ORANGE COUNTY FIRE AUTHORITY AGENDA

Budget and Finance Committee Meeting

Wednesday, June 12, 2013
12:00 Noon

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

Al Murray, Chair
Elizabeth Swift, Vice Chair
Sam Allevato Trish Kelley Randal Bressette Jerry McCloskey 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 Vice Chair 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 May 8, 2013, 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 Report
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 June 27, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

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

Recommended Action:
Receive and file the report.

4. Annual Workers' Compensation Update and Actuarial Report for CY 2012
Submitted by: Zenovy Jakymiw, Human Resources Director

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of July 25, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors receive and file the report.

5. Report on Impact of the Arson Abatement Program
Submitted by: Laura Blaul, Assistant Chief/Fire Marshal, Fire Prevention Department

Recommended Actions:
Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of June 27, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee continue to contract with the City of Irvine for an Arson Abatement Officer.

REPORTS

No items.

COMMITTEE MEMBER COMMENTS

ADJOURNMENT – The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, July 10, 2013, 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 Fire Operations and Training Center, 1 Fire Authority Road, Irvine, CA, not less than 72 hours prior to the meeting. Dated this 6th day of June.

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

UPCOMING MEETINGS:

Claims Settlement Committee Meeting	Thursday, June 27, 2013, 5:30 p.m.
Executive Committee Meeting	Thursday, June 27, 2013, 6:00 p.m.
Board of Directors Special Meeting	Thursday, June 27, 2013, 6:30 p.m.
Budget and Finance Committee Meeting	Wednesday, July 10, 2013, 12:00 noon

MINUTES
ORANGE COUNTY FIRE AUTHORITY

Budget and Finance Committee Meeting
Wednesday, May 8, 2013
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 May 8, 2013, at 12:00 p.m. by Chairman Al Murray.

PLEDGE OF ALLEGIANCE

Director Allevato 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
Bruce Channing, Ex Officio

Absent: Trish Kelley, Mission Viejo

Also present were:

Fire Chief Keith Richter	General Counsel David Kendig
Deputy Chief Craig Kinoshita	Assistant Chief Laura Blaul
Assistant Chief Dave Thomas	Assistant Chief Lori Zeller
Clerk of the Authority Sherry Wentz	Assistant Clerk Lydia Slivkoff

PUBLIC COMMENTS (F: 12.02B3)

Chairman Murray opened the Public Comments portion of the meeting. Chairman Murray closed the Public Comments portion of the meeting without any comments.

MINUTES

1. Minutes for the April 10, 2013, Budget and Finance Committee Meeting (F: 12.02B2)

On motion of Director Bressette and second by Director Weinberg, the Committee voted unanimously to approve the minutes of the April 10, 2013, Budget and Finance Committee Meeting.

CONSENT CALENDAR

2. Monthly Investment Report (F: 11.10D2)

On motion of Director Weinberg and second by Director Bressette, the Committee voted unanimously to direct staff to place the item on the agenda for the Executive Committee meeting of May 23, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

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

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

4. Third Quarter Financial Newsletter – *January to March 2013* (F: 15.07)

On motion of Director Weinberg and second by Director Bressette, the Committee voted unanimously to direct staff to place this item on the agenda for the Executive Committee meeting of May 23, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

5. Grant Award Acceptance (F: 16.02E)

On motion of Director Weinberg and second by Director Bressette, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of May 23, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors accept California Fire Safe Council grant and direct staff to increase the FY 2013/14 General Fund (Fund 121) budget by $158,064 in revenue and $33,000 in appropriations.

DISCUSSION CALENDAR

6. Rosenow Spevacek Group, Inc. (RSG) Final Property Tax Revenue Projections (F: 15.10)

Assistant Chief Lori Zeller introduced Senior Accountant Dennis Sorensen who provided an overview on the Rosenow Spevacek Group, Inc. final property tax revenue projections.

On motion of Director Weinberg and second by Director McCloskey, the Committee voted unanimously to receive and file the report.

7. Review of the 2013/14 Draft Proposed Budget (F: 15.04 FY 2013/14)

Assistant Chief Lori Zeller introduced Treasurer Tricia Jakubiak who provided a PowerPoint presentation on the 2013/14 draft proposed budget.

City Manager's Technical Advisory Committee (TAC) Chair Bruce Channing provided a report on TAC's review of the budget and recommended support of the proposed budget.

On motion of Director Weinberg and second by Director McCloskey, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of May 23, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Adopt the submitted 2013/14 Proposed Budget.
2. Authorize an additional 2012/13 mid-year budget adjustment to decrease appropriations in Fund 124 by $5,231,152.
3. Direct staff to delete the non-safety position of WEFIT Program Coordinator.
4. Approve and authorize the temporary transfer of funds, currently estimated at $35 million, from the CIP funds to the General Fund for projected cash flow timing deficits, as well as repayment, with interest, prior to the end of 2013/14.

8. Approval of the Updated OCFA Advanced Life Support (ALS) Paramedic and Basic Life Support (BLS) Medical Supplies Reimbursement Rates (F: 15.12)

Assistant Chief Lori Zeller introduced Finance Manager/Auditor Jim Ruane who provided a PowerPoint presentation on the updated OCFA Advanced Life Support (ALS) Paramedic and Basic Life Support (BLS) medical supplies reimbursement rates.

On motion of Director Weinberg and second by Vice Chair Swift, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of May 23, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Conduct a Public Hearing.

2. Upon approval of the proposed increase to the maximum BLS emergency 9-1-1 transportation billing rate by the Orange County Board of Supervisors, authorize staff to increase OCFA's Advanced Life Support (ALS) and Basic Life Support (BLS) Medical Supply reimbursement rates by the same percentage increase effective on or after May 24, 2013.

9. Updated Cost Reimbursement Rates and Methodologies (F: 15.12)

Assistant Chief Lori Zeller introduced Finance Manager/Auditor Jim Ruane who provided an overview on the updated cost reimbursement rates and methodologies.

On motion of Director Weinberg and second by Director Bressette, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of May 23, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Conduct a public hearing.
2. Adopt the proposed Cost Reimbursement Rate schedules effective July 1, 2013.

REPORTS (F: 12.02B5)

No items.

COMMITTEE MEMBER COMMENTS (F: 12.02B4)

Vice Chair Swift indicated she looked forward to the "Fill the Boot" campaign being held on May 17, 2013, in the cities of Buena Park, Santa Ana, and Seal Beach. She also thanked OCFA staff for attending an Open House at the Buena Park City Hall on May 4, 2013.

Chair Murray indicated he attended the press conference held by Fire Chief Richter and Sheriff Sandra Hutcheons on May 1, 2013, at Peters Canyon Regional Park. He commended staff for doing a nice job on the wildfire press release, and indicated it was well attended.

Director McCloskey indicated he was pleased to see OCFA staff at the Soka University of America's 12th Annual International Festival in Aliso Viejo.

ADJOURNMENT – Chairman Murray adjourned the meeting at 1:10 p.m. The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, June 12, 2013, at 12:00 noon.

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

DISCUSSION CALENDAR - AGENDA ITEM NO. 2
BUDGET AND FINANCE COMMITTEE MEETING
June 12, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Patricia Jakubiak, Treasurer

SUBJECT: **Monthly Investment Report**

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 June 27, 2013, 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 April 30, 2013. A preliminary investment report as of May 24, 2013, 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 – April 2013/Preliminary Report – May 2013

Attachment

Orange County Fire Authority Monthly Investment Report

Final Report – April 2013

Preliminary Report – May 2013

Monthly Investment Report
Table of Contents

Orange County Fire Authority

Final Investment Report

April 30, 2013

EXECUTIVE SUMMARY

Portfolio Activity & Earnings

During the month of April 2013, the size of the portfolio increased significantly from $112.1 million to $161.6 million. Major receipts for the month included the sixth apportionment of secured property taxes in the amount of $61.1 million. Significant receipts also included various intergovernmental contract and grant payments and a developer fee payment totaling $8.4 million. Significant disbursements for the month included primarily biweekly payrolls. The portfolio's balance is expected to decrease in the following month as there are no major receipts scheduled for May.

In April, the portfolio's yield to maturity (365-day equivalent) decreased by 6 basis points to 0.28%. The effective rate of return increased by 2 basis points to 0.36% for the month and edged up slightly by 1 basis point to 0.32% for the fiscal year to date. The average maturity of the portfolio shortened by 11 days to 307 days to maturity.

Economic News

The U.S. economic activity picked up modestly in April 2013, although overall activity remained uneven. Employment conditions improved from the prior month reflecting in a better than expected employment report for April. There were a total of 165,000 new jobs created in April while a smaller number had been forecasted for the month. In addition, the prior two months' employment numbers were revised upward for a total adjusted increase of 114,000 new jobs for those months. The unemployment rate continued to decline slightly by another notch to 7.5% from 7.6% previously. Consumer confidence measures remained mixed. However, durable goods orders and retail sales came in better than expected. Housing activity continued to show improvement and the NFIB (National Federation of Independent Business) small business optimism index increased in April to a six-month high level. On the other hand, both manufacturing and non-manufacturing activity continued to fall slightly in April. Industrial production also fell more than expected. Energy prices and the CPI (Consumer Price Index) remained low. On May 1, 2013, at the second day of its scheduled meeting, the FOMC (Federal Open Market Committee) met and voted to keep the federal funds rate unchanged at a target range of 0-0.25%. The Committee slightly upgraded its outlook on the economy. However, it also committed to be "flexible" with respect the QE (Quantitative Easing) asset purchasing program to "maintain appropriate policy accommodation…"

BENCHMARK COMPARISON AS OF APRIL 30, 2013

3 Month T-Bill:	*0.06%*	*1 Year T-Bill:*	*0.12%*
6 Month T-Bill:	*0.09%*	*LAIF:*	*0.26%*
OCFA Portfolio:	*0.36%*		

PORTFOLIO SIZE, YIELD, & DURATION

	Current Month	***Prior Month***	***Prior Year***
Book Value-	*$161,624,303*	*$112,134,051*	*$157,135,594*
Yield to Maturity (365 day)	*0.28%*	*0.34%*	*0.48%*
Effective Rate of Return	*0.36%*	*0.34%*	*0.41%*
Days to Maturity	*307*	*318*	*563*

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(714)573-6301

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
April 30, 2013

Investments	Par Value	Market Value (See Note 1 on page 9)	Book Value (See Note 2 on page 9)	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	4,921,083.78	4,921,083.78	4,921,083.78	3.08	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	9,000,000.00	8,990,910.00	8,994,857.50	5.62	127	121	0.170	0.172
Federal Agency Coupon Securities	51,000,000.00	50,995,290.00	51,004,765.66	31.90	1,269	859	0.516	0.523
Federal Agency Disc. -Amortizing	45,000,000.00	44,992,890.00	44,992,222.50	28.14	124	93	0.066	0.067
Local Agency Investment Funds	50,000,000.00	50,050,930.00	50,000,000.00	31.27	1	1	0.260	0.264
Investments	**159,921,083.78**	**159,951,103.78**	**159,912,929.44**	**100.00%**	**447**	**307**	**0.274**	**0.278**
Cash and Accrued Interest								
Passbook/Checking (not included in yield calculations)	1,615,484.43	1,615,484.43	1,615,484.43		1	1	0.000	0.000
Accrued Interest at Purchase		11,803.33	11,803.33					
Subtotal		1,627,287.76	1,627,287.76					
Total Cash and Investments	**161,536,568.21**	**161,578,391.54**	**161,540,217.20**		**447**	**307**	**0.274**	**0.278**

Total Earnings	April 30 Month Ending	Fiscal Year To Date
Current Year	35,017.19	313,423.94
Average Daily Balance	**119,706,881.17**	**118,221,419.17**
Effective Rate of Return	**0.36%**	**0.32%**

"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, 2013. 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."

