ORANGE COUNTY FIRE AUTHORITY AGENDA

Budget and Finance Committee Meeting

Wednesday, January 9, 2013
12:00 Noon

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

Vacant, Chair
Vacant, Vice Chair
Trish Kelley Al Murray Elizabeth Swift Steven Weinberg
Bruce Channing - Ex Officio

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

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

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

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

CALL TO ORDER

PLEDGE OF ALLEGIANCE

ROLL CALL

ELECTION OF CHAIR AND VICE CHAIR

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 November 7, 2012, Budget and Finance Committee Meeting**
Submitted by: Sherry Wentz, Clerk of the Authority

Recommended Action:
Approve as submitted.

CONSENT CALENDAR

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

Recommended Action:
Receive and file the report.

3. **OCFA 2013 Grants Status and Priorities**
Submitted by: Brian Stephens, Assistant Chief/Support Services Department

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of January 24, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors approve OCFA's grant priorities for 2013.

DISCUSSION CALENDAR

4. **Mid-Year Financial Report**
Submitted by: Lori Zeller, Assistant Chief, Business Services Department

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of January 24, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Receive and file report.

2. Direct staff to transfer the $5.24 million of available unencumbered funds identified in the 2011/12 annual financial audit to the Self Insurance Fund (Fund 190) to meet workers' compensation funding needs and include this transfer in the mid-year budget adjustment that will be submitted to the Board in March 2013.

5. Monthly Investment Reports
Submitted by: Patricia Jakubiak, Treasurer

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of January 24, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

6. Updated Broker/Dealer List
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 January 24, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee approve the proposed Broker/Dealer List to include the following three firms:

- FTN Financial
- UBS Financial Services
- Raymond James/Morgan Keegan

7. Annual Fraud Hotline Summary Report – Calendar Year 2012
Submitted by: Zenovy Jakymiw, Human Resources Director

Recommended Action:
Receive and file the report.

REPORTS
No items.

COMMITTEE MEMBER COMMENTS

ADJOURNMENT – The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, February 13, 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 3rd day of January 2013.

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

UPCOMING MEETINGS:

Claims Settlement Committee Meeting	Thursday, January 24, 2013, 5:30 p.m.
Executive Committee Meeting	Thursday, January 24, 2013, 6:00 p.m.
Board of Directors Meeting	Thursday, January 24, 2013, 6:30 p.m.
Budget and Finance Committee Meeting	Wednesday, February 13, 2013, 12:00 noon

MINUTES
ORANGE COUNTY FIRE AUTHORITY

Budget and Finance Committee Meeting
Wednesday, November 7, 2012
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 November 7, 2012, at 12:00 p.m. by Chairman Jim Dahl.

PLEDGE OF ALLEGIANCE
Vice Chair Stephens led the assembly in the Pledge of Allegiance to our Flag.

ROLL CALL

Present: Gary Capata, Laguna Niguel
Jim Dahl, San Clemente
Trish Kelley, Mission Viejo
Al Murray, Tustin
Nancy Rikel, Yorba Linda
Ken Stephens, Los Alamitos
Elizabeth Swift, Buena Park
Chad Wanke, Placentia
Steven Weinberg, Dana Point

Absent: Tyler Diep, Westminster

Also present were:
Fire Chief Keith Richter
Deputy Fire Chief Ron Blaul
Assistant Chief Brian Stephens
Clerk of the Authority Sherry Wentz
General Counsel David Kendig
Assistant Chief Laura Blaul
Assistant Chief Lori Zeller

PUBLIC COMMENTS (F: 12.02B3)

Chairman Dahl opened the Public Comments portion of the meeting.

Stephen Wontrobski, Mission Viejo resident, commented on the expiration of the OCFA broker/dealer list. (X: 18.10F)

Assistant Chief Lori Zeller indicated there was no specific expiration date on the broker/dealer list, only a requirement in the Investment Policy that the list be approved on an annual basis, with no exact month specified. The Annual Selection of Broker/Dealers is scheduled for consideration by the Executive Committee in January 2013.

Chairman Dahl closed the Public Comments portion of the meeting.

PRESENTATION
No items.

MINUTES

1. **Approval of Minutes for the September 12, 2012, Budget and Finance Committee Meeting** (F: 12.02B2)

   On motion of Director Murray and second by Director Capata, the Committee voted unanimously to approve the Minutes for the September 12, 2012, Budget and Finance Committee Meeting, as submitted.

CONSENT CALENDAR

Director Murray pulled Agenda Item No. 2 for questions.

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

   Director Murray pulled Agenda Item No. 2 to inquire when the OCFA would have confirmation on the OCERS interest earning rate, as it would impact cash contract cities.

   Assistant Chief Lori Zeller indicated OCERS will be considering the interest earning rate at its November 19, 2012, meeting, and OCFA staff would provide an update at the next Budget and Finance Committee meeting.

   Stephen Wontrobski, Mission Viejo resident, commented on his continued concerns regarding fraudulent disability filings.

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

3. First Quarter Financial Newsletter – *July to September 2012* (F: 15.07)

On motion of Director Murray and second by Director Capata, the Committee voted unanimously to direct staff to place this item on the agenda for the Executive Committee meeting of November 15, 2012, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

4. Annual Statement of Investment Policy and Investment Authorization (F: 11.10D1)

On motion of Director Murray and second by Director Capata, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of November 15, 2012, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Review and approve the submitted Investment Policy of the Orange County Fire Authority, to be effective January 1, 2013.
2. Pursuant to Government Code Sections 53601 and 53607, renew delegation of investment authority to the Treasurer for a one-year period, to be effective January 1, 2013.

DISCUSSION CALENDAR

5. Monthly Investment Report (F: 11.10D2)

Treasurer Tricia Jakubiak provided an overview of the investment report and current global market activity.

On motion of Vice Chair Stephens and second by Director Wanke, the Committee voted unanimously to direct staff to place the item on the agenda for the Executive Committee meeting of November 15, 2012, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

6. Audited Financial Reports for the Fiscal Year Ended June 30, 2012 (F: 15.06)

Finance Manager/Auditor Jim Ruane introduced Rich Kikuchi, a Partner with Lance, Soll & Lunghard, LLP, who provided an overview of the Audited Financial Reports for the Fiscal Year Ended June 30, 2012.

On motion of Director Capata and second by Vice Chair Stephens, the Committee voted unanimously to:

1. Review the calculations used to determine the fund balance amounts assigned to the capital improvement program and workers' compensation, and confirm the calculations' consistency with the OCFA's *Assigned Fund Balance Policy*.
2. Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of November 15, 2012, with the Budget and Finance Committee's recommendation that the Board of Directors receive and approve the reports.

7. Implementation of Hazardous Materials Response Unit 79 and Withdrawal from the Orange County-Cities Hazardous Materials Emergency Response Authority (F: 18.11A)

Fire Chief Richter provided a detailed overview on the implementation of the Hazardous Materials Response Unit 79 and withdrawal from the Orange County-Cities Hazardous Materials Emergency Response Authority.

A lengthy discussion ensued.

On motion of Director Swift and second by Director Kelley, the Committee voted unanimously to direct staff to place this item on the agenda for the Board of Directors meeting of November 15, 2012, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Approve and authorize the implementation of Hazardous Materials Response Unit 79.
2. Direct staff to increase FY 2012/13 appropriations in the General Fund (Fund 121) in the amount of $54,634.
3. Approve the proposed amendment to the Orange County Professional Firefighters' Association Memorandum of Understanding modifying the provisions for Hazardous Material Pay for Paramedic positions, pursuant to agreement with OCPFA. (Attachment A)
4. Approve and authorize the withdrawal from the Orange County-Cities Hazardous Materials Emergency Response Authority, effective July 1, 2013.
5. Direct staff to submit a written notice of withdrawal from the Orange County-Cities Hazardous Materials Emergency Response Authority, prior to December 31, 2012.
6. Direct staff to draft a Hazardous Materials Restitution Cost Recovery Program Policy based on the current OCFA Fire Restitution Policy and authorize the Fire Chief to implement this policy with other agencies within the Orange Operational Area as requested.

8. Proposed Transition of California Accidental Release Plans and Hazardous Materials Disclosure Programs to the Orange County Health Care Agency (F: 20.14A)

Senior Labor Representative Aaron Peardon, Orange County Employees Association, commented in opposition to the proposed transition of California Accidental Release Plans and Hazardous Materials Disclosure Programs to the Orange County Health Care Agency.

Chief Richter provided a presentation on the proposed transition of California Accidental Release Plans and Hazardous Materials Disclosure Programs to the Orange County Health Care Agency.

A lengthy discussion ensued.

On motion of Director Weinberg and second by Director Capata, the Committee voted to direct staff to contact the Orange County Health Care Agency to request a letter indicating the agency would like the program returned to its jurisdiction, and place the item on the agenda for the Board of Directors Regular meeting of November 15, 2012, with the Budget and Finance Committee's recommendation that the Board of Directors:

1. Approve the transition of the California Accidental Release Plans and Hazardous Materials Disclosure Programs from OCFA to the Orange County Health Care Agency, effective July 1, 2013.
2. Direct staff to pursue expenditure reductions that can be achieved to offset the revenue reduction associated with program transition, effective no later than July 1, 2013, and to include an update for the Board of Directors when the proposed budget is presented for FY 2013/14.

Directors Kelley and Swift registered in opposition.

9. FY 2011/12 Backfill/Overtime Analysis (F: 15.11)

Finance Manager/Auditor Jim Ruane provided a PowerPoint presentation on the FY 2011/12 Backfill/Overtime Analysis.

Directors Capata and Kelley left at this point (1:21 p.m.).

On motion of Director Weinberg and second by Director Murray, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of November 15, 2012, with the Budget and Finance Committee's recommendation that the Board of Directors receive and file the report.

REPORTS

No items.

COMMITTEE MEMBER COMMENTS (F: 12.02B4)

No comments were received.

ADJOURNMENT

Chair Dahl adjourned the meeting at 1:27 p.m. The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, January 9, 2013, at 12:00 noon.

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

CONSENT CALENDAR – AGENDA ITEM NO. 2
BUDGET AND FINANCE COMMITEE MEETING
January 9, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

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

Summary:
This agenda item is submitted to provide a status update regarding steps taken over the past quarter, covering October-December 2012, to improve the Orange County Employees' Retirement System's (OCERS) financial policies, procedures, and practices.

Recommended Action:
Receive and file the report.

Background:
In April 2010, OCERS disclosed that it had uncovered an error in how it handled premium pay salary items, which impacted several plan sponsors including the Orange County Fire Authority (OCFA). Premium pay includes salary items such as education bonus, paramedic bonus, bilingual pay, etc. OCERS should have included these items in the salary data it provided to its actuary, but failed to do so resulting in an under-reporting of pensionable compensation. The error occurred going back to 2004, which compounded the problem. The end result was an \$82.7 million increase in OCFA's recognized unfunded liability with OCERS. OCFA immediately requested supporting documentation, and requested an accounting of OCFA's contributions to OCERS to ensure that OCFA had been given proper credit, since it had always paid retirement contributions on these premium pays. Subsequently, OCERS corrected the premium pay error which moved \$40 million in assets over to OCFA and lowered OCFA's Unfunded Actuarial Accrued Liability (UAAL) by the same amount.

On February 9, 2011, OCFA staff provided a report to the Budget and Finance Committee (B&FC) regarding improvements needed to OCERS' financial policies, procedures, and practices, as well as an overview of work expected to be performed to correct the amount of retirement contributions attributed to OCFA and other plan sponsors participating in OCERS. The Committee directed OCFA staff to perform additional work, which was completed and reported to the OCFA Board of Directors in April and July 2011.

Following the July 2011 report, the B&FC directed staff to continue providing monthly updates until an extended period of time passes with no new findings of errors, and/or until the Committee becomes more confident that OCERS has corrected the underlying systemic weaknesses which allowed these problems to occur. Following the March 2012 report, the B&FC authorized staff to reduce the frequency of status updates from monthly to quarterly.

Actions Taken/Financial Policies & Practices – October – December 2012

October 15	**Below are the key items discussed at each of the meetings.** ***OCERS BOARD OF RETIREMENT:*** **ASSUMED EARNINGS RATE** In October 2011, OCERS' actuary, Segal, had recommended a lowering of the Assumed Earnings rate of return, then at 7.75%. The Board chose not to change at that time, as a new investment consultant had just been hired (NEPC), and changes were to be made to the asset allocation of the OCERS investment portfolio, which could have an impact on the assumed earnings rate of return. The Board directed that Segal return in October 2012. In October 2012, Paul Angelo of Segal once again recommended a lowering of the assumed rate of return to either 7.50% or 7.25%. (Attachment 1 - OCERS Economic Assumptions Report, and Attachment 2 - The Segal Company letter on Contribution Rate Impact). A motion to lower the rate to 7.50% was made and defeated on a 4-4 vote, with one Board member absent that day. A substitute motion to lower the rate to 7.25% was also defeated on a 4-4 vote. This item was then deferred to a future meeting (see update regarding December 5, 2012 on page 5 of this staff report). **V3 – UPDATE** At the September Strategic Planning workshop, OCERS' new Director of Information Technology, Mr. Jimmy Blanco, outlined his basic review of the current V3 IT conversion project, and cautioned from his professional opinion that a successful conclusion of this project was going to take more time, more money and more personnel than had been previously planned and budgeted. The Board approved his continued work on a revised final plan. The CEO informed the Board that he had contracted with a nationally known IT project management firm, Provaliant for $38,000 to come to OCERS, review Mr. Blanco's work, and provide observations that would be helpful as this item is brought to conclusion. The CEO informed the Board that the Provaliant team provided him with two basic verbal comments – that Mr. Blanco's concerns and new direction appear to be well-thought out and well-founded, and that they have heard from a half dozen public pension systems who have completed similar V3 system implementations, and in every case, despite those systems also having bumps in the road, they were all unanimously happy with the final product.
October 17	***OCERS PLAN SPONSOR FINANCIAL WORK GROUP:*** The CEO reviewed the agenda items from the October 15 Board of Retirement meeting. A request was made that OCERS start to include the fiscal impact in their staff reports to the Board. This will enable the Board to clearly understand the impacts of their decisions, especially those items that were not included in the Budget.

	There was a significant increase in the administrative costs from last year, mostly due to the V3 system project, a one-time cost. The Chief Investment Officer stated that as OCERS moves into new investment strategies such as diversified credit, hedge funds, etc. these have higher fees so expect the investment expense to go up especially if OCERS does not hit the target rate of return. PEPRA – definition of compensation earnable – urgency legislation is being pursued to clarify that regular/recurring pay elements can be included in compensation earnable (instead of only including base pay). The urgency legislation is expected to be completed by January 1, 2013. If not, OCERS will handle the pay items as if the legislation had passed. OCERS will send a letter to plan sponsors indicating how the premium pay items should be handled. OCERS needs additional space for the IT consultants working on the V3 project and will spend $150,000 to remodel the third floor for that purpose.
October 23	***OCERS GOVERNANCE COMMITTEE:*** **RECORDS RETENTION POLICY AND GUIDELINES** This policy is being modified to include retention periods for OCERS Internal Audit Department and the Communications Department. **DISABILITY RETIREMENT REEMPLOYMENT** All OCERS policies are reviewed on an at least triennial basis. This policy requires review this year, and staff is not recommending any changes. **TRUSTEE EDUCATION** AB 1519, becoming effective January 1, 2013, requires that all trustees complete 24 hours of continuing education every two years. This policy is being modified to reflect that new requirement.
October 24	***OCERS INVESTMENT COMMITTEE:*** **DIRECT HEDGE FUND PROGRAM – EVENT DRIVEN MGR. SELECTION** OCERS continues moving towards direct hedge fund investments, rather than using the more costly “fund-of-fund” approach. Four recommended managers presented their approach to hedge fund investments. The Committee voted to hire all four event driven managers. **EIG GLOBAL ENERGY PARTNERS** EIG is a current OCERS money manager, and EIG’s gave their biennial report before the OCERS Investment Committee.

October 24	**REAL RETURN PORTFOLIO STRUCTURE REVIEW and COMMITMENTS** OCERS investment consultant, NEPC, sought approval for a pacing plan for the Investment Committee's real return commitments, and provided a recommendation for additional investments in the energy sector as part of that pacing plan. **MULTI-STRATEGY CREDIT MANAGER SEARCH** NEPC presented information on five manager semi-finalists in the diversified credit space. OCERS investment staff will then conduct due diligence visits to each, and return to the Committee at a later date with a recommendation to hire 2-3 of those managers. **PORTFOLIO ACTIVITY REPORT** OCERS CIO, Mr. Girard Miller, reported that OCERS portfolio returns for calendar year 2012, through the end of September 2012 stand at 9.46%. **INVESTMENT POLICY STATEMENT** Mr. Miller discussed how the Investment Policy Statement might best address the part the assumed rate of return plays in any goal setting for the portfolio.
November 19	***OCERS BOARD OF RETIREMENT:*** **PEPRA DECISION POINT – THE MEMBER CONTRIBUTION RATE** The Public Employees' Pension Reform Act (PEPRA) requires that employees "pay at least 50% of normal cost." The question that was posed to the Board was regarding how the member contribution rate for new hires beginning January 1, 2013 should be calculated. Presently, OCERS uses an age-based rate. That means a newly hired member will pay a contribution rate based on their age at entry, with younger members paying less since they have a longer anticipated career, while older members pay more. The majority of the '37 Act systems are moving to a single member contribution rate that would apply to all new hires regardless of age. Ms. Wyne and Mr. Andy Yeung of Segal led a discussion with the Board regarding the pros and cons of each method. The Board chose to continue with the age-based method for new hires, indicating their preference for the accuracy provided by this methodology. **RECOMMENDATION ON INVESTMENT OVERSIGHT FUNCTION – PORTFOLIO MANAGER SURVEILLANCE** Recognizing that the total number of managers contracted by OCERS is growing, and the time limitations it places on the Investment Committee in meeting with each on a biennial basis, OCERS' Chief Investment Officer, Mr. Girard Miller discussed various options for continued portfolio manager oversight. The Committee chose to support an option which calls for the Board to establish a "manager monitoring subcommittee of the Investment Committee." The Committee also recommended to limit the subcommittee's reviews to those managers who significantly under or over perform their benchmarks.

November 20	***OCERS PLAN SPONSOR FINANCIAL WORK GROUP:*** The CEO reviewed the agenda items from the November 19, 2012 Board of Retirement meeting and gave an update on PEPRA. Agencies are still working on drafting language to clarify the meaning of base pay. There is still no estimated date for when this legislation will be passed. OCERS actuary, The Segal Company, had recommended the OCERS Board use a single contribution rate for all new members under PEPRA, however, the Board voted to continue using the age of entry to determine the retirement rate for each new member. The CIO reported that he would be reactivating a discussion with the Board on risk management.
November 28	***OCERS INVESTMENT COMMITTEE:*** The Committee interviewed several managers in the Emerging Market Debt space, a new asset class for the portfolio and also managers to care for OCERS real estate dollars in a commingled fund approach, as it moves away from holding individual properties. Commingled funds allow the Investment Committee to obtain interest in larger more lucrative properties than would otherwise be available if purchasing the property directly.
December 5	***OCERS BOARD OF RETIREMENT SPECIAL MEETING:*** The OCERS' Board met to address two actuarial items. The first was the method to be used by The Segal Company, OCERS' actuary, to calculate member contribution rates for the new PEPRA plans (Attachment 3). The Board had voted previously to use an age at entry based method for calculating the rates, similar to the method currently in place for all other retirement plan formulas. The PEPRA legislation does not contain clear guidance on how to calculate age based member contribution rates for the PEPRA formulas, it merely requires that employees hired on or after January 1, 2013, who are new members of OCERS, pay at least 50% of the normal cost of the defined benefit plan. Segal presented a method for calculating the member contribution rates using age 67 for the general member plan formula, and 57 for the safety member plan formula (which is the maximum age factor for each formula), and dividing the factor in half to calculate the average annuity using the same gender neutral mortality tables now used for the members covered under the current formulas. The Board approved this method, and will be adopting the actual rates for the two new formulas at its December 17th meeting. The second actuarial item considered was the investment return assumption, the inflation assumption, and the individual across the board salary increase assumption to be used in the December 31, 2012 annual actuarial valuation. After lengthy discussion, in a 5-4 vote, the Board approved an investment return assumption of 7.25%, an inflation assumption of 3.25% and an across the board salary increase assumption of .50%. The Board also approved a two-year phase-in of the cost impact. The new assumptions will impact retirement contribution rates effective July 1, 2014.

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OCERS BOARD OF RETIREMENTS'S AUDIT OVERSIGHT COMMITTEE

ACTUARIAL AUDIT REPORT

Daniel Wade, of Milliman Inc, presented their audit findings regarding the December 31, 2011 actuarial valuation performed by our current actuary, The Segal Group. Mr. Wade found the actuarial work performed by Segal "was reasonable, appropriate and accurate." There were some minor recommendations that Milliman suggested be considered by Segal, such as explaining why they "treat benefit payments for a given month as being paid on the first of that month in its calculations" when in fact such payments are made at the beginning of the following month. The committee requested that Segal comment on all of Milliman's recommendations when performing the next triennial study.

BENEFITS SETUP AUDIT REPORT

OCERS internal auditors reported on their audit of the OCERS benefit setup process. While making a number of suggestions for improvements, the report concluded that "OCERS has adequate internal controls to ensure accurate calculation of benefit setups and that it is properly supported by adequate documentation." A theme of much of the report was on how improved the total process will be once the V3 conversion project is complete.

ETHICS, COMPLIANCE AND FRAUD HOTLINE

Mr. James (OCERS Chief Internal Auditor) informed the Committee that OCERS' external fraud hotline is up and running. The line is advertised on the OCERS website, and is maintained by a third-party contractor. Any calls that might be received will be forwarded to Mr. James for investigation.

REEDSMITH REVIEW OF PREMIUM PAY REPORTING DISCREPANCIES

On August 12, 2010, ReedSmith, OCERS' Fiduciary Counsel issued a report on factors that likely contributed to the Premium Pay error. One of the final recommendations from that report was that the OCERS Internal Audit team test all OCERS data transmission and reporting systems, including data transmitted from:

- Employers to OCERS
- Custodian bank to OCERS
- Investment managers to OCERS
- OCERS to the actuary
- OCERS to outside auditors

Mr. James reported on those audits that have already been completed that apply to this recommendation, and also outlined a series of audit activities that the Internal Audit team will undertake to complete the suggested list of activities.

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December 17	***OCERS BOARD OF RETIREMENT*** **ADOPTION OF PEPRA CONTRIBUTION RATES** Andy Yeung of Segal walked the Board through the proposed employer and member contribution rates that will be effective for new hires as of January 1, 2013. These are not the employer and member rates to be paid for current members. Rates for current members will be determined as part of the December 31, 2012 actuarial valuation, and will be available for Board consideration in approximately May 2013 (with implementation as of July 2014).
December 19	***OCERS INVESTMENT COMMITTEE:*** Presentations were made by a series of managers in new areas of asset allocation for the portfolio, such as OCERS' creation of a Direct Hedge Funds Program. The Investment Committee was not asked to choose among the managers being presented, but instead was asked to approve them as a package.

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

Impact to Cities/County:
Changes in OCFA's retirement rates have a direct impact on the annual increases in contract charges to OCFA's cash contract cities, and can impact the amounts available to budget for other important services.

Annual increases for cash contract city charges over the next three fiscal years are currently estimated at 2% for FY 2013/14, 3.25% for FY 2014/15, and 2% for FY 2015/16 (excluding the catch-up provision). These estimates reflect the phase-in of the reduced interest rate assumption which results in higher retirement costs in 2014/15 and 2015/16.

Fiscal Impact:
The fiscal impact relating to the change in the interest rate assumption is estimated as a $7 million increase to OCFA's annual retirement costs. These increased costs will be phased-in over two fiscal years in FY 2014/15 and 2015/16. The full financial impacts of the items discussed above are reflected in the Mid-Year Financial Report, which is provided as a separate agenda item for this January 2013 meeting of the Budget and Finance Committee.

Staff Contacts for Further Information:
Lori Zeller, Assistant Chief/Business Services Department
LoriZeller@ocfa.org
(714) 573-6020

Tricia Jakubiak, Treasurer
TriciaJakubiak@ocfa.org
(714) 573-6301

<u>Attachments:</u>

1. OCERS Review of Economic Actuarial Assumptions for the December 31, 2012 Actuarial Valuation
2. The Segal Company Letter on Potential Contribution Rate Impact September 7, 2012
3. The Segal Company Letter on the Methodology to be used in Implementing the New PEPRA Plan December 4, 2012

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

Review of Economic Actuarial Assumptions for the December 31, 2012 Actuarial Valuation

THE SEGAL COMPANY

100 Montgomery Street, Suite 500
San Francisco, CA 94104

OCTOBER 2012

THE SEGAL COMPANY
100 Montgomery Street, Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

October 5, 2012

Board of Retirement
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701

Re: Review of Economic Actuarial Assumptions for the December 31, 2012 Actuarial Valuation

Dear Members of the Board:

We are pleased to submit this report of our review of the December 31, 2012 economic actuarial assumptions for the Orange County Employees Retirement System. This report includes our recommendations and the analysis supporting their development.

