ORANGE COUNTY FIRE AUTHORITY AGENDA

Budget and Finance Committee Meeting

Wednesday, September 11, 2013
12:00 Noon

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

Elizabeth Swift, Chair
Randal Bressette, Vice Chair
Sam Allevato Trish Kelley Jerry McCloskey Al Murray 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 Bressette

ROLL CALL

PUBLIC COMMENTS

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

MINUTES

1. **Minutes for the August 14, 2013, Budget and Finance Committee Meeting**
   Submitted by: Sherry Wentz, Clerk of the Authority

   Recommended Action:
   Approve as submitted.

CONSENT CALENDAR

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

   Recommended Action:
   Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of September 26, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

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

   Recommended Action:
   Receive and file the report.

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

   Recommended Action:
   Review the proposed agenda item and direct staff to place this item on the agenda for the Executive Committee meeting of September 26, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

5. Rebudget of FY 2012/13 Uncompleted Projects

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

Recommended Action:

Review the proposed agenda item and direct staff to place this item on the agenda for the Board of Directors meeting of September 26, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors authorize the following budget adjustments:

Fund	Increase Revenue	Increase Appropriations	Release Fund Balance
121	1,089,231	1,220,504	131,273
123		2,206,900	2,206,900
124		2,347,400	2,347,400
133		3,963,049	3,963,049
171		536,758	536,758

DISCUSSION CALENDAR

6. First Quarter Workers' Compensation Program Update – *June 2013 through August 2013*

Submitted by: Craig Kinoshita, Deputy Fire Chief

Recommended Action:

Receive and file the report.

7. 2013 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 September 26, 2013, with the Budget and Finance Committee's recommendations that the Board of Directors:

1. Direct staff to transmit 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 Cost of Living Adjustments (COLAs) under the authority granted by the '37 Act.
2. Direct staff to pursue 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.
3. Direct staff to evaluate 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.
4. Direct 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.
5. Receive and file the report.

8. Paying Down OCFA's Unfunded Pension Liability with Orange County Employees Retirement System

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 September 26, 2013, with the Budget and Finance Committee's recommendation that the Board authorize the following actions:

1. Direct staff to provide updates to the Board each year as part of the mid-year budget presentation, indicating the amount of Fund Balance Available (FBA) from the prior fiscal year, and directing those amounts to be paid to OCERS as annual lump-sum payments towards the OCFA's UAAL.
2. Direct staff to include additional payments towards the OCFA's UAAL in the annual budget, including the following factors:
    a. Savings that result from the new Public Employees' Pension Reform Act provisions and other reductions in OCFA's retirement contribution rates shall be used as a source for additional UAAL payments.
    b. Beginning in FY 2016/17, an additional $1 million should be added to the OCFA's annual budget each year for 5 years, for retirement contributions to OCERS as a base-building source for additional UAAL payments
    c. Provide updates to the Board each year as part of the annual budget presentation, indicating the amount planned in each yearly budget as additional payments towards the OCFA's UAAL, resulting from the factors above.

9. Proposed Capital Improvement Program Projects – FY 2013/14

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 September 26, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors:

1. Approve a CIP budget adjustment to Fund 123 (Facilities Replacement) for FY 2013/14 to increase appropriations by $5,500,000 for the purchase/modification of an Urban Search and Rescue central warehouse, utilizing developer contribution revenue from the existing Secured Fire Protection Agreement with Heritage Fields El Toro, LLC.
2. Authorize the Fire Chief or his designee to enter into tentative discussions with property owners for the purchase of a warehouse.
3. Direct the Fire Chief to return to the Board for final approval to enter escrow and purchase the identified property.
4. Approve a CIP budget adjustment to Fund 133 (Vehicle Replacement) for FY 2013/14 to increase appropriations by $208,000 for the purchase of a Compressed Air Foam System Patrol vehicle.

REPORTS

No items.

COMMITTEE MEMBER COMMENTS

ADJOURNMENT – The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, October 9, 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 5th day of September.

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

UPCOMING MEETINGS:

Claims Settlement Committee Meeting	Thursday, September 26, 2013, 5:30 p.m.
Executive Committee Meeting	Thursday, September 26, 2013, 6:00 p.m.
Board of Directors Meeting	Thursday, September 26, 2013, 6:30 p.m.
Budget and Finance Committee Meeting	Wednesday, October 9, 2013, 12:00 noon

MINUTES
ORANGE COUNTY FIRE AUTHORITY

Budget and Finance Committee Meeting
Wednesday, August 14, 2013
12:00 Noon

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

CALL TO ORDER

A regular meeting of the Orange County Fire Authority Budget and Finance Committee was called to order on August 14, 2013, at 12:00 noon by Chair Murray.

PLEDGE OF ALLEGIANCE

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

ROLL CALL

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

Absent: Trish Kelley, Mission Viejo
Steven Weinberg, Dana Point

Also present were:

Deputy Chief Craig Kinoshita
Assistant Chief Brian Stephens
Assistant Chief Lori Zeller
Assistant Clerk Lydia Slivkoff
General Counsel David Kendig
Assistant Chief Dave Thomas
Clerk of the Authority Sherry Wentz

PUBLIC COMMENTS (F: 12.02B3)

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

MINUTES

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

On motion of Chair Murray and second by Director Bressette, the Committee voted to approve the minutes of the July 10, 2013, Budget and Finance Committee Meeting. Director Swift abstained.

CONSENT CALENDAR

No items.

DISCUSSION CALENDAR

2. Monthly Investment Report (F: 11.10D2)

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

On motion of Director Allevato and second by Director Bressette, the Committee voted unanimously to direct staff to place the item on the agenda for the Executive Committee meeting of August 22, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

3. Annual Investment Report (F: 11.10D1)

Treasurer Tricia Jakubiak introduced Assistant Treasurer Jane Wong who provided a summary of the Annual Investment Report.

On motion of Director Bressette and second by Vice Chair Swift, the Committee voted unanimously to direct staff to place the item on the agenda for the Executive Committee meeting of August 22, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

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

Treasurer Tricia Jakubiak provided a report on the Orange County Employees' Retirement System (OCERS).

On motion of Vice Chair Swift and second by Director Bressette, the Committee voted unanimously to receive and file the report, and directed staff to provide an update on the potential rate increase impacts for cash contract cities should OCERS change the amortization schedule.

5. Internal Control Review on Procurement/Disbursement Practices related to Cal Cards, Travel-related activities, and Fuel Usage (F: 15.02A1)

Assistant Chief Lori Zeller provided an overview of the Internal Control Review on Procurement/Disbursement Practices related to Cal Cards, Travel-related activities, and Fuel Usage, and introduced Bryan Gruber, CPA of Lance, Soll & Lunghard, LLC. who provided an audit report on the internal control reviews and control recommendations for Fuel Usage, Cal Card issuance and practices, and OCFA's travel related policy.

A lengthy discussion ensued.

On motion of Chair Murray and second by Director Bressette, the Committee voted unanimously to:

1. Receive and file the attached Independent Auditors' Report of Internal Controls on Procurement/Disbursement Practices related to Cal Cards, Travel-related activities, and Fuel Usage.
2. Direct staff to implement the corrective actions as stated under OCFA management responses in the attached report.

6. Board Member Request for Salary and Benefit Survey (F: 17.09A)

Public comments were received from Stephen Wontrobski, Mission Viejo resident, in opposition to providing a salary and benefit survey.

Deputy Fire Chief Craig Kinoshita provided an overview on a Board member's request for a salary and benefit survey.

A lengthy discussion ensued.

On motion of Director Bressette and second by Director Allevato, the Committee voted unanimously to place the item on the agenda for the Board of Directors meeting of September 26, 2013, with the Budget and Finance Committee's non-endorsement of the salary and benefit survey, and direct staff to expand the staff report's fiscal impact to discuss potential costs and personnel impacts.

7. Equity Working Group Status Report (F: 17.09A)

Assistant Chief Lori Zeller provided a comprehensive report on meetings with the Equity Working Group, and representatives from the City of Irvine.

A lengthy discussion ensued.

On motion of Vice Chair Swift and second by Chair Murray, the Committee voted unanimously to recommend the proposed equity mitigation option referred to as the Hybrid Model, and direct staff to propose the model to the Equity Working Group Ad Hoc Committee at its August 21, 2013, meeting.

REPORTS (F: 12.02B6)
No items.

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

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

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

COMMITTEE MEMBER COMMENTS (F: 12.02B4)

Director McCloskey commended Division Chief Bryan Brice for providing him one-on-one insight on OCFA operations.

Director Allevato thanked OCFA staff for responding to a fire in his neighborhood, and indicated two people were rescued by a neighbor.

Chair Murray thanked the Budget and Finance Committee for a year of hard work, and thanked staff, specifically Lori Zeller for her assistance.

Vice Chair Swift thanked Chair Murray for a great year of hard work. She also encouraged members to attend the Titanic The Experience and Bodies Exhibition in the City of Buena Park, and indicated discount coupons were available on the www.visitbuenapark.com website.

ADJOURNMENT – Chair Murray adjourned the meeting at 1:32 p.m. The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, September 11, 2013, at 12:00 noon.

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

CONSENT CALENDAR - AGENDA ITEM NO. 2
BUDGET AND FINANCE COMMITTEE MEETING
September 11, 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 September 26, 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 July 31, 2013. A preliminary investment report as of August 23, 2013, is also provided as the most complete report that was available at the time this agenda item was prepared.

Impact to Cities/County:
Not Applicable.

Fiscal Impact:
Not Applicable.

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

Attachment:
Final Investment Report – July 2013/Preliminary Report – August 2013

Attachment

Orange County Fire Authority Monthly Investment Report

Final Report – July 2013

Preliminary Report – August 2013

Orange County Fire Authority

Final Investment Report

July 31, 2013

EXECUTIVE SUMMARY

Portfolio Activity & Earnings

During the month of July 2013, the size of the portfolio decreased from $154.6 million to $143.6 million. Major receipts for the month included various apportionments of property taxes, cash contract payments, and intergovernmental agency payments for a total of $9.7 million. Significant disbursements for the month included primarily biweekly payrolls. The portfolio's balance is expected to decrease further in the following month as there are no major receipts scheduled for August.

In July, the portfolio's yield to maturity (365-day equivalent) was at 0.32%, a slight increase from the prior month as the new fiscal year began. The effective rate of return also increased slightly to 0.32% for the month. The average maturity of the portfolio lengthened by 9 days to 289 days to maturity.

Economic News

The U.S. economic activity appeared to pick up slightly in July 2013, although overall activity remained mixed. Employment conditions pulled back slightly from the prior month. There were a total of 162,000 new jobs created for the July while a higher number had been expected for the month. Additionally, there were also downward revisions made to the prior two months for a combined decrease of 26,000 jobs. Unemployment conditions, on the other hand, improved declining to 7.4% from 7.6% previously. The Conference Board Consumer Confidence Index continued to rise in July and the University of Michigan Consumer Sentiment Index came in stronger than expected. Durable goods orders dropped at a steeper rate than expected, and retail sales increased at a softer pace than expected. Housing prices improved, but overall activity continued to be mixed. The NFIB (National Federation of Independent Business) small business optimism index increased in July. Both the non-manufacturing and manufacturing sectors came in stronger than expected and continued expanding in July. Industrial production stayed unchanged, but was weaker than expected. The CPI (Consumer Price Index) increased slightly and was in line with expectations while longer-term inflation expectations remained stable.

BENCHMARK COMPARISON AS OF JULY 31, 2013

3 Month T-Bill:	*0.04%*	*1 Year T-Bill:*	*0.12%*
6 Month T-Bill:	*0.07%*	*LAIF:*	*0.27%*

OCFA Portfolio: 0.32%

PORTFOLIO SIZE, YIELD, & DURATION

	Current Month	Prior Month	Prior Year
Book Value-	*$143,622,094*	*$154,571,085*	*$128,960,411*
Yield to Maturity (365 day)	*0.32%*	*0.29%*	*0.59%*
Effective Rate of Return	*0.32%*	*0.30%*	*0.42%*
Days to Maturity	*289*	*283*	*606*

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

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
July 31, 2013

Investments	Par Value	Market Value (See Note 1 on page 9)	Book Value (See Note 2 on page 9)	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	14,926,130.63	14,926,130.63	14,926,130.63	10.44	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	9,000,000.00	8,998,650.00	8,998,767.50	6.30	127	29	0.170	0.172
Federal Agency Coupon Securities	51,000,000.00	50,517,510.00	51,004,756.83	35.69	1,269	783	0.557	0.565
Federal Agency Disc. -Amortizing	18,000,000.00	17,999,280.00	17,997,827.50	12.59	155	57	0.075	0.076
Local Agency Investment Funds	50,000,000.00	50,013,660.35	50,000,000.00	34.98	1	1	0.263	0.267
Investments	**142,926,130.63**	**142,455,230.98**	**142,927,482.46**	**100.00%**	**481**	**289**	**0.311**	**0.315**
Cash and Accrued Interest								
Passbook/Checking (not included in yield calculations)	1,173,757.39	1,173,757.39	1,173,757.39		1	1	0.000	0.000
Accrued Interest at Purchase		1,553.33	1,553.33					
Subtotal		1,175,310.72	1,175,310.72					
Total Cash and Investments	**144,099,888.02**	**143,630,541.70**	**144,102,793.18**		**481**	**289**	**0.311**	**0.315**

Total Earnings	July 31 Month Ending	Fiscal Year To Date
Current Year	39,368.65	39,368.65
Average Daily Balance	**147,026,807.03**	**147,026,807.03**
Effective Rate of Return	**0.32%**	**0.32%**

"I certify that this investment report accurately reflects all pooled investments and is in compliance with the investment policy adopted by the Board of Directors to be effective on January 1, 2013. A copy of this policy is available from the Clerk of the Authority. Sufficient investment liquidity and anticipated revenues are available to meet budgeted expenditure requirements for the next thirty days and the next six months."

Patricia Jakubiak 8/2/13

Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	*$*	*144,102,793.18*
GASB 31 Adjustment to Books (See Note 3 on page 9)	*$*	*(480,699.41)*
Total	*$*	*143,622,093.77*

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
July 31, 2013

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value (See Note 1 on page 9)	Book Value (See Note 2 on page 9)	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SYS528	528	High Mark 100% US Treasury MMF			14,926,130.63	14,926,130.63	14,926,130.63	0.001	0.001	1	
		Subtotal and Average	**12,638,653.70**		**14,926,130.63**	**14,926,130.63**	**14,926,130.63**		**0.001**	**1**	
Commercial Paper Disc. -Amortizing											
36959HVW4	806	GEN ELEC CAP CRP		04/25/2013	9,000,000.00	8,998,650.00	8,998,767.50	0.170	0.172	29	08/30/2013
		Subtotal and Average	**8,998,130.00**		**9,000,000.00**	**8,998,650.00**	**8,998,767.50**		**0.172**	**29**	
Federal Agency Coupon Securities											
3133ECBT0	799	Federal Farm Credit Bank (Callable anytime)		12/26/2012	9,000,000.00	9,000,270.00	9,000,000.00	0.375	0.375	694	06/26/2015
3133ECM76	809	Federal Farm Credit Bank (Callable anytime)		04/25/2013	9,000,000.00	8,943,300.00	8,994,261.56	0.400	0.424	995	04/22/2016
3133804V6	787	Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,877,240.00	6,000,000.00	1.000	0.981	1,469	08/09/2017
313380B22	788	Fed Home Loan Bank (Callable anytime)		08/20/2012	6,000,000.00	6,000,240.00	6,000,000.00	0.450	0.440	749	08/20/2015
3133813R4	800	Fed Home Loan Bank (Callable 8-9-13)		12/20/2012	9,000,000.00	8,739,900.00	9,012,590.79	1.000	0.818	8	11/09/2017
313382DC4	803	Fed Home Loan Bank (Callable anytime)		03/15/2013	12,000,000.00	11,956,560.00	11,997,904.48	0.470	0.477	949	03/07/2016
		Subtotal and Average	**51,004,758.20**		**51,000,000.00**	**50,517,510.00**	**51,004,756.83**		**0.565**	**783**	
Federal Agency Disc. -Amortizing											
313589MV2	808	Fed Natl Mortg Assoc		04/25/2013	9,000,000.00	8,999,460.00	8,998,580.00	0.080	0.081	71	10/11/2013
313397LR0	807	Freddie Mac		04/25/2013	9,000,000.00	8,999,820.00	8,999,247.50	0.070	0.071	43	09/13/2013
		Subtotal and Average	**24,384,298.15**		**18,000,000.00**	**17,999,280.00**	**17,997,827.50**		**0.076**	**57**	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			50,000,000.00	50,013,660.35	50,000,000.00	0.267	0.267	1	
		Subtotal and Average	**50,000,966.99**		**50,000,000.00**	**50,013,660.35**	**50,000,000.00**		**0.267**	**1**	
		Total and Average	**147,026,807.03**		**142,926,130.63**	**142,455,230.98**	**142,927,482.46**		**0.315**	**289**	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
July 31, 2013

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10104	10104	American Benefit Plan Admin		07/01/2013	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2013	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank of California		07/01/2013	888,757.39	888,757.39	888,757.39		0.000	1
SYS361	361	YORK		07/01/2013	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	**0.00**	Accrued Interest at Purchase		1,553.33	1,553.33			1
				Subtotal		1,175,310.72	1,175,310.72			
		Total Cash and Investments	**147,026,807.03**		**144,099,888.02**	**143,630,541.70**	**144,102,793.18**		**0.315**	**289**

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of August 1, 2013

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

				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
Aging Interval: 0 days	(08/01/2013 - 08/01/2013)	6 Maturities	0 Payments	66,099,888.02	45.87%	66,099,888.02	66,113,548.37
Aging Interval: 1 - 30 days	(08/02/2013 - 08/31/2013)	1 Maturities	0 Payments	9,000,000.00	6.24%	8,998,767.50	8,998,650.00
Aging Interval: 31 - 60 days	(09/01/2013 - 09/30/2013)	1 Maturities	0 Payments	9,000,000.00	6.25%	8,999,247.50	8,999,820.00
Aging Interval: 61 - 91 days	(10/01/2013 - 10/31/2013)	1 Maturities	0 Payments	9,000,000.00	6.24%	8,998,580.00	8,999,460.00
Aging Interval: 92 - 121 days	(11/01/2013 - 11/30/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 122 - 152 days	(12/01/2013 - 12/31/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 153 - 183 days	(01/01/2014 - 01/31/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 184 - 274 days	(02/01/2014 - 05/02/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	(05/03/2014 - 08/01/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 366 - 1095 days	(08/02/2014 - 07/31/2016)	4 Maturities	0 Payments	36,000,000.00	24.98%	35,992,166.04	35,900,370.00
Aging Interval: 1096 - 1825 days	(08/01/2016 - 07/31/2018)	2 Maturities	0 Payments	15,000,000.00	10.42%	15,012,590.79	14,617,140.00
Aging Interval: 1826 days and after	(08/01/2018 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
	Total for	15 Investments	0 Payments		100.00	144,101,239.85	143,628,988.37

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, 2013 includes an increase of $13,660 to the LAIF investment and a decrease of $(494,359) to the remaining investments.

Note 4: The Highmark money market mutual fund functions as the Authority's sweep account. Funds are transferred to and from the sweep account to/from OCFA's checking account in order to maintain a target balance of $1,000,000 in checking. Since this transfer occurs at the beginning of each banking day, the checking account sometimes reflects a negative balance at the close of the banking day. The negative closing balance is not considered an overdraft since funds are available in the money market mutual fund. The purpose of the sweep arrangement is to provide sufficient liquidity to cover outstanding checks, yet allow that liquidity to be invested while payment of the outstanding checks is pending.

Local Agency Investment Fund (LAIF)

As of July 31, 2013, OCFA has $50,000,000 invested in LAIF. The fair value of OCFA's LAIF investment is calculated using a participant fair value factor provided by LAIF on a quarterly basis. The fair value factor as of June 30, 2013 is 1.000273207. When applied to OCFA's LAIF investment, the fair value is $50,013,660 or $13,660 above cost. Although the fair value of the LAIF investment is higher than cost, OCFA can withdraw the actual amount invested at any time.

LAIF is included in the State Treasurer's Pooled Money Investment Account (PMIA) for investment purposes. The PMIA market valuation at July 31, 2013 is included on the following page.

State of California
Pooled Money Investment Account
Market Valuation
7/31/2013

Description	Carrying Cost Plus Accrued Interest Purch.	Fair Value	Accrued Interest
United States Treasury:			
Bills	$ 17,370,413,329.69	$ 17,389,577,750.00	NA
Notes	$ 17,265,540,752.56	$ 17,280,594,000.00	$ 15,799,649.50
Federal Agency:			
SBA	$ 532,213,188.78	$ 530,916,915.30	$ 523,571.65
MBS-REMICs	$ 180,193,376.21	$ 196,283,137.89	$ 861,203.38
Debentures	$ 1,229,014,505.38	$ 1,225,292,500.00	$ 6,095,430.50
Debentures FR	$ -	$ -	$ -
Discount Notes	$ 2,248,563,445.13	$ 2,249,570,500.00	NA
GNMA	$ 351.63	$ 353.23	$ 3.66
IBRD Debenture	$ 450,053,540.85	$ 450,319,000.00	$ 295,139.00
IBRD Deb FR	$ -	$ -	$ -
CDs and YCDs FR	$ 400,000,000.00	$ 400,000,000.00	$ 403,841.66
Bank Notes	$ -	$ -	$ -
CDs and YCDs	$ 3,770,048,081.32	$ 3,767,897,965.38	$ 2,160,686.13
Commercial Paper	$ 1,329,569,700.00	$ 1,329,582,475.00	NA
Corporate:			
Bonds FR	$ -	$ -	$ -
Bonds	$ -	$ -	$ -
Repurchase Agreements	$ -	$ -	$ -
Reverse Repurchase	$ -	$ -	$ -
Time Deposits	$ 4,419,640,000.00	$ 4,419,640,000.00	NA
AB 55 & GF Loans	$ 5,488,965,443.82	$ 5,488,965,443.82	NA
TOTAL	$ 54,684,215,715.37	$ 54,728,640,040.62	$ 26,139,525.48

Fair Value Including Accrued Interest $ 54,754,779,566.10

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

Orange County Fire Authority

Preliminary Investment Report

August 23, 2013

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

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
August 23, 2013

(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	1,873,143.11	1,873,143.11	1,873,143.11	1.49	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	9,000,000.00	8,999,910.00	8,999,745.00	7.15	127	6	0.170	0.172
Federal Agency Coupon Securities	51,000,000.00	50,313,270.00	51,004,754.57	40.52	1,269	766	0.557	0.565
Federal Agency Disc. -Amortizing	18,000,000.00	17,999,640.00	17,998,690.00	14.30	155	34	0.075	0.076
Local Agency Investment Funds	46,000,000.00	46,012,567.52	46,000,000.00	36.54	1	1	0.263	0.267
Investments	**125,873,143.11**	**125,198,530.63**	**125,876,332.68**	**100.00%**	**546**	**316**	**0.345**	**0.350**
Cash and Accrued Interest								
Passbook/Checking (not included in yield calculations)	1,134,626.13	1,134,626.13	1,134,626.13		1	1	0.000	0.000
Accrued Interest at Purchase		1,553.33	1,553.33					
Subtotal		1,136,179.46	1,136,179.46					
Total Cash and Investments	**127,007,769.24**	**126,334,710.09**	**127,012,512.14**		**546**	**316**	**0.345**	**0.350**

Total Earnings	August 23 Month Ending	Fiscal Year To Date
Current Year	29,387.03	68,755.68
Average Daily Balance	**133,203,375.76**	**141,139,049.27**
Effective Rate of Return	**0.35%**	**0.33%**

"I certify that this investment report accurately reflects all pooled investments and is in compliance with the investment policy adopted by the Board of Directors to be effective on January 1, 2013. A copy of this policy is available from the Clerk of the Authority. Sufficient investment liquidity and anticipated revenues are available to meet budgeted expenditure requirements for the next thirty days and the next six months."

P Jakubiak   8/30/13

Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	*$*	*127,012,512.14*
GASB 31 Adjustment to Books (See Note 3 on page 18)	*$*	*(480,699.41)*
Total	*$*	*126,531,812.73*

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
August 23, 2013

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			1,873,143.11	1,873,143.11	1,873,143.11	0.001	0.001	1	
		Subtotal and Average	**6,592,369.46**		**1,873,143.11**	**1,873,143.11**	**1,873,143.11**		**0.001**	**1**	
Commercial Paper Disc. -Amortizing											
36959HVW4	806	GEN ELEC CAP CRP		04/25/2013	9,000,000.00	8,999,910.00	8,999,745.00	0.170	0.172	6	08/30/2013
		Subtotal and Average	**8,999,277.50**		**9,000,000.00**	**8,999,910.00**	**8,999,745.00**		**0.172**	**6**	
Federal Agency Coupon Securities											
3133ECBT0	799	Federal Farm Credit Bank (Callable anytime)		12/26/2012	9,000,000.00	8,990,910.00	9,000,000.00	0.375	0.375	671	06/26/2015
3133ECM76	809	Federal Farm Credit Bank (Callable anytime)		04/25/2013	9,000,000.00	8,917,560.00	8,994,396.10	0.400	0.424	972	04/22/2016
3133804V6	787	Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,823,980.00	6,000,000.00	1.000	0.981	1,446	08/09/2017
313380B22	788	Fed Home Loan Bank (Callable anytime)		08/20/2012	6,000,000.00	5,996,640.00	6,000,000.00	0.450	0.440	726	08/20/2015
3133813R4	800	Fed Home Loan Bank (Callable 9-9-13)		12/20/2012	9,000,000.00	8,651,180.00	9,012,402.50	1.000	0.818	16	11/09/2017
313382DC4	803	Fed Home Loan Bank (Callable anytime)		03/15/2013	12,000,000.00	11,933,040.00	11,997,955.97	0.470	0.477	926	03/07/2016
		Subtotal and Average	**51,004,755.65**		**51,000,000.00**	**50,313,270.00**	**51,004,754.57**		**0.565**	**766**	
Federal Agency Disc. -Amortizing											
313589MV2	808	Fed Natl Mortg Assoc		04/25/2013	9,000,000.00	8,999,730.00	8,999,040.00	0.080	0.081	48	10/11/2013
313397LR0	807	Freddie Mac		04/25/2013	9,000,000.00	8,999,910.00	8,999,650.00	0.070	0.071	20	09/13/2013
		Subtotal and Average	**17,998,277.50**		**18,000,000.00**	**17,999,640.00**	**17,998,690.00**		**0.076**	**34**	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			46,000,000.00	46,012,567.52	46,000,000.00	0.267	0.267	1	
		Subtotal and Average	**48,608,695.65**		**46,000,000.00**	**46,012,567.52**	**46,000,000.00**		**0.267**	**1**	
		Total and Average	**133,203,375.76**		**125,873,143.11**	**125,198,530.63**	**125,876,332.68**		**0.350**	**316**	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
August 23, 2013

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10104	10104	American Benefit Plan Admin		07/01/2013	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2013	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank of California		07/01/2013	849,626.13	849,626.13	849,626.13		0.000	1
SYS361	361	YORK		07/01/2013	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	**0.00**	Accrued Interest at Purchase		1,553.33	1,553.33			1
				Subtotal		1,136,179.46	1,136,179.46			
		Total Cash and Investments	**133,203,375.76**		**127,007,769.24**	**126,334,710.09**	**127,012,512.14**		**0.350**	**316**

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of August 24, 2013

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

				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
Aging Interval: 0 days	(08/24/2013 - 08/24/2013)	6 Maturities	0 Payments	49,007,769.24	38.59%	49,007,769.24	49,020,336.76
Aging Interval: 1 - 30 days	(08/25/2013 - 09/23/2013)	2 Maturities	0 Payments	18,000,000.00	14.17%	17,999,395.00	17,999,820.00
Aging Interval: 31 - 60 days	(09/24/2013 - 10/23/2013)	1 Maturities	0 Payments	9,000,000.00	7.09%	8,999,040.00	8,999,730.00
Aging Interval: 61 - 91 days	(10/24/2013 - 11/23/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 92 - 121 days	(11/24/2013 - 12/23/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 122 - 152 days	(12/24/2013 - 01/23/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 153 - 183 days	(01/24/2014 - 02/23/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 184 - 274 days	(02/24/2014 - 05/25/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	(05/26/2014 - 08/24/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 366 - 1095 days	(08/25/2014 - 08/23/2016)	4 Maturities	0 Payments	36,000,000.00	28.34% *	35,992,352.07	35,838,150.00
Aging Interval: 1096 - 1825 days	(08/24/2016 - 08/23/2018)	2 Maturities	0 Payments	15,000,000.00	11.82%	15,012,402.50	14,475,120.00
Aging Interval: 1826 days and after	(08/24/2018 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
	Total for	15 Investments	0 Payments		100.00	127,010,958.81	126,333,156.76

*The OCFA's Investment Policy calls for this category not to exceed 25% of the portfolio. This technical non-compliance was primarily caused by a seasonally significant reduction in the portfolio's balance in August which automatically resulted in a higher percentage for this category as its balance remained unchanged from the prior month.

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.

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CONSENT CALENDAR – AGENDA ITEM NO. 3
BUDGET AND FINANCE COMMITEE MEETING
September 11, 2013

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 August 2013, to improve the Orange County Employees' Retirement System's (OCERS) financial policies, procedures, and practices.

Recommended Action:
Receive and file the report.

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

Actions Taken/Financial Policies & Practices – August 2013

OCERS BOARD OF RETIREMENT – August 19, 2013:

ADDITIONAL EMPLOYER CONTRIBUTION PAYMENTS – POLICY QUESTIONS
One or more plan sponsors have begun internal discussions regarding the possibility of making additional payments into OCERS to lower their Unfunded Actuarial Accrued Liabilities (UAAL). Although there are no issues with additional payments in general, a question has arisen as to whether a plan sponsor can target their payment to a particular layer of liability, in order to effect a greater immediate reduction in their contribution rate. Normally OCERS would apply additional dollars across every layer of existing liability equally. In this scenario however, a plan sponsor might ask to apply the entire payment to pay off one layer in particular, such as a layer that had only seven years to go before pay off. Paying that one layer off immediately would have an immediate lowering effect on the employer's contribution rate. But seven years out, the employer's rate would bounce back up. The Segal Company, concerned that this allows an employer to introduce volatility into their contribution rates, made a request to discuss the policy implications with the Board (Attachment 1). After a lengthy discussion, the Board voted to table the item until next month and directed The Segal Company to provide numerical examples for the three Alternative Methods to pay down the UAAL.

COST SHARING STRUCTURE (POOLING)

OCERS is a multi-employer cost sharing pension plan, where many of a plan sponsors costs and liabilities are pooled and shared with the other participating employers. The Segal Company wanted to discuss the process with the OCERS Board as an informational item. They did not make any recommendations for change, and indicated that OCERS' current process is in line with that used by other '37 Act systems. As part of OCERS' overall review of actuarial issues this year, The Segal Company wanted to be sure the Board had a full understanding of how this process works (Attachment 2).

COMPENSATION PHILOSOPHY AND SALARY RANGES

Delayed from last month, this item is a governance request, to put in place a policy to guide in compensating OCERS-direct employees. OCERS has 68 employees, 46 are County of Orange employees assigned to OCERS, while the 22 members of the OCERS management team are employees of OCERS specifically. This proposed compensation philosophy, and the modified salary ranges applies just to those 22 positions (Attachment 3).

THE OCERS COMPENSATION PHILOSOPHY

OCERS described their proposed Compensation Philosophy in the following manner:

What it is:

1. A policy that creates a merit/performance pool that funds merit increases based on documented performance. The dollars allocated to the pool will be taken to the Board annually for approval during the Budget approval process. This will give the Board transparency.

2. A policy that directs that future modifications to the salary ranges will be based on future studies, with any resulting recommended changes to the Board for approval. There will be no annual automatic movement of salary ranges.

   - Included with the policy is a one-time recommendation to move salary ranges 9-20% depending on the position. County Administrative Manager series ranges have already moved 16% and CPI over the same time moved 13.1%.

3. A policy that recommends salary ranges for OCERS Mid-level managers to be set below County Administrative Manager series ranges. OCERS employees <u>will not</u> have higher salary ranges then Orange County Managers for comparable positions.

4. A policy that provides a written document that can communicate the performance management program to employees. Like many plan sponsors, OCERS does not presently have a written document that outlines its guidelines.

5. A policy that provides guidelines to keep equitable salaries for the team that meets OCERS Mission Statement to provide secure retirement and disability benefits, quality information concerning those benefits, and prompt, professional and courteous service that meets the highest standards of excellence.

What it is not:

1. A way to give an employee a pay increase. Salary adjustments are part of the regular budget process, and that will occur later this year. This policy directs that any future salary increases will be awarded by performance with proper justification by the department head. All OCERS direct performance awards will be approved by the CEO.

    - There is one exception to that statement. One of OCERS' 22 direct-employed managers is so low on the scale (due to being a recent hire) that if the Board approves the recommended salary range adjustments, ranges that have not changed since 2007, that individual would then be below the bottom of the range and would indeed receive a pay increase in order to align their salary with the new range.

2. A way to pay OCERS employees higher salaries than County employees.

The OCERS Board tabled this item until next month and directed staff to provide a comparison of salaries using total compensation for both the private and public sector agencies used in the survey.

Additional Updates
After the OCERS Board adopted the 2012 Actuarial Valuation in June 2013, the plan sponsors requested that OCERS and The Segal Company provide updated 15-year retirement rate projections. These updated projections are provided as Attachment 4.

In addition, after learning that the OCERS Board would be reconsidering its Actuarial Funding Policy, OCFA staff requested that OCERS and The Segal Company provide plan sponsors with retirement rate impacts that may result if the OCERS Board changes the amortization period for the loss-layer associated with the 2012 change in earnings assumption. This request was initially discussed with OCERS verbally on July 29, 2013. Upon following up on this request on August 21, 2013, OCERS asked that we put our request in writing and send it to them via email. The latest update from OCERS is that they have agreed to fulfill this request; however, they were unable to provide us with a timeline for when we can expect the data to be provided.

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

Impact to Cities/County:
Not Applicable

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

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

Attachments:
1. Letter from The Segal Company on Accelerated Funding of UAAL August 7, 2013
2. Letter from The Segal Company on Cost Sharing Structure August 9, 2013
3. OCERS Compensation Philosophy
4. Segal Consulting Illustrations of Retirement Scenarios dated August 30, 2013

Attachment 1

SEGAL

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

VIA E-MAIL and USPS

August 7, 2013

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

Re: Orange County Employees Retirement System
Accelerated Funding of UAAL

Dear Steve:

We understand that a few participating employers have expressed interest in contributing additional amounts so that they would be able to reduce their future Unfunded Actuarial Accrued Liability (UAAL) payments to OCERS. We have been requested by your office to outline some options that may be considered by the Board in reflecting those additional amounts when we develop their UAAL contribution rate requirements in future valuations.

There are two broad categories of options that may be considered by OCERS. They differ primarily in whether the additional contribution amounts would be: (a) used to immediately buy down the employers' UAAL and UAAL contribution rates or (b) held back from the current UAAL as an advance contribution so that those amounts, with future investment earnings, could be applied at the employer's discretion against future contributions. In particular, they could be used to reduce the effective UAAL payment periods for those employers.

IMMEDIATE BUY DOWN IN THE UAAL CONTRIBUTION RATES

Under this option, the additional contributions would be used to immediately reduce both the employers' UAAL and the related UAAL contribution rates. However, as OCERS amortizes its UAAL using a layered approach, the actual buy down in the UAAL contribution rates would vary depending on how the amounts are applied to reduce the different UAAL amortization layers established for those employers.

There are three alternatives to how to apply the additional contribution against the UAAL amortization layers:

Alternative One: Under this alternative, the additional contributions would be treated as an "actuarial gain" and they would be amortized over the 15-year period used by the Board for amortizing actuarial gains/losses. (This is the default option under OCERS' current funding policy.)