P Jakubiak 5/3/13

Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	*$*	*161,540,217.20*
GASB 31 Adjustment to Books (See Note 3 on page 9)	*$*	*84,085.98*
Total	*$*	*161,624,303.18*

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
April 30, 2013

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value (See Note 1 on page 9)	Book Value (See Note 2 on page 9)	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SYS528	528	High Mark 100% US Treasury MMF			4,921,083.78	4,921,083.78	4,921,083.78	0.001	0.001	1	
		Subtotal and Average	**5,331,432.40**		**4,921,083.78**	**4,921,083.78**	**4,921,083.78**		**0.001**	**1**	
Commercial Paper Disc. -Amortizing											
36959HVW4	806	GEN ELEC CAP CRP		04/25/2013	9,000,000.00	8,990,910.00	8,994,857.50	0.170	0.172	121	08/30/2013
		Subtotal and Average	**4,365,591.96**		**9,000,000.00**	**8,990,910.00**	**8,994,857.50**		**0.172**	**121**	
Federal Agency Coupon Securities											
3133ECBT0	799	Federal Farm Credit Bank (Callable anytime)		12/26/2012	9,000,000.00	9,000,270.00	9,000,000.00	0.375	0.375	786	06/26/2015
3133ECM76	809	Federal Farm Credit Bank (Callable 7/22/13)		04/25/2013	9,000,000.00	8,995,590.00	8,993,735.10	0.400	0.424	1,087	04/22/2016
3133804V6	787	Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,993,400.00	6,000,000.00	1.000	0.981	1,561	08/09/2017
313380B22	788	Fed Home Loan Bank (Callable anytime)		08/20/2012	6,000,000.00	6,000,180.00	6,000,000.00	0.450	0.440	841	08/20/2015
3133813R4	800	Fed Home Loan Bank (Callable 6/9/13)		12/20/2012	9,000,000.00	9,001,890.00	9,013,327.57	1.000	0.584	8	11/09/2017
313382DC4	803	Fed Home Loan Bank (Callable 6/7/13)		03/15/2013	12,000,000.00	12,003,960.00	11,997,702.99	0.470	0.477	1,041	03/07/2016
		Subtotal and Average	**43,809,860.89**		**51,000,000.00**	**50,995,290.00**	**51,004,765.66**		**0.523**	**859**	
Federal Agency Disc. -Amortizing											
313589MV2	808	Fed Natl Mortg Assoc		04/25/2013	9,000,000.00	8,996,760.00	8,996,740.00	0.080	0.081	163	10/11/2013
313397FZ9	798	Freddie Mac		12/20/2012	9,000,000.00	8,999,910.00	8,999,482.50	0.090	0.091	23	05/24/2013
313397LR0	807	Freddie Mac		04/25/2013	9,000,000.00	8,997,660.00	8,997,637.50	0.070	0.071	135	09/13/2013
313385HT6	804	Fed Home Loan Bank		04/25/2013	9,000,000.00	8,999,370.00	8,999,350.00	0.040	0.041	65	07/05/2013
313385JH0	805	Fed Home Loan Bank		04/25/2013	9,000,000.00	8,999,190.00	8,999,012.50	0.050	0.051	79	07/19/2013
		Subtotal and Average	**16,197,674.25**		**45,000,000.00**	**44,992,890.00**	**44,992,222.50**		**0.067**	**93**	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			50,000,000.00	50,050,930.00	50,000,000.00	0.264	0.264	1	
		Subtotal and Average	**50,002,321.66**		**50,000,000.00**	**50,050,930.00**	**50,000,000.00**		**0.264**	**1**	
		Total and Average	**119,706,881.17**		**159,921,083.78**	**159,951,103.78**	**159,912,929.44**		**0.278**	**307**	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
April 30, 2013

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		07/01/2012	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2012	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank of California		07/01/2012	1,330,484.43	1,330,484.43	1,330,484.43		0.000	1
SYS361	361	YORK		07/01/2012	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	**0.00**	Accrued Interest at Purchase		11,803.33	11,803.33			1
				Subtotal		1,627,287.76	1,627,287.76			
		Total Cash and Investmentss	**119,706,881.17**		**161,536,568.21**	**161,578,391.54**	**161,540,217.20**		**0.278**	**307**

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1 Fire Authority Road
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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of May 1, 2013

				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
Aging Interval: 0 days	(05/01/2013 - 05/01/2013)	6 Maturities	0 Payments	56,536,568.21	35.00%	56,536,568.21	56,587,498.21
Aging Interval: 1 - 30 days	(05/02/2013 - 05/31/2013)	1 Maturities	0 Payments	9,000,000.00	5.57%	8,999,482.50	8,999,910.00
Aging Interval: 31 - 60 days	(06/01/2013 - 06/30/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 61 - 91 days	(07/01/2013 - 07/31/2013)	2 Maturities	0 Payments	18,000,000.00	11.14%	17,998,362.50	17,998,560.00
Aging Interval: 92 - 121 days	(08/01/2013 - 08/30/2013)	1 Maturities	0 Payments	9,000,000.00	5.57%	8,994,857.50	8,990,910.00
Aging Interval: 122 - 152 days	(08/31/2013 - 09/30/2013)	1 Maturities	0 Payments	9,000,000.00	5.57%	8,997,637.50	8,997,660.00
Aging Interval: 153 - 183 days	(10/01/2013 - 10/31/2013)	1 Maturities	0 Payments	9,000,000.00	5.57%	8,996,740.00	8,996,760.00
Aging Interval: 184 - 274 days	(11/01/2013 - 01/30/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	(01/31/2014 - 05/01/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 366 - 1095 days	(05/02/2014 - 04/30/2016)	4 Maturities	0 Payments	36,000,000.00	22.29%	35,991,438.09	36,000,000.00
Aging Interval: 1096 - 1825 days	(05/01/2016 - 04/30/2018)	2 Maturities	0 Payments	15,000,000.00	9.29%	15,013,327.57	14,995,290.00
Aging Interval: 1826 days and after	(05/01/2018 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
	Total for	18 Investments	0 Payments		100.00	161,528,413.87	161,566,588.21

NOTES TO PORTFOLIO MANAGEMENT REPORT

Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The 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, 2012 includes an increase of $60,965 to the LAIF investment and an increase of $23,121 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 April 30, 2013, 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 March 31, 2013 is 1.0010186. When applied to OCFA's LAIF investment, the fair value is $50,050,930 or $50,930 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 April 30, 2013 is included on the following page.

State of California
Pooled Money Investment Account
Market Valuation
4/30/2013

Description	Carrying Cost Plus Accrued Interest Purch.	Fair Value	Accrued Interest
United States Treasury:			
Bills	$ 21,765,487,211.64	$ 21,787,455,800.00	NA
Notes	$ 18,053,782,952.74	$ 18,093,532,000.00	$ 16,359,445.50
Federal Agency:			
SBA	$ 520,893,362.34	$ 520,335,874.18	$ 527,778.56
MBS-REMICs	$ 214,491,289.56	$ 233,391,080.48	$ 1,025,642.37
Debentures	$ 1,581,407,298.57	$ 1,580,278,500.00	$ 3,921,025.00
Debentures FR	$ -	$ -	$ -
Discount Notes	$ 7,542,580,194.46	$ 7,548,787,000.00	NA
GNMA	$ 835.50	$ 842.45	$ 8.66
IBRD Debenture	$ 399,971,694.00	$ 400,336,000.00	$ 750,000.00
IBRD Deb FR	$ -	$ -	$ -
CDs and YCDs FR	$ 400,000,000.00	$ 400,000,000.00	$ 407,011.11
Bank Notes	$ -	$ -	$ -
CDs and YCDs	$ 9,850,057,328.19	$ 9,844,281,145.54	$ 2,670,277.80
Commercial Paper	$ 6,298,593,576.42	$ 6,297,867,868.03	NA
Corporate:			
Bonds FR	$ -	$ -	$ -
Bonds	$ -	$ -	$ -
Repurchase Agreements	$ -	$ -	$ -
Reverse Repurchase	$ -	$ -	$ -
Time Deposits	$ 4,424,640,000.00	$ 4,424,640,000.00	NA
AB 55 & GF Loans	$ 280,609,191.43	$ 280,609,191.43	NA
TOTAL	$ 71,332,514,934.85	$ 71,411,515,302.11	$ 25,661,189.00

Fair Value Including Accrued Interest $ 71,437,176,491.11

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

May 24, 2013

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
May 24, 2013

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 Equlv.	YTM/C 365 Equlv.
Money Mkt Mutual Funds/Cash	10,936,092.26	10,936,092.26	10,936,092.26	6.97	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	9,000,000.00	8,994,150.00	8,995,877.50	5.73	127	97	0.170	0.172
Federal Agency Coupon Securities	51,000,000.00	50,919,240.00	51,004,763.31	32.50	1,269	841	0.557	0.565
Federal Agency Disc. -Amortizing	36,000,000.00	35,995,950.00	35,994,180.00	22.94	116	86	0.060	0.061
Local Agency Investment Funds	50,000,000.00	50,050,930.00	50,000,000.00	31.86	1	1	0.260	0.264
Investments	**156,936,092.26**	**156,896,362.26**	**156,930,913.07**	**100.00%**	**447**	**299**	**0.288**	**0.292**
Cash and Accrued Interest (See Note 4 on page 18)								
Passbook/Checking (not included in yield calculations)	-1,712,600.17	-1,712,600.17	-1,712,600.17		0	0	0.000	0.000
Accrued Interest at Purchase		1,553.33	1,553.33					
Subtotal		-1,711,046.84	-1,711,046.84					
Total Cash and Investments	**155,223,492.09**	**155,185,315.42**	**155,219,866.23**		**447**	**299**	**0.288**	**0.292**

Total Earnings	May 24 Month Ending	Fiscal Year To Date
Current Year	31,490.91	344,914.85
Average Daily Balance	**157,493,820.77**	**121,094,429.02**
Effective Rate of Return	**0.30%**	**0.32%**

"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, 2013. 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."

P Jakubiak 5/30/13

Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	*$*	*155,219,866.23*
GASB 31 Adjustment to Books (See Note 3 on page 18)	*$*	*84,085.98*
Total	*$*	*155,303,952.21*

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
May 24, 2013

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

CUSIP	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												
SYS528	528	High Mark 100% US Treasury MMF		(See Note 4 on page 18)		10,936,092.26	10,936,092.26	10,936,092.26	0.001	0.001	1	
		Subtotal and Average		5,042,081.44		10,936,092.26	10,936,092.26	10,936,092.26		0.001	1	
Commercial Paper Disc. -Amortizing												
36959HVW4	806	GEN ELEC CAP CRP			04/25/2013	9,000,000.00	8,994,150.00	8,995,877.50	0.170	0.172	97	08/30/2013
		Subtotal and Average		8,995,388.75		9,000,000.00	8,994,150.00	8,995,877.50		0.172	97	
Federal Agency Coupon Securities												
3133ECBT0	799	Federal Farm Credit Bank	(Callable anytime)		12/26/2012	9,000,000.00	9,000,090.00	9,000,000.00	0.375	0.375	762	06/26/2015
3133ECM76	809	Federal Farm Credit Bank	(Callable 7/22/13)		04/25/2013	9,000,000.00	8,976,150.00	8,993,875.49	0.400	0.424	1,063	04/22/2016
3133804V6	787	Fed Home Loan Bank	(Callable anytime)		08/09/2012	6,000,000.00	5,952,720.00	6,000,000.00	1.000	0.981	1,537	08/09/2017
313380B22	788	Fed Home Loan Bank	(Callable anytime)		08/20/2012	6,000,000.00	6,000,060.00	6,000,000.00	0.450	0.440	817	08/20/2015
3133813R4	800	Fed Home Loan Bank	(Callable 6/9/13)		12/20/2012	9,000,000.00	8,993,340.00	9,013,131.10	1.000	0.818	15	11/09/2017
313382DC4	803	Fed Home Loan Bank	(Callable 6/7/13)		03/15/2013	12,000,000.00	11,996,880.00	11,997,756.72	0.470	0.477	1,017	03/07/2016
		Subtotal and Average		51,004,764.43		51,000,000.00	50,919,240.00	51,004,763.31		0.565	841	
Federal Agency Disc. -Amortizing												
313589MV2	808	Fed Natl Mortg Assoc			04/25/2013	9,000,000.00	8,997,930.00	8,997,220.00	0.080	0.081	139	10/11/2013
313397LR0	807	Freddie Mac			04/25/2013	9,000,000.00	8,998,650.00	8,998,057.50	0.070	0.071	111	09/13/2013
313385HT6	804	Fed Home Loan Bank			04/25/2013	9,000,000.00	8,999,730.00	8,999,590.00	0.040	0.041	41	07/05/2013
313385JH0	805	Fed Home Loan Bank			04/25/2013	9,000,000.00	8,999,640.00	8,999,312.50	0.050	0.051	55	07/19/2013
		Subtotal and Average		44,618,252.81		36,000,000.00	35,995,950.00	35,994,180.00		0.061	86	
Local Agency Investment Funds												
SYS336	336	Local Agency Invstmt Fund				50,000,000.00	50,050,930.00	50,000,000.00	0.264	0.264	1	
		Subtotal and Average		47,833,333.33		50,000,000.00	50,050,930.00	50,000,000.00		0.264	1	
		Total and Average		157,493,820.77		156,936,092.26	156,896,362.26	156,930,913.07		0.292	299	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
May 24, 2013