Please note that the non-economic assumptions were last reviewed as part of the triennial experience study report as of December 31, 2010 and those assumptions were first applied in the December 31, 2011 valuation. We will continue to use those assumptions until they are reviewed again as of December 31, 2013.

We are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

We look forward to reviewing this report with you and answering any questions you may have.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary

Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Associate Actuary

MYM/bqb

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I. INTRODUCTION, SUMMARY, AND RECOMMENDATIONS

To project the cost and liabilities of the pension fund, assumptions are made about all future events that could affect the amount and timing of the benefits to be paid and the assets to be accumulated. Each year actual experience is compared against the projected experience, and to the extent there are differences, the future contribution requirement is adjusted.

If assumptions are modified, contribution requirements are adjusted to take into account a change in the projected experience in all future years. There is a great difference in both philosophy and cost impact between recognizing the actuarial deviations as they occur annually and changing the actuarial assumptions. Taking into account one year's gains or losses without making a change in the assumptions in effect assumes that experience was temporary and that, over the long run, experience will return to what was originally assumed. Changing assumptions reflects a basic change in thinking about the future, and it has a much greater effect on the current contribution requirements than recognizing gains or losses as they occur.

The use of realistic actuarial assumptions is important to maintain adequate funding, while paying promised benefit amounts to participants already retired and to those near retirement. The actuarial assumptions used do not determine the "actual cost" of the plan. The actual cost is determined solely by the benefits and administrative expenses paid out, offset by investment income received. However, it is desirable to estimate as closely as possible what the actual cost will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

This study was undertaken in order to review the economic actuarial assumptions. The study was performed in accordance with Actuarial Standard of Practice (ASOP) No. 27, "Selection of Economic Assumptions for Measuring Pension Obligations." This Standard of Practice puts forth guidelines for the selection of the economic actuarial assumptions utilized in a pension plan actuarial valuation.

We are recommending changes in the assumptions for investment return, inflation and the "across the board" salary increase assumption. Our recommendations for the economic actuarial assumptions for the December 31, 2012 Actuarial Valuation are as follows:

> **Investment Return -** The estimated average future net rate of return on current and future assets of the System as of the valuation date. This rate is used to discount liabilities.
>
> ***Recommendation: Reduce the current investment return assumption from 7.75% per annum to 7.50% per annum. As the 7.50% recommendation would only provide little margin under the risk-adjusted model used by Segal to evaluate this assumption, we are also making an alternative recommendation for a 7.25% assumption that is more consistent with the practice followed in the review of this assumption in the December 31, 2007 valuation prior to the last review for the December 31, 2011 valuation.***
>
> **Inflation –** Future increases in the Consumer Price Index (CPI) which drive investment returns and active member salary increases, as well as cost-of-living adjustments (COLAs) for retired employees.
>
> ***Recommendation: Reduce the current inflation assumption from 3.50% per annum to 3.25% per annum.***
>
> **Individual Salary Increases –** Increases in the salary of a member between the date of the valuation and the date of separation from active service. This assumption has three components:
>
> - Inflationary salary increases,
> - Real "across the board" salary increases, and
> - Promotional and merit increases.
>
> ***Recommendation: Reduce the current inflationary salary increase assumption from 3.50% per annum to 3.25% per annum consistent with our recommended general inflation assumption and increase the current real "across the board" salary increase***

assumption from 0.25% to 0.50%. This means that the combined inflationary and real "across the board" salary increases will remain unchanged at 3.75% per annum. Please note that the promotional and merit increase assumptions were last reviewed by the Board in the December 31, 2010 triennial experience study. We would continue to use those assumptions in the valuations until they are reviewed again in the December 31, 2013 triennial experience study.

Section II provides some background on basic principles and the methodology used for the review of the economic actuarial assumptions. A detailed discussion of each of the economic assumptions and reasons behind the recommendations is found in Section III.

II. BACKGROUND AND METHODOLOGY

For this study, we analyzed the "economic" assumptions only. The "non-economic" assumptions were last reviewed as part of the December 31, 2010 triennial experience study report. The primary economic assumptions reviewed are inflation, investment return and salary increases.

Economic Assumptions

Economic assumptions consist of:

Inflation - Increases in the price of goods and services. The inflation assumption reflects the basic return that investors expect from securities markets. It also reflects the expected basic salary increase for active employees and drives increases in the allowances of retired members.

Investment Return – Expected long-term rate of return on the System's investments after expenses. This assumption has a significant impact on contribution rates.

Salary Increases – In addition to inflationary increases, it is assumed that salaries will also grow by real "across the board" pay increases in excess of price inflation. It is also assumed that employees will receive raises above these average increases as they advance in their careers. These are commonly referred to as promotional and merit increases. Payments to amortize any Unfunded Actuarial Accrued Liability (UAAL) are assumed to increase each year by the price inflation rate plus any "across the board" pay increases that are assumed.

The setting of these assumptions is described in Section III.

III. ECONOMIC ASSUMPTIONS

A. INFLATION

Unless an investment grows at least as fast as prices increase, investors will experience a reduction in the inflation-adjusted value of their investment. There may be times when "riskless" investments return more or less than inflation, but over the long term, investment market forces will generally require an issuer of fixed income securities to maintain a minimum return which protects investors from inflation.

The inflation assumption is long term in nature, so it is set using primarily historical information. Following is an analysis of 15-year and 30-year moving averages of historical inflation rates:

Historical Consumer Price Index – 1930 to 2011

(U.S. City Average - All Urban Consumers)

	25th Percentile	Median	75th Percentile
15-year moving averages	2.7%	3.5%	4.8%
30-year moving averages	3.3%	4.2%	5.0%

The average inflation rates have continued to decline gradually over the last several years due to the relatively low inflationary period over the past two decades. Also, the later of the 15-year averages during the period are lower as they do not include the high inflation years of the mid-1970s and early 1980s.

In the 2011 public fund survey published by the National Association of State Retirement Administrators, the median inflation assumption used by 126 large public retirement funds in their 2010 valuations has decreased to 3.25% from the 3.50% used in the 2009 valuations. In California, CalPERS and LACERA have recently reduced their inflation assumptions to 2.75% and 3.00%, respectively.

OCERS' investment consultant, NEPC, anticipates an annual inflation rate of 3.00%, while the average inflation assumption provided by NEPC and by eight other investment advisory firms retained by Segal's California public sector retirement system clients was 2.61%. Note that, in general, investment consultants use a time horizon for this assumption that is shorter than the time horizon we use for the actuarial valuation.

To find a forecast of inflation based on a longer time horizon, we referred to the 2012 report on the financial status of the Social Security program. The projected average increase in the Consumer Price Index (CPI) over the next 75 years under the intermediate cost assumptions used in that report was 2.80%. We also compared the yields on the thirty-year inflation indexed U. S. Treasury bonds to comparable traditional U. S. Treasury bonds. As of July 2012, the difference in yields is about 2.20%, which provides a measure of market expectations of inflation.

Based on all of the above information, we recommend that the current 3.50% annual inflation assumption be reduced to 3.25% for the December 31, 2012 actuarial valuation.

B. INVESTMENT RETURN

The investment return assumption is comprised of two primary components, inflation and real rate of investment return, with adjustments for expenses and risk.

Real Rate of Investment Return

This component represents the portfolio's incremental investment market returns over inflation. Theory has it that as an investor takes a greater investment risk, the return on the investment is expected to also be greater, at least in the long run. This additional return is expected to vary by asset class and empirical data supports that expectation. For that reason, the real rate of return assumptions are developed by asset class. Therefore, the real rate of return assumption for a retirement system's portfolio will vary with the Board's asset allocation among asset classes.

The following is the System's current target asset allocation and the assumed real rate of return assumptions by asset class. The first column of real rate of return assumptions are determined by netting NEPC's total return assumptions by their assumed 3.00% for inflation. The second column of returns (except for Diversified Credit, Absolute Reurn, Real Return and Private Equity) represents the average of a sample of real rate of return expectations. The sample includes the expected annual real rates of return provided to us by NEPC and by eight other investment advisory firms retained by Segal's California public sector retirement system clients. We believe these averages reflect a reasonable consensus forecast of long-term future market returns.

OCERS' Target Asset Allocation as of May 2012 and Assumed Arithmetic Real Rate of Return Assumptions by Asset Class and for the Portfolio

Asset Class	Percentage of Portfolio	NEPC's Assumed Real Rate of Return[(1)]	Average Real Rate of Return from a Sample of Consultants to Segal's California Public Sector Clients[(2)]
Large Cap Equity	14.50%	6.46%	6.13%
Small/Mid Cap Equity	3.00	7.64	6.86
Developed International Equity	12.50	7.21	6.68
Emerging International Equity	6.00	9.65	8.76
Core Bonds	13.00	1.73	1.15
Global Bonds	3.00	0.73	1.14
Emerging Market Debt	3.00	5.03	4.41
Real Estate	10.00	4.04	4.93
Diversified Credit	7.00	3.23	3.23[(3)]
Absolute Return (Hedge Funds/GTAA)	13.00	3.48	3.48[(3)]
Real Return	10.00	4.74	4.74[(3)]
Private Equity	5.00	10.36	10.36[(3)]
Total Portfolio	100.00%	5.12%	4.94%

(1) *Derived by netting NEPC's rate of return assumptions by their assumed 3.00% inflation rate.*

(2) *These are based on the projected arithmetic returns provided by the investment advisory firms serving the county retirement systems of Orange, Ventura, Mendocino, Alameda, Contra Costa, Fresno, the LA City Employees' Retirement System, LA Department of Water and Power and the LA Fire & Police Pensions. These return assumptions are gross of any applicable investment expenses.*

(3) *For these asset classes, the NEPC assumption is applied in lieu of the average because there is a larger disparity in returns for these asset classes among the firms surveyed and using NEPC assumption should more closely reflect the underlying investments made specifically for OCERS.*

Please note that the above are representative of "indexed" returns and do not include any additional returns ("alpha") from active management. This is consistent with the Actuarial Standard of Practice No. 27, Section 3.6.3.e, which states:

> “Investment Manager Performance - Anticipating superior (or inferior) investment manager performance may be unduly optimistic (or pessimistic). Few investment managers consistently achieve significant above-market returns net of expenses over long periods.”

The following are some observations about the returns provided above:

1. The investment consultants to our California public sector retirement system clients have each provided us with their expected real rates of return for each asset class, over various future periods of time. However, in general, the returns available from investment consultants are projected over time periods shorter than the duration of a retirement plan’s liabilities.

2. Using an average of expected real rates of return allows the System’s investment return assumption to reflect a broader range of capital market information and should help reduce year to year volatility in the System’s investment return assumption.

3. Therefore, we recommend that the 4.94% portfolio real rate of return be used in the development of the System’s investment return assumption. For comparison purposes, the expected portfolio real rate of return from the last review of the economic assumptions for the December 31, 2011 valuation using the prior asset allocation was 4.62%.

System Expenses

The real rate of return assumption for the portfolio needs to be adjusted for administrative and investment expenses expected to be paid from investment income.

The following table provides these expenses in relation to the actuarial value of assets for the five years ending December 31, 2011.

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

FYE	Actuarial Value of Assets[(1)]	Administrative Expenses	Investment Expenses[(2)]	Administrative %	Investment %	Total %
2007	$6,466,085	$10,459	$30,032	0.16%	0.46%	0.62%
2008	7,288,900	10,928	30,435	0.15	0.42	0.57
2009	7,748,380	10,893	34,819	0.14	0.45	0.59
2010	8,154,687	12,448	68,027[(3)]	0.15	0.83	0.98
2011	8,672,592	15,479	39,023	0.18	0.46	0.64
			Average	0.16%	0.52%	0.68%

(1) *As of beginning of plan year.*
(2) *Net of securities lending expenses because we do not assume any additional net return for this program, we effectively assume that any expense will be offset by related income.*
(3) *We understand that the 2010 investment expenses included some one-time expenses such as foreign tax expense that is expected to be offset by a future tax reclaim.*

While the average administrative and investment expense percentage over this five year period is 0.68%, this is heavily influenced by the expenses in 2010.The average excluding 2010 is 0.61%. Based on our understanding that some of those expenses for 2010 are one-time only, we believe a future expense assumption of 0.60% is reasonable.

Adjustment to Exclude Administrative Expenses in Developing Investment Return Assumption for use in GASB Financial Reporting

GASB has recently adopted Statements 67 and 68 that replace Statements 25 and 27 for financial reporting purposes. GASB Statements 67 and 68 are effective for plan year 2014 for the Retirement System and fiscal year 2014/2015 for the employer[1].

According to GASB, the investment return assumption for use in the financial reporting purposes should be based on the long-term expected rate of return on a retirement system's investments and should be net of investment expenses but not of administrative expenses

[1] The new Statements (67 and 68) will require more rapid recognition for investment gains or losses and much shorter amortization for actuarial gains or losses. Because of the more rapid recognition of those changes, retirement systems that have generally utilized the previous Statements (25 and 27) as a guideline to establish the employer's contribution amounts for both funding and financial reporting purposes would now have to prepare two sets of cost results, one for contributions and one for financial reporting under the new Statements.

(i.e., without reduction for administrative expenses). As can be observed from the above development of the expense assumption, if the Board would wish to develop a single investment return assumption for both funding and financial reporting purposes, then it would be necessary to exclude the roughly 0.16% administrative expense from the above development and to develop a separate treatment of administrative expenses.

However, there are some complications associated with eliminating the administrative expense in developing the investment return assumption used for funding:

1. Even though GASB requires the exclusion of the administrative expense from the investment return assumption, such expense would continue to accrue for a retirement system. For private sector retirement plans, where the investment return is developed using an approach similar to that required by GASB (i.e., without deducting administrative expenses), contribution requirements are increased explicitly by the anticipated annual administrative expense.

2. Under the current approach of subtracting the administrative expense in the development of the investment return assumption, such annual administrative expense is accounted for implicitly by many public sector retirement systems by effectively deducting it from future expected investment returns.

   Since an investment return assumption net of investment and administrative expenses has been used historically to establish both the employer's and the employee's contribution requirements, such expense has been paid for implicitly by both the employer and the employees.

3. A switch from the method described in (2) to the method described in (1) may require discussion on how to allocate administrative expenses between employers and employees, including possibly establishing a new method to allocate the anticipated annual administrative expense between them.

4. As the Board may be aware, legislative changes under AB 340 would impose major modifications to both the level of benefits and the funding of those benefits for county employees' retirement systems. It is our understanding that included in such modifications is the requirement to fund the Normal Cost on a 50:50 basis between the employer and the employee.

Based on all these considerations, including uncertainty as to how AB 340 will be implemented, it is our recommendation that a decision to adopt a single investment return assumption for both funding and financial reporting purposes be deferred until more analysis can be performed on the allocation of administrative expense. For that reason, this report continues to treat administrative expenses as an offset to future expected investment returns.

Risk Adjustment

The real rate of return assumption for the portfolio is adjusted to reflect the potential risk of shortfalls in the return assumptions. The System's asset allocation also determines this portfolio risk, since risk levels are driven by the variability of returns for the various asset classes and the correlation of returns among those asset classes. This portfolio risk is incorporated into the real rate of return assumption through a risk adjustment.

The purpose of the risk adjustment (as measured by the corresponding confidence level) is to increase the likelihood of achieving the actuarial investment return assumption in the long term. The 4.94% expected real rate of return developed earlier in this report was based on expected mean or average arithmetic returns. This means there is a 50% chance of the actual return in each year being at least as great as the expected return (assuming a symmetrical distribution of future returns). The risk adjustment is intended to increase that probability. This is consistent with our experience that retirement plan fiduciaries would generally prefer that returns exceed the assumed rate more often than not.

In our model, the confidence level associated with a particular risk adjustment represents the likelihood that the actual average return would equal or exceed the assumed value over a 15-year period. For example, if we set our real rate of return assumption using a risk adjustment that produces a confidence level of 60%, then there would be a 60% chance (6 out of 10) that the average return over 15 years will be equal to or greater than the assumed value. The 15-year time horizon represents an approximation of the "duration" of the fund's liabilities, where the duration of a liability represents the sensitivity of that liability to interest rate variations.

Last year, Segal recommended an investment return assumption of either 7.50% or 7.25%; however, the Board adopted an investment return assumption of 7.75%. The 7.75% assumption prescribed by the Board and used in the December 31, 2011 valuation did not provide for any confidence level above 50% under the risk-adjusted model used by Segal. Prior to the assumption review performed for the December 31, 2011 valuation, the most recent review of the economic assumptions was performed for the December 31, 2007 valuation. In that review, the Board adopted an investment return assumption of 7.75%. In combination with the inflation, real return and expense components from that study, the return assumption adopted implied a risk adjustment of 0.80%, reflecting a confidence level of 61% that the actual average return over 15 years would not fall below the assumed return, assuming that the distribution of returns over that period follows the normal statistical distribution[2].

If we were to use the same 61% confidence level from the return assumption adopted for the December 31, 2007 valuation to set this year's risk adjustment, based on the current long-term portfolio standard deviation of 10.30% provided by NEPC (which is reduced from the 11.74% provided by CAI for the December 31, 2011 assumptions study), the corresponding risk adjustment would be 0.75%. Together with the other investment return components, this would result in a preliminary investment return assumption of 6.84%, which is substantially lower than the current assumption of 7.75%.

2 Based on an annual portfolio return standard deviation of 10.95% provided by CAI for the December 31, 2007 assumptions study. Strictly speaking, future compounded long-term investment returns will tend to follow a log-normal distribution. However, we believe the Normal distribution assumption is reasonable for purposes of setting this type of risk adjustment.

Because this would be such a substantial change in this long-term assumption, we evaluated the effect on the confidence level of alternative investment return assumptions. In particular, a net investment return assumption of 7.50%, together with the other investment return components, would produce a risk adjustment of 0.09%, which corresponds to a confidence level of 51%. As this 7.50% assumption would only provide a confidence level only slightly above 50%, we are also making an alternative recommendation for a 7.25% assumption. A net investment return assumption of 7.25%, together with the other investment return components, would produce a risk adjustment of 0.34% which corresponds to a confidence level of 55%.

As we have discussed in prior years, the risk adjustment model and associated confidence level is most useful as a means for comparing how the System has positioned itself over periods of time[3]. The use of either a 51% or a 55% confidence level should be considered in context with other factors, including:

1. As noted above, the confidence level is more of a relative measure than an absolute measure, and so can be reevaluated and reset for future comparisons.

2. The confidence level is based on the standard deviation of the portfolio that is determined and provided to us by NEPC. The standard deviation is a statistical measure of the future volatility of the portfolio and so is itself based on assumptions about future portfolio volatility and can be considered somewhat of a "soft" number.

3. A lower level of inflation should reduce the overall risk of failing to meet the investment return assumption.

[3] In particular, it would not be appropriate to use this type of risk adjustment as a measure of determining an investment return rate that is "risk-free."

4. A confidence level of 51% (which is associated with a 7.50% investment return assumption) is below the range of 55% to 65% that corresponds to the risk adjustments used by most of Segal's other California public retirement system clients. Most public retirement systems that have recently reviewed their investment return assumptions have considered adopting more conservative investment return assumptions for their valuations, mainly to maintain the likelihood that future actual market return will meet or exceed the investment return assumption. While this may provide argument for a confident level of 55% (which is associated with a 7.25% investment return assumption), we would also note that a 0.50% reduction in the investment return assumption is a very significant reduction in a long-term assumption.

5. As with any model, the results of the risk adjustment model should be evaluated for reasonableness and consistency. This is discussed in the following "Test of Risk Adjustment" section, including (1) a discussion of the relationship between the inflation assumption and the risk adjustment and (2) a comparison with assumptions adopted by similarly situated public sector retirement systems.

Taking into account the factors above, our recommendation is to reduce the net investment return assumption from 7.75% to 7.50%. As noted above, this return implies a risk adjustment of 0.09%, reflecting a confidence level of 51% that the actual average return over 15 years would not fall below the assumed return. For that reason, the Board should also consider our alternative recommendation of 7.25% with its associated confidence level of 55%.

Recommended Investment Return Assumption

The following table summarizes the components of the investment return assumption developed in the previous discussion. For comparison purposes, we have also included similar values from the last study and the study as of December 31, 2007.

Calculation of Net Investment Return Assumption

Assumption Component	December 31, 2012 Recommended Value	December 31, 2012 Alternative Recommendation	December 31, 2011 Adopted Value	December 31, 2007 Recommended Value
Inflation	3.25%	3.25%	3.50%	3.50%
Plus Portfolio Real Rate of Return	4.94%	4.94%	4.62%	5.65%
Minus Expense Adjustment	(0.60%)	(0.60%)	(0.60%)	(0.60%)
Minus Risk Adjustment	(0.09%)	(0.34%)	0.23%	(0.80%)
Total	7.50%	7.25%	7.75%	7.75%
Confidence Level	51%	55%	<50%	61%

Based on this analysis, we recommend that the investment return assumption be reduced from 7.75% per annum to 7.50% per annum with an alternative recommendation for a 7.25% assumption should the Board decide to increase the confidence level associated with this assumption to a level more consistent with the practice followed in the review of this assumption in the December 31, 2007 valuation prior to the last review for the December 31, 2011 valuation.

Test of Risk Adjustment

The original development of the risk adjustment component of our investment earnings assumption model arose from our experience with many retirement boards over many years. Quite simply, combining the boards' inflation assumption with the real return and expense components produced – and produces – a substantially higher assumed return than what the boards actually adopt, regardless of the consulting actuary or the methods involved in the process. This led to the development of a risk adjustment component for our model.

There is a range of risk adjustment methodologies that may be incorporated in the development of an earnings assumption. Ideally, the particular risk adjustment selected should reflect the "downside" risk tolerance of the boards making the decision. This is similar to the volatility risk that boards consider when selecting an appropriate asset allocation.

In addition to the generally risk adverse attitude of retirement boards noted above, we believe another reason for this involves the inflation assumption. As noted earlier, the inflation assumption for actuarial valuations is generally longer term than that used by investment consultants. For many years, that has led to higher actuarial valuation inflation assumptions. A higher inflation assumption has a conservative effect - higher current cost - on the wage increase and COLA assumption, but is less conservative as part of the investment earnings assumption. In effect, the risk adjustment compensates for this by offsetting the effect of the higher inflation assumption on assumed investment earnings.

One way to test the reasonableness of the risk adjustment incorporated in our recommendation is to compare our risk-adjusted investment return (i.e., 7.50%) against the expected net investment return that would result from using the average of all the capital market assumptions -- including the lower inflation assumption -- of the investment consultants in our sample.

The following table shows that comparison. This table shows how the difference between our recommended return and that derived using the average of all the capital market assumptions of the investment consultants in our sample can be attributed to the relationship between the two different inflation assumptions and the risk adjustment.

Assumption Element:	Risk-Adjusted Method	Average of Investment Consultant Sample	Difference
Inflation	3.25%	2.61%	0.64%
Risk Adjustment	(0.09%)	0.00%	(0.09%)
Real Rate of Return	4.94%	4.94%	0.00%
Expenses	(0.60%)	(0.60%)	0.00%
Total	7.50%	6.95%	0.55%

The 0.55% (55 basis points) difference between the two calculations represents about an 8% lower confidence level under the higher inflation, risk-adjusted method, as compared to the lower inflation result without the risk adjustment. This indicates that the risk adjustment is not providing a significant offset to the effect of the higher inflation assumption on assumed investment earnings.

Comparing with Other Public Retirement Systems

One final test of the recommended investment return assumption is to compare it against those used by other public retirement systems, both in California and nationwide.

We note that this 7.50% investment return assumption is emerging as a common assumption among those California public sector retirement systems that have studied this assumption recently. In particular two of the largest California systems, CalPERS and LACERA, recently adopted a 7.50% earnings assumption[4]. Note that CalPERS uses a lower inflation assumption of 2.75% while LACERA uses an inflation assumption of 3.00%.

The following table compares the OCERS recommended net investment return assumption against those of the nationwide public retirement systems that participated in the National Association of State Retirement Administrators (NASRA) 2011 Public Fund Survey:

Assumption	**OCERS**	**NASRA 2011 Public Fund Survey**		
		Low	Median	High
Net Investment Return	7.50%	7.00%	8.00%	8.50%

The detailed survey results show that of the systems that have an investment return assumption in the range of 7.50% to 7.90%, over a third of those systems have used an assumption of 7.50%. The survey also notes that several plans have reduced their investment return assumption during the last year, and others are considering doing so. State systems outside of California tend to change their economic assumptions less frequently and so may lag behind emerging practices in this area.

While the recommended assumption of 7.50% provides only a slight risk margin within the risk adjustment model, it is consistent with the System's current practice relative to other public systems.