Alternative Two: The additional contributions would be allocated in proportion to the outstanding balances in the employer's current UAAL layers and amortized using those corresponding periods.

Alternative Three: The employers would be allowed to choose the prior UAAL layer(s) they would want to have the payment applied against, using the amortization periods for such layer(s).

We would recommend Alternative One especially if the additional contributions made by the employers are relatively small when compared to their UAAL. We would recommend Alternative Two if the additional contributions are relatively large and that it is desirable by the Board and/or the employers to provide contribution rate relief longer than 15 years. (Note that the equivalent single amortization period for OCERS' UAAL is between 19 and 20 years.)

Except as discussed below, we would not recommend Alternative Three because there are already up to 15 layers of UAAL for some rate groups in the December 31, 2012 valuation and a choice of reduction among the different layers may likely result in additional costs and complexity to administer the System. Furthermore, allowing the individual employers the choice to amortize the additional amounts over a period to be selected by the employers shifts this particular aspect of the Board's authority to set funding policy from the OCERS Board to the individual employer, which may raise governance issues.

Under an extreme application of that scenario, the employer could select layers with very short remaining periods to achieve short-term contribution relief. In that case, we would strongly recommend against giving the employer an unrestricted choice because of the possible resultant volatility in the employer's future UAAL rates. Our recommendation to address this concern would be to allow this approach only if paying off the short-period layer leaves a more level UAAL contribution pattern by removing a layer that was causing temporarily higher contributions. We would work with OCERS staff to advise the employer on this issue.

REDUCE THE EFFECTIVE UAAL PAYMENT PERIODS

While the above alternatives would reduce the employers' UAAL, they do not result in shortening the effective period over which the future UAAL payments would have to be made by those employers. This is because additional contribution amounts are immediately used to adjust the employers' UAAL rates. In order to shorten the UAAL payment periods (e.g., reduce the equivalent single amortization period of between 19 and 20 years by five years, etc.), the additional payments would need to be applied at the end of the amortization periods. If this is the desired result then the Board may want to explore whether an account similar to the County Investment Account (that was established for the County when they issued the Pension Obligation Bonds) could be set up for those employers. This is because unused amounts in the County Investment Account are not included in the actuarial valuation to reduce the County's UAAL rates. While funds in that account would be available at the employer's discretion to reduce their UAAL contribution requirement in the current year, we presume that such funds could also be used to pay their UAAL contribution in any future year. However, before OCERS offers this account to the other employers, they should be provided with all the pros and cons of having that account, including the crediting to that account of the actual market gains/losses.

We are members of the American Academy of Actuaries and we 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
Senior Vice President and Actuary

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

MYM/bqb

cc: Brenda Shott
Julie Wyne

SEGAL

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

August 9, 2013

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

**Re: Orange County Employees Retirement System
Cost Sharing Structure**

Dear Steve:

As part of our discussions with the Board regarding the actuarial funding policy, we listed several long-standing practices (including the cost sharing structure) at OCERS followed by Segal (and OCERS' prior actuary) in developing the contribution rates in the actuarial valuation. We previously discussed OCERS' cost sharing structure in our letter dated July 30, 2010. In this letter, we have included and updated much of that earlier information along with providing in the attached table a summary of the current employer cost sharing structures within the rate groups.

Background

Cost sharing for multiple employer plans, such as OCERS, can take place on different levels. Cost sharing can apply to Normal Cost and/or amortization cost for the Unfunded Actuarial Accrued Liability (UAAL). Changes in the UAAL can arise from investment as well as liability gains and losses, assumptions changes and plan changes. The cost sharing for each source could sometimes be different.

The primary purpose of this letter is to document the procedures used in the actuarial valuation to set the cost sharing contribution rates, as we are not making any recommendations to change those procedures. While it may be observed that the current cost sharing procedures at OCERS are very complex, it is our opinion that they are commensurate with other 1937 Act CERL retirement systems that offer a relatively large number of benefit formulas that cover employees from different sponsoring employers. It is also our opinion that those procedures are consistent with applicable actuarial standards.

Employer Normal Cost

There are currently 11 rate groups within OCERS and each rate group may have two tiers offering benefits under one or multiple plans or formulas. With the implementation of the new mandatory General and Safety benefit formulas required by the California Public Employees' Pension Reform Act of 2013 (CalPEPRA), there is now a separate employer Normal Cost rate for the CalPEPRA formula(s) for each rate group.

For the legacy or non-CalPEPRA plans, there is generally a composite employer Normal Cost rate calculated for each rate group. The exceptions are for Rate Groups #2, #3, #10, #7 and #8, which have a separate employer Normal Cost rate calculated for each of the new formula(s) adopted during our tenure as actuary of OCERS starting with the December 31, 2004 valuation (which was the first OCERS valuation performed by Segal). In other words, the future cost for Tiers 1 and 2[1] corresponding to those plans or formulas that were adopted before December 31, 2004 were combined within each rate group by the previous actuary for the purpose of calculating the Normal Cost rate, and that practice has been continued by Segal.

In particular, in Rate Groups #1 and #5, since a combined employer Normal Cost rate is calculated and charged for all Tiers 1 and 2 members, there is sharing of a single employer Normal Cost rate for those two different tiers of benefits. Besides the different benefit formulas used in determining benefits for Tier 1 versus Tier 2 members in Rate Groups #1 and #5[2], another difference is that a final one-year average salary is used in determining benefits for Tier 1 members instead of the final three-year average salary that is used in determining benefits for Tier 2 members. Also, differences in entry ages, if any, among the employers in each rate group lead to cost sharing, since these differences are not used in determining the Normal Cost paid by each individual employer.

Besides the explicit sharing of employer Normal Cost within the two tiers, there is also an implicit sharing of Normal Cost between all the employers covered within each rate group. As the experience for all the employers is combined in developing the actuarial assumptions used for each rate group. For example, the same set of salary scale assumptions is used in the valuation for all members covered in Rate Group #2 with the 2.7% at 55 formula[3] and if one employer within that rate group has consistently granted higher salary increases than other employers in that rate group, then the Normal Cost for all employers in that rate group would be raised to reflect the increase in the average salary experience.

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[1] Note that for these Rate Groups, the only difference between the two tiers for the plans or formulas adopted prior to the December 31, 2004 valuation is that Tier 1 uses a final one-year average salary and Tier 2 uses a final three-year average salary.

[2] Tier 1 and Tier 2 members in Rate Groups #1 and #5 are entitled to benefits under Plan A and Plan B, respectively.

[3] As a single set of salary increase assumptions is developed for each of General and Safety; therefore, a similar argument may also be made with respect to all the General rate groups and the Safety rate groups. However, since liability gains and losses are not shared among rate groups, the net effect of sharing among rate groups is minimal.

Employee Normal Cost

Basic Normal Cost: To the extent that the actuarial assumptions are developed on a combined basis among the rate groups, there is some cost sharing of the basic employee normal cost. For the non-CalPEPRA plans, every OCERS member with the same benefit formula and the same entry age has the same basic member contribution rate, so in a sense, the cost is shared among all such members. Note than any cost sharing here is expected to be minimal for a number of reasons. The entry age used is the member's actual entry age, and the assumed retirement age is set in statute. The assumptions based on the System's experience, like salary scale, have a much smaller effect on the Normal Cost rate.

COLA Normal Cost: There is a separate employee COLA Normal Cost for the non-CalPEPRA plans adopted during our tenure as actuary of OCERS. Otherwise, the employee COLA Normal Cost is calculated separately for each rate group, with the exception of Rate Groups #9 and #11, which are developed on a combined or pooled basis. Within each rate group the COLA Normal Cost is either pooled for Tiers 1 and 2 because the same 3% COLA is provided for both Tiers, or it differs by a set formula based on past practice we carried over from the OCERS' prior actuary.

Unfunded Actuarial Accrued Liability

For the actuarial valuation, assets have been maintained on a bookkeeping basis by rate group. As part of the annual valuation, OCERS provides us with the contributions and benefit payments for each rate group so that we can roll forward the asset value from the beginning of year to the end of year. If an employer makes an additional contribution to accelerate the funding of its UAAL, that amount is reported separately by OCERS so that it would only be used to develop the funding requirement for that employer. In the rest of this section, we discuss how other factors that affect either the assets or the liabilities would result in a change in the UAAL contribution rate for each rate group.

Investment experience: The System's assets are commingled for investment purposes, so the rate of return should be the same for assets allocated to every rate group. Beyond the allocation of each year's investment gain or loss to the individual rate groups based on the beginning of year assets for each rate group with adjustments for contributions and benefit payments during the year (assuming that they have been made uniformly throughout the year), there should be minimal cost sharing from deviation in investment experience among the different rate groups.

Liability gains and losses: The amortization cost due to liability gains and losses is shared by all the employers within each of the rate groups. This arrangement has the benefit of providing a more stable UAAL contribution rate, especially for the smaller employers with only a few employees, but it may also mean that any contribution costs (or credits) caused by systemic variation in actuarial experience by one employer would be shared by all the other employers in that rate group.

Assumption changes: To some extent, the arguments made above for liability gains and losses may also be applied to assumption changes that are made in response to the minority experience from one employer in a rate group.

Plan changes: Some employers within Rate Groups #2 and #3 elected to grant benefit improvements for future service only. A credit to the UAAL rate was calculated and used to offset the portion of the UAAL charged to those employers that adopted all (i.e., past plus future) service improvement. Other than the above adjustment, a single UAAL rate was developed for those employers that adopted the all service improvement with some rate groups. No recognition was made to determine the cost associated with improving the past service based on the specific membership profile for each employer within those rate groups.

A schedule that summarizes the sharing of the current employer cost within the rate groups is provided in Table A.

Please let us know if you have any questions.

Sincerely,

Paul Angelo

Andy Yeung

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

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

AYY/gxk

Enclosure

cc: Brenda Shott
Julie Wyne

Table A: Sharing of Employer Costs Within Rate Groups
("FAS" = Final Average Salary)

Rate Group	Plans	Active Employers	Normal Cost (NC)	UAAL
#1	A: 2% @ 57 Tier 1: 1-year FAS B: 1.67% @ 57.5 Tier 2: 3-year FAS	Orange County Department of Education U.C.I. (Bi-weekly) O.C. IHSS Public Authority	NC developed for A and B combined	UAAL developed for A, B, U combined
#1	U: 2.5% @ 67 (CalPEPRA)	Same as employers above offering Plans A & B	NC developed for U only	

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Table A: Sharing of Employer Costs Within Rate Groups
("FAS" = Final Average Salary)

Rate Group	Plans	Active Employers	Normal Cost (NC)	UAAL
#2	I and J: 2.7% @ 55 Tier 1: 1-year FAS Tier 2: 3-year FAS	Orange County O.C. Retirement System City of San Juan Capistrano O.C. Children & Families Comm. Local Agency Formation Comm. O.C. Superior Court	NC developed for I and J combined	UAAL developed for I, J, O, P, S, T U combined
#2	O and P: 1.62% @ 65 Tier 1: 1-year FAS Tier 2: 3-year FAS	Orange County O.C. Retirement System Local Agency Formation Comm. O.C. Superior Court	NC developed for O and P combined	
#2	S: 2% @ 57	City of San Juan Capistrano	NC developed for S only	
#2	T: 1.62% @ 65 (CalPEPRA)	Orange County (except Attorneys) O.C. Retirement System (except Management employees) O.C. Children & Families Comm. Local Agency Formation Comm. O.C. Superior Court	NC developed for T only	
#2	U: 2.5% @ 67 (CalPEPRA)	Orange County (Attorneys only) O.C. Retirement System (Management employees only) City of San Juan Capistrano	NC developed for U only	

Table A: Sharing of Employer Costs Within Rate Groups
("FAS" = Final Average Salary)

Rate Group	Plans	Active Employers	Normal Cost (NC)	UAAL
#3	G and H: 2.5% @ 55 Tier 1: 1-year FAS Tier 2: 3-year FAS	O.C. Law Library O.C. Sanitation District	NC developed for G and H combined	UAAL developed for G, H, B, U combined
#3	B: 1.67% @ 57.5	O.C. Sanitation District	NC developed for B only	
#3	U: 2.5% @ 67 (CalPEPRA)	Same as employers above offering Plans G & H	NC developed for U only	

Rate Group	Plans	Active Employers	Normal Cost (NC)	UAAL
#5	A: 2% @ 57 Tier 1: 1-year FAS B: 1.67% @ 57.5 Tier 2: 3-year FAS	O.C. Transportation Authority	NC developed for A and B combined	UAAL developed for A, B, U combined
#5	U: 2.5% @ 67 (CalPEPRA)	Same as employer above offering Plans A & B	NC developed for U only	

Rate Group	Plans	Active Employers	Normal Cost (NC)	UAAL
#9	M and N: 2% @ 55 Tier 1: 1-year FAS Tier 2: 3-year FAS	Transportation Corridor Agency	NC developed for M and N combined	UAAL developed for M, N, U combined
#9	U: 2.5% @ 67 (CalPEPRA)	Same as employer above offering Plans M & N	NC developed for U only	

Table A: Sharing of Employer Costs Within Rate Groups
("FAS" = Final Average Salary)

Rate Group	Plans	Active Employers	Normal Cost (NC)	UAAL
#10	I and J: 2.7% @ 55 Tier 1: 1-year FAS Tier 2: 3-year FAS	O.C. Fire Authority	NC developed for I and J combined	UAAL developed for I, J, M, N, U combined
#10	M and N: 2% @ 55 Tier 1: 1-year FAS Tier 2: 3-year FAS	Same as employers above offering Plans I & J	NC developed for M and N combined	
#10	U: 2.5% @ 67 (CalPEPRA)	Same as employers above offering Plans I & J	NC developed for U only	

Rate Group	Plans	Active Employers	Normal Cost (NC)	UAAL
#11	M and N: 2% @ 55 Tier 1: 1-year FAS Tier 2: 3-year FAS	Cemetery District	NC developed for M and N combined	UAAL developed for M, N, U combined
#11	U: 2.5% @ 67 (CalPEPRA)	Same as employer above offering Plans M & N	NC developed for U only	

Table A: Sharing of Employer Costs Within Rate Groups
("FAS" = Final Average Salary)

Rate Group	Plans	Active Employers	Normal Cost (NC)	UAAL
#6	E and F: 3% @ 50 Tier 1: 1-year FAS Tier 2: 3-year FAS	Orange County	NC developed for E and F combined	UAAL developed for E, F, V combined
#6	V: 2.7% @ 57 (CalPEPRA)	Same as employer above offering Plans E & F	NC developed for V only	

Rate Group	Plans	Active Employers	Normal Cost (NC)	UAAL
#7	E and F: 3% @ 50 Tier 1: 1-year FAS Tier 2: 3-year FAS	Orange County	NC developed for E and F combined	UAAL developed for E, F, Q, R, V combined
#7	Q and R: 3% @ 55 Tier 1: 1-year FAS Tier 2: 3-year FAS	Same as employer above offering Plans E & F	NC developed for Q and R combined	
#7	V: 2.7% @ 57 (CalPEPRA)	Same as employer above offering Plans E & F	NC developed for V only	

Table A: Sharing of Employer Costs Within Rate Groups
("FAS" = Final Average Salary)

Rate Group	Plans	Active Employers	Normal Cost (NC)	UAAL
#8	E and F: 3% @ 50 Tier 1: 1-year FAS Tier 2: 3-year FAS	O.C. Fire Authority	NC developed for E and F combined	UAAL developed for E, F, Q, R, V combined
#8	Q and R: 3% @ 55 Tier 1: 1-year FAS Tier 2: 3-year FAS	Same as employer above offering Plans E & F	NC developed for Q and R combined	
#8	V: 2.7% @ 57 (CalPEPRA)	Same as employer above offering Plans E & F	NC developed for V only	

ORANGE COUNTY

OCERS

EMPLOYEES RETIREMENT SYSTEM

Board of Retirement Presentation

July 15, 2013

Attachment 3

Recap From Last Board Meeting

- ✓ Hay Group Team was on site to present findings and outcome of study
- ✓ Board discussed the proposed philosophy noting concerns
    - Auto triggers
    - Auto movement of ranges with CPI
- ✓ Requested that plan sponsors have more time to respond with feedback on the Compensation Philosophy
- ✓ Questioned what the resulting recommended salary ranges would be using the proposed philosophy and market data
- ✓ Compare salary ranges to plan sponsors ranges

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS SURVEY

BOARD DISCUSSION:

- Give plan sponsors more time to review the draft philosophy.
- Review the salary ranges of our plan sponsors with proposed salary ranges.

ACTION:

- Conducted a survey of all plan sponsors through Survey Monkey.
- Received 5 responses.
- Discussed results at Compensation Ad Hoc Committee meeting.

OCERS SURVEY RESULTS

Summary of responses:

	Orange County	Transportation Authority (OCTA)	Public Law Library	Fire Authority (OCFA)	Superior Court
Performance Award/Merit Increase	Yes, with meets expectations performance review	Yes, with meets expectations performance review	Yes, with meets expectations performance review	Yes, with meets expectations performance review	Yes, with meets expectations performance review
How are salary increases awarded?	Performance Pool (Mngmt) Step Increases (Union EE's)	Performance Pool	Step Increases	Performance Pool	Performance Pool
Are salaries at your agency frozen?	Salaries are not frozen. Performance Pool not funded in FY 2013	No	No	Salary range is frozen, allow movement if EE is not at top of the range. No cost of living increases granted.	No
Who pays employee's share of DB contribution?	Employee	Agency	Employee	Agency pay EE share in excess of 9%	Employee
Comments regarding OCERS proposed Compensation Plan	None	None	Review survey results	Suggested OCERS build a trigger formula that index revenues and expenditures. Compare salary ranges against government agencies ir[illegible] private industry.	Revamping their program interested to see OCERS' approach

OCERS

PLAN SPONSOR COMPARISON

Management Classification Comparison

Plan Sponsor	Classification	Min	Mid	Max	Comments
OCERS	Internal Auditor	$82,945.00	$103,681.00	$124,417.00	EE pay 100% Retirement Cont
Proposed	Internal Auditor	$75,500.00	$94,400.00	$113,200.00	EE pay 100% Retirement Cont
OCTA	Internal Audit, Principal	$78,748.80	$99,486.40	$120,203.20	Agency pay 100% Retirement Cont- under negotiation
TCA	Manager, Internal Audit	$70,825.00	$88,531.50	$106,238.00	ER pay 1st 7% Retirement Cont- being phased out
OCERS	Financial Reporting Manager	$50,003.00	$73,881.00	$97,760.00	EE pay 100% Retirement Cont
Proposed	Finance Manager	$75,500.00	$94,400.00	$113,200.00	EE pay 100% Retirement Cont
OC Sanitation District	Accounting Supervisor	$104,041.60	$114,712.00	$126,464.00	EE pay 100% Retirement Cont
OCTA	Section Manager III	$78,748.80	$99,486.40	$120,203.20	Agency pay 100% Retirement Cont- under negotiation
TCA	Assistant Controller	$70,825.00	$88,531.50	$106,238.00	ER pay 1st 7% Retirement Cont- being phased out
County of Orange	Administrative Manager I	$53,040.00	$79,248.00	$115,648.00 *	EE pay 100% Retirement Cont
OCFA	Accounting Manager	$86,091.24	$111,436.02	$136,780.80	EE pay 1st 9% Retirement Cont
OCERS	Public Relations Analyst	$50,003.00	$73,881.00	$97,760.00	EE pay 100% Retirement Cont
Proposed	Communications Manager	$75,500.00	$94,400.00	$113,200.00	EE pay 100% Retirement Cont
OCTA	Media Relations Officer	$70,033.60	$88,670.40	$107,307.20	Agency pay 100% Retirement Cont- under negotiation
OC Sanitation District	Principal Public Affairs Specialist	$99,028.80	109,179.20	$120,369.60	EE pay 100% Retirement Cont
County of Orange	Administrative Manager II/ Manager of Community and Media Relations	$73,777.60	$100,948.80	$145,184.00*	EE pay 100% Retirement Cont
OCERS	HR Manager/ Administrative Services Director	$81,350.00	$101,700.00	$122,024.00	EE pay 100% Retirement Cont
Proposed	Director of Administrative Services	$104,100.00	$130,200.00	$156,200.00	EE pay 100% Retirement Cont
OCFA	HR Director	$104,478.36	$135,262.38	$166,046.40	EE pay 1st 9% Retirement Cont
OCTA	HR Manager	$97,572.80	$123,988.80	$150,384.00	Agency pay 100% Retirement Cont- under negotiation
TCA	Administrative Services Director	$98,601.00	$123,251.50	$147,902.00	ER pay 1st 7% Retirement Cont- being phased out
County of Orange	Administrative Manager III	$92,227.20	$127,098.40	$189,467.00*	EE pay 100% Retirement Cont
OCERS	Information Technology Manager	$53,040.00	$84,344.00	$115,648.00	EE pay 100% Retirement Cont
Proposed	Information Technology Manager	$88,100.00	$110,200.00	$132,200.00	EE pay 100% Retirement Cont
OC Sanitation District	IT Manager	$106,455.00	$133,070.00	$159,684.00	EE pay 100% Retirement Cont
County of Orange	Administrative Manager II	$73,777.60	$100,948.80	$145,184.00*	EE pay 100% Retirement Cont
OCFA	Assistant IT Manager	$90,729.60	$117,437.10	$144,144.00	EE pay 1st 9% Retirement Cont
OCTA	Section Manager, Senior	$90,209.60	$114,628.80	$139,027.20	Agency pay 100% Retirement Cont- under negotiation

*Includes the portion of County range reserved for outstanding performance

RANGES AND MERIT POOL

BOARD DISCUSSION:

1. Why allow automatic movement of the ranges with CPI?

2. Why fund a merit pool using automatic triggers?

ACTION:

- Discussed with Compensation Ad Hoc Committee who recommended:
  - Revising the philosophy to state movement of ranges will be recommended based on CPI annually, but will require Board approval to be implemented
  - Revise the philosophy to have the merit pool triggers be the basis for the CEO's annual merit pool request, but will require Board approval for funding the pool with the annual budget

COMPARABLE MARKET

BOARD DISCUSSION:

- Why utilize market data from the published surveys which include private sector data, instead of only using public sector data when developing ranges?

ACTION:

Conducted a survey of OCERS employees

- Q: How many worked in private industry immediately prior to being hired by OCERS?
- A: 64%

MAINTAINING RANGES

BOARD DISCUSSION:

Should ranges be adjusted annually in small increments or periodically (every 3-4 years) with a market study?

ACTION:

- Prepared analysis of what current ranges would be had OCERS adjusted ranges annually with CPI.
- Compared the results with the recommended ranges
- Reviewed County's Administrative Manager series of ranges for the period 2007-2013 to compare to recommended ranges and to determine how they have moved over the period in which OCERS Management have been unchanged.

EXISTING RANGES ADJUSTED BY CPI 2007-2013

OCERS Direct Employees	2012 Current Salary	Existing Range			2012 CPI applied 13.1%		
Position		Min	Midpoint	Top	Min	Midpoint	Top
Chief Executive Officer	$ 246.4	$ 157.9	$ 197.4	$ 236.8	$ 179.6	$ 224.5	$ 269.5
Chief Investment Officer	$ 275.4	$ 200.0	$ 250.0	$ 300.0	$ 227.6	$ 284.4	$ 341.3
Asst CEO, Finance & Internal Ops	$ 217.4	$ 110.9	$ 166.7	$ 222.6	$ 126.1	$ 189.7	$ 253.2
Asst CEO, External & Legal Ops	$ 215.9	$ 110.9	$ 166.7	$ 222.6	$ 126.1	$ 189.7	$ 253.2
Director of Investment Operations	$ 209.2	$ 110.9	$ 166.7	$ 222.6	$ 126.1	$ 189.7	$ 253.2
Director of Finance	$ 137.0	$ 93.7	$ 117.1	$ 140.5	$ 106.6	$ 133.2	$ 159.9
Director of Internal Audit	$ 134.0	$ 82.9	$ 103.7	$ 124.4	$ 94.4	$ 118.0	$ 141.6
Director of IT	$ 136.4	$ 93.7	$ 117.1	$ 140.5	$ 106.6	$ 133.2	$ 159.9
Member Services Director	$ 134.0	$ 79.6	$ 99.5	$ 119.4	$ 90.5	$ 113.2	$ 135.8
Human Resource Mngr/Admin Srvcs Dir.	$ 100.0	$ 81.4	$ 101.7	$ 122.0	$ 92.6	$ 115.7	$ 138.8
Attorney	$ 148.1	$ 107.0	$ 133.8	$ 160.6	$ 121.8	$ 152.2	$ 182.7
Attorney	$ 145.2	$ 107.0	$ 133.8	$ 160.6	$ 121.8	$ 152.2	$ 182.7
Attorney	$ 142.1	$ 107.0	$ 133.8	$ 160.6	$ 121.8	$ 152.2	$ 182.7
Financial Reporting Manager	$ 97.2	$ 50.0	$ 73.9	$ 97.8	$ 56.9	$ 84.1	$ 111.2
Financial Reporting Manager	$ 79.6	$ 50.0	$ 73.9	$ 97.8	$ 56.9	$ 84.1	$ 111.2
Financial Reporting Manager	$ 80.0	$ 50.0	$ 73.9	$ 97.8	$ 56.9	$ 84.1	$ 111.2
Member Services Manager	$ 91.2	$ 50.0	$ 73.9	$ 97.8	$ 56.9	$ 84.1	$ 111.2
Member Services Manager	$ 98.8	$ 50.0	$ 73.9	$ 97.8	$ 56.9	$ 84.1	$ 111.2
Internal Auditor	$ 116.2	$ 82.9	$ 103.7	$ 124.4	$ 94.4	$ 118.0	$ 141.6
Public Relations Analyst	$ 93.3	$ 50.0	$ 73.9	$ 97.8	$ 56.9	$ 84.1	$ 111.2
Investment Analyst*	$ 94.3	$ 50.0	$ 73.9	$ 97.8	$ 56.9	$ 84.1	$ 111.2
Investment Analyst	$ 85.3	$ 50.0	$ 73.9	$ 97.8	$ 56.9	$ 84.1	$ 111.2
IT Manager	$ 110.5	$ 53.0	$ 84.3	$ 115.6	$ 60.3	$ 96.0	$ 131.6

COUNTY ADMIN MNGR (AM) RANGES 2007-2013

	AM I Advertised Max	$ Change	% Change	AM II Advertised Max	$ Change	% Change	AM III Advertised Max	$ Change	% Change	AM III SPL Advertised Max	$ Change	% Change
2013	$ 105,456	$ -	0.00%	$ 131,123	$ -	0.00%	$ 161,969	$ -	0.00%	$ 197,995	$ -	0.00%
2012	$ 105,456	$ -	0.00%	$ 131,123	$ -	0.00%	$ 161,969	$ -	0.00%	$ 197,995	$ -	0.00%
2011	$ 105,456	$ 2,580	2.51%	$ 131,123	$ 3,203	2.50%	$ 161,969	$ 3,952	2.50%	$ 197,995	$ 4,826	2.50%
2010	$ 102,876	$ 2,516	2.51%	$ 127,920	$ 3,120	2.50%	$ 158,017	$ 3,848	2.50%	$ 193,169	$ 4,721	2.51%
2009	$ 100,360	$ 4,847	5.07%	$ 124,800	$ 5,991	5.04%	$ 154,169	$ 7,425	5.06%	$ 188,448	$ 9,090	5.07%
2008	$ 95,513	$ 4,597	5.06%	$ 118,809	$ 5,720	5.06%	$ 146,744	$ 7,052	5.05%	$ 179,358	$ 8,632	5.06%
2007	$ 90,916			$ 113,089			$ 139,692			$ 170,726		
Total Change from 2007 to 2013		$ 14,540	15.99%		$ 18,034	15.95%		$ 22,277	15.95%		$ 27,269	15.97%

	AM I Reserved for Outstanding Performance Max	$ Change	% Change	AM II Reserved for Outstanding Performance Max	$ Change	% Change	AM III Reserved for Outstanding Performance Max	$ Change	% Change	AM III SPL Reserved for Outstanding Performance Max	$ Change	% Change
2013	$ 115,648	$ -	0.00%	$ 145,184	$ -	0.00%	$ 189,467	$ -	0.00%	$ 209,123	$ -	0.00%
2012	$ 115,648	$ -	0.00%	$ 145,184	$ -	0.00%	$ 189,467	$ -	0.00%	$ 209,123	$ -	0.00%
2011	$ 115,648	$ 2,829	2.51%	$ 145,184	$ 3,557	2.51%	$ 189,467	$ 4,618	2.50%	$ 209,123	$ 5,096	2.50%
2010	$ 112,819	$ 2,746	2.49%	$ 141,627	$ 3,453	2.50%	$ 184,849	$ 4,513	2.50%	$ 204,027	$ 4,971	2.50%
2009	$ 110,073	$ 5,304	5.06%	$ 138,174	$ 6,656	5.06%	$ 180,336	$ 8,695	5.07%	$ 199,056	$ 9,589	5.06%
2008	$ 104,769	$ 5,054	5.07%	$ 131,518	$ 6,344	5.07%	$ 171,641	$ 8,278	5.07%	$ 189,467	$ 9,131	5.06%
2007	$ 99,715			$ 125,174			$ 163,363			$ 180,336		
Total Change from 2007 to 2013		$ 15,933	15.98%		$ 20,010	15.99%		$ 26,104	15.98%		$ 28,787	15.96%

RANGE DEVELOPMENT

BOARD DISCUSSION:

- Recommended ranges should weigh Public Sector data over Published Survey data

ACTION:

- Developed ranges that blend Hay Group information with additional data points of comparable positions.
- Public Sector Survey data points (as adjusted) – weighted 75%
- Published Survey data points (includes both private sector and public sector comparable positions) – weighted 25%
- Grouped positions by like duties and/or level of responsibility to maintain internal equity

RECOMMENDED RANGES

OCERS Direct Employees Position	Current Salary	Existing Range Min	Existing Range Midpoint	Existing Range Top	Sample Published Survey Range Min	Sample Published Survey Range Midpoint	Sample Published Survey Range Top	Sample Public Sector Range Min	Sample Public Sector Range Midpoint	Sample Public Sector Range Top	Sample Blended Range (Published Survey & Public Sector) Min	Sample Blended Range (Published Survey & Public Sector) Midpoint	Sample Blended Range (Published Survey & Public Sector) Top	Recommended Blended Range with Position Grouping Min	Recommended Blended Range with Position Grouping Midpoint	Recommended Blended Range with Position Grouping Top
Chief Executive Officer	$ 246.4	$ 157.9	$ 197.4	$ 236.8	$ 287.5	$ 383.3	$ 479.1	$ 153.9	$ 205.2	$ 256.5	$ 187.3	$ 249.7	$ 312.1	$ 187.3	$ 249.7	$ 312.1
Chief Investment Officer	$ 275.4	$ 200.0	$ 250.0	$ 300.0	$ 358.8	$ 478.4	$ 598.0	$ 160.3	$ 213.7	$ 267.1	$ 209.9	$ 279.9	$ 349.8	$ 209.9	$ 279.9	$ 349.8
Asst CEO, Finance & Internal Ops	$ 217.4	$ 110.9	$ 166.7	$ 222.6	$ 203.7	$ 271.6	$ 339.5	$ 132.6	$ 176.8	$ 221.0	$ 150.4	$ 200.5	$ 250.6	$ 160.5	$ 214.0	$ 267.5
Asst CEO, External & Legal Ops	$ 215.9	$ 110.9	$ 166.7	$ 222.6	$ 231.9	$ 309.3	$ 386.6	$ 150.2	$ 200.3	$ 250.4	$ 170.7	$ 227.5	$ 284.4	$ 160.5	$ 214.0	$ 267.5
Director of Investment Operations	$ 209.2	$ 110.9	$ 166.7	$ 222.6	$ 161.6	$ 202.1	$ 242.5	$ 124.1	$ 155.1	$ 186.2	$ 133.5	$ 166.9	$ 200.2	$ 125.1	$ 166.9	$ 208.6
Director of Finance	$ 137.0	$ 93.7	$ 117.1	$ 140.5	$ 129.1	$ 161.4	$ 193.6	$ 100.3	$ 125.3	$ 150.4	$ 107.5	$ 134.3	$ 161.2	$ 104.1	$ 130.2	$ 156.2
Director of Internal Audit	$ 134.0	$ 82.9	$ 103.7	$ 124.4	$ 106.1	$ 132.7	$ 159.2	$ 100.6	$ 125.7	$ 150.9	$ 102.0	$ 127.5	$ 152.9	$ 104.1	$ 130.2	$ 156.2
Director of IT	$ 136.4	$ 93.7	$ 117.1	$ 140.5	$ 163.4	$ 204.2	$ 245.0	$ 98.5	$ 123.1	$ 147.8	$ 114.7	$ 143.4	$ 172.1	$ 104.1	$ 130.2	$ 156.2
Director of Member Services	$ 134.0	$ 79.6	$ 99.5	$ 119.4	$ 102.3	$ 127.9	$ 153.4	$ 98.0	$ 122.5	$ 147.0	$ 99.1	$ 123.8	$ 148.6	$ 104.1	$ 130.2	$ 156.2
Director of Administrative Services	$ 100.0	$ 81.4	$ 101.7	$ 122.0	$ 101.1	$ 126.4	$ 151.7	$ 96.3	$ 120.4	$ 144.4	$ 97.5	$ 121.9	$ 146.2	$ 104.1	$ 130.2	$ 156.2
Attorney	$ 148.1	$ 107.0	$ 133.8	$ 160.6	$ 146.2	$ 182.8	$ 219.3	$ 106.3	$ 132.8	$ 159.4	$ 116.3	$ 145.3	$ 174.4	$ 116.3	$ 145.3	$ 174.4
Attorney	$ 145.2	$ 107.0	$ 133.8	$ 160.6	$ 146.2	$ 182.8	$ 219.3	$ 106.3	$ 132.8	$ 159.4	$ 116.3	$ 145.3	$ 174.4	$ 116.3	$ 145.3	$ 174.4
Attorney	$ 142.1	$ 107.0	$ 133.8	$ 160.6	$ 146.2	$ 182.8	$ 219.3	$ 106.3	$ 132.8	$ 159.4	$ 116.3	$ 145.3	$ 174.4	$ 116.3	$ 145.3	$ 174.4
Finance Manager	$ 97.2	$ 50.0	$ 73.9	$ 97.8	$ 85.2	$ 106.5	$ 127.8	$ 78.7	$ 98.3	$ 118.0	$ 80.3	$ 100.4	$ 120.5	$ 75.5	$ 94.4	$ 113.2
Finance Manager	$ 79.6	$ 50.0	$ 73.9	$ 97.8	$ 85.2	$ 106.5	$ 127.8	$ 78.7	$ 98.3	$ 118.0	$ 80.3	$ 100.4	$ 120.5	$ 75.5	$ 94.4	$ 113.2
Finance Manager	$ 80.0	$ 50.0	$ 73.9	$ 97.8	$ 85.2	$ 106.5	$ 127.8	$ 78.7	$ 98.3	$ 118.0	$ 80.3	$ 100.4	$ 120.5	$ 75.5	$ 94.4	$ 113.2
Member Services Manager	$ 91.2	$ 50.0	$ 73.9	$ 97.8	$ 67.5	$ 84.4	$ 101.2	$ 74.7	$ 93.3	$ 112.0	$ 72.9	$ 91.1	$ 109.3	$ 75.5	$ 94.4	$ 113.2
Member Services Manager	$ 98.8	$ 50.0	$ 73.9	$ 97.8	$ 67.5	$ 84.4	$ 101.2	$ 74.7	$ 93.3	$ 112.0	$ 72.9	$ 91.1	$ 109.3	$ 75.5	$ 94.4	$ 113.2
Internal Auditor	$ 116.2	$ 82.9	$ 103.7	$ 124.4	$ 91.2	$ 114.0	$ 136.7	$ 67.4	$ 84.2	$ 101.0	$ 73.3	$ 91.6	$ 110.0	$ 75.5	$ 94.4	$ 113.2
Communications Manager	$ 93.3	$ 50.0	$ 73.9	$ 97.8	$ 73.8	$ 92.3	$ 110.7	$ 68.4	$ 85.5	$ 102.6	$ 69.7	$ 87.2	$ 104.6	$ 75.5	$ 94.4	$ 113.2
Investment Analyst*	$ 94.3	$ 50.0	$ 73.9	$ 97.8	$ 68.0	$ 85.0	$ 102.0	$ 63.7	$ 79.7	$ 95.6	$ 64.8	$ 81.0	$ 97.2	$ 75.5	$ 94.4	$ 113.2
Investment Analyst	$ 85.3	$ 50.0	$ 73.9	$ 97.8	$ 68.0	$ 85.0	$ 102.0	$ 63.7	$ 79.7	$ 95.6	$ 64.8	$ 81.0	$ 97.2	$ 75.5	$ 94.4	$ 113.2
IT Manager	$ 110.5	$ 53.0	$ 84.3	$ 115.6	$ 98.2	$ 122.8	$ 147.3	$ 84.8	$ 106.0	$ 127.2	$ 88.1	$ 110.2	$ 132.2	$ 88.1	$ 110.2	$ 132.2

Mid points for sample Published Survey Range and sample Public Sector Range are the average of P50 and P75 base salary amounts

Hay Group Public Sector Data Points were adjusted to add and correct appropriate job classification comparisons as appropriate. Staff recalculated P50 & P75 using publically available data and then recalculated the average of all data points for each position

* One of the Investment Analyst positions has subsequently undergone a reclassification study to move to an Investment Officer. The salary range for the Investment Officer will be consistent with the IT Manager

Blended Range is calculated by weighting the Sample Published Survey data 25% and the Public Sector data 75%

IMPACT OF RECOMMENDED RANGES

- **Changing ranges _DOES NOT AUTOMATICALLY CHANGE EXISTING SALARIES_!!**
  - One employee (Director of Admin Services) would fall below the bottom of the range resulting in the only salary adjustment that would be implemented if recommended ranges are approved.
  - Changes to existing salaries can occur through annual performance review process with the funding of a board approved merit pool. This will be discussed as part of the 2014 budget.
- Current "Y-rated" employees would now have salaries within the approved range:
  - CEO (salary is set by Board of Retirement)
  - Director of Internal Audit
  - Member Services Director
  - Member Services Manager
- Five positions will be moved into a different group for internal equity purposes and to reflect market comparisons
  - Director of Investment Operations (range max decreases 6%- will be "Y-rated" at current salary)
  - Director of Internal Audit (range increases 26%)
  - Member Services Director (range increases 31%)
  - Admin Services Director (range increases 28%)
  - Internal Auditor (range decreases 9% - will be "Y-rated" at current salary)
- Salary ranges (except those mentioned above and the CEO) will increase between 9% - 20%

COMMITTEE RECOMMENDATION:

1. Approve the revised Compensation Philosophy
2. Approve the Recommended Ranges

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

MEMORANDUM

DATE: July 1, 2013

TO: Members, Board of Retirement

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

SUBJECT: **COMPENSATION PHILOSOPHY AND SALARY RANGES**

Recommendation:

Take appropriate action.