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		07/01/2012	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2012	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank of California		07/01/2012	-1,997,600.17	-1,997,600.17	-1,997,600.17	*(See Note 4 on page 18)*	0.000	1
SYS361	361	YORK		07/01/2012	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	**0.00**	Accrued Interest at Purchase		1,553.33	1,553.33			**0**
				Subtotal		-1,711,046.84	-1,711,046.84			
		Total Cash and Investmentss	**157,493,820.77**		**155,223,492.09**	**155,185,315.42**	**155,219,866.23**		**0.292**	**299**

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of May 25, 2013

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

				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
Aging Interval: 0 days	(05/25/2013 - 05/25/2013)	6 Maturities	0 Payments	59,223,492.09	38.15%	59,223,492.09	59,274,422.09
Aging Interval: 1 - 30 days	(05/26/2013 - 06/24/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 31 - 60 days	(06/25/2013 - 07/24/2013)	2 Maturities	0 Payments	18,000,000.00	11.60%	17,998,902.50	17,999,370.00
Aging Interval: 61 - 91 days	(07/25/2013 - 08/24/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 92 - 121 days	(08/25/2013 - 09/23/2013)	2 Maturities	0 Payments	18,000,000.00	11.60%	17,993,935.00	17,992,800.00
Aging Interval: 122 - 152 days	(09/24/2013 - 10/24/2013)	1 Maturities	0 Payments	9,000,000.00	5.80%	8,997,220.00	8,997,930.00
Aging Interval: 153 - 183 days	(10/25/2013 - 11/24/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 184 - 274 days	(11/25/2013 - 02/23/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	(02/24/2014 - 05/25/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 366 - 1095 days	(05/26/2014 - 05/24/2016)	4 Maturities	0 Payments	36,000,000.00	23.19%	35,991,632.21	35,973,180.00
Aging Interval: 1096 - 1825 days	(05/25/2016 - 05/24/2018)	2 Maturities	0 Payments	15,000,000.00	9.66%	15,013,131.10	14,946,060.00
Aging Interval: 1826 days and after	(05/25/2018 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
	Total for	17 Investments	0 Payments		100.00	155,218,312.90	155,183,762.09

NOTES TO PORTFOLIO MANAGEMENT REPORT

Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The 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, 2012 includes an increase of $60,965 to the LAIF investment and an increase of $23,121 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 COMMITEE MEETING
June 12, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

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

Summary:
This agenda item is submitted to provide a status update regarding steps taken during May 2013, to improve the Orange County Employees' Retirement System's (OCERS) financial policies, procedures, and practices.

Recommended Action:
Receive and file the report.

Background:
In 2010 and 2011, accounting issues were identified at OCERS impacting actuarial calculations of the value of assets and liabilities attributable to the various plan sponsors. The total accounting values at OCERS were correct, but the attribution of values to individual plan sponsors required adjustment. A large amount of work was performed by OCERS and plan sponsor staff members to correct the issues, and ongoing improvement plans were established by OCERS. Following these events, the OCFA's Budget and Finance Committee directed OCFA staff to provide routine updates to the Committee regarding financial activities occurring at OCERS.

Actions Taken/Financial Policies & Practices – May 2013

OCERS BOARD OF RETIREMENT – May 20, 2013:

PRELIMINARY DECEMBER 31, 2012 VALUATION
Mr. Paul Angelo of The Segal Company reviewed the initial results of the December 31, 2012 Actuarial Valuation (Attachment 1). This is the first valuation to reflect the impact of the recent lowering of OCERS assumed earnings rate from 7.75% to 7.25%. A full actuarial report will be delivered to the Board on June 17, 2013, for final consideration and adoption.

ACTUARIAL FUNDING POLICY-RESPONSE TO RAEL & LETSON
Mr. Paul Angelo provided a response to the Rael & Letson letter for informational purposes only (Attachments 2 and 3). No Board action will take place on this item until June 17th.

COMPENSATION STUDY
Representatives of The Hay Group presented the results of their compensation study comparing OCERS Management salaries to those of other employers in both the private and public sector (Attachment 4). Following the presentation, the OCERS Board Ad-Hoc Compensation Committee discussed an initial draft of an OCERS Compensation Philosophy document (Attachment 5). No action was taken on this item, as some members of the Board requested

additional information prior to taking action. In addition, OCFA staff requested an opportunity for plan sponsors to participate in the dialogue and provide feedback to OCERS regarding the draft Compensation Philosophy document.

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

Impact to Cities/County:
Any increase or decrease in OCFA's retirement costs will impact the OCFA's overall budget, which can potentially impact the funds available for services provided to the communities we serve. In addition, annual changes to OCFA's salary and benefit costs impact the charges passed on to OCFA's contract members.

Fiscal Impact:
Any changes to the amortization of future UAALs will apply, at the earliest, to the 2013 actuarial valuation, and would be implemented in July 2015 (although more likely to occur in July 2016). Longer amortization periods result in lower contributions and lower contribution volatility. Conversely, shorter amortization periods get to full funding sooner, but at the price of higher current contributions and higher contribution volatility. It is not possible to quantify in advance the full future cost impact associated with adopting any of the alternative amortization periods for future changes in UAAL simply because the plan's future changes in UAAL are not yet identified.

Staff Contacts for Further Information:
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Tricia Jakubiak, Treasurer
TriciaJakubiak@ocfa.org
(714) 573-6301

Attachments:
1. OCERS December 31, 2012 Actuarial Valuation (on file in the Office of the Clerk)
2. Letter from Rael & Letson December 10, 2012
3. Letter from the Segal Company May 16, 2013
4. The Hay Group Compensation Study (on file in the Office of the Clerk)
5. OCERS Compensation Philosophy

Attachment 2

RAEL & LETSON
CONSULTANTS AND ACTUARIES
378 VINTAGE PARK DRIVE ♦ FOSTER CITY, CALIFORNIA 94404-4813
TELEPHONE (650) 341-3311 ♦ FAX (650) 341-5392
WWW.RAEL-LETSON.COM

MEMORANDUM

TO:	Mark Nichols Executive Director, Association of Orange County Deputy Sheriffs
FROM:	Jonathan Hassen and Wendy Londa
DATE:	December 10, 2012
RE:	Orange County Employees' Retirement System - Funding Policy Options

As requested, we have examined various funding policy options available to the Orange County Employees' Retirement System (OCERS) in light of the Plan's current funded position, employer contribution levels and market losses experienced in the last five years. The information below highlights possible options as well as their viability.

Funding Policy Options for OCERS

We have analyzed the impact on the Plan of nine funding policy changes. A few of these options are variations of the legal provisions in the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 ("PRA") as signed by President Obama on June 25, 2010. This legislation was passed in an effort to help fundamentally sound private sector pension plans which had become financially challenged by the economic downturn in the last few years. Although the law only applies to the private sector, some of the funding relief provisions would be considered reasonable for the public sector. The options we evaluated are as follows:

1. Restart the amortization period of all amortization bases to a fixed and declining 25-year period as of December 31, 2011 (25-year layered)[1].

2. Restart the amortization period of all amortization bases to a fixed and declining 30-year period as of December 31, 2011 (30-year layered).

3. Extend the amortization period for valuation value investment losses incurred in the 2011 Plan Year from 15 years to 30 years.

4. Smooth the market value investment loss incurred in the 2011 Plan Year over 7 years.

[1] With the exception of actuarial assumption bases with amortization periods currently exceeding 25 years.

5. Smooth the market value investment loss incurred in the 2011 Plan Year over 10 years

6. Combination of options 1 and 4: restart the amortization period of all amortization bases to a fixed and declining 25-year period and smooth the market value investment loss incurred in the 2011 Plan Year over 7 years.

7. Combination of options 1 and 5: restart the amortization period of all amortization bases to a fixed and declining 25-year period and smooth the market value investment loss incurred in the 2011 Plan Year over 10 years.

8. Combination of options 2 and 4: restart the amortization period of all amortization bases to a fixed and declining 30-year period and smooth the market value investment loss incurred in the 2011 Plan Year over 7 years.

9. Combination of options 2 and 5: restart the amortization period of all amortization bases to a fixed and declining 30-year period and smooth the market value investment loss incurred in the 2011 Plan Year over 10 years.

As expected, the above options have a favorable impact on the employer contribution rate for the Fiscal Year beginning July 1, 2013, although to varying degrees. The estimated savings for General and Safety members combined are shown in the chart below.

Funding Option	*Estimated Reduction in Employer Contributions*	*Estimated Reduction in Employer Contribution Rate*
1[1]	$49,737,000	3.07%
2[2]	$74,494,000	4.60%
3	$12,530,000	0.77%
4	$3,300,000	0.20%
5	$5,775,000	0.36%
6	$52,073,000	3.22%
7	$53,825,000	3.32%
8	$76,600,000	4.73%
9	$78,179,000	4.83%

1 For Safety members, Option 1 (restart amortization over 25 years) is an estimated reduction in the Safety employer contribution of **$12,760,000** with an associated **3.44%** estimated reduction in the Safety employer contribution rate.

2 For Safety members, Option 2 (restart amortization over 30 years) is an estimated reduction in the Safety employer contribution of **$20,117,000** with an associated **5.43%** estimated reduction in the Safety employer contribution rate.

Although the PRA relief afforded to private sector multiemployer pension plans only offered relief for the two plan years ending after August 31, 2008, we have not priced any funding policy options specific to the 2008 and 2009 investment years in our analysis. Since the Plan incurred an investment loss in the 2008 calendar year and investment losses are recognized over 5 years (20% per year) for purposes of determining the valuation value of assets, the Plan has already recognized 80% of the $2.2 billion investment loss incurred in the 2008 Plan Year. The loss will have been fully recognized as of December 31, 2012. The Plan could retroactively utilize an extended amortization or smoothing period for the investment loss incurred in the 2008 Plan Year and apply the associated reduction as a credit to subsequent employer contributions. However, we have assumed this is not a desirable option for purposes of this analysis.

As a comparable alternative to the private sector pension relief offered for the 2008 and 2009 Plan Years, we have included in Options 3-5 the impact of recognizing the investment loss incurred in the 2011 Plan Year over an extended period. If the Plan were to incur a significant investment loss in a subsequent plan year, both years could be afforded some variation of pension relief. For your information, the chart on page 6 shows some modified versions of relief adopted by other major public retirement systems.

Additional discussion on these funding policy options is included below. Please note that the options presented in our analysis are for illustration only and other alternative funding policies may, for example, consist of combinations of the above.

Discussion of Options

Option 1 entails collapsing all current amortization bases, with the exception of actuarial assumption bases with amortization periods currently exceeding 25 years, into one base and amortizing that base over 25 years. Each new base resulting from actuarial gains or losses, assumption changes or plan provision changes would be amortized over the applicable OCERS stipulated period. The OCERS Plan currently amortizes changes in the unfunded actuarial accrued liability over various periods depending on the cause of the change. For instance, actuarial assumption changes are amortized over 30 years whereas experience gains or losses are amortized over 15 years. This option would mitigate the effect of any future losses incurred.

Option 2 is similar to Option 1 except that all current amortization bases would collapse into one base and be amortized over 30 years. Note that the Pension Relief Act of 2010 provided a one-time option to private sector defined benefit plans to amortize the investment losses incurred in the two plan years following August 31, 2008 over an amortization period of 30 years with all future bases amortized using current rules (generally over 15 years).

Under current Government Accounting Standards (GASB), a 30-year amortization period is considered acceptable. However, under new Government Accounting Standard guidelines (GASB 67/68, as amended by GASB 50), investment experience will need to be recognized over a 5-year period and demographic experience will need to be recognized over the average future working lifetime of plan participants. In general, the average future working lifetime varies by population but is generally 15-25 years. These new standards will take effect for fiscal years beginning after June 15, 2013 for pension plans and after June 15, 2014 for employers. Note that accounting compliance under GASB is completely separate from funding requirements and may be determined under different methodologies.

Option 3 isolates the valuation value investment loss incurred during the 2011 Plan Year and extends the time to amortize the loss to 30 years rather than 15 years as under the current funding policy. Note that the Plan incurred a total experience loss of $272.1 million in the 2011 Plan Year. However, this was comprised of an investment loss of $388.9 million offset by a demographic gain of $116.8 million. Under Option 3, the $388.9 million investment loss would be amortized over an extended period of 30 years to provide temporary relief.