4 The approach adopted by LACERA was to phase in the reduction from their then current 7.75% assumption to their 7.50% assumption over a three-year period.

C. SALARY INCREASE

Salary increases impact plan costs in two ways: (i) by increasing members' benefits (since benefits are a function of the members' highest average pay) and future normal cost collections; and (ii) by increasing total active member payroll which in turn generates higher UAAL amortization payments (or higher amortization credits if the UAAL is negative). These two impacts are discussed separately below.

As an employee progresses through his or her career, increases in pay are expected to come from three sources:

1. Inflation – Unless pay grows at least as fast as consumer prices grow, employees will experience a reduction in their standard of living. There may be times when pay increases lag or exceed inflation, but over the long term, labor market forces will require an employer to maintain its employees' standards of living.

   As discussed earlier in this report, we are recommending that the assumed rate of inflation be reduced from 3.50% per annum to 3.25% per annum. This inflation component will be used as part of the salary increase assumption.

2. Real "Across the Board" Pay Increases – These increases are sometimes termed productivity increases since they are considered to be derived from the ability of an organization or an economy to produce goods and services in a more efficient manner. As that occurs, at least some portion of the value of these improvements can provide a source for pay increases. These increases are typically assumed to extend to all employees "across the board." The State and Local Government Workers Employment Cost Index produced by the Department of Labor provides evidence that real "across the board" pay increases have averaged about 0.6% - 0.8% annually during the last ten to twenty years.

We also referred to the annual report on the financial status of the Social Security program published in April 2012. In that report, real "across the board" pay increases are forecast to be 1.1% per year under the intermediate assumptions.

The real pay increase assumption is generally considered a more "macroeconomic" assumption, which is not based on individual plan experience specific to OCERS. However, we note that the actual average inflation plus "across the board" increase (i.e., wage inflation) over the past five years was 4.3%.

Valuation Date	Actual Average Increase[1]	Actual Change in CPI[2]
December 31, 2007	5.48%	3.30%
December 31, 2008	7.31%	3.53%
December 31, 2009	4.83%	-0.80%
December 31, 2010	1.78%	1.20%
December 31, 2011	1.97%	2.67%
Average	4.27%	1.98%

(1) *Reflects the increase in average salary for members at the beginning of the year versus those at the end of the year. It does not reflect the average salary increases received by members who worked the full year.*

(2) *Based on the change in the annual average CPI for the Los Angeles-Riverside-Orange County Area compared to the prior year.*

Considering these factors, we recommend increasing the real "across the board" salary increase assumption from 0.25% to 0.50% for the December 31, 2012 actuarial valuation. This means that the combined inflation and "across the board" salary increase assumption will remain unchanged at 3.75%.

3. Promotional and Merit Increases – As the name implies, these increases come from an employee's career advances. This form of pay increase differs from the previous two, since it is specific to the individual. For OCERS, there are service-specific promotional and merit increases. The review of the promotional and

merit component was provided in a separate triennial experience study report as of December 31, 2010.

For the December 31, 2012 valuation we would continue to use the assumptions adopted by the Board in the December 31, 2010 triennial experience study until those assumptions are reviewed again in the December 31, 2013 triennial experience study.

All three of these components are incorporated into a salary increase assumption that is applied in the actuarial valuation to project future benefits and future normal cost contribution collections.

Active Member Payroll

Projected active member payrolls are used to develop the UAAL contribution rate. Future values are determined as a product of the number of employees in the workforce and the average pay for all employees. The average pay for all employees is assumed to increase only by inflation and real “across the board” pay increases. The merit and promotional increases are not an influence, because this average pay is not specific to an individual.

For the December 31, 2012 valuation, we recommend that the active member payroll increase assumption be maintained at 3.75% annually, consistent with the combined inflation and “across the board” salary increase assumptions.

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SEGAL

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VIA EMAIL and USPS

September 7, 2012

Mr. Steve Delaney
Chief Executive Officer
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701-2101

Re: Potential Contribution Rate Impact under Alternative Economic Assumption Scenarios

Dear Steve:

Recently, the OCERS Board adopted a new asset allocation and that asset allocation will be incorporated by Segal in our upcoming review of the economic assumptions (including the investment return assumption) that we would recommend to the Board for the next actuarial valuation as of December 31, 2012. That review is scheduled for October of this year.

Segal last reviewed the economic assumptions in 2011. The Board adopted all of our recommended economic assumptions for use in the December 31, 2011 actuarial valuation, with the exception of the investment return assumption. Segal recommended lowering the current 7.75% investment return assumption to either 7.50% or 7.25%; however, the Board elected to maintain the current assumption of 7.75%. As discussed in our 2011 economic assumption review, this 7.75% investment return assumption prescribed by the Board would have no margin under the risk-adjusted model used by Segal. As noted above, this assumption (along with the other economic assumptions) is scheduled to be reviewed in October 2012 prior to the next valuation.

As requested by the System, we have estimated for illustrative purposes only what the impact on the employer and member contribution rates and the Unfunded Actuarial Accrued Liabilities (UAAL) would be if the Board were to adopt various possible changes in the economic assumptions, as detailed below, for future pension valuations. All of the results have been prepared as of December 31, 2011 using the membership and financial data used in that actuarial valuation.

The current economic assumptions used in the most recent valuation as of December 31, 2011 are as follows:

- 7.75% interest, 3.50% price inflation and 0.25% across-the-board real salary increase.

The three hypothetical economic assumption scenarios studied are as follows:

- Scenario #1: 7.50% interest, 3.25% price inflation and 0.50% across-the-board real salary increase[1];
- Scenario #2: 7.25% interest, 3.25% price inflation and 0.50% across-the-board real salary increase[1]; and
- Scenario #3: 7.00% interest, 3.00% price inflation and 0.50% across-the-board real salary increase[2]. Note this implies a total wage increase assumption of 3.50%.

The estimated aggregate employer and employee contribution rates and the estimated UAAL under the three hypothetical scenarios are provided in the tables below. A detailed breakdown of the estimated employer contribution rate impact by Rate Group is provided in Attachment A.

Contribution Rate (% of Payroll)	Current Assumptions	Scenario #1	Scenario #2	Scenario #3
Employer Rate	34.7%	36.9%	39.3%	41.4%
Employee Rate	11.5%	12.2%	12.9%	13.3%

($ in millions)	Current Assumptions	Scenario #1	Scenario #2	Scenario #3
UAAL	$4,459	$4,898	$5,360	$5,763

[1] The total wage increase assumption (calculated by taking the sum of the price inflation and the across-the-board real salary increase assumptions) is 3.75% under Scenarios #1 and #2; this is unchanged from that assumed under the current assumptions.

[2] For Scenario #3 we have reduced the price inflation assumption an additional 0.25%, since the 0.50% decrease in nominal investment return from Scenario #1 to Scenario #3 would likely be related to a lower price inflation assumption. Because we did not increase the real salary increase assumption, this implies a decrease in the total wage increase assumption from 3.75% to 3.50%. Note that these assumption scenarios are only illustrative. The recommended interrelationships among these economic assumption components will be an important part of our assumption review later this year.

Of course, we are not be able to determine what change in economic assumptions, if any, we would actually recommend to the Board for the December 31, 2012 valuation until we have completed our analysis. As the impact on the employer's contribution rate can be significant under some of the above scenarios, we would also provide alternative strategies for implementing the employer contribution rate impact of such changes (e.g., phasing in the contribution rate increase over 3 years, etc.) if requested to do so by your office.

The undersigned are Members of the American Academy of Actuaries and meet the qualification requirements to render the actuarial opinion contained herein.

Please let us know if you have any questions.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary

Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Associate Actuary

MYM/bqb
Enclosure

cc: Brenda Shott
Julie Wyne

ATTACHMENT A – Change in Employer Rate Under Different Economic Assumption Scenarios

Employer Rate (% of Payroll)	Current Assumptions	Scenario #1	Scenario #2	Scenario #3
Rate Group #1	18.9%	20.5%	22.2%	23.5%
Rate Group #2	33.0%	35.0%	37.0%	39.0%
Rate Group #3	31.9%	33.8%	35.6%	37.5%
Rate Group #5	23.7%	25.3%	26.9%	28.5%
Rate Group #9	22.2%	23.6%	24.9%	26.2%
Rate Group #10	32.7%	34.6%	36.6%	38.4%
Rate Group #11	19.0%	20.8%	22.8%	23.9%
Rate Group #6	36.6%	39.1%	41.7%	44.0%
Rate Group #7	50.9%	54.5%	58.2%	61.9%
Rate Group #8	43.2%	46.1%	49.2%	52.1%
All Rate Groups Combined	34.7%	36.9%	39.3%	41.4%

Current Assumptions:	7.75% interest, 3.50% price inflation and 0.25% across-the-board real salary increase.
Scenario #1:	7.50% interest, 3.25% price inflation and 0.50% across-the-board real salary increase.
Scenario #2:	7.25% interest, 3.25% price inflation and 0.50% across-the-board real salary increase.
Scenario #3:	7.00% interest, 3.00% price inflation and 0.50% across-the-board real salary increase.

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December 4, 2012

VIA EMAIL and USPS

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

**Re: Orange County Employees Retirement System
Implementation of Entry Age Based Member Contribution Rates Under CalPEPRA**

Dear Steve:

In this letter, we have outlined the methodology that we would propose to the Board for use in determining entry age based member contribution rates under the new CalPEPRA 2.5% at 67 General and 2.7% at 57 Safety benefit formulas.

Background

At the November Board meeting, the Board decided to continue the current entry age based member contribution rate structure instead of the single (or flat) member contribution rate structure recommended by Segal for employees to be enrolled in the new CalPEPRA formulas on or after January 1, 2013.

As we outlined in our letter dated November 13, 2012, while Section 7522.30 of CalPEPRA requires new members to contribute at least 50% of the Normal Cost rate (or, if greater, the current contribution rate for similarly situated employees), CalPEPRA does not provide any guidance on whether or how entry age based member contribution rates should be calculated. This is in contrast to the method currently used to set member contribution rates, which is based on statutory guidance specific to the CERL (i.e., pre-CalPEPRA) benefit formulas. In particular, for members with membership dates before January 1, 2013, the Government Code generally defines both Basic and COLA member contributions rates as follows:

- Basic – Provides for an average annuity at a specified age equal to a certain specified percentage of final compensation

- COLA – Provides for 50% of the cost of future Cost-of-Living benefit increases.

The Basic member contribution rate definition for the current formulas allows for a fairly straightforward determination of rates for each possible member entry age. The COLA is then accounted for by “loading” each of the Basic member contributions rates. Under current practice, the COLA loading factor does not vary by entry age, it only varies by benefit formula and by Rate Group.

In the absence of specific guidance from CalPEPRA on how to calculate entry age based member contribution rates, it might appear that we could use the member by member Normal Cost rates calculated directly by our valuation program for each such member. However, that approach cannot be used to set member contribution rates because in our valuation, some factors (such as sex, marital status[1], etc.) that are essential in determining the cost for each individual member are pooled and only used in the aggregate (together with the Normal Costs from other members in the same Rate Group) to determine the ultimate member and employer contribution rates to be charged for each member.

This means that an entirely new method must be developed for entry age based member rates for the new CalPEPRA formulas. In the approach that we are proposing below to establish such rates, we have retained the Basic/COLA rate approach used for members in the current formulas but with some modifications as discussed below.

Discussion and Proposed Methodology

In order to develop the Basic member rate for the CalPEPRA formulas, we would propose calculating the member rates so that member contributions would provide for an average annuity of: 1.25% of final three-year compensation at a specified retirement age of 67 for General and 1.35% of final three-year compensation at a specified retirement age of 57 for Safety.

The 1.25% and 1.35% are equal to one-half of the maximum 2.50% and 2.70% benefit factors that are available under the CalPEPRA General and Safety formulas at retirement ages 67 and 57, respectively.

The above annuities would be calculated using the same gender neutral mortality tables[2] now used for the members covered under the current formulas.

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1 The marital status of the member determines if the member has a spouse or domestic partner eligible for the 60% (100% if the member is eligible for a duty disability retirement) automatic continuance benefit.

2 For establishing General member contribution rates, the current mortality table is based on the RP-2000 combined healthy mortality table set back one year, weighted 40% male and 60% female. For establishing Safety member contribution rates, the current mortality table is based on the RP-2000 combined healthy mortality table set back two years, weighted 80% male and 20% female.

The COLA member rates for the CalPEPRA formulas would be calculated in a similar fashion except that a 3% COLA would also be assumed in calculating the value of the annuity paid by the member. The COLA member rates would then be the difference between the member rates with and without the 3% COLA assumption.

As the above calculations do not take into account other assumptions and related benefits such as disability, pre-retirement death, post-retirement death (automatic continuance), vested termination and withdrawal, it will then be necessary to apply a "loading" or "scaling" factor to each of the Basic and COLA member contribution rates so that the 50/50 allocation of the total Normal Cost rate between the member and the employer can be achieved. Those adjusted rates would then each need to be rounded to the nearest one-quarter percent, again as required by CalPEPRA.

In adopting the above approach, we would need to remind the Board that because of the lack of guidance by CalPEPRA, there is more than one approach that could be used to develop these entry age based member contribution rates. For instance, some other specified retirement ages could be considered because not every General or Safety member would retire at age 67 or 57[3]. While the entry age based rates calculated using different approaches would be expected to result in different rates for individual members, the aggregated rate paid by all members combined should be about the same once they are "scaled" to meet the overall 50/50 allocation of the total Normal Cost.

We look forwarding to discussing this information with you and your Board.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President & Actuary

Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Associate Actuary

/bqb

3 We are not proposing other retirement ages because a more subjective justification would have to be developed for how they have been chosen by OCERS and because it is not anticipated the use of different retirement ages would have a significant impact on the resulting entry age based member rates.

CONSENT CALENDAR - AGENDA ITEM NO. 3
BUDGET AND FINANCE COMMITTEE MEETING
January 9, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Brian Stephens, Assistant Chief
Support Services Department

SUBJECT: **OCFA 2013 Grants Status and Priorities**

Summary:
This item is submitted for consideration and adoption of OCFA's annual grant priorities and to provide an update on pending grant award projects and applications.

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of January 24, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors approve OCFA's grant priorities for 2013.

Background:
The Board of Directors adopted a formal Grants Policy at its meeting on November 17, 2011. The policy states that, "Beginning in January 2012, and each January thereafter, staff will report to the Board on pending grant applications, and request Board approval of the proposed annual grant priorities for the upcoming year."

The intent is not to provide an all inclusive list of grants and projects that OCFA staff may pursue over the next year. As best as possible, staff identified grants and projects where there are existing needs and resources available. As opportunities arise in the future, staff will consider application if an appropriate project and resources are available. This will be done in compliance with the Board adopted Grants Policy.

Following are those grant programs with regular funding and application cycles. Staff has sought to provide an outlook for each grant with potential projects, or in the case of one grant our recommendation and reasons for not applying.

Federal Emergency Management Agency (FEMA) Assistance to Firefighters Grant (AFG)
This federally funded grant seeks to improve firefighter safety by funding local projects in the categories of training, personal protective and firefighting equipment, wellness and fitness programs and interoperability. The OCFA's 2011 application for $1,742,317 to purchase 385 Self Contained Breathing Apparatus (SCBAs) was awarded on January 22, 2012 and has been completed. The OCFA was notified on December 28, 2012 that our 2012 application for $172,400 to purchase 16 Thermal Imaging Cameras was awarded. That award will be proceeding to the January 24, 2013 Board Meeting for formal acceptance.

The AFG program prioritizes projects and equipment requests that directly improve firefighter safety. This includes new or improved personal protective equipment, training and improved interoperability during regional incidents. Given the recent completion of the 2011 SCBA project and the award of our 2012 application staff will consider other project applications for

201. Staff will solicit requests throughout the organization to solicit and develop a competitive application. The next AFG grant application period will likely occur in spring of 2013.
Some possible future projects may include:

- Wellness and Fitness Program Improvements
- Microwave Antenna Repeaters
- Virtual Training Modules
- Simulation Sand Tables

FEMA Fire Prevention and Safety Grant
This FEMA funded grant is targeted at activities that improve community safety. Typical priorities are projects that include purchasing smoke alarms, educating on identified community risks, arson prevention, sprinkler and other prevention related projects. OCFA recently completed a 2010 grant award for $415,000 from FEMA and is awaiting formal closeout. This grant provided funds to purchase smoke alarm and stove top cooking safety devices.

The 2012 grant cycle is currently open for this grant and staff is working with city staff from Mission Viejo and Laguna Woods to seek funds for smoke alarm programs in their cities. Tentatively the goal is to seek funding for approximately 5,000 - 10,000 smoke alarms.

FEMA Staffing for Adequate Fire and Emergency Response (SAFER)
The SAFER grant is the only grant that funds the hiring or rehiring of firefighters. SAFER grants provide financial assistance to help fire departments increase frontline firefighters, rehire firefighters that have been laid off, retain firefighters facing imminent layoffs, or filling of positions that were vacated through attrition. This grant also provides funds to assist volunteer or combination career/volunteer departments like OCFA to address issues of recruitment and retention of volunteers.

The portion of this grant program focused on hiring of career firefighters underwent significant revision in 2009, shifting from hiring new firefighters to assisting local agencies dealing with the financial impacts from declining revenues. Prior to 2009, there was no consideration given to rehiring laid-off firefighters or retaining those facing layoff. The focus previously was adding and enhancing additional staffing capabilities. However since 2009 the grant has established the following priorities:

- First priority: Rehiring laid-off firefighters
- Second priorities: Retention of firefighters who face imminent layoff and/or filling positions vacated through attrition, but not filled due to economic circumstances
- Third priority: Hiring new firefighters

One component of the grant requires awardees to maintain staffing levels during the entire period of the grant (1 or 2 years depending on application). This requires awardees to fill positions vacated due to normal attrition (retirements and other terminations). In 2012 the unknown impact involved with the City of Santa Ana led to a decision to not apply for this grant. Finally, because of the restrictions to reduce staffing during the grant period this grant precludes adjusting our deployment as was recently done in the City of Stanton with the elimination of Truck 46. Given the ongoing fiscal pressures on OCFA and our member agencies staff continues to recommend that no application be submitted under the career portion of the grant program.

Alternatively, the SAFER grant also allows applicants to seek funding for the recruitment and retention of volunteer firefighters. An application was submitted in 2012 seeking funds for the Community Volunteer Services Battalion Chief and training staff time associated with conducting future Reserve program academies. As of late 2012 we were in discussions with FEMA and responding to request from them for additional information on our application. Awards are ongoing and we are awaiting word from FEMA staff on the status of our application.

FEMA Predisaster Mitigation Grant (PDM)

OCFA is in the process of environmental review with FEMA to implement a FY 2010 federal earmark/grant award of $252,000 for the Ready, Set, Go! Cowan Heights project. OCFA has continued to seek PDM funds via the competitive process and was notified that our 2012 application was deemed eligible but funding was not available. This federal grant program has been significantly reduced over the last few years as a result of Congressional budget cutting. OCFA may consider additional applications to this program if there are not further Congressional reductions taken for FY 2013.

Specifically, OCFA is seeking additional funds to conduct defensible space and home hardening in the Cowan and possible other communities. Also, eligible under this grant is the ability to offer homes with non-compliant roofs financial assistance to replace their roofs. These projects require significant staff resources and outreach to homeowners and will be considered on a case by case basis.

Metropolitan Medical Response System (MMRS)

In the transition of Santa Ana Fire to OCFA the responsibility for executing the MMRS grant was assumed by OCFA. This grant was historically awarded by the Department of Homeland Security (DHS) as a pass through via the California Emergency Management Agency and the County of Orange directly to the City of Santa Ana. The grant allows agencies to fund equipment, training and planning activities intended to improve the regional capabilities to respond to a mass casualty incident.

In 2011 this grant program was eliminated and combined into other DHS grant programs. The funding allocated directly to Santa Ana will end with the FY 2011 grant cycle which closes in 2014.

OCFA has assumed responsibility for executing the FY 2010 grant in the amount of $317,419 and the FY 2011 grant in the amount of $277,468. Staff will be coming to the January 24, 2013 Board meeting for acceptance and a summary of purchases to be made under the FY 2010 grant. The FY 2011 grant is set to close April 30, 2013.

Fire Safe California Grants Clearinghouse

The Grants Clearinghouse is a program of the California Fire Safe Council (CFSC). It is an online grants application process that makes it easier to find and apply for wildfire prevention grants to support community projects. Agencies like the US Forest Service, Bureau of Land Management, and the Department of Interior periodically provide grant funds and use the Clearinghouse to pass through these funds to eligible projects.

The OCFA submitted an application for $158,064 to perform additional hazardous fuel removal work in the Peters Canyon/Cowan Heights area and recently received a pre-award notice. This notice has requested additional environmental and financial information and staff is set to attend a pre-award training in February. If funding is not further reduced by Congressional action and environmental issues do not preclude action the OCFA expects to use these grant funds beginning late 2013 up until 2015 to perform addition fuel removal.

Urban Search and Rescue (US&R) 2012 Cooperative Agreement
California Task Force Five (CA TF-5), located in Orange County and sponsored by the Orange County Fire Authority, is one of 28 National US&R Task Forces. CA TF-5 has used past grant funds and activation reimbursements to equip and train the task force members for the mission of rescuing victims in collapsed structures and for weapons of mass destruction/terrorist responses. This grant was accepted by the Board on September 27, 2012 for an amount of $1,261,108.

Unlike other grants there is no fixed level of cost share required but significant amounts of OCFA resources and staff time are involved with this program. This is primarily as a result of the federal government not fully funding this federal program. Originally this program was intended to provide the Federal Government a capability it did not have at the time. It was originally intended to be of no or very little impact to local agency resources. Over time as the capabilities and mission have expanded federal funding has not kept up.

This year's grant funds are divided into four major categories, and the DHS (Department of Homeland Security)/FEMA/US&R Program is allocating funds in the following amounts to our Task Force for these specific categories:

- *Administration*
    - $336,000 for administration of the program
- *Training*
    - $300,220 for training delivery (including travel expenses)
- *Equipment/Cache*
    - $265,000 for equipment acquisition, HazMat/WMD, water rescue equipment and other Task Force expenses
- *Storage and Maintenance*
    - $359,888 for storage and maintenance of cache equipment

Impact to Cities/County:
Not Applicable.

Fiscal Impact:
Not Applicable.

Staff Contact for Further Information:
Jay Barkman, Grants Administrator
jaybarkman@ocfa.org
(714) 573-6048

Attachments:
None.

DISCUSSION CALENDAR – AGENDA ITEM NO. 4
BUDGET AND FINANCE COMMITTEE MEETING
January 9, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **Mid-Year Financial Report**

Summary:
This agenda item is submitted to provide a mid-year financial update on the FY 2012/13 budget in accordance with OCFA's Fiscal Health Contingency Plan.

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of January 24, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Receive and file report.

2. Direct staff to transfer the $5.24 million of available unencumbered funds identified in the 2011/12 annual financial audit to the Self Insurance Fund (Fund 190) to meet workers' compensation funding needs and include this transfer in the mid-year budget adjustment that will be submitted to the Board in March 2013.

Background:
The Fiscal Health Contingency Plan adopted by the Board in May 2002 calls for a comprehensive system to monitor OCFA's fiscal performance. This includes measurement and trending of fifteen financial indicators covering revenues, expenditures, debt, and fund balance as well as a mid-year budget review. The attached report reviews the financial indicators and the current year budget. It also includes local economic conditions and outlooks, highlights the potential financial threats to OCFA, provides updated financial forecast scenarios, and previews 2013/14 budget issues.

FY 2012/13 Budget Review
Significant changes have occurred since the budget was adopted in May 2012, including revisions to the service contracts for the City of Stanton and John Wayne Airport, increases to beginning fund balance, increase in secured property taxes, reductions in fire prevention fee revenue, increases in both revenue and expenditures related to assistance-by-hire emergency responses, as well as all approved adjustments to date that include rebudgets and new grant funds. These changes are detailed in the attached Mid-Year Financial Report.

FY 2012/13 Result of "Trigger" Formula Calculation for Base Salary Increase Determination

In accordance with Memorandums of Understanding (MOU) with all three labor groups, a "trigger" formula calculation has been used to determine whether employee base salary increases shall be scheduled for February 2013. This "trigger" calculation determines how much is available for increases to base salary, after funding all general fund expenditures, the incremental increase to the contingency fund balance, and designating 5% of general fund expenditures for transfer to the Capital Improvement Funds.

The attached calculation (Exhibit 1) is based on figures from the 2012/13 adopted budget as well as the actual secured property tax initial tax levy from the County as required by the agreed upon methodology. The calculation for this year resulted in a negative $11.6 million, indicating that there are no funds available for "triggered" base salary increases.

The "trigger" formula calculation currently applies to the General and Supervisory Management Units (OCEA) and the Firefighter Unit (OCPFA) during FY 2012/13. It will begin applying to the Chief Officers Unit and unrepresented managers in February 2014.