Background:

OCERS contracted with the Hay Group, a human resources consulting firm, in August 2012 to conduct a compensation study of all of the OCERS direct employees. The purpose of the study is to provide an objective and comprehensive comparison of OCERS' total compensation (salary, performance award and benefits) between OCERS and other public and private sector employees. Through the work of the Compensation Ad Hoc Committee (Committee), staff also drafted a Compensation Philosophy for OCERS direct employees. The philosophy provides guidelines on OCERS compensation package and reward strategy as well as grants direction to OCERS CEO on how to manage the Performance Management program. Unlike many of our Plan Sponsors, OCERS does not currently have a documented comprehensive philosophy in place.

The Board of Retirement received and discussed the Hay Group's study along with the Compensation Philosophy draft at its meeting on May 20, 2013. During the Board's discussion, there were several questions and points of view shared. Ultimately, the Board decided to delay a decision on the Compensation Philosophy in order to provide the public, including plan sponsors, more time to review and provide comments with a request to bring the item back to the Board.

Discussion:

Staff will be making a presentation to the Board of Retirement at the July 15, 2013 Board meeting which will provide: 1.) feedback received from plan sponsors, 2.) actions taken and analysis performed to address questions and concerns raised during the May 20, 2013 Board meeting and 3.) recommendations made by the Committee at their June 12, 2013 meeting (Attachment A).

The Committee reviewed the Compensation Philosophy and discussed how to address the concerns raised by Board members. The Committee unanimously approved revisions to the philosophy to be recommended to the full Board. The revisions include: provisions for the Board of Retirement to consider annually whether or not to approve salary range adjustments by CPI and whether to fund a merit pool and if so at what level. These annual required approvals will prevent any automatic or formulaic changes to salary ranges or funding of a merit pool (Attachment B).

Prior to developing the recommended salary ranges for the Committee to review (Attachment C), staff completed a detailed analysis on the positions and salary ranges used by Hay Group as comparable positions in their Public Sector data. In many cases, staff determined there were either additional and/or better comparable positions at the peer group agencies included in the Hay Group study. The updated data was incorporated into the data from Hay Group to calculate revised data points for P50 and P75 (Attachment D). Those revised data points were then used to develop the recommended ranges.

The Compensation Philosophy only provides a framework to develop the ranges. Some specific decisions had to be made in order to develop salary ranges. Those decisions, as agreed to by the Committee and discussed by the Board at the May 20, 2013 meeting, are as follows:

- Selection of midpoint – used the midpoint between P50 and P75 for all ranges
- Band width - +/- 25% for Executives and +/-20% for all other positions
- Blended market methodology – used a stronger weighting toward the revised public sector data – 75% while lighter weighting to the Published Survey Data-25% (which includes both private and public sector data)
- Internal Equity – grouped positions into the same pay range based upon internal comparability of positions and similar market value. The ranges were calculated using an average of the blended market ranges for all positions being combined into the range.

Included in the Salary Ranges Development schedules are four sample ranges for each OCERS direct position (Attachment E). The first three ranges were developed and are shown because they are necessary inputs into the recommended range that reflects the guidelines provided in the Compensation Philosophy. The ranges included in the schedule are:

1. Published Survey Data range
2. Public Sector Data range (Hay Group data was modified by staff to reflect appropriate and/or additional comparable positions along with publically available salary data for such comparable positions).
3. Weighted average range – using the two base salary midpoints (Published Survey Data=25% and Public Sector data=75%).
4. RECOMMENDED SALARY RANGES - Average of the weighted average midpoint (from range #3) for similarly valued positions (internal equity).

To assist in analyzing each range compared to the existing ranges, two additional pages have been included in Attachment E: a schedule that shows the dollar change and a schedule that shows the percentage change for the bottom, midpoint and top of each range.

The Committee unanimously approved that the recommended salary ranges be considered for approval by the full Board.

Staff has also developed the attached information and schedules to assist in answering questions raised during the May Board meeting:

- Plan Sponsor Compensation Survey responses (Attachment F)
- Pro Forma Ranges Adjusted by CPI between 2007-2013 (Attachment G)
- Management Classification Comparison to Plan Sponsors (Attachment H)
- County of Orange Administrative Manager ranges for 2007-2013 (Attachment I)

Conclusion:

The Compensation Ad Hoc Committee has recommended the Board approve the Compensation Philosophy (as revised) and the Recommended Salary Ranges. Staff also recommends the approval of revised position titles as noted on Attachment C.

Submitted by:

Cynthia Hockless

Cynthia Hockless
Administrative Services Director/HR Manager

Brenda M Shott

Brenda Shott
Asst. CEO, Finance & Internal Ops

OCERS COMPENSATION PHILOSOPHY

PURPOSE AND BACKGROUND

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

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

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

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

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

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

COMPENSATION STRATEGY

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

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

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

Adjustment to ranges: On an annual basis, during OCERS budget development, staff will present to the Board an adjustment to the approved base salary ranges. The proposed adjustment will be equivalent to the U.S Bureau of Labor and Statistics' most recently published 12 month Consumer Price Index-All Urban Consumers for the Los Angeles-Riverside-Orange County area. The adjustment to the approved salary range, if approved by the Board, will not automatically impact any individual's salary (unless an individual falls below the minimum point of the range at which point the individual's salary will be adjusted to be equal to the minimum point).

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

The annual funding of the merit pool will be presented to the Board for consideration along with the annual operating budget. The CEO will develop the recommended merit pool amount based upon both the performance of the portfolio for the year in which employees' performance is being evaluated and the county's governmental funds tax revenue for the most recent available financial statements or financial updates as follows:

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

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

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

Version Control:

Version	Date	Changes from previous version
1.0	05/09/2013	Initial Draft –to Board
2.0	07/03/2013	Revised Draft – to Board

Review:

Reviewed by	Signature	Date

Approval:

Approved by	Signature	Date

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Vice President & Associate Actuary
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VIA E-MAIL AND USPS

August 30, 2013

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

Re: Illustrations of Retirement Costs, Unfunded Actuarial Accrued Liability and Funded Ratio under Alternative Economic Scenarios

Dear Steve:

As requested, we have developed 15-year illustrations of the employer contribution rates for OCERS under three sets of market return "scenarios" after December 31, 2012. In this letter, we have also provided the Unfunded Actuarial Accrued Liability (UAAL) in dollars and the funded ratio associated with those projected employer contribution rates. These results have been prepared using the amortization periods approved by the Board at its meeting in June 2013.

The three market rate of return scenarios are as follows:

- Scenario #1: 0.00% for 2013 and 7.25% thereafter.
- Scenario #2: 7.25% for all years.
- Scenario #3: 14.50% for 2013 and 7.25% thereafter.

The projected contribution rates for the aggregate plan are provided in Attachment A. The projected contribution rates for the ten Rate Groups are provided in Attachment B. The projected UAAL and funded ratio for the aggregate plan are provided in Attachment C. The projected UAAL and funded ratio for the ten Rate Groups are provided in Attachments D through M.

This projection also reflects the potential employer savings as current employees leave employment and are replaced by new members covered under the tiers required by the California Public Employees' Pension Reform Act of 2013 (CalPEPRA) starting at January 1, 2013. Please note that some of the changes made by CalPEPRA, such as the sharing of the total Normal Cost on a 50:50 basis, may result in employer savings for current employees. As the impact of those potential savings has not been studied by OCERS, we have not included those in this illustration.

Methods and Assumptions

The methods and actuarial assumptions we used to prepare the employer contribution rates, the UAAL and the funded ratio are as summarized below:

- The illustrations are based on the actuarial assumptions and census data used in our December 31, 2012 valuation report for the Retirement Plan. With the exception of the market rates of return specified above, it is assumed that all actuarial assumptions would be met in the future and that there would be no change in the future for any of the actuarial assumptions adopted by the Board for the December 31, 2012 valuation.

- The detailed amortization schedule for OCERS' UAAL as of December 31, 2012 is provided in the valuation report. Any subsequent change in the UAAL due to actuarial gains or losses (e.g., from investment returns on actuarial value greater or less than the assumed 7.25% at market value) are amortized over separate 15-year periods.

- No adjustment has been made to reflect the long-term impact on OCERS of the two-year phase-in of the cost increase due to the change in the economic assumptions (especially the 7.25% investment return assumption) adopted by the Board for the December 31, 2012 valuation. (That impact, if reflected in our projections, would have increased the contribution rates for the System as a whole by about 0.2% of payroll starting with the December 31, 2013 valuation.) However, we have provided in Attachments A and B the contribution rates from the December 31, 2012 valuation both before and after the adjustment for the first year of the two-year phase-in.

- CalPEPRA prescribes new benefit formulas for members with a membership date on and after January 1, 2013. For Rate Groups 1, 3, 5, 9, 10 and 11, we have estimated the Normal Cost savings[1] associated with the enrollment of those employees under the new 2.5% at 67 formula. We have also estimated the changes in employee contributions in accordance with Section 7522.30 of CalPEPRA (i.e., 50:50 sharing of the total Normal Cost with the new employees).

  For Rate Group 2, with the exception of the County's attorneys, San Juan Capistrano employees and OCERS Management employees who will receive the 2.5% at 67 formula, all new employees in Rate Group 2 will receive the "new" 1.62% at 65 formula.

[1] To estimate the savings, we have made a simplifying assumption that current active members would be replaced over the next 20 years (starting in 2013) by new members under 2.5% at 67 on a prorated basis.

We assumed that the proportion of the total payrolls from County's attorneys, San Juan Capistrano employees and OCERS Management employees in the future would remain unchanged from that observed at the December 31, 2011[2] valuation. As of December 31, 2011, payroll for active members in these three categories represented about 7.5% of the total payroll for all members in Rate Group 2. We have estimated the Normal Cost savings[3] associated with the enrollment of new members under the two new formulas. We have also estimated the changes in employee contributions in accordance with Section 7522.30 of CalPEPRA.

- For Rate Group 6, 7 and 8 members with a membership date on and after January 1, 2013, we have estimated the Normal Cost savings[4] associated with the enrollment of those members under the new 2.7% at 57 formula. We have also estimated the changes in employee contributions in accordance with Section 7522.30 of CalPEPRA.

- Please note that new members will be enrolled under the CalPEPRA benefit formulas effective January 1, 2013 and it is anticipated that the actual payrolls for these members will first be reported in the December 31, 2013 valuation.

  In preparing the contribution rates for each Rate Group (and the aggregate rate for the System as a whole), we have utilized the projected proportions of payroll for the members covered under the pre-CalPEPRA and the CalPEPRA benefit formulas starting with the December 31, 2013 valuation and in each subsequent valuation.

  As the results from the December 31, 2013 valuation will not be used in setting the contribution rates until the 2015/2016 fiscal year, the contribution rates provided in these illustrations are somewhat overstated since employers in the different Rate Groups will start to pay lower contribution rates for new hires under the CalPEPRA benefit formulas effective January 1, 2013.

- We understand that, with the exception of new members who would be covered under the "new" 1.62% at 65 formula, in the determination of pension benefits under the CalPEPRA formulas the maximum compensation that can be taken into account for new members on and after January 1, 2013 is equal to 120% of the Social Security Taxable Wage Base ($136,440 in 2013). To the extent this provision will limit compensation of the new members, our assumption that the total payroll will increase by 3.75% each year over the projection period (for use in determining the contribution rate for the UAAL) may be overstated somewhat.

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[2] This is the most recent date for which data was provided by OCERS to isolate the County's attorneys.

[3] To estimate the savings, we have made a simplifying assumption that current County's attorneys, San Juan Capistrano and OCERS Management active members would be replaced over the next 20 years (starting in 2013) by new members under 2.5% at 67 on a prorated basis. All other active members would be replaced over the next 20 years (starting in 2013) by new members under 1.62% at 65 on a prorated basis.

[4] To estimate the savings, we have made a simplifying assumption that current active members would be replaced over the next 20 years (starting in 2013) by new members under 2.7% at 57 on a prorated basis.

- Other than the above adjustments to the Normal Costs from the new CalPEPRA formulas, we have not included any other adjustments for the pre-CalPEPRA members such as the anticipated reduction in proportion (and hence in the associated Normal Cost) of existing Tier 1 active members (with pension benefits based on final one year average formula) relative to the increase in proportion of existing Tier 2 active members (with pension benefits based on final three year average formula) for members in any Rate Group.

Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as illustrations of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

This study was prepared under the supervision of Andy Yeung, ASA, MAAA. I am a member of the American Academy of Actuaries and meet the qualification requirements to provide the opinion contained herein.

Please let us know if you have any questions.

Sincerely,

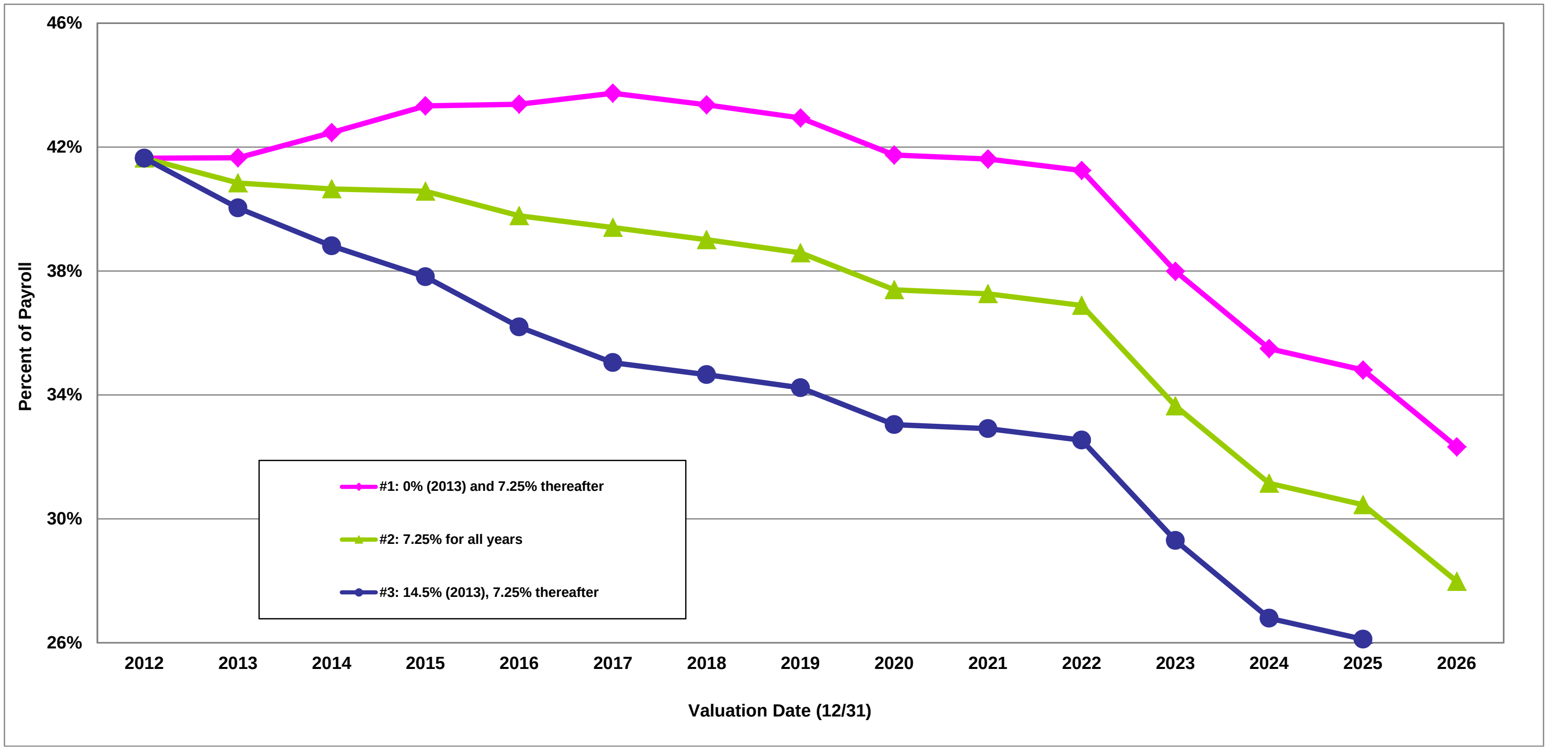
Andy Yeung

Andy Yeung

MYM/hy
Enclosures

cc: Brenda Shott
Julie Wyne

Attachment A: Projected Employer Rates
Aggregate Plan



Valuation Date (12/31)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	41.6%	41.7%	42.5%	43.3%	43.4%	43.7%	43.4%	42.9%	41.7%	41.6%	41.2%	38.0%	35.5%	34.8%	32.3%
#2: 7.25% for all years	41.6%	40.8%	40.7%	40.6%	39.8%	39.4%	39.0%	38.6%	37.4%	37.3%	36.9%	33.6%	31.1%	30.5%	28.0%
#3: 14.5% (2013), 7.25% thereafter	41.6%	40.0%	38.8%	37.8%	36.2%	35.0%	34.7%	34.2%	33.0%	32.9%	32.5%	29.3%	26.8%	26.1%	23.6%

Rates shown above have not been adjusted for the two-year phase-in of the cost increase due to the change in the economic assumptions adopted by the Board for the December 31, 2012 valuation. For instance, the aggregate employer contribution rate as of December 31, 2012 after the two-year phase-in is 39.3% and the two-year phase-in, if reflected in our projections would have increased the contribution rates for the System as a whole by about 0.2% of payroll starting with the December 31, 2013 valuation.

Attachment B
Projected Employer Rates by Rate Group
Scenario 1: 0% for 2013 and 7.25% thereafter

	Valuation Date (12/31)														
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
General															
RG #1 - Plans A, B and U (non-OCTA, non-OCSD)	22.6%	22.8%	23.7%	24.5%	24.8%	25.2%	25.2%	25.1%	25.8%	25.3%	26.0%	24.0%	21.5%	22.4%	21.2%
RG #2 - Plans I, J, O, P, S, T and U	39.4%	39.4%	40.1%	40.8%	40.7%	41.0%	40.6%	40.1%	38.6%	38.4%	37.8%	34.9%	32.4%	31.6%	29.0%
RG #3 - Plans B, G, H and U (Law Library, OCSD)	38.3%	38.5%	39.3%	40.1%	40.3%	40.7%	40.5%	40.2%	38.1%	37.5%	37.3%	35.6%	33.9%	31.2%	27.9%
RG #5 - Plans A, B and U (OCTA)	28.3%	28.5%	29.4%	30.4%	30.7%	31.2%	31.2%	31.1%	30.9%	31.6%	32.8%	30.0%	27.6%	27.7%	25.6%
RG #9 - Plans M, N and U (TCA)	27.2%	27.2%	27.7%	28.2%	28.3%	28.6%	28.4%	28.2%	28.5%	29.0%	29.0%	27.7%	25.7%	26.3%	26.7%
RG #10 - Plans I, J, M, N and U (OCFA)	38.7%	38.7%	39.3%	39.9%	39.9%	40.2%	39.8%	39.4%	38.0%	35.4%	36.5%	35.5%	33.5%	32.7%	29.0%
RG #11 - Plans M and N, future service, and U (Cemetery)	24.6%	24.7%	25.2%	25.8%	25.7%	25.9%	25.5%	25.1%	25.2%	24.5%	23.6%	21.4%	21.4%	20.6%	19.6%
Safety															
RG #6 - Plans E, F and V (Probation)	43.2%	43.1%	43.9%	44.7%	44.7%	45.1%	44.7%	44.1%	41.7%	40.9%	40.7%	38.0%	36.9%	36.5%	34.9%
RG #7 - Plans E, F, Q, R and V (Law Enforcement)	61.0%	61.1%	62.6%	64.1%	64.4%	65.2%	64.7%	64.3%	63.9%	64.6%	64.4%	58.6%	55.6%	54.8%	52.2%
RG #8 - Plans E, F, Q, R and V (Fire Authority)	53.0%	52.9%	53.8%	54.8%	54.8%	55.3%	54.7%	54.2%	53.3%	53.3%	52.4%	47.4%	44.2%	44.1%	41.7%

Rates shown above have not been adjusted for the two-year phase-in of the cost increase due to the change in the economic assumptions adopted by the Board for the December 31, 2012 valuation. For instance, the employer contribution rates as of December 31, 2012 after the two-year phase-in are as follows:

Rate Group #1	21.0%
Rate Group #2	37.3%
Rate Group #3	36.4%
Rate Group #5	26.6%
Rate Group #9	25.7%
Rate Group #10	36.7%
Rate Group #11	23.0%
Rate Group #6	40.5%
Rate Group #7	57.3%
Rate Group #8	49.8%

Note that the two-year phase-in, if reflected in our projections would have increased the contribution rates for the System as a whole by about 0.2% of payroll starting with the December 31, 2013 valuation. We have not determined that impact for each Rate Group.

Attachment B
Projected Employer Rates by Rate Group
Scenario 2: 7.25% for all years

	Valuation Date (12/31)														
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
General															
RG #1 - Plans A, B and U (non-OCTA, non-OCSD)	22.6%	22.2%	22.3%	22.4%	22.1%	22.0%	21.9%	21.9%	22.6%	22.1%	22.8%	20.8%	18.3%	19.2%	18.0%
RG #2 - Plans I, J, O, P, S, T and U	39.4%	38.6%	38.4%	38.3%	37.5%	37.0%	36.6%	36.1%	34.6%	34.4%	33.8%	30.9%	28.4%	27.6%	25.0%
RG #3 - Plans B, G, H and U (Law Library, OCSD)	38.3%	37.8%	37.8%	37.8%	37.3%	37.0%	36.8%	36.5%	34.4%	33.8%	33.6%	32.0%	30.2%	27.5%	24.3%
RG #5 - Plans A, B and U (OCTA)	28.3%	27.8%	27.9%	28.1%	27.7%	27.7%	27.6%	27.5%	27.3%	28.0%	29.2%	26.4%	24.1%	24.1%	22.1%
RG #9 - Plans M, N and U (TCA)	27.2%	26.8%	26.7%	26.7%	26.3%	26.1%	25.9%	25.7%	26.0%	26.5%	26.5%	25.2%	23.2%	23.8%	24.2%
RG #10 - Plans I, J, M, N and U (OCFA)	38.7%	38.1%	37.9%	37.8%	37.2%	36.8%	36.5%	36.1%	34.6%	32.0%	33.2%	32.1%	30.2%	29.3%	25.6%
RG #11 - Plans M and N, future service, and U (Cemetery)	24.6%	24.1%	23.9%	23.9%	23.2%	22.9%	22.7%	22.4%	22.6%	21.9%	21.1%	18.9%	18.9%	18.2%	17.2%
Safety															
RG #6 - Plans E, F and V (Probation)	43.2%	42.4%	42.1%	42.0%	41.2%	40.7%	40.3%	39.8%	37.4%	36.5%	36.3%	33.7%	32.6%	32.2%	30.6%
RG #7 - Plans E, F, Q, R and V (Law Enforcement)	61.0%	59.8%	59.7%	59.7%	58.7%	58.3%	57.9%	57.5%	57.0%	57.8%	57.5%	51.7%	48.8%	48.0%	45.3%
RG #8 - Plans E, F, Q, R and V (Fire Authority)	53.0%	51.9%	51.6%	51.4%	50.4%	49.8%	49.3%	48.7%	47.9%	47.8%	46.9%	41.9%	38.8%	38.6%	36.3%

Rates shown above have <u>not</u> been adjusted for the two-year phase-in of the cost increase due to the change in the economic assumptions adopted by the Board for the December 31, 2012 valuation. For instance, the employer contribution rates as of December 31, 2012 after the two-year phase-in are as follows:

Rate Group #1	21.0%
Rate Group #2	37.3%
Rate Group #3	36.4%
Rate Group #5	26.6%
Rate Group #9	25.7%
Rate Group #10	36.7%
Rate Group #11	23.0%
Rate Group #6	40.5%
Rate Group #7	57.3%
Rate Group #8	49.8%

Note that the two-year phase-in, if reflected in our projections would have increased the contribution rates for the System as a whole by about 0.2% of payroll starting with the December 31, 2013 valuation. We have not determined that impact for each Rate Group.

Attachment B
Projected Employer Rates by Rate Group
Scenario 3: 14.5% for 2013 and 7.25% thereafter

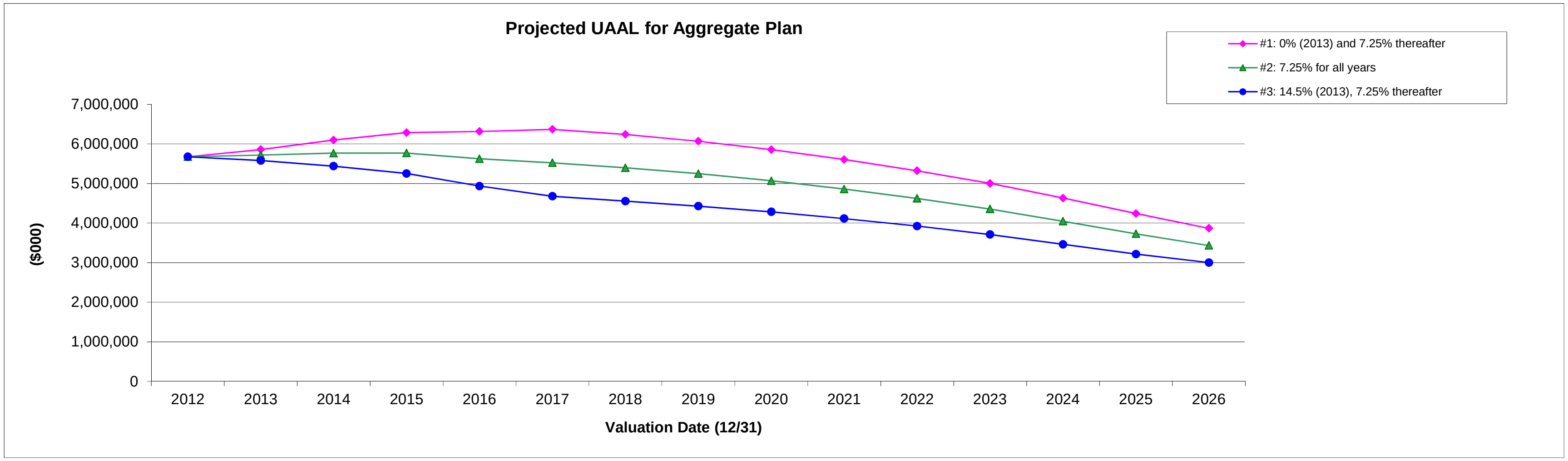
	Valuation Date (12/31)														
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
General															
RG #1 - Plans A, B and U (non-OCTA, non-OCSD)	22.6%	21.6%	20.9%	20.3%	19.4%	18.8%	18.7%	18.7%	19.3%	18.8%	19.6%	17.6%	15.1%	16.0%	14.8%
RG #2 - Plans I, J, O, P, S, T and U	39.4%	37.9%	36.7%	35.7%	34.2%	33.1%	32.6%	32.1%	30.7%	30.5%	29.8%	26.9%	24.4%	23.6%	21.0%
RG #3 - Plans B, G, H and U (Law Library, OCSD)	38.3%	37.2%	36.3%	35.5%	34.3%	33.4%	33.1%	32.8%	30.8%	30.1%	30.0%	28.3%	26.6%	23.9%	20.6%
RG #5 - Plans A, B and U (OCTA)	28.3%	27.2%	26.4%	25.9%	24.8%	24.1%	24.1%	24.0%	23.8%	24.5%	25.7%	22.9%	20.5%	20.6%	18.6%
RG #9 - Plans M, N and U (TCA)	27.2%	26.3%	25.7%	25.1%	24.2%	23.5%	23.4%	23.2%	23.5%	24.0%	24.0%	22.7%	20.7%	21.4%	21.7%
RG #10 - Plans I, J, M, N and U (OCFA)	38.7%	37.5%	36.6%	35.8%	34.4%	33.5%	33.1%	32.7%	31.3%	28.6%	29.8%	28.7%	26.8%	26.0%	22.3%
RG #11 - Plans M and N, future service, and U (Cemetery)	24.6%	23.5%	22.7%	22.0%	20.9%	20.1%	19.9%	19.7%	19.9%	19.3%	18.5%	16.4%	16.4%	15.7%	14.7%
Safety															
RG #6 - Plans E, F and V (Probation)	43.2%	41.6%	40.4%	39.3%	37.6%	36.4%	36.0%	35.5%	33.1%	32.2%	32.0%	29.4%	28.3%	27.9%	26.3%
RG #7 - Plans E, F, Q, R and V (Law Enforcement)	61.0%	58.5%	56.8%	55.4%	53.0%	51.4%	51.0%	50.6%	50.2%	50.9%	50.7%	44.9%	41.9%	41.1%	38.5%
RG #8 - Plans E, F, Q, R and V (Fire Authority)	53.0%	50.9%	49.4%	48.0%	45.9%	44.4%	43.8%	43.3%	42.5%	42.4%	41.5%	36.5%	33.4%	33.2%	30.9%

Rates shown above have not been adjusted for the two-year phase-in of the cost increase due to the change in the economic assumptions adopted by the Board for the December 31, 2012 valuation. For instance, the employer contribution rates as of December 31, 2012 after the two-year phase-in are as follows:

Rate Group #1	21.0%
Rate Group #2	37.3%
Rate Group #3	36.4%
Rate Group #5	26.6%
Rate Group #9	25.7%
Rate Group #10	36.7%
Rate Group #11	23.0%
Rate Group #6	40.5%
Rate Group #7	57.3%
Rate Group #8	49.8%

Note that the two-year phase-in, if reflected in our projections would have increased the contribution rates for the System as a whole by about 0.2% of payroll starting with the December 31, 2013 valuation. We have not determined that impact for each Rate Group.

