



ORANGE COUNTY FIRE AUTHORITY AGENDA

Budget and Finance Committee Meeting
Wednesday, October 8, 2014
12:00 Noon

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

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

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

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

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



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

CALL TO ORDER

PLEDGE OF ALLEGIANCE by Director Weinberg

ROLL CALL

PUBLIC COMMENTS

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

MINUTES

- 1. Minutes for the September 10, 2014, Budget and Finance Committee Meeting**
Submitted by: Sherry Wentz, Clerk of the Authority

Recommended Action:
Approve as submitted.

CONSENT CALENDAR

No items.

DISCUSSION CALENDAR

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

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of October 16, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

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

Recommended Action:
Receive and file the report.

- 4. Internal Control Review on Request for Proposal Process**
Submitted by: Lori Zeller, Assistant Chief, Business Services Department

Recommended Actions:
Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of October 16, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee direct staff to implement the Auditor's recommendations as stated under OCFA management responses in the report.

5. 2014 Long Term Liability Study

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 October 23, 2014, with the Budget and Finance Committee’s recommendations that the Board of Directors:

1. Receive and file the report.
2. Direct staff to continue the Expedited Pension Unfunded Actuarial Accrued Liability (UAAL) Payment Plan to achieve long-term savings in pension costs.
3. Direct staff to evaluate potential cost saving options for OCFA healthcare plans offered to retirees in an effort to lower Retiree Medical costs.
4. Direct staff to continue seeking cost saving options related to Workers’ Compensation, including the recently implemented Alternative Dispute Resolution Program.

REPORTS

No items.

COMMITTEE MEMBER COMMENTS

ADJOURNMENT – The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, November 5*, 2014, at 12:00 noon.

AFFIDAVIT OF POSTING

I hereby certify under penalty of perjury under the laws of the State of California, that the foregoing Agenda was posted in the lobby and front gate public display case of the Orange County Fire Authority, Regional Training and Operations Center, 1 Fire Authority Road, Irvine, CA, not less than 72 hours prior to the meeting. Dated this 2nd day of October 2014.

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

UPCOMING MEETINGS:

Executive Committee Meeting	Thursday, October 16, 2014, 6:00 p.m.
Claims Settlement Committee Meeting	Thursday, October 23, 2014, 5:30 p.m.
Board of Directors Meeting	Thursday, October 23, 2014, 6:00 p.m.
Human Resources Committee Meeting	Tuesday, November 4, 2014, 12:00 noon

*=Regular meeting date moved forward to accommodate upcoming holiday.

MINUTES

ORANGE COUNTY FIRE AUTHORITY

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

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

CALL TO ORDER

A regular meeting of the Orange County Fire Authority Budget and Finance Committee was called to order on September 10, 2014, at 12:00 p.m. by Vice Chair McCloskey.

PLEDGE OF ALLEGIANCE

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

ROLL CALL

Present:

Sam Allevato, San Juan Capistrano
Trish Kelley, Mission Viejo
Jerry McCloskey, Laguna Niguel
Al Murray, Tustin
Elizabeth Swift, Buena Park
Steven Weinberg, Dana Point

Absent:

Randal Bressette, Laguna Hills

Also present were:

Fire Chief Jeff Bowman
Assistant Chief Lori Smith
Assistant Chief David Thomas
Communications Director Sandy Cooney
Clerk of the Authority Sherry Wentz

Deputy Chief Craig Kinoshita
Assistant Chief Brian Stephens
Assistant Chief Lori Zeller
Human Resources Director Jeremy Hammond

PUBLIC COMMENTS (F: 12.02B3)

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

MINUTES

1. Minutes for the August 13, 2014, Budget and Finance Committee Meeting (F: 12.02B2)

On motion of Director Weinberg and second by Director Murray, the Committee voted unanimously to approve the minutes of the August 13, 2014, Budget and Finance Committee Meeting, as submitted.

CONSENT CALENDAR

No items.

DISCUSSION CALENDAR

2. Monthly Investment Reports (F: 11.10D2)

Treasurer Patricia Jakubiak provided an overview of the Monthly Investment Reports.

On motion of Director Swift and second by Director Allevato, the Committee voted unanimously to direct staff to place the item on the agenda for the Executive Committee meeting of September 18, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

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

Treasurer Patricia Jakubiak provided a monthly status update on the Orange County Employees' Retirement System.

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

4. Fourth Quarter Financial Newsletter – July 2013 to June 2014 (F: 15.07)

Assistant Chief Lori Zeller introduced Budget Manager Deborah Gunderson who provided a report on the Fourth Quarter Financial Newsletter.

On motion of Director Murray and second by Director Swift, the Committee voted unanimously to direct staff to place the item on the agenda for the Executive Committee meeting of September 18, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

Minutes

OCFA Budget and Finance Committee Meeting

August 13, 2014 Page - 2

5. Rebudget of FY 2013/14 Uncompleted Projects (F: 15.04 13/14)

Assistant Chief Lori Zeller introduced Budget Manager Deborah Gunderson who provided a report on the rebudget of FY 2013/14 Uncompleted Projects.

On motion of Director Weinberg and second by Director Allevato, the Committee voted unanimously to place the item on the agenda for the Board of Director's meeting of September 25, 2014, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

Authorize the following budget adjustments:

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

REPORTS

There were no items to report.

COMMITTEE MEMBER COMMENTS (F: 12.02B4)

Director Murray thanked Fire Chief Bowman for attending the ribbon cutting of a local business in Tustin. He spoke of the recent OC Register article that highlighted Fire Captain Paul Holaday saving a child while on vacation.

Director Kelley thanked Chiefs Wells in advance for conducting the Mission Viejo 9/11 remembrance ceremony. She also commended the Support Services' staff on the implementation of the new CAD system.

Director Allevato spoke about an upcoming event celebrating the County of Orange 125th Anniversary. He also reminded staff about the construction on the Ortega interchange.

Vice Chair McCloskey stated Laguna Niguel was happy with the OCFA.

ADJOURNMENT – Vice Chair McCloskey adjourned the meeting at 12:30 p.m. The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, October 8, 2014, at 12:00 noon.

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

DISCUSSION CALENDAR - AGENDA ITEM NO. 2
BUDGET AND FINANCE COMMITTEE MEETING
October 8, 2014

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Patricia Jakubiak, Treasurer

SUBJECT: **Monthly Investment Reports**

Summary:

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

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of October 16, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

Background:

Attached is the final monthly investment report for the month ended August 31, 2014. A preliminary investment report as of September 19, 2014, is also provided as the most complete report that was available at the time this agenda item was prepared.

Impact to Cities/County:

Not Applicable.

Fiscal Impact:

Not Applicable.

Staff Contact for Further Information:

Patricia Jakubiak, Treasurer

Triciajakubiak@ocfa.org

(714) 573-6301

Attachment:

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

Orange County Fire Authority Monthly Investment Report



Final Report – August 2014

Preliminary Report – September 2014



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Orange County Fire Authority

Final Investment Report

August 31, 2014



EXECUTIVE SUMMARY

Portfolio Activity & Earnings

During the month of August 2014, the size of the portfolio decreased from \$173.1 million to \$149.5 million. Significant receipts for the month included charges for current services, intergovernmental contract payments and an apportionment of supplemental property taxes totaling \$6.0 million. Significant disbursements for the month included three biweekly payrolls, which were approximately \$9.0 million each with related benefits. Total August cash outflows for operating expenditures amounted to approximately \$30.4 million. The portfolio's balance is expected to decrease slightly further in the following month as there are no major receipts expected for September other than the quarterly cash contract payments.

In August, the portfolio's yield to maturity (365-day equivalent) increased by 4 basis points to 0.29% from the prior month. The effective rate of return rose by 3 basis points to 0.27% for the month and edged up by 1 basis point to 0.25% for the fiscal year to date. The average maturity of the portfolio lengthened by 9 days to 194 days to maturity.

Economic News

In August 2014, the U.S. economy continued to grow moderately, although economic activity remained mixed. Employment conditions unexpectedly weakened further in August. There were a total of 142,000 new jobs created for the month, a much weaker payroll growth compared to the prior month and what had been expected. The unemployment rate, however, improved by one basis point to 6.1% from 6.2% previously. Both the manufacturing and non-manufacturing sectors continued to advance in August. Industrial production declined slightly while an increase had been expected. Both the University of Michigan Consumer Sentiment and the Conference Board Consumer Confidence measures rose in August. Retail sales improved and grew as expected in August. Inflation stayed low, and the housing sector continued to improve, but activity remained mixed. On September 17, 2014, at the second day of the Federal Open Market Committee's scheduled meeting, the Committee voted, as expected, to keep the federal funds rate unchanged at a target range of 0 – 0.25%. The Committee's outlook on the economy stayed largely unchanged. However, it decided to continue reducing its asset purchase program from \$25 billion to \$15 billion per month beginning in October.