FY 2011/12 Fund Balance

As part of the mid-year review, prior year final fund balances were also reviewed. The audited financial statements for the fiscal year ended June 30, 2012 identified $5.24 million in unencumbered fund balance (discussed in greater detail in the attached report).

In most years, the Amended Joint Powers Agreement (JPA) gives the Board of Directors discretion to determine, after consideration of OCFA's financial needs, whether sufficient unencumbered funds from the prior fiscal year are available for service or resource enhancements to over-funded Structural Fire Fund (SFF) members. However, the First Amendment to the Amended JPA *requires* 50% of unencumbered funds to be allocated to over-funded SFF members at every ten year interval, beginning with fiscal year 2010/11, unless it is determined by unanimous vote of the Directors representing SFF members that a fiscal hardship would thereby result. Further, in the event of a finding of fiscal hardship, the 50% allocation shall be made during the subsequent fiscal year unless another finding of fiscal hardship is determined. In accordance with these provisions, a distribution of FY 2010/11 fund balance was completed on behalf of the over-funded SFF members during the 2011/12 mid-year review.

For this FY 2012/13 mid-year review, staff is recommending that the $5.24 million unencumbered fund balance available from FY 2011/12 be transferred to the Workers' Compensation Self Insurance Fund (Fund 190) to help achieve funding at the 50% confidence level required for existing/past claims.

Staff will continue to monitor the current year budget and economic conditions. Any additional information received after this report will be provided to the Budget and Finance Committee and the Board and will be incorporated into the FY 2012/13 mid-year budget adjustment to be presented for Board adoption in March 2013.

Impact to Cities/County:
Annual increases for cash contract cities are projected to remain below the 4.5% cap on annual increases, as shown by projected expenditures in the Five-Year Financial Forecast. Annual increases over the next three years are currently estimated at 2% for FY 2013/14, 3.25% for FY 2014/15, and 2% for FY 2015/16 (excluding the catch-up provision).

Fiscal Impact:
Financial impact has been presented in the attached report.

Staff Contacts for Further Information:
Lori Zeller, Assistant Chief, Business Services
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(714) 573-6020

Tricia Jakubiak, Treasurer
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Stephan Hamilton, Budget Manager
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(714) 573-6302

Attachments:
Mid-year Financial Report
- Exhibit 1 – "Trigger" Formula Calculation
- Exhibit 2 – Financial Indicators
- Exhibit 3A – Five-Year Financial Forecast – Baseline
- Exhibit 3B – Five-Year Financial Forecast – Mid-Year Revised (Full Fee Schedule)
- Exhibit 3C – Five-Year Financial Forecast – Mid-Year Revised (Fee Reduction Schedule)
- Exhibit 3D – Five-Year Financial Forecast Assumptions

ORANGE COUNTY FIRE AUTHORITY
Mid-Year Financial Report
January 2013

In May 2002, the Board of Directors adopted a Fiscal Health Contingency Plan based on a set of strong fiscal policies, a comprehensive system for monitoring OCFA's fiscal performance, and a framework to assure timely and appropriate response to adverse fiscal circumstances. Included in this Plan is the requirement for a mid-year financial report, which is included as follows.

ECONOMIC OUTLOOK

Property tax is OCFA's largest source of revenue, therefore the outlook on economic factors impacting property values are briefly discussed here. The December 2012 Chapman forecast estimates a final 4.2% increase in 2012 for the median resale price of a single-family home in Orange County, with prices projected to increase 6.8% by the end of 2013. While the supply of new homes is projected to increase, which will put upward pressure on the unsold home inventory, according to Chapman, "…recent statistics regarding shadow inventory, foreclosures and notices of default are all encouraging…notices of defaults have declined sharply in the third quarter of 2012 compared to a year ago…and is at its lowest level since the beginning of the housing slump." Although job growth will be slow it is expected to continue upward and, along with expected positive personal income growth, is improving home affordability. According to Chapman, "The sharp improvement in affordability and rapid increases in rents are tilting the home purchase versus rent decision towards purchase. This, in part, explains why home buying activity picked up steam in 2012." In short, the housing picture is showing definite improvement and should bode well for OCFA's largest revenue source.

CURRENT FISCAL YEAR FINANCES

The following are estimated changes to the General Fund budget that have occurred since the adoption of the FY 2012/13 budget in May 2012. Overall the proposed changes result in a total revenue increase of $4.6 million and a total expenditure increase of $5.2 million. Staff will be returning in March 2013 to request budget adjustments for these areas:

FY 2012/13 Potential Revenue and Expenditure Adjustments

- **Property Tax Revenue**: Based on the County tax ledger, secured property tax revenue increased by 1.75% over last year's billing and, after adjusting for estimated refunds, the projected increase is $1,700,000 over budget.

- **Assistance-by-Hire (ABH):** OCFA is reimbursed for expenses incurred when our personnel are deployed to assist with out-of-county emergencies. Current year ABH reimbursements are $2.4 million greater than budget due to various out-of-county responses. In addition, overtime/backfill expenditures related to these emergency responses are estimated at an additional $2.0 million. Staff will continue to monitor these categories of revenue and expenditures for additional emergency activity.

- **Orange County Professional Firefighters Association Medical Benefit Trust Audit:** The annual audit of this fund has been completed with an expected payment to OCFA in the amount of $1.8 million. This is a $1.3 million increase over the $500,000 currently in the budget under the Other Revenue category.

- **Workers' Compensation:** To assist in bringing the workers' compensation budget up to the 60% confidence level required by Board policy, and as shown in the latest actuarial report, $2.5 million will be added to the workers' compensation budget in the General Fund.

- **City of Stanton Staffing Reconfiguration:** The staffing reconfiguration at Station 46 resulted in a revenue reduction of $572,000 and a decrease in expenditures of $1.1 million.

- **Extension of Handcrew Funding:** With the extension of funding for the hand crew through June 30, 2014, the impact on the 2012/13 budget is an $833,000 increase in expenditures and an $83,000 increase in revenue using a 10% rate of cost recovery.

- **John Wayne Airport Staffing Reconfiguration:** The staffing reconfiguration at Station 33 resulted in a revenue reduction of $356,000 and an increase in expenditures of $99,000.

- **Fee Programs:** The estimated revenue impact related to the 2012 fee study, assuming eventual approval of fee increases, is as follows: HMS/CalARP revenue reduction of $1.3 million including an estimated $350,000 in refunds for 2011/12; Inspection Services revenue reduction of $560,000; and a $141,000 revenue reduction for Planning & Development. An increase of $148,000 is estimated for false alarm fees.

- **Community Redevelopment Agency (CRA) Pass-Throughs:** With the dissolution of the redevelopment programs, any funds available, after accounting for enforceable obligations, are passed on to the taxing entities of which OCFA is one. This residual funding was not included in the 2012/13 adopted budget and is currently estimated at $946,000.

- **City of Santa Ana Reimbursements:** According to the Santa Ana service contract, the city is obligated to reimburse OCFA for salary and benefits related to the use of transferred sick and vacation balances as well as costs related to certain workers' compensation cases, over and above the annual service charge. The current estimate is an increase in reimbursement revenue of $960,000 and an increase of $458,000 in backfill costs for personnel out on workers' compensation leave.

- **Capital vs. General Fund Change:** About $695,000 in Capital Improvement Program projects are being transferred to the General Fund since they no longer meet the criteria for capital projects.

- **Beginning Fund Balance - $4.3 million increase:** General Fund beginning fund balance will increase $4.3 million based on the 2011/12 year-end audit. This increase resulted primarily from salary savings due to vacancies as well as S&S savings.

- **Operating Transfers:** Operating transfers totaling $15.2 million are being proposed to bring the workers' compensation fund balance in the Self Insurance Fund to Board policy, which requires a 50% confidence level for existing/past claims. Of the $15.2 million, $5.2 million is from the available unencumbered fund balance identified in the 2011/12 audit and $10 million is from the cash flow fund balance in the General Fund.

FY 2012/13 Result of "Trigger" Formula Calculation for Base Salary Increase Determination

In accordance with Memorandums of Understanding (MOU) with all three labor groups, a "trigger" formula calculation has been used to determine whether employee base salary increases shall be scheduled for February 2013. This "trigger" calculation determines how much is available for increases to base salary, after funding all general fund expenditures, the incremental increase to the contingency fund balance, and designating 5% of general fund expenditures for transfer to the Capital Improvement Funds.

The attached calculation (Exhibit 1) is based on figures from the 2012/13 adopted budget as well as the actual secured property tax initial tax levy from the County as required by the agreed upon methodology. The calculation for this year resulted in a negative $11.6 million, indicating that there are no funds available for "triggered" base salary increases.

The "trigger" formula calculation currently applies to the General and Supervisory Management Units (OCEA) and the Firefighter Unit (OCPFA) during FY 2012/13. It will begin applying to the Chief Officers Unit and unrepresented managers in February 2014.

FY 2012/13 Capital Improvement Funds

- Facilities Maintenance & Improvements (Fund 122) – Cost containment in this fund continues by only completing projects deemed vital for operational readiness. As a result of the fiscal year 2011/12 annual audit, beginning fund balance will increase by $87,000.

- Facilities Replacement (Fund 123) – The purchase of the second half of the hangar at Station 41 (Fullerton Airport), while facing some delay, is still scheduled to be complete this fiscal year. As a result of the fiscal year 2011/12 annual audit, beginning fund balance will increase by $1.0 million.

- Communications & Information Systems Replacement (Fund 124) – The Public Safety Systems Project is well under way with phase two contract negotiations underway. An expenditure reduction is proposed due primarily to GIS projects being transferred to the General Fund since they no longer meet the criteria for capital projects. As a result of the fiscal year 2011/12 annual audit, beginning fund balance will increase by $2.7 million.

- Vehicle Replacement (Fund 133) – Cost containment continues with staff attempting to defer vehicle purchases whenever possible. As a result of the fiscal year 2011/12 annual audit, beginning fund balance will increase by $1.4 million.

FUTURE FISCAL YEAR FINANCES

Significant factors that are anticipated to influence the FY 2013/14 budget include:

- **Property Taxes** - Since property tax is the largest source of income for the General Fund at about 62% we have again contracted with Rosenow, Spevacek Group, Inc. (RSG) to update our property tax projections. Updated preliminary information for our 2013/14 budget will not be available until February 2013; therefore, in the interim we are continuing to use RSG's prior projection for 2013/14 through 2016/17 of the Five-Year Financial Forecast. With a positive report from the

Chapman Economic Forecast, it is projected that property tax revenue will show continued, albeit slow, growth.

- **Retirement Rates -** The Orange County Employees Retirement System (OCERS) Board has adopted retirement rates for 2013/14. Employer rates for safety employees will decrease by 2.3% of pay and employer rates for general employees will increase by 4.62% of pay compared to rates used to develop the 2012/13 budget adopted in May 2012. Although safety rates are decreasing for this one year, it is proposed that the 2012/13 rates be carried forward to 2013/14 in order to lessen the increase going into 2014/15 created by OCERS' approval of a 0.50% decrease in the assumed rate of return. The impact of this change is being spread over two fiscal years. This change is the primary factor causing the projected $7.6 million and $3.0 million deficits in years three and four of the five-year forecast in Exhibits 3B-1 and 3B-2.

  OCFA again plans to prepay one-half of our annual retirement contributions in January 2013 for 2013/14, which will save approximately $2.1 million based on OCERS 7.75% discount rate.

- **Workers' Compensation Costs –** An actuarial study will be completed in February 2013 to measure and project anticipated future workers' compensation costs. Three years ago, following a financial analysis of the Workers' Compensation Program, the Board approved a reduction to the workers' compensation fund balance to a 50% confidence level for existing/past claims. Funding for new budget years was set at the 60% confidence level. The reduction in fund balance to the 50% confidence level was accomplished by holding the General Fund budget at the 2008/09 funding level for a three-year period. In 2010/11, the budget was further reduced by $1.4 million to fund the limited-term handcrew.

  Since the budget for future year losses has been held artificially low to achieve the changes described above, we have started stair-stepping annual budget increases into the budget beginning in 2012/13 to fund workers' compensation losses "going forward" at the 60% confidence level, as required. According to a recent actuarial study, the reserve level and annual budget contributions are below what is required to maintain sufficient funding. Therefore, in addition to the current year funding increases noted above, future year's budgeted funding is also being increased significantly in years two and three in the financial forecast as recommended in the actuarial study. Please see Exhibits 3B-1 and 3B-2.

PENDING ISSUES

- **Firefighter Handcrew –** The current cash flow models do not include funding for a Firefighter Handcrew after the 2013/14 fiscal year. Continuation of this program will be reviewed prior expiration of this agreement.

- **Haz Mat/Cal ARP Fee Programs –** Transfer of these programs to the County Health Care Agency is included in the financial forecasts beginning in 2013/14, pending Board approval.

- **CAL FIRE Agreement** – We have been notified of possible reductions to our State contract; however, the amount has yet to be confirmed. The contract amount is not typically provided by CAL FIRE until about 7 or 8 months into the fiscal year.

- **Prepayment of Retirement to OCERS** – OCERS may stop offering the pre-payment discount option, which will eliminate about $2.1 million in annual savings currently included in the budget and financial forecast.

FISCAL HEALTH INDICATORS

The Fiscal Health Contingency Plan identifies fifteen financial indicators covering expenditures, revenues, labor costs, capital outlay, debt service expenditures, unreserved fund balance, and demographics. These indicators, which are based on suggestions from member agencies, the ICMA publication entitled "Evaluating Financial Condition", the City Managers' Budget and Finance Committee, and Strategic Planning meetings, are intended to assist staff in evaluating OCFA's fiscal health.

Financial and other data for the ten year period of 2003/04 to 2012/13 were collected and various ratios were calculated to assess the financial condition of the OCFA. After the trends were analyzed and the anomalies researched, each indicator was evaluated to determine whether the trend suggested a healthy or unhealthy financial condition.

Of the fifteen indicators that we evaluated, five suggested a healthy trend, four were rated unfavorable, and six suggested a need for further monitoring. The following compare the ratings for each indicator between this year and last year:

Indicator	2011/12	2012/13
A. Operating Expenditures per Capita (Constant Dollars)	Watch	Favorable
B. Employees per Capita (10,000)	Favorable	Favorable
C. Change in Operating Expenditures (Constant Dollars)	Watch	Unfavorable
D. Change in Operating Revenues (Constant Dollars)	Unfavorable	Favorable
E. Change in Property Tax Revenue (Constant Dollars)	Unfavorable	Unfavorable
F. Ratio of Operating Expenditures to Operating Revenues	Unfavorable	Watch
G. Ratio of Labor Costs to Operating Expenditures	Unfavorable	Unfavorable
H. Ratio of Total Labor Costs to Total Budget	Watch	Watch
I. Ratio of Total Capital Outlay to Total Budget	Watch	Watch
J. Ratio of Unreserved Fund Balance to Operating Revenues	Watch	Watch
K. Ratio of Debt Service to Operating Revenues	Favorable	Favorable
L. Ratio of Debt Service to Operating Transfer Out	Favorable	Unfavorable
M. Change in County Housing Construction	Watch	Favorable
N. Median Age of the County	Favorable	Watch
O. Percentage of County Population Over 65 Years	Favorable	Watch

The detailed analysis for each financial indicator is included in Exhibit 2.

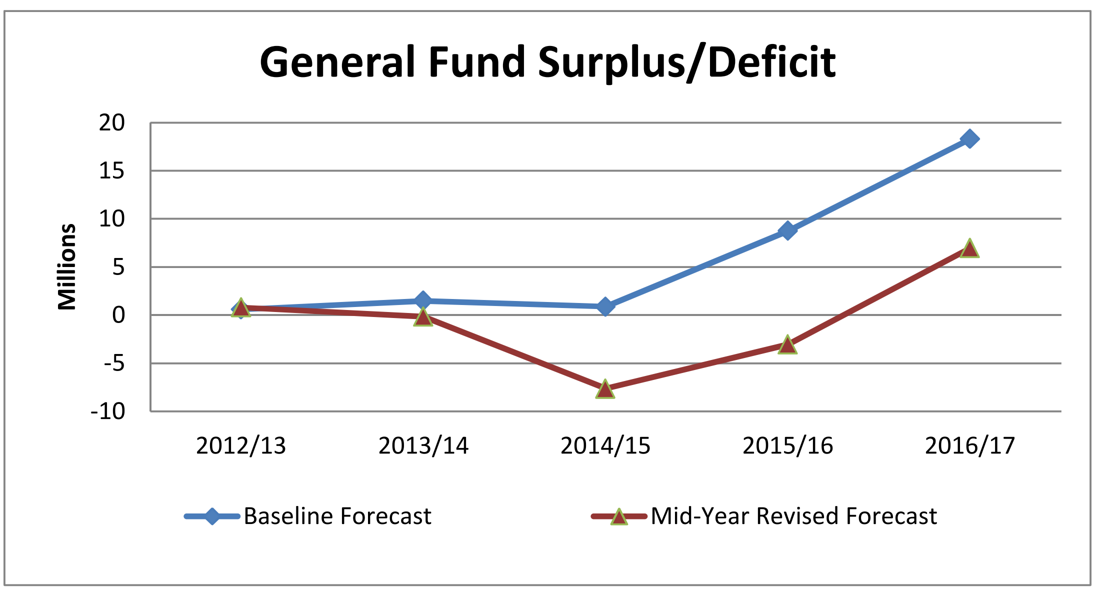
FIVE-YEAR FINANCIAL FORECAST

Five-year financial forecasts are another tool provided to management and the Board of Directors to assist them in assessing proposed budgetary and financial decisions. The attached baseline forecast (see Exhibit 3-A) is based on the FY 2012/2013 adopted budget as amended by the Board to reduce Stanton's staffing and extend the handcrew through 6/30/14. The FY 2012/13 Mid-Year Revised Forecast (see Exhibit 3-B) has been updated to include the following adjustments:

- Updated total beginning fund balance from the 2011/12 audited financial statements including the staff recommendation of transferring the General Fund unencumbered portion of the increase to the Workers' Compensation fund balance
- Revenue and expenditure changes relative to the JWA staffing change
- All approved budget adjustments that have occurred since the adoption of the budget
- Revenues and expenditures rebudgeted from FY 2011/12
- A net increase of $1,711,944 in estimated property tax receipts
- An increase of $2.4 million in revenue and $2.0 million in expenditures related to assistance-by-hire emergency responses
- An additional $2.5 million in Workers' Compensation funding
- All other proposed mid-year adjustments

The chart below graphically displays the General Fund surplus/deficit on a yearly basis. The chart displays the differences between on-going General Fund revenue and on-going General Fund expenditures for (1) the Baseline 2012/13 budget presented to the Board, (2) the updated Mid-Year Revised Forecast.

The original 2012/13 General Fund surplus of $600K has improved by about $210K based on the estimated changes noted above. Changes from the baseline in the last three years are driven primarily by updated retirement rate projections provided by OCERS, which assume 7.75% rate of return for 2012 and 2013, 7.50% for 2014, and 7.25% thereafter.



OCPFA SIMPLIFIED FORMAT - TRIGGER FORMULA

(Reformatted from the Five Year Financial Forecast - Baseline Model)

FY 2012/13

GENERAL FUND REVENUES		
Property Taxes	181,737,580	*
State Reimbursements	4,122,852	
Federal Reimbursements	100,000	
One-Time Grant Proceeds	206,704	
CRA Pass-thru's	4,024,168	
Cash Contracts	82,869,384	
Haz Mat Services Section	1,444,266	
Fire Prevention Fee	5,346,949	
ALS Supplies & Transport Reimbursement	4,570,574	
Interest Earnings	217,023	
Other Revenue	2,652,535	
TOTAL REVENUES (A)	**287,292,035**	

GENERAL FUND EXPENDITURES		
Salaries	167,713,616	
Retirement	62,827,310	
Worker's Comp	7,407,001	
Insurance, Medicare, Etc.	22,468,540	
Salaries & Employee Benefits	260,416,467	
Services & Supplies/Equipment	21,441,740	
One-Time Grant Expenditures	258,380	
TRAN Debt Service - Interest Expense	0	
Incremental Increase to Contingency Fund Balance	2,717,293	*(a)*
TOTAL EXPENDITURES (B)	**284,833,880**	

(a) This item is in addition to the total shown for General Fund expenditures on the Five-Year Financial Forecast. For purposes of this Trigger Formula calculation, this item is reflected in Section B.

GENERAL FUND SURPLUS/(DEFICIT) = (A-B)	**2,458,155**
Fund 5% of General Fund Expenditures to CIP *(excludes incremental increase to Contingency Fund Balance)*	(14,105,829)
TRIGGER FORMULA FUNDS AVAILABLE - ALL GROUPS	**(11,647,674)**

** - Reflects the total property tax amount included in the FY 2012/13 Adopted Budget, adjusted by the 2012/13 secured property tax ledger that was issued by the County in September 2012.*

Orange County Fire Authority
Financial Indicators

Weight: The weight (High, Medium, or Low) of each financial indicator shows the significance the indicator is anticipated to have on the overall fiscal health of the OCFA relative to the other indicators.

Rating: The rating (Favorable, Unfavorable, or Watch) of each financial indicator denotes whether the observed trend in the data suggests a favorable or unfavorable near-term prognosis of fiscal health.

Constant Dollars: Several indicators have been corrected for inflation so that the true impact of the variables may be seen. Since data have been collected since the formation of the OCFA, these indicators are reported in constant 1995/96 dollars.

	Indicator	FY 2012/13		
		Ratio	**Weight**	**Rating**
A	Operating Expenditures per Capita (Constant Dollars)	$100.88*	Medium	Favorable
B	Employees per Capita (10,000)	7.35*	Medium	Favorable
C	Change in Operating Expenditures (Constant Dollars)	7.05%	High	Unfavorable
D	Change in Operating Revenues (Constant Dollars)	8.36%	High	Favorable
E	Change in Property Tax Revenue (Constant Dollars)	-1.31%	High	Unfavorable
F	Ratio of Operating Expenditures to Operating Revenues	98.8%	High	Watch
G	Ratio of Labor Costs to Operating Expenditures	92.3%	Medium	Unfavorable
H	Ratio of Total Labor Costs to Total Budget	84.5%	Medium	Watch
I	Ratio of Total Capital Outlay to Total Budget	8.5%	Medium	Watch
J	Ratio of Unreserved Fund Balance to Operating Revenues	33.1%	High	Watch
K	Ratio of Debt Service to Operating Revenues	0.9%	Medium	Favorable
L	Ratio of Debt Service to Operating Transfers Out (OTO)	No OTO	High	Unfavorable
M	Change in County Housing Construction	33.7%	High	Favorable
N	Median Age of the County	36.4**	Low	Watch
O	Percentage of County Population over 65 Years	10.6%**	Medium	Watch

* - Population data are unavailable for FY 2012/13 so FY 2011/12 data are reported.
** - Age data were not available at the time of publication so 8-year trends were used to estimate.

A. OPERATING EXPENDITURES PER CAPITA (CONSTANT DOLLARS)

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
$107.92	$107.04	$111.05	$116.09	$115.08	$118.64	$116.14	$118.81	$100.88	N/A

This indicator demonstrates that the growth in operating expenditures exceeded the changes in the CPI and the service population within our jurisdiction five of the past nine years. Since salaries and employee benefits account for 92.3 percent of operating expenditures (Indicator G), this indicator reflects the impacts of adopting 3% at 50 (2003/04); increases due to OCERS' changes related to bonus pays and to workers' comp increases (2005/06); and staffing increases associated with the deployment study, the opening of Fire Stations 27 and 47, the addition of nurse educators, the new 5th field division (2006/07) and extraordinary assistance-by-hire activities and expediting payment of the pension liability (2008/09), a reduction in our service population (2010/11), and finally the inclusion of Santa Ana in 2011/12 to our service area. After each of these events, the following year seems to show a stabilizing effect. In addition, FY 2009/10 shows the impact of some of the cost-cutting efforts.

Weight: Medium
Rating: Favorable

Note: Population estimates for FY 2012/13 will not be available from the California Department of Finance until April 2013.

B. NUMBER OF EMPLOYEES PER CAPITA (PER 10,000)

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
8.14	8.06	8.04	8.13	8.14	8.15	7.81	8.01	7.35	N/A

This indicator shows that for the past nine years, the overall rate of population growth exceeded staffing growth (total funded positions). In other words, as population was growing at an average annual rate of 3.08% (most significantly by the addition of Santa Ana in FY 11/12), staffing was only increasing by an average annual rate of 1.74%. This pattern of gradual decrease in this ratio over time is suggestive of increasing productivity obtained without disproportionate increases in staffing.

Weight: Medium
Rating: Favorable

Note: Population estimates for FY 2012/13 will not be available from the California Department of Finance until April 2013.