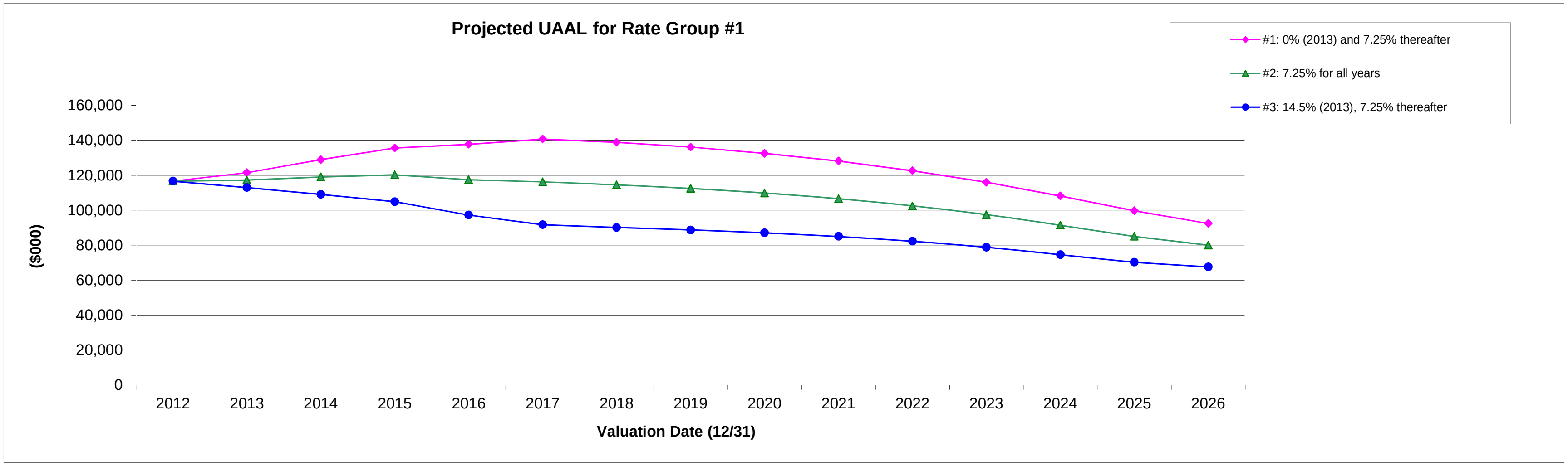
Attachment C
Projected UAAL and Funded Ratio for Aggregate Plan



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	5,675,680	5,859,753	6,098,822	6,288,194	6,315,502	6,369,296	6,240,969	6,070,411	5,857,562	5,606,719	5,323,879	5,003,139	4,631,041	4,243,221	3,869,083
#2: 7.25% for all years	5,675,680	5,720,052	5,768,779	5,771,410	5,625,788	5,524,004	5,398,153	5,249,077	5,070,456	4,860,064	4,624,264	4,357,649	4,047,530	3,730,263	3,436,024
#3: 14.5% (2013), 7.25% thereafter	5,675,680	5,580,351	5,438,736	5,254,623	4,936,258	4,679,104	4,555,658	4,428,189	4,284,154	4,114,271	3,925,457	3,713,024	3,464,949	3,218,172	3,003,761

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	62.5%	63.7%	64.4%	65.5%	67.4%	68.9%	71.3%	73.6%	75.9%	78.2%	80.4%	82.5%	84.6%	86.6%	88.4%
#2: 7.25% for all years	62.5%	64.5%	66.4%	68.3%	70.9%	73.1%	75.2%	77.2%	79.1%	81.1%	82.9%	84.8%	86.6%	88.2%	89.7%
#3: 14.5% (2013), 7.25% thereafter	62.5%	65.4%	68.3%	71.2%	74.5%	77.2%	79.0%	80.7%	82.4%	84.0%	85.5%	87.0%	88.5%	89.8%	91.0%

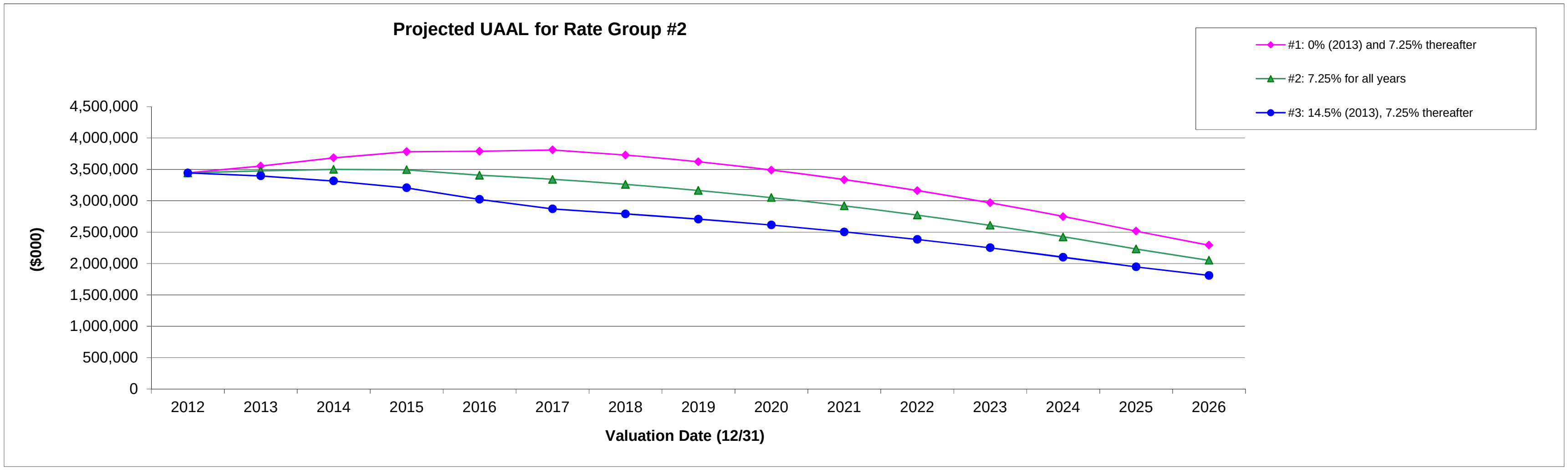
Attachment D
Projected UAAL and Funded Ratio for Rate Group #1
Plans A, B and U (non-OCTA, non-OCSD)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	116,700	121,520	128,977	135,622	137,747	140,713	138,903	136,180	132,568	128,188	122,645	116,031	108,197	99,785	92,458
#2: 7.25% for all years	116,700	117,254	119,047	120,284	117,543	116,268	114,566	112,486	109,880	106,681	102,506	97,468	91,440	85,082	80,075
#3: 14.5% (2013), 7.25% thereafter	116,700	112,988	109,113	104,930	97,303	91,758	90,154	88,713	87,111	85,095	82,297	78,840	74,617	70,308	67,627

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	71.5%	71.8%	71.5%	71.5%	72.4%	73.1%	74.6%	76.2%	77.9%	79.5%	81.2%	82.9%	84.7%	86.4%	87.9%
#2: 7.25% for all years	71.5%	72.8%	73.7%	74.7%	76.4%	77.8%	79.1%	80.4%	81.6%	82.9%	84.3%	85.7%	87.1%	88.4%	89.5%
#3: 14.5% (2013), 7.25% thereafter	71.5%	73.8%	75.9%	77.9%	80.5%	82.5%	83.5%	84.5%	85.5%	86.4%	87.4%	88.4%	89.4%	90.4%	91.1%

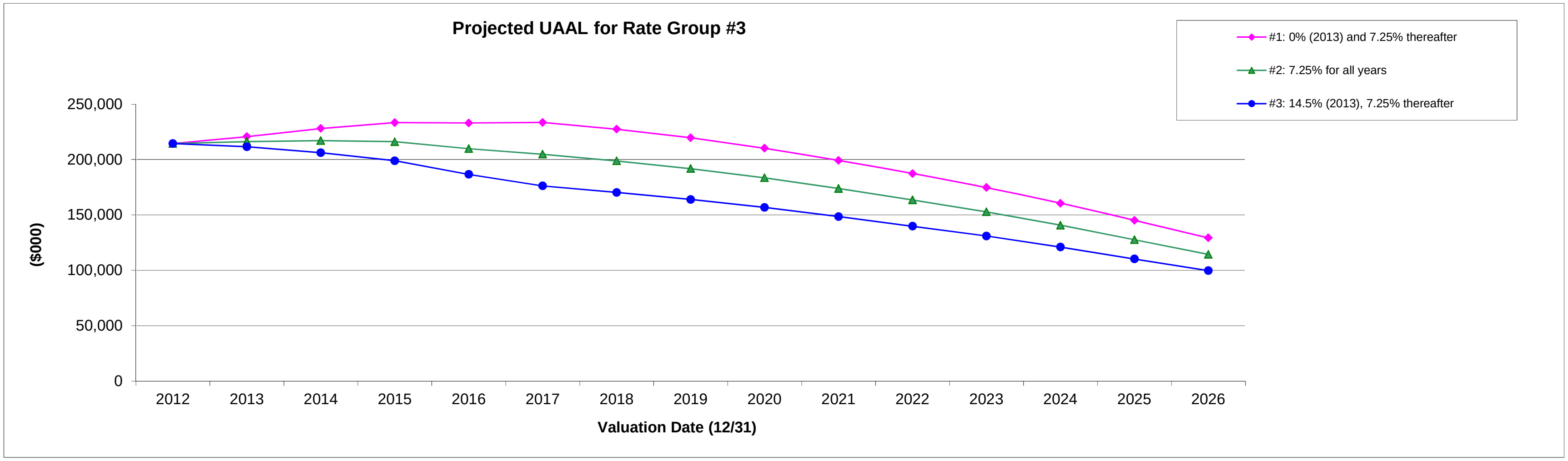
Attachment E
Projected UAAL and Funded Ratio for Rate Group #2
Plans I, J, O, P, S, T and U



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	3,442,983	3,552,879	3,683,225	3,782,216	3,789,535	3,810,019	3,728,241	3,621,315	3,489,176	3,334,268	3,161,866	2,968,898	2,747,448	2,516,306	2,291,118
#2: 7.25% for all years	3,442,983	3,474,876	3,499,176	3,494,282	3,405,654	3,339,975	3,259,437	3,164,420	3,051,314	2,918,841	2,772,606	2,609,810	2,422,910	2,231,016	2,050,276
#3: 14.5% (2013), 7.25% thereafter	3,442,983	3,396,872	3,315,121	3,206,325	3,021,669	2,869,722	2,790,531	2,707,543	2,613,602	2,503,644	2,383,591	2,250,986	2,098,656	1,946,030	1,809,596

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	60.6%	61.7%	62.6%	63.7%	65.6%	67.3%	69.6%	72.0%	74.4%	76.7%	79.0%	81.2%	83.4%	85.4%	87.3%
#2: 7.25% for all years	60.6%	62.5%	64.4%	66.5%	69.1%	71.3%	73.5%	75.5%	77.6%	79.6%	81.6%	83.5%	85.3%	87.1%	88.7%
#3: 14.5% (2013), 7.25% thereafter	60.6%	63.4%	66.3%	69.2%	72.6%	75.3%	77.3%	79.1%	80.8%	82.5%	84.2%	85.7%	87.3%	88.7%	90.0%

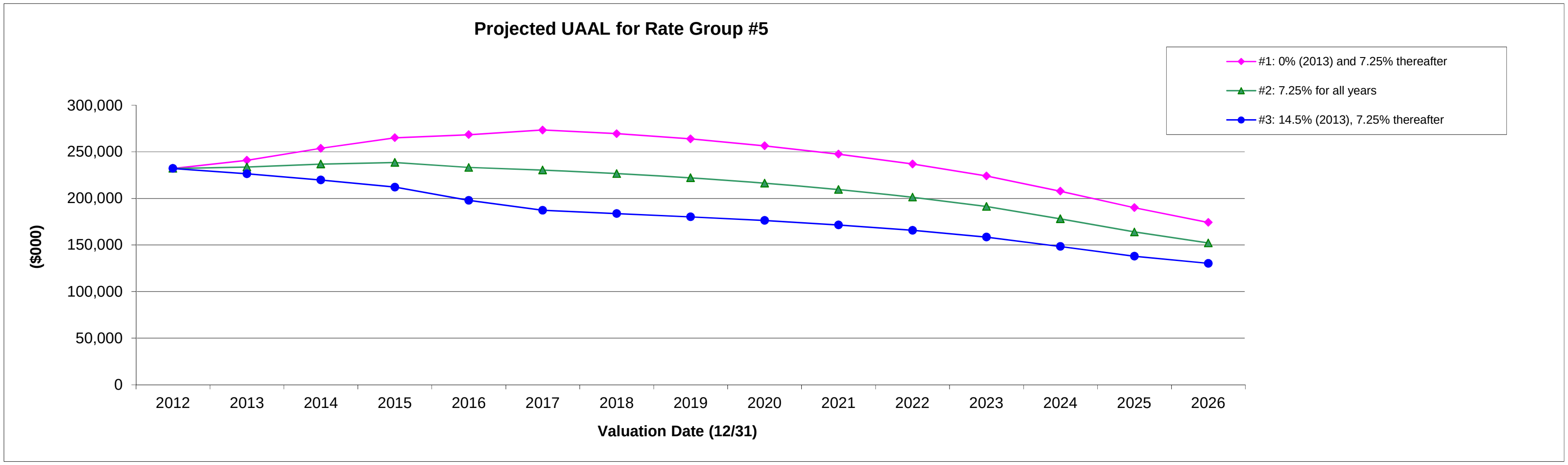
Attachment F
Projected UAAL and Funded Ratio for Rate Group #3
Plans B, G, H and U (Law Library, OCSD)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	214,503	220,757	228,037	233,341	233,006	233,483	227,415	219,663	210,202	199,186	187,337	174,789	160,590	145,148	129,240
#2: 7.25% for all years	214,503	216,174	217,115	216,099	209,823	204,860	198,850	191,812	183,508	173,853	163,586	152,859	140,739	127,667	114,442
#3: 14.5% (2013), 7.25% thereafter	214,503	211,591	206,195	198,872	186,664	176,266	170,307	163,985	156,845	148,556	139,880	130,990	120,971	110,283	99,749

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	59.0%	60.6%	62.0%	63.6%	66.0%	68.1%	70.8%	73.6%	76.2%	78.8%	81.3%	83.6%	85.8%	87.9%	89.8%
#2: 7.25% for all years	59.0%	61.4%	63.8%	66.3%	69.4%	72.0%	74.5%	76.9%	79.3%	81.5%	83.7%	85.6%	87.5%	89.3%	91.0%
#3: 14.5% (2013), 7.25% thereafter	59.0%	62.2%	65.6%	69.0%	72.7%	75.9%	78.2%	80.3%	82.3%	84.2%	86.0%	87.7%	89.3%	90.8%	92.1%

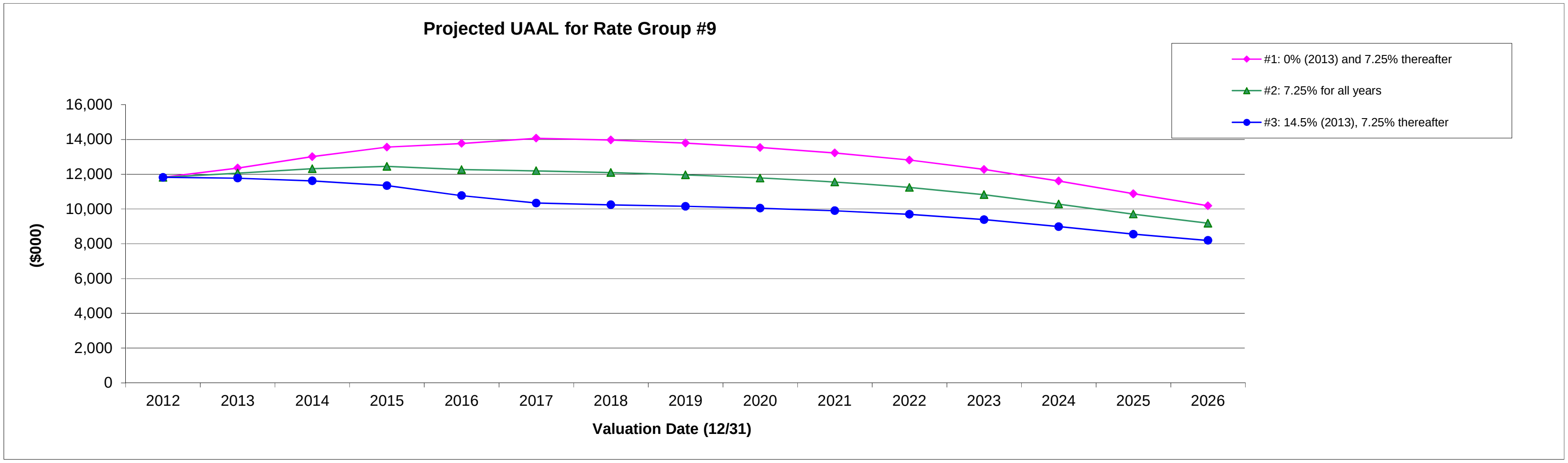
Attachment G
Projected UAAL and Funded Ratio for Rate Group #5
Plans A, B and U (OCTA)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	232,236	240,957	253,841	265,174	268,531	273,460	269,573	263,895	256,458	247,496	236,958	224,155	207,740	190,091	174,184
#2: 7.25% for all years	232,236	233,716	236,815	238,639	233,274	230,416	226,663	222,089	216,400	209,500	201,373	191,342	178,085	164,031	152,195
#3: 14.5% (2013), 7.25% thereafter	232,236	226,474	219,787	212,089	197,985	187,335	183,719	180,241	176,304	171,469	165,743	158,481	148,394	137,949	130,199

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	68.0%	68.7%	69.0%	69.5%	70.9%	72.1%	74.0%	76.0%	78.0%	79.9%	81.8%	83.7%	85.7%	87.6%	89.3%
#2: 7.25% for all years	68.0%	69.7%	71.1%	72.6%	74.7%	76.5%	78.2%	79.8%	81.4%	83.0%	84.6%	86.1%	87.8%	89.3%	90.6%
#3: 14.5% (2013), 7.25% thereafter	68.0%	70.6%	73.2%	75.6%	78.6%	80.9%	82.3%	83.6%	84.9%	86.1%	87.3%	88.5%	89.8%	91.0%	92.0%

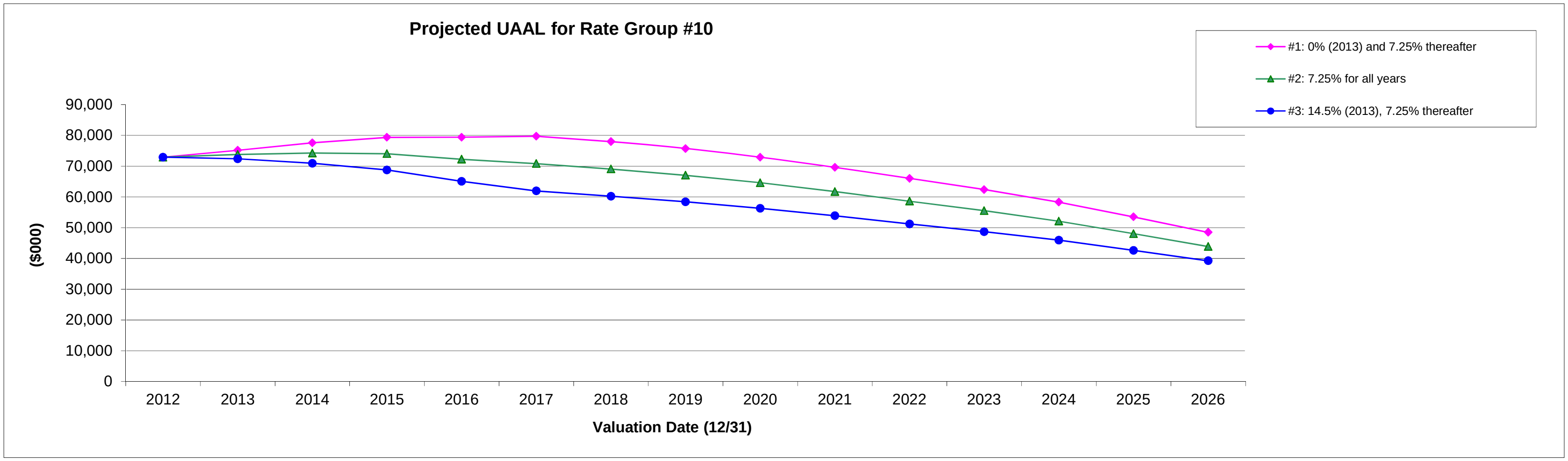
Attachment H
Projected UAAL and Funded Ratio for Rate Group #9
Plans M, N and U (TCA)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	11,822	12,352	13,010	13,558	13,769	14,070	13,968	13,790	13,537	13,221	12,813	12,275	11,606	10,876	10,187
#2: 7.25% for all years	11,822	12,064	12,315	12,451	12,267	12,199	12,095	11,960	11,780	11,550	11,243	10,821	10,283	9,702	9,181
#3: 14.5% (2013), 7.25% thereafter	11,822	11,775	11,621	11,346	10,772	10,341	10,241	10,152	10,047	9,903	9,696	9,389	8,982	8,550	8,196

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	61.9%	63.6%	64.9%	66.4%	68.6%	70.5%	73.0%	75.4%	77.7%	79.9%	81.9%	84.0%	85.9%	87.8%	89.4%
#2: 7.25% for all years	61.9%	64.4%	66.7%	69.1%	72.1%	74.4%	76.6%	78.7%	80.6%	82.4%	84.1%	85.9%	87.5%	89.1%	90.4%
#3: 14.5% (2013), 7.25% thereafter	61.9%	65.3%	68.6%	71.9%	75.5%	78.3%	80.2%	81.9%	83.4%	84.9%	86.3%	87.7%	89.1%	90.4%	91.4%

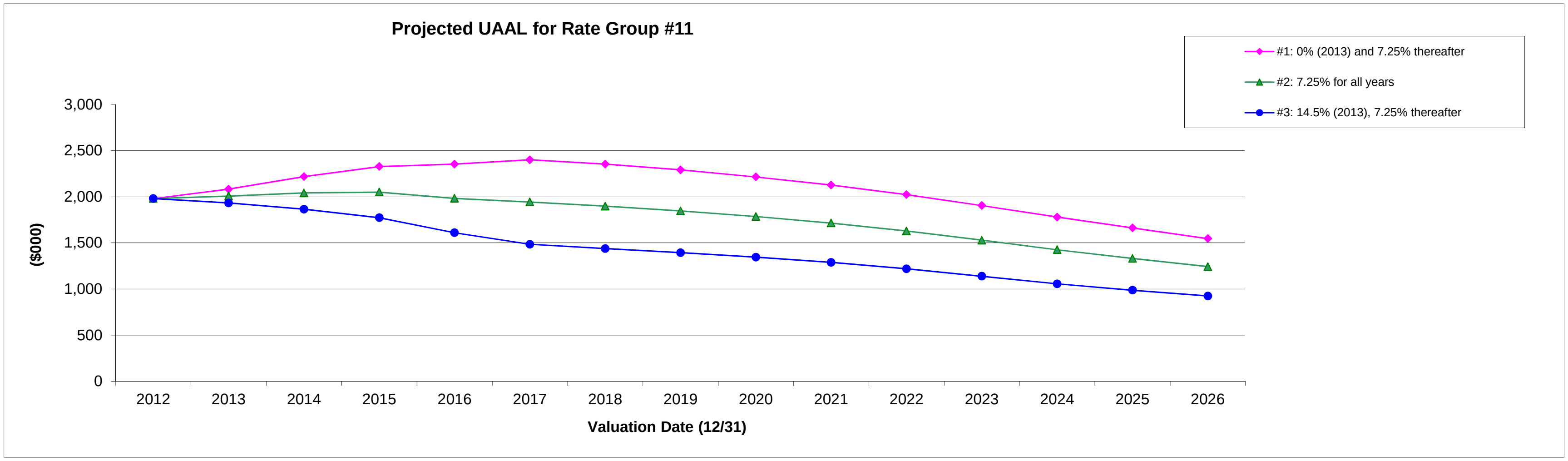
Attachment I
Projected UAAL and Funded Ratio for Rate Group #10
Plans I, J, M, N and U (OCFA)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	72,888	75,149	77,558	79,344	79,383	79,704	77,960	75,694	72,899	69,623	65,994	62,353	58,286	53,493	48,463
#2: 7.25% for all years	72,888	73,759	74,221	74,043	72,214	70,802	69,070	67,022	64,584	61,727	58,587	55,511	52,091	48,035	43,837
#3: 14.5% (2013), 7.25% thereafter	72,888	72,370	70,886	68,748	65,057	61,922	60,201	58,371	56,290	53,854	51,203	48,690	45,915	42,593	39,227

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	56.0%	57.9%	59.7%	61.7%	64.3%	66.6%	69.5%	72.4%	75.1%	77.8%	80.3%	82.5%	84.7%	86.8%	88.8%
#2: 7.25% for all years	56.0%	58.7%	61.4%	64.2%	67.5%	70.3%	73.0%	75.5%	78.0%	80.3%	82.5%	84.4%	86.3%	88.2%	89.8%
#3: 14.5% (2013), 7.25% thereafter	56.0%	59.5%	63.2%	66.8%	70.7%	74.1%	76.5%	78.7%	80.8%	82.8%	84.7%	86.4%	87.9%	89.5%	90.9%

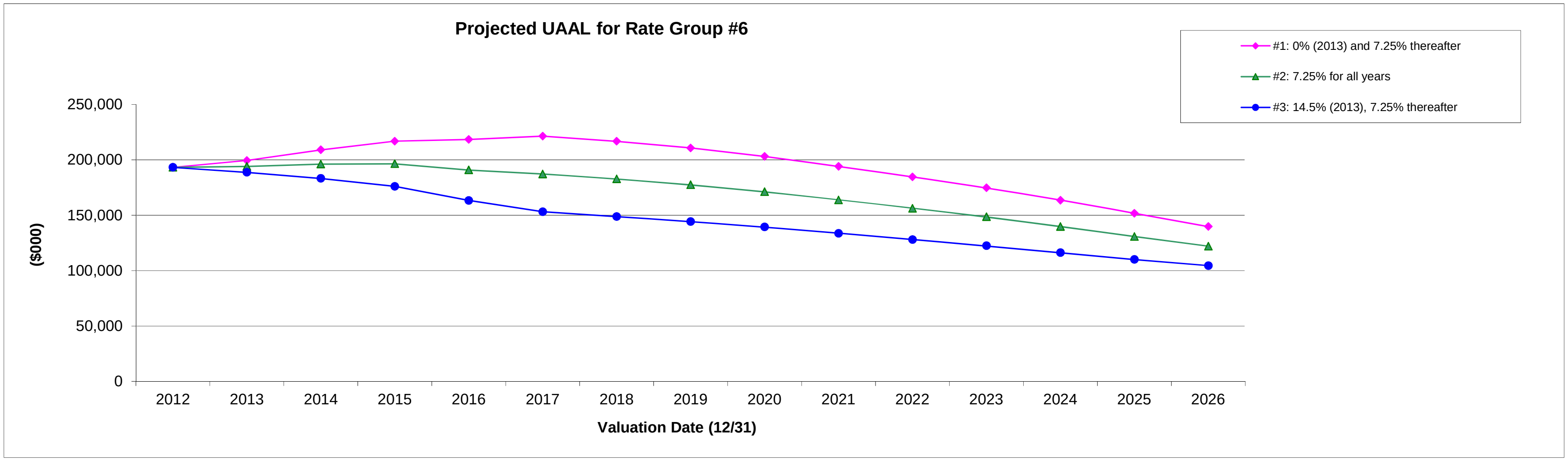
Attachment J
Projected UAAL and Funded Ratio for Rate Group #11
Plans M and N, future service, and U (Cemetery)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	1,981	2,082	2,219	2,328	2,354	2,400	2,354	2,292	2,215	2,127	2,024	1,905	1,780	1,662	1,546
#2: 7.25% for all years	1,981	2,008	2,042	2,050	1,983	1,944	1,898	1,847	1,786	1,715	1,629	1,529	1,425	1,332	1,242
#3: 14.5% (2013), 7.25% thereafter	1,981	1,933	1,865	1,772	1,610	1,485	1,438	1,393	1,345	1,289	1,219	1,139	1,056	987	924

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	71.8%	72.5%	72.9%	73.6%	75.2%	76.4%	78.5%	80.5%	82.4%	84.2%	86.0%	87.7%	89.2%	90.6%	91.8%
#2: 7.25% for all years	71.8%	73.5%	75.0%	76.7%	79.1%	80.9%	82.7%	84.3%	85.8%	87.3%	88.7%	90.1%	91.4%	92.4%	93.4%
#3: 14.5% (2013), 7.25% thereafter	71.8%	74.5%	77.2%	79.9%	83.0%	85.4%	86.9%	88.1%	89.3%	90.4%	91.6%	92.6%	93.6%	94.4%	95.1%

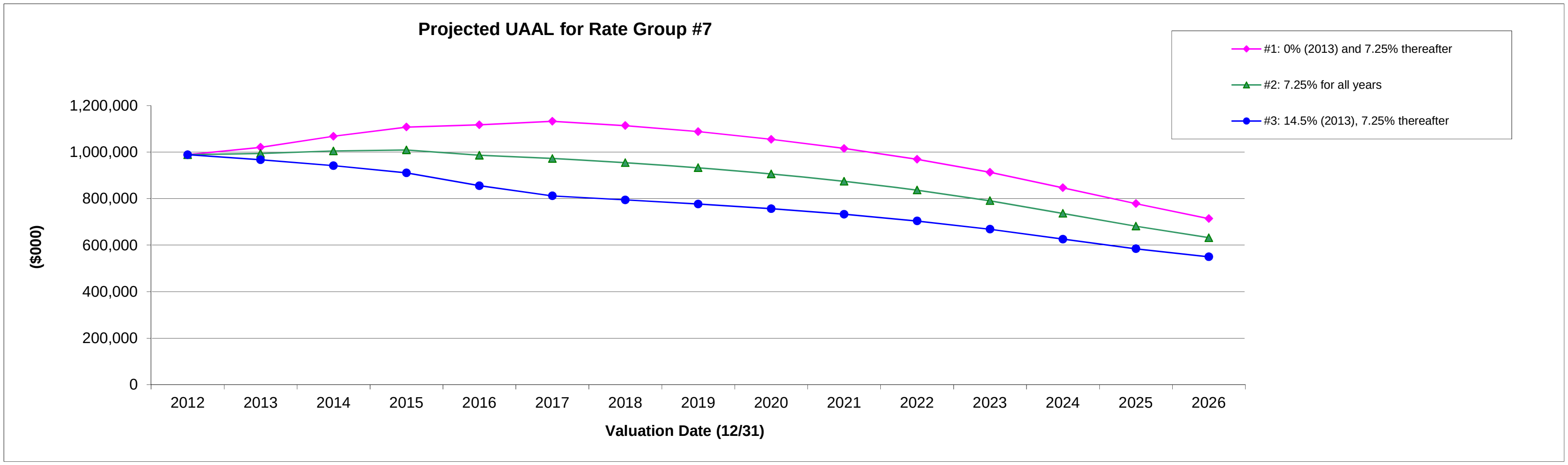
Attachment K
Projected UAAL and Funded Ratio for Rate Group #6
Plans E, F and V (Probation)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	193,245	199,481	209,033	216,906	218,430	221,364	216,827	210,723	203,068	194,087	184,593	174,775	163,543	151,708	139,758
#2: 7.25% for all years	193,245	194,108	196,150	196,490	190,880	187,227	182,744	177,489	171,209	163,840	156,223	148,574	139,823	130,807	122,051
#3: 14.5% (2013), 7.25% thereafter	193,245	188,734	183,272	176,092	163,369	153,163	148,737	144,322	139,418	133,675	127,949	122,477	116,220	110,036	104,484

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	65.0%	66.7%	67.9%	69.2%	71.4%	73.1%	75.6%	78.0%	80.3%	82.5%	84.5%	86.4%	88.1%	89.7%	91.2%
#2: 7.25% for all years	65.0%	67.6%	69.9%	72.1%	75.0%	77.3%	79.5%	81.5%	83.4%	85.3%	86.9%	88.4%	89.8%	91.1%	92.3%
#3: 14.5% (2013), 7.25% thereafter	65.0%	68.5%	71.8%	75.0%	78.6%	81.4%	83.3%	85.0%	86.5%	88.0%	89.3%	90.4%	91.6%	92.5%	93.4%

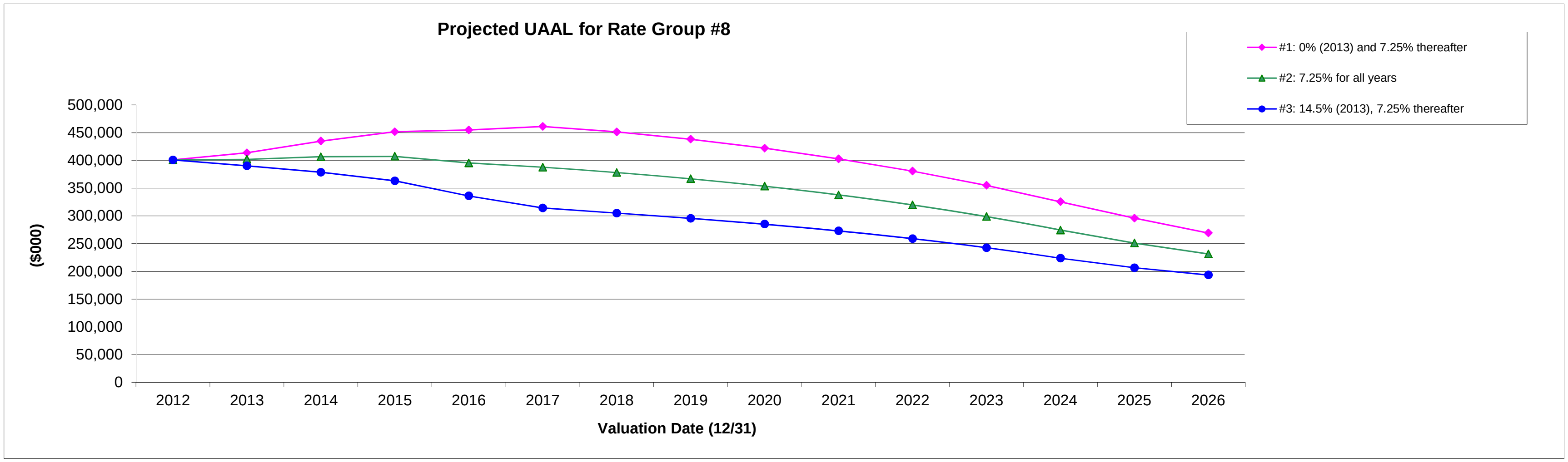
Attachment L
Projected UAAL and Funded Ratio for Rate Group #7
Plans E, F, Q, R and V (Law Enforcement)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	988,418	1,020,358	1,067,550	1,107,358	1,117,035	1,132,157	1,113,680	1,087,879	1,054,811	1,015,284	968,710	912,790	846,311	778,358	713,631
#2: 7.25% for all years	988,418	993,610	1,004,529	1,008,955	986,067	972,046	954,069	932,361	905,803	873,938	836,288	790,657	735,945	681,369	631,791
#3: 14.5% (2013), 7.25% thereafter	988,418	966,862	941,503	910,521	855,019	811,794	794,307	776,720	756,714	732,532	703,801	668,427	625,460	584,283	549,847

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	64.8%	65.8%	66.3%	67.1%	68.7%	70.1%	72.2%	74.3%	76.5%	78.6%	80.7%	82.7%	84.8%	86.8%	88.5%
#2: 7.25% for all years	64.8%	66.7%	68.3%	70.0%	72.4%	74.3%	76.2%	78.0%	79.8%	81.6%	83.3%	85.0%	86.8%	88.4%	89.8%
#3: 14.5% (2013), 7.25% thereafter	64.8%	67.6%	70.3%	72.9%	76.0%	78.5%	80.2%	81.7%	83.1%	84.5%	85.9%	87.4%	88.8%	90.1%	91.1%

Attachment M
Projected UAAL and Funded Ratio for Rate Group #8
Plans E, F, Q, R and V (Fire Authority)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	400,904	413,738	434,772	451,686	454,961	461,172	451,487	438,461	422,125	402,899	380,744	354,994	325,381	295,984	269,158
#2: 7.25% for all years	400,904	402,003	406,761	407,453	395,465	387,694	378,156	366,967	353,606	337,874	319,793	298,742	274,493	251,194	231,276
#3: 14.5% (2013), 7.25% thereafter	400,904	390,267	378,757	363,248	336,033	314,333	304,952	295,609	285,231	273,005	258,993	242,627	223,743	206,551	193,532

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	66.2%	67.8%	68.7%	69.9%	71.8%	73.5%	75.9%	78.2%	80.5%	82.6%	84.7%	86.7%	88.6%	90.3%	91.7%
#2: 7.25% for all years	66.2%	68.7%	70.7%	72.8%	75.5%	77.7%	79.8%	81.8%	83.6%	85.4%	87.1%	88.8%	90.4%	91.8%	92.9%
#3: 14.5% (2013), 7.25% thereafter	66.2%	69.6%	72.7%	75.8%	79.2%	81.9%	83.7%	85.3%	86.8%	88.2%	89.6%	90.9%	92.2%	93.2%	94.1%

CONSENT CALENDAR - AGENDA ITEM NO. 4
BUDGET AND FINANCE COMMITTEE MEETING
September 11, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **Fourth Quarter Financial Newsletter – *April to June 2013***

Summary:
This agenda item is submitted to provide information regarding FY 2012/13 fourth quarter revenue and expenditures in the General Fund and the Capital Improvement Program Funds.

Recommended Action:
Review the proposed agenda item and direct staff to place this item on the agenda for the Executive Committee meeting of September 26, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

Background:
The Quarterly Financial Newsletter provides information about the General Fund's top five revenue sources as well as expenditures by department and type. Revenues and expenditures for the Capital Improvement Program (CIP) Funds are also included. The budget now includes adjustments approved by the Board in May. This newsletter includes preliminary FY 2012/13 year-end information. Final fiscal year figures will be submitted to the Board in November following completion of the annual audit and the financial statements.

Revenues and expenditures for the General Fund and the CIP Funds are within budgetary expectations for this fiscal year. Any notable items are detailed in the attached newsletter.

Impact to Cities/County:
Not Applicable

Fiscal Impact:
Not Applicable

Staff Contacts for Further Information:
Lisa Shoemaker, Budget Analyst
lisashoemaker@ocfa.org
(714) 573-6310

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

Attachment:
Fourth Quarter Financial Newsletter – *April to June 2013*

Orange County Fire Authority

Fourth Quarter Financial Newsletter – *April to June 2013*

OVERVIEW

This report covers activities for the fourth quarter of fiscal year 2012/13 and provides preliminary year-end results. Budget figures take into account all approved budget changes through the end of the fiscal year.

Preliminary year-end revenues have exceeded budget for the General Fund and the Facilities Replacement Fund. Expenditures for all funds are less than budget.