BENCHMARK COMPARISON AS OF AUGUST 31, 2014

3 Month T-Bill: 0.03%
6 Month T-Bill: 0.05%

1 Year T-Bill: 0.11%
LAIF: 0.26%

OCFA Portfolio: 0.27%

PORTFOLIO SIZE, YIELD, & DURATION

	<u>Current Month</u>	<u>Prior Month</u>	<u>Prior Year</u>
Book Value-	\$149,519,487	\$173,140,893	\$121,225,361
Yield to Maturity (365 day)	0.29%	0.25%	0.35%
Effective Rate of Return	0.27%	0.24%	0.35%
Days to Maturity	194	185	321



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

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

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

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	10,750,840.85	10,750,840.85	10,750,840.85	7.21	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	9,000,000.00	8,998,470.00	8,998,927.50	6.04	101	39	0.110	0.112
Federal Agency Coupon Securities	38,333,333.33	38,271,020.00	38,338,731.01	25.72	1,285	673	0.666	0.675
Federal Agency Disc. -Amortizing	41,000,000.00	40,996,670.00	40,994,444.17	27.50	139	66	0.062	0.062
Local Agency Investment Funds	50,000,000.00	50,014,937.50	50,000,000.00	33.54	1	1	0.256	0.260
Investments	149,084,174.18	149,031,938.35	149,082,943.53	100.00%	375	194	0.281	0.285
Cash								
Passbook/Checking (not included in yield calculations)	530,710.29	530,710.29	530,710.29		1	1	0.000	0.000
Total Cash and Investments	149,614,884.47	149,562,648.64	149,613,653.82		375	194	0.281	0.285

Total Earnings	August 31 Month Ending	Fiscal Year To Date
Current Year	36,097.59	71,388.53
Average Daily Balance	159,840,375.27	168,008,381.36
Effective Rate of Return	0.27%	0.25%

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

Patricia Jakubak 9/5/14
 Patricia Jakubak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	\$ 149,613,653.82
GASB 31 Adjustment to Books (See Note 3 on page 9)	\$ (94,166.47)
Total	\$ 149,519,487.35

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

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

CUSIP	Investment #	Investment #	Investor	Average Balance	Purchase Date	Per Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash												
SY528	528		High Mark 100% US Treasury MMF			10,750,840.85	10,750,840.85	10,750,840.85	0.001	0.001	1	
			Subtotal and Average	12,929,159.53		10,750,840.85	10,750,840.85			0.001	1	
Commercial Paper Disc. - Amortizing												
36959JKA0	829		GEN ELEC CAP CRP		07/01/2014	9,000,000.00	8,998,470.00	8,998,927.50	0.110	0.112	39	10/10/2014
			Subtotal and Average	12,169,765.37		9,000,000.00	8,998,470.00	8,998,927.50		0.112	39	
Federal Agency Coupon Securities												
3133ECM76	809		Federal Farm Credit Bank (Callable anytime)		04/25/2013	9,000,000.00	8,992,080.00	8,996,542.90	0.400	0.424	599	04/22/2016
3133804V6	787		Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,992,560.00	6,000,000.00	1.000	0.981	1,073	08/09/2017
3133813R4	800		Fed Home Loan Bank (Callable 9-9-14)		12/20/2012	9,000,000.00	8,968,500.00	9,008,398.07	1.000	0.966	1,165	11/09/2017
313382DC4	803		Fed Home Loan Bank (Callable anytime)		03/15/2013	5,333,333.33	5,326,880.00	5,332,790.04	0.470	0.477	563	03/07/2016
3130A2MX1	833		Fed Home Loan Bank (Callable 10-29-14)		07/29/2014	9,000,000.00	8,991,000.00	9,000,000.00	0.550	0.550	58	07/29/2016
			Subtotal and Average	38,338,749.84		36,333,333.33	38,271,020.00	38,338,731.01		0.675	673	
Federal Agency Disc. - Amortizing												
313589N58	831		Fed Natl Mortg Assoc		07/01/2014	9,000,000.00	8,999,280.00	8,998,995.00	0.060	0.062	67	11/07/2014
313397F55	927		Freddie Mac		04/24/2014	5,000,000.00	5,000,000.00	4,998,954.17	0.030	0.031	11	09/12/2014
313368BF9	832		Freddie Mac		07/01/2014	9,000,000.00	8,997,750.00	8,998,602.50	0.090	0.093	151	01/30/2015
313365H33	828		Fed Home Loan Bank		06/19/2014	9,000,000.00	8,999,910.00	8,999,687.50	0.050	0.051	25	09/26/2014
313365L79	830		Fed Home Loan Bank		07/01/2014	9,000,000.00	8,999,730.00	8,999,205.00	0.060	0.062	53	10/24/2014
			Subtotal and Average	46,412,700.54		41,000,000.00	40,996,670.00	40,994,444.17		0.062	66	
Local Agency Investment Funds												
SY5336	336		Local Agency Investmt Fund			50,000,000.00	50,014,937.50	50,000,000.00	0.260	0.260	1	
			Subtotal and Average	50,000,000.00		50,000,000.00	50,014,937.50	50,000,000.00		0.260	1	
			Total and Average	159,840,375.27		149,084,174.18	149,031,938.35	149,082,943.53		0.285	184	

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

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10104	10104	American Benefit Plan Admin		07/01/2014	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2014	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank of California		07/01/2014	245,710.29	245,710.29	245,710.29		0.000	1
SYS361	361	CORVEL		07/01/2014	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	0.00							1
Total Cash and Investments			159,840,375.27		149,614,884.47	149,562,648.64	149,613,653.82		0.285	194

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

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

Aging Interval:				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
0 days	(09/01/2014 - 09/01/2014)	6 Maturities	0 Payments	61,281,551.14	40.96%	61,281,551.14	61,296,488.64
1 - 30 days	(09/02/2014 - 10/01/2014)	2 Maturities	0 Payments	14,000,000.00	9.36%	13,999,641.67	13,999,910.00
31 - 60 days	(10/02/2014 - 10/31/2014)	2 Maturities	0 Payments	18,000,000.00	12.03%	17,998,132.50	17,998,200.00
61 - 91 days	(11/01/2014 - 12/01/2014)	1 Maturities	0 Payments	9,000,000.00	6.01%	8,998,995.00	8,999,280.00
92 - 121 days	(12/02/2014 - 12/31/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
122 - 152 days	(01/01/2015 - 01/31/2015)	1 Maturities	0 Payments	9,000,000.00	6.01%	8,996,602.50	8,997,750.00
153 - 183 days	(02/01/2015 - 03/03/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
184 - 274 days	(03/04/2015 - 06/02/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
275 - 365 days	(06/03/2015 - 09/01/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
366 - 1095 days	(09/02/2015 - 08/31/2017)	4 Maturities	0 Payments	29,333,333.33	19.60%	29,329,332.94	29,302,520.00
1096 - 1825 days	(09/01/2017 - 08/31/2019)	1 Maturities	0 Payments	9,000,000.00	6.02%	9,009,398.07	8,968,500.00
1826 days and after	(09/01/2019 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
		Total for	17 Investments		100.00	149,613,653.82	149,562,648.64



NOTES TO PORTFOLIO MANAGEMENT REPORT

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



Local Agency Investment Fund (LAIF)

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

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



Orange County Fire Authority
Preliminary Investment Report
September 19, 2014



ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
September 19, 2014

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

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

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	8,704,896.47	8,704,896.47	8,704,896.47	5.76	1	1	0.001	0.001
Commercial Paper Disc -Amortizing	9,000,000.00	8,999,460.00	8,999,450.00	5.96	101	20	0.110	0.112
Federal Agency Coupon Securities	38,333,333.33	38,130,450.00	38,338,705.51	25.38	1,285	654	0.666	0.675
Federal Agency Disc -Amortizing	45,000,000.00	44,998,470.00	44,994,870.00	29.79	128	59	0.062	0.063
Local Agency Investment Funds	50,000,000.00	50,014,937.50	50,000,000.00	33.10	1	1	0.256	0.260
Investments	151,038,229.80	150,848,213.97	151,037,921.98	100.00%	371	185	0.279	0.283
Cash								
Passbook/Checking (not included in yield calculations)	1,569,316.43	1,569,316.43	1,569,316.43		1	1	0.000	0.000
Total Cash and Investments	152,607,546.23	152,417,530.40	152,607,238.41		371	185	0.279	0.283

Total Earnings	September 19 Month Ending	Fiscal Year To Date
Current Year	22,402.60	93,791.13
Average Daily Balance	150,544,965.34	163,912,024.52
Effective Rate of Return	0.29%	0.26%

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

Patricia Jakubiak
 Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	\$ 152,607,238.41
GASB 31 Adjustment to Books (See Note 3 on page 18)	\$ (94,166.47)
Total	\$ 152,513,071.94