C. CHANGE IN OPERATING EXPENDITURES (CONSTANT DOLLARS)

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
11.32%	1.05%	5.14%	5.58%	0.50%	3.50%	-1.13%	-1.20%	6.14%	7.05%

This indicator measures percentage change from year to year in OCFA's operating expenditures (in constant dollars). On average, this indicator was growing for the ten-year period at about 2.91% faster than inflation. The reduced growth rates during 2007/08 through 2010/11 are due to the significant one-time expenditures in FY 2006/07 and actions taken in FY 2009/10 and 2010/11 to reduce the budget. The 2011/12 and 2012/13 growth reflect expenditure increases in connection with the Santa Ana contract. The true significance of this measure is found in comparing it with changes in operating revenues.

Weight: High
Rating: Unfavorable

D. CHANGE IN OPERATING REVENUES (CONSTANT DOLLARS)

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
6.47%	4.78%	6.20%	4.20%	5.02%	0.71%	-3.80%	-2.97%	2.57%	8.36%

Over the past ten years, the OCFA has seen an average increase in General Fund revenues (corrected for inflation) of 2.71% each year – exceeding growth in expenditures in only four of the past ten years. However, the rate of growth seems to have recovered from "the Great Recession". Also, although much of the increases in the last two years is due to the Santa Ana contract, revenues are growing at an annualized rate of 1.08% exclusive of the Santa Ana contract.

Weight: High
Rating: Favorable

E. CHANGE IN PROPERTY TAX REVENUE (CONSTANT DOLLARS)

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
6.49%	7.74%	7.05%	5.20%	4.97%	0.93%	-2.40%	-3.10%	-1.87%	-1.31%

From FY 2003/04 through FY 2007/08, property tax receipts were growing annually at an average rate of 6.28% (corrected for inflation). For the last five years of the study period, the average annual change has been -1.56%. The downturn in the housing market is driving this decline in revenue. As this revenue source accounts for about 63% of General Fund revenue, any sizable decrease in growth is unfavorable.

Weight: High
Rating: Unfavorable

F. RATIO OF OPERATING EXPENDITURES TO OPERATING REVENUES

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
97.0%	93.6%	92.7%	93.9%	89.8%	92.3%	94.9%	96.6%	100.0%	98.8%

For the first five years of these data, revenues have exceeded expenditures by an average of 7%. However, this ratio has been steadily increasing for the past five years, reaching 100% in FY 2011/12 and declining slightly to 98.8% in FY 2012/13. As a result, there has been less funding available for the capital projects. This indicator should be closely watched to see if the FY 2012/13 ratio is indicative of a return to pre-recession levels.

Weight: High
Rating: Watch

G. RATIO OF LABOR COSTS TO OPERATING EXPENDITURES

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
88.6%	88.4%	88.7%	89.3%	89.3%	89.7%	90.7%	89.5%	89.0%	92.3%

Because the OCFA is a regional provider of front-line emergency services, the majority of General Fund costs are labor. This indicator shows a ten-year average of 89.7% with very little year-to-year change, excluding the current year. However, due to recent labor cost increases, combined with cost-reduction efforts that had immediate decreases in non-labor costs, this ratio has reached its highest point since the creation of the OCFA and has exceeded 90% for only the second time. It should be noted that OCFA has implemented cost-reduction actions to reduce labor costs over the longer-term; however, those actions won't be visible in this financial indicator until a larger percentage of OCFA employees are enrolled in the new retirement plans.

Weight: Medium
Rating: Unfavorable

H. RATIO OF TOTAL LABOR COSTS TO TOTAL BUDGET

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
74.7%	75.3%	77.2%	77.4%	78.4%	71.3%	77.1%	83.8%	86.8%	84.5%

This indicator is similar to the preceding, but includes all capital funds. We see a similar pattern of an almost constant ratio except for 2008/09, and the most recent three years. In 2008/09 the ratio decreased due to increased capital costs with the purchase of two Bell helicopters ($21.5 million) and the ratio then returned to average levels in 2009/10. However, in FY 2011/12, this ratio also reached an historic high followed by a modest decline in 2011/12.

Weight: Medium
Rating: Watch

I. RATIO OF TOTAL CAPITAL OUTLAY TO TOTAL BUDGET

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
4.7%	7.2%	5.1%	6.4%	4.1%	14.3%	10.3%	3.9%	0.4%	8.5%

The trend evident in this indicator is modest variability over the course of years with three spikes in FY 2008/09 (helicopter purchases), FY 2009/10 (Fire Station #41 Purchase), and FY 2012/13 (Public Safety System). The period prior to these spikes showed an average annual ratio of 5.52%. Since the ratio for FY 2011/12 decreased significantly and then rose again in 2012/13, this indicator should be watched to see if it returns to a more historic norm.

Weight: Medium
Rating: Watch

J. RATIO OF UNRESERVED FUND BALANCE TO OPERATING REVENUE

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
31.0%	23.2%	32.3%	34.8%	45.5%	53.3%	52.8%	47.8%	42.9%	33.1%

This ratio of unreserved fund balance (defined as the sum of the fund balances committed to the Structural Fire Fund Entitlement Fund, the CIP, and Workers' Comp plus the unassigned fund balance less the 10% contingency) to operating revenue shows the availability of funds to support non-routine and capital expenditures. Over the past ten years, this indicator has averaged 40.4% of the operating revenue increasing to a peak in FY 2008/09 and declining thereafter. This indicator should be watched to determine if this decline is a return to an historic average (33.3% prior to the FY 2008/09 increase) or the beginning of protracted reductions.

Weight: High
Rating: Watch

K. RATIO OF DEBT SERVICE TO OPERATING REVENUES

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
3.3%	3.4%	1.4%	1.5%	1.1%	1.5%	2.3%	1.1%	1.0%	0.9%

For its first two years, the OCFA had no debt service payments. In FY 1997/98 OCFA issued its first annual Tax and Revenue Anticipation Note (TRAN) with interest payments. In FY 1998/99 a Lease-Purchase Agreement with a seven-year term was used to help fund the capital improvement program. A similar Lease-Purchase Agreement was used in FY 1999/00. Revenue bonds were issued in FY 2001/02 to fund the construction of the RFOTC. Finally, a third Lease-Purchase Agreement was used for vehicle purchases in FY 2003/04, a fourth in FY 2005/06, and a fifth in FY 2008/09 (for the helicopters). The revenue bonds have been repaid and all but the helicopter Lease-Purchases have been paid off (FY 2009/10), plus the OCFA has not issued a TRAN for four years. This indicator, showing a small percentage of revenue going to debt service, suggests a favorable financial condition.

Weight: Medium
Rating: Favorable

L. RATIO OF DEBT SERVICE TO OPERATING TRANSFERS OUT (OTO)

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
58.7%	26.2%	12.8%	10.9%	6.5%	10.7%	56.6%	No OTO	No OTO	No OTO

The significant rise in FY 2003/04 and 2004/05 reflects issuance of the RFOTC bonds. The decrease in FY 2005/06 is due to a change in the General Fund reserve policy, transferring the funding for the full repayment of the RFOTC debt from the General Fund to the Debt Service Fund. The decrease in FY 2007/08 resulted from paying off the first two Lease-Purchase Agreements and the increases in FY 2008/09 and 2009/10 were due to the new helicopter Lease-Purchase Agreement (FY 2008/09 -partial year and 2009/10 - full year) and paying off the third and fourth Lease-Purchase Agreements (FY 2009/10). However, in FY 2010/11 through 2012/13 no operating transfer out was budgeted, so this ratio could not be calculated. However, being unable to transfer funds from the General Fund to the CIP funds is not a favorable condition.

Weight: High
Rating: Unfavorable

M. CHANGE IN COUNTY HOUSING CONSTRUCTION

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
9,264	8,943	8,158	6,605	5,636	2,158	2,183	3,633	4,455	5,955
-18.1%	-3.5%	-8.8%	-19.0%	-14.7%	-61.7%	1.2%	66.4%	22.6%	33.7%

This indicator measures the year-to-year change in the number of housing starts in the County as reported by Chapman University. New construction (especially residential construction) is one of three factors driving increases in property tax receipts (the other two being re-sales of existing homes and appreciation of existing homes that did not change hands). Although there have been highs and lows, this ten-year trend analysis indicates an average annual decline of 4.8% in housing starts throughout the County. However, FY 2009/10 saw a slight reversal in this trend and 2010/11 through 2012/13 demonstrate continued improvement in this indicator (although not to the same number of housing starts as in the early years of the decade).

Weight: High
Rating: Favorable

N. MEDIAN AGE OF THE COUNTY

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
34.8	35.0	35.3	34.5	34.7	34.9	36.0	36.20	36.40*	N/A

Weight: Low
Rating: Watch

O. PERCENTAGE OF COUNTY POPULATION OVER 65 YEARS

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
10.1%	10.1%	10.2%	9.8%	9.9%	10.1%	11.0%	10.5%	10.6%*	N/A

These two indicators assess the aging of the Orange County population. An older population tends to require more service from the public sector, and increases in services provided could result in increased cost for service. Although the median age demonstrates slight increases over the nine reported years (except for the decrease in FY 2006/07), the increase is not dramatic.

Weight: Medium
Rating: Watch

Note: Age data for FY 2012/13 were not available from the California Department of Finance at the time of publication, so an eight-year average change was used to estimate FY 2011/12 figures.

Exhibit 3-A1

Orange County Fire Authority
Five-Year Financial Forecast
Scenario 1 - Baseline

	Year 2	*Year 3*	*Year 4*	*Year 5*	*Year 6*	
OCERS interest assumption for FY 14/15=7.75%	**FY 2012/13**	**FY 2013/14**	**FY 2014/15**	**FY 2015/16**	**FY 2016/17**	
Beginning Fund Balance	145,975,722	124,077,721	115,290,973	109,810,652	111,691,180	*(a)*
General Fund Revenues	285,091,384	288,277,155	295,176,169	304,909,720	318,285,372	
General Fund Expenditures	281,805,509	286,326,687	293,557,432	295,911,369	299,608,452	
Net General Fund Revenue	**3,285,875**	**1,950,468**	**1,618,737**	**8,998,351**	**18,676,920**	
Less Incremental Increase in 10% GF Op. Cont.	2,686,185	452,118	723,075	235,394	369,708	*(b)*
General Fund Surplus / (Deficit)	**599,690**	**1,498,350**	**895,663**	**8,762,958**	**18,307,212**	
Operating Transfer to GF Cashflow	599,690					*(c)*
Operating Transfer to CIP Funds	-	1,498,350	895,663	8,762,958	18,307,212	
GF Deficit = Draw from Fund Balance	-	-	-	-	-	
CIP/Other Revenues	10,310,527	17,207,978	13,146,278	21,884,364	32,085,746	
CIP/Other Expenses	35,494,403	26,446,844	19,349,673	20,239,230	21,559,730	
CIP Surplus / (Deficit)	**(25,183,876)**	**(9,238,866)**	**(6,203,395)**	**1,645,134**	**10,526,015**	*(d)*
Ending Fund Balance	**124,077,721**	**115,290,973**	**109,810,652**	**111,691,180**	**122,586,904**	***(a+b+c+d)***

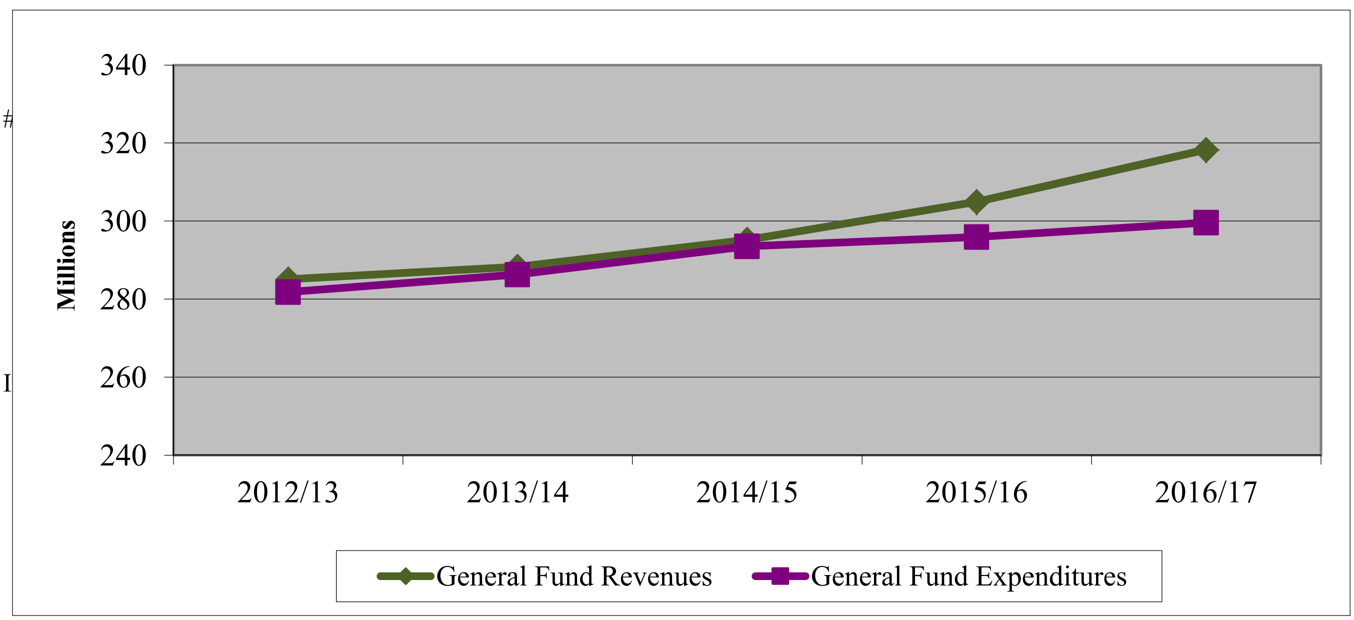


Exhibit 3-A2

Scenario 1 - Baseline

OCERS interest assumption for FY 14/15=7.75%

Stanton Reduction is an ongoing change **Handcrew Extension is through 6/30/14**	ADOPTED 2012/13	PROJECTED 2013/14	PROJECTED 2014/15	PROJECTED 2015/16	PROJECTED 2016/17
A. BEGINNING FUND BALANCE	**145,975,722**	**124,077,721**	**115,290,973**	**109,810,652**	**111,691,180**
GENERAL FUND REVENUES					
Secured Property Tax	168,033,395	170,100,206	174,250,651	180,959,301	191,382,557
Public Utility Tax	1,880,323	1,880,323	1,880,323	1,880,323	1,880,323
Unsecured Property Tax	6,662,546	6,662,546	6,662,546	6,662,546	6,662,546
Homeowners Property Tax Relief	1,447,505	1,447,505	1,447,505	1,447,505	1,447,505
Supplemental/Delinquencies	2,001,867	2,001,867	2,001,867	2,001,867	2,001,867
Property Taxes	180,025,636	182,092,447	186,242,892	192,951,542	203,374,798
State Reimbursements	4,122,852	4,122,852	4,122,852	4,122,852	4,122,852
Federal Reimbursements	100,000	100,000	100,000	100,000	100,000
One-Time Grant/ABH Proceeds	206,704				
Community Redevelopment Agency Pass-thru's	4,024,168	4,073,665	4,173,063	4,333,726	4,583,348
Cash Contracts	82,297,385	84,686,675	87,114,528	89,579,359	92,055,247
Haz Mat Services	1,444,266	1,487,594	1,532,222	1,578,188	1,625,534
Fire Prevention Fee	5,346,949	5,507,357	5,672,578	5,842,756	6,018,038
Advanced Life Support Supplies & Transport Reimbursement	4,570,574	4,570,574	4,570,574	4,570,574	4,570,574
Interest Earnings	217,023	396,691	578,218	761,481	765,738
Other Revenue	2,735,827	1,239,300	1,069,243	1,069,243	1,069,243
TOTAL REVENUES	**285,091,384**	**288,277,155**	**295,176,169**	**304,909,720**	**318,285,372**
					Average Annual Change = 2.79%
GENERAL FUND EXPENDITURES					
New Positions for New Stations/Enhancements			2,183,668	2,201,862	2,231,538
Employee Salaries	167,053,623	167,181,194	166,298,243	166,298,243	166,298,243
Retirement	63,032,410	63,303,348	66,683,521	66,262,474	67,069,307
Workers' Comp Transfer out to Self-Ins. Fund	7,390,635	8,890,635	9,351,169	9,851,169	10,351,169
Other Insurance	20,486,953	22,355,800	24,018,333	26,212,084	28,617,003
Medicare	2,141,768	2,143,389	2,132,170	2,132,170	2,132,170
One-Time Grant/ABH Expenditures	0				
Salaries & Employee Benefits	260,105,389	263,874,367	270,667,105	272,958,003	276,699,431
Services & Supplies/Equipment	21,700,120	22,452,320	22,789,021	22,849,021	22,909,021
New Station/Enhancements S&S Impacts			101,306	104,345	107,475
One-Time Grant Expenditures	0				
Capital Outlay	0	0	0	0	0
TOTAL EXPENDITURES	**281,805,509**	**286,326,687**	**293,557,432**	**295,911,369**	**299,608,452**
					Average Annual Change = 1.54%
NET GENERAL FUND REVENUE	**3,285,875**	**1,950,468**	**1,618,737**	**8,998,351**	18,676,920
B. Incremental Increase in GF 10% Contingency	**2,686,185**	**452,118**	**723,075**	**235,394**	**369,708**
GENERAL FUND SURPLUS / (DEFICIT)	**599,690**	**1,498,350**	**895,663**	**8,762,958**	**18,307,212**
C. GF Surplus/Deficit = Operating Transfers to/from GF Cashflow	599,690				
GF Surplus = Operating Transfers Out to CIP		1,498,350	895,663	8,762,958	18,307,212
Capital Improvement Program/Other Fund Revenues					
Interest Earnings	447,853	768,057	1,053,944	1,379,703	1,490,446
State/Federal Reimbursement	865,929	37,929	37,929	37,929	37,929
Cash Contracts	1,559,658	1,717,399	1,761,121	1,806,153	1,852,538
Developer Contributions	0	4,249,156			
Workers' Comp Transfer in from GF	7,390,635	8,890,635	9,351,169	9,851,169	10,351,169
Miscellaneous	46,452	46,452	46,452	46,452	46,452
Operating Transfers In	0	1,498,350	895,663	8,762,958	18,307,212
Total CIP Revenues	10,310,527	17,207,978	13,146,278	21,884,364	32,085,746
Capital Improvement Program/Other Fund Expenses					
Fund 122 - Facilities Maintenance & Improvements	1,691,449	1,237,614	1,264,498	1,292,122	1,320,505
Fund 123 - Facilities Replacement	2,201,900	4,800,000	0	0	0
Fund 124 - Communications & Info Systems Replace.	14,527,733	5,451,800	3,152,500	2,427,500	2,198,038
Fund 133 - Vehicle Replacement	7,705,693	6,049,200	5,919,026	7,328,726	8,669,588
Sub-Total CIP Expenses	26,126,775	17,538,614	10,336,024	11,048,348	12,188,131
Fund 171 - SFF Entitlement	765,494	68,396	0	0	0
Fund 190 - WC Self-Ins. (Cashflow Payments per Actuary)	8,602,134	8,839,834	9,013,649	9,190,882	9,371,599
Total CIP/Other Expenses	35,494,403	26,446,844	19,349,673	20,239,230	21,559,730
D. CIP SURPLUS/(DEFICIT)	**(25,183,876)**	**(9,238,866)**	**(6,203,395)**	**1,645,134**	**10,526,015**
ENDING FUND BALANCE (A+B+C+D)	**124,077,721**	**115,290,973**	**109,810,652**	**111,691,180**	**122,586,904**
Fund Balances					
Operating Contingency (10% of Expenditures)	28,129,713	28,632,669	29,355,743	29,591,137	29,960,845
General Fund Cashflow (OCERS Pre-Pay)	19,473,049	19,473,049	19,473,049	19,473,049	19,473,049
Restricted (Donations & Developer Contributions)	1,727,182	533,232	533,232	533,232	533,232
Committed (Fund 171)	68,396	0	0	0	0
Assigned					
Capital Improvement Program	43,130,317	35,052,159	28,511,243	29,496,090	39,042,536
Fund 190 - WC Self-Insurance	31,549,064	31,599,865	31,937,385	32,597,672	33,577,242
Total Fund Balances	124,077,721	115,290,973	109,810,652	111,691,180	122,586,904

Exhibit 3-B1

Orange County Fire Authority
Five-Year Financial Forecast
Scenario 2 - Full FP Fee Schedule

Phase in OCERS interest reduction beginning in FY 14/15	*Year 2* FY 2012/13	*Year 3* FY 2013/14	*Year 4* FY 2014/15	*Year 5* FY 2015/16	*Year 6* FY 2016/17	
Beginning Fund Balance	145,975,722	136,602,298	126,671,766	116,135,590	109,160,687	*(a)*
General Fund Revenues	293,609,000	289,487,248	296,386,067	306,153,041	319,610,294	
General Fund Expenditures	289,728,370	289,568,184	302,699,108	308,602,271	312,267,728	
Net General Fund Revenue	**3,880,630**	**(80,935)**	**(6,313,041)**	**(2,449,229)**	**7,342,565**	
Less Incremental Increase in 10% GF Op. Cont.	3,070,546	389,370	1,313,092	590,316	366,546	*(b)*
General Fund Surplus / (Deficit)	**810,084**	**(470,305)**	**(7,626,134)**	**(3,039,545)**	**6,976,019**	
Operating Transfer to GF Cashflow	810,084					*(c)*
Operating Transfer to CIP Funds	-				6,976,019	
GF Deficit = Draw from Fund Balance	-	(470,305)	(7,626,134)	(3,039,545)	-	
CIP/Other Revenues	14,144,893	17,841,831	16,635,197	17,503,372	25,133,824	
CIP/Other Expenses	38,921,402	27,691,428	20,858,331	22,029,047	23,647,191	
CIP Surplus / (Deficit)	**(24,776,509)**	**(9,849,597)**	**(4,223,134)**	**(4,525,675)**	**1,486,634**	*(d)*
Ending Fund Balance	**136,602,298**	**126,671,766**	**116,135,590**	**109,160,687**	**111,013,866**	***(a+b+c+d)***