GENERAL FUND

Preliminary 2012/13 revenues are 100.4% of budget and expenditures are 98.3% as shown below:

General Fund	Budget	YTD Actual	Percent
Revenues	307,696,468	308,982,925	100.4%
Expenditures	292,552,358	287,709,196	98.3%

Top Five Revenues. After including all budget adjustments, our top five revenue sources now represent 95.3% of our total revenue this fiscal year, giving us an excellent picture of our revenue position. All but one of these key revenues performed better than anticipated with exceptions and comments noted as follows:

Top Five Revenues	Budget	YTD Actual	% Rec'd
Property Taxes	181,204,709	181,720,252	100.3%
Cash Contracts	82,751,043	83,002,482	100.3%
Local-CRA pass-thru	16,452,278	17,056,433	103.7%
Fire Prevention Fees	5,099,552	5,302,893	104.0%
State Reimb.	7,810,975	7,340,182	94.0%
Total	**293,318,557**	**294,422,242**	**100.0%**

- ***Property tax.*** Year-end property tax receipts came in about $516,000 higher than budget or about 0.3% of budget. This is due primarily to supplemental property taxes coming in higher than mid-year projections.
- ***Cash contracts.*** The slight overage in Cash Contract revenue is due to the prepayment by Santa Ana for the second annual installment of the start-up costs.
- ***Local- Community Redevelopment Agency (CRA) Pass-Through***. The 2012/13 budget included an estimate of $10.6M for one-time revenue related to the state audit of Low-to Moderate Income Housing funds and Non-Housing Funds. Actual receipts for CRA pass-throughs for 2012/13 were $604,000 higher than anticipated.
- ***Fire Prevention Fees.*** Inspection Services revenue came in $322,000 below the adjusted budget. This shortfall reflects a temporary stoppage of inspections related to the audit of inspection records. P&D revenue came in $537,000 higher than the adjusted budget due to increased activity.
- ***State Reimbursement.*** Estimated revenue due to emergency activity was less than anticipated.

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

Expenditures By Department	Budget	YTD Actual	% Expended
Executive Mgt.	5,226,070	4,907,777	93.9%
HR Division	4,924,865	4,848,780	98.5%
Operations	235,409,194	232,599,505	98.8%
Fire Prevention	11,869,813	11,450,914	96.5%
Business Services	12,146,351	11,417,414	94.0%
Support Services	22,976,065	22,484,806	97.9%
Total Expenditures	**292,552,358**	**287,709,196**	**98.3%**

Expenditures by type are within budget:

Expenditures by Type	Budget	YTD Actual	% Expended
S&EB	267,772,050	265,194,627	99.0%
S&S	24,448,510	22,348,022	91.4%
Equipment	331,798	166,547	50.2%
Total	**292,552,358**	**287,709,196**	**98.3%**

CIP FUNDS

The following summarizes preliminary year-end revenues and expenditures for the Capital Improvement Program funds. Rebudgets will be requested for some projects not completed during the fiscal year. Any variances are noted as follows:

Facilities Maintenance & Improvement

Fund 122	Budget	YTD Actual	Percent
Revenue	287,913	276,705	96.1%
Expenditures	1,246,449	957,441	76.8%

- Low expenditures reflect the results of cost containment measures taken during the year by deferring projects when possible.

Facilities Replacement

Fund 123	Budget	YTD Actual	Percent
Revenue	166,787	612,571	367.3%
Expenditures	2,270,763	63,862	2.8%

- Actual revenue reflects developer contributions for the Lambert Ranch Project and the Great Park Neighborhoods Project, both in Irvine.
- The escrow for the Station 41 Hangar purchase phase II closed on July 1, 2013 rather than June 30, 2013 as anticipated; the budget for this project of $2.2 million will be rebudgeted to 2013/14.

Communications & Info. Systems Replacement

Fund 124	Budget	YTD Actual	Percent
Revenue	213,114	136,020	63.8%
Expenditures	8,293,313	5,215,470	62.9%

- Interest revenue came in lower than anticipated.
- Expenditures include over $3.0M for the CAD portion of the Public Safety System project.
- Rebudgets of $5.2M for the other two projects (Incident Reporting Application Replacement and IFP) included in the Public Safety System project were processed in May.

Vehicle Replacement

Fund 133	Budget	YTD Actual	Percent
Revenue	2,475,116	2,284,009	92.3%
Expenditures	9,565,449	5,566,811	58.2%

- Expenditures include an encumbrance of $2.1M for the purchase of four Type-1 engines, purchases of two, grant-funded fire command trailers for $649,000 and two, grant-funded business class tow vehicles for $165,000.
- Year-to-date activity also includes the lease-purchase financing agreement payments for the helicopters totaling $2.5M.
- Rebudgets may be requested for some vehicles to 2013/14 or beyond.

SUMMARY

For more information. This summary is based on detailed information from our financial system. If you would like more information or have any questions about the report, please contact Tricia Jakubiak, Treasurer at 573-6301 or Lisa Shoemaker, Budget Analyst at 573-6310.

CONSENT CALENDAR - AGENDA ITEM NO. 5
BUDGET AND FINANCE COMMITTEE MEETING
September 11, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **Rebudget of FY 2012/13 Uncompleted Projects**

Summary:
This item is submitted for approval to rebudget various projects that were not completed in FY 2012/13 and require rebudget to FY 2013/14.

Recommended Action:
Review the proposed agenda item and direct staff to place this item on the agenda for the Board of Directors meeting of September 26, 2013 with the Budget and Finance Committee's recommendation that the Board of Directors authorize the following budget adjustments:

Fund	Increase Revenue	Increase Appropriations	Release Fund Balance
121	1,089,231	1,220,504	131,273
123		2,206,900	2,206,900
124		2,347,400	2,347,400
133		3,963,049	3,963,049
171		536,758	536,758

Background:
The FY 2012/13 adopted CIP budget included $26.1 million for over 40 projects. Due to the complexity of some of the projects and the time required to complete others, not all projects were completed in FY 2012/13. Therefore, staff is recommending at this time that appropriations for these projects be rebudgeted to FY 2013/14 so the projects can be completed. This is simply a timing change of planned expenditures, and does not reflect an overall increase. Rebudgets for grants and donated funds are also included in the General Fund. The attachment provides a detailed listing of the rebudgeted projects for each fund.

Revenue for grant-funded projects is also being rebudgeted and is reflected on the attachment. Staff is recommending the release of fund balance for funds where there is not a revenue offset. When the FY 2012/13 year-end audit is completed and the Board approves the mid-year budget adjustment, the released fund balance will be restored.

Impact to Cities/County:
Approval of the proposed rebudgets will enable completion of projects originally planned and approved by the Board of Directors in the FY 2012/13 Adopted Budget.

Fiscal Impact:
The proposed rebudgets reflect a timing change only; therefore, there is no additional fiscal impact.

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

Lisa Shoemaker, Budget Analyst
lisashoemaker@ocfa.org
(714) 573-6310

Attachment:
List of Rebudgets from FY 2012/13 to FY 2013/14

Attachment

ORANGE COUNTY FIRE AUTHORITY
Rebudgets from FY 2012/13 to FY 2013/14

Fund#	Description	Revenue Rebudgets	Expenditure Rebudgets
Fund 121 - General Fund			
121	USAR Grant	$301,520	$279,864
121	UASI Grant	302,509	302,509
121	DHS Liaison Officer	69,814	69,814
121	2011 MMRS Grant	277,468	277,468
12130	Thermal Imaging Camera grant 80/20	137,920	172,400
121	CR&E Corp Sponsor (donations)		7,599
121	Disaster Preparedness Academy (Battalion 7)		4,571
121	Canine Program		86
121	Fire F.R.I.E.N.D.S. Program		2,575
121	Smoke Alarm Program		267
121	Maruchan donation - bi-directional amplifiers		103,351
Total: Fund 121		**$1,089,231**	**$1,220,504**
Fund 123 - Facilities Replacement Fund			
123	FS 41 - Hangar Purchase Phase II		2,206,900
Total: Fund 123		**-**	**$2,206,900**
Fund 124 - Communications/Info Systems Replacement Fund			
124	PC, Laptop, Printer Replacement		30,800
124	Field Data Collection Devices		83,200
124	Comm Installs/Vehicle Replacement		53,000
124	800 MHz Radios		26,700
124	VHF Radios		13,700
124	Business Systems Server Replacement		37,000
124	Wireless Network to Apparatus		214,000
124	CAD System Planning/Design		1,701,000
124	Internet/SharePoint & Organizational Calendaring		188,000
Total: Fund 124		**-**	**$2,347,400**
Fund 133 - Vehicle Replacement Fund			
133	Mid-Size 4x4 4-Door (two)		80,045
133	Full-Size 4-Door (three)		151,945
133	Type I Engine (one)		543,106
133	Truck - 75' Quint (three)		3,187,953
Total: Fund 133		**-**	**$3,963,049**
Fund 171 - Structural Fire Fund Entitlement Fund			
171	Dana Point		48,405
171	Irvine		300,000
171	Laguna Niguel		52,232
171	San Juan Capistrano		5,916
171	Villa Park		8,191
171	County Unincorporated		75,752
171	Aliso Viejo		28,804
171	Rancho Santa Margarita		17,458
Total: Fund 171		**-**	**$536,758**

DISCUSSION CALENDAR - AGENDA ITEM NO. 6
BUDGET AND FINANCE COMMITTEE MEETING
September 11, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Craig Kinoshita, Deputy Fire Chief

SUBJECT: **First Quarter Workers' Compensation Program Update –** ***June 2013 through August 2013***

Summary:
This agenda item is submitted to provide a workers' compensation program update for the first quarter of FY 2013/14.

Recommended Action:
Receive and file the report.

Background:
The Quarterly Workers' Compensation Program Update includes claims expenditures, number of newly opened and total outstanding claims, number of closed claims, and number of claims approved by the Claims Settlement Committee.

A supplemental trend analysis has been provided with this report in response to additional information requested during the Annual Workers' Compensation Update provided at the June Board of Directors meeting.

Impact to Cities/County:
Not Applicable

Fiscal Impact:
Not Applicable

Staff Contact for Further Information:
Rhonda Haynes, Risk Management Analyst
rhondahaynes@ocfa.org
(714) 573-6333

Attachments:
1. First Quarter Workers' Compensation Program Update – *June 2013 to August 201*
2. Supplemental Trend Analysis Information

Attachment 1

Workers' Compensation Quarterly Update

Workers' Compensation Activity Update:

During this quarter a Workers' Compensation Request for Proposal for a Third Party Administrator and Ancillary Services (which included bill review, utilization review and managed care) was launched on April 20, 2013. OCFA received fourteen (14) proposals; after the review process a final Administrator has been selected and will be brought to the Board for contract approval on September 26, 2013.

Below is a list of the following claims activity that occurred during the period of June –August 2013:

Monthly Claims Expenditures:

June 2013- $605,833.25

July 2013- $580,866.92

August 2013- Pending

Number of New Open /Total Outstanding Claims

June 2013- 72- new open/775-outstanding

July 2013- 27- new open/794-outstanding

August-2013- Pending

Number of Closed Claims

June 2013- 8 -closed

July 2013-31 closed

August 2013-Pending

Number of Claims Approved by Claims Settlement Committee:

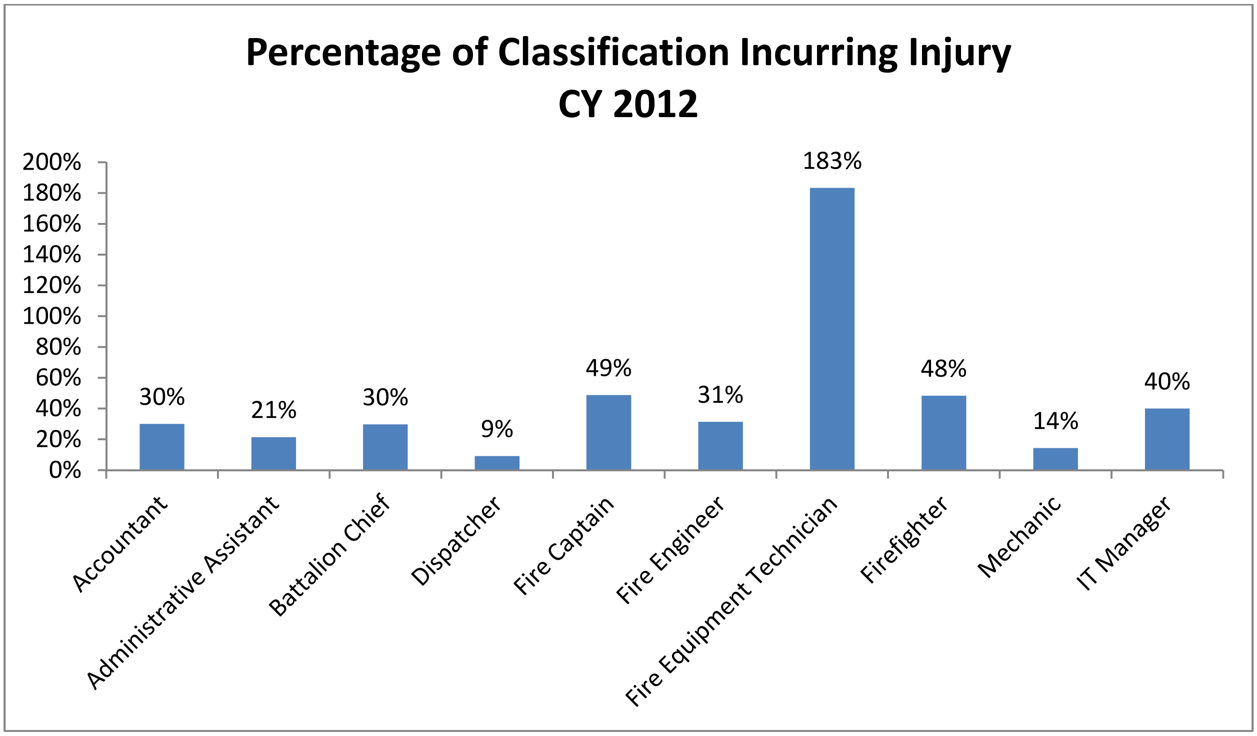
June 2013- 4- Claims

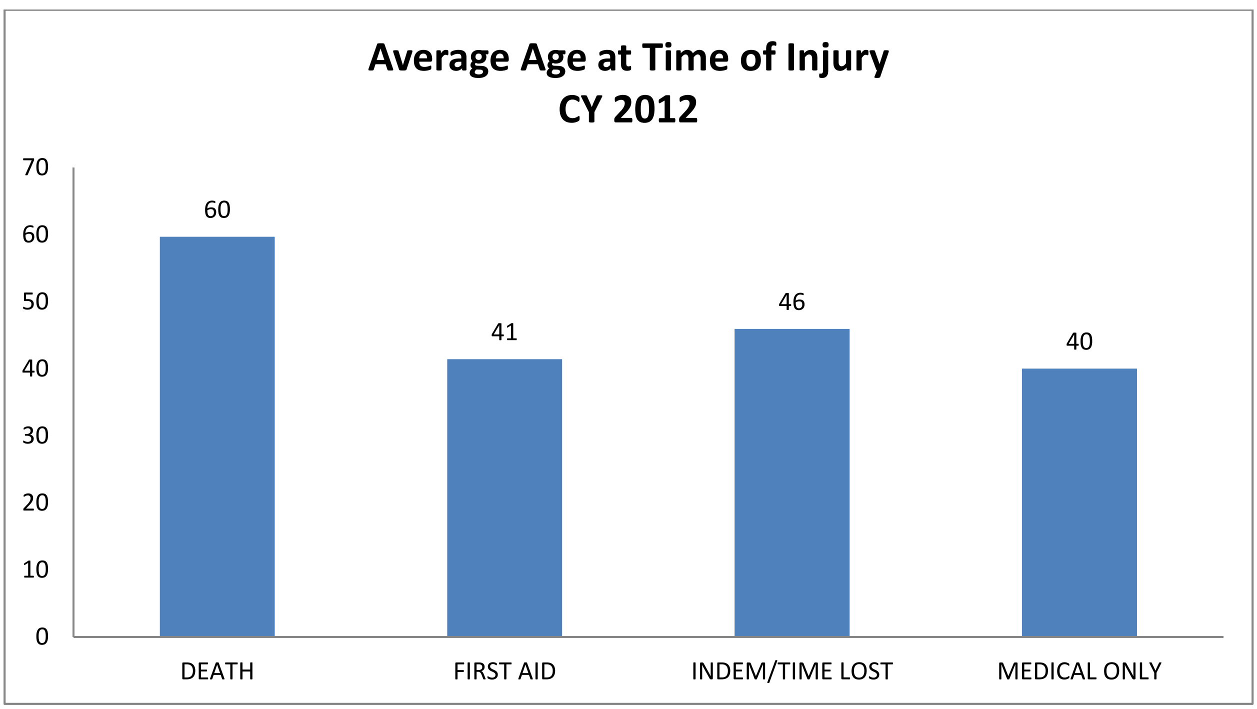
July 2013- No meeting

August 2013- 6- Claims

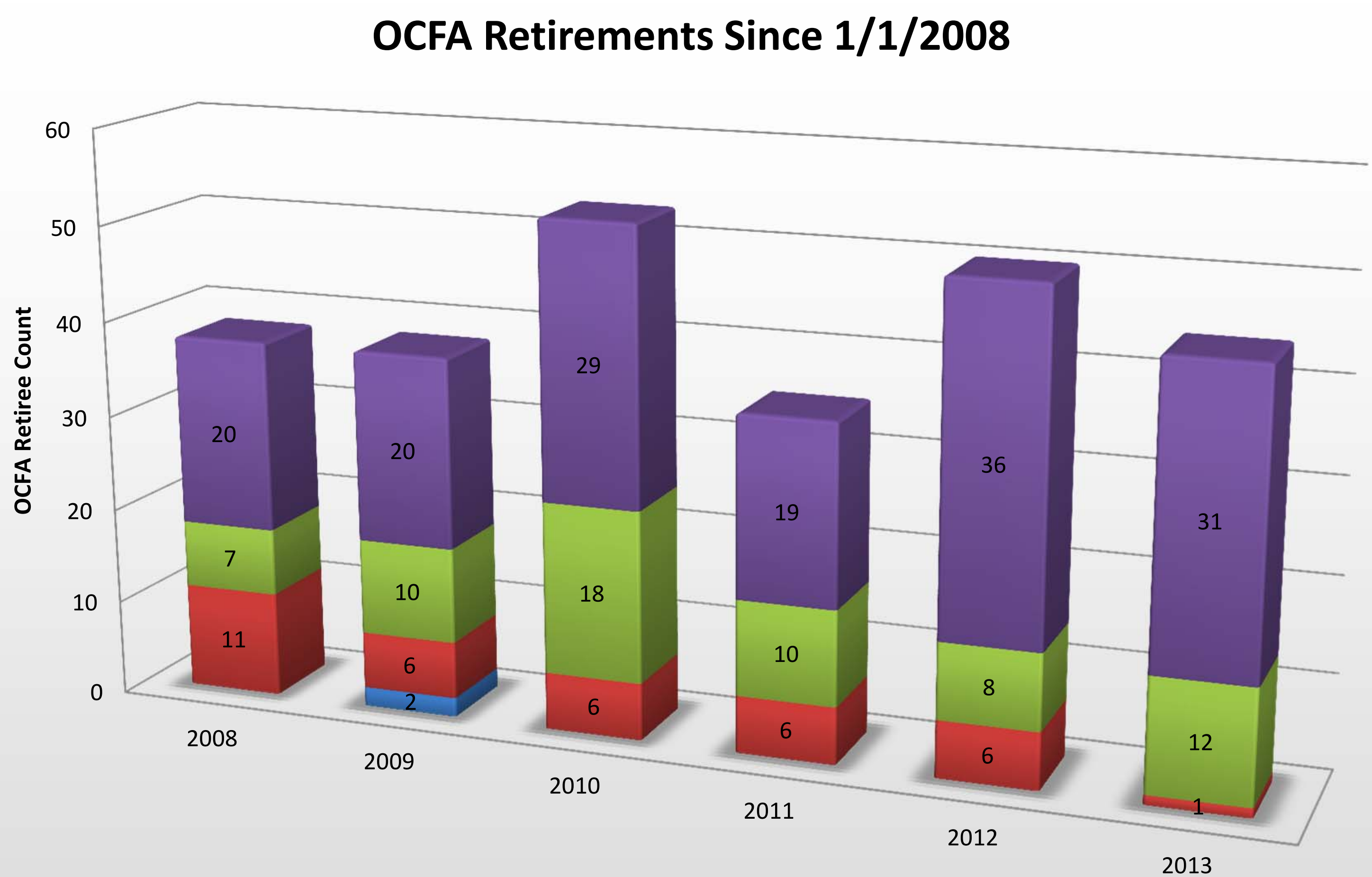
Supplemental Trend Analysis

Attachment 2





Count of ENTITY_ID



	2008	2009	2010	2011	2012	2013
Service Retirement - Safety	20	20	29	19	36	31
Service Retirement - Non-Safety	7	10	18	10	8	12
Service Disability - Safety	11	6	6	6	6	1
Service Disability - Non-Safety		2				

YEAR

DISCUSSION CALENDAR – AGENDA ITEM NO. 7
BUDGET AND FINANCE COMMITEE MEETING
September 11, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **2013 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.

Recommended Actions:
Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of September 26, 2013, with the Budget and Finance Committee's recommendations that the Board of Directors:

1. Direct staff to transmit 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 Cost of Living Adjustments (COLAs) under the authority granted by the '37 Act.
2. Direct staff to pursue 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.
3. Direct staff to evaluate 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.
4. Direct 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.
5. Receive and file the report.

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 1) 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)

In addition to this agenda item summarizing existing long term liabilities, staff has submitted a separate agenda item focused on expedited payment of OCFA's unfunded pension liability with OCERS.

Although the OCFA has already taken steps to reduce some of its long-term liabilities, it must continue to find additional ways to mitigate the impacts, fund the accrued liabilities, and ensure the long term viability of the organization.

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:
See attached report.

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Attachment:
2013 Long Term Liability Study

Attachment

ORANGE COUNTY FIRE AUTHORITY

2013
LIABILITY STUDY

THE OCFA'S LONG TERM LIABILITES

SEPTEMBER 2013

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 study is to provide an accurate assessment of the OCFA's ***total*** long-term obligations.

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 current and retired employees, and workers' compensation claims. These costs are expected to increase dramatically over the coming decades due to population aging and increases in healthcare costs. Both the Defined Benefit Pension Plan and the Defined Benefit Retiree Medical Plan are currently underfunded.

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.

<u>Safety Members' Retirement</u>

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 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 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 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%]).

<u>General Members' Retirement</u>
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 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%]).

Retirement costs represent approximately $62.5 million or 22% of the Authority's FY 2013/14 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.

Technically speaking, 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, 2012, OCERS is 62.52% funded with a UAAL of $5.6 billion. OCFA's portion of the UAAL is approximately 8.0%. The current equivalent single amortization period for OCFA's UAAL as calculated in the December 31, 2012 valuation is between 19 and 20 years for both General and Safety.

Based on the December 31, 2012 valuation by OCERS, the Authority's total UAAL was $473.7 million with $400.9 million or 85.0% attributed to Safety members and $72.8 million or 15.0% attributed to General members. The Safety member plans are currently 66.24% funded, and the General member plans are 56% 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)

Employer Rate	2012 Valuation	2011 Valuation
Normal Cost	13.93%	12.33%
UAAL	24.76%	20.43%
Total	38.69%*	32.76%

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

Employer Rate	2012 Valuation	2011 Valuation
Normal Cost	26.16%	23.49%
UAAL	26.84%	19.66%
Total	53.00%*	43.15%

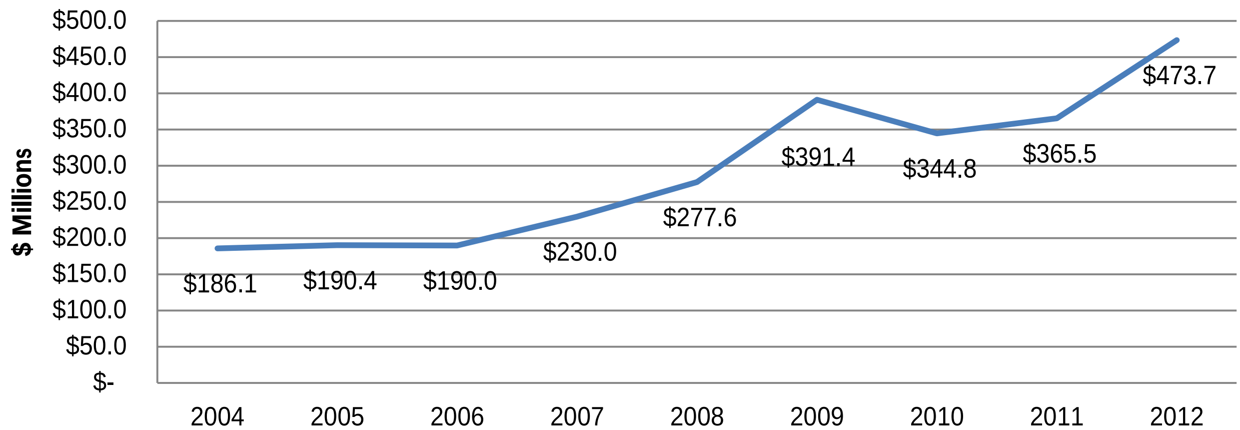
*Note: Totals do not include the *Employee Rates*, which vary from employee to employee based on age of entry. *Employee Rates* range from 7.75%-14.81% for General members and 12.10%-19.32% for Safety members.

For fiscal perspective, each 1% increment in retirement contributions for General members equates to an annual budgetary cost of $209,553. Each 1% increment for Safety members equates to an annual cost of $1,117,561.

The UAAL for OCFA

General and Safety Plans Combined

OCFA's Pension Liability increased significantly from last year as a result of OCERS lowering the interest rate assumption from 7.75% to 7.25%



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

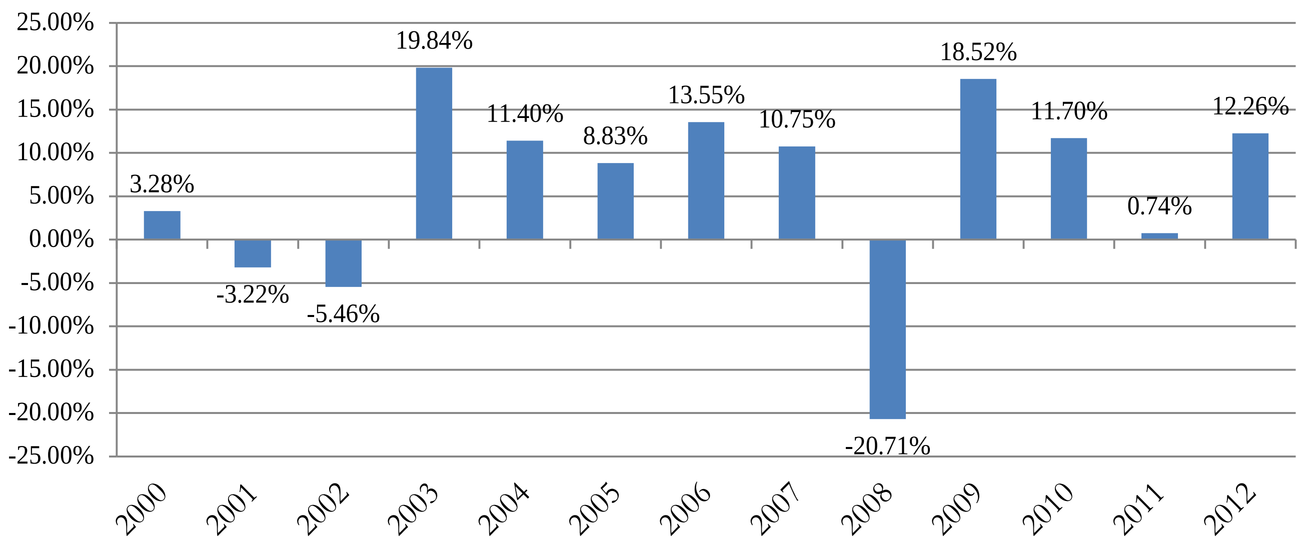
The assumed rate of return, also known as the discount rate, is a critical issue impacting OCFA's UAAL. The higher the discount rate, the lower the present value of pension assets needed to meet future pension obligations. A lower discount rate increases the current unfunded pension liabilities. This past year, 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 is being phased in over a two-year period starting in FY 2014/15.

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 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 6.26%, 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 6.26%



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.

OCERS' Schedule of Funding Progress

(Dollars in Thousands)

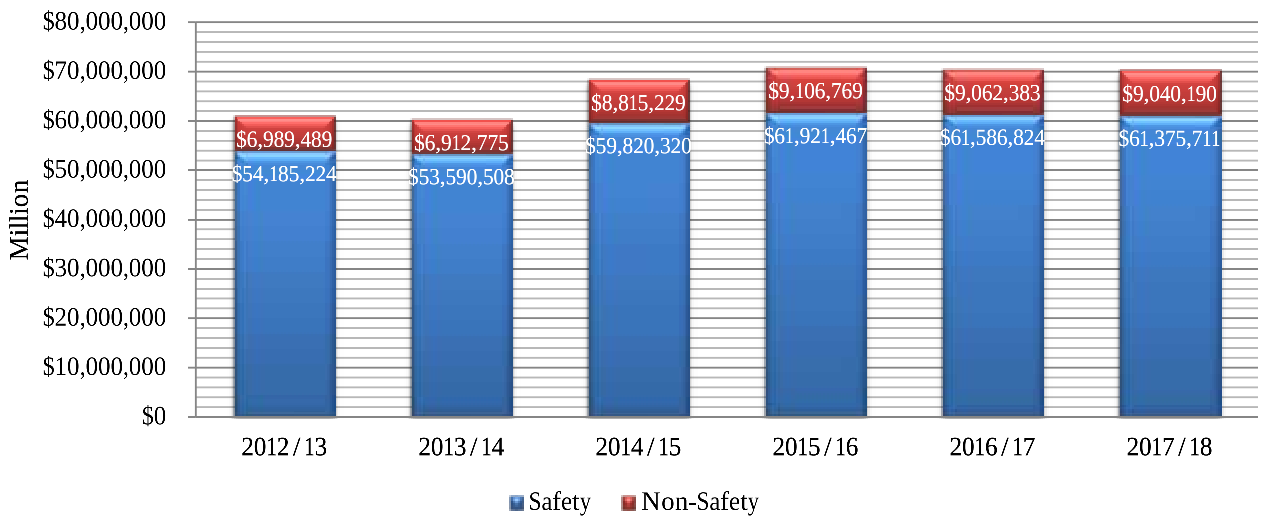
OCERS' funding level has declined recently

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%

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

OCFA's Projected Retirement Costs

Retirement rates appear stable, assuming OCERS earns 7.25%



Note: Retirement costs are net of employee contributions, recently implemented new tiers, and include savings from OCERS prepayment of 50% each year.

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 and reduce benefits by establishing new tiers, 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.

To proactively address the OCFA's unfunded pension liability, staff has prepared a separate report for the Board of Directors outlining strategies for expediting payment of the OCFA's UAAL. In addition, staff has researched other options to assist in holding future pension cost increases down, such as potential actions relating to the Cost of Living Adjustments (COLAs) that retirees receive annually with their pensions. Exhibit A is a Briefing Paper describing background information on the pension COLA, how the COLA adjustment is determined each year, and provides a suggested option for transmittal to the County Board of Supervisors and OCERS Board of Retirement, for their consideration of potential cost-containment actions relating to Pension COLAs under the authority granted by the '37 Act.

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.

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.

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 The Segal Company as of July 1, 2012, the OCFA's Unfunded Actuarial Accrued Liability (UAAL) for the Retiree Medical defined benefit plan is $127.7 million, or $101.9 million excluding the implicit subsidy. The UAAL is impacted by future retirees, spouses of retirees, a 5% annual increase in the medical grant, the investment return of the trust and an implied subsidy.

What is the implicit subsidy?

The Government Accounting Standards Board (GASB), through Statement No. 45 requires public entities to reflect their liability for Other Post-Employment Benefits (OPEB), including benefits to retirees, in their annual financial statements.

When both active employees and retirees pay the same premiums, a hidden/"implicit" subsidy exists for retirees, because health care costs are typically higher for retirees than active employees. GASB requires that "implicit" subsidy to be included in the liability calculation even if the retiree participants pay for 100% of the premium.

GASB's reasoning for requiring that the implicit rate subsidy be included in the calculation of OPEB liability is based on the following rationale:

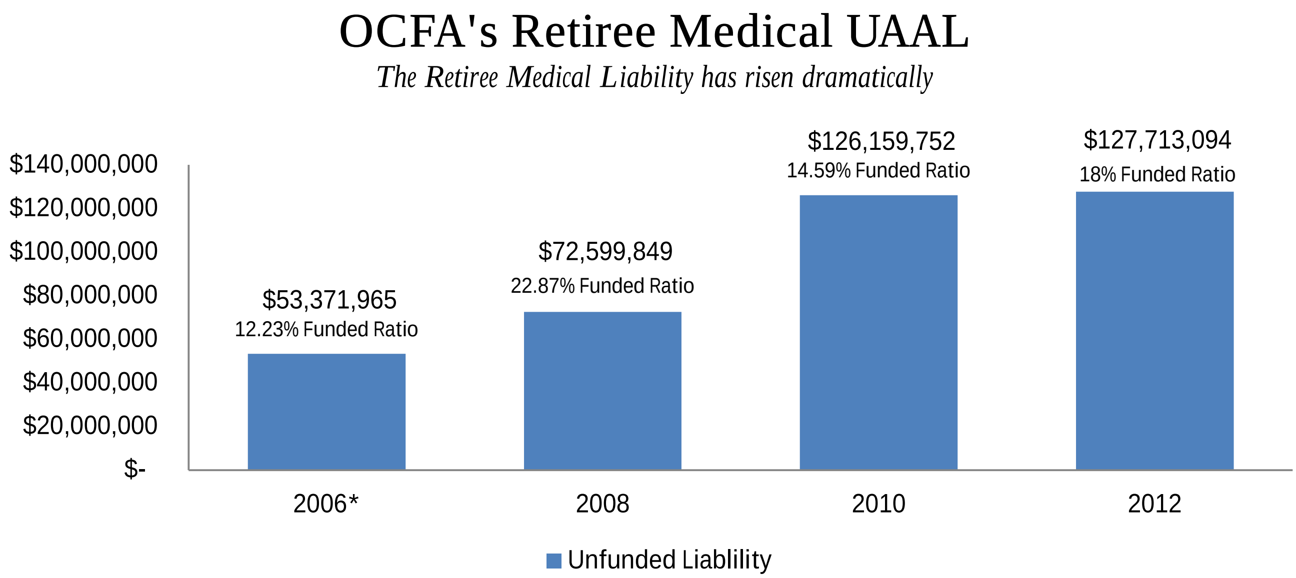
1. The cost of health care increases with increasing age
2. In general, the cost of health care is higher for retirees than for active employees of the same age (retirees have more time to take advantage of health care)
3. If retirees pay the same premium as active employees, there is an implicit employer subsidy due to the blending of the claims experience

For example: assume the average cost of benefits is $100 for the total active and retired population. Currently, the employer requires the retirees to contribute the full cost of the plan or $100. After analyzing the claims experience, it is discovered that the retiree population's average cost is $175. The difference between the retiree's average cost and the combined population average cost, $75, is the employer's implicit rate subsidy.

How does this impact OCFA?

In the case of the OCFA's Retiree Medical Plan, we have both the "explicit'' subsidy portion (the retiree medical grant) for all retirees and the "implicit" subsidy portion for the Safety retirees since our firefighter group has the same pool and rate structure for both active and retired Safety employee's. (Because our General Non-Safety retirees are enrolled through CalPERS, a PEMHCA (Public Employees Medical and Hospital Care Act) community, no "implicit" subsidy calculation is required for this group of retirees.)