Option 4 uniquely targets the market value investment loss incurred during the 2011 Plan Year by applying a smoothing period of 7 years rather than the current 5-year smoothing methodology in the determination of the valuation value of assets. Note that the smoothing period used to determine the valuation value of assets would revert back to the current 5-year smoothing methodology effective with the market value investment gains or losses incurred in the 2012 Plan Year. This would provide employers with additional time to pay off the 2011 asset loss.

Option 5 is similar to Option 4 but extends the smoothing period from 7 years to 10 years. As expected, this option provides further relief by spreading the market losses over 10 years; this is a reasonable time frame given the extent of the loss and comparability to private sector relief which also afforded pension plans with the option to smooth losses incurred in the two plan years ending after August 31, 2008 over 10 years. Bear in mind, this only affects the loss for the 2011 Plan Year. All future gains or losses would be smoothed according to the current method although future losses could also be smoothed over an extended period.

Options 6-9 are combinations of Options 1-2 and 4-5. These options involve combining the 25 or 30-year collapsed amortization of all bases along with a 7 or 10-year extended smoothing period of the investment loss incurred in the 2011 Plan Year for purposes of determining the valuation value of assets. In aggregate, these options produce the greatest cost savings although the savings are not significantly higher than Options 1 and 2 on a stand-alone basis. Note that PRA relief provided private sector plans with the option to both amortize net investment losses incurred in the 2008 and 2009 Plan Years over 30 years and to extend the smoothing period for recognizing such losses to 10 years. Options 6-9 are similar in nature to these relief provisions.

Amortization Options

Note that the amortization options included in this analysis (Options 1 and 2) are considered fixed and declining amortization methods or "closed" amortization periods. The base is initially established at the effective date and the calculated amortization amount covers both the interest and principal owed on the base. By the end of the 30-year amortization period, the amortization base has been fully paid off. This is the amortization methodology currently utilized by OCERS. Subsequent to the restart amortization of the unfunded actuarial liability established as of December 31, 2004 (currently amortized over 23 years), OCERS incorporated a "closed" layered approach for subsequent experience gains and losses. This results in a new amortization base each year to the extent unfunded liabilities differ from actuarial expectations. This base is amortized over 15 years which is similar in length to private sector multiemployer pension plans.

An alternative to the fixed and declining or "closed" amortization approach is a rolling or "open" amortization method. A rolling amortization method resets the amortization period to the stipulated period each year and replaces the previous year's base with a new or "open" amortization base. The drawback of a rolling or "open" amortization method is that the base never fully gets paid off because the amortization period resets each year. As a result, the amortization amounts are lower than under a fixed and declining method after the first year. This approach can be advantageous in difficult financial times because it provides the Plan with a longer period of time to recover from financial struggles. On the negative side, it can prevent a Plan from recognizing fruitful financial gains in periods of economic prosperity. Since our analysis of funding policy Options 1 and 2 reflects a fresh reset of the amortization period to 25 and 30 years as of December 31, 2011 respectively, there is no difference between the "closed" and "open" amortization approaches in the initial year of establishment. The difference in methods would only come into play in subsequent years to the extent the plan's unfunded liability deviated from actuarial expectations.

Consider the following examples of the estimated effect on the Plan's December 31, 2012 amortization payment if the Plan were to incur a valuation value investment loss of $500 million versus a gain of $500 million in the 2012 Plan Year assuming the Plan had previously established Option 2 as of December 31, 2011 (30-year restart amortization of all bases):

Amortization Method	***2012 Amortization with Valuation Value Gain of $500m in the 2012 Plan Year***	***2012 Amortization with Valuation Value Loss of $500m in the 2012 Plan Year***
Closed	$214,557,000	$303,591,000
Open	$225,932,000	$282,752,000

As shown above, an investment loss results in a lower amortization payment under the rolling or "open" amortization approach while an investment gain results in a lower amortization payment under the fixed and declining or "closed" amortization approach. Although public sector pension plans are generally considered ongoing plans and thus may reasonably select an "open" amortization period, we would not recommend this method over a period in exceed of 20 years. A 30-year rolling amortization period is simply too long in our view.

Other Major California Public Retirement Systems

For illustration purposes, we've listed below the amortization methods for experience gains and losses followed by a sampling of major public retirement systems in California based on their most recently published actuarial valuation reports. Note that there are certain exceptions and not all amortization bases are amortized over the stated period:

Public Retirement System	***Amortization Approach for Experience G/L***
LACERS	Switched from 5-year recognition of investment gains and losses to 7-year recognition in 2010. Combined bases and amortized over 30-year fixed and declining period in 2012. Subsequent gain/loss bases amortized over 15-year fixed and declining period (layered).
LACERA	30-year fixed and declining (layered).
SBCERS	Switched from 15-year fixed and declining period to 17-year rolling "open" amortization period in 2010.
VCERA	15-year fixed and declining period (layered).
SDCERS	15-year fixed and declining period (layered).
SFERS	15-year rolling "open" amortization period.

Other Considerations

One issue to keep in mind when selecting a funding policy is the potential for negative amortization. This occurs when scheduled amortization payments do not cover the interest accrued on the outstanding balance (Unfunded Actuarial Accrued Liability, or UAAL). In this case, the amount by which the interest exceeds the payment is added to the outstanding balance, thus increasing the UAAL. Although negative amortization is not a desired feature of an amortization schedule, it is important to note that the long-term health of the Plan should be the main focus. If the funded ratio continues to improve and contributions are at a manageable rate, negative amortization is acceptable for a short period of time.

Note that, as of December 31, 2011, certain existing amortization bases are operating in a negative amortization environment and there is the potential for negative amortization under a combined amortization funding policy approach. Depending on future investment and demographic experience, a minimum funding requirement may be considered such as interest on the UAAL.

In the December 31, 2011 actuarial valuation, several assumptions were updated by the actuary and the impact of those changes was amortized over a 30-year period allocated among general and safety member participant groups. At the time, the investment return assumption was maintained at 7.75% although the actuary recommended a reduction in the assumption. However, we understand that OCERS recently voted to lower the investment return assumption by 50 basis points. This reduction in the investment rate assumption will further increase actuarial liabilities and employer contributions. To prevent significant increases in the contribution rate due to pivotal assumptions such as the investment return assumption, some systems have opted to phase-in the effect of the change over a period of years. These assumptions should continue to be monitored and reviewed for reasonability

We are available to discuss the options or other analysis included in this memo in further detail. Please let us know if you have any questions.

APPENDIX

ASSOCIATION OF ORANGE COUNTY DEPUTY SHERIFFS

STATEMENT OF ACTUARIAL OPINION

The analysis presented in this memorandum is based on the information included in the actuarial valuation reports for the Orange County Employees' Retirement System for the 2010, 2011 and 2012 Plan Years as well as the actuarial assumption review for the December 31, 2011 actuarial valuation as prepared by The Segal Group, Inc. All data, methods and assumptions are the same as used in the December 31, 2011 actuarial valuation, except where noted otherwise.

Future actuarial measurements may differ significantly from the current measurements presented in this memorandum due to factors such as plan experience differing from that anticipated by the economic or demographic assumptions, changes in economic or demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Actuarial computations presented in this letter are for purposes of determining alternative funding policy options. The calculations in this letter have been made on a basis consistent with our understanding of OCERS current funding requirements. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this letter. Accordingly, additional determinations may be needed for other purposes. Rael & Letson's work is prepared solely for the internal business uses of the Association of Orange County Deputy Sheriffs. Rael & Letson's advice is not intended to be a substitute for qualified legal or accounting counsel. Note that we have not explored any legal issues with respect to the proposed funding policy options.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this funding policy options memorandum is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are actuaries for Rael & Letson, are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Certified by:__________________________________E.A., F.C.A., M.A.A.A.
Jonathan Hassen
Enrolled Actuary No. 11-07913

Reviewed by: Wendy Londa_________________E.A., A.S.A., F.C.A., M.A.A.A.
Wendy G. Londa
Enrolled Actuary No. 11-07600

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VIA E-MAIL AND USPS

May 16, 2013

Mr. Steve Delaney
Chief Executive Officer
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701-3101

Re: Comments Related to Memo Prepared by Rael & Letson

Dear Steve:

As requested, we have provided our comments related to the memo prepared by Rael & Letson (the actuary retained by the Association of Orange County Deputy Sheriffs) dated December 10, 2012. In that memo, Rael & Letson presented various options for consideration by the OCERS Board for changing either the smoothing of prior investment losses or the amortizing of OCERS' current Unfunded Actuarial Accrued Liabilities (UAAL), along with combinations of both changes.

Asset Smoothing Periods

Currently, a five-year period is used by the Board to smooth out any annual investment gains or losses before such amounts are recognized in the UAAL and amortized as part of the employer's contribution rate. In the Rael & Letson memo, they suggest using a longer smoothing period only for the 2011 investment losses, which would recognize that year's losses over either seven or ten years. Any investment gains after 2011 would still be smoothed over five years; however, according to Rael & Letson, "future losses could also be smoothed over an extended period".

We recommend against these proposals because they would result in investment gains being targeted for faster recognition than investment losses. This would result in an asset smoothing method that would be biased relative to the market value in that it would be expected to produce values systematically higher than market value even if average investment returns match the assumed return used in the smoothing method. Such a biased method would be inconsistent with generally accepted actuarial practices.

Amortization Periods for UAAL

The Rael & Letson memo also provided options where the employer's contribution rates may be temporarily reduced (in exchange for higher contributions later on) by using longer periods of 25 or 30 years to amortize the System's current UAAL. These proposals are slight variations to alternatives that we have already provided for consideration by the Board. Please refer to slide 47 of our March 18 PowerPoint presentation (which was also discussed on April 15), where we show the effect of reamortizing the current UAAL over 25 or 30 years.

We estimated that reamortizing the December 31, 2011 current UAAL over 30 years would reduce the average employer contribution rate by 4.7% of payroll. That result is comparable to the 4.6% of payroll rate reduction estimated by Rael & Letson under their Funding Option #2. We also showed that reamortizing the December 31, 2011 UAAL over 25 years would reduce current costs by 2.9%. This differs from the Rael & Letson result of 3.07% under their Funding Option #1 only because they have excluded any current amortization layers with amortization periods longer than 25 years. As we have discussed with the Board, if this is the Board's intent then similar results could be obtained in a more straightforward manner by reamortizing the current UAAL over some period between 25 and 30 years.

Please let us know if you have any comments or questions.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA	Andy Yeung, ASA, MAAA, EA
Senior Vice President and Actuary	Vice President and Associate Actuary

AYY/gxk

cc: Brenda Shott
Julie Wyne

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

MEMORANDUM

DATE: May 9, 2013

TO: Members, Board of Retirement

FROM: Brenda Shott, Assistant CEO Finance and Internal Operations
Cynthia Hockless, HR Manager/Director of Administrative Services

SUBJECT: **2012 Compensation Study**

Recommendation:

Approve OCERS Pay Philosophy as recommended by the Ad Hoc Compensation Committee.

Background:

OCERS contracted with the Hay Group, a human resources consulting firm, in August 2012 to conduct a compensation study of the OCERS direct employees (twenty-two individuals who are management level and above). The purpose of the study is to provide an objective and comprehensive comparison of OCERS' total compensation (salary, bonus and benefits) between OCERS and other public and private sector employees. The intended use of the Hay Group's report was to review OCERS current pay structure against the market and its competitiveness in recruiting new employees and retaining existing employees. The study results are planned to be used as a tool for aligning pay structure with strategic goals with the ultimate outcome being a well-rounded compensation package that is in line with OCERS pay philosophy. The results of Hay Group's work were presented to the Ad Hoc Compensation Committee on April 26, 2013.

Prior to engaging in evaluating specific modifications to the existing pay structure, it is important to first decide and document the strategic and philosophical principles that should be used to design, implement and administer the compensation program to attract, retain and motivate talented employees. The Ad Hoc Compensation Committee met a second time on May 8, 2013 to specifically discuss OCERS' pay philosophy. Based upon information received from the Hay Group, suggested input from the executive management team and the Committee's thorough discussions and deliberations, the Committee is recommending the OCERS Pay Philosophy (Attachment 1) for approval by the Board of Retirement. Once a pay philosophy is established, the next step in the process would be to use that philosophy as the guiding principle to develop the salary structure for OCERS direct employees using the market data received from Hay Group. The salary structure will then be reviewed and vetted by the Ad Hoc Compensation Committee resulting in a recommended salary structure being brought back to the Board of Retirement for adoption at the next regularly scheduled Board meeting.