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
September 19, 2014

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

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SY5528	528	High Mark 100% US Treasury MMF	10,054,448.89		8,704,896.47	8,704,896.47	8,704,896.47	0.001	0.001	1	
		Subtotal and Average			8,704,896.47	8,704,896.47	8,704,896.47	0.001	0.001	1	
Commercial Paper Disc. -Amortizing											
36959JKA0	829	GEN ELEC CAP CRP	8,999,202.50	07/01/2014	9,000,000.00	8,999,460.00	8,999,450.00	0.110	0.112	20	10/10/2014
		Subtotal and Average			9,000,000.00	8,999,460.00	8,999,450.00	0.110	0.112	20	
Federal Agency Coupon Securities											
3133ECM76	809	Federal Farm Credit Bank (Callable anytime)	38,333,333.33	04/25/2013	9,000,000.00	8,984,430.00	8,996,654.04	0.400	0.424	580	04/22/2016
313380AV6	787	Fed Home Loan Bank (Callable anytime)	38,333,333.33	08/09/2012	6,000,000.00	5,973,060.00	6,000,000.00	1.000	0.981	1,054	08/09/2017
3133813R4	800	Fed Home Loan Bank (Callable 10-9-14)	38,333,333.33	12/20/2012	9,000,000.00	8,869,680.00	9,009,242.52	1.000	0.966	1,146	11/09/2017
313382DC4	803	Fed Home Loan Bank (Callable anytime)	38,333,333.33	03/15/2013	5,321,280.00	5,321,280.00	5,332,808.95	0.470	0.477	534	03/07/2016
3130A2MX1	833	Fed Home Loan Bank (Callable 10-29-14)	38,333,333.33	07/29/2014	9,000,000.00	8,982,000.00	9,000,000.00	0.550	0.550	39	07/29/2016
		Subtotal and Average			38,333,333.33	38,130,450.00	38,338,705.51	0.550	0.675	654	
Federal Agency Disc. -Amortizing											
313589N58	831	Fed Natl Mortg Assoc	43,152,596.36	07/01/2014	9,000,000.00	8,999,820.00	8,999,280.00	0.060	0.062	48	11/07/2014
313396BF9	832	Freddie Mac	43,152,596.36	07/01/2014	9,000,000.00	8,999,100.00	8,997,030.00	0.090	0.093	132	01/30/2015
313385H33	828	Fed Home Loan Bank	43,152,596.36	08/19/2014	9,000,000.00	9,000,000.00	8,999,925.00	0.050	0.051	6	09/28/2014
313385L79	830	Fed Home Loan Bank	43,152,596.36	07/01/2014	9,000,000.00	8,999,910.00	8,999,490.00	0.060	0.062	34	10/24/2014
313385R99	834	Fed Home Loan Bank	43,152,596.36	09/11/2014	9,000,000.00	8,999,640.00	8,999,145.00	0.045	0.046	76	12/05/2014
		Subtotal and Average			45,000,000.00	44,998,470.00	44,994,870.00	0.045	0.063	59	
Local Agency Investment Funds											
SY5336	336	Local Agency Invstmt Fund	50,000,000.00		50,000,000.00	50,014,937.50	50,000,000.00	0.260	0.260	1	
		Subtotal and Average			50,000,000.00	50,014,937.50	50,000,000.00	0.260	0.260	1	
		Total and Average			151,038,229.80	150,848,213.97	151,037,921.98		0.283	185	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
September 19, 2014

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10104	10104	American Benefit Plan Admin		07/01/2014	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2014	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank of California		07/01/2014	1,284,316.43	1,284,316.43	1,284,316.43		0.000	1
SYS361	361	CORVEL		07/01/2014	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	0.00							1
		Total Cash and Investments	150,544,965.34		152,607,546.23	152,417,530.40	152,607,238.41		0.283	185

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ORANGE COUNTY FIRE AUTHORITY

Aging Report By Maturity Date

As of September 20, 2014

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

Aging Interval:					Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
0 days	(09/20/2014 - 09/20/2014)	6 Maturities	0 Payments	60,274,212.90	39.50%	60,274,212.90	60,289,150.40	
1 - 30 days	(09/21/2014 - 10/20/2014)	2 Maturities	0 Payments	18,000,000.00	11.79%	17,999,375.00	17,999,460.00	
31 - 60 days	(10/21/2014 - 11/19/2014)	2 Maturities	0 Payments	18,000,000.00	11.79%	17,998,770.00	17,999,730.00	
61 - 91 days	(11/20/2014 - 12/20/2014)	1 Maturities	0 Payments	9,000,000.00	5.90%	8,999,145.00	8,999,640.00	
92 - 121 days	(12/21/2014 - 01/19/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00	
122 - 152 days	(01/20/2015 - 02/19/2015)	1 Maturities	0 Payments	9,000,000.00	5.90%	8,997,030.00	8,999,100.00	
153 - 183 days	(02/20/2015 - 03/22/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00	
184 - 274 days	(03/23/2015 - 06/21/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00	
275 - 365 days	(06/22/2015 - 09/20/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00	
366 - 1095 days	(09/21/2015 - 09/19/2017)	4 Maturities	0 Payments	29,333,333.33	19.22%	29,329,462.99	29,260,770.00	
1096 - 1825 days	(09/20/2017 - 09/19/2019)	1 Maturities	0 Payments	9,000,000.00	5.90%	9,009,242.52	8,869,680.00	
1826 days and after	(09/20/2019 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00	
Total for				17 Investments	0 Payments	152,607,238.41	152,417,530.40	



NOTES TO PORTFOLIO MANAGEMENT REPORT

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

**DISCUSSION CALENDAR – AGENDA ITEM NO. 3
BUDGET AND FINANCE COMMITTEE MEETING
October 8, 2014**

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

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

Summary:

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

Recommended Action:

Receive and file the report.

Background:

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

Actions Taken/Financial Policies & Practices – September 2014

OCERS BOARD OF RETIREMENT SPECIAL MEETING September 23, 2014:

TRIENNIAL STUDY OF ACTUARIAL ASSUMPTIONS (Continuation)

Completing the process started in July, Mr. Paul Angelo, the actuary with the Segal Company, presented his Triennial review of the Board's actuarial assumptions for the third time. Several key questions were under consideration by the OCERS Board of Retirement:

1. Should the current assumed earnings rate of 7.25% be changed?
2. Should the current assumed inflation rate of 3.25% be changed?
3. With a recent modification in the GASB reporting requirements for administrative expenses, how should OCERS' \$15 million of annual administrative budget be reflected?

The attached slide of Mr. Angelo's presentation (Attachment) lists a number of alternatives that the Board considered, and for the first time, reflected what any percentage change in the contribution rates for employers and members might mean in actual dollars.

Each of the three alternatives has an Option A and Option B:

- Option A shows the investment return assumption for funding on a gross of administrative expense basis.
- Option B shows the investment return assumption for funding on a net of administrative expense basis.

The OCERS Board voted 8-1 to approve Alternative #3, Option B. The following major factors were included in this adopted alternative:

- Investment return assumption remains unchanged at 7.25%
- Assumed inflation (CPI) was reduced from 3.25% to 3.00%
- Wage inflation was reduced from 3.75% to 3.50% (including COLAs, Merit, Promotions)
- Inclusion of slightly later retirement ages for both General and Safety Members
- Decreased employee termination rates
- Decreased disability incidences for both General and Safety Members
- Adjustments to mortality tables, including reflection of mortality at a future date (using Scale BB projected to 2020) to allow for future mortality improvements
- Administrative and investment expenses will continue to be processed the same as in the past (funded from investment earnings)

As a result of these adopted assumptions, the blended employer contribution rate for all plan sponsors collectively in OCERS is a slight increase of 0.07%, and the impact to the blended employee contribution rate is a decrease of 0.28%. At this time, we do not have details to identify the specific financial impacts for each individual plan sponsor or rate group; however, the financial impacts appear to be minimal or flat. Furthermore, impacts from this Triennial Study will not be applied until the 2014 year-end Actuarial Valuation Study, which will produce retirement contribution rates effective on July 1, 2016.

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

Impact to Cities/County:

Not Applicable.

Fiscal Impact:

Regarding OCERS' changes to the economic and demographic assumptions, no material impact is expected to OCFA's retirement rates or to the charges to OCFA's member agencies. The changes to the assumptions will be used for the 2014 actuarial valuation, which will not impact retirement contribution rates until July 2016.

Staff Contacts for Further Information:

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Tricia Jakubiak, Treasurer

TriciaJakubiak@ocfa.org

(714) 573-6301

Attachment:

OCERS' Triennial Review of Actuarial Assumptions–Three Alternatives for Board Consideration

Anticipated Impact on Valuation Results

➤ Modeled as of December 31, 2013 for illustration

	Alternative #1 7.50% w/ 3.25%		Alternative #2 7.25% w/ 3.25%		Alternative #3 7.25% w/ 3.00%	
	Option A	Option B	Option A	Option B	Option A	Option B
<u>Impact on Employer</u>						
Change due to demographic assumptions	0.39%	0.39%	0.39%	0.39%	0.39%	0.39%
Change due to economic assumptions	(2.69%)	(2.69%)	0.00%	0.00%	(0.32%)	(0.32%)
Change due to administrative expenses	<u>0.70%</u>	<u>0.00%</u>	<u>0.70%</u>	<u>0.00%</u>	<u>0.70%</u>	<u>0.00%</u>
Total change in ER rate*	(1.60%)	(2.30%)	1.09%	0.39%	0.77%	0.07%
Total estimated change in annual amount (\$000) for entire system**	(\$25,672)	(\$36,903)	\$17,489	\$6,258	\$12,355	\$1,123
<u>Impact on Employee</u>						
Change due to demographic assumptions	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%
Change due to economic assumptions	(0.72%)	(0.72%)	0.00%	0.00%	(0.32%)	(0.32%)
Change due to administrative expenses	<u>0.20%</u>	<u>0.00%</u>	<u>0.20%</u>	<u>0.00%</u>	<u>0.20%</u>	<u>0.00%</u>
Total change in EE rate	(0.48%)	(0.68%)	0.24%	0.04%	(0.08%)	(0.28%)
Total estimated change in annual amount for an average employee***	(\$360)	(\$510)	\$180	\$30	(\$60)	(\$210)

* Before adjustment for 18-month delay

** Based on December 31, 2013 projected annual compensation of \$1,604,496,236

*** Based on December 31, 2013 average projected annual compensation of \$75,089

DISCUSSION CALENDAR - AGENDA ITEM NO. 4
BUDGET AND FINANCE COMMITTEE MEETING
October 8, 2014

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **Internal Control Review on Request for Proposal Process**

Summary:

This agenda item is submitted to present the independent accountants' Agreed-Upon Procedures report of OCFA's internal control review on the Request for Proposal (RFP) process.

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of October 16, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee direct staff to implement the Auditor's recommendations as stated under OCFA management responses in the report.