Based on the 2012 valuation, 20% or $25.8 million of the total OPEB liability is due to the implicit subsidy for Safety members. The implicit subsidy was $21.8 million in 2010 and $14 million in 2008. In 2006, the implicit subsidy was not calculated.



*Did not include implicit subsidy.

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 Retiree Medical Plan document itself contains provisions regarding the potential termination of the benefit. Specifically, the Plan states:

- Section 1.3 – Rights: This Plan does not create any vested right to the benefits provided hereunder on the part of any Employee, Retiree or any other person. As provided in Sections 5.4 and 5.5 hereof, this Plan may be amended or terminated at any time, in full or in part, by the Authority in its sole discretion.

- Section 5.4 – Termination of Plan: The Authority reserves the right at any time to terminate this Plan by action of its Board of Directors, in its sole discretion, without prior notice to any Participant or other person. Termination shall be subject to the meet and confer requirement of the Meyers-Milias-Brown Act and any other applicable law.

- Section 5.5 – Amendment of Plan: This Plan and any or all benefits provided hereunder may be amended at any time from time to time, in whole or in part, by the Board of Directors of the Orange County Fire Authority, in its sole discretion, without prior notice to any Participant or other person. Amendment shall be subject to the meet and confer requirements of the Myers-Milias-Brown Act and any other applicable law.

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, as a much preferred option over discussions about termination of the Plan. 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. We are currently in the process of gathering ideas from labor for options that may be considered in the future to improve the funding status of the Plan. After the ideas have been gathered, management believes an appropriate strategy would be to pursue a special actuarial study to evaluate the various options and associated impacts on plan funding, for potential negotiation with labor in the future.

COURT CASE ON ORANGE COUNTY'S RETIREE MEDICAL PLAN

Unlike pensions, which have long been held to be vested and protected under state law, retiree medical benefits have previously fallen under more of a gray zone. In December 2011, California's Supreme Court ruled that certain retirees' medical benefits are vested and thus protected from reduction by employers seeking modifications to reduce costs. They indicated that subsidizing medical insurance premiums is an implied contract. The Court also ruled that ordinances and resolutions of the employer are important source documents for determining the contractual nature of such other post-employment benefits.

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, 2013, $12.9 million remains due, including interest and principal. The final maturity is in 2018.

Considering the current low interest rate environment, and the associated low rate of return being earned on OCFA's investment portfolio, staff has completed a preliminary review to assess feasibility of paying off the outstanding lease obligation. Staff concluded that the early payoff of the obligation would have impacts on the OCFA's annual budget, annual cashflow, and potential requirement for issuance of a Tax and Revenue Anticipation Note (TRAN). Therefore, staff temporarily paused on the analysis, for further consideration during the FY 2014/15 budget development process.

WORKERS' COMPENSATION CLAIMS

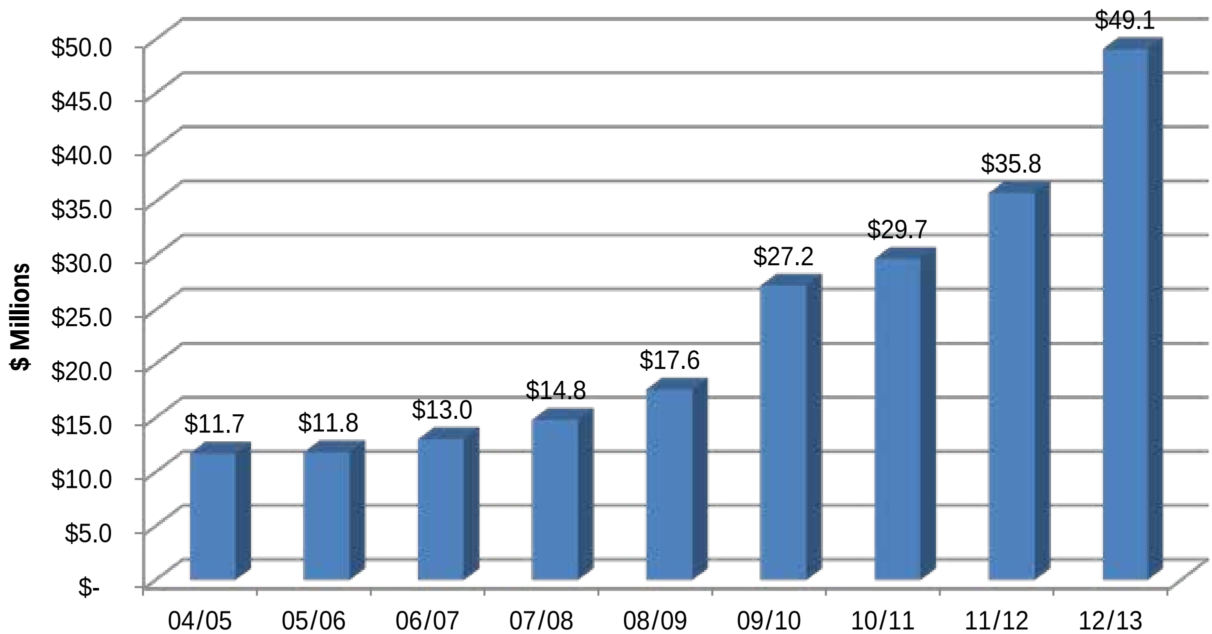
In March 2002, OCFA implemented a workers' compensation self-insurance program. A separate fund called Fund 190: Self Insurance was established in May 2003 to track funding and expenditures for workers' compensation claims liability. The funding sources include revenue from the General Fund and interest earnings. The required funding levels are determined by an independent actuarial study. As of

June 30, 2013, OCFA's total workers' compensation liability is $49.1 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 $49.1 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

OCFA's liability is growing requiring larger reserves to cover claims



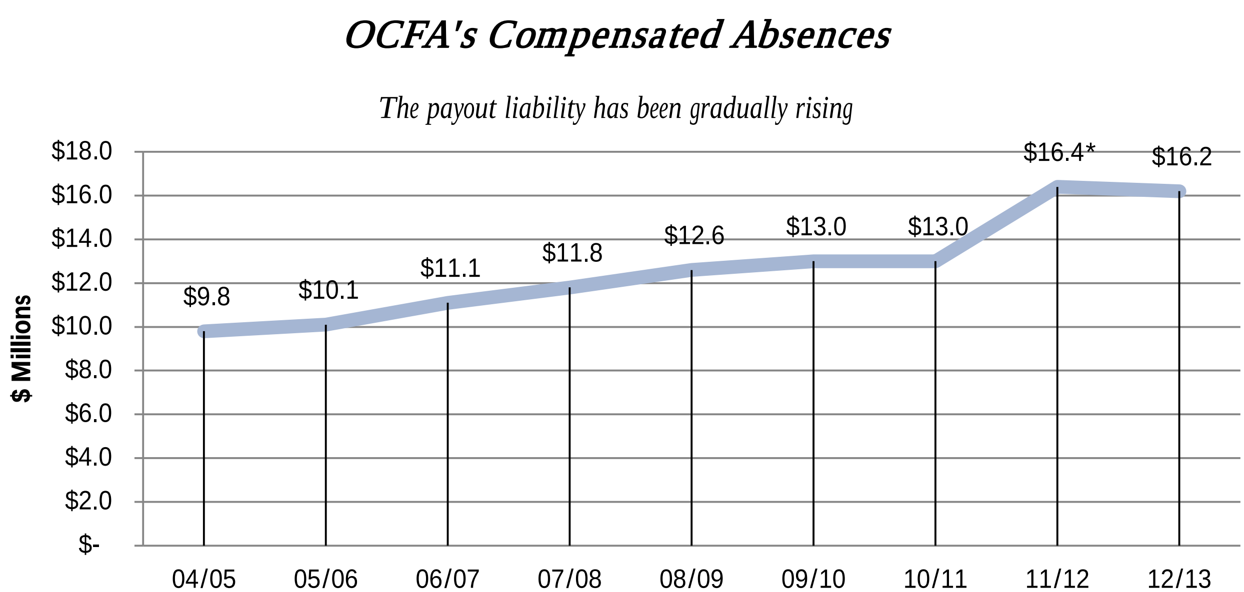
There are several contributing factors to the liability increase including workers' compensation reform that increased the statute of limitation for cancer from five to ten years; injury presumption for safety personnel; an aging workforce which contributes to a longer recovery time and higher permanent 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 while the employee worked for the City.

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 cashflow 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 and/or increased claim activity.

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 $3.0 million for sick and vacation payouts in FY 2013/14 based on historical trends and expected retirements. OCFA's total liability for compensated absences as of June 30, 2013 is $16.2 million.



*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.

Earlier this year, 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 begun requesting and gathering information from other jurisdictions that have taken action, or are pursuing creative strategies for reducing these liabilities.

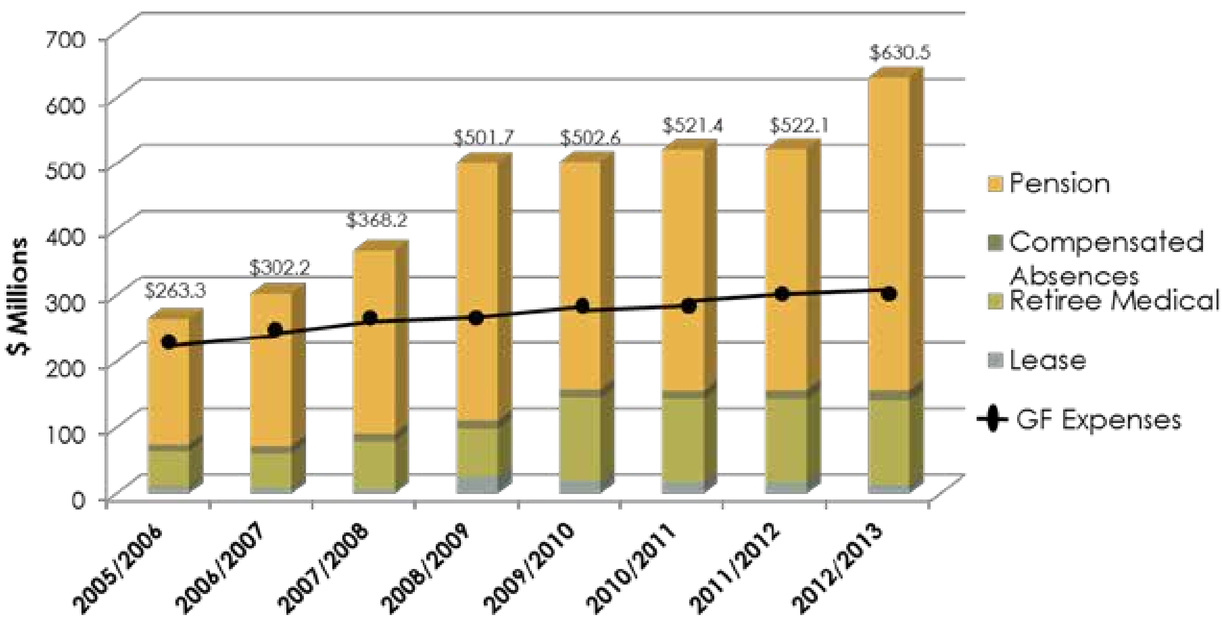
III. SUMMARY

OCFA's total long term, unfunded liabilities as of June 30, 2013 are as follows:

	$ Amount in Millions	*% of Total*
Defined Benefit Pension Plan	$473.7	75.1%
Defined Benefit Retiree Medical Plan	127.7	20.3
Helicopter Lease Purchase Agreement	12.9	2.0
Accrued Compensated Absences	16.2	2.6
Total	$630.5	100.0%

Over the last eight years, OCFA's total long term, unfunded obligations have increased by $367.2 million or 139%.

OCFA Total Unfunded Liabilities



ACTIONS UNDERWAY

1. Staff is working with the OCERS' actuary, The Segal Company, to analyze several options to expedite the pay down of OCFA's pension liability.
2. A Deployment Study has been initiated to thoroughly examine OCFA's methods of delivering emergency services, seeking opportunities to become more efficient with limited resources, while also ensuring long-term liabilities can be funded appropriately.
3. Authorization has been obtained to negotiate an Alternative Dispute Resolution process for disputed workers' compensation cases, also known as a Carve-Out program.

Recommended actions pending approval of this staff report include:

1. Direct staff to transmit 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 Cost of Living Adjustments (COLAs) under the authority granted by the ’37 Act.
2. Direct staff to pursue 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.
3. Direct staff to evaluate 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.
4. Direct 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.

PAST ACTIONS

The economic downturn over the last few years has had a severe impact on revenues. As a result, the OCFA has already taken several steps to manage its long-term obligations:

1. Implemented a trigger formula connecting future pay raises for all OCFA employees to OCFA’s financial health.
2. Implemented lower retirement formulas for all labor groups.
3. Implemented increased employee retirement contributions, phasing in to 9% for all labor groups.
4. Refinanced the helicopter lease to lower the interest rate.
5. Established a cash flow reserve, enabling annual prepayment of retirement contributions to achieve a discount.
6. Provided a study to the Board of Directors regarding the feasibility of Pension Obligation Bonds.
7. Provided a study to the Board of Directors regarding the feasibility of changing automatic Cost of Living Allowance (COLA) increases for pensions.

CONCLUSION

As long-term liabilities continue to rise, 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 pensions and other liabilities annually
3. Explore ways to save money on healthcare
4. Pursue legislative changes for matters such as automatic pension COLA’s etc.

Exhibit A

ORANGE COUNTY FIRE AUTHORITY

Cost-of-Living Adjustment (COLA)
Briefing Paper

September 2013

COST-OF-LIVING ADJUSTMENT (COLA)

Overview

All county retirement systems that fall under the County Employees' Retirement Law of 1937 ('37 Act), including the Orange County Employees Retirement System (OCERS), provide an annual cost-of-living adjustment (COLA) for retired members and survivors which is calculated based on actual increase to the Consumer Price index (CPI), rounded to either one-tenth of one percent or one-half of one percent, but not to exceed a certain percentage.

The retiree COLA for OCERS is governed by Govt. Code Section 31870.1 of the '37 Act. Under this section, OCERS must determine the appropriate COLA for OCERS retirement benefits and implement that COLA on April 1st of each year. According to the law, the COLA is based on the annual change in the U.S. Department of Labor, Bureau of Labor Statistics CPI for the Los Angeles-Riverside-Orange County geographic area. The law requires that this change be rounded to the nearest one-half percent, with a maximum 3% available to increase or decrease benefits.

While annual COLAs can increase or decrease, a retiree's basic retirement benefit is guaranteed by OCERS Retirement Board. The retiree's pension will never go below the retirement allowance he/she was entitled to when they retired. It is possible for a benefit, once increased by COLA, to be thereafter reduced by a negative COLA, provided, however, that the original benefit granted is not reduced. For example, if a retiree received a 3% COLA in the year after he or she retired, followed by a negative 3%COLA in the following year, OCERS would reduce the retiree's benefit by that 3% COLA granted the prior year.

Who Sets the COLA Maximum for OCERS?

The County Board of Supervisors has sole authority to set the maximum COLA increase for the entire system. The current maximum COLA for the OCERS system is 3%. The Board of Supervisors is authorized to enact COLA caps between 2% and 6%, provided that an actuarial survey of the retirement system has been made by the adopting county prior to the passage of the ordinance establishing the cap (Govt. Code Section 31874). The COLA caps are **not** bargained for by the agencies that contract with OCERS.

The Board of Retirement is charged with implementing the COLA provisions by determining the actual cost-of-living increase or decrease using Bureau of Labor Standards Statistics, and calculating the member's actual adjustment based on what is available in a member's COLA Bank.

The determination of the retirement benefit COLA is separate from the determination of any cost-of-living adjustments to the salaries of active employees. The retirement benefit COLA is determined by the OCERS Board (must fall within the cap set by the Board of Supervisors) while a salary adjustment for active employees is determined by the employer's governing body. Also, the salary adjustment for active employees is not controlled by the '37 Act and, therefore, can be based on different cost-of-living benchmarks, which can result in a larger (or smaller) salary adjustment than the retirement benefit COLA.

What is a COLA Bank?

The '37 Act, along with actions taken by the Board of Supervisors, enact caps on the maximum percentage OCERS can increase the COLA in any one year. If the inflation rate (measured by CPI) is higher than the statutory enacted limit, the unused portion is "banked" for future years and applied if the CPI is lower than the annual maximum. This helps to stabilize the COLA from year to year.

OCERS describes the process as follows:

"OCERS' actuary first determines the annual increase or decrease in the CPI, using the Bureau of Labor Statistics figures for our geographic area. The COLA is limited to a maximum annual increase or decrease of 3 percent. If the cost-of-living figures exceed 3 percent (either by increase or decrease), any amount above or below 3 percent is added to or subtracted from an OCERS member's "COLA Bank." If an OCERS' member has a zero COLA Bank, OCERS policy is to maintain the Bank at zero, and not apply a decrease to create a negative COLA Bank balance. Typically, the more years an OCERS' member has been retired, the more they have in their COLA Bank. In 2011, the COLA was 1 percent. This was based upon a change in the CPI of 1.20 percent which was rounded to 1 percent as is required by statute. For those retirees who did not have anything in their COLA Bank, their COLA was 1 percent. For those retirees with .5 percent in their COLA bank, their COLA was 1.5 percent and .5 percent was deducted from their COLA Bank. For those retirees with 1 percent in their COLA Bank, their COLA was 2 percent and 1 percent was deducted from their COLA Bank. For all other retirees with 2 percent or more in their COLA Bank, their COLA was 3 percent and 2 percent was deducted from their COLA Bank."

For 2013, the COLA was 2.0% based upon a CPI change of 2.04%. OCERS must round to the 2.0% based on statute. For those members who retired on or before April 1, 1986, they received a 3% COLA, and OCERS took 1% from their COLA banks. For those who retired between April 2, 1986 and April 1, 1987, they received a 2.5% COLA, and OCERS took .5% from their COLA banks. For those who retired between April 2, 1987 and April 1, 2013, they received a 2% COLA.

The Govt. Code Section which requires this procedure is:

Govt. Code Section 31870.1. "The board [of retirement] shall before April 1 of each year determine whether there has been an increase or decrease in the cost of living as provided in this section. Notwithstanding Section 31481 or any other provision of this chapter (commencing with Section 31450), every retirement allowance, optional death allowance, or annual death allowance payable to or on account of any member, of this system or superseded system who retires or dies or who has retired or died shall, as of April 1st of each year, be increased or decreased by a percentage of the total allowance then being received found by the board to approximate to the nearest one-half of 1 percent, the percentage of annual increase or decrease in the cost of living as of January 1st of each year as shown by the then current Bureau of Labor Statistics Consumer Price Index for All Urban Consumers for the area in which the county seat is situated, but such change shall not exceed 3 percent per year; however, the amount of any cost-of-living increase or decrease in any year which is not met by the maximum annual change of 3 percent in allowances shall be accumulated to be met by increases or decreases in allowances in future years; except that no decrease shall reduce the allowance below the amount being received by the member or his beneficiary on the effective date of the allowance or the application of this article, whichever is later."

What Other Agencies Have Done to Reduce the Retirement COLA

Legislation that confers certain pension benefits to public employees is difficult, if not impossible, to roll back because of protective language in state laws and the Constitution. However, that is changing. This past November, Rhode Island passed landmark pension legislation that included a suspension of cost-of-living adjustment increases for retirees. Public sector unions may sue over the new law, saying that the state cannot break contracts. Courts in Colorado and Minnesota ruled to allow cuts in COLAs for current retirees. South Dakota and New Jersey have taken the same action and South Dakota is still waiting for a decision on a lawsuit challenging its actions. In the past two years, 17 states have reduced their automatic COLAs; the others include Maine, Oklahoma and Washington.

Previously, appellate courts in California and West Virginia have already found that COLAs could not be reduced. This has not stopped other states from following Colorado and Minnesota, so perhaps more legal battles lie ahead.

Although OCERS is somewhat unique, other '37 Act counties, namely, Sacramento and San Diego counties have set different retirement COLAs for each tier of employees based on their hire dates. San Diego's Tier A retirees and survivors are eligible for a COLA up to 3% annually whereas Tier B is eligible for a COLA up to 2%.

Recommendations

As OCFA continues its efforts to explore ways to lower future pension costs, reducing the COLA paid on retirement benefits may provide immediate cost savings. This was recently demonstrated when OCFA requested a Special Study from the actuarial firm, The Segal Company, on several new tier options.

The Study included an analysis of a lower tier for Safety and General Members with a 3% retirement COLA and also a 2% retirement COLA. The table below shows the impact on retirement rates:

Benefit Formula	Max COLA	Employer Rate % of Payroll	Estimated Avg. Annual Amount	Employee Rate % of Payroll	Estimated Annual Avg. Rate
S - 3.0%@55	3.0%	18.30%	$12,600	12.70%	$8,800
S - 3.0%@55	2.0%	16.45%	$11,300	10.91%	$7,500
G - 2.0%@55	3.0%	11.11%	$6,800	8.29%	$5,000
G - 2.0%@55	2.0%	10.14%	$6,200	7.35%	$4,500

As discussed above, the County Board of Supervisors currently sets the COLA limits for the **entire** OCERS system and conversely, the STAR COLA is determined by the Board of Retirement. Staff has submitted a recommendation to the OCFA Board to direct staff to transmit a copy of this report to the County Board of Supervisors and the OCERS Board of Retirement, for their consideration of potential cost-containment actions relating to Pension Cost of Living Adjustments (COLAs) under the authority granted by the '37 Act.

Conclusion

In California, pension promises made to current and retired members are considered a "vested right" and protected under the contract clauses of State and Federal laws. If any changes to the Pension COLA were to be considered, it would most likely apply to future employees only since they have no vested rights. A legal review/opinion should be obtained prior to pursuit of this option to determine if it is feasible.

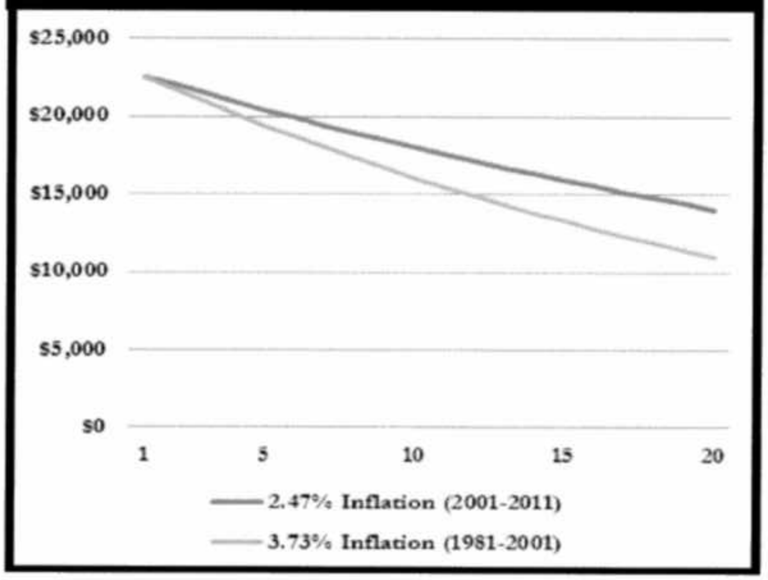
Exhibit B

NASRA ISSUE BRIEF:
Cost-of-Living Adjustments

June 2012

Cost-of-living adjustments (COLAs) in some form are provided on most state and local government pensions. The purpose of a COLA is to offset, or reduce, the effects of inflation on retirement income. Considerable variation exists in the way COLAs are designed, and in many cases they are determined or affected by other factors. COLAs add both value and cost to a pension benefit. COLAs are receiving increased attention as many states look to make adjustments to the cost of benefits amid challenging fiscal conditions and the current low-inflationary environment. This brief presents a discussion about the purpose of COLAs, the different types of COLAs offered by government retirement systems, and an overview of recent state legislative COLA actions.

Figure 1: Impact of 20 Years of Inflation on Purchasing Power of $22,600



COLA Purpose

Most state and local governments provide a COLA for the purpose of offsetting or reducing the effects of inflation, which erodes the value of retirement income, as illustrated in Figure 1. Using the actual average inflation rate for two time periods (2001-2011 and 1981-2001), after 20 years, the real (inflation-adjusted) average U.S. public pension benefit in 2010 of $22,600 falls to $14,052 (62 percent of its value) or $10,976 (49 percent of its value), depending upon the actual rate of inflation.

This depreciation can affect the sufficiency of retirement benefits, particularly for those who have no means to supplement their income due to disability or advanced age. Social Security beneficiaries are provided an annual COLA to maintain recipients' purchasing power. Similarly, most state and local governments provide an inflation adjustment to their retiree pension benefits. This is particularly important for those public employees – including nearly half of public school teachers and most public safety workers – who do not participate in Social Security. Unlike Social Security, however, state and local retirement systems typically pre-fund the cost of a COLA over the working life of an employee to be distributed annually over the course of his or her retired lifetime.

Common COLA Types and Features

The way in which public pension COLAs are calculated and approved varies considerably. Appendix A presents a listing of COLA provisions for many state retirement plans, illustrating the variety that exists in COLA plan designs. In general, COLA types and features are differentiated in the following ways:

Automatic vs. Ad hoc

An overarching distinction among COLAs is whether they are provided automatically or on an ad hoc basis. An ad hoc COLA requires the governing body to decide upon a postretirement benefit increase. By contrast, an automatic COLA occurs without action, and is typically predetermined by a set rate or formula. In some cases, ad hoc COLAs are accompanied by other factors, such as a maximum unfunded liability amortization period.

Simple vs. Compound

Another distinction between COLA types is whether the increase is applied in a simple or compound manner. Under a simple COLA arrangement, each year's benefit increase is calculated based upon the employee's original benefit at the time of his or her retirement. Under a compound COLA arrangement the annual benefit increase is calculated based upon the original benefit as well as any prior benefit increases. Some COLAs are both, in that they may be "simple" until the retiree reaches a certain age or year retired, at which point COLA benefits are calculated using a compound method.

Inflation-based
Many state and local governments provide a post-retirement COLA based on a consumer price index (CPI), which is a measure of inflation. Most provisions like this restrict the size of the adjustment, such as by "one-half of the CPI" and/or "not to exceed three percent." The most recognized CPI measures are calculated and published by the U.S. Bureau of Labor Statistics (BLS), and the CPI measures used by most public pension plans are either the CPI-U (based on all urban consumers) and the CPI-W (urban wage earners and clerical workers). Some states use state-specific inflation measures to determine the amount of their COLA.

Performance-based
Some public pension plans tie their COLA to the plan's funding level or investment performance. In one statewide system, for example, the COLA is a range tied to CPI based on the funding level of the plan. Annuitants with another state system receive a permanent benefit increase tied to their length of service when the fund's actuarial investment return exceeds the assumed rate of eight percent.

Delayed-onset or Minimum Age
Another characteristic contained in some automatic COLAs is to delay its onset, either by a given number of years, or until attainment of a designated age. A COLA may also take on any of the characteristics stated above and will become available to a retiree once he or she meets the designated waiting period or age requirements.

Limited Benefit Basis
Some retirement systems award a COLA calculated on a portion of a retiree's annual benefit, rather than the entire amount. For example, one system provides a COLA of three percent applied to only the first $18,000 of benefit. The multiplying factor can also be tied to an external indicator, such as CPI, and factors such as delayed onset may also be present.

Self-funded Annuity Option
Some state retirement plans offer post-retirement benefit increases through an elective process known as a self-funded annuity account. Under this design a member effectively self-funds his or her COLA by choosing to receive a lower monthly annuity in exchange for a fixed rate COLA to be paid annually upon retirement.

Reserve Account
Other public retirement systems pay COLAs from a pre-funded reserve account. This is a variation on the COLA tied to investment performance since the reserve account is funded with excess investment earnings. Under this scenario a COLA is provided from the funds set aside in the reserve account. Sometimes there is a stipulation attached that the fund itself must reach a certain size for any COLA to be granted in a given year.

Figure 2: State Retirement Systems Undergoing COLA Legislative Changes, 2009-2011

COLA Costs
The cost of a COLA, expressed as a percentage of active member payroll, predictably depends on the level of the COLA benefit. Such factors as its size; the portion of the benefit to which the COLA applies; whether or not the COLA is paid annually or sporadically; whether the adjustment is simple or compounded, and other features, all affect its cost. It has been estimated that an automatic COLA of one-half of an assumed CPI of three percent, compounded, will add 11 percent to the cost of

the retirement benefit. An automatic COLA of three percent, compounded, will add 26 percent to the cost of the benefit.[1]

The Governmental Accounting Standards Board (GASB) requires public pension plans to disclose assumptions regarding COLAs, including whether the COLA is automatic or ad hoc, and to include the cost of COLAs in projections of pension benefit payments.

Unlike automatic COLAs, the cost of ad hoc COLAs typically is not funded in advance, but rather increases the plan's unfunded liability or amortization period, or both, (or reduces an actuarial surplus) and increases future costs. GASB considers an ad hoc COLA to be "substantively automatic" when a historical pattern exists of granting ad hoc COLAs or when there is consistency in the amount of changes to a benefit relative to an inflation index.

Recent Changes to COLAs

As part of efforts to contain costs and to ensure the sustainability of public pension plans, and in response to the current period of historically low inflation, many states recently have made changes to COLA provisions by adjusting one or more of the elements mentioned above[2] (see Figure 2). As described in Appendix A, since 2009, eleven states have changed COLAs affecting current retirees, five states have addressed current employees' benefits, and six states have changed the COLA structure only for future employees. The legality of these modifications in several states has been, or is, being challenged in court as noted.

Conclusion

The effects of a COLA can be consequential both in protecting purchasing power and in adding costs to a plan. As states consider measures to ensure the sustainability of their pension plans for both those currently retired or employed and future generations of workers, policymakers are reexamining all aspects of benefit design and financing, including the way COLAs are determined and funded. Just as high periods of inflation in the past placed pressure on states to add or adjust COLAs upward, the recent low rates of inflation, combined with sluggish state and local revenues and poor investment returns, have spurred action to reduce COLA levels. Some states have included provisions that would enable COLAs to increase should inflation grow or funding status or fiscal conditions improve.

See also

Gary Findlay, "Addressing Inflation in the Design of Defined Benefit Pension Plans"
http://wikipension.com/images/7/73/Addressing_Inflation_in_the_Design_of_Defined_Benefit_Pension_Plans.pdf

Gabriel, Roeder, Smith & Company, "Postemployment Cost-of-Living Adjustments: Concepts and Recent Trends," April 2011, http://www.gabrielroeder.com/news/pdf_insight/Insight2011_04.pdf

National Association of State Retirement Administrators, "Overview of variations to typical cost-of-living adjustments among public retirement systems," http://wikipension.com/images/c/cf/Variations.pdf

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[1] Gabriel, Roeder, Smith & Company, "Postemployment Cost-of-Living Adjustments: Concepts and Recent Trends," April 2011, http://www.gabrielroeder.com/news/pdf_insight/Insight2011_04.pdf
[2] National Conference of State Legislatures

Appendix A: COLA Provisions by State-Level Plan and Recent Changes

Plan	COLA Provision	Recent Changes
Alaska PERS	Automatic, lesser of 75% of CPI or 9%, simple, for those age 65 and above; lesser of 50% of CPI or 6% for those age 60 or with 8 or more years of service (annuitant must reside in-state to receive the COLA)	
Alaska Teachers	Automatic, lesser of 75% of CPI or 9%, simple, for those age 65 and above; lesser of 50% of CPI or 6% for those age 60 or with 8 or more years of service (annuitant must reside in-state to receive the COLA)	
Alabama ERS	Ad hoc as approved by the legislature	
Alabama Teachers	Ad hoc as approved by the legislature	
Arkansas PERS	Automatic 3% compounded	
Arkansas Teachers	Automatic 3% compounded	
Arizona Public Safety Personnel	Sliding scale of 2.0% to 4.0%, contingent on investment earnings above 10.5%	Increased investment return threshold needed to fund a COLA from 8.0% to 10.5%
Arizona SRS	Up to 4% annually, contingent on excess earnings above 8%	
California PERS	Automatic based on CPI up to 2%, compounded	
California Teachers	Automatic 2% simple, plus adjustments designed to maintain retirees' purchasing power made through a "supplemental benefits maintenance account" financed with an employer contribution of about 2.5% of worker pay	
Colorado Affiliated Local	Based on election of individual participating employers	
Colorado Fire & Police Statewide	Ad hoc as approved by board	
Colorado Municipal	Varies by date of hire, automatic 2% unless negative investment return in previous year, then lesser of average monthly CPI-W or 2%, compounded	Changed from automatic 3.5%; legal challenge to this change was upheld by state district court and is under appeal to state supreme court
Colorado School	Varies by date of hire, automatic 2% unless negative investment return in previous year, then lesser of average monthly CPI-W or 2%, compounded	Changed from automatic 3.5%; legal challenge to this change was upheld by state district court and is under appeal to state supreme court
Colorado State	Varies by date of hire, automatic 2% unless negative investment return in previous year, then lesser of average monthly CPI-W or 2%, compounded	Changed from automatic 3.5%; legal challenge to this change was upheld by state district court and is under appeal to state supreme court
Connecticut SERS	Minimum of 2% up to a maximum 7.5% calculated based on the following formula: 60% of the annual increase in the CPI-W up to 6% and 75% of the annual increase in the CPI-W over 6%	

Plan	COLA Provision	Recent Changes
Connecticut Teachers	For members who retired before 9/92, automatic, based on CPI, with 3% minimum and 5% max, compounded; for those after 9/92, no COLA is provided	
DC Police & Fire	Automatic based on CPI, up to 3%, compounded	
DC Teachers	Automatic based on CPI, up to 3%, compounded	
Delaware State Employees	Ad hoc as approved by the general assembly	
Florida RS	Automatic 3%, compounded. Per legislation approved in 2011, no additional COLA credits will accrue after 6/30/11.	
Georgia ERS	Ad hoc as approved by the ERS board	
Georgia Teachers	Automatic 1.5% every 6 months as long as CPI increases, compounded	
Hawaii ERS	Automatic 2.5% simple; 1.5%, simple, for new hires after 6/30/12	The automatic COLA was reduced from 2.5% to 1.5%, simple, for those who become members of the system after 6/30/2012
Iowa PERS	Non-guaranteed post-retirement payment from a reserve account established from excess investment earnings	
Idaho PERS	Automatic 1% compounded (as long as CPI rises at least 1%), plus investment-based increase	
Illinois Municipal	Automatic 3%, simple, for those hired before 1/1/11; for those hired after 12/31/10, lesser of 3% or half of CPI, simple	Legislation in 2010 reduced the COLA for new hires after 12/31/10 from automatic 3%, simple
Illinois SERS	Automatic 3%, compounded, for those hired before 1/1/11; for those hired after 12/31/10, lesser of 3% or half of CPI, simple	Legislation in 2010 reduced the COLA for new hires after 12/31/10 from automatic 3%, compounded
Illinois Teachers	Automatic 3%, compounded, for those hired before 1/1/11; for those hired after 12/31/10, lesser of 3% or half of CPI, simple	Legislation in 2010 reduced the COLA for new hires after 12/31/10 from automatic 3%, compounded
Illinois Universities	Automatic 3%, compounded, for those hired before 1/1/11; for those hired after 12/31/10, lesser of 3% or half of CPI, simple	Legislation in 2010 reduced the COLA for new hires after 12/31/10 from automatic 3%, compounded
Indiana PERF	Ad hoc as approved by the legislature	
Indiana Teachers	Ad hoc as approved by the legislature	
Kansas PERS	Ad hoc as approved by the legislature; the new cash balance for employees hired after 12/31/14 provides for an optional self-funded COLA as an annuity payment option at retirement	In 2012, the auto 2% COLA is removed for those hired after 6/30/09; also established optional self-funded COLA in new cash balance plan for those hired after 12/31/14 [1]

[1] Legislation creating Kansas PERS Tier 3 passed in 2012 eliminated the Tier 2 COLA. The only employees eligible to receive the Tier 2 COLA are those who were retired and returned to work on or after 6/30/09 and who will retire before 7/1/12.