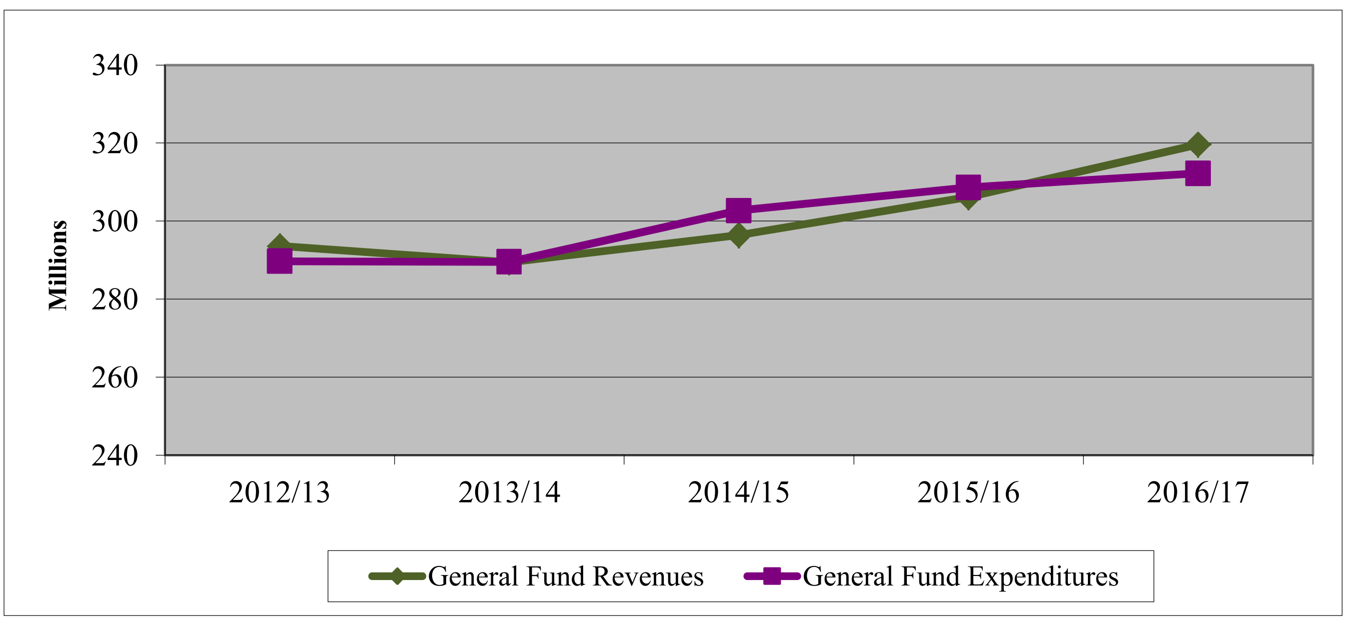


Exhibit 3-B2

Scenario 2 - Full FP Fee Schedule

Phase in OCERS interest reduction beginning in FY 14/15

Stanton Reduction is an ongoing change **Handcrew Extension is through 6/30/14**	ADOPTED 2012/13	PROJECTED 2013/14	PROJECTED 2014/15	PROJECTED 2015/16	PROJECTED 2016/17
A. BEGINNING FUND BALANCE	**157,498,177**	**136,602,298**	**126,671,766**	**116,135,590**	**109,160,687**
GENERAL FUND REVENUES					
Secured Property Tax	169,745,339	171,833,207	176,025,937	182,802,935	193,332,385
Public Utility Tax	1,880,323	1,880,323	1,880,323	1,880,323	1,880,323
Unsecured Property Tax	6,662,546	6,662,546	6,662,546	6,662,546	6,662,546
Homeowners Property Tax Relief	1,447,505	1,447,505	1,447,505	1,447,505	1,447,505
Supplemental/Delinquencies	2,001,867	2,001,867	2,001,867	2,001,867	2,001,867
Property Taxes	181,737,580	183,825,448	188,018,178	194,795,176	205,324,626
State Reimbursements	4,122,852	4,122,852	4,122,852	4,122,852	4,122,852
Federal Reimbursements	100,000	100,000	100,000	100,000	100,000
One-Time Grant/ABH Proceeds	5,848,182				
Community Redevelopment Agency Pass-thru's	4,970,276	5,031,410	5,154,177	5,352,613	5,660,923
Cash Contracts	82,901,660	85,262,378	87,685,904	90,141,574	92,599,623
Haz Mat Services	166,673	0	0	0	0
Fire Prevention Fee	4,794,911	4,938,758	5,086,921	5,239,529	5,396,715
Advanced Life Support Supplies & Transport Reimbursement	4,570,574	4,570,574	4,570,574	4,570,574	4,570,574
Interest Earnings	217,023	396,691	578,218	761,481	765,738
Other Revenue	4,179,269	1,239,137	1,069,243	1,069,243	1,069,243
TOTAL REVENUES	**293,609,000**	**289,487,248**	**296,386,067**	**306,153,041**	**319,610,294**
					Average Annual Change = 2.14%
GENERAL FUND EXPENDITURES					
New Positions for New Stations/Enhancements			2,221,702	2,235,118	2,231,538
Employee Salaries	167,486,830	167,435,088	166,552,984	166,552,984	166,552,984
Retirement	63,126,875	63,422,844	70,365,496	73,498,412	74,306,860
Workers' Comp Transfer out to Self-Ins. Fund	9,892,711	11,107,416	13,822,869	14,322,869	14,822,869
Other Insurance	20,552,349	22,359,154	24,022,083	26,215,874	28,620,809
Medicare	2,141,403	2,140,620	2,129,448	2,129,448	2,129,448
One-Time Grant/ABH Expenditures	3,219,513				
Salaries & Employee Benefits	266,419,681	266,465,123	279,114,583	284,954,707	288,664,509
Services & Supplies/Equipment	22,394,318	23,103,061	23,483,219	23,543,219	23,603,219
New Station/Enhancements S&S Impacts			101,306	104,345	107,475
One-Time Grant Expenditures	834,371				
Capital Outlay	80,000	0	0	0	0
TOTAL EXPENDITURES	**289,728,370**	**289,568,184**	**302,699,108**	**308,602,271**	**312,267,728**
					Average Annual Change = 1.89%
NET GENERAL FUND REVENUE	**3,880,630**	**(80,935)**	**(6,313,041)**	**(2,449,229)**	7,342,565
B. Incremental Increase in GF 10% Contingency	**3,070,546**	**389,370**	**1,313,092**	**590,316**	**366,546**
GENERAL FUND SURPLUS / (DEFICIT)	**810,084**	**(470,305)**	**(7,626,134)**	**(3,039,545)**	**6,976,019**
C. GF Surplus/Deficit = Operating Transfers to/from GF Cashflow	810,084	**(470,305)**	**(7,626,134)**	**(3,039,545)**	
GF Surplus = Operating Transfers Out to CIP					6,976,019
Capital Improvement Program/Other Fund Revenues					
Interest Earnings	447,853	768,057	1,053,944	1,379,703	1,490,446
State/Federal Reimbursement	1,825,929	37,929	37,929	37,929	37,929
Cash Contracts	1,611,404	1,632,731	1,673,913	1,716,329	1,760,019
Developer Contributions	40,560	4,249,156			
Workers' Comp Transfer in from GF	9,892,711	11,107,416	13,822,869	14,322,869	14,822,869
Miscellaneous	326,436	46,542	46,542	46,542	46,542
Operating Transfers In	0				6,976,019
Total CIP Revenues	14,144,893	17,841,831	16,635,197	17,503,372	25,133,824
Capital Improvement Program/Other Fund Expenses					
Fund 122 - Facilities Maintenance & Improvements	1,706,449	1,237,614	1,264,498	1,292,122	1,320,505
Fund 123 - Facilities Replacement	2,265,763	4,800,000	0	0	0
Fund 124 - Communications & Info Systems Replace.	14,352,465	5,451,800	3,152,500	2,427,500	2,198,038
Fund 133 - Vehicle Replacement	9,720,267	6,049,200	5,919,026	7,328,726	8,669,588
Sub-Total CIP Expenses	28,044,944	17,538,614	10,336,024	11,048,348	12,188,131
Fund 171 - SFF Entitlement	1,307,223	69,763	0	0	0
Fund 190 - WC Self-Ins. (Cashflow Payments per Actuary)	9,569,235	10,083,051	10,522,307	10,980,699	11,459,060
Total CIP/Other Expenses	38,921,402	27,691,428	20,858,331	22,029,047	23,647,191
D. CIP SURPLUS/(DEFICIT)	**(24,776,509)**	**(9,849,597)**	**(4,223,134)**	**(4,525,675)**	**1,486,634**
ENDING FUND BALANCE (A+B+C+D)	**136,602,298**	**126,671,766**	**116,135,590**	**109,160,687**	**111,013,866**
Fund Balances					
Operating Contingency (10% of Expenditures)	28,514,074	28,956,818	30,269,911	30,860,227	31,226,773
General Fund Cashflow (OCERS Pre-Pay)	8,695,858	8,225,553	599,419	(2,440,126)	(2,440,126)
Restricted (Donations & Developer Contributions)	1,727,182	533,232	533,232	533,232	533,232
Committed (Fund 171)	69,763	0	0	0	0
Assigned					
Capital Improvement Program	47,714,890	38,051,266	30,527,570	22,659,725	20,782,550
Fund 190 - WC Self-Insurance	49,880,531	50,904,896	54,205,458	57,547,628	60,911,438
Total Fund Balances	136,602,298	126,671,766	116,135,590	109,160,687	111,013,866

Orange County Fire Authority
Five-Year Financial Forecast
Scenario 3 - FP Fee Reduction Schedule

Phase in OCERS interest reduction beginning in FY 14/15	*Year 2* FY 2012/13	*Year 3* FY 2013/14	*Year 4* FY 2014/15	*Year 5* FY 2015/16	*Year 6* FY 2016/17	
Beginning Fund Balance	145,975,722	136,171,954	125,914,524	115,041,645	107,719,936	*(a)*
General Fund Revenues	293,178,656	289,160,351	296,049,362	305,806,236	319,253,084	
General Fund Expenditures	289,728,370	289,568,184	302,699,108	308,602,271	312,267,728	
Net General Fund Revenue	**3,450,286**	**(407,833)**	**(6,649,745)**	**(2,796,034)**	**6,985,356**	
Less Incremental Increase in 10% GF Op. Cont.	3,070,546	389,370	1,313,092	590,316	366,546	*(b)*
General Fund Surplus / (Deficit)	**379,740**	**(797,203)**	**(7,962,838)**	**(3,386,351)**	**6,618,810**	
Operating Transfer to GF Cashflow	379,740					*(c)*
Operating Transfer to CIP Funds	-				6,618,810	
GF Deficit = Draw from Fund Balance	-	(797,203)	(7,962,838)	(3,386,351)	-	
CIP/Other Revenues	14,144,893	17,841,831	16,635,197	17,503,372	24,776,615	
CIP/Other Expenses	38,921,402	27,691,428	20,858,331	22,029,047	23,647,191	
CIP Surplus / (Deficit)	**(24,776,509)**	**(9,849,597)**	**(4,223,134)**	**(4,525,675)**	**1,129,424**	*(d)*
Ending Fund Balance	**136,171,954**	**125,914,524**	**115,041,645**	**107,719,936**	**109,215,906**	***(a+b+c+d)***

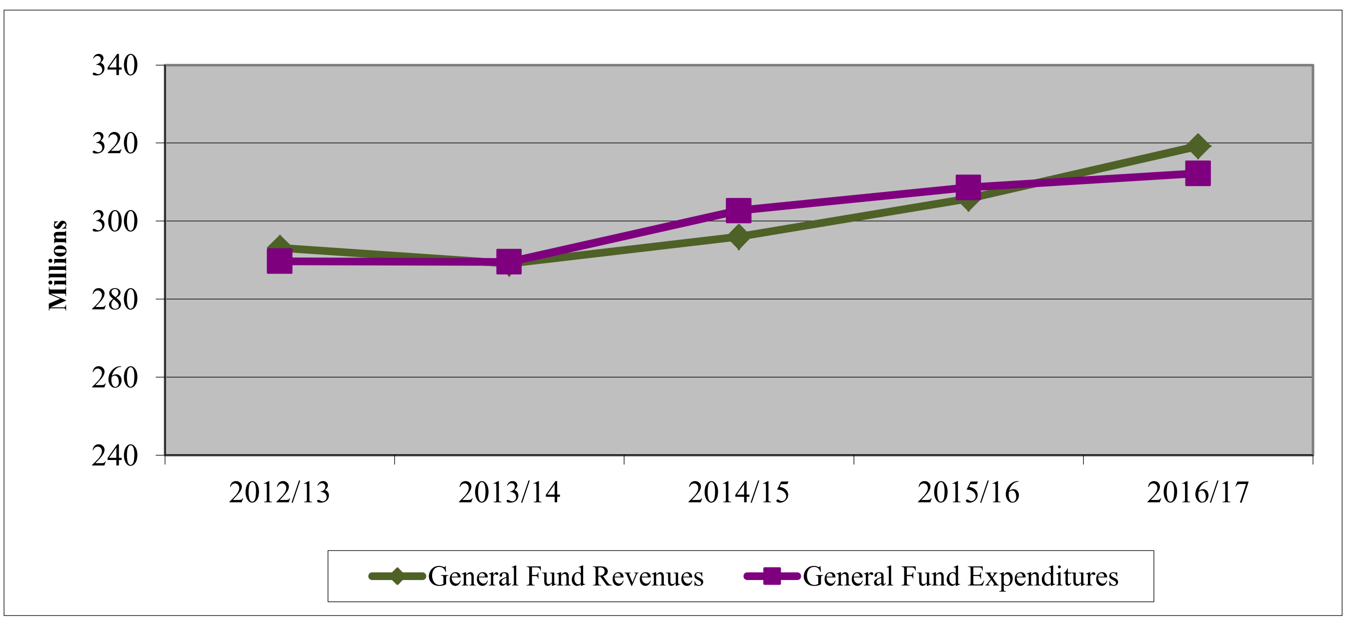


Exhibit 3-C2

Scenario 3 - FP Fee Reduction Schedule

Phase in OCERS interest reduction beginning in FY 14/15

Stanton Reduction is an ongoing change **Handcrew Extension is through 6/30/14**	ADOPTED 2012/13	PROJECTED 2013/14	PROJECTED 2014/15	PROJECTED 2015/16	PROJECTED 2016/17
A. BEGINNING FUND BALANCE	**157,498,177**	**136,171,954**	**125,914,524**	**115,041,645**	**107,719,936**
GENERAL FUND REVENUES					
Secured Property Tax	169,745,339	171,833,207	176,025,937	182,802,935	193,332,385
Public Utility Tax	1,880,323	1,880,323	1,880,323	1,880,323	1,880,323
Unsecured Property Tax	6,662,546	6,662,546	6,662,546	6,662,546	6,662,546
Homeowners Property Tax Relief	1,447,505	1,447,505	1,447,505	1,447,505	1,447,505
Supplemental/Delinquencies	2,001,867	2,001,867	2,001,867	2,001,867	2,001,867
Property Taxes	181,737,580	183,825,448	188,018,178	194,795,176	205,324,626
State Reimbursements	4,122,852	4,122,852	4,122,852	4,122,852	4,122,852
Federal Reimbursements	100,000	100,000	100,000	100,000	100,000
One-Time Grant/ABH Proceeds	5,848,182				
Community Redevelopment Agency Pass-thru's	4,970,276	5,031,410	5,154,177	5,352,613	5,660,923
Cash Contracts	82,901,660	85,262,378	87,685,904	90,141,574	92,599,623
Haz Mat Services	53,705	0	0	0	0
Fire Prevention Fee	4,477,535	4,611,861	4,750,217	4,892,723	5,039,505
Advanced Life Support Supplies & Transport Reimbursement	4,570,574	4,570,574	4,570,574	4,570,574	4,570,574
Interest Earnings	217,023	396,691	578,218	761,481	765,738
Other Revenue	4,179,269	1,239,137	1,069,243	1,069,243	1,069,243
TOTAL REVENUES	**293,178,656**	**289,160,351**	**296,049,362**	**305,806,236**	**319,253,084**
					Average Annual Change = 2.15%
GENERAL FUND EXPENDITURES					
New Positions for New Stations/Enhancements			2,221,702	2,235,118	2,231,538
Employee Salaries	167,486,830	167,435,088	166,552,984	166,552,984	166,552,984
Retirement	63,126,875	63,422,844	70,365,496	73,498,412	74,306,860
Workers' Comp Transfer out to Self-Ins. Fund	9,892,711	11,107,416	13,822,869	14,322,869	14,822,869
Other Insurance	20,552,349	22,359,154	24,022,083	26,215,874	28,620,809
Medicare	2,141,403	2,140,620	2,129,448	2,129,448	2,129,448
One-Time Grant/ABH Expenditures	3,219,513				
Salaries & Employee Benefits	266,419,681	266,465,123	279,114,583	284,954,707	288,664,509
Services & Supplies/Equipment	22,394,318	23,103,061	23,483,219	23,543,219	23,603,219
New Station/Enhancements S&S Impacts			101,306	104,345	107,475
One-Time Grant Expenditures	834,371				
Capital Outlay	80,000	0	0	0	0
TOTAL EXPENDITURES	**289,728,370**	**289,568,184**	**302,699,108**	**308,602,271**	**312,267,728**
					Average Annual Change = 1.89%
NET GENERAL FUND REVENUE	**3,450,286**	**(407,833)**	**(6,649,745)**	**(2,796,034)**	6,985,356
B. Incremental Increase in GF 10% Contingency	**3,070,546**	**389,370**	**1,313,092**	**590,316**	**366,546**
GENERAL FUND SURPLUS / (DEFICIT)	**379,740**	**(797,203)**	**(7,962,838)**	**(3,386,351)**	**6,618,810**
C. GF Surplus/Deficit = Operating Transfers to/from GF Cashflow	379,740	**(797,203)**	**(7,962,838)**	**(3,386,351)**	
GF Surplus = Operating Transfers Out to CIP					6,618,810
Capital Improvement Program/Other Fund Revenues					
Interest Earnings	447,853	768,057	1,053,944	1,379,703	1,490,446
State/Federal Reimbursement	1,825,929	37,929	37,929	37,929	37,929
Cash Contracts	1,611,404	1,632,731	1,673,913	1,716,329	1,760,019
Developer Contributions	40,560	4,249,156			
Workers' Comp Transfer in from GF	9,892,711	11,107,416	13,822,869	14,322,869	14,822,869
Miscellaneous	326,436	46,542	46,542	46,542	46,542
Operating Transfers In	0				6,618,810
Total CIP Revenues	14,144,893	17,841,831	16,635,197	17,503,372	24,776,615
Capital Improvement Program/Other Fund Expenses					
Fund 122 - Facilities Maintenance & Improvements	1,706,449	1,237,614	1,264,498	1,292,122	1,320,505
Fund 123 - Facilities Replacement	2,265,763	4,800,000	0	0	0
Fund 124 - Communications & Info Systems Replace.	14,352,465	5,451,800	3,152,500	2,427,500	2,198,038
Fund 133 - Vehicle Replacement	9,720,267	6,049,200	5,919,026	7,328,726	8,669,588
Sub-Total CIP Expenses	28,044,944	17,538,614	10,336,024	11,048,348	12,188,131
Fund 171 - SFF Entitlement	1,307,223	69,763	0	0	0
Fund 190 - WC Self-Ins. (Cashflow Payments per Actuary)	9,569,235	10,083,051	10,522,307	10,980,699	11,459,060
Total CIP/Other Expenses	38,921,402	27,691,428	20,858,331	22,029,047	23,647,191
D. CIP SURPLUS/(DEFICIT)	**(24,776,509)**	**(9,849,597)**	**(4,223,134)**	**(4,525,675)**	**1,129,424**
ENDING FUND BALANCE (A+B+C+D)	**136,171,954**	**125,914,524**	**115,041,645**	**107,719,936**	**109,215,906**
Fund Balances					
Operating Contingency (10% of Expenditures)	28,514,074	28,956,818	30,269,911	30,860,227	31,226,773
General Fund Cashflow (OCERS Pre-Pay)	8,265,514	7,468,311	(494,526)	(3,880,877)	(3,880,877)
Restricted (Donations & Developer Contributions)	1,727,182	533,232	533,232	533,232	533,232
Committed (Fund 171)	69,763	0	0	0	0
Assigned					
Capital Improvement Program	47,714,890	38,051,266	30,527,570	22,659,725	20,425,340
Fund 190 - WC Self-Insurance	49,880,531	50,904,896	54,205,458	57,547,628	60,911,438
Total Fund Balances	136,171,954	125,914,524	115,041,645	107,719,936	109,215,906

Forecast Assumptions – Mid-Year Revised

Basic Assumptions:

The Adopted 2012/13 Budget and the Five-Year Capital Improvement Plan, approved by the Board of Directors on May 24, 2012, form the basis for this financial forecast with the following adjustments approved by the Board on July 26, 2012:

- Change to staffing at Fire Station #46 (Stanton)
- Retention of the firefighting handcrew through 6/30/14

General Fund Revenues:

- ***Secured Property Taxes*** – RSG's Final 2012 Report provides the growth factors for this forecast. The following data show these projections of current secured property tax growth:

2012/13	0.73% (plus a $1,711,944 increase in Scenarios #2 and #3)
2013/14	1.23%
2014/15	2.44%
2015/16	3.85%
2016/17	5.76%

- ***Public Utility Taxes*** – Expected to remain constant since there is little change year to year in the assessed valuation upon which this tax is based.

- ***Unsecured Property Taxes*** –Unsecured property tax revenue is not projected to grow during the forecast period.

- ***Homeowners Property Tax Relief*** – Homeowners relief is expected to remain constant.

- ***Supplemental/Delinquent Property Taxes*** – These revenues are estimated at $2.0 million for the forecast years.

- ***State Reimbursements*** – State reimbursements are expected to remain constant, pending more details from CAL FIRE.

- ***Federal Reimbursements*** – This revenue is projected to remain constant.

- ***One-Time Grant/ABH Proceeds*** – These are one-time only revenues that vary significantly from year to year and therefore are not forecasted beyond the current year. The adopted budget included $206,704, with rebudgets, other approved budget changes and the proposed mid-year adjustment adding an additional $5,641,478 in Scenarios #2 and #3.

- ***Community Redevelopment Agency Pass-thru Revenue*** – The projections are based on the secured property tax growth rates above. Scenarios #2 and #3 include a $946,108 increase in 2012/13 due to the recent RDA dissolution.

- ***Cash Contracts*** –The forecast calculations are based on the First Amendment to the Amended Joint Powers Agreement and year-over-year changes are estimated at 2% per year and have a 4.5% cap. In addition, this revenue category includes projected John Wayne Airport contract proceeds with a 4.0% annual increase cap, which is projected to continue through the forecast period and reduced to 6 post positions beginning 12/14/12 in Scenarios #2 and #3.

- ***Fire Prevention and Hazardous Materials Services Fees*** – This revenue is estimated to grow by 3% per year starting in 2013/14 based on anticipated activity and fee adjustments.
  - ✓ Scenario #1 assumes no changes to the previously adopted fee schedule.
  - ✓ Scenario #2 assumes the Board will approve the full fee schedule at a special meeting in 2013 and the transfer of the HazMat and CalARP programs to the County effective 7/1/13.
  - ✓ Scenario #3 assumes the Board will take no further action regarding Fire Prevention fees, but will approve the transfer of the HazMat and CalARP programs to the County effective 7/1/13.

- ***ALS Supplies & Transport Reimbursements*** – This revenue is estimated to remain flat because Medicare reimbursement rates continue to decrease, off-setting increases to the rates applied to PPO and HMO patients.

- ***Interest Earnings*** – Assumes an annual return of 0.50% for 2012/13, 1.00% for 2013/14, 1.50% for 2014/15, and 2.00% for 2015/16 and 2016/17.

- ***Other Revenue*** – This revenue source includes the firefighters' contribution per the revised Health Plan Agreement ($1.5M in 2012/13), the return of projected excess health plan funding ($500K per year), and 10% cost recovery for the firefighter handcrew. Scenarios #2 and #3 include one-time increases totaling $1,443,442 in 2012/13.

General Fund Expenditures:

- ***Salaries & Employee Benefits*** – S&EB is composed of the following factors:
  - ✓ ***Employee Salaries*** – Salaries reflect the extended MOUs as follows:

    Chief Officers/Exec. Mgmt. 3% in January 2013

    The forecast does not contain estimated increases based on the new "Trigger Formula", which is already effective for OCPFA and OCEA, and which becomes effective for COA and unrepresented management in 2013/14. In addition, salary increases are not projected for the years that follow expiration of current MOUs (i.e. 2015/16 & 2016/17).

    Scenarios #2 and #3 show the net effect of reducing the John Wayne Airport contract reduction and the Santa Ana sick and vacation pay-outs.

- ✓ ***Retirement*** – Retirement costs reflecting the projected retirement rates (shown below) along with the MOU salary growth are based on the 11/11/11 Segal report (Scenario #1) and adjusted for changes in employee contributions.

	Scenario #1		Scenarios #2 and #3	
	Safety	Non-Safety	Safety	Non-Safety
2012/13	53.17%	32.65%	53.17%	32.65%
2013/14	52.96%	36.36%	52.96%	36.36%
2014/15	56.06%	38.36%	59.04%	40.23%
2015/16	55.76%	38.26%	61.72%	42.00%
2016/17	56.46%	38.66%	62.42%	42.40%

- ✓ ***Workers' Compensation*** – For 2013/14 Workers' Compensation is increased by $1.5M, and then increased by $500K for 2014/15 through 2016/17. Also included is the impact of the addition of the City of Santa Ana.
  Scenarios #2 and #3 also include "stair-stepping" the workers' compensations General Fund costs to reach the 60% confidence level by FY 2014/15 as estimated by our workers' compensation actuary.

- ✓ ***Other Insurance*** – Medical insurance rates for firefighters are assumed to grow annually by 9%. For staff members it is projected to grow by 10% annually. This category also includes $100,000 for unemployment.

- ✓ ***Medicare*** –Annual increases based on changes in salaries.

- ***One-Time Grant/ABH Expenditures*** – Scenarios #2 and #3 show the corresponding expenditures for the one-time grant/ABH proceeds mentioned above.

- ***Services & Supplies*** – S&S is held flat unless a new fire station is built, specific increases have been identified by section managers, or one-time grant proceeds have been received.

Net General Fund Revenue:

This figure equals the General Fund Revenue minus the General Fund Expenditures.

Incremental Increase in General Fund 10% Contingency:

This is the amount needed to add to the General Fund 10% Contingency each year to maintain this category of fund balance at the required policy level of 10% of General Fund expenditures (less one-time grant expenditures).

General Fund Surplus/(Deficit):

This figure is equal to the Net General Fund Revenue less the incremental increase in the General Fund 10% Contingency. In years when there is a surplus, the amount is transferred to the General Fund Cashflow (OCERS Pre-Pay) or to the CIP funds. In years when there is a deficit, the deficit amount must be drawn from the Cash Flow, then the 10% Contingency, and once those are exhausted, first from fund balance for CIP and finally from the Workers' Compensation fund balance.

Capital Improvement Program/Other Funds Revenue:

- ***Interest Earnings*** – Assumes an annual return of 0.50% for 2012/13, 1.00% for 2013/14, 1.50% for 2014/15, and 2.00% for 2015/16 and 2016/17.

- ***State/Federal Reimbursement*** – After the $828,000 ECC 911 telephone system upgrade project reimbursement is received in 2012/13, this revenue source is anticipated to remain constant at $37,929, which is funding from CAL Fire for capital projects. Scenarios #2 and #3 include $960,000 in USAR & SHSGP grants.