Background:

At the March 14, 2012, Budget and Finance Committee meeting, the Committee approved the selection of Lance, Soll & Lunghard, LLP (LSL) as the auditing firm to complete a comprehensive review of OCFA's financial internal controls over the next three years. At the February 5, 2014, Budget and Finance Committee meeting, the Committee approved the scope of work for the second year of the comprehensive internal control review. The scope included the following areas:

1. Capital Assets and Inventory Control
2. Request for Proposals (RFP) Process
3. Advanced Life Support (ALS) Controlled Medications Accountability

Review of Internal Controls on Purchasing/Procurement:

LSL has completed their test work and compiled a report of the observations noted during their review. The results of the audit confirmed that the Authority has strong controls and transparency in the RFP process. Included in the report are recommendations by the auditors to further enhance the process based on their observations. LSL submitted the report to OCFA management for inclusion of the appropriate responses to the recommendations. A copy of the report, along with OCFA's management responses, is included as an attachment to this staff report. All suggestions for RFP process improvements stated in the Management's Responses of the Independent Auditors' Report of Internal Controls will be implemented by staff.

Historically, internal control review reports are presented to the Budget and Finance Committee (that also serves as the OCFA audit committee) for discussion and approval. Due to the recent concerns raised by members of the public and the media regarding public sector procurement practices, staff felt it was important to also present this report to the Executive Committee which is responsible for approving all purchases and contracts (except public works) that exceed \$100,000 aggregate as modified in the OCFA Roles/Responsibilities/Authorities matrix effective July 1, 2014.

Impact to Cities/County:

Not Applicable

Fiscal Impact:

None

Independent Auditor (Lance, Soll & Lunghard, LLP) Contact for Further Information:

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(714) 672-0022

Staff Contact for Further Information:

Jim Ruane, Finance Manager/Auditor

Business Services Department

jimruane@ocfa.org

(714) 573-6304

Attachment:

Agreed-Upon Procedures Review on the RFP process with OCFA Management Responses

ORANGE COUNTY FIRE AUTHORITY

**Independent Accountants' Report on Applying
Agreed-Upon Procedures on the Request for Proposal Process**

August 25, 2014

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Jim Ruane, Finance Manager / Auditor
Orange County Fire Authority
Irvine, California

We have performed the procedures enumerated in the sections below, which were agreed to by the Orange County Fire Authority, solely to assist you with respects to the Request for Proposal process of the Orange County Fire Authority's Purchasing Department. The agreed-upon period, in which was examined, was from January 1, 2011 to August 22, 2014. Orange County Fire Authority's management is responsible for the policies and procedures of the Request for Proposal process in the Purchasing Department. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of Orange County Fire Authority. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

OVERALL RESULTS

We would like to commend Orange County Fire Authority in taking the necessary steps in ensuring that the dynamics of its Request for Proposal process is robust and comprehensive and that address key weaknesses. We were able to observe that the Authority has strong controls and processes, in which information was readily available for us. As part of our review, we obtained an understanding of the Authority's policies and procedures, interviewed personnel, sampled RFP's, sampled Sole Source requisitions, and sampled Purchase Orders. The sample included four Requests for Proposals, one Bid, two Sole Source Acquisitions, and twenty-five Purchase Orders. Overall, the results of our test work confirmed that the Authority has strong controls and processes. The Authority always solicited its RFP's and bids on Planet Bids, which is a transparent and accessible portal for requisition of goods and services. The Authority always allowed sufficient time for vendors to bid on Planet Bids to provide open and fair procurement practices. However, the results of our procedures and sample did identify certain areas of improvement that merit bringing attention to the Authority. Below are observations we had based on our test work and our recommendations as a result.

REQUEST FOR PROPOSAL

1. We obtained copies of policies and procedures and conducted interviews with personnel surrounding the RFP and Bidding process, in order to gain an understanding of OCFA processes and controls.

Policy and Procedures

Observation 1(a): In our interviews and inquiry of OCFA employees to obtain an understanding of the procedures, it is noted that the Authority does not have formal established and adopted Request for Proposal policies and procedures.



Jim Ruane, Finance Manager / Auditor
 Orange County Fire Authority
 Irvine, California
 Page 2

Evaluation: The Authority has unofficial policies and procedures relating to the Request for Proposal process. Having a formal and adopted set of Policies and Procedures provides a framework to support any public scrutiny regarding the process. It also provides continuity within the Authority amongst the departments. The formal policies and procedures should include a section devoted to the bid Appeal Process to define the process. This would further deter any confusion amongst the vendors who desire to pursue the Appeal Process.

Best Practice: We recommend that the Authority adopt a formal set of Policies and Procedures in regards to the Request for Proposal process.

Authority's Response: We agree with the auditor's recommendation to adopt a formal set policies and procedures specific to the Request for Proposal (RFP) process. As recommended in the Procurement audit performed September 17, 2013, staff is working on the development of a more comprehensive Purchasing Ordinance based on the Model Procurement Code. Once the Ordinance is finalized and adopted, staff will create Policies and Procedures specific to the RFP process, which complement and comply with the revised Purchasing Ordinance.

Observation 1(b): In our interviews and inquiry of OCFA employees to obtain an understanding of the procedures, it is noted the Departments outside of the Purchasing Section lack a certain understanding of the Request for Proposal process due to changing requirements and processes.

Evaluation: The Authority is changing its requirements and dollar threshold amounts in order to improve its Request for Proposal and Purchasing processes to best practices. The changes should be communicated to the individual departments to establish continuity between the departments and the Purchasing department. This would promote a best practice environment in order to achieve optimal requisition performance and putting taxpayer dollars to its best use.

Best Practice: We recommend the Authority to create and implement a training program to promote continuity between the departments. This will enable the Authority to establish a line of communication between the departments and provide best practice guideline set forth by the Authority.

Authority's Response: Management agrees with the auditor's recommendation. Staff has created, scheduled, and begun training with the departments to address the recent changes in the Roles and Responsibilities effective July 1, 2014. Additional Business Services training relating to purchasing and finance procedures is being finalized and will be provided to the departments in an effort to educate them on all Business Services processes.



Jim Ruane, Finance Manager / Auditor
 Orange County Fire Authority
 Irvine, California
 Page 3

2. We selected a sample of Sole Source acquisitions to determine validity of the acquisitions by reviewing the request memo's for proper authorization from the Fire Chief and Purchasing, as well as the reasoning as to why the Sole Source purchase was needed.

Observation 2(a): In our interviews and inquiry of OCFA employees to obtain an understanding of the procedures and sampling of Sole Source acquisitions, it was determined, that the Sole Source acquisitions memo is insufficient in detail and did not provide reasoning for the services as a Sole Source acquisition.

Evaluation: The Authority has Sole Source acquisitions where they feel materials, equipment or services are available from only one known supplier as the result of unique performance capabilities, manufacturing process, compatibility requirement, or mark conditions. Due to the nature of the Authority, it will inherently have unique items to purchase but it is in the best interest of the Authority to provide a fully transparent acquisition process. The Authority has the departments prepare a Memo explaining the reasoning for the Sole Source acquisition and has the Fire Chief approve them up to \$50,000. Any acquisition over \$50,000 is required to be approved by the Executive Committee. The departments determine if it's a Sole Source Acquisition. [Note: The Sole Source threshold for approval by the Fire Chief was reduced from \$50,000 to \$25,000 to be effective July 1, 2014, after the period of time under review.]

Best Practice: We recommend the Authority create a uniform Sole Source Acquisition form. The form would provide greater detail of the Sole Source acquisition describing the process and due diligence put forth by the requestors and approvers of the Sole Source.

Authority's Response: We agree with the auditor's recommendation. Staff is in the process of finalizing a sole source request form that will reflect the changes effective July 1, 2014, requiring all sole source requests over \$25,000 be approved by the Executive Committee.

3. We gained an understanding of the Authority's processes to ensure that RFP and Invitations to bid are transparent and easily accessible to the public.

Observation 3(a): Upon inspection of the Authority website, it was determined the access to Planet Bids is not clearly indicated on the Purchasing home page.

Evaluation: The Authority has a Purchasing webpage which provides great information for prospective vendors who desire to do business with the Authority but the webpage lacks apparent indication on where the potential opportunities are located.

Best Practice: We recommend the Authority engineer their Purchasing website to allow potential vendors the most transparent Request for Proposal process possible. This would promote a clear and open process and could possibly solicit new vendors not previously aware of the opportunities.



Jim Ruane, Finance Manager / Auditor
 Orange County Fire Authority
 Irvine, California
 Page 4

Authority's Response: We agree with the auditor's recommendation. Staff has submitted a request to the Information Technology department for an update to the OCFA website that will provide additional options for vendors to reach bidding opportunities. The changes have been implemented, effective July 31, 2014.

Observation 3(b): In our interviews and inquiry of OCFA employees to obtain an understanding of the procedures and sampling of Request for Proposal, it was determined; the Authority has the capability to perform the evaluation process electronically on Planet Bids.

Evaluation: The Request for Proposal evaluation process can require copious amounts of paper by printing the bids for each evaluator. In efforts to promote green procurement processes, the Authority should make it mandatory for bids that are submitted electronically to be evaluated in the same fashion.

Best Practice: As a best practice, it is noted that Green Procurement is a leading topic and practice in today's work environment. We recommend the Authority to implement best practices in regards to Green Procurement and to implement an Environmentally Preferable Purchasing Policy.

Authority's Response: We agree with the auditor's assessment. Staff has utilized SharePoint technology in the evaluation process of many RFPs since March 2013. This year staff will be implementing the evaluation module through the online bid software once testing and training is completed.

4. We selected a sample of RFP's to gain an understanding of the Authority's RFP evaluation process and identify any process improvement.

Observation 4(a): In our interviews and inquiry of OCFA employees to obtain an understanding of the procedures and sampling of Request for Proposal, it was determined; the Authority is responsible for obtaining, filing and updating insurance policies from the chosen vendors.