The Hay Group's presentation is included with this report as Attachment 2. Representatives from Hay Group will be presenting their study results to the Board of Retirement on May 20, 2013.

Attachments 3 and 4 include additional financial information requested by Committee Member Lindholm. The data being provided is intended to give the Board a 10 year trend analysis of OCERS total compensation budgeted costs compared to membership and county revenue. Attachment 5 provides historical portfolio returns compared to county revenue.

Submitted by:

Brenda M Shott

Brenda Shott
Assistant CEO, Finance & Internal Operations

OCERS COMPENSATION PHILOSOPHY

PURPOSE AND BACKGROUND

The philosophy behind the Orange County Employees Retirement System's ("OCERS") compensation program is to create a pay structure with the goal of attracting, developing and retaining strong leaders who support OCERS' mission and values. We believe our compensation program is a management tool that when aligned with an effective communication plan is designed to support, reinforce, and align our values, business strategy, operation & financial needs through professional and proficient staff that provide secure retirement benefits to our members with the highest standards of excellence.

The underlying philosophy governing OCERS' compensation program is designed to accomplish the following:

- Provide pay levels that are externally competitive among peers within our industry and with published market data for similar sized organizations.
- Recognize and reward individual performance, initiatives, growth in job proficiency and achievement of stated goals.
- Provide management the flexibility to make compensation decisions within budgetary guidelines.

OCERS' compensation program is designed to attract, develop, motivate, and retain talented employees who drive the agency's success. We strive to provide a base salary that generally meets the market between the 50th and 75th percentile when employees are fully proficient and meeting expectations. We believe that an employee consistently performing above expectations and that is proficient in his or her role should be rewarded with a higher base pay than the target midpoint. Employees who are either still developing their proficiency level or do not meet expectations would have a base salary that is below the target midpoint. In addition to base salary, OCERS will utilize the Pay for Performance ("P4P") incentive based program as a way to meet strategic goals of the agency. The P4P incentive pay will be available to all employees and will be based on individual goals that relate to the agency goals as well as overall performance.

In alignment with our organization's culture, we will strive to communicate openly about the goals of the agency and the design of the compensation program. The compensation process is intended to be fair and uncomplicated so that all employees and managers understand the goals and the outcome of the process.

OCERS retains the services of nationally recognized consulting firms to assist the agency in benchmarking compensation. The most recent compensation study was conducted in January, 2013.

COMPENSATION STRATEGY

Competitive Set: OCERS' will benchmark all positions with comparable positions at other governmental entities; including California based retirement systems, and with published general market survey data for organizations that have similar sized budgets and/or assets under management. We believe that this definition of a competitive set is most representative of our market for attracting and retaining employees.

Degree of Competitiveness: The target midpoint for salary ranges will generally be between the 50th and 75th percentile of market base pay, which recognizes the higher reported average labor cost in Orange

County in comparison with other employers surveyed statewide and nationally. Positions similarly valued by the market and/or by OCERS will be grouped together for the purpose of developing internal equity. Positions grouped together will be assigned the same salary range. The group will be defined as a pay grade. The target midpoint for a pay grade will be calculated by blending the market data for all positions in the group. The ranges will be developed adding and subtracting 20%-25% from the established midpoint. Individual placement against the target midpoint will be based on education, experience and internal equity at the time of hiring.

Adjustment to ranges: On an annual basis, during OCERS budget development, the approved base salary ranges will be adjusted by U.S Bureau of Labor and Statistics' most recently published 12 month Consumer Price Index-All Urban Consumers for the Los Angeles-Riverside-Orange County area. The automatic adjustment to the approved salary range will not automatically impact any individual's salary.

Movement within salary ranges: OCERS' will use an annual merit pool to award annual salary increases to employees. Increases will be awarded based on an employee's performance during the preceding calendar year. The amount of base pay increases awarded to each employee may include both a component of cost of living (same CPI index as used to adjust the range annually) and a merit increase, to provide movement of employees within their given salary range. The merit portion of base pay adjustments will be awarded based upon the written annual performance evaluation prepared by the employee's direct supervisor and reviewed by the Executive responsible for the respective department. Such evaluation will address the employee's job proficiency, demonstration of meeting stated job expectations, and achievement of stated individual goals. The merit portion of salary increases will be 0-2% of base pay for Meets Expectations, 2.5%-5% of base pay for Exceeds Expectations and 5.5% - 8% of base pay for Exceptional Performance (an Exceptional Performance rating will require approval by both the CEO and the Board Chairman). Individuals receiving "Needs Improvement" or "Does Not Meet Expectations" in the annual performance evaluation will not receive any increase to salary (neither merit nor cost of living).

The annual funding of the merit pool will be based upon both the performance of the portfolio for the year in which employees' performance is being evaluated and the county's governmental funds tax revenue for the most recent available financial statements or financial updates as follows:

- Merit pool is NOT funded at all if OCERS portfolio has negative returns AND the county's governmental funds tax revenue declined from the previous year.
- Merit pool is funded at one half of the normal level if OCERS portfolio earns positive return.
- Merit pool is funded at the normal level if the OCERS portfolio achieves the actuarial assumed rate of return AND the county's governmental funds tax revenue growth is positive.
- Merit pool is funded at one and a half times the normal level if OCERS portfolio earns more than one and a half times the actuarial assumed rate of return and the county's governmental funds tax revenue growth is at least 3%
- The CEO may request from the Board of Retirement a special budgetary provision to recognize extraordinary performance in special situations.

Incentive Pay: OCERS utilizes a Pay for Performance (P4P) program to reward employees for outstanding performance and for an individual's contribution to the achievement of the goals set in OCERS' Annual Business Plan and OCERS' Strategic Plan. The P4P program offers an individual incentive of up to 2.5% of their existing base pay as non-base building lump sum payment (to align with the County's current P4P program). The P4P incentive must be re-earned during each measuring period and is considered "at risk" pay (meaning it is not guaranteed nor promised to the employee as a regular salary item each year). The funding and annual administration for the P4P program will be consistent with the funding methodology and administrative thresholds for the merit pool.

Review of philosophy: The compensation philosophy will be reviewed every 2 years or on an as needed basis either by the full Board of Retirement directly or initially by an ad hoc committee designated by the Chairman of the Board that will make recommendations to the full Board. Revisions will be made to the philosophy as needed to keep pace with current market conditions. Every four (4) years a compensation study shall be conducted.

Version Control:

Version	Date	Changes from previous version
1.0	05/09/2013	Initial Draft –to Board

Review:

Reviewed by	Signature	Date

Approval:

Approved by	Signature	Date

DISCUSSION CALENDAR – AGENDA ITEM NO. 4
BUDGET AND FINANCE COMMITTEE MEETING
June 12, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Zenovy Jakymiw, Human Resources Director

SUBJECT: **Annual Workers' Compensation Update and Actuarial Report for CY 2012**

Summary:
This agenda item provides an update on the OCFA workers' compensation program. Attached is the Actuarial Study showing the estimated financing projections of the Workers' Compensation Self-insurance Program.

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of July 25, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors receive and file the report.

Background:
In 2002, the OCFA was granted permission by the Division of Industrial Relations Self-Insurance Plans to be self-insured through a Certificate of Consent. The OCFA administers its self-insured program through a Third Party Administrator (TPA), York Risk Services Group, and all costs within the self-insured retention (SIR) are paid out of the annual budget.

Budgeting for Self-Insurance Fund:
Twice a year OCFA uses an independent actuary to project future workers' compensation costs and to update the amount of funding needed to self-insure its Workers' Compensation Program. Attached is the latest actuary report using data valued as of December 31, 2012.

An actuary analyzes the OCFA's claims data to determine the best projection of cost and necessary funding based on case reserves set by the TPA, OCFA's historical loss experience, and industry trends. The period analyzed by the actuary reflects the OCFA's first claims history as a self-insured employer dating back to 2002 through 2012. The OCFA averages approximately 28 claims a month or 336 per year (not including first aid injuries) with 672 open claims.

The actuary provides outstanding losses and projected ultimate losses at various confidence levels, which estimates the probability that a given dollar amount will cover a specific group of open or unreported claims. The actuary also reviews past years' workers' compensation losses to recalculate, if necessary, a more accurate case level reserve.

The OCFA's policy is to maintain reserve funding at the 50% confidence level for outstanding losses that occurred in prior years and to include funding at the 60% confidence level for losses projected to occur in the upcoming fiscal year. Past and future losses funded at the 50% and 60% confidence levels respectively includes medical payments, permanent disability and life pension payments, allocated and unallocated expenses. This level of funding was recommended by the Budget and Finance Committee and approved by the Board of Directors in FY 2010/11 for implementation each year in the annual budget for workers' compensation.

Analysis of Actuary Projections:
The actuarial projection for all estimated outstanding liabilities (prior years through June 30, 2013) at the 50% confidence level is $51,610,837. This is approximately a 38% increase from the estimated outstanding liabilities identified in the December 31, 2011 actuary report. Estimated outstanding liabilities include the current liabilities and long-term liabilities. Current liabilities are the amount of estimated outstanding losses that the OCFA is expected to pay off during the next fiscal year. Long-term liabilities are the remaining estimated outstanding losses (i.e. the portion of estimated losses that will be paid off in fiscal years beyond the upcoming fiscal year).

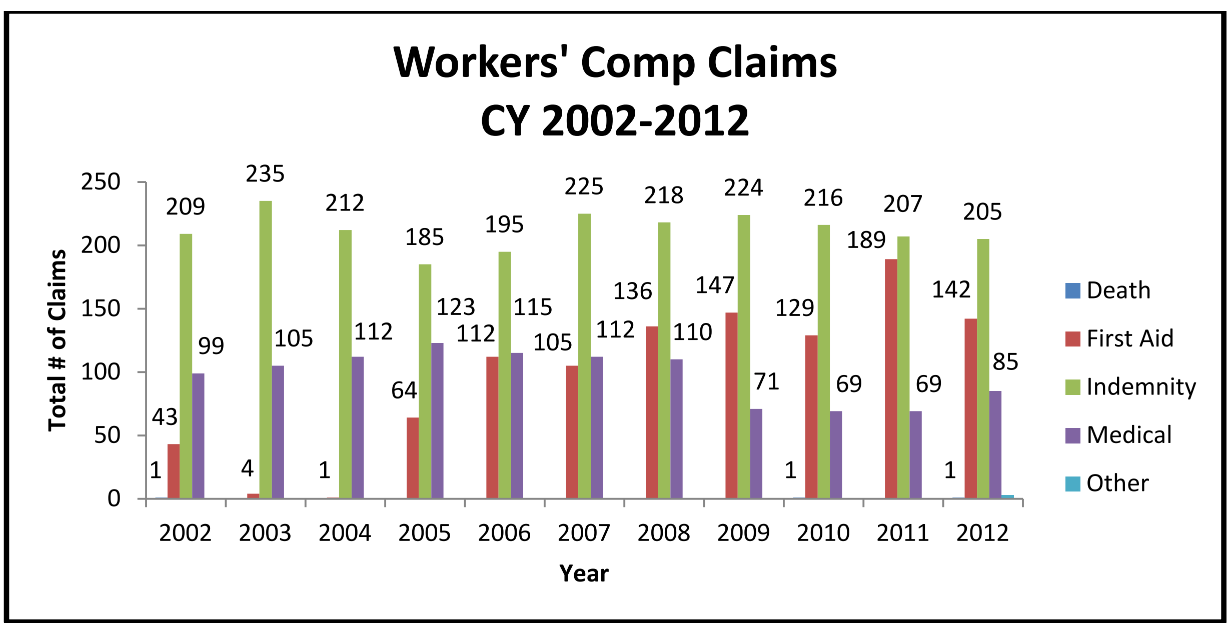
Current Liabilities – the actuary has projected the current liabilities estimated to be paid in the 2012/13 fiscal year to be $8,784,054. This is approximately a 15% increase from estimated current liabilities identified in the December 31, 2011, actuary report.

Long-Term Liabilities – the actuary has projected the long-term liabilities to be $42,826,783 using the 50% confidence level. This is approximately a 44% increase from the estimated long-term liabilities in the December 31, 2011 actuary report.