Plan	COLA Provision	Recent Changes
Kentucky County	Automatic, tied to CPI, not to exceed 1.5% after 12 months of retirement, compounded	
Kentucky ERS	Automatic, tied to CPI, not to exceed 1.5% after 12 months of retirement, compounded	
Kentucky Teachers	Automatic 1.5% compounded	
Louisiana SERS	Contingent upon funded status of system and/or actuarial return; must be approved by the Legislature; lesser of 2% or CPI-U, plus up to 1% additional depending on actuarial return	
Louisiana Teachers	Subject to approval by the legislature and contingent upon funding available in COLA account consisting of excess investment returns; COLA lesser of 3% or CPI-U if investment returns meet or exceed actuarial assumption; if investment returns are less than actuarial assumption, COLA lesser of 2% or CPI-U, if system at least 80% funded; COLA applies only to first $70,000 of benefit, indexed to CPI; participants may elect retirement option providing an actuarially reduced benefit with auto annual 2.5% COLA beginning at age 55	
Massachusetts SERS	Ad hoc, typically based on CPI up to 3% applied to first $13,000 of benefit, subject to legislative approval and enactment	Effective 2011, increased benefit to which COLA applies from first $12,000 of benefit to $13,000
Massachusetts Teachers	Ad hoc, typically based on CPI up to 3% applied to first $13,000 of benefit, subject to legislative approval and enactment	Effective 2011, increased benefit to which COLA applies from first $12,000 of benefit to $13,000
Maryland PERS	Automatic based on CPI, capped at 2.5% based on attainment of 7.75% rate of actuarial investment return. If that threshold is not met, COLA is 1%	For service credit earned after 6/30/2011, COLA was lowered from CPI up to 3%, compounded, to CPI capped at 2.5%, or 1%, depending on investment return
Maryland Teachers	Automatic based on CPI, capped at 2.5% based on attainment of 7.75% rate of actuarial investment return; if that threshold is not met, COLA is 1%	For service credit earned after 6/30/2011, COLA was lowered from CPI up to 3%, compounded, to CPI capped at 2.5%, or 1%, depending on investment return
Maine Local	Based on individual employer election. If provided, based on CPI up to 4%	
Maine State and Teacher	COLA is suspended through 7/1/14, after which it will be based on the CPI up to 3% applicable to the first $20,000 of benefit, indexed for inflation	Effective 7/1/2011, the COLA of CPI up to 4%, compounded, was suspended for three years, after which the cap and portion of the benefit to which the COLA applies will be reduced
Michigan Municipal	Employers may elect to provide a COLA, on a one-time basis or as an automatic adjustment	
Michigan Public	Automatic 3% simple	Employees hired after 6/30/10

Plan	COLA Provision	Recent Changes
Schools		participate in a hybrid plan that does not provide a COLA
Michigan SERS	Automatic 3% simple up to $300 annually	
Minnesota PERF	1.0%, compounded, until the plan funding level reaches 90%; 2.5% thereafter	Reduced auto-COLA from 2.5% in 2010; change was affirmed by a state judge in 2011
Minnesota State Employees	Automatic 2.0% compounded, until the plan's funding level reaches 90%, after which it will increase to 2.5%	Reduced auto-COLA from 2.5% in 2010; change was affirmed by a state judge in 2011
Minnesota Teachers	Suspended through 2012, after which COLA will be automatic 2.0% compounded, until the plan's funding level reaches 90%, when it returns to 2.5%	Reduced auto-COLA from 2.5% in 2010; change was affirmed by a state judge in 2011
Missouri DOT and Highway Patrol	80% of increase in CPI, up to 5%, compounded	
Missouri Local	Contingent upon investment return, with a max of the lower of 4% or cumulative CPI since retirement	
Missouri PEERS	Automatic, compounded at 2% if CPI-U is between 0% and 5%; 5% if CPI-U is 5% or higher, and no COLA is given if CPI-U is less than 0%; subject to a lifetime cap of 80%	In 2011, the Board changed the automatic, compounded COLA from based on CPI, not to exceed 5%, to either 0%, 2%, or 5%, depending on whether the CPI is negative, positive and below 5%, or over 5%, respectively; subject to a lifetime cap
Missouri State Employees	80% of CPI up to 5% compounded; members hired before 8/28/97 receive a minimum of 4% and a maximum of 5% compounded, up to 65% of original benefit, and then 80% of CPI up to 5% thereafter	
Missouri Teachers	Automatic, compounded at 2% if CPI-U is between 0% and 5%, 5% if CPI-U is 5% or higher, and no COLA is given if CPI-U is less than 0%; subject to a lifetime cap of 80%	In 2011, the Board changed the automatic, compounded COLA from based on CPI, not to exceed 5%, to either 0%, 2%, or 5%, depending on whether the CPI is negative, positive and below 5%, or over 5%, respectively
Mississippi PERS	Automatic 3%, simple, until age 55, then compounded thereafter; for new hires after June 2011, onset of compounding is delayed until age 60	For new hires after June 2011, onset of compounding is delayed until age 60, from 55
Montana PERS	Automatic 3% compounded	
Montana Teachers	Automatic 1.5% compounded beginning 3 years after onset of annuity	
North Carolina Local Government	Ad hoc as approved by the legislature	
North Carolina Teachers and State Employees	Ad hoc as approved by the legislature	

Plan	COLA Provision	Recent Changes
North Dakota PERS	Ad hoc as approved by the legislature	
North Dakota Teachers	Ad hoc as approved by the legislature	
Nebraska Schools	Based on CPI, up to 2.5%, compounded	
New Hampshire Retirement System	Ad hoc as approved by the legislature's fiscal committee	
New Jersey PERS	COLA suspended until the plan funding level reaches 80%, after which a panel will assess the prudence of paying a COLA	Legislation approved in 2011 suspended the automatic COLA that was based on 60% of CPI; change is under legal challenge
New Jersey Police & Fire	COLAs suspended until the plan funding level reaches 80%, after which a panel will assess the prudence of paying a COLA	Legislation approved in 2011 suspended the automatic COLA that was based on 60% of CPI; change is under legal challenge
New Jersey Teachers	COLAs suspended until the plan funding level reaches 80%, after which a panel will assess the prudence of paying a COLA	Legislation approved in 2011 suspended the automatic COLA that was based on 60% of CPI; change is under legal challenge
New Mexico PERA	Automatic 3% compounded	
New Mexico Teachers	Automatic based on CPI, compounded. When the change in CPI is more than 2%, the COLA is one-half the CPI, but not less than 2%, nor more than 4%. Member must be at least 65 years of age to receive a COLA	
Nevada Police Officer and Firefighter	After 3 years of receiving benefits, auto 2% annually, rising gradually to 5% annually, compounded, after 14 years of receiving benefits; the compounded COLA is capped by the lifetime CPI for the period of retirement, i.e., it may not exceed inflation	2009 legislation reduced the COLA ceiling to the 12-year amount of 4% annually for those who become members on or after 1/1/10
Nevada Regular Employees	After 3 years of receiving benefits, auto 2% annually, rising gradually to 5% annually, compounded, after 14 years of receiving benefits; the compounded COLA is capped by the lifetime CPI for the period of retirement, i.e., it may not exceed inflation	2009 legislation reduced the COLA ceiling to the 12-year amount of 4% annually for those who become members on or after 1/1/10
New York State Teachers	Automatic, based on one-half of the increase in the annual CPI, applied to first $18,000 of annual pension, compounded; must be 62 and retired for 5 years, or 55 and retired for 10 years, to receive COLA; COLA is a minimum of 1% and a maximum of 3%	
NY State & Local ERS	Automatic, based on one-half of the increase in the annual CPI, applied to first $18,000 of annual pension, compounded: must be 62 and retired for 5 years, or 55 and retired for 10 years, to receive COLA; COLA is a minimum of 1% and a maximum of 3%	
NY State & Local Police & Fire	Automatic, based on one-half of the increase in the annual CPI, applied to first $18,000 of annual pension, compounded: must be 62 and retired for 5 years, or 55 and retired for 10 years, to receive	

Plan	COLA Provision	Recent Changes
	COLA; COLA is a minimum of 1% and a maximum of 3%	
Ohio PERS	Automatic 3%, simple	
Ohio Police & Fire	Automatic 3%, simple	
Ohio School Employees	Automatic 3% simple	
Ohio Teachers	Automatic 3% simple	
Oklahoma PERS	Ad hoc as approved by the legislature; subject to required funding	The Legislature approved a provision in 2011 requiring future COLAs to be funded, which effectively rules out COLAs for the foreseeable future. Prior to this legislative action, a 2% COLA had regularly been approved
Oklahoma Teachers	Ad hoc as approved by the legislature; subject to required funding	The Legislature approved a provision in 2011 requiring future COLAs to be funded, which effectively rules out COLAs for the foreseeable future. Prior to this legislative action, a 2% COLA had regularly been approved
Oregon PERS	Automatic, based on CPI, up to 2%, compounded	
Pennsylvania School Employees	Ad hoc as approved by the general assembly	
Pennsylvania State ERS	Ad hoc as approved by the general assembly	
Rhode Island ERS	Effective 7/1/12, the COLA will be compounded based on a 5-year smoothed investment return less 5.5% with a 0% floor and 4% cap, applied to first $25,000 of benefit, indexed; application of the COLA is delayed until later of Social Security eligibility, normal retirement age under the plan, or 3 years after retirement	In late 2011, legislature revised COLA provisions from automatic 3% compounded, effective 7/1/12. The change is under legal challenge
Rhode Island Municipal	Effective 7/1/12, the COLA will be compounded based on a 5-year smoothed investment return less 5.5% with a 0% floor and 4% cap, applied to first $25,000 of benefit, indexed; application of the COLA is delayed until later of Social Security eligibility, normal retirement age under the plan, or 3 years after retirement	In late 2011, legislature revised COLA provisions from automatic 3% compounded, effective 7/1/12. The change is under legal challenge
South Carolina Police	Automatic, based on CPI up to 2% annually	
South Carolina RS	Automatic, based on CPI up to 2% annually	
South Dakota PERS	Indexed to CPI and funded status, with a minimum of 2.1%, when plan funding level is below 80%, and a maximum of 3.1%, when plan is funded above 100%	In 2010, legislature revised COLA provision from automatic 3.1%
TN Political Subdivisions	Participating employers may choose from 1 of 3 options: a) no COLA; b) automatic based on CPI, up to 3%, compounded, or c) same as b), except simple	

Plan	COLA Provision	Recent Changes
TN State and Teachers	Automatic based on CPI, up to 3% compounded	
Texas County & District	Ad hoc, approved by individual employers	
Texas ERS	Ad hoc as approved by the legislature; per state constitution, plan's amortization period must be less than 31 years for legislature to approve a COLA	
Texas LECOS	Ad hoc as approved by the legislature; per state constitution, plan's amortization period must be less than 31 years for legislature to approve a COLA	
Texas Municipal	Based on individual employer election; employers may choose no COLA or based on 30%, 50%, or 70% of CPI, compounded	
Texas Teachers	Ad hoc, as approved by the legislature; per state constitution, plan's amortization period must be less than 31 years for legislature to approve a COLA	
Utah Noncontributory	For those hired before 7/1/11, automatic based on CPI up to 4%, simple; for those hired after 6/30/11, based on CPI up to 2.5%, simple	Legislature reduced maximum COLA for those hired after 6/30/11 from 4% to 2.5%
Virginia Retirement System	Automatic based on CPI for the first 3%, and one-half of the next 4% of CPI, with an annual cap of 5%, compounded; effective 1/1/13, non-vested active members will have future COLAs based on the first 2% of CPI and one-half of the next 1%, with an annual cap of 3%, compounded	Effective 1/1/2013, non-vested members will have future COLAs capped at 3% rather than 5%; for early retirees, COLA onset is delayed until July 1 one year following retirement
Vermont State Employees	Automatic based on CPI, up to 5%, compounded	
Vermont Teachers	Automatic based on one-half of CPI, up to 5%, compounded	
Washington LEOFF Plan 1	Automatic, full CPI, compounded	
Washington LEOFF Plan 2	Automatic based on CPI, up to 3% compounded	
Washington PERS 1	None	Legislature eliminated automatic COLA of 3% in 2011; change is currently under legal challenge
Washington PERS 2/3	Automatic, based on CPI, up to 3%, compounded	
Washington School Employees Plan 2/3	Automatic, based on CPI, up to 3%, compounded	
Washington Teachers Plan 1	None	Legislature eliminated automatic COLA of 3% in 2011; change is currently under legal challenge
Washington	Automatic based on CPI up to 3%, compounded	

Plan	COLA Provision	Recent Changes
Teachers Plan 2/3		
Wisconsin Retirement System	Based on investment returns, and can increase and decrease, but not below base benefit	
West Virginia PERS	Ad hoc as approved by the legislature	
West Virginia Teachers	Ad hoc as approved by the legislature	
Wyoming Public Employees	Effective 7/1/12, the COLA is removed until the actuarial funded ratio reaches 100 percent "plus the additional percentage the retirement board determines is reasonably necessary to withstand market fluctuations"	Prior to 7/1/12, COLA was automatic tied to CPI up to 3%. Effective 7/1/12, the COLA is removed until the actuarial funded ratio reaches 100 percent "plus the additional percentage the retirement board determines is reasonably necessary to withstand market fluctuations"

Please note: COLA provisions listed above are subject to change as new information becomes available.

DISCUSSION CALENDAR - AGENDA ITEM NO. 8
BUDGET AND FINANCE COMMITTEE MEETING
September 11, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **Paying Down OCFA's Unfunded Pension Liability with Orange County Employees Retirement System**

Summary:
This agenda item is submitted to the Committee for review and consideration of actions which will result in expedited payment of OCFA's Unfunded Actuarial Accrued Liability (UAAL) with the Orange County Employees Retirement System (OCERS).

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of September 26, 2013, with the Budget and Finance Committee's recommendation that the Board authorize the following actions:

1. Direct staff to provide updates to the Board each year as part of the mid-year budget presentation, indicating the amount of Fund Balance Available (FBA) from the prior fiscal year, and directing those amounts to be paid to OCERS as annual lump-sum payments towards the OCFA's UAAL.
2. Direct staff to include additional payments towards the OCFA's UAAL in the annual budget, including the following factors:
    a. Savings that result from the new Public Employees' Pension Reform Act provisions and other reductions in OCFA's retirement contribution rates shall be used as a source for additional UAAL payments.
    b. Beginning in FY 2016/17, an additional $1 million should be added to the OCFA's annual budget each year for 5 years, for retirement contributions to OCERS as a base-building source for additional UAAL payments
    c. Provide updates to the Board each year as part of the annual budget presentation, indicating the amount planned in each yearly budget as additional payments towards the OCFA's UAAL, resulting from the factors above.

Background:
Total retirement costs represent $62.5 million or 22% of the Authority's FY 2013/14 General Fund budget. Each year, the Authority receives its retirement rates from OCERS. The total retirement rate has two components including the Normal Rate and the current year's cost for the Unfunded Actuarial Accrued Liability (UAAL). The UAAL is the difference between the

actuarial accrued liabilities and the value of assets as of a specific date. In other words, the UAAL is the portion of the accumulated costs for service earned to date that is not covered by plan assets.

The UAAL is accounted for by OCERS in layers, with a new gain or loss layer being added every year and amortized, or paid down, over various amortization periods. Amortization periods are established by the OCERS Board as a policy matter. Based on a December 31, 2012, valuation by OCERS, the Authority's total UAAL is $473,792,000 of which $400.9 million or 85% is attributed to Safety members and $72.9 million or 15% is attributed to General members. Under the current layered amortization approach, OCFA has 29 years remaining to pay the UAAL in full.

In an effort to accelerate funding of this UAAL, the Authority submitted a request to OCERS to have its actuary (Segal Consulting) estimate the impact on the Authority's UAAL amortization period and retirement contribution rates, if the Authority were to accelerate the funding of its UAAL. Segal was asked to look at the following four strategies for lowering the UAAL (Attachment 1):

- Shortening the weighted-average amortization period to a specified period (for example, 20, 15, or 10 years)
- Contributing an additional $1 million each year (year 1 = $1M, year 2 = $2M, year 3 = $3M, etc.), with the additional annual contribution growing to $10M over 10 years
- Contributing an additional $2 million each year using fund balance available following the close of each fiscal year
- Contributing additional funds each year, using the savings that will be realized under the new Public Employees Pension Reform Act (PEPRA)

All of the above strategies would reduce the OCFA's existing UAAL more rapidly, and effectively shorten the weighted-average amortization period. Shortening the amortization period would have many benefits to OCFA. Although it would cause our employer contributions to rise, it would result in our liability being paid off sooner. Earlier payments of contributions will result in greater investment income earned and less money paid from the employer over the long-term.

Staff evaluated the affordability of various expedited payment options, using the OCFA's long-term financial forecast. We concluded that combining multiple strategies would yield positive benefits for OCFA, while also retaining flexibility in the event that OCFA's financial environment should change significantly in the coming years.

In particular, staff is recommending the following Strategies for expedited payment of OCFA's UAAL, which are collectively estimated to reduce OCFA's amortization period significantly, with payoff anticipated in less than 20 years, instead of the current period of 29 years:

1. Contribute additional amounts each year using the unencumbered fund balance available following the close of the prior fiscal year, estimated at approximately $3 million per year[1]
2. Contribute additional funds each year, using the savings that will be realized under PEPRA and savings from reductions to OCFA's retirement contribution rates, based on recent 15-year rate projections provided by Segal Consulting (Attachment 2)
3. Beginning in FY 2016/17, contribute an additional $1 million per year building to $5 million in annual payments over 5 years; at year 5, pause to reassess whether the annual increases should continue to build, remain at $5 million, or be adjusted otherwise

The attached long-term financial forecast (Attachment 3) includes the impact of Strategy Nos. 2 and 3 from above. Strategy No. 1 ultimately has no impact on the financial forecast, since it uses year-end funds that become available from revenues in excess of budget, or expenditures less than budget. Historically, OCFA's annual year-end fund balance has averaged nearly $4 million over the past 15 years (Attachment 4). For purposes of this analysis, we have assumed an annual amount of $3 million to be contributed towards the OCFA's UAAL (See footnote 1).

We have estimated the value of the proposed expedited payments from all of these Strategies, resulting in a "snowball" effect with growing annual values that add up to a cumulative $253.8 million over the next 17 years (Attachment 4). This projected $253.8 million UAAL payment is ***in addition to*** the minimum annual required UAAL payments that OCFA currently makes each year, and will continue to make each year until the UAAL is paid in full.

Alternatively, future events could cause retirement contribution rates to rise rather than fall. When that occurs, OCFA staff will present options to the OCFA Board for funding those required increases, while also continuing to work on progress with accelerated payment of OCFA's UAAL.

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[1] The current Amended Joint Powers Agreement (JPA) requires the Board to consider allocating all, or a portion of, unencumbered fund balance each year to the Structural Fire Fund Entitlement Fund (SFFEF). Also according to the current JPA, every tenth year (FY 2010/11, 2020/21, etc.), it is mandatory that the Board allocate at least 50% of the unencumbered fund balance to the SFFEF. These SFFEF provisions of the JPA are currently under consideration for amendment, pursuant to the equity discussions. If the proposed amendments are approved, then these SFFEF provisions will be deleted, enabling use of unencumbered funds for payment of the UAAL. If the equity provisions and JPA amendment are not approved, then the proposed allocation of unencumbered fund balance to the OCFA's UAAL can still be utilized as a strategy; however, the allocation will be subject to annual Board determination of whether to allocate the funding to the UAAL of the SFFEF.

Impact to Cities/County:
Accelerated payments to OCERS will only be recommended for implementation in a manner which minimizes the impact to cash contract city charges, as is the case with the above strategy. When the annual $1 million budgetary increases are scheduled to begin in FY 2016/17, the impact on cash contract charges will be reviewed with the City Managers for input and feedback to the Budget and Finance Committee and Board of Directors.

Fiscal Impact:
See long-term financial forecast provided as Attachment 3.

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

Attachments:
1. Segal Consulting–Accelerated Funding of UAAL for OCFA, August 30, 2013
2. Segal Consulting–Illustration of Retirement Costs, UAAL & Funding Ratio, August 30, 2013
3. OCFA's Long-Term Financial Forecast
4. Unencumbered Fund Balance – 15-year Average
5. Estimated Cumulative Value of Expedited UAAL Payment Strategies (Snowball Effect)

Segal Consulting

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

VIA E-MAIL AND USPS

August 30, 2013

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

Re: Orange County Employees Retirement System
Accelerated Funding of UAAL for Orange County Fire Authority (OCFA)

Dear Steve:

In our letter to you dated August 7, 2013, we outlined several options that may be considered by OCERS in treating additional contributions made by those participating employers interested in reducing their future Unfunded Actuarial Accrued Liability (UAAL) payments to OCERS. As we pointed out in our letter, there are two broad categories of option that differ primarily in whether the additional contribution amounts would be used to immediately buy down the employers' UAAL and UAAL contribution rates (Option A), or held back from the current UAAL as an advance contribution so that those amounts, with future investment earnings, could be applied at the employer's discretion against future contributions (Option B). In particular, under Option B they could be used to reduce the UAAL payment periods for those employers.

When we presented our letter at the Board meeting on August 19, we were directed by the Board to provide some examples to illustrate how the different options would impact the employers' UAAL amount as well as current and future UAAL contribution rates. In our discussions following the Board meeting, we have been further directed by your office to prepare the examples based on actual requests made by three different employers.

In this letter, we have provided the examples based on the request made by the Orange County Fire Authority (OCFA). Since OCFA has only requested a subset of the options outlined in our letter from August 7, we would defer providing illustrations of the other options until we prepare the examples for the other employers.

OCFA has requested that we provide them with the impacts on their contribution rate under the following scenarios:

#1 How much would OCFA's General and Safety contribution rates need to increase in order for OCFA to reduce their current UAAL amortization to: (a) 20 years, (b) 15 years or (c) 10 years?

#2 If OCFA starts to add an extra $1 million in retirement contributions each year (i.e., $ 1 million in the first year, $2 million in the second year, etc.) until it reaches $10 million in ten years, how many years would they be able to shorten the amortization period for their UAAL?

#3 If OCFA starts to add an extra $2 million in retirement contributions each year, how many years would they be able to shorten their amortization period for their UAAL?

The impacts on the UAAL amount and associated contribution rate under these three scenarios are provided below.

SCENARIO #1 – CONTRIBUTIONS UNDER 20, 15 AND 10-YEAR AMORTIZATION PERIODS

In the December 31, 2012 valuation, there are 15 amortization layers for the UAAL for the OCFA General and 14 amortization layers for the UAAL for the OCFA Safety membership groups. The outstanding balance of the combined UAAL measured as of December 31, 2004 valuation was amortized over 30 years with 22 years left in that amortization as of December 31, 2012. Since 2004, depending on the cause that gave rise to the change in the UAAL (either positive or negative), the changes in the UAAL subsequent to the December 31, 2004 valuation have been amortized over different periods.

Under OCERS' funding policy, there are layers of UAAL with different amortization periods and not a single UAAL amortization layer. However, during our discussions with the Board on the review of actuarial funding policy, we noted that the net total current year UAAL contribution rates determined in the December 31, 2012 valuation for OCFA's General and Safety membership groups are equivalent to those that would result from an equivalent single amortization period of about 19 to 20 years. We emphasize that this single amortization period is only for illustration and comparison; it is not actually used to determine employer contributions.

In the table below, we have compared OCFA's normal cost plus UAAL contribution rates determined in the December 31, 2012 valuation with those determined using a single UAAL amortization period of 20 years, 15 years or 10 years. In reviewing these results, of note is that the contribution rates determined using the current as well as the new amortization schedules have been determined without taking into consideration the 2-year phase-in of the impact of the employer's contribution rates as a result of the changes in the economic assumptions in the December 31, 2012 valuation. This reflects a simplifying assumption we have made that if an employer can budget for the accelerated funding of the UAAL, then that employer would also be able to pay the higher contributions without the 2-year phase-in. We would be available to refine our calculation to reflect the phase-in based on any actual funding proposal agreed to by OCERS and OCFA.

	General – Rate Group #10		Safety – Rate Group #8		Total	
	Total Rate	Estimated Annual Amount[1]	Total Rate	Estimated Annual Amount[1]	Total Rate	Estimated Annual Amount[1]
Current Amortization[2]						
Normal Cost	13.93%	$3,041	26.16%	$29,254	24.16%	$32,295
UAAL[3]	24.76%	5,406	26.84%	30,014	26.50%	35,420
Total	38.69%	$8,447	53.00%	$59,268	50.66%	$67,715
20-year Amortization						
Normal Cost	13.93%	$3,041	26.16%	$29,254	24.16%	$32,295
UAAL[3]	24.09%	5,259	25.97%	29,041	25.66%	34,300
Total	38.02%	$8,300	52.13%	$58,295	49.82%	$66,595
Change from current	-0.67%	-$147	-0.87%	-$973	-0.84%	-$1,120
15-year Amortization						
Normal Cost	13.93%	$3,041	26.16%	$29,254	24.16%	$32,295
UAAL[3]	30.31%	6,618	32.65%	36,511	32.27%	43,129
Total	44.24%	$9,659	58.81%	$65,765	56.43%	$75,424
Change from current	+5.55%	+$1,212	+5.81%	+$6,497	+5.77%	+$7,709
10-year Amortization						
Normal Cost	13.93%	$3,041	26.16%	$29,254	24.16%	$32,295
UAAL[3]	42.92%	9,371	46.19%	51,652	45.66%	61,023
Total	56.85%	$12,412	72.35%	$80,906	69.82%	$93,318
Change from current	+18.16%	+$3,965	+19.35%	+$21,638	+19.16%	+$25,603

(1) Dollar amounts are in thousands and are based on December 31, 2012 projected annual compensation as follows:

Rate Group #10	$21,832
Rate Group #8	$111,826

(2) Before reflecting two-year phase-in of the contribution rate impact from the change in economic assumptions in the December 31, 2012 valuation.

(3) UAAL rate has been adjusted to reflect 18-month delay between date of valuation and date of rate implementation.

A comparison of the UAAL contributions required under the current and the 20, 15 and 10 year amortization schedules is provide in Attachment A. The current year's UAAL contributions as provided in the table above are somewhat higher than the first year's contributions in Attachment A due to the adjustment in the UAAL for the 18- month delay between the date of the valuation and date of rate implementation.

Note that changing to a 20-year single period would actually reduce the employer's current rates since the equivalent single amortization period for OCFA's UAAL is between 19 and 20 years. We also stress that the use of a single amortization period for the entire UAAL is not current policy and may or may not be made available by the Board.

In responding to this request from OCFA, we assume OCFA would be making a long-term commitment to fund using one of these amortization schedules. If our understanding is correct, neither Option A nor Option B as outlined in our letter dated August 7 may satisfy OCFA's intent. This is because there are 14 to 15 UAAL layers for OCFA's General and Safety groups, each with different amortization periods and some of those periods are longer than the 20, 15 or 10 years requested by OCFA. If the Board chooses to allow this scenario, it would require an action to combine all the UAAL layers into a single layer (with the requested amortization period), subject to approval by the Board.

SCENARIO #2 – IMPACT OF ADDITIONAL CONTRIBUTIONS OF $1 MILLION PER YEAR UNTIL THEY REACH $10 MILLION IN TEN YEARS

We have been asked by OCFA to determine how many years would they be able to shorten the amortization period for their UAAL if OCFA starts to add an extra $1 million in retirement contributions each year beginning on March 31, 2014 (i.e., $ 1 million on March 31, 2014, $2 million on March 31, 2015, etc.) until they reach $10 million in ten years.

As we outlined in our August 7 letter, under Option A any additional contributions made by OCFA would normally be used to immediately reduce both OCFA's UAAL and the related UAAL contribution rate in the next actuarial valuation. This is because those additional contributions would be used dollar-for-dollar to reduce OCFA's UAAL and a lower UAAL contribution rate would be calculated as a result in the next actuarial valuation. This is the reason why for OCFA's Scenario #2, Option B would be more appropriate. The additional contributions would be deposited into a "booking-keeping" type account (similar to the County Investment Account that has been maintained for the County of Orange). The balance in that account would not be included as valuation assets and therefore would not be used to immediately reduce OCFA's UAAL amount and the associated UAAL contribution rate in the next valuation.

If OCERS would agree to establish this account for OCFA, that amount would be credited with the additional contributions made by OCFA. It would be adjusted annually by OCERS to reflect actual market returns (either positive or negative) earned by the System during the year.

As we have already pointed out, OCFA has a number of UAAL layers each with its own amortization period. While we have used the terminology of an equivalent single amortization period to illustrate the duration that OCFA's UAAL would be paid off, in practice, OCFA's future dollar contributions would decrease in some years when those UAAL layers that are amortized with shorter periods are paid-off. Furthermore, those contributions would generally increase every year at the assumed rate of payroll increase (i.e., 3.75%) under the level percentage of payroll amortization approach. The interrelationship between these factors is best illustrated in the chart as provided in Attachment B.

We have estimated that additional contributions of $1 million per year until they reach $10 million in ten years when adjusted with assumed investment return at 7.25% per year would allow OCFA to eliminate their UAAL contributions after 21 years for both General and Safety. That result is shown in the dropping off of the contributions as illustrated by the red line in Attachment B.

SCENARIO #3 – IMPACT OF ADDITIONAL CONTRIBUTIONS OF $2 MILLION PER YEAR

Scenario #3 is very similar to Scenario #2 except that the contributions under this Scenario are fixed and would continue to be made beyond ten years.

Assuming again that OCERS would agree to establish a book-keeping account for OCFA, we have estimated that the $2 million per year contributions if made by OCFA for 21 years when adjusted with assumed investment return at 7.25% per year would allow OCFA to eliminate their UAAL contributions after 22 years for both General and Safety. That result is shown in the dropping off of the contributions as illustrated by the red line in Attachment C.

We are members of the American Academy of Actuaries and we meet the qualification requirements to render the actuarial opinion contained herein.

Please let us know if you have any questions.