Evaluation: As part of the Request for Proposal process, the Authority is required to obtain insurance policies from the chosen vendors. Due to the large amount of vendors contracted with the Authority, this is an arduous task in filing and maintaining up to date insurance policies.

Best Practice: We recommend the Authority consider contracting with a third party vendor to act a custodian for the insurance policies for contracted vendors.

Authority's Response: We agree with the auditor's assessment and will work with OCFA's Risk Management Department to research potential vendors.



Jim Ruane, Finance Manager / Auditor
 Orange County Fire Authority
 Irvine, California
 Page 5

5. We obtained the Statement of Economic Interest (Form 700) from July 1, 2011 through June 30, 2014 for all OCFA Board Members and key OCFA Management personnel. Based on the information provided on the form, we cross-referenced any related party disclosures that were included on the form to the OCFA's vendor file (listing of OCFA vendors) and purchase order lists for the period of July 1, 2011 through August 22, 2014. For related party disclosures that were identified through the cross-referencing process, we reviewed the vendor files to ensure that the contracts were properly bid and awarded through the OCFA RFP process, a conflict of interest form was completed and signed by each proposal review panel member; and the form was reviewed by the Purchasing staff responsible for the proposal.

Observation 5: Based on the procedure performed above, we did not identify any related party transactions that existed between OCFA, OCFA Key Management personnel and OCFA Board members.

Evaluation: All related party transactions should be properly documented, monitored and disclosed to the public in documents such as the Annual Financial Reports.

Best Practice: We recommend that OCFA monitor related party transactions and 700 forms of key personnel on a periodic basis.

Authority's Response: We agree with the auditor's recommendation. We will monitor related party transactions and 700 forms of key personnel on a periodic basis.

We were not engaged to, and did not; conduct an audit, the objective of which would be the expression of an opinion on the internal controls of Orange County Fire Authority related to the Request for Proposal process. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Orange County Fire Authority and is not intended to be, and should not be, used by anyone other than the specified party.

Lance, Soll & Loughard, LLP

Brea, California
 August 25, 2014

DISCUSSION CALENDAR – AGENDA ITEM NO. 5
BUDGET AND FINANCE COMMITTEE MEETING
October 8, 2014

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **2014 Long Term Liability Study**

Summary:

This agenda item is submitted to provide information on the Orange County Fire Authority's (OCFA) total long term liabilities and strategies for mitigating and/or funding the liabilities.

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of October 23, 2014, with the Budget and Finance Committee's recommendations that the Board of Directors:

1. Receive and file the report.
2. Direct staff to continue the Expedited Pension Unfunded Actuarial Accrued Liability (UAAL) Payment Plan to achieve long-term savings in pension costs.
3. Direct staff to evaluate potential cost saving options for OCFA healthcare plans offered to retirees in an effort to lower Retiree Medical costs.
4. Direct staff to continue seeking cost saving options related to Workers' Compensation, including the recently implemented Alternative Dispute Resolution Program.

Background:

In order to determine an agency's financial stability, one must look at all of its long term obligations or liabilities, not just pensions. The attached Liability Study (Attachment) examines all of OCFA's long-term liabilities including:

1. Defined Benefit Pension Plan
2. Defined Benefit Retiree Medical Plan
3. Lease Purchase Agreements (helicopters)
4. Workers Compensation Claims
5. Accrued Compensated Absences (accumulated sick and vacation payouts)

The OCFA has already taken steps to reduce some of its long-term liabilities and accelerate funding of other liabilities. Staff is committed to continue seeking additional ways to mitigate liability impacts, fund the accrued liabilities, and ensure the long term viability of the organization. In pursuing these actions, staff also seeks to assist OCFA's member agencies through financial efficiencies that will positively impact our cost of service.

Impact to Cities/County:

Strategic planning to reduce liabilities where possible, and provide early funding for those liabilities which cannot be reduced, will assist OCFA in sustaining frontline emergency services for our member agencies and the citizens we serve.

Fiscal Impact:

The Expedited Pension UAAL Payment Plan is already included in the Adopted Budget for FY 2014/15 and the five-year financial forecast. Continuous pursuit of the recommended actions stated above will lower OCFA's salary and benefit costs over the long term, ultimately reducing OCFA's expenditure budget and positively impacting our annual charges to cash contract cities.

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Attachment:

2014 Long Term Liability Study

ORANGE COUNTY FIRE AUTHORITY



2014

LIABILITY STUDY

THE OCFA'S LONG TERM LIABILITES

OCTOBER 2014

THE OCFA'S LONG TERM LIABILITY STUDY

I. OBJECTIVE

One of the key components of fiscal responsibility is prudent management of long-term liabilities. The objective of this annual study is to provide an accurate assessment of the OCFA's *total* long-term obligations and continuously identify strategies to reduce and/or fund the liabilities.

II. BACKGROUND

OCFA's long term liabilities include:

1. Defined Benefit Pension Plan
2. Defined Benefit Retiree Medical Plan
3. Lease Purchase Agreements (helicopters)
4. Workers Compensation Claims
5. Accrued Compensated Absences (accumulated sick and vacation payouts)

OCFA's biggest long-term challenges are pensions, retiree medical for retired employees, and workers' compensation claims. These costs can increase over time due to population aging and increases in healthcare costs. Both the Defined Benefit Pension Plan and the Defined Benefit Retiree Medical Plan currently have unfunded liability balances.

DEFINED BENEFIT PENSION PLAN

In a *defined benefit plan*, employees are promised *specific benefits* upon retirement. For example, a pension plan may promise employees that they will receive an annual retirement income determined in accordance with an agreed-upon formula (e.g., predetermined percentage of annual earnings x number of years of service).

The OCFA participates in the Orange County Employees' Retirement System (OCERS), a cost sharing multiple-employer, defined benefit pension plan. All OCFA regular, full-time and part-time employees become members of OCERS upon employment, and the OCFA makes periodic contributions to OCERS as part of the funding process. The contributions submitted to OCERS are divided into employer and employee contributions. The combination of these contributions and investment income from OCERS' investments are structured to fund the employees' retirement benefits by the time the employees retire.

The OCFA contributes to two employee categories identified as Safety members and General members.

Safety Members' Retirement

In October 2002, Safety members received the enhanced benefit formula of 3% @ 50. Initially, Safety members contributed 2% in 2002 and 4% starting in 2003. After October 2004, the contribution ended. Based on 2010 negotiations, Firefighter Safety employees hired prior to January 1, 2011, started a phased-in contribution in October 2010 of 2.5%, going up to 5% in 2011, 7.0% in 2012 and 9.0% in 2013. Chief Officer Safety members have a slightly different phase-in: 2.75% in 2011, 5.5% in 2012, 8.25% in 2013 and 9.0% in 2014. Employees hired after January 1, 2011, contribute 9.0% upon commencement of

employment. Employees hired after July 1, 2012, contribute 9% upon commencement of employment and will be included in a lower tier plan with a benefit formula of 3% @ 55 if they have reciprocity. Without reciprocity, new employees hired after January 1, 2013 will be included in the new tier plan required under the Public Employee Pension Reform Act (PEPRA), with a 2.7% @ 55 benefit formula contributing 9% of compensation earnable through June 30, 2014; thereafter, new employees' contributions changed to 50% of normal costs.

Effective January 1, 2018, employees hired prior to implementation of PEPRA will be required to begin contributing increased amounts for their employee share, until they reach the 50% of normal cost threshold. Under PEPRA, the annual increases for current Safety members cannot exceed 33% of their prior contribution rate (i.e., a firefighter contributing 9% prior to 2018 could not be required to contribute more than 11.97% in 2018 [$9\% * 1.33\% = 11.97\%$]).

General Members' Retirement

In July 2004, an enhanced retirement benefit of 2.7% @ 55 went into effect for General members, with employees contributing 6.0% since inception. Effective January 2011, members of the Orange County Employees' Association (OCEA) agreed to phased-in increases to their contribution rate to 7.25% in January 2011, 8.50% in July 2011 and 9.0% in February 2012. Employees hired after July 1, 2011, contribute 9.0% upon commencement of employment, and will be included in a lower tier plan with a benefit formula of 2% @ 55 if they have reciprocity. Without reciprocity, new employees hired after January 1, 2013 will be included in the new tier plan required under PEPRA, with a 2.5% @ 67 benefit formula contributing 9% of compensation earnable through December 18, 2014; thereafter, new employees' contributions will change to 50% of normal costs.

Effective January 1, 2018, employees hired prior to implementation of PEPRA will be required to begin contributing increased amounts for their employee share, until they reach the 50% of normal cost threshold. Under PEPRA, the annual increases for current General members cannot exceed 14% of their prior contribution rate (i.e., an employee contributing 9% prior to 2018 could not be required to contribute more than 10.26% in 2018 [$9\% * 1.14\% = 10.26\%$]).

OCFA Retirement Costs, Liabilities and Funding

OCFA's retirement costs represent approximately \$69.5 million or 21% of the Authority's FY 2014/15 General Fund budget. Each year, the Authority receives its retirement rates from OCERS. The total retirement rate has two components: the Normal Cost Component plus the current year's cost for the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost Component is the cost to pay for the current year's value of retirement benefits as earned. The UAAL Component is the accrued liability for past services which were not funded by prior contributions and investments.

The UAAL is determined by the actuary and is the difference between the present value of accrued liabilities and the value of assets as of a specific date. This amount changes over time as a result of changes in accrued benefits, pay levels, rates of return on investments, changes in actuarial assumptions, and changes in the demographics of the employee base. As of December 31, 2013, OCERS is 65.99% funded with a UAAL of \$5.4 billion. OCFA's portion of the UAAL is approximately 8.0%. In 2013, the OCERS' Board approved combining all previous UAAL layers into a single layer and a new layer for 2013 was formed. Both layers and the current equivalent single amortization period for OCFA's UAAL as calculated in the December 31, 2013 valuation are 20 years for both General and Safety.