- ***Cash Contracts*** –The forecast calculations are based on the First Amendment to the Amended Joint Powers Agreement and in Scenarios #2 and #3 are adjusted by changes to the JWA contract and the Westminster vehicle replacement for ambulances.

- ***Developer Contributions*** – In 2013/14 Fire Station #56 construction and apparatus will be funded by the developer. Scenarios #2 and #3 also include a $40,560 developer contribution in 2012/13

- ***Workers' Compensation Transfer*** – These amounts equal the General Fund Workers' Compensation budget.

- ***Miscellaneous*** – This revenue is held constant at $46,452 from the County-wide AVL cost sharing. Scenarios #2 and #3 postpone the County-wide AVL cost sharing to 2013/14 and instead show the $326,436 County bankruptcy proceeds in the capital funds for 2012/13.

- ***Operating Transfer In*** – This figure equals the Operating Transfer Out from the General Fund.

Capital Improvement Program/Other Funds Expenditures:

Expenditures for each CIP fund are based on the CIP Budget and in Scenarios #2 and #3 include the proposed mid-year adjustments.

- ***Self-Insurance Fund (Fund 190)*** – 2012/13 through 2014/15 are based on the Rivelle Consulting Services projected payments from their 9/7/12 report. 2015/16 and 2016/17 assume the same average year-over-year increase from the previous years.

Fund Balances:

- ***Operating Contingency*** – Reflects policy of 10% of the General Fund expenditures each year (less one-time grant expenditures). General Fund deficits are deducted from this category of fund balance once the Cash Flow fund balance is exhausted. The contingency also includes the $3 million identified as "Appropriation for Contingencies".

- ***Cash Flow*** – The fund balance for the previous year increased by any General Fund surplus in 2012/13 or reduced by any General Fund deficits. In Scenarios #2 and #3 $10,000,000 is transferred to the Self-Insurance Fund.

Assigned Fund Balances

- ***Self-Insurance Fund (Fund 190)*** – Funding is set aside for Workers' Compensation claims. The amount is based on the prior year Workers' Compensation fund balance adjusted annually by the difference between the Workers' Compensation Transfer and the Fund 190 expenditures. In Scenarios #2 and #3 this fund balance is increased by a $5,244,794 operating transfer from the General Fund (unencumbered fund balance from the audited financial statements) and a $10,000,000 transfer from the Cash Flow Fund Balance.

- ***Capital Improvement Program*** – This fund balance includes funding for future capital replacements and is reduced annually by the cost of capital assets and increased in years when there are Operating Transfers into the CIP.

DISCUSSION CALENDAR - AGENDA ITEM NO. 5
BUDGET AND FINANCE COMMITTEE MEETING
January 9, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Patricia Jakubiak, Treasurer

SUBJECT: **Monthly Investment Reports**

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

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of January 24, 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 November 30, 2012. A preliminary investment report as of December 14, 2012, is also provided as the most complete report that was available at the time this agenda item was prepared.

We have also included the final monthly investment report for the month ended October 31, 2012. This report was previously mailed to the Budget and Finance Committee since the December meeting was cancelled; however, no committee action has been taken yet for this report. These reports are submitted to the Committee in compliance with the investment policy of the Orange County Fire Authority and with Government Code Section 53646.

Impact to Cities/County:
Not Applicable.

Fiscal Impact:
Not Applicable.

Staff Contact for Further Information:
Patricia Jakubiak, Treasurer
Triciajakubiak@ocfa.org
(714) 573-6301

Attachments:
1. Final Investment Report – November 2012 / Preliminary Report – December 2012
2. Final Investment Report – October 2012 / Preliminary Report – November 2012

Attachment 1

Orange County Fire Authority Monthly Investment Report

Final Report – October 2012

Preliminary Report – November 2012

Monthly Investment Report
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Orange County Fire Authority

Final Investment Report

October 31, 2012

EXECUTIVE SUMMARY

Portfolio Activity & Earnings

During the month of October 2012, the size of the portfolio continued to decrease significantly from $107.7 million to $93.0 million. Major receipts for the month included a cash contract payment and charges for current services totaling $4.1 million. Significant disbursements for the month included primarily biweekly payrolls. The portfolio's balance is expected to increase slightly at the end of November as the next major property tax apportionment is to take place in late November instead of early December as previously scheduled.

In October, as higher yielding investments were called, the portfolio's yield to maturity (365-day equivalent) dropped significantly by 17 basis points to 0.30% while the effective rate of return decreased by 5 basis points to 0.34% from 0.39% for the month and stayed unchanged at 0.36% for the fiscal year to date. The average maturity of the portfolio shortened by 244 days to 193 days to maturity.

Economic News

In October 2012, the U.S. economy continued to improve modestly; however, overall economic pace remained slow. U.S. employment conditions came in better than expected in October. There were a total of 171,000 new jobs created for the month, a much stronger number than forecasted. Unemployment conditions, on the other hand, deteriorated slightly, edging up a notch to 7.9%, remaining at a stubbornly high level. Consumer confidence continued to improve in October, but retail sales dropped slightly for the month. Manufacturing activity edged up slightly for the month while the non-manufacturing sector declined, although both sectors remained in modest expansion territory. Durable goods orders were unchanged in October while industrial production came in much weaker than expected for the month. Inflation stayed tamed. The housing sector continued to show improvement. However, activity remained mixed and slow. The NFIB (National Federation of Independent Business) small business optimism index increased slightly in October. Current expectations remain that economic growth pace will likely continue to be modest and interest rates will stay low for quite some time as President Obama and U.S. Congress's recent deliberations have not produced an agreement to reach a deal to avoid the upcoming "fiscal cliff".

BENCHMARK COMPARISON AS OF OCTOBER 31, 2012

3 Month T-Bill:	*0.10%*	*1 Year T-Bill:*	*0.18%*
6 Month T-Bill:	*0.15%*	*LAIF:*	*0.34%*
OCFA Portfolio:	*0.34%*		

PORTFOLIO SIZE, YIELD, & DURATION

	Current Month	Prior Month	Prior Year
Book Value-	*$92,990,864*	*$107,737,454*	*$90,669,336*
Yield to Maturity (365 day)	*0.30%*	*0.47%*	*0.63%*
Effective Rate of Return	*0.34%*	*0.39%*	*0.42%*
Days to Maturity	*193*	*437*	*334*

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
October 31, 2012

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

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	10,648,087.56	10,648,087.56	10,648,087.56	11.62	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	4,000,000.00	3,999,480.00	3,999,706.67	4.36	78	22	0.120	0.122
Federal Agency Coupon Securities	12,000,000.00	11,999,100.00	12,004,197.92	13.10	1,461	1,382	0.700	0.710
Federal Agency Disc. -Amortizing	15,000,000.00	14,997,270.00	14,997,570.00	16.36	92	61	0.092	0.093
Local Agency Investment Funds	50,000,000.00	50,065,703.60	50,000,000.00	54.56	1	1	0.335	0.340
Investments	**91,648,087.56**	**91,709,641.16**	**91,649,562.15**	**100.00%**	**210**	**193**	**0.295**	**0.299**
Cash								
Passbook/Checking (not included in yield calculations)	1,257,215.50	1,257,215.50	1,257,215.50		1	1	0.000	0.000
Total Cash and Investments	**92,905,303.06**	**92,966,856.66**	**92,906,777.65**		**210**	**193**	**0.295**	**0.299**

Total Earnings	October 31 Month Ending	Fiscal Year To Date
Current Year	28,912.18	139,675.91
Average Daily Balance	**100,651,444.30**	**116,671,449.52**
Effective Rate of Return	**0.34%**	**0.36%**

"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, 2012. 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 11/2/12

Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:		
Book Value of Cash & Investments before GASB 31 (Above)	*$*	*92,906,777.65*
GASB 31 Adjustment to Books (See Note 3 on page 9)	*$*	*84,085.98*
Total	*$*	*92,990,863.63*

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
October 31, 2012

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			10,648,087.56	10,648,087.56	10,648,087.56	0.001	0.001	1	
		Subtotal and Average	**8,030,184.76**		**10,648,087.56**	**10,648,087.56**	**10,648,087.56**		**0.001**	**1**	
Commercial Paper Disc. -Amortizing											
36959HLP0	789	GEN ELEC CAP CRP		09/06/2012	4,000,000.00	3,999,480.00	3,999,706.67	0.120	0.122	22	11/23/2012
		Subtotal and Average	**3,999,506.67**		**4,000,000.00**	**3,999,480.00**	**3,999,706.67**		**0.122**	**22**	
Federal Agency Coupon Securities											
3133804V6	787	Fed Home Loan Bank		08/09/2012	6,000,000.00	6,001,080.00	6,003,062.50	1.000	0.981	1,742	08/09/2017
313380B22	788	Fed Home Loan Bank		08/20/2012	6,000,000.00	5,998,020.00	6,001,135.42	0.450	0.440	1,022	08/20/2015
		Subtotal and Average	**25,168,330.04**		**12,000,000.00**	**11,999,100.00**	**12,004,197.92**		**0.710**	**1,382**	
Federal Agency Disc. -Amortizing											
313384U23	790	Fed Home Loan Bank		09/26/2012	9,000,000.00	8,998,830.00	8,999,000.00	0.080	0.081	50	12/21/2012
313385AT3	791	Fed Home Loan Bank		10/09/2012	6,000,000.00	5,998,440.00	5,998,570.00	0.110	0.112	78	01/18/2013
		Subtotal and Average	**13,449,102.31**		**15,000,000.00**	**14,997,270.00**	**14,997,570.00**		**0.093**	**61**	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			50,000,000.00	50,065,703.60	50,000,000.00	0.340	0.340	1	
		Subtotal and Average	**50,004,320.52**		**50,000,000.00**	**50,065,703.60**	**50,000,000.00**		**0.340**	**1**	
		Total and Average	**100,651,444.30**		**91,648,087.56**	**91,709,641.16**	**91,649,562.15**		**0.299**	**193**	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
October 31, 2012

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	972,215.50	972,215.50	972,215.50		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							1
		Total Cash and Investments	**100,651,444.30**		**92,905,303.06**	**92,966,856.66**	**92,906,777.65**		**0.299**	**193**

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of November 1, 2012

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	(11/01/2012 - 11/01/2012)	6 Maturities	0 Payments	61,905,303.06	66.63%	61,905,303.06	61,971,006.66
Aging Interval: 1 - 30 days	(11/02/2012 - 12/01/2012)	1 Maturities	0 Payments	4,000,000.00	4.31%	3,999,706.67	3,999,480.00
Aging Interval: 31 - 60 days	(12/02/2012 - 12/31/2012)	1 Maturities	0 Payments	9,000,000.00	9.69%	8,999,000.00	8,998,830.00
Aging Interval: 61 - 91 days	(01/01/2013 - 01/31/2013)	1 Maturities	0 Payments	6,000,000.00	6.46%	5,998,570.00	5,998,440.00
Aging Interval: 92 - 121 days	(02/01/2013 - 03/02/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 122 - 152 days	(03/03/2013 - 04/02/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 153 - 183 days	(04/03/2013 - 05/03/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 184 - 274 days	(05/04/2013 - 08/02/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	(08/03/2013 - 11/01/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 366 - 1095 days	(11/02/2013 - 11/01/2015)	1 Maturities	0 Payments	6,000,000.00	6.46%	6,001,135.42	5,998,020.00
Aging Interval: 1096 - 1825 days	(11/02/2015 - 10/31/2017)	1 Maturities	0 Payments	6,000,000.00	6.46%	6,003,062.50	6,001,080.00
Aging Interval: 1826 days and after	(11/01/2017 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
	Total for	11 Investments	0 Payments		100.00	92,906,777.65	92,966,856.66

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 October 31, 2012, 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 September 30, 2012 is 1.001314072. When applied to OCFA's LAIF investment, the fair value is $50,065,704 or $65,704 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 October 31, 2012 is included on the following page.

State of California
Pooled Money Investment Account
Market Valuation
10/31/2012

Description	Carrying Cost Plus Accrued Interest Purch.	Fair Value	Accrued Interest
United States Treasury:			
Bills	$ 19,065,944,630.43	$ 19,079,407,850.00	NA
Notes	$ 14,730,451,110.16	$ 14,771,132,000.00	$ 14,934,907.50
Federal Agency:			
SBA	$ 532,731,669.92	$ 533,233,533.89	$ 550,366.39
MBS-REMICs	$ 279,050,279.32	$ 302,583,309.20	$ 1,333,499.55
Debentures	$ 750,426,660.88	$ 751,178,500.00	$ 1,484,166.00
Debentures FR	$ -	$ -	$ -
Discount Notes	$ 4,293,453,222.16	$ 4,297,190,000.00	NA
GNMA	$ 7,718.08	$ 7,776.60	$ 76.70
IBRD Debenture	$ 399,951,803.28	$ 400,000,000.00	$ 750,000.00
IBRD Deb FR	$ -	$ -	$ -
CDs and YCDs FR	$ 400,000,000.00	$ 400,000,000.00	$ 553,345.83
Bank Notes	$ -	$ -	$ -
CDs and YCDs	$ 3,400,085,240.48	$ 3,399,549,073.61	$ 2,041,236.12
Commercial Paper	$ 2,959,584,311.07	$ 2,959,530,627.78	NA
Corporate:			
Bonds FR	$ -	$ -	$ -
Bonds	$ -	$ -	$ -
Repurchase Agreements	$ -	$ -	$ -
Reverse Repurchase	$ -	$ -	$ -
Time Deposits	$ 4,367,640,000.00	$ 4,367,640,000.00	NA
AB 55 & GF Loans	$ 11,779,840,040.72	$ 11,779,840,040.72	NA
TOTAL	$ 62,959,166,686.50	$ 63,041,292,711.80	$ 21,647,598.09

Fair Value Including Accrued Interest $ 63,062,940,309.89

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

November 23, 2012

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

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
November 23, 2012

Investments	Par Value	Market Value (See Note 1 on page 18)	Book Value (See Note 2 on page 18)	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equlv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	3,563,100.82	3,563,100.82	3,563,100.82	4.42	1	1	0.001	0.001
Federal Agency Coupon Securities	12,000,000.00	12,000,420.00	12,003,239.58	14.90	1,461	1,359	0.700	0.710
Federal Agency Disc. -Amortizing	15,000,000.00	14,999,040.00	14,998,451.66	18.62	92	38	0.092	0.093
Local Agency Investment Funds	50,000,000.00	50,065,703.60	50,000,000.00	62.06	1	1	0.335	0.340
Investments	**80,563,100.82**	**80,628,264.42**	**80,564,792.06**	**100.00%**	**235**	**210**	**0.330**	**0.334**
Cash								
Passbook/Checking (not included in yield calculations) (See Note 4 on page 18)	-1,130,761.91	-1,130,761.91	-1,130,761.91		0	0	0.000	0.000
Total Cash and Investments	**79,432,338.91**	**79,497,502.51**	**79,434,030.15**		**235**	**210**	**0.330**	**0.334**

Total Earnings	November 23 Month Ending	Fiscal Year To Date
Current Year	16,491.61	156,167.52
Average Daily Balance	**88,955,860.83**	**112,305,295.13**
Effective Rate of Return	**0.29%**	**0.35%**

"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, 2012. 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 11/30/12

Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	*$*	*79,434,030.15*
GASB 31 Adjustment to Books (See Note 3 on page 18)	*$*	*84,085.98*
Total	*$*	*79,518,116.13*

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
November 23, 2012

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value (See Note 1 on page 18)	Book Value (See Note 2 on page 18)	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)			3,563,100.82	3,563,100.82	3,563,100.82	0.001	0.001	1	
		Subtotal and Average	**8,128,179.87**		**3,563,100.82**	**3,563,100.82**	**3,563,100.82**		**0.001**	**1**	
Commercial Paper Disc. -Amortizing											
		Subtotal and Average	**3,825,953.04**								
Federal Agency Coupon Securities											
3133804V6	787	Fed Home Loan Bank		08/09/2012	6,000,000.00	6,000,300.00	6,002,343.75	1.000	0.981	1,719	08/09/2017
313380B22	788	Fed Home Loan Bank		08/20/2012	6,000,000.00	6,000,120.00	6,000,895.83	0.450	0.440	999	08/20/2015
		Subtotal and Average	**12,003,697.92**		**12,000,000.00**	**12,000,420.00**	**12,003,239.58**		**0.710**	**1,359**	
Federal Agency Disc. -Amortizing											
313384U23	790	Fed Home Loan Bank		09/26/2012	9,000,000.00	8,999,640.00	8,999,460.00	0.080	0.081	27	12/21/2012
313385AT3	791	Fed Home Loan Bank		10/09/2012	6,000,000.00	5,999,400.00	5,998,991.66	0.110	0.112	55	01/18/2013
		Subtotal and Average	**14,998,030.00**		**15,000,000.00**	**14,999,040.00**	**14,998,451.66**		**0.093**	**38**	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			50,000,000.00	50,065,703.60	50,000,000.00	0.340	0.340	1	
		Subtotal and Average	**50,000,000.00**		**50,000,000.00**	**50,065,703.60**	**50,000,000.00**		**0.340**	**1**	
		Total and Average	88,955,860.83		80,563,100.82	80,628,264.42	80,564,792.06		0.334	210	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
November 23, 2012

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	-1,415,761.91	-1,415,761.91	-1,415,761.91	*(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**							**0**
		Total Cash and Investments	**88,955,860.83**		**79,432,338.91**	**79,497,502.51**	**79,434,030.15**		**0.334**	**210**

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of November 24, 2012

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	(11/24/2012 - 11/24/2012)	6 Maturities	0 Payments	52,432,338.91	66.01%	52,432,338.91	52,498,042.51
Aging Interval: 1 - 30 days	(11/25/2012 - 12/24/2012)	1 Maturities	0 Payments	9,000,000.00	11.33%	8,999,460.00	8,999,640.00
Aging Interval: 31 - 60 days	(12/25/2012 - 01/23/2013)	1 Maturities	0 Payments	6,000,000.00	7.55%	5,998,991.66	5,999,400.00
Aging Interval: 61 - 91 days	(01/24/2013 - 02/23/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 92 - 121 days	(02/24/2013 - 03/25/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 122 - 152 days	(03/26/2013 - 04/25/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 153 - 183 days	(04/26/2013 - 05/26/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 184 - 274 days	(05/27/2013 - 08/25/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	(08/26/2013 - 11/24/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 366 - 1095 days	(11/25/2013 - 11/24/2015)	1 Maturities	0 Payments	6,000,000.00	7.55%	6,000,895.83	6,000,120.00
Aging Interval: 1096 - 1825 days	(11/25/2015 - 11/23/2017)	1 Maturities	0 Payments	6,000,000.00	7.55%	6,002,343.75	6,000,300.00
Aging Interval: 1826 days and after	(11/24/2017 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
	Total for	10 Investments	0 Payments		100.00	79,434,030.15	79,497,502.51

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.

Attachment 2

Orange County Fire Authority Monthly Investment Report

Final Report – November 2012

Preliminary Report – December 2012

Monthly Investment Report
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Orange County Fire Authority

Final Investment Report

November 30, 2012

EXECUTIVE SUMMARY

Portfolio Activity & Earnings

During the month of November 2012, the size of the portfolio increased to $102.4 million from $93.0 million. Major receipts for the month included the first and second apportionments of secured property taxes for a total of $23.7 million and a cash contract payment and other charges for current services totaling $3.7 million. Significant disbursements for the month included primarily biweekly payrolls. The portfolio's balance is expected to increase significantly in the following month as the next major apportionment of secured property taxes is scheduled for December.

In November, the portfolio's yield to maturity (365-day equivalent) dropped by 3 basis points to 0.27%. The effective rate of return decreased by 5 basis points to 0.29% for the month and declined by 2 basis points to 0.34% for the fiscal year to date. The average maturity of the portfolio shortened by 22 days to 171 days to maturity.

Economic News

In November 2012, the U.S. economy grew modestly and overall economic activity remained mixed. U.S. employment conditions continued to show improvement in November. However, despite a much stronger than expected number of new jobs added for the month, overall employment conditions remained weak; there were a total of 146,000 new jobs created in November. Unemployment conditions also improved slightly, declining by 2 basis points to 7.7%, but remained at a high level. Consumer confidence stayed largely unchanged from the prior month. Retail sales increased for the month, but the gain was at a slightly weaker pace than expected. Manufacturing activity declined, putting the sector into a contraction territory for November. However, non-manufacturing activity came in better than expected. Industrial production rebounded in November increasing by 1.1%, a better rate than expected. Gasoline prices dropped which also kept inflation down. Housing activity remained weak and slow, despite recent improvements. On December 12, 2012, at the second day of its scheduled meeting, the Federal Open Market Committee voted the keep the federal funds rate unchanged at a target range of 0 – 0.25%. In addition, as a sign of the Committee's continued concern of a weak economy, it announced that it will purchase longer-term Treasury securities at an initial pace of $45 billion per month beginning in January 2013 while also maintaining its commitment to purchase $40 billion per month of mortgage-backed securities.

BENCHMARK COMPARISON AS OF NOVEMBER 30, 2012

3 Month T-Bill:	*0.09%*	*1 Year T-Bill:*	*0.18%*
6 Month T-Bill:	*0.14%*	*LAIF:*	*0.32%*

OCFA Portfolio: 0.29%

PORTFOLIO SIZE, YIELD, & DURATION

	Current Month	Prior Month	Prior Year
Book Value-	$102,387,088	$92,990,864	$87,039,209
Yield to Maturity (365 day)	0.27%	0.30%	0.66%
Effective Rate of Return	0.29%	0.34%	0.42%
Days to Maturity	171	193	345

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

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
November 30, 2012

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	10,757,000.00	10,757,000.00	10,757,000.00	10.57	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	10,000,000.00	9,997,400.00	9,998,655.55	9.83	46	44	0.110	0.112
Federal Agency Coupon Securities	12,000,000.00	12,000,420.00	12,002,947.92	11.80	1,461	1,352	0.700	0.710
Federal Agency Disc. -Amortizing	19,000,000.00	18,998,670.00	18,998,168.89	18.67	86	38	0.089	0.091
Local Agency Investment Funds	50,000,000.00	50,065,703.60	50,000,000.00	49.14	1	1	0.320	0.324
Investments	**101,757,000.00**	**101,819,193.60**	**101,756,772.36**	**100.00%**	**193**	**171**	**0.267**	**0.271**
Cash								
Passbook/Checking (not included in yield calculations)	546,229.95	546,229.95	546,229.95		1	1	0.000	0.000
Total Cash and Investments	**102,303,229.95**	**102,365,423.55**	**102,303,002.31**		**193**	**171**	**0.267**	**0.271**

Total Earnings	November 30 Month Ending	Fiscal Year To Date
Current Year	20,851.63	160,527.54
Average Daily Balance	**88,515,769.44**	**111,151,325.64**
Effective Rate of Return	**0.29%**	**0.34%**

"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, 2012. 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 12/7/12

Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:		
Book Value of Cash & Investments before GASB 31 (Above)	*$*	*102,303,002.31*
GASB 31 Adjustment to Books (See Note 3 on page 9)	*$*	*84,085.98*
Total	*$*	*102,387,088.29*

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
November 30, 2012

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			10,757,000.00	10,757,000.00	10,757,000.00	0.001	0.001	1	
		Subtotal and Average	**7,647,616.88**		**10,757,000.00**	**10,757,000.00**	**10,757,000.00**		**0.001**	**1**	
Commercial Paper Disc. -Amortizing											
36959HNE3	793	GEN ELEC CAP CRP		11/29/2012	10,000,000.00	9,997,400.00	9,998,655.55	0.110	0.112	44	01/14/2013
		Subtotal and Average	**3,599,806.69**		**10,000,000.00**	**9,997,400.00**	**9,998,655.55**		**0.112**	**44**	
Federal Agency Coupon Securities											
3133804V6	787	Fed Home Loan Bank		08/09/2012	6,000,000.00	6,000,300.00	6,002,125.00	1.000	0.981	1,712	08/09/2017
313380B22	788	Fed Home Loan Bank		08/20/2012	6,000,000.00	6,000,120.00	6,000,822.92	0.450	0.440	992	08/20/2015
		Subtotal and Average	**12,003,552.08**		**12,000,000.00**	**12,000,420.00**	**12,002,947.92**		**0.710**	**1,352**	
Federal Agency Disc. -Amortizing											
313589BH5	792	Fed Natl Mortg Assoc		11/29/2012	4,000,000.00	3,999,480.00	3,999,448.89	0.080	0.081	62	02/01/2013
313384U23	790	Fed Home Loan Bank		09/26/2012	9,000,000.00	8,999,730.00	8,999,600.00	0.080	0.081	20	12/21/2012
313385AT3	791	Fed Home Loan Bank		10/09/2012	6,000,000.00	5,999,460.00	5,999,120.00	0.110	0.112	48	01/18/2013
		Subtotal and Average	**15,264,793.79**		**19,000,000.00**	**18,998,670.00**	**18,998,168.89**		**0.091**	**38**	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			50,000,000.00	50,065,703.60	50,000,000.00	0.324	0.324	1	
		Subtotal and Average	**50,000,000.00**		**50,000,000.00**	**50,065,703.60**	**50,000,000.00**		**0.324**	**1**	
		Total and Average	**88,515,769.44**		**101,757,000.00**	**101,819,193.60**	**101,756,772.36**		**0.271**	**171**	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
November 30, 2012

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	261,229.95	261,229.95	261,229.95		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							1
	Total Cash and Investmentss		88,515,769.44		102,303,229.95	102,365,423.55	102,303,002.31		0.271	171

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of December 1, 2012

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	(12/01/2012 - 12/01/2012)	6 Maturities	0 Payments	61,303,229.95	59.92%	61,303,229.95	61,368,933.55
Aging Interval: 1 - 30 days	(12/02/2012 - 12/31/2012)	1 Maturities	0 Payments	9,000,000.00	8.80%	8,999,600.00	8,999,730.00
Aging Interval: 31 - 60 days	(01/01/2013 - 01/30/2013)	2 Maturities	0 Payments	16,000,000.00	15.64%	15,997,775.55	15,996,860.00
Aging Interval: 61 - 91 days	(01/31/2013 - 03/02/2013)	1 Maturities	0 Payments	4,000,000.00	3.91%	3,999,448.89	3,999,480.00
Aging Interval: 92 - 121 days	(03/03/2013 - 04/01/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 122 - 152 days	(04/02/2013 - 05/02/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 153 - 183 days	(05/03/2013 - 06/02/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 184 - 274 days	(06/03/2013 - 09/01/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	(09/02/2013 - 12/01/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 366 - 1095 days	(12/02/2013 - 12/01/2015)	1 Maturities	0 Payments	6,000,000.00	5.86%	6,000,822.92	6,000,120.00
Aging Interval: 1096 - 1825 days	(12/02/2015 - 11/30/2017)	1 Maturities	0 Payments	6,000,000.00	5.86%	6,002,125.00	6,000,300.00
Aging Interval: 1826 days and after	(12/01/2017 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
	Total for	12 Investments	0 Payments		100.00	102,303,002.31	102,365,423.55

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 November 30, 2012, 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 September 30, 2012 is 1.001314072. When applied to OCFA's LAIF investment, the fair value is $50,065,704 or $65,704 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 November 30, 2012 is included on the following page.

