 2013/14. As a category these revenues exceeded budget; two key revenues were within three tenths of one percent of budget. Highlights are noted as follows:

Top Five Revenues	Budget	YTD Actual	% Rec'd
Property Tax	190,156,251	190,873,688	100.4%
Cash Contracts	83,643,150	83,523,943	99.9%
CRR Fees	7,903,810	7,880,155	99.7%
CRA Pass-Through	7,357,261	7,404,584	100.6%
State Reimbursements	7,226,066	8,997,851	124.5%
Total	296,286,538	298,680,221	100.8%

- **Property tax.** Year-end property tax receipts amounted to approximately \$717,000 more than anticipated. This is primarily due to Supplemental Property tax; in FY 2013/14 we received \$4.3 million compared to a budget of \$3.7 million. This is the highest dollar amount received since FY 2007/08. This is likely due to a combination of increased market values and construction and resale activity that triggered the issuance of supplemental tax bills.
- **Cash contracts.** This revenue was approximately \$120,000 under budget, in part due to changes in San Clemente's seasonal ambulance service which decreased costs as well as revenues.
- **Community Risk Reduction Fees.** This category of revenue was within \$24,000 of budget.

- **Community Redevelopment Agency (CRA) Pass-Through.** This category of revenue was approximately \$47,000 higher than budget.
- **State Reimbursements.** Revenues were higher than budget due to greater emergency activity.

Expenditures. Expenditures are within budget for this fiscal year as summarized by department.

Expenditures By Department	Budget	YTD Actual	% Expended
Executive Mgt.	6,426,193	6,338,509	98.6%
HR Division	5,164,300	4,847,005	93.9%
Operations	233,095,792	231,804,415	99.4%
Comm. Risk Reduc.	15,065,519	13,652,799	90.6%
Business Services	21,891,835	21,452,143	98.0%
Support Services	24,388,665	23,814,618	97.6%
Total	306,032,304	301,909,489	98.7%

- **Human Resources Division.** Actuals were approximately \$317,000 less than budget primarily due to \$300,000 in salary and benefit savings from vacant positions during the fiscal year.
- **Community Risk Reduction:** S&EB expenditures were also low in CRR due to savings from vacant positions. S&EB expenditures were under budget by over \$1 million.

Expenditures by type are outlined below:

Expenditures by Type	Budget	YTD Actual	% Expended
S&EB	273,143,957	269,959,939	98.8%
S&S	32,344,214	31,485,442	97.3%
Equipment	544,133	464,108	85.3%
Total	306,032,304	301,909,489	98.7%

CIP FUNDS

The following summarizes revenues and expenditures for the Capital Improvement Program funds. Any variances are noted as follows:

Facilities Maintenance & Improvement

Fund 122	Budget	YTD Actual	Percent
Revenue	1,190,626	311,980	26.2%
Expenditures	2,287,614	1,300,881	56.9%

- The revenue and expenditure budgets include \$890,000 for the Community Development Block Grant. The funds are for improvement projects to 9 of the 10 fire stations in Santa Ana. As a reimbursement grant, the revenues will not be received until after the expenditures have been made. These projects were still in process as of the end of the fiscal year.

Facilities Replacement

Fund 123	Budget	YTD Actual	Percent
Revenue	5,380,110	1,437,449	26.7%
Expenditures	12,956,900	7,202,513	55.6%

- Revenues include \$4.1 million in developer reimbursements for the design and construction of Station 56 (Ortega Valley). Work on this project began in February, 2014 and was not complete by the end of the fiscal year. The revenue will be rebudgeted in FY 2014/15; the design-build contract for Station 56 was issued in FY 2013/14. Appropriations of \$5.5 million for the US&R Warehouse purchase will be rebudgeted to 2014/15.

Communications & Info. Systems Replacement

Fund 124	Budget	YTD Actual	Percent
Revenue	1,112,982	239,294	21.5%
Expenditures	12,708,617	3,560,885	28.0%

- Budgeted revenue and expenditures include \$920,000 for the replacement of the 911 telephone system, which did not commence in FY 2013/14. Revenues and expenditures will not need to be rebudgeted to FY 2014/15 as the State will pay the vendor directly for this project.

- FY expenditures include \$1.9 million for the Computer Aided Dispatch (CAD) system project and \$492,000 for the Internet/Intranet Project.
- Because time and attention was primarily devoted to the CAD project in 2013/14, the remaining two projects related to the Public Safety Systems project (Incident Reporting Application and IFP Replacement) will be the focus in 2014/15. Appropriations of \$5.5 million will be rebudgeted for this purpose.

Vehicle Replacement

Fund 133	Budget	YTD Actual	Percent
Revenue	2,197,593	1,617,354	73.6%
Expenditures	11,822,621	5,976,390	50.6%

- Actual revenue includes the quarterly Cash Contract payments for vehicle depreciation. Additional revenues will be rebudgeted in FY 2014/15 for the reimbursement of the Type 1 Engine for Station 56.
- Expenditure activity in the FY includes the issuance of encumbrances for the purchase of: five Type-1 engines; six BC Command vehicles; eight full-size 4-door vehicles; and two step-vans, as well as the lease-purchase payments for the helicopters.
- \$4.6 million in appropriations will be rebudgeted from 2013/14 to 2014/15 for the purchase of one 100' Quint and three 75' Quints.