Based on the December 31, 2013 valuation by OCERS, the Authority's total UAAL was \$449.8 million with \$379.7 million or 84.4% attributed to Safety members and \$70.1 million or 15.6% attributed to General members. The Safety member plans are currently 69.95% funded, and the General member plans

are 59.89% funded. The OCFA reduces its UAAL over time as part of the annual required pension contribution to OCERS as shown below:

General (2.7% @ 55, 2.0% @ 55, and 2.5% @ 67 CalPEPRA combined)

<u>Employer Rate</u>	<u>2013 Valuation</u>	<u>2012 Valuation</u>
Normal Cost	13.73%	13.51%
<u>UAAL</u>	<u>23.34%</u>	<u>24.76%</u>
Total	37.07%*	38.27%
Rate after 2-year phase-in		36.35%

Safety (3.0% at 50, 3% @ 55 combined and 2.7% @ 57 CalPEPRA combined)

<u>Employer Rate</u>	<u>2013 Valuation</u>	<u>2012 Valuation</u>
Normal Cost	25.70%	25.98%
<u>UAAL</u>	<u>24.14%</u>	<u>26.84%</u>
Total	49.84%*	52.82%
Rate after 2-year phase-in		49.66%

*Note: Totals do not include the *Employee Rates*, which vary from employee to employee based on age of entry. *Employee Rates* range from 7.59% - 16.32% for General members and 9.70% - 21.71% for Safety members.

For fiscal perspective, each 1% increment in retirement contributions for General members equates to an annual budgetary cost of \$214,903. Each 1% increment for Safety members equates to an annual cost of \$1,109,543.

OCFA'S PENSION UAAL

UAAL - UNFUNDED ACTUARIAL ACCRUED LIABILITY

The Pension Liability decreased as a result of OCERS exceeding the assumed rate of return and salary savings.



Two events have the greatest impact on plan funding: (1) plan changes, namely benefit formula changes and (2) differing actual experience requiring a modification in assumptions to reflect reality such as life expectancy. Other assumptions that impact the funding and UAAL include:

1. The assumed rate of return
2. The rate of increase in salaries
3. Member mortality
4. The age at which members choose to retire
5. How many members become disabled
6. How many members terminate their service earlier than anticipated

The assumed rate of return, also known as the discount rate, is a critical issue impacting OCFA's UAAL. The higher the discount rate, the lower the present value of pension assets needed to meet future pension obligations. A lower discount rate increases the current unfunded pension liabilities. In 2013, the OCERS Board voted to lower the interest rate assumption from 7.75% to 7.25% which increased OCFA's annual retirement costs by \$7.5 million. This increase was phased in over a two-year period starting in FY 2014/15.

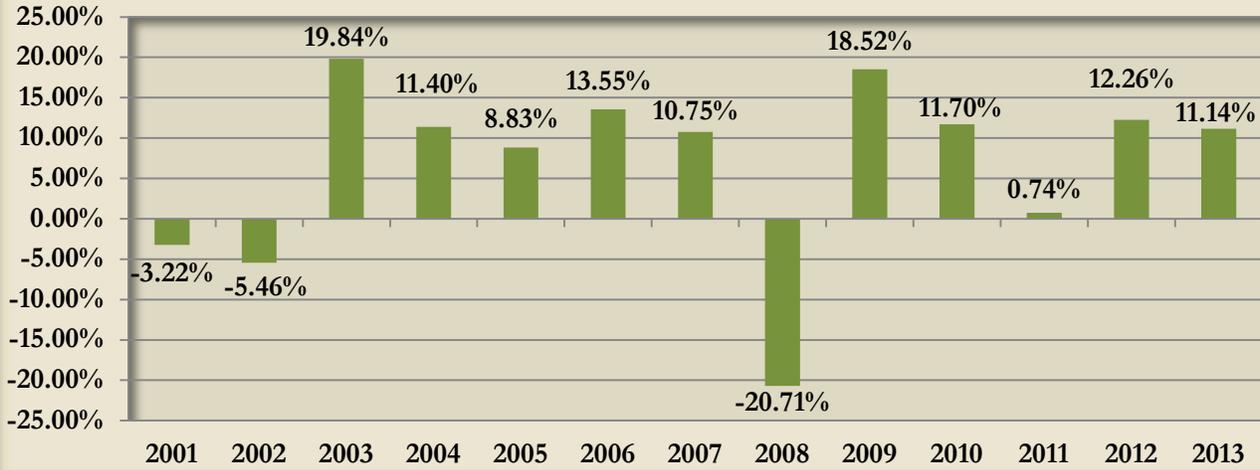
This year, the UAAL decreased as a result of OCERS exceeding its assumed rate of return and salary savings. The actual return for 2014 was 11.14% versus the assumed rate of 7.25%. This in turn lowered OCFA's UAAL by \$23.9 million from \$473.7 million in 2012 to \$449.8 million in 2013. Of the \$23.9 million decline in the UAAL, Safety's UAAL declined by \$20 million and General's UAAL declined by \$3.9M.

The following chart shows a history of OCERS' investment performance. The timeframe selected is slightly longer than the 10-year timeframe used in OCERS' Annual Report in order to capture a full range of various returns and also to capture the most current year available. Although there have been years in which OCERS exceeded its assumed rate of return, the years in which OCERS incurred significant losses, such as the 21% loss in 2008, have a dramatic negative impact. OCERS' average return for the 13 years reflected below is 6.87%, which is below OCERS' assumed rate of return of 7.25%. When OCERS' actual return falls below its assumed rate of return, OCFA incurs higher retirement rates/costs.

OCERS' History of Performance

(Based on Fair Value)

The average rate of return over the last 13 years is 6.87%



OCERS' investment return also impacts the funding level of the entire system, as demonstrated in the following chart. After the 21% loss in 2008, OCERS UAAL increased and its funding level began to drop. With positive returns exceeding the assumed rate of return in the past year, OCERS funding level has started to improve.

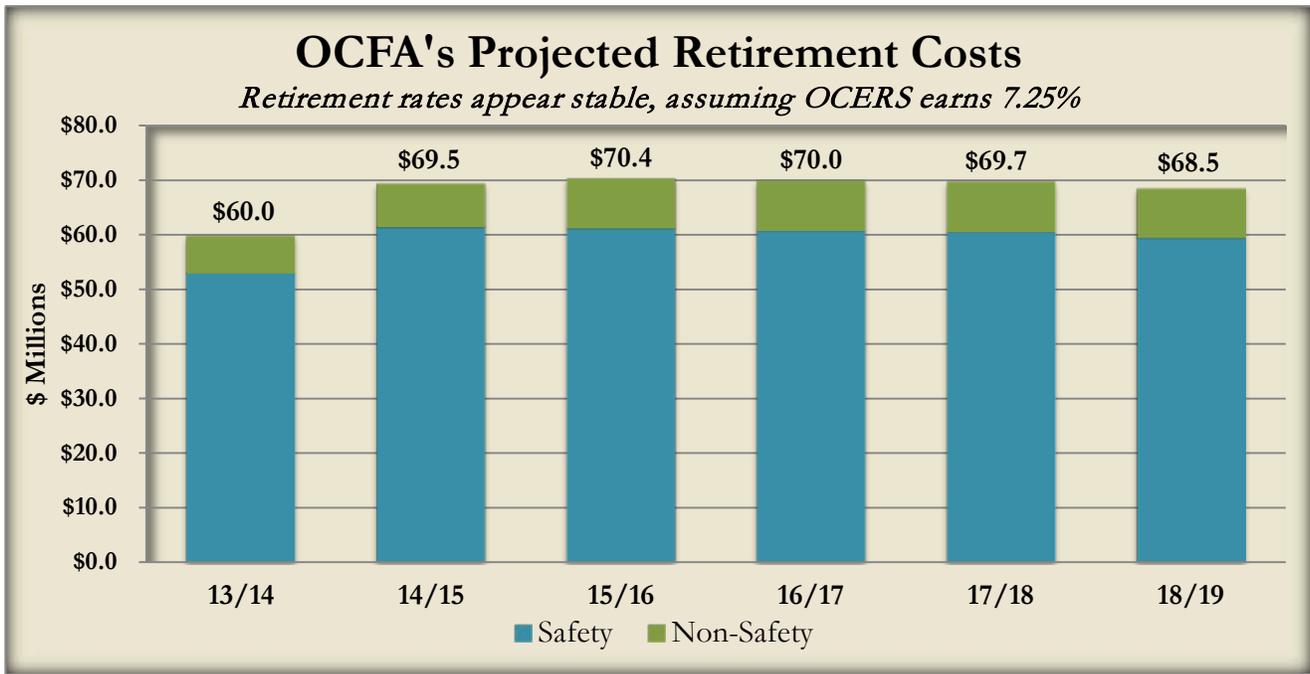
OCERS' Schedule of Funding Progress

(Dollars in Thousands)

OCERS' funding level has declined recently

Actuarial Valuation Date December 31	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total Unfunded Actuarial Accrued Liability (UAAL) (b-a=c)	Funded Ratio (a/b)
2004	\$5,245,821	\$7,403,972	\$2,158,151	70.85%
2005	5,786,617	8,089,627	2,303,010	71.53%
2006	6,466,085	8,765,045	2,298,960	73.77%
2007	7,288,900	9,838,686	2,549,786	74.08%
2008	7,748,380	10,860,715	3,112,335	71.34%
2009	8,154,687	11,858,578	3,703,891	68.77%
2010	8,672,592	12,425,873	3,753,281	69.79%
2011	9,064,355	13,522,978	4,458,623	67.03%
2012	9,469,208	15,144,888	5,675,680	62.52%
2013	10,417,125	15,785,042	5,367,917	65.99%

The chart below assumes OCERS will earn its assumed rate of return of 7.25% in future years



Note: Retirement costs are net of employee contributions, recently implemented new tiers, and include savings from OCERS prepayment of 50% each year. In FY 2014/15, OCERS gave a 7.25% discount on prepayments. Going forward, the OCERS Board voted to lower the discount only on prepayments to 5.8%. The assumed rate of return still stands at 7.25%.