State of California
Pooled Money Investment Account
Market Valuation
11/30/2012

Description	Carrying Cost Plus Accrued Interest Purch.	Fair Value	Accrued Interest
United States Treasury:			
Bills	$ 19,064,887,971.01	$ 19,081,526,450.00	NA
Notes	$ 14,730,317,913.46	$ 14,775,840,000.00	$ 15,929,480.50
Federal Agency:			
SBA	$ 529,963,192.24	$ 530,474,007.02	$ 547,521.56
MBS-REMICs	$ 267,592,685.24	$ 290,131,353.23	$ 1,279,244.63
Debentures	$ 600,426,660.88	$ 601,140,000.00	$ 1,569,168.00
Debentures FR	$ -	$ -	$ -
Discount Notes	$ 3,194,940,722.24	$ 3,197,596,000.00	NA
GNMA	$ 6,301.63	$ 6,345.87	$ 62.82
IBRD Debenture	$ 399,951,803.28	$ 400,000,000.00	$ 916,668.00
IBRD Deb FR	$ -	$ -	$ -
CDs and YCDs FR	$ 400,000,000.00	$ 400,000,000.00	$ 108,834.72
Bank Notes	$ -	$ -	$ -
CDs and YCDs	$ 3,250,000,499.96	$ 3,248,703,721.64	$ 1,957,513.90
Commercial Paper	$ 1,499,881,847.24	$ 1,499,897,444.45	NA
Corporate:			
Bonds FR	$ -	$ -	$ -
Bonds	$ -	$ -	$ -
Repurchase Agreements	$ -	$ -	$ -
Reverse Repurchase	$ -	$ -	$ -
Time Deposits	$ 4,361,640,000.00	$ 4,361,640,000.00	NA
AB 55 & GF Loans	$ 11,701,841,040.72	$ 11,701,841,040.72	NA
TOTAL	$ 60,001,450,637.90	$ 60,088,796,362.93	$ 22,308,494.13

Fair Value Including Accrued Interest $ 60,111,104,857.06

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

December 14, 2012

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

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
December 14, 2012

Investments	Par Value	Market Value (See Note 1 on page 18)	Book Value (See Note 2 on page 18)	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	5,742,014.34	5,742,014.34	5,742,014.34	5.94	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	10,000,000.00	9,998,500.00	9,999,083.33	10.34	46	30	0.110	0.112
Federal Agency Coupon Securities	12,000,000.00	12,000,420.00	12,002,364.58	12.41	1,461	1,338	0.700	0.710
Federal Agency Disc. -Amortizing	19,000,000.00	18,999,620.00	18,998,830.00	19.64	86	24	0.089	0.091
Local Agency Investment Funds	50,000,000.00	50,065,703.60	50,000,000.00	51.68	1	1	0.320	0.324
Investments	**96,742,014.34**	**96,806,257.94**	**96,742,292.25**	**100.00%**	**203**	**174**	**0.281**	**0.285**
Cash								
Passbook/Checking (not included in yield calculations)	2,960,044.52	2,960,044.52	2,960,044.52		1	1	0.000	0.000
Total Cash and Investments	**99,702,058.86**	**99,766,302.46**	**99,702,336.77**		**203**	**174**	**0.281**	**0.285**

Total Earnings	December 14 Month Ending	Fiscal Year To Date
Current Year	10,105.55	170,633.09
Average Daily Balance	**100,509,670.23**	**110,259,210.81**
Effective Rate of Return	**0.26%**	**0.34%**

"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, 2012. 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 12/21/12

Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	*$*	*99,702,336.77*
GASB 31 Adjustment to Books (See Note 3 on page 18)	*$*	*84,085.98*
Total	*$*	*99,786,422.75*

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
December 14, 2012

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value (See Note 1 on page 18)	Book Value (See Note 2 on page 18)	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SYS528	528	High Mark 100% US Treasury MMF			5,742,014.34	5,742,014.34	5,742,014.34	0.001	0.001	1	
		Subtotal and Average	**9,509,627.04**		**5,742,014.34**	**5,742,014.34**	**5,742,014.34**		**0.001**	**1**	
Commercial Paper Disc. -Amortizing											
36959HNE3	793	GEN ELEC CAP CRP		11/29/2012	10,000,000.00	9,998,500.00	9,999,083.33	0.110	0.112	30	01/14/2013
		Subtotal and Average	**9,998,884.72**		**10,000,000.00**	**9,998,500.00**	**9,999,083.33**		**0.112**	**30**	
Federal Agency Coupon Securities											
3133804V6	787	Fed Home Loan Bank		08/09/2012	6,000,000.00	6,000,300.00	6,001,687.50	1.000	0.981	1,698	08/09/2017
313380B22	788	Fed Home Loan Bank		08/20/2012	6,000,000.00	6,000,120.00	6,000,677.08	0.450	0.440	978	08/20/2015
		Subtotal and Average	**12,002,635.42**		**12,000,000.00**	**12,000,420.00**	**12,002,364.58**		**0.710**	**1,338**	
Federal Agency Disc. -Amortizing											
313589BH5	792	Fed Natl Mortg Assoc		11/29/2012	4,000,000.00	3,999,800.00	3,999,573.33	0.080	0.081	48	02/01/2013
313384U23	790	Fed Home Loan Bank		09/26/2012	9,000,000.00	9,000,000.00	8,999,880.00	0.080	0.081	6	12/21/2012
313385AT3	791	Fed Home Loan Bank		10/09/2012	6,000,000.00	5,999,820.00	5,999,376.67	0.110	0.112	34	01/18/2013
		Subtotal and Average	**18,998,523.05**		**19,000,000.00**	**18,999,620.00**	**18,998,830.00**		**0.091**	**24**	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			50,000,000.00	50,065,703.60	50,000,000.00	0.324	0.324	1	
		Subtotal and Average	**50,000,000.00**		**50,000,000.00**	**50,065,703.60**	**50,000,000.00**		**0.324**	**1**	
		Total and Average	**100,509,670.23**		**96,742,014.34**	**96,806,257.94**	**96,742,292.25**		**0.285**	**174**	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
December 14, 2012

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	2,675,044.52	2,675,044.52	2,675,044.52		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							1
	Total Cash and Investmentss		100,509,670.23		99,702,058.86	99,766,302.46	99,702,336.77		0.285	174

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of December 15, 2012

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	(12/15/2012 - 12/15/2012)	6 Maturities	0 Payments	58,702,058.86	58.88%	58,702,058.86	58,767,762.46
Aging Interval: 1 - 30 days	(12/16/2012 - 01/14/2013)	2 Maturities	0 Payments	19,000,000.00	19.06%	18,998,963.33	18,998,500.00
Aging Interval: 31 - 60 days	(01/15/2013 - 02/13/2013)	2 Maturities	0 Payments	10,000,000.00	10.03%	9,998,950.00	9,999,620.00
Aging Interval: 61 - 91 days	(02/14/2013 - 03/16/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 92 - 121 days	(03/17/2013 - 04/15/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 122 - 152 days	(04/16/2013 - 05/16/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 153 - 183 days	(05/17/2013 - 06/16/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 184 - 274 days	(06/17/2013 - 09/15/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	(09/16/2013 - 12/15/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 366 - 1095 days	(12/16/2013 - 12/15/2015)	1 Maturities	0 Payments	6,000,000.00	6.02%	6,000,677.08	6,000,120.00
Aging Interval: 1096 - 1825 days	(12/16/2015 - 12/14/2017)	1 Maturities	0 Payments	6,000,000.00	6.02%	6,001,687.50	6,000,300.00
Aging Interval: 1826 days and after	(12/15/2017 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
	Total for	12 Investments	0 Payments		100.00	99,702,336.77	99,766,302.46

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. 6
BUDGET AND FINANCE COMMITTEE MEETING
January 9, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Patricia Jakubiak, Treasurer

SUBJECT: **Updated Broker/Dealer List**

Summary:
This agenda item is submitted to the Committee to request approval to update the current list of broker/dealers that the Treasurer uses for competitive bidding of investment purchases.

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee Meeting of January 24, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee approve the proposed Broker/Dealer List to include the following three firms:

- FTN Financial
- UBS Financial Services
- Raymond James/Morgan Keegan

Background:

The OCFA's policy for selection and use of broker/dealers follows the best practices issued by the Government Finance Officers' Association, and is prescribed by policy in the OCFA's Annual Investment Policy (Attachment 1). This Policy is reviewed, renewed, and approved by the Budget and Finance Committee and the Board of Directors annually. Staff is adhering to the Policy approved by the Board.

The Investment Policy encourages competitive bidding on investment transactions from an approved list of broker/dealers. The Policy also requires that the list of broker/dealers be reviewed and updated annually. The Executive Committee approved the last broker/dealer update on October 27, 2011. The list is limited to three firms due to the impracticality of dealing with a large list of broker/dealers when obtaining competitive bids.

To qualify, broker/dealers must meet the following ***minimum*** requirements:
- Agree to comply with the investment policies of the Authority
- Be a primary or regional dealer that qualifies under the Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule)
- Have an office in California

- Be experienced in institutional trading practices and familiar with the California Government Code as related to investments for local governmental agencies
- Have been in business for at least three years
- Provide current audited financial statements
- Provide proof of National Association of Security Dealers certification.

To verify qualifications, OCFA requires completion of a "Broker/Dealer Questionnaire & Certification", based on guidelines of the Government Finance Officers' Association. The questionnaire addresses capital adequacy standards, history of SEC complaints, staff qualifications, and references. Both the account representative and the individual in charge of government securities operations must sign certifying the accuracy of their responses to the questionnaire and pledging due diligence in informing OCFA staff of all foreseeable risks in financial transactions conducted with OCFA. They must also certify that they've read OCFA's Investment Policy and that they've implemented a system of controls designed to preclude imprudent investment activities that are in conflict with OCFA's investment objectives, strategies, and risk constraints. A copy of each firm's questionnaire and certification is on file in the Treasurer's Office and available upon request.

In addition to the standard requirements, other factors such as competitiveness of quotes, responsiveness, reputation, and reliability are also considered in the annual review process. This year, two of the firms are recommended for renewal due to the excellent service they've provided over the past year. The third firm, Raymond James/Morgan Keegan is recommended to replace Wells Fargo:

- FTN Financial
- UBS Financial Services
- Raymond James/Morgan Keegan

In addition to being responsive to the Treasurer's specific requests, the two firms recommended for renewal consistently provide daily inventory/pricing lists and thorough updates on the economy and fixed income markets. Furthermore, the specific brokers from these firms are familiar with OCFA's Investment Policy and practices, which results in more efficient trading.

Attached is a letter from the Orange County Treasurer, outlining the process that the County of Orange uses for selection and approval of broker/dealers (Attachment 2). The OCFA follows the same process as that which is outlined in the County letter. Please note that the County letter states that the County also *does not* utilize an RFP or bid process for selection of broker/dealers. Two of the three brokers being recommended are also on the County's approved list.

Attachment 3 is a letter from OCFA's Assistant Chief Lori Zeller, Business Services Department, to the Board Chair in response to a public member's inquiry into the OCFA's broker/dealer process.

Impact to Cities/County:
Not Applicable.

Fiscal Impact:
Not Applicable.

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

Jane Wong, Assistant Treasurer
Janewong@ocfa.org
(714) 573-6305

Attachments
1. OCFA's Investment Policy Excerpt Regarding Broker/Dealers
2. Letter from the Orange County Treasurer
3. OCFA Response to Board Concerns dated December 3, 2012

Attachment 1

ORANGE COUNTY FIRE AUTHORITY

INVESTMENT POLICY

Calendar Year 2013

8. **Authorized Financial Dealers and Institutions**: To promote the optimum yield on the investment of Authority funds, investment procedures shall be designed to encourage competitive bidding on transactions from approved financial institutions or broker/dealers.

8.1. On an annual basis, the Treasurer shall recommend a list of at least three financial institutions and broker/dealers who are authorized to provide investment services. The list shall be approved by the Budget and Finance Committee and the Executive Committee. All financial institutions and broker/dealers who wish to be considered for the list must meet the following minimum requirements:

8.1.1 Must certify that they have read and agree to comply with the investment policies of the Authority.

8.1.2 Must be a primary or regional dealer that qualifies under the Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule).

8.1.3 Must have an office in California.

8.1.4 Must be experienced in institutional trading practices and familiar with the California Government Code as related to investments for local governmental agencies.

8.1.5 Must have been in business for at least three years.

8.1.6 Must provide current audited financial statements.

8.1.7 Must provide proof of National Association of Security Dealers certification.

8.1.8 Other criteria as may be established in the *Investment Procedures Manual* of the Authority.

8.2. All financial institutions in which the Authority's public funds are deposited will supply the Treasurer with the following:

8.2.1 Current audited financial statements.

8.2.2 Depository contracts.

8.2.3 A copy of the latest FDIC call report.

8.2.4 Proof that the institution is state or federally chartered.

Attachment 2
Provided by Public Speaker Wontrobski
in Connection with Agenda Item No. 5
03/22/12 OCFA Board Meeting

SHARI L. FREIDENRICH, CPA
TREASURER-TAX COLLECTOR

OFFICE OF THE TREASURER-TAX COLLECTOR

HALL OF FINANCE AND RECORDS
P.O. BOX 4515
625 N. ROSS STREET, BUILDING 11
SANTA ANA, CALIFORNIA 92702-4515

(714) 834-7625 FAX: (714) 834-2912

www.ttc.ocgov.com
Treasurer@ttc.ocgov.com

PAUL C. GORMAN, CPA
CHIEF ASSISTANT
TREASURER-TAX COLLECTOR
TREASURY

JENNIFER BURKHART, CFA
ASSISTANT TREASURER-TAX COLLECTOR
TAX COLLECTION

PAUL COCKING
ASSISTANT TREASURER-TAX COLLECTOR
INVESTMENTS

ROBIN RUSSELL
ASSISTANT TREASURER-TAX COLLECTOR
ADMINISTRATION

March 06, 2012

Stephen M. Wontrobski
27132 Sombras
Mission Viejo, CA 92702

Dear Mr. Wontrobski,

We received your letter dated February 2, 2012. The Investment Division maintains a written policy outlining the process that we follow for the selection and approval of broker/dealers. Each potential broker/dealer is vetted through a process to determine their financial stability and their standing with the relevant regulatory agencies. We also ensure that the potential broker/dealer's would add value to our investment process and that our brokers are specialists in institutional trading, not retail trading. Once approved by the Investment Division, all broker/dealers on the approved list are reviewed annually to determine whether each broker/dealer continues to meet the requirements of being an appropriate counterparty. Although we do not currently utilize a RFP or bid process, we regularly evaluate our broker/dealers. Any broker/dealer can complete and submit our questionnaire to be considered. We also check references prior to approving broker/dealers.

There are several criteria considered when selecting a broker/dealer, which include:

- The broker's/dealer's capability to provide services at the lowest possible cost
- Sufficient, competent broker/dealer personnel and support staff regarding California investment restrictions
- The broker's/dealer's electronic trading capabilities
- Timely acknowledgement and correction of trade errors
- The efficient clearance and settlement of trades
- Experience in institutional markets

All trades are settled Delivery Versus Payment (DVP) which minimizes the potential of monetary loss if a broker/dealer fails to deliver a security. With DVP, we only make payment for a security at the time of delivery. The delivery of the security is made to our custodian in exchange for payment. Therefore, in case a broker/dealer goes out of business and does not deliver a security, we still have the funds and the County of Orange faces no monetary loss. In addition, all of our securities are held by an independent third party and the broker/dealer does not hold any securities that we have purchased. The Investment officials review pricing for securities from a variety of broker/dealers to ensure that the County purchases the securities at the lowest cost. Under current laws, the broker/dealers are prohibited from providing investment advice. Annually, all broker/dealers are required to file a certification that they have read and understand our Investment Policy.

Thank you for your letter. I can be reached at (714) 834-7625 or by email at Treasurer@ttc.ocgov.com with any further questions.

Sincerely,

Shari Freidenrich

Shari Freidenrich CPA, CCMT, CPFA, CPFIM
Treasurer-Tax Collector

Mission: Ensure safe and timely receipt, deposit, collection and investment of public funds.

ORANGE COUNTY FIRE AUTHORITY
P.O. Box 57115, Irvine, CA 92619-7115 • 1 Fire Authority Road, Irvine, CA 92602
Keith Richter, Fire Chief **(714) 573-6000** **www.ocfa.org**

December 3, 2012

Trish Kelley, Chair
OCFA Board of Directors
1 Fire Authority Road
Irvine, CA 92602

RE: Timing for Approval of Broker/Dealer List – Concerns from Resident Stephen Wontrobski

Dear Trish:

The enclosed information is provided in response to the concerns recently expressed by Mission Viejo resident, Stephen Wontrobski, regarding the timing for approval of the OCFA's List of Broker/Dealers.

The OCFA's practice for selection and use of broker/dealers follows the best practices issued by the Government Finance Officers' Association, and is formally included in the OCFA's Annual Investment Policy. Specifically, the Investment Policy states:

On an annual basis, the Treasurer shall recommend a list of at least three financial institutions and broker/dealers who are authorized to provide investment services. The list shall be approved by the Budget and Finance Committee and the Executive Committee.

The reason the Policy calls for a list of three broker/dealers is to facilitate competitive bidding of every investment transaction to achieve the best financial terms. In the past, staff has most frequently requested approval of the Broker/Dealer List in November of each year. However, on occasion, staff has requested approval of the Broker/Dealer List in a different month (either earlier or later, as shown on the Attachment) due to a variety of reasons, such as those listed below:

- Cancellation of the November Budget & Finance Committee (B&FC) meeting
- Cancellation of the November Executive Committee meeting
- Urgency of other, higher-priority agenda items
- Volume of agenda items
- Volatile or unexpected market conditions potentially impacting the viability of firms

For example, in September 2011, staff became aware that the November B&FC agenda was going to have a very large volume of business. Therefore, staff made plans to expedite the request for approval of the Broker/Dealer List to October 2011, instead of November 2011. This year, the November 2012 agenda contained a large volume of business again; however, staff was unable to expedite the agenda item to October 2012, since the October meeting was cancelled. The B&FC

does not meet in December; therefore, the approval of the Broker/Dealer List was deferred to the January B&FC meeting.

Staff has every intention of requesting B&FC and Executive Committee approval of the Broker/Dealer List, as required by the Investment Policy; however, staff does not believe that the Policy dictates that the List must be approved in the exact same month every year. This does not mean that staff believes the List remains effective open-ended. Due to the reasons listed above, business needs may dictate earlier or later approval of the List from time-to-time.

I have personally explained these timing issues to Mr. Wontrobski and I've also explained these concepts to our B&FC following Mr. Wontrobski's public comments at our last B&FC meeting. Unfortunately, Mr. Wontrobski remains focused on his belief that the List must be approved at exactly twelve months.

As I explained to the B&FC, since our November agendas are becoming routinely heavy, due to the timing of other business matters that cannot be delayed (such as approval of the CAFR), we have concluded that it would be appropriate to plan the Broker/Dealer List agenda item for January each year, as a matter of routine. Should the B&FC have any concerns about this scheduling, I remain open to considering alternatives as the Committee may direct.

I hope you find this information responsive to the issues Mr. Wontrobski has raised. If you have any further questions, please don't hesitate to contact me.

Sincerely,

Lori Zeller

Lori Zeller, Assistant Chief
Business Services Department

Attachment

cc: OCFA Board of Directors
Sherry Wentz, Clerk of the Authority
David Kendig, General Counsel

Attachment

Orange County Fire Authority
Historical Timing for Approval of Broker/Dealer List

August 6, 1997	
September 24, 1998	13 months
October 28, 1999	13 months
October 26, 2000	12 months
October 25, 2001	12 months
November 21, 2002	13 months
November 20, 2003	12 months
November 18, 2004	12 months
November 17, 2005	12 months
November 16, 2006	12 months
November 15, 2007	12 months
February 26, 2009	15 months
November 19, 2009	9 months
November 18, 2010	12 months
October 27, 2011	11 months
January 24, 2013	15 months

DISCUSSION CALENDAR - AGENDA ITEM NO. 7
BUDGET AND FINANCE COMMITTEE MEETING
January 9, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Zenovy Jakymiw, Director of Human Resources

SUBJECT: **Annual Complaint Investigation Hotline Report – Calendar Year 2012**

Summary:
This agenda item is submitted to provide the Committee with an annual summary of activity that occurred with the OCFA's complaint investigation hotline during 2012.

Recommended Action:
Receive and file the report.

Background:
The OCFA implemented a new internal complaint investigation hotline (the "Hotline") in December 2011 for employees to utilize for reporting concerns that they believe should be investigated. The Hotline is hosted by an external vendor, Ethics Point, and employees may submit reports to the Hotline by either phone or internet. Further, employees may remain anonymous when submitting their reports, if desired.

The implementation plan that was created with the Hotline calls for OCFA staff to provide an annual report to the Budget and Finance Committee each January, summarizing the number of reports filed and status or disposition of cases. In addition, the implementation plan calls for staff to report to the full Board of Directors regarding individual Hotline cases, as necessary based on the nature of findings that may result from the investigation.

The Hotline is primarily administered by the Fire Chief, with secondary support provided by the Director of Human Resources, and legal guidance provided by General Counsel.

The first year of operations with the Hotline resulted in the following caseload:

Case Status	Annual Period Ending December 31, 2012
Beginning Caseload	0
New Cases Open	7
Cases Closed (Investigation completed and response issued)	6
Ending Caseload (Cases remaining from reporting period)	1

Conclusion of Cases Closed	**December 31, 2012**	
Actionable *(Note)*	2	20%
Not Actionable	4	80%
Not Investigated	0	0%
Cases Closed	6	100%

Note: An actionable case does not necessarily indicate that there was a finding of fraud, but does potentially evidence a failure to properly perform the duties of the position.

Both of the actionable cases were in connection with the same issue, and as a result, the following actions were taken:

Actions Taken
Personnel Action
Procedures and Internal Controls Changed or Reinforced
Training

The one case that remains open is related to the ongoing investigation pertaining to Fire Prevention Fees for the hazardous materials disclosure program activities.

Impact to Cities/County:
Not Applicable.

Fiscal Impact:
The annual cost for the Ethics Point hotline service is $3,800.

Staff Contacts for Further Information:
Zenovy Jakymiw, Director of Human Resources
zenovyjakymiw@ocfa.org
(714) 573-6801

Keith Richter, Fire Chief
keithrichter@ocfa.org
(714) 573-6010

Attachments:
None.