SUMMARY

For more information. This summary is based on detailed information from our financial system. If you would like more information or have any questions about the report, please contact Deborah Gunderson, Budget Manager at 714-573-6302, or Tricia Jakubiak, Treasurer at 714-573-6301.

**DISCUSSION CALENDAR - AGENDA ITEM NO. 5
BUDGET AND FINANCE COMMITTEE MEETING
September 10, 2014**

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **Rebudget of FY 2013/14 Uncompleted Projects**

Summary:

This item is submitted for approval to rebudget various projects that were not completed in FY 2013/14 and require a rebudget to FY 2014/15.

Recommended Action:

Review the proposed agenda item and direct staff to place this item on the agenda for the Board of Directors meeting of September 25, 2014 with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

Authorize the following budget adjustments:

Fund	Increase Revenue	Increase Appropriations	Appropriate Fund Balance
121	\$567,420	\$690,809	\$123,389
12270	872,780	861,300	
123	4,056,050	5,749,437	1,693,387
124		6,753,008	6,753,008
133	643,106	5,807,347	5,164,241
171		216,213	216,213

Background:

The FY 2013/14 adopted CIP budget included \$22.4 million for over 30 projects. Due to the complexity of some of the projects and the time required to complete others, not all projects were completed in FY 2013/14. Therefore, staff is recommending at this time that appropriations for these projects be rebudgeted to FY 2014/15 so the projects can be completed. **This is simply a timing change of planned expenditures, and does not reflect an overall increase.** FY 2014/15 fund balance will need to be appropriated commensurate with the un-expended portion of fund balance from FY 2013/14.

Rebudgets for grants, donated funds, and the remaining Communications LAB contract funding are included in the General Fund and require an appropriation of FY 2014/15 fund balance, commensurate with the un-expended portion of General Fund fund balance from FY 2013/14. The attachment provides a detailed listing of the rebudgeted projects for each fund.

Impact to Cities/County:

Not Applicable.

Fiscal Impact:

Not Applicable.

Staff Contacts for Further Information:

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Tricia Jakubiak, Treasurer

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Attachment:

List of Rebudgets from FY 2013/14 to FY 2014/15

ORANGE COUNTY FIRE AUTHORITY
Rebudgets from FY 2013/14 to FY 2014/15

Fund #	Description	Revenue Rebudgets	Expenditure Rebudgets
Fund 121 - General Fund			
121	Maruchan donation		200,000
121	USAR Grant	\$467,583	\$442,454
121	Smoke Alarm Program		267
121	Disaster Preparedness Academy (Battalion 7)		4,571
121	UASI 2013 Grant	8,296	8,296
121	Homeland Security Grant	5,172	5,172
121	Communications Lab contract balance		30,049
121	CFSC Peters Canyon Grant	86,369	-
Total: Fund 121		\$567,420	\$690,809
12270 CDBG Grant		\$872,780	\$861,300
Fund 123 - Facilities Replacement Fund			
123	FS 56- Sendero	4,056,050	249,437
123	US&R Warehouse		5,500,000
Total: Fund 123		\$4,056,050	\$5,749,437
Fund 124 - Communications/Info Systems Replacement Fund			
124	Mobile Data Computer (MDC) System		153,200
124	Comm Installs/Vehicle Replacement		108,600
124	(MDC) Mobile Data Network Infrastructure		200,000
124	CAD System Planning/Design		171,371
124	Incident Reporting Application Repl		2,615,801
124	Integrated Fire Prevention Repl		2,915,351
124	Wireless Network to Apparatus		100,000
124	Internet/SharePoint & Organizational Calendaring		56,330
124	800 MHz Radios		58,365
124	FS Telephone/Alarm/Sound System Upgrade		59,375
124	Central Data Storage, Backup and Recovery		60,000
124	Network Upgrade, Server Consolidation		33,000
124	Audio Video Digital Media Archive		50,000
124	Business Systems Server Replacement		158,115
124	Digital Ortho Photography		7,000
124	Field Data Collection Devices		6,500
Total: Fund 124		-	\$6,753,008

ORANGE COUNTY FIRE AUTHORITY
Rebudgets from FY 2013/14 to FY 2014/15

Fund #	Description	Revenue Rebudgets	Expenditure Rebudgets
Fund 133 - Vehicle Replacement Fund			
Emergency Vehicles			
133	Ambulance		139,989
133	Type I Engine (one)- Developer funded FS56	643,106	128,399
133	BC Command Vehicles (six) outfitting costs		256,640
133	Compressed Air Foam Sys Patrol Vehicle		214,240
133	Mid-Size 4x4 4-Door (two)		82,448
133	Full-Size 4-Door (three) outfitting costs		123,618
133	TDA 100' Quint		1,322,673
133	Truck - 75' Quint (three)		3,283,593
	Total Emergency Vehicle Rebudgets		5,551,600
Support Vehicles			
133	Mid-Size Cargo Van (one)		31,827
133	Mid-Size Pickup - 1/2 Ton (three)		93,438
133	Pickup General - 3/4 Ton		130,482
	Total Support Vehicle Rebudgets		255,747
Total: Fund 133		\$643,106	\$5,807,347
Fund 171 - Structural Fire Fund Entitlement Fund			
171	Dana Point		22,060
171	Irvine		94,797
171	Laguna Niguel		52,690
171	Aliso Viejo		29,056
171	Rancho Santa Margarita		17,610
Total: Fund 171		-	\$216,213