The analysis of long-term obligations, including pensions, is an important part of credit rating agencies' review of local governments. A number of these agencies have been downgraded due in part to pension funding issues.

OCFA has taken steps to increase employee contributions, reduce benefits by establishing new tiers, and accelerate the paydown of the UAAL with the long-term goal to ensure adequate pension funding. However, other factors (such as OCERS' investment performance) are beyond the OCFA's control, yet these factors have a significant impact on determining retirement rates, and ensuring adequate funding.

Expedited Pension UAAL Payment Plan

In September 2013, the OCFA Board of Directors approved an Expedited Pension UAAL Payment Plan. The expedited plan will have the following benefits:

- Results in OCFA's pension liability being paid off sooner
- Earlier and larger contributions into the pension system result in greater investment income earned
- Greater investment income earned results in less money paid by the employer over the long term

OCFA's expedited payment plan involved three components including (1) use of year-end fund balance available, (2) contributing additional funds each year using savings achieved under PEPPRA or other annual actuarial gains, and (3) contributing an additional \$1 million per year in budgeted funds, with the annual budget allocation building to \$5 million per year by year 5.

The initial outcomes from the expedited payment plan implementation in FY 2013/14 and 2014/15 (detailed below), along with OCFA's anticipated future year expedited payments were submitted to OCERS' actuary for determination of how long it would take OCFA to achieve full payment of the

UAAL. *The actuary reported back that the expedited payment plan would achieve full payment of OCFA's UAAL in 13 years, assuming all other actuarial inputs are held constant.*

FY 2013/14 Additional Payments to Lower UAAL

In FY 2013/14, OCFA used the same Safety rate as FY 2012/13 which was higher. The additional contribution of \$2.5 million was used to pay down the UAAL for Safety members. In addition, as part of the approval of the Mid-Year Financial Report on January 8, 2014, the Board allocated \$3 million of available unencumbered funds identified in the FY 2012/13 annual financial audit to OCFA's UAAL. The payment was allocated to Safety and General based on their portion of the UAAL.

During FY 2013/14, OCFA made a total of \$5.5 million in additional payments to OCERS to pay down the UAAL.

FY 2014/15 Additional Payments to Lower UAAL

On July 1, 2014, OCFA made an additional \$18.3 million payment to OCERS to pay down the UAAL. This payment was required under the OCPFA and OCEA Memorandum of Understandings. The MOU side letters stated: "as of June 30, 2014, any remaining funds in the General Fund Cash Flow Reserve shall be used to pay down OCFA's unfunded retirement liability with the Orange County Employees Retirement System". The payment was allocated to Safety and General based on their portion of the UAAL.

NEW ACCOUNTING RULES

Currently, many governments disclose pension information in the footnotes of their financial statements and generally only report the contributions they are required to make in a given year, as well as what they actually paid. On June 25, 2012 the Government Accounting Standards Board (GASB) approved new standards that will affect how local governments report their obligation for pension benefits. Previously, no liability was recognized for a local government's obligation for pensions earned by employees as long as the local government paid the actuarially determined annual required contribution (ARC) for funding. Under GASB Statement 68, *Accounting and Financial Reporting for Pensions*, beginning with fiscal years ending June 30, 2014, most governments will begin reporting a liability in their financial statements for the unfunded portion of their retirement plans. Recognition in the financial statements alongside other liabilities such as outstanding bonds, claims and judgments, and long-term leases, will put the pension liability on an equal footing with other long-term obligations. OCFA is required to start reporting its pension liability in its financial statements as of June 30, 2015.

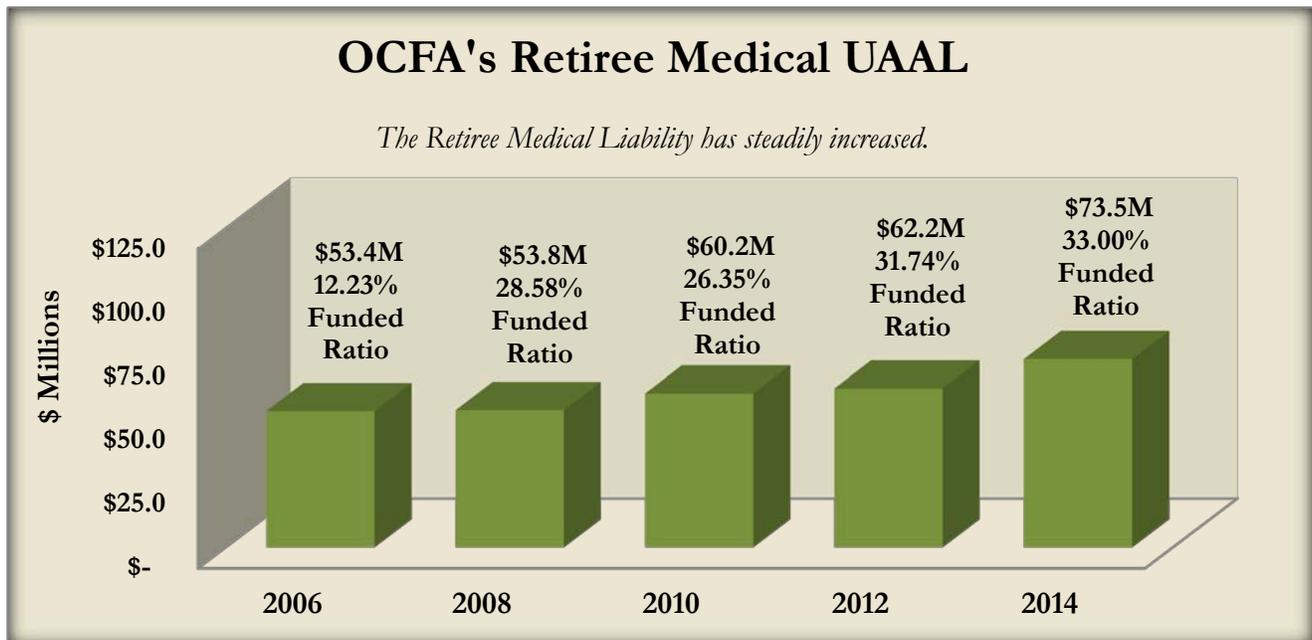
GASB also changed the formula states and local governments use to convert projected pension benefit payments into present value, based on an assumed "discount rate". The rate used will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments, as long as the plan's net position is projected to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve the return; or (b) a yield or index rate on tax-exempt 20-year, AA-or-higher rated municipal bonds to the extent that the conditions for use of the long term expected rate of return are not met. If the projected benefit payments are discounted using the lower rate, then the present value will be higher and the liability will be larger.

DEFINED *BENEFIT* RETIREE MEDICAL PLAN

In addition to the OCFA's retirement plan administered by OCERS, the OCFA provides a post-employment medical retirement plan (Retiree Medical Plan) for certain employees. Employees hired prior to January 1, 2007 are in a *defined benefit plan* that provides a monthly grant toward the cost of retirees' health insurance coverage based on years of service. The Plan's assets are held in an irrevocable trust for the exclusive benefit of Plan participants and are invested by OCERS. As such, if OCERS does not earn its assumed rate of return of 7.25%, the UAAL increases. Current active employees hired prior to January 1, 2007, are required to contribute 4% of their gross pay toward the Retiree Medical Plan.

Based on an actuarial study prepared by Nyhart Epler as of July 1, 2014, the OCFA's Unfunded Actuarial Accrued Liability (UAAL) for the Retiree Medical defined benefit plan is \$73.5 million. The UAAL is impacted by future retirees, spouses of retirees, a maximum 5% annual increase in the medical grant, and the investment return of the trust.

Under the Government Accounting Standards Board (GASB) Statement No. 45, OCFA is required to have an actuarial valuation performed on its Retiree Medical Plan every two years.



Note: Does not include implicit subsidy and uses OCERS assumed rate of return of 7.75% up to 2012 and 7.25% thereafter.

The benefit provided under the OCFA's Retiree Medical Plan is a negotiated benefit included in the various Memorandums of Understanding and the Personnel & Salary Resolution for employees hired prior to January 1, 2007.

The OCFA has previously approached funding issues and plan sustainability issues relating to this Plan collaboratively with its labor groups in order to identify options for improving the funding status. Similar to previous approaches, following receipt of the 2012 Actuarial Study for this Plan, management met with representatives of all three labor groups to review the findings. In 2013, we gathered ideas from labor for options that may be considered in the future to improve the funding status of the Plan and had the actuary

perform a special actuarial study to evaluate the various options and associated impacts on plan funding. The results of the special study were shared with each of the labor groups.

DEFINED CONTRIBUTION RETIREE MEDICAL PLAN

For employees hired on or after January 1, 2007, the OCFA created a *defined contribution plan* that is administered by the International City Management Association Retirement Corporation (ICMA-RC). The Plan provides for the reimbursement of medical, dental and other healthcare expenses of retirees. Employees are required to contribute 4% of their gross pay. Account assets are invested as directed by the participant and all contributions, investment income, realized gains and losses are credited to the individual's account. Under this plan structure, there is no UAAL.