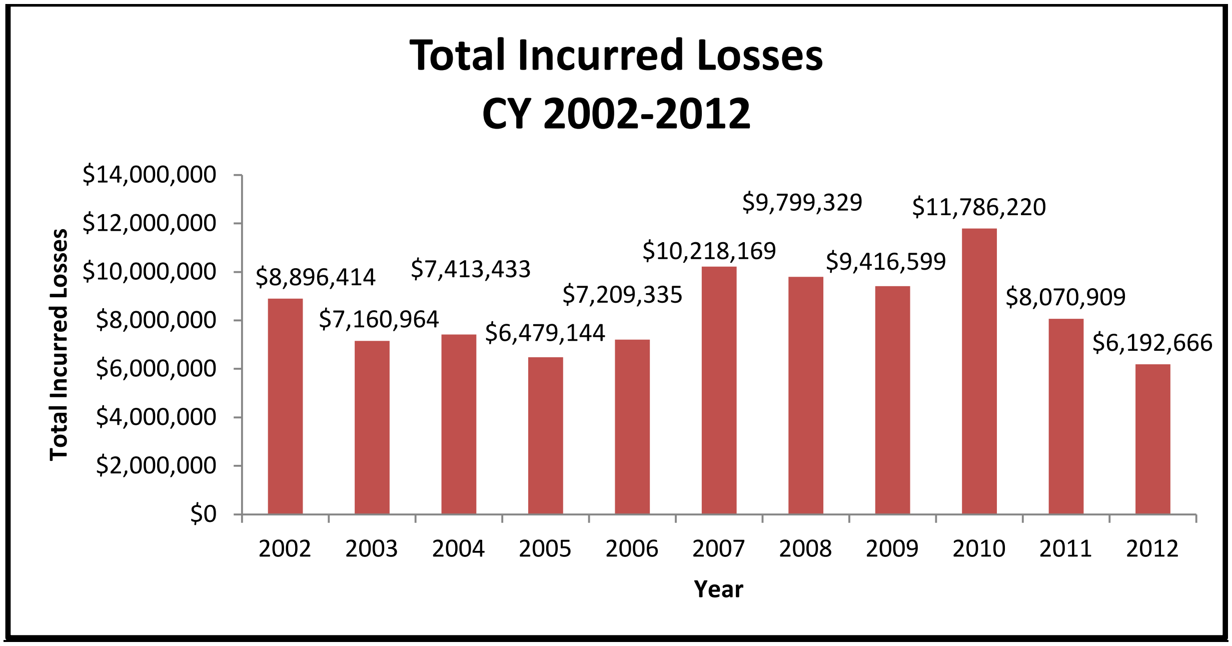
The increase in cost associated with the actuarial study reflects all outstanding paid claims to include reserves and incurred but not reported claims in addition to the statutory benefits up to the OCFA SIR level of $2.0M. There are several contributing factors to the cost increase including workers' compensation reform that increased the statute of limitation for cancer from five to ten years and created additional delays; injury presumptions for safety personnel; an aging workforce which contributes to a longer recovery time and higher permanent disability benefits; increased medical costs; and an increase to the workforce in 2012 with the addition of the City of Santa Ana. In regards to the cost increases associated with the increased workforce from the City of Santa Ana, it's important to note that the OCFA's Fire Services Agreement with the City includes provisions requiring the City to reimburse OCFA for workers' compensation costs associated with cumulative trauma injuries for these transferring employees.

Injury and Illness Trend Analysis:
The chart below includes the following classification of injuries and illnesses: first aid, medical, indemnity, death, and other. OCFA's total number of injuries and illnesses has remained fairly consistent over the past seven years with an average of 440 per year.

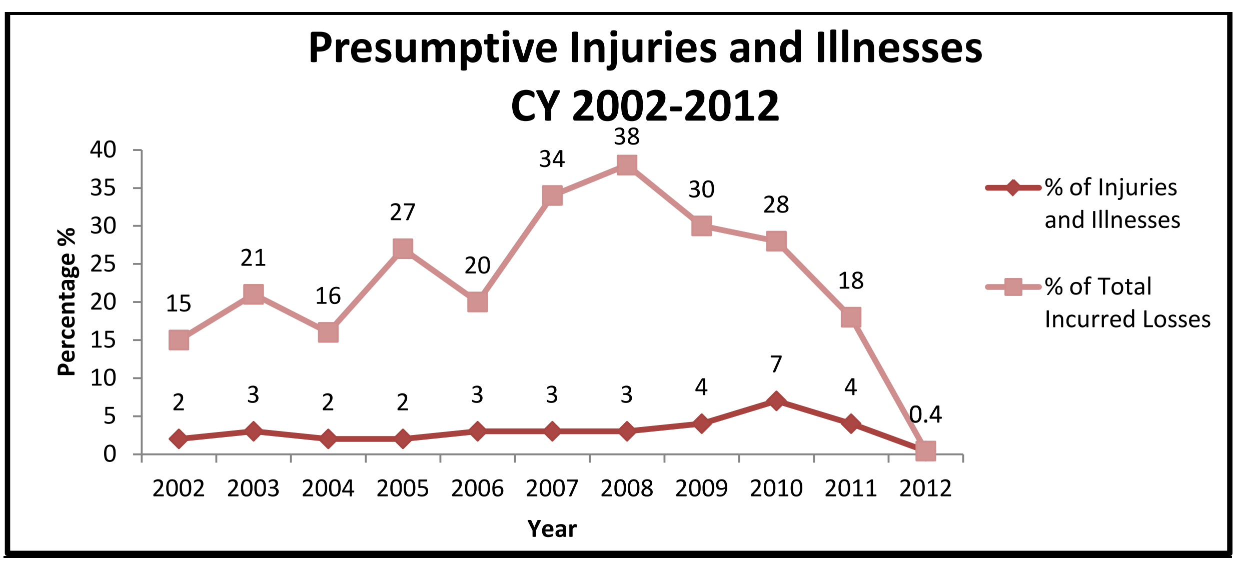
The chart below breaks down the above information further by showing the number of reports in each of the injury and illness classifications. There has been a slight decrease in indemnity claims (time loss) over the past seven years with medical only claims (non-time loss) remaining fairly flat. First aid claims spiked in 2011 but were reduced in 2012 to an amount more consistent with previous years.



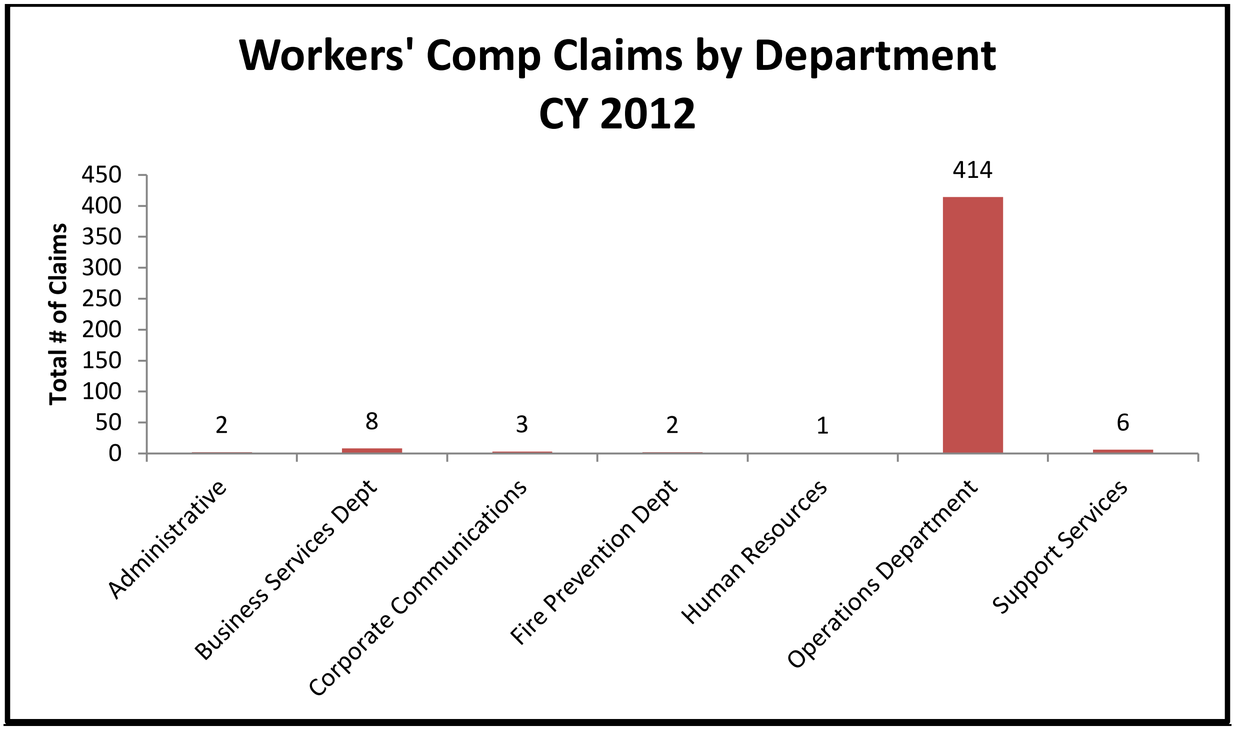
The chart below shows total incurred losses which are the combined medical, salary, legal and other costs that have already been paid as well as those estimated future costs. Since 2005, total incurred losses have been on the rise even though the frequency of injuries and illnesses has remained fairly consistent.



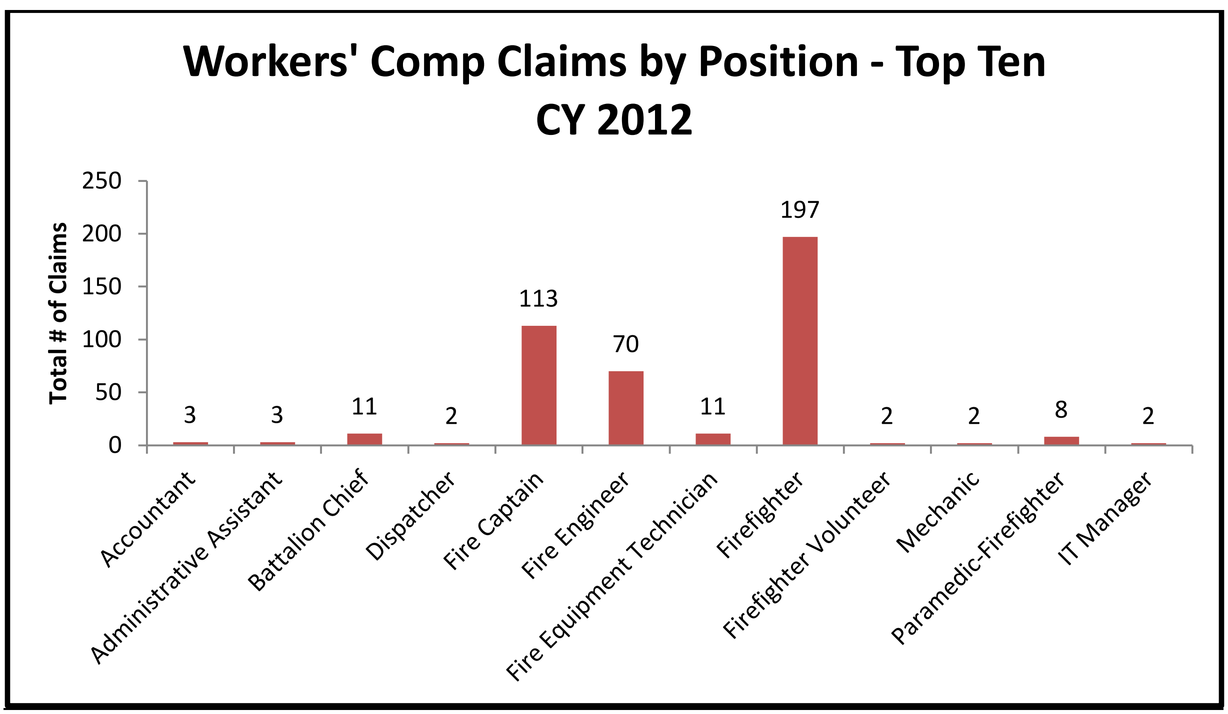
Labor Code 3212 identifies several injuries and illnesses as presumptive for safety employees: cardiac, cancer, tuberculosis, MRSA, hernia, Lyme disease and blood borne diseases. The burden shifts to the employer to prove the injury or illness is non-industrial once filed by the employee. The chart below shows presumptives make up a small percentage of the total injuries and illnesses each year but make up a much larger percentage of total incurred losses.



Safety employees make up 80% of the OCFA workforce and perform the most physically intensive jobs within the organization. The chart below shows safety employees accounted for 95% of the workers' compensation claims in 2012.

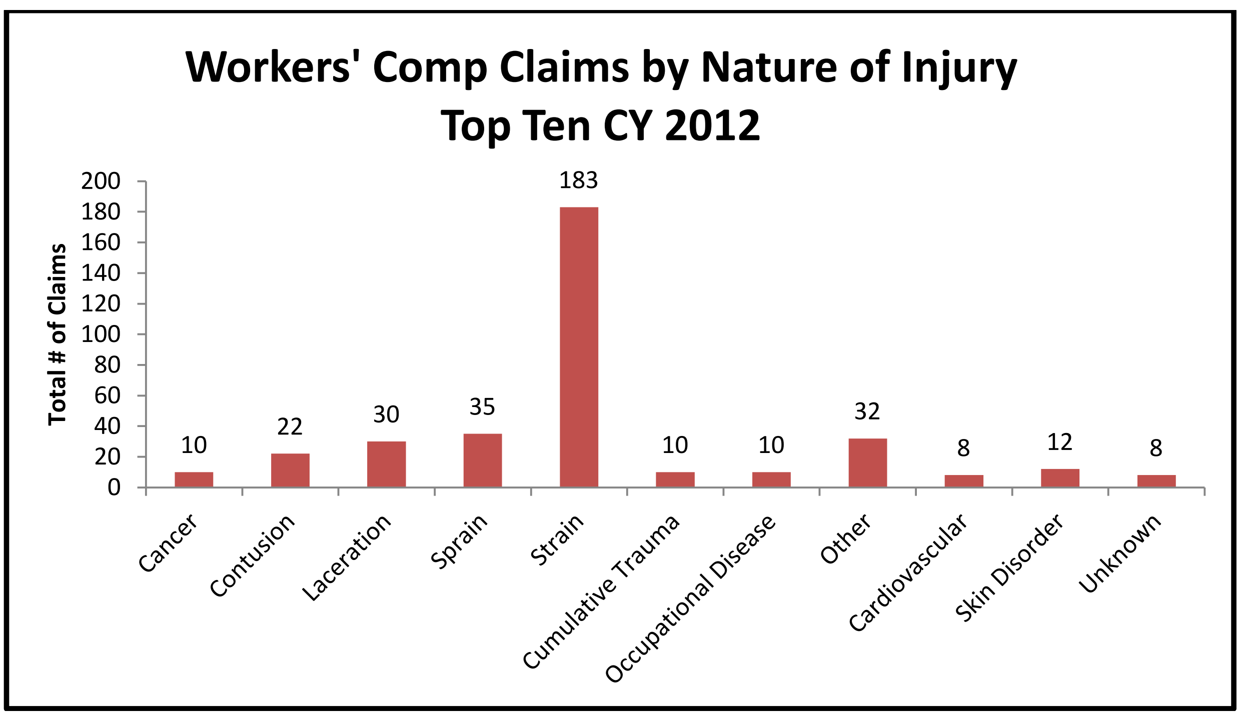


The chart below shows the ten job classifications most frequently injured in 2012. These ten job classifications account for 97% of the workers' compensation claims in 2012.

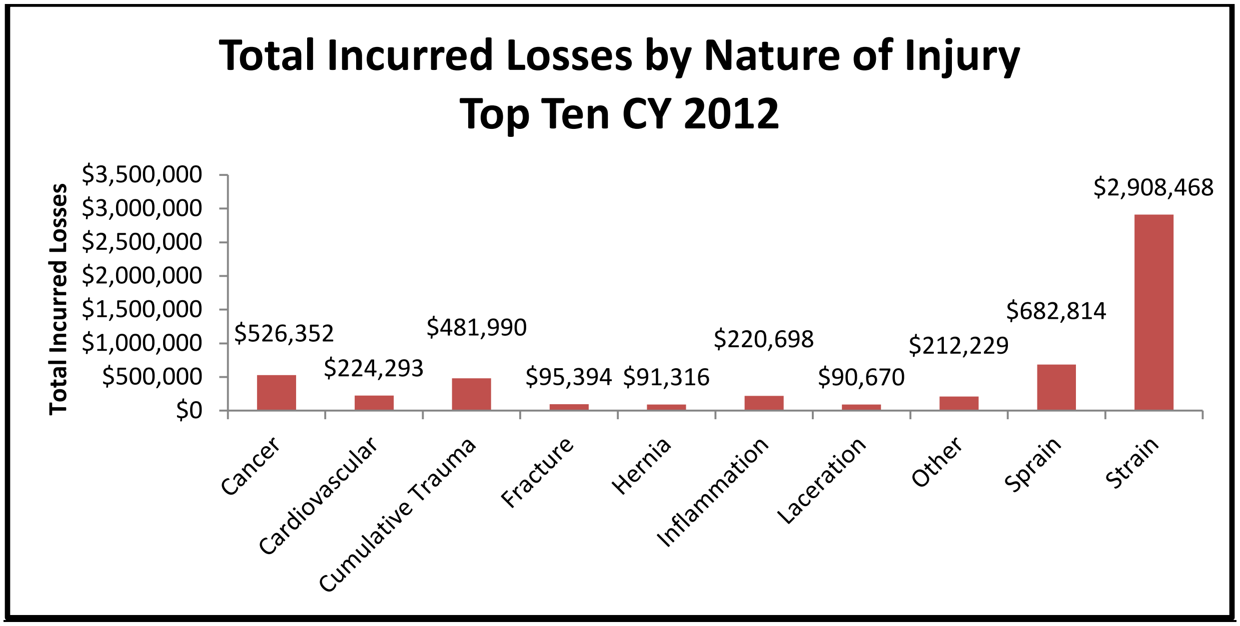


The chart below shows the ten job classifications with the greatest amount of total incurred losses in 2012. These ten job classifications account for 99% of the total incurred losses in 2012.

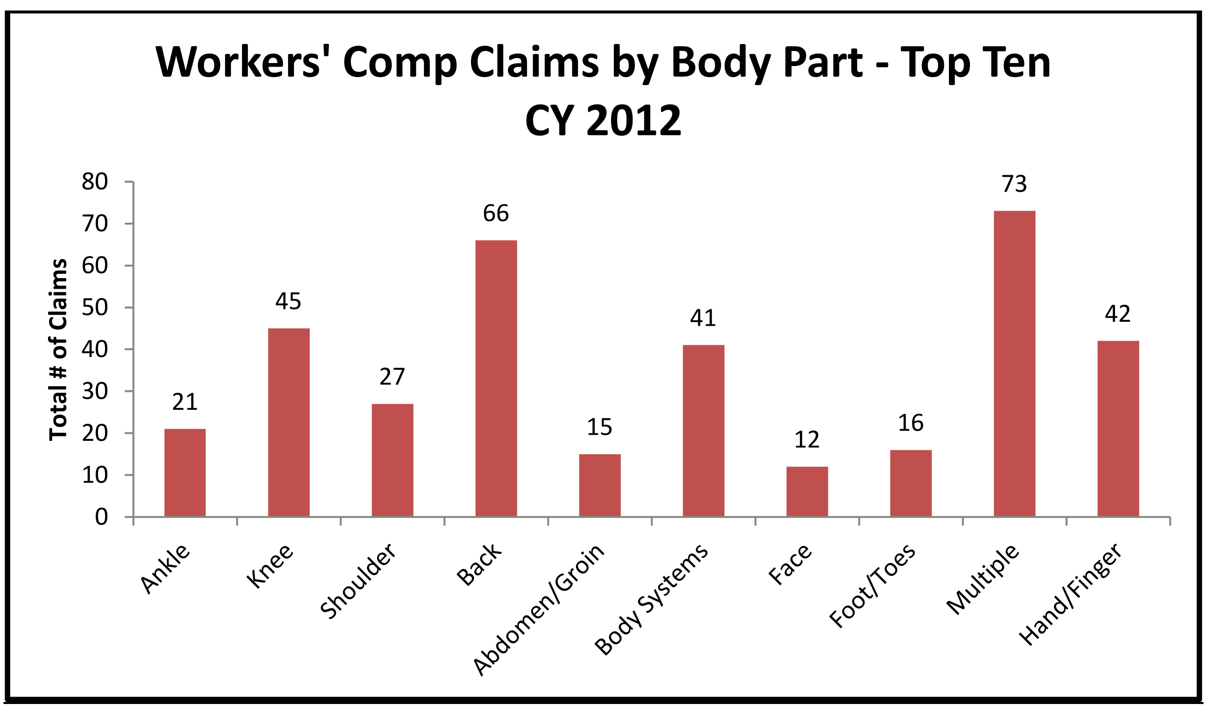
The chart below shows the ten nature of injury categories most frequently reported in 2012. These ten natures of injury categories account for 83% of the workers' compensation claims in 2012.



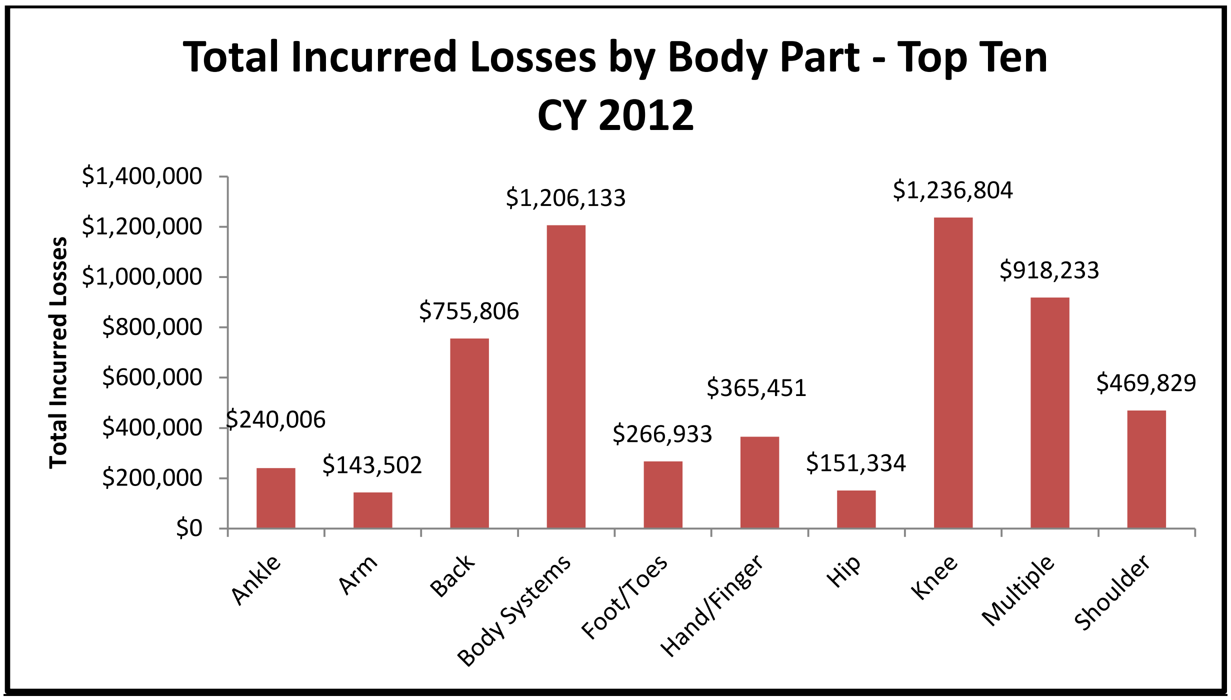
The chart below shows the ten natures of injury categories with the greatest amount of total incurred losses in 2012. These ten nature of injury categories account for 89% of the total incurred losses in 2012.



The chart below shows the ten body part categories most frequently injured in 2012. These ten body part categories account for 82% of the workers' compensation claims in 2012.



The chart below shows the ten body part categories with the greatest amount of total incurred losses in 2012. These ten body part categories account for 93% of the total incurred losses in 2012.



Third Party Administration (TPA):
York Risk Services Group has been the TPA of the workers' compensation self-insured program since 2002. The TPA provides statutory benefits to employees injured on the job in accordance with California workers' compensation law and provides cost control measures to offset cost.

Cost Control Measures:
A variety of cost control measures are in place including: injury and illness prevention program; WEFIT (wellness and fitness) program; TPA case management; utilization review; TPA medical bill review; an aggressive modified (light) duty program; annual audits; excess insurance; and the claims settlement process. These are described in more detail below.