LEASE PURCHASE AGREEMENTS

A Lease Purchase Agreement is a form of long-term debt used by government agencies to acquire buildings, vehicles, equipment and other capital assets. Within this type of lease, a lessee can apply lease payments annually toward the purchase of the property. In December 2008, the OCFA entered into a ten-year Lease Purchase Agreement to purchase two helicopters and related equipment for a purchase price of \$21.5 million. In 2011, OCFA refinanced the helicopters and lowered its interest rate from 3.76% to 2.58% saving \$444,000 over the remaining six years of the lease. As of June 30, 2014, \$10.7 million remains due, including interest and principal. The final maturity is in 2018.

During the FY 2014/15 budget development process, staff analyzed the feasibility of paying off the outstanding helicopter lease. Staff concluded that the early payoff of the obligation would have detrimental impacts on Fund 133: Vehicle Replacement Fund. The Fund would go negative within two years of paying off the lease which means there would be no funding available to purchase needed fire apparatus; therefore, staff is no longer pursuing early payoff of the lease agreement.

WORKERS' COMPENSATION CLAIMS

In March 2002, OCFA implemented a workers' compensation self-insurance program. A separate fund called Fund 190: Self Insurance was established in May 2003 to track funding and expenditures for workers' compensation claims liability. The funding sources include revenue from the General Fund and interest earnings. The required funding levels are determined by an independent actuarial study. As of June 30, 2014, OCFA's total workers' compensation liability is \$56.7 million. Although the workers' compensation program represents a large liability for OCFA, it is important to note that it is a **fully-funded** liability. OCFA has \$56.7 million set-aside in reserves to pay this liability as the various medical claims and bills become due.

This liability reflects the present value of estimated outstanding losses at the 50% confidence level. A confidence level is the statistical certainty that an actuary believes funding will be sufficient. For example, a 50% confidence level means that the actuary believes funding will be sufficient in five out of ten years. The Workers' Compensation Funding Policy that was adopted by the Board on May 27, 2010, sets the funding level at 50% for outstanding losses and 60% for projected losses.

OCFA's Workers' Compensation Claims

The WC liability is growing and OCFA has fully funded this liability with additional reserves



There are several contributing factors to the liability increase including workers' compensation reform that increased the statute of limitation for cancer from five to ten years; injury presumption for safety personnel; an aging workforce which contributes to a longer recovery time and higher permanent disability benefits; increased medical costs; and an increase to the workforce in 2012 with the addition of the City of Santa Ana. The City of Santa Ana reimburses the OCFA for injuries that initially occurred on or before April 20, 2012.

In addition, the outstanding and growing liability reflected in the above chart reflects the fact that although the entire future cost of claims are recorded in the year of injury, the actual payment of that claim does not occur immediately. The cash flow payments for many workers' compensation cases occur slowly over time, with an average of up to 7-10 years. Therefore, it is a natural occurrence that the unpaid liability for a new self-insured system will grow for about 5-7 years as the unpaid liabilities stack on top of each other for those initial years. Upon maturity, the amount of unpaid liability should level out, and continued increases at that point in time are more likely purely driven by other forces, such as increased medical costs, increased claim activity, legislative changes and case law.

ACCRUED COMPENSATED ABSENCES

Compensated absences are commonly described as paid time off made available to employees in connection with sick and vacation time. If employees do not use all of such compensated absences, a liability is accrued for the unused portion. The OCFA's policy allows employees to accumulate earned but unused sick and vacation pay benefits.

The majority of sick and vacation payouts occur at the time an employee retires. The OCFA has budgeted \$3.5 million for sick and vacation payouts in FY 2014/15 based on historical trends and expected retirements. OCFA's total liability for compensated absences as of June 30, 2014 is \$16.2 million.

OCFA's Compensated Absences

The Sick/Vacation Payout Liability remained relatively flat from last year



**FY 11/12 corrected to include Santa Ana General Leave Balances. The City of Santa Ana reimburses the OCFA for uses of transferred Leave Balances.*

In 2013, the OCFA City Managers' Budget and Finance Committee recommended that staff evaluate options for mitigating the budget and liability impacts of payouts for accumulated sick and vacation balances. Staff has been gathering information from other jurisdictions that have taken action, or are pursuing creative strategies for reducing these liabilities.

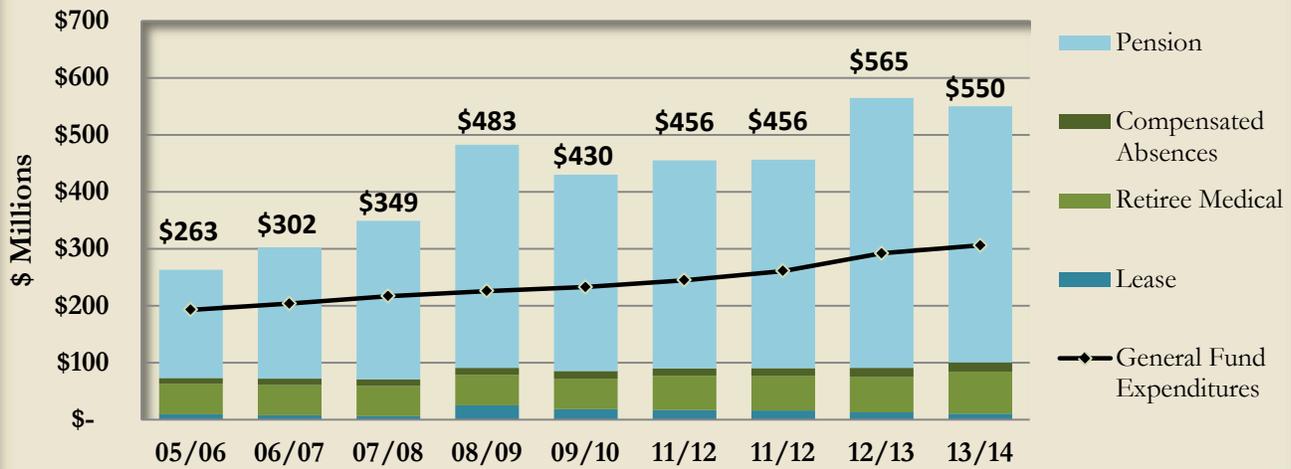
III. SUMMARY

OCFA's total long term, unfunded liabilities as of June 30, 2014 are as follows:

	<i>\$ Amount in Millions</i>	<i>% of Total</i>
Defined Benefit Pension Plan	\$449.8	82%
Defined Benefit Retiree Medical Plan	73.5	13
Helicopter Lease Purchase Agreement	10.7	2
Accrued Compensated Absences	16.2	3
Total	\$550.2	100%

As shown in the chart below, over the last nine years, OCFA's total long term, unfunded obligations have increased by \$287 million or 109%.

OCFA's Total Unfunded Liabilities - \$550M



Note: Workers Compensation was removed since it is fully funded by a reserve fund.

ACTIONS TAKEN

OCFA has already taken several steps to manage its long-term obligations:

1. On June 26, 2014, the Board approved an Alternative Dispute Resolution process for disputed workers' compensation cases, also known as a Carve-Out program. The State has approved the program and it was implemented on October 1, 2014.
2. On September 26, 2013, the Board approved a strategy to expedite the pay down of OCFA's pension liability. Under this Plan, the actuary, the Segal Company, estimates this liability will be paid in 13 years.
3. Completed a special actuarial study relating to the OCFA's Retiree Medical Defined Benefit Plan to evaluate options for potential plan amendments which could improve plan funding, subject to future negotiation with OCFA's labor groups. The results of the study were shared with the labor groups.
4. Evaluated the financial feasibility of paying off the outstanding lease financing obligations associated with the OCFA's helicopters, as part of the 2014/15 budget development process.
5. Directed staff to evaluate options for mitigating the budget and liability impacts of payouts for accumulated sick and vacation balances, subject to future negotiation with OCFA's labor groups.
6. Implemented a trigger formula connecting future pay raises for all OCFA employees to OCFA's financial health.
7. Implemented lower retirement formulas for all labor groups.
8. Implemented increased employee retirement contributions, phasing in to 9% for all labor groups.
9. Refinanced the helicopter lease to lower the interest rate.
10. Established a cash flow reserve, enabling annual prepayment of retirement contributions to achieve a discount.
11. Provided a study to the Board of Directors regarding the feasibility of Pension Obligation Bonds.
12. Provided a study to the Board of Directors regarding the feasibility of changing automatic Cost of Living Allowance (COLA) increases for pensions and transmitted a copy of the report to the

County Board of Supervisors and the OCERS Board of Retirement, for their consideration of potential cost-containment actions relating to Pension COLAs under the authority granted by the '37 Act.

RECOMMENDATIONS

Recommended actions pending approval of this staff report include:

1. Receive and file the report.
2. Direct staff to continue the Expedited Pension UAAL Payment Plan to achieve long-term savings in pension costs.
3. Direct staff to evaluate potential cost saving options for OCFA healthcare plans offered to retirees in an effort to lower Retiree Medical costs.
4. Direct staff to continue seeking cost saving options related to Workers' Compensation, including the recently implemented Alternative Dispute Resolution Program.

CONCLUSION

In order to strategically fund long-term liabilities, OCFA must continue to strategically balance present-day needs with future commitments. The goal is for OCFA's budget over the long-term to be able to fund all of its long-term liabilities.

Some of the components of this management include:

1. Continue to find ways to reduce long-term costs
2. Fully fund pension annual pension accruals
3. Explore ways to save money on healthcare for retirees