Injury and Illness Prevention Program (IIPP) - The IIPP is a state mandated workplace safety program that improves workplace safety and health and reduces costs by good management and employee involvement. This includes the objectives of increasing communication at all levels within the organization on safety issues, identifying and controlling workplace hazards, reviewing workplace incidents, and maintaining compliance with safety and health regulatory requirements.

WEFIT - The WEFIT Program is a wellness and fitness program designed to monitor the health and fitness of firefighters and prepare them for physical demands of the firefighter job. Additionally, the WEFIT Rehabilitation Program provides for the treatment of minor sprains and strains before they become a workers' compensation claim.

TPA Case Management - Workers' compensation program staff emphasize customer service to assist employees injured on the job through the sometimes complex workers' compensation process. Executive Management, workers' compensation program staff, and the TPA meet on a monthly basis to discuss and troubleshoot key cases and procedures.

Utilization Review - Utilization review is a State mandated process administered by our TPA to determine if treatment recommended by a physician is in accordance with medical treatment guidelines. Utilization review is designed to ensure the employee receives the most effective treatment therefore providing a secondary benefit to the employer by ensuring the treatment is cost effective.

TPA Medical Bill Review – Bill review is a program administered by our TPA to review all charges made by medical providers when treating employees. The bill review assures that medical providers do not exceed state cost standards for treatment and other medical charges.

Modified (Light) Duty Program - Safety employees suffering an occupational injury are entitled to their salary for up to 1-year according to Labor Code 4850. The OCFA has a transitional/light duty program used to return injured employees released by their physician to some form of light work. Value is added to the employee by keeping them engaged in the workforce and allowing them to utilize their skills to benefit the OCFA. Salary continuation is terminated by returning the employee back to work which provides a savings to the OCFA.

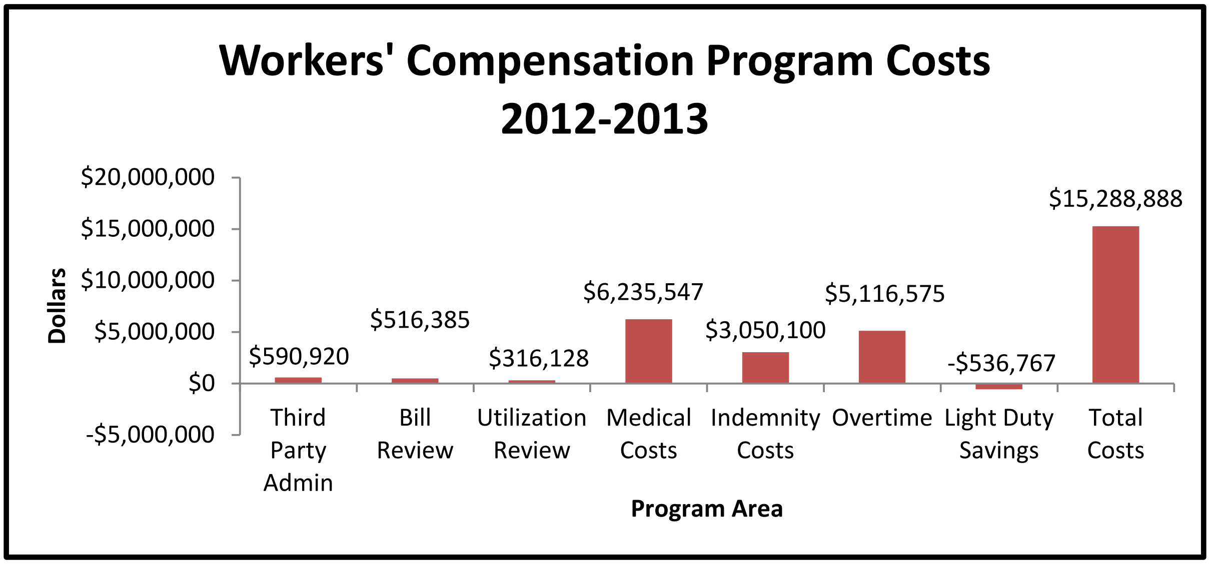
Annual Audits - Claims Audits are performed annually to assess the efficiency and effectiveness of the claims administration program and identify any areas for improvement.

Excess Insurance - Workers' compensation excess insurance is purchased through a major California local government pool named CSAC-EIA. The OCFA's excess insurance covers losses that exceed $2.0M per incident (self-insured retention), regardless of the number of employees per incident. In incidents exceeding the self-insured retention, excess insurance covers any and all benefits up to the statutory limits under California workers' compensation law. For example in a $2.5M work compensation loss, our self-insured retention would cover the first $2.0M and excess insurance would cover the next $500,000. Membership in this excess insurance pool has brought significant premium savings.

Claims Settlement Process - Occupational injuries may result in permanent disability that has some type of monetary settlement to the employee. An injury can be settled one of two ways: 1) a compromise and release (C&R); or 2) through a stipulation and award. A C&R is when you resolve your entire claim through a lump sum. This allows the injured worker to control their future medical care and absolves the employer of any further liability for the injury. A stipulation and award is when permanent disability is being paid over a period of weeks with future medical care continuing to be the responsibility of the employer. Each type of settlement must be approved by a workers' compensation judge before becoming final.

The Board delegated approval settlements of $50,000 and under to the Fire Chief or his designee. The Fire Chief has delegated settlements of $25,000 and under to the Risk Manager. Settlements over $50,000 are brought to the Settlement Committee of the Board of Directors for review and approval. Settlements over $250,000 are brought to the full Board of Directors for review and approval.

Program Costs:
The cost for the third party administration of the workers' compensation program is approximately $1.4M per year. This includes the cost of administering the statutory benefits as well as cost control services such as bill review and utilization review. The administrative costs, medical costs, indemnity costs (4850, temporary disability, permanent disability including life pension), associated overtime, and light duty savings makes the workers' compensation a $15,288,888 program.



Summary and Conclusions:
The goal of the OCFA is to control workers' compensation costs through a number of techniques, especially the IIPP, WEFIT, an aggressive return to work program, medical bill review, injury and investigation follow-up, and good case management.

We believe the self-insurance workers' compensation program has been effective, and it is our goal to continue to improve its effectiveness through a focus on the following areas:

Legislative Updates – New proposals that could impact workers' compensation and the OCFA are frequently being introduced to the Senate. The OCFA must continue to use legislative advocacy to protect bills that may create a bias to harm the employers' solvency or create an unreasonable imbalance in the system.

Occupational Safety & Health Data – The OCFA must improve the quality, timeliness, and accessibility of safety & health data and information as identified in Objective 3-D of the Strategic Plan. Communicating safety and health information creates awareness and ownership throughout the organization and provides information necessary to make data-driven decisions that will lead to a more efficient use of limited resources.

Safety Management System – The OCFA's safety program has historically been a reactive compliance-based program. The OCFA must create a safety management system that focuses on risk identification, analysis, prioritization and control; continuous improvement of the overall organizational safety; and efficient use of organizational resources as identified in Objective 1-M of the Strategic Plan.

WEFIT - The OCFA must continue to emphasize employee wellness, especially through programs such as WEFIT and WEFIT Rehabilitation Program. Most injuries can be reduced through better fitness, conditioning, and rehabilitation. In addition, many illnesses such as cancers and cardiovascular diseases can be reduced through lifestyle changes. The WEFIT program directly affects these medical conditions and promotes a good health and fitness culture. From the inception of the program it has been successful at identifying medical conditions that can be treated before they become more severe, thereby controlling costs, and helping in the development of a more fitness and health conscious work force.

TPA Contract – The OCFA must continue to evaluate each component of service provided by the TPA including claims administration, bill review, and utilization review to ensure we are receiving the highest level of service at an affordable price. The OCFA is presently reviewing proposals for TPA services and hopes to realize a reduction in costs.

Medical Providers – The OCFA must evaluate each of the medical services provided to determine if we are receiving the optimum services at the most cost efficient price. Medical care is a high cost driver for this program and reduction in this area is key to reducing cost. The use of occupational clinics and/or a medical provider network will be evaluated in the upcoming year.

Alternative Dispute Resolution (ADR) – With the passing of Senate Bill 899 unionized employees have the ability to negotiate an ADR Program. The OCFA is evaluating the potential benefits of ADR.

Return to Work Program – The OCFA must continue to aggressively return employees to light work when released by their physician which will add value to the employee and provide savings to the organization.

Impact to Cities/County:
Not Applicable.

Fiscal Impact:
Per the actuarial report, projected losses for FY 2013/14 are $13,401,583 at the 60% confidence level. Estimated outstanding losses for prior years through June 30, 2013 are $51,610,837 at the 50% confidence level.

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Attachment: (On file in the Office of the Clerk.)
Actuarial Study of the Workers Compensation Program of OCFA, based on data valued as of December 31, 2012

DISCUSSION CALENDAR – AGENDA ITEM NO. 5
BUDGET AND FINANCE COMMITTEE MEETING
June 12, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Laura Blaul, Assistant Chief/Fire Marshal
Fire Prevention Department

SUBJECT: **Report on Impact of the Arson Abatement Program**

Summary:
This agenda item is submitted to report on the progress and impact of the Arson Abatement Program as directed by the Committee at its April 13, 2011, meeting.

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of June 27, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee continue to contract with the City of Irvine for an Arson Abatement Officer.

Background:
In March 2008, the Budget and Finance Committee and Board of Directors approved a $190,000 agreement with the City of Irvine for an Arson Abatement Officer (AAO) and directed staff to return within three years to report on progress. The City of Irvine assigned an AAO to OCFA in August 2008, and the pilot program to both deter and aggressively respond to crimes of arson began soon after. Progress and results were positive and, on April 13 2011, the Committee agreed to continue the contract and expansion of the program throughout the OCFA service area.

The Fire Investigations Services Section of the Fire Prevention Department is staffed with seven Fire Captains and the AAO. The AAO works closely with the Fire Captain Investigators and staff to enhance OCFA's service to its partner cities.

The Arson Abatement Program utilizes a two-fold approach to reverse the arson trend. This philosophy continues to be practiced and refined as the program gains momentum and expertise:

1. Awareness and Education
   The AAO works with OCFA staff and city partners to develop and coordinate the dissemination of educational and informational materials to communities and facilities as needed. In addition, staff developed and engaged community advocates in deterrent programs.

2. Early Intervention and Aggressive Follow-up
   The AAO coordinates with law enforcement partners on criminal follow-up, with close tracking of each incident to identify trends, serve as a deterrent, and to improve the probability of bringing those responsible to justice.

The results of the initial pilot were positive and continue to improve. In addition to reduction in arson statistics from 2007 through 2010 (a 58% decrease in Irvine including a 72% decrease in juvenile arson, the focus of the program; and a 63% decrease county-wide, 54% decrease in juvenile arson) data showed improvement between 2010 and 2012. The following trend in arson rates was realized in Orange County:

- 29% decrease in Orange County **(69% decrease since 2007)**
  - 31% decrease in juvenile arson, the focus of the program **(74% decrease since 2007)**

- ISS solved 15% (2010), 18% (2011) and 23% (2012) of arson cases
  - National average is 19.9% (2011)

Specifically, the program has improved the awareness of OCFA and law enforcement partners to the crime of arson. Law Enforcement patrol briefing training was developed and is being presented at all law enforcement partner agencies, raising first responder awareness and improving response and investigation. The AAO has also instituted an educational program in Irvine Intermediate Schools, and is working with Tustin Police Department and Santa Ana Unified School District Police Department to implement the program in their cities. The OCFA Operations Inspection Program now includes elements designed to "harden" educational targets and reduce fires at these facilities. Finally, the AAO has improved the effectiveness and efficiency of OCFA staff assigned to Investigations. Since last presented to the Budget and Finance Committee, ISS has a new Battalion Chief and four new fire captains who previously had no experience in Investigations.

Staff expects the results will continue and would like to further expand program elements throughout the OCFA jurisdiction. The Irvine Police Department agrees that the results are positive and is supportive of allowing the AAO to work with all OCFA partner agencies.

<u>Impact to Cities/County:</u>
All OCFA jurisdictions benefit from this program and the reduced losses and costs associated with crimes of arson. Based on the results to date, additional benefits will continue to be realized as the successful elements of the program are implemented throughout the jurisdiction.

<u>Fiscal Impact:</u>
General Fund cost of $190,000 annually.

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<u>Attachments:</u>
None