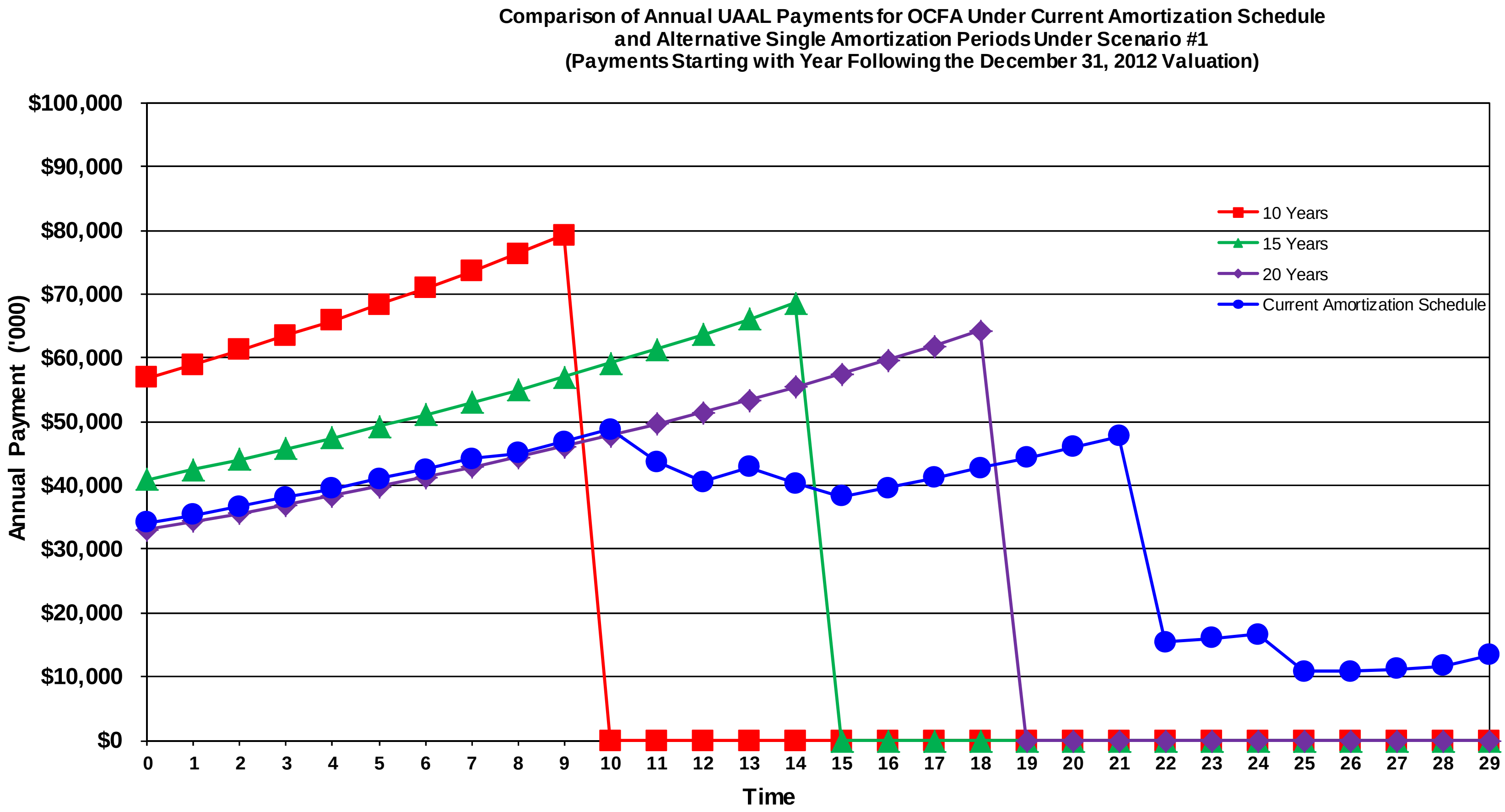
Sincerely,

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

AYY/kek
Enclosures

cc: Brenda Shott
Julie Wyne

Attachment A



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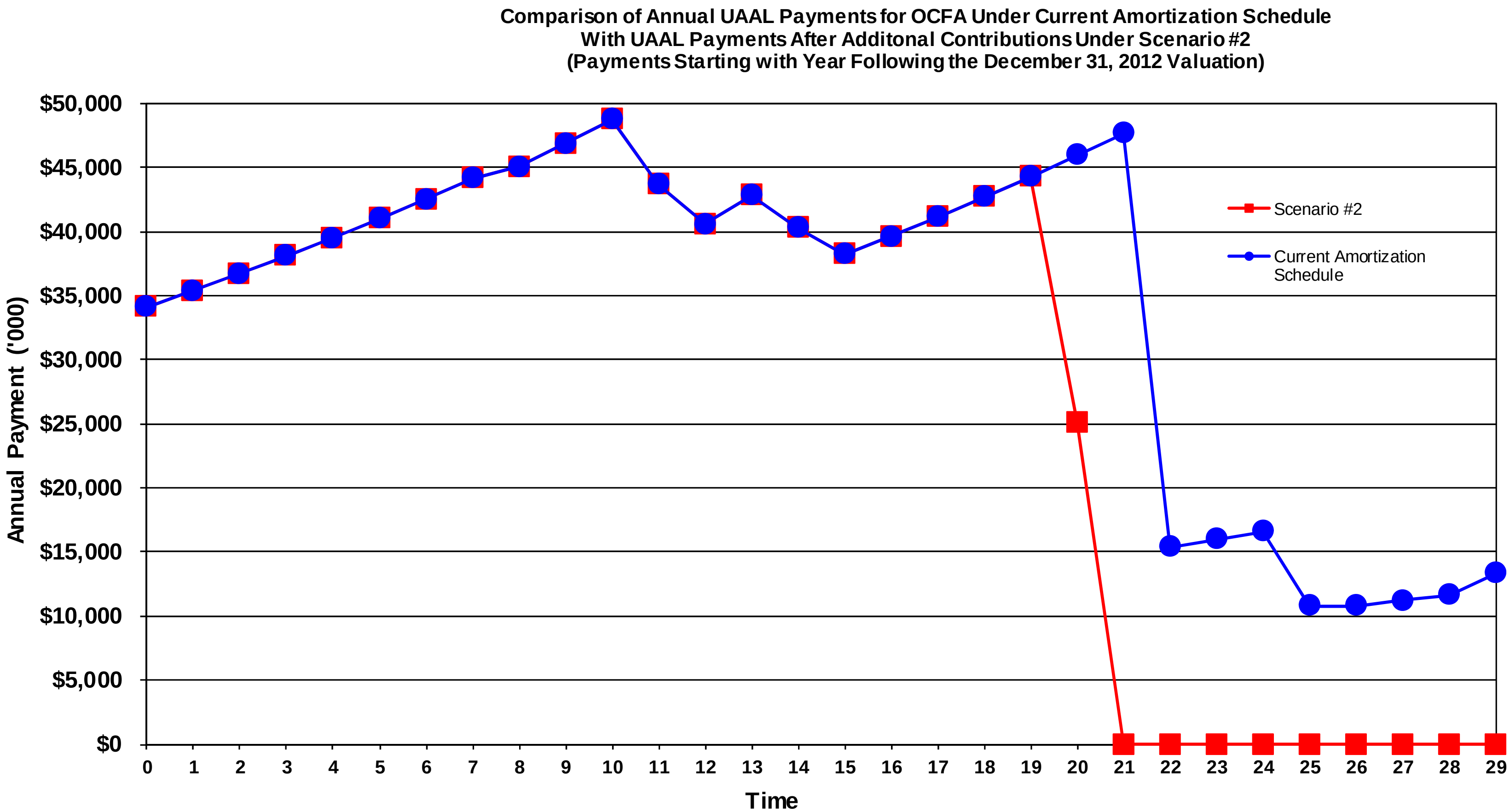
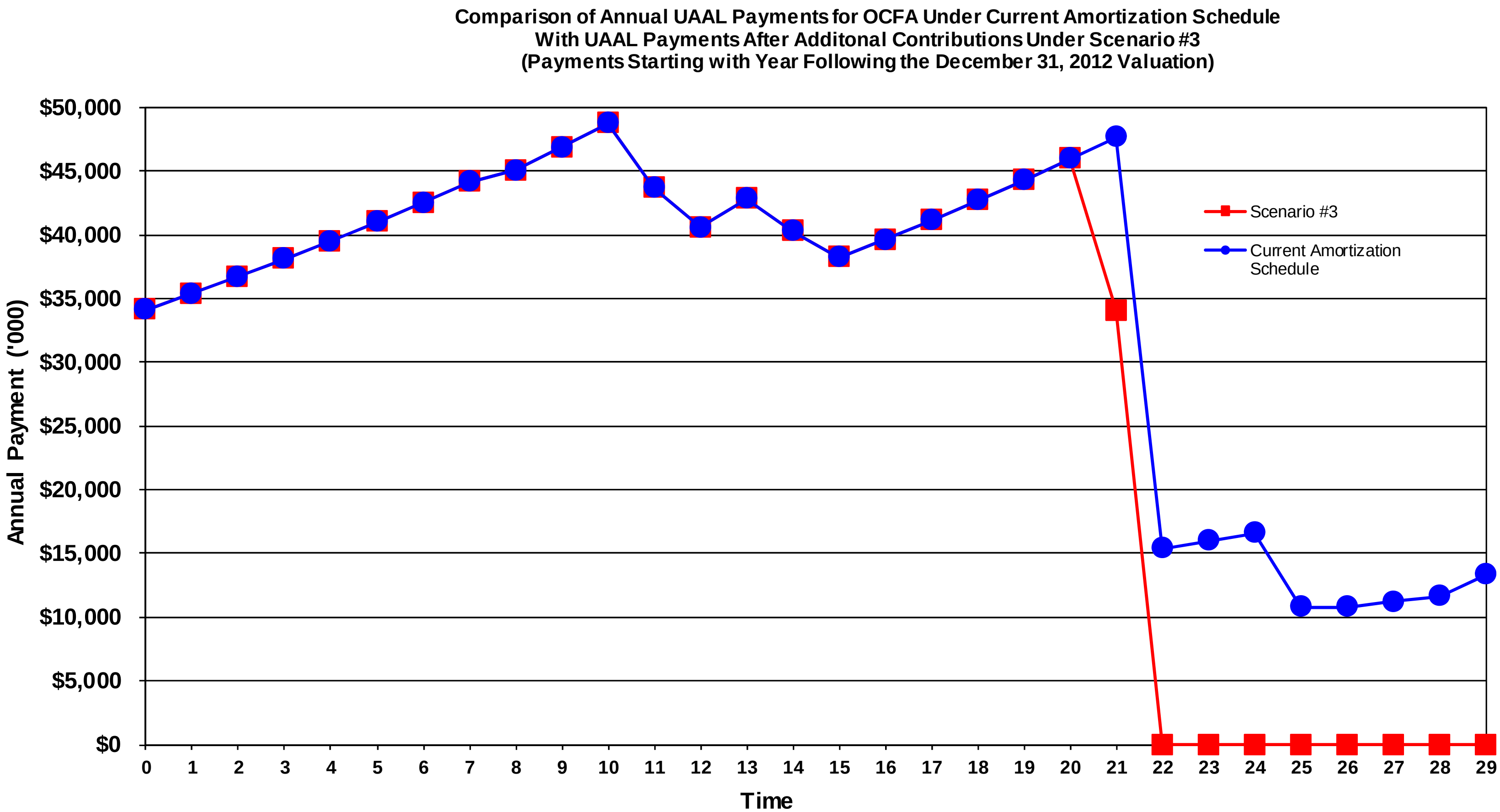
Attachment B



Attachment C



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VIA E-MAIL AND USPS

August 30, 2013

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

Re: Illustrations of Retirement Costs, Unfunded Actuarial Accrued Liability and Funded Ratio under Alternative Economic Scenarios

Dear Steve:

As requested, we have developed 15-year illustrations of the employer contribution rates for OCERS under three sets of market return "scenarios" after December 31, 2012. In this letter, we have also provided the Unfunded Actuarial Accrued Liability (UAAL) in dollars and the funded ratio associated with those projected employer contribution rates. These results have been prepared using the amortization periods approved by the Board at its meeting in June 2013.

The three market rate of return scenarios are as follows:

- Scenario #1: 0.00% for 2013 and 7.25% thereafter.
- Scenario #2: 7.25% for all years.
- Scenario #3: 14.50% for 2013 and 7.25% thereafter.

The projected contribution rates for the aggregate plan are provided in Attachment A. The projected contribution rates for the ten Rate Groups are provided in Attachment B. The projected UAAL and funded ratio for the aggregate plan are provided in Attachment C. The projected UAAL and funded ratio for the ten Rate Groups are provided in Attachments D through M.

This projection also reflects the potential employer savings as current employees leave employment and are replaced by new members covered under the tiers required by the California Public Employees' Pension Reform Act of 2013 (CalPEPRA) starting at January 1, 2013. Please note that some of the changes made by CalPEPRA, such as the sharing of the total Normal Cost on a 50:50 basis, may result in employer savings for current employees. As the impact of those potential savings has not been studied by OCERS, we have not included those in this illustration.

Methods and Assumptions

The methods and actuarial assumptions we used to prepare the employer contribution rates, the UAAL and the funded ratio are as summarized below:

- The illustrations are based on the actuarial assumptions and census data used in our December 31, 2012 valuation report for the Retirement Plan. With the exception of the market rates of return specified above, it is assumed that all actuarial assumptions would be met in the future and that there would be no change in the future for any of the actuarial assumptions adopted by the Board for the December 31, 2012 valuation.

- The detailed amortization schedule for OCERS' UAAL as of December 31, 2012 is provided in the valuation report. Any subsequent change in the UAAL due to actuarial gains or losses (e.g., from investment returns on actuarial value greater or less than the assumed 7.25% at market value) are amortized over separate 15-year periods.

- No adjustment has been made to reflect the long-term impact on OCERS of the two-year phase-in of the cost increase due to the change in the economic assumptions (especially the 7.25% investment return assumption) adopted by the Board for the December 31, 2012 valuation. (That impact, if reflected in our projections, would have increased the contribution rates for the System as a whole by about 0.2% of payroll starting with the December 31, 2013 valuation.) However, we have provided in Attachments A and B the contribution rates from the December 31, 2012 valuation both before and after the adjustment for the first year of the two-year phase-in.

- CalPEPRA prescribes new benefit formulas for members with a membership date on and after January 1, 2013. For Rate Groups 1, 3, 5, 9, 10 and 11, we have estimated the Normal Cost savings[1] associated with the enrollment of those employees under the new 2.5% at 67 formula. We have also estimated the changes in employee contributions in accordance with Section 7522.30 of CalPEPRA (i.e., 50:50 sharing of the total Normal Cost with the new employees).

  For Rate Group 2, with the exception of the County's attorneys, San Juan Capistrano employees and OCERS Management employees who will receive the 2.5% at 67 formula, all new employees in Rate Group 2 will receive the "new" 1.62% at 65 formula.

[1] To estimate the savings, we have made a simplifying assumption that current active members would be replaced over the next 20 years (starting in 2013) by new members under 2.5% at 67 on a prorated basis.

We assumed that the proportion of the total payrolls from County's attorneys, San Juan Capistrano employees and OCERS Management employees in the future would remain unchanged from that observed at the December 31, 2011[2] valuation. As of December 31, 2011, payroll for active members in these three categories represented about 7.5% of the total payroll for all members in Rate Group 2. We have estimated the Normal Cost savings[3] associated with the enrollment of new members under the two new formulas. We have also estimated the changes in employee contributions in accordance with Section 7522.30 of CalPEPRA.

- For Rate Group 6, 7 and 8 members with a membership date on and after January 1, 2013, we have estimated the Normal Cost savings[4] associated with the enrollment of those members under the new 2.7% at 57 formula. We have also estimated the changes in employee contributions in accordance with Section 7522.30 of CalPEPRA.

- Please note that new members will be enrolled under the CalPEPRA benefit formulas effective January 1, 2013 and it is anticipated that the actual payrolls for these members will first be reported in the December 31, 2013 valuation.

  In preparing the contribution rates for each Rate Group (and the aggregate rate for the System as a whole), we have utilized the projected proportions of payroll for the members covered under the pre-CalPEPRA and the CalPEPRA benefit formulas starting with the December 31, 2013 valuation and in each subsequent valuation.

  As the results from the December 31, 2013 valuation will not be used in setting the contribution rates until the 2015/2016 fiscal year, the contribution rates provided in these illustrations are somewhat overstated since employers in the different Rate Groups will start to pay lower contribution rates for new hires under the CalPEPRA benefit formulas effective January 1, 2013.

- We understand that, with the exception of new members who would be covered under the "new" 1.62% at 65 formula, in the determination of pension benefits under the CalPEPRA formulas the maximum compensation that can be taken into account for new members on and after January 1, 2013 is equal to 120% of the Social Security Taxable Wage Base ($136,440 in 2013). To the extent this provision will limit compensation of the new members, our assumption that the total payroll will increase by 3.75% each year over the projection period (for use in determining the contribution rate for the UAAL) may be overstated somewhat.

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[2] This is the most recent date for which data was provided by OCERS to isolate the County's attorneys.

[3] To estimate the savings, we have made a simplifying assumption that current County's attorneys, San Juan Capistrano and OCERS Management active members would be replaced over the next 20 years (starting in 2013) by new members under 2.5% at 67 on a prorated basis. All other active members would be replaced over the next 20 years (starting in 2013) by new members under 1.62% at 65 on a prorated basis.

[4] To estimate the savings, we have made a simplifying assumption that current active members would be replaced over the next 20 years (starting in 2013) by new members under 2.7% at 57 on a prorated basis.

- Other than the above adjustments to the Normal Costs from the new CalPEPRA formulas, we have not included any other adjustments for the pre-CalPEPRA members such as the anticipated reduction in proportion (and hence in the associated Normal Cost) of existing Tier 1 active members (with pension benefits based on final one year average formula) relative to the increase in proportion of existing Tier 2 active members (with pension benefits based on final three year average formula) for members in any Rate Group.

Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as illustrations of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

This study was prepared under the supervision of Andy Yeung, ASA, MAAA. I am a member of the American Academy of Actuaries and meet the qualification requirements to provide the opinion contained herein.

Please let us know if you have any questions.

Sincerely,

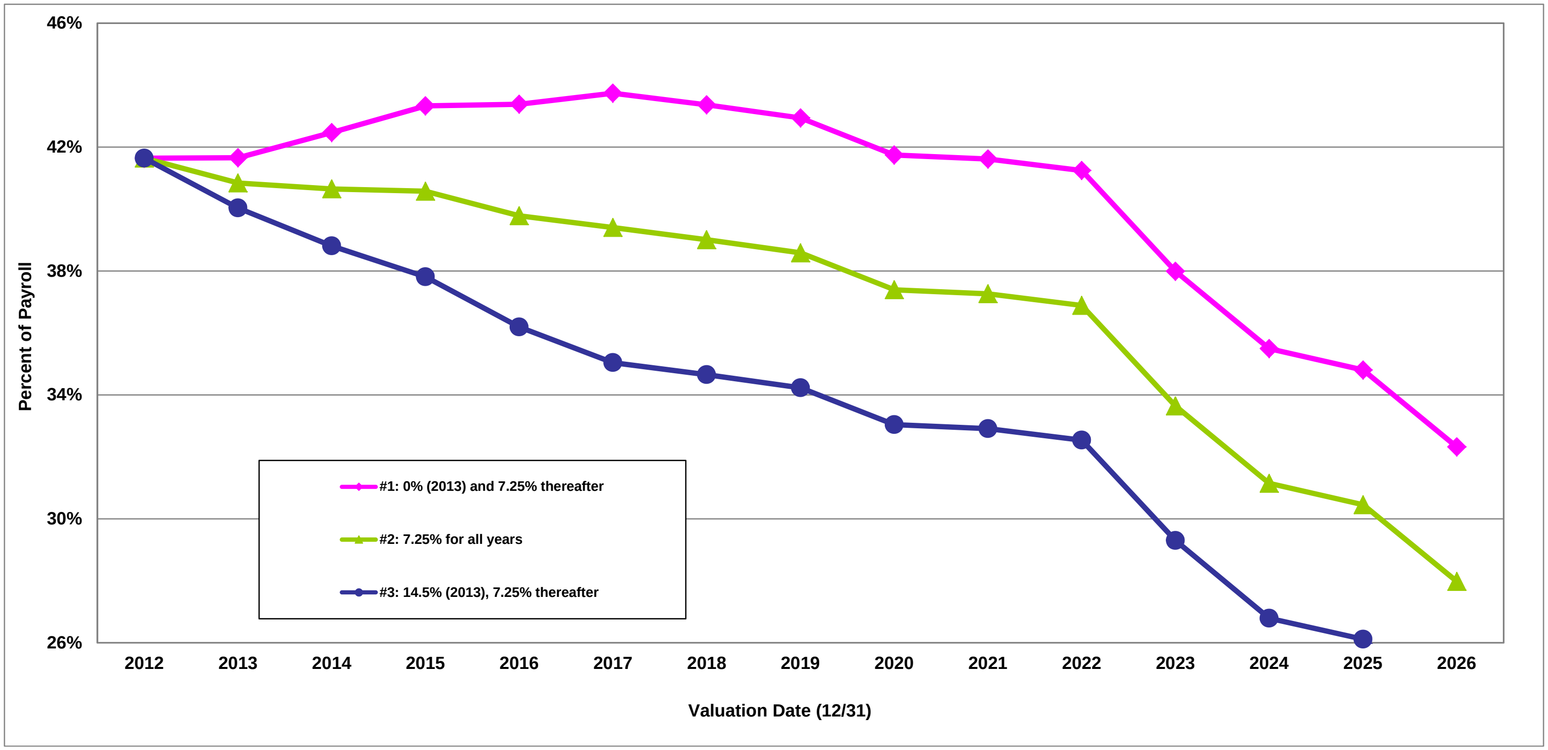
Andy Yeung

Andy Yeung

MYM/hy
Enclosures

cc: Brenda Shott
Julie Wyne

Attachment A: Projected Employer Rates
Aggregate Plan



Valuation Date (12/31)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	41.6%	41.7%	42.5%	43.3%	43.4%	43.7%	43.4%	42.9%	41.7%	41.6%	41.2%	38.0%	35.5%	34.8%	32.3%
#2: 7.25% for all years	41.6%	40.8%	40.7%	40.6%	39.8%	39.4%	39.0%	38.6%	37.4%	37.3%	36.9%	33.6%	31.1%	30.5%	28.0%
#3: 14.5% (2013), 7.25% thereafter	41.6%	40.0%	38.8%	37.8%	36.2%	35.0%	34.7%	34.2%	33.0%	32.9%	32.5%	29.3%	26.8%	26.1%	23.6%

Rates shown above have not been adjusted for the two-year phase-in of the cost increase due to the change in the economic assumptions adopted by the Board for the December 31, 2012 valuation. For instance, the aggregate employer contribution rate as of December 31, 2012 after the two-year phase-in is 39.3% and the two-year phase-in, if reflected in our projections would have increased the contribution rates for the System as a whole by about 0.2% of payroll starting with the December 31, 2013 valuation.

Attachment B
Projected Employer Rates by Rate Group
Scenario 1: 0% for 2013 and 7.25% thereafter

	Valuation Date (12/31)														
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
General															
RG #1 - Plans A, B and U (non-OCTA, non-OCSD)	22.6%	22.8%	23.7%	24.5%	24.8%	25.2%	25.2%	25.1%	25.8%	25.3%	26.0%	24.0%	21.5%	22.4%	21.2%
RG #2 - Plans I, J, O, P, S, T and U	39.4%	39.4%	40.1%	40.8%	40.7%	41.0%	40.6%	40.1%	38.6%	38.4%	37.8%	34.9%	32.4%	31.6%	29.0%
RG #3 - Plans B, G, H and U (Law Library, OCSD)	38.3%	38.5%	39.3%	40.1%	40.3%	40.7%	40.5%	40.2%	38.1%	37.5%	37.3%	35.6%	33.9%	31.2%	27.9%
RG #5 - Plans A, B and U (OCTA)	28.3%	28.5%	29.4%	30.4%	30.7%	31.2%	31.2%	31.1%	30.9%	31.6%	32.8%	30.0%	27.6%	27.7%	25.6%
RG #9 - Plans M, N and U (TCA)	27.2%	27.2%	27.7%	28.2%	28.3%	28.6%	28.4%	28.2%	28.5%	29.0%	29.0%	27.7%	25.7%	26.3%	26.7%
RG #10 - Plans I, J, M, N and U (OCFA)	38.7%	38.7%	39.3%	39.9%	39.9%	40.2%	39.8%	39.4%	38.0%	35.4%	36.5%	35.5%	33.5%	32.7%	29.0%
RG #11 - Plans M and N, future service, and U (Cemetery)	24.6%	24.7%	25.2%	25.8%	25.7%	25.9%	25.5%	25.1%	25.2%	24.5%	23.6%	21.4%	21.4%	20.6%	19.6%
Safety															
RG #6 - Plans E, F and V (Probation)	43.2%	43.1%	43.9%	44.7%	44.7%	45.1%	44.7%	44.1%	41.7%	40.9%	40.7%	38.0%	36.9%	36.5%	34.9%
RG #7 - Plans E, F, Q, R and V (Law Enforcement)	61.0%	61.1%	62.6%	64.1%	64.4%	65.2%	64.7%	64.3%	63.9%	64.6%	64.4%	58.6%	55.6%	54.8%	52.2%
RG #8 - Plans E, F, Q, R and V (Fire Authority)	53.0%	52.9%	53.8%	54.8%	54.8%	55.3%	54.7%	54.2%	53.3%	53.3%	52.4%	47.4%	44.2%	44.1%	41.7%

Rates shown above have <u>not</u> been adjusted for the two-year phase-in of the cost increase due to the change in the economic assumptions adopted by the Board for the December 31, 2012 valuation. For instance, the employer contribution rates as of December 31, 2012 after the two-year phase-in are as follows:

Rate Group #1	21.0%
Rate Group #2	37.3%
Rate Group #3	36.4%
Rate Group #5	26.6%
Rate Group #9	25.7%
Rate Group #10	36.7%
Rate Group #11	23.0%
Rate Group #6	40.5%
Rate Group #7	57.3%
Rate Group #8	49.8%

Note that the two-year phase-in, if reflected in our projections would have increased the contribution rates for the System as a whole by about 0.2% of payroll starting with the December 31, 2013 valuation. We have not determined that impact for each Rate Group.

Attachment B
Projected Employer Rates by Rate Group
Scenario 2: 7.25% for all years

	Valuation Date (12/31)														
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
General															
RG #1 - Plans A, B and U (non-OCTA, non-OCSD)	22.6%	22.2%	22.3%	22.4%	22.1%	22.0%	21.9%	21.9%	22.6%	22.1%	22.8%	20.8%	18.3%	19.2%	18.0%
RG #2 - Plans I, J, O, P, S, T and U	39.4%	38.6%	38.4%	38.3%	37.5%	37.0%	36.6%	36.1%	34.6%	34.4%	33.8%	30.9%	28.4%	27.6%	25.0%
RG #3 - Plans B, G, H and U (Law Library, OCSD)	38.3%	37.8%	37.8%	37.8%	37.3%	37.0%	36.8%	36.5%	34.4%	33.8%	33.6%	32.0%	30.2%	27.5%	24.3%
RG #5 - Plans A, B and U (OCTA)	28.3%	27.8%	27.9%	28.1%	27.7%	27.7%	27.6%	27.5%	27.3%	28.0%	29.2%	26.4%	24.1%	24.1%	22.1%
RG #9 - Plans M, N and U (TCA)	27.2%	26.8%	26.7%	26.7%	26.3%	26.1%	25.9%	25.7%	26.0%	26.5%	26.5%	25.2%	23.2%	23.8%	24.2%
RG #10 - Plans I, J, M, N and U (OCFA)	38.7%	38.1%	37.9%	37.8%	37.2%	36.8%	36.5%	36.1%	34.6%	32.0%	33.2%	32.1%	30.2%	29.3%	25.6%
RG #11 - Plans M and N, future service, and U (Cemetery)	24.6%	24.1%	23.9%	23.9%	23.2%	22.9%	22.7%	22.4%	22.6%	21.9%	21.1%	18.9%	18.9%	18.2%	17.2%
Safety															
RG #6 - Plans E, F and V (Probation)	43.2%	42.4%	42.1%	42.0%	41.2%	40.7%	40.3%	39.8%	37.4%	36.5%	36.3%	33.7%	32.6%	32.2%	30.6%
RG #7 - Plans E, F, Q, R and V (Law Enforcement)	61.0%	59.8%	59.7%	59.7%	58.7%	58.3%	57.9%	57.5%	57.0%	57.8%	57.5%	51.7%	48.8%	48.0%	45.3%
RG #8 - Plans E, F, Q, R and V (Fire Authority)	53.0%	51.9%	51.6%	51.4%	50.4%	49.8%	49.3%	48.7%	47.9%	47.8%	46.9%	41.9%	38.8%	38.6%	36.3%

Rates shown above have not been adjusted for the two-year phase-in of the cost increase due to the change in the economic assumptions adopted by the Board for the December 31, 2012 valuation. For instance, the employer contribution rates as of December 31, 2012 after the two-year phase-in are as follows:

Rate Group #1	21.0%
Rate Group #2	37.3%
Rate Group #3	36.4%
Rate Group #5	26.6%
Rate Group #9	25.7%
Rate Group #10	36.7%
Rate Group #11	23.0%
Rate Group #6	40.5%
Rate Group #7	57.3%
Rate Group #8	49.8%

Note that the two-year phase-in, if reflected in our projections would have increased the contribution rates for the System as a whole by about 0.2% of payroll starting with the December 31, 2013 valuation. We have not determined that impact for each Rate Group.

Attachment B
Projected Employer Rates by Rate Group
Scenario 3: 14.5% for 2013 and 7.25% thereafter

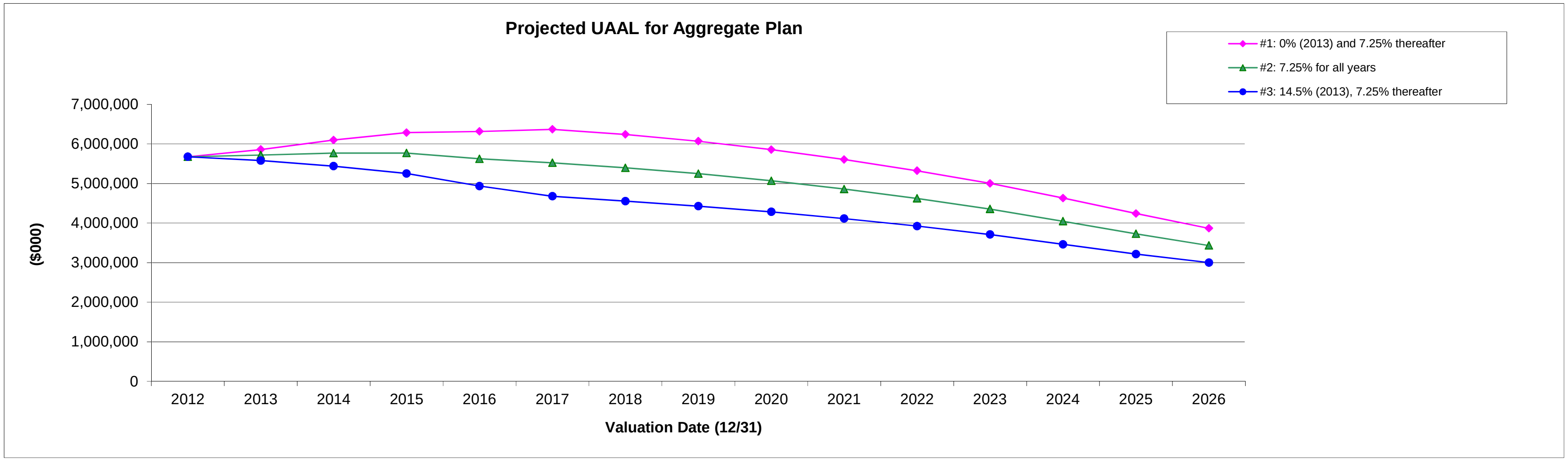
	Valuation Date (12/31)														
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
General															
RG #1 - Plans A, B and U (non-OCTA, non-OCSD)	22.6%	21.6%	20.9%	20.3%	19.4%	18.8%	18.7%	18.7%	19.3%	18.8%	19.6%	17.6%	15.1%	16.0%	14.8%
RG #2 - Plans I, J, O, P, S, T and U	39.4%	37.9%	36.7%	35.7%	34.2%	33.1%	32.6%	32.1%	30.7%	30.5%	29.8%	26.9%	24.4%	23.6%	21.0%
RG #3 - Plans B, G, H and U (Law Library, OCSD)	38.3%	37.2%	36.3%	35.5%	34.3%	33.4%	33.1%	32.8%	30.8%	30.1%	30.0%	28.3%	26.6%	23.9%	20.6%
RG #5 - Plans A, B and U (OCTA)	28.3%	27.2%	26.4%	25.9%	24.8%	24.1%	24.1%	24.0%	23.8%	24.5%	25.7%	22.9%	20.5%	20.6%	18.6%
RG #9 - Plans M, N and U (TCA)	27.2%	26.3%	25.7%	25.1%	24.2%	23.5%	23.4%	23.2%	23.5%	24.0%	24.0%	22.7%	20.7%	21.4%	21.7%
RG #10 - Plans I, J, M, N and U (OCFA)	38.7%	37.5%	36.6%	35.8%	34.4%	33.5%	33.1%	32.7%	31.3%	28.6%	29.8%	28.7%	26.8%	26.0%	22.3%
RG #11 - Plans M and N, future service, and U (Cemetery)	24.6%	23.5%	22.7%	22.0%	20.9%	20.1%	19.9%	19.7%	19.9%	19.3%	18.5%	16.4%	16.4%	15.7%	14.7%
Safety															
RG #6 - Plans E, F and V (Probation)	43.2%	41.6%	40.4%	39.3%	37.6%	36.4%	36.0%	35.5%	33.1%	32.2%	32.0%	29.4%	28.3%	27.9%	26.3%
RG #7 - Plans E, F, Q, R and V (Law Enforcement)	61.0%	58.5%	56.8%	55.4%	53.0%	51.4%	51.0%	50.6%	50.2%	50.9%	50.7%	44.9%	41.9%	41.1%	38.5%
RG #8 - Plans E, F, Q, R and V (Fire Authority)	53.0%	50.9%	49.4%	48.0%	45.9%	44.4%	43.8%	43.3%	42.5%	42.4%	41.5%	36.5%	33.4%	33.2%	30.9%

Rates shown above have <u>not</u> been adjusted for the two-year phase-in of the cost increase due to the change in the economic assumptions adopted by the Board for the December 31, 2012 valuation. For instance, the employer contribution rates as of December 31, 2012 after the two-year phase-in are as follows:

Rate Group #1	21.0%
Rate Group #2	37.3%
Rate Group #3	36.4%
Rate Group #5	26.6%
Rate Group #9	25.7%
Rate Group #10	36.7%
Rate Group #11	23.0%
Rate Group #6	40.5%
Rate Group #7	57.3%
Rate Group #8	49.8%

Note that the two-year phase-in, if reflected in our projections would have increased the contribution rates for the System as a whole by about 0.2% of payroll starting with the December 31, 2013 valuation. We have not determined that impact for each Rate Group.

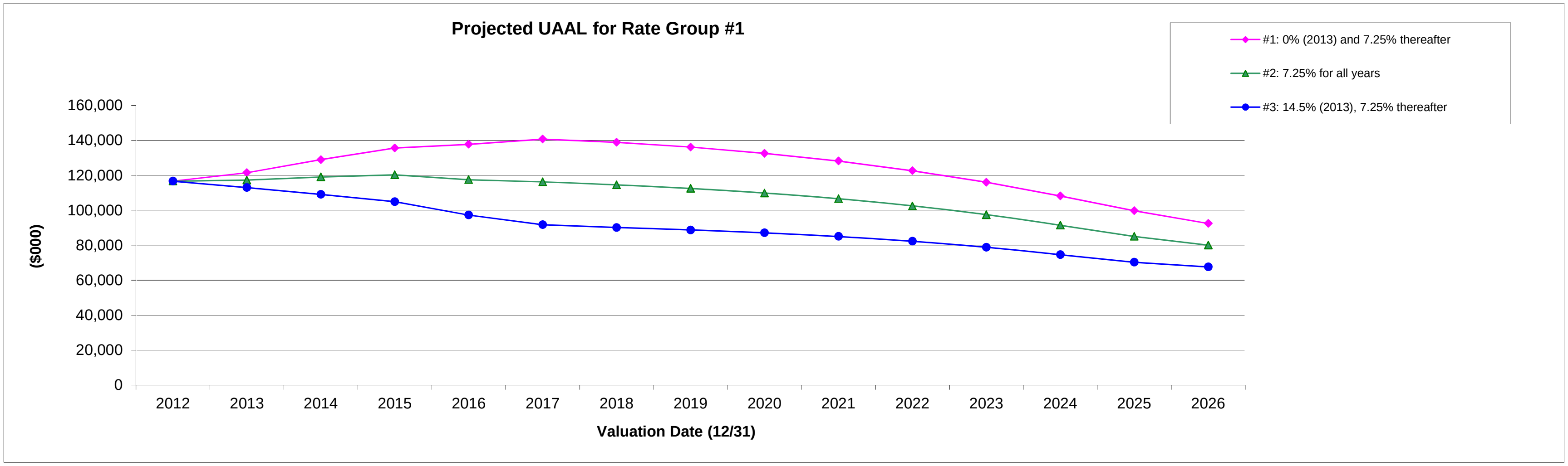
Attachment C
Projected UAAL and Funded Ratio for Aggregate Plan



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	5,675,680	5,859,753	6,098,822	6,288,194	6,315,502	6,369,296	6,240,969	6,070,411	5,857,562	5,606,719	5,323,879	5,003,139	4,631,041	4,243,221	3,869,083
#2: 7.25% for all years	5,675,680	5,720,052	5,768,779	5,771,410	5,625,788	5,524,004	5,398,153	5,249,077	5,070,456	4,860,064	4,624,264	4,357,649	4,047,530	3,730,263	3,436,024
#3: 14.5% (2013), 7.25% thereafter	5,675,680	5,580,351	5,438,736	5,254,623	4,936,258	4,679,104	4,555,658	4,428,189	4,284,154	4,114,271	3,925,457	3,713,024	3,464,949	3,218,172	3,003,761

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	62.5%	63.7%	64.4%	65.5%	67.4%	68.9%	71.3%	73.6%	75.9%	78.2%	80.4%	82.5%	84.6%	86.6%	88.4%
#2: 7.25% for all years	62.5%	64.5%	66.4%	68.3%	70.9%	73.1%	75.2%	77.2%	79.1%	81.1%	82.9%	84.8%	86.6%	88.2%	89.7%
#3: 14.5% (2013), 7.25% thereafter	62.5%	65.4%	68.3%	71.2%	74.5%	77.2%	79.0%	80.7%	82.4%	84.0%	85.5%	87.0%	88.5%	89.8%	91.0%

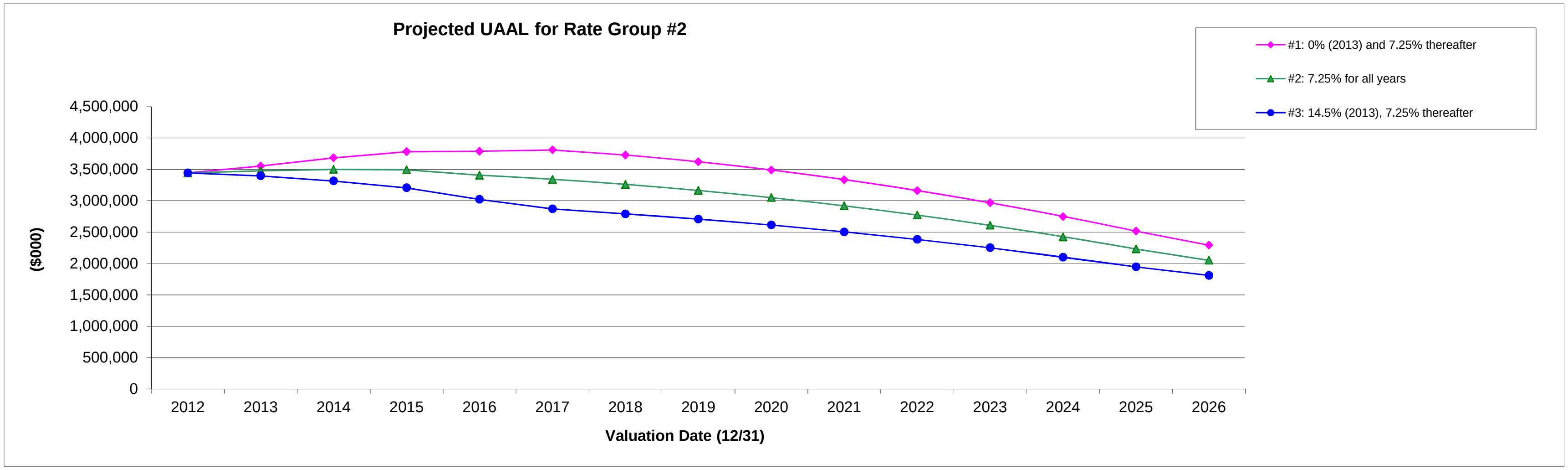
Attachment D
Projected UAAL and Funded Ratio for Rate Group #1
Plans A, B and U (non-OCTA, non-OCSD)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	116,700	121,520	128,977	135,622	137,747	140,713	138,903	136,180	132,568	128,188	122,645	116,031	108,197	99,785	92,458
#2: 7.25% for all years	116,700	117,254	119,047	120,284	117,543	116,268	114,566	112,486	109,880	106,681	102,506	97,468	91,440	85,082	80,075
#3: 14.5% (2013), 7.25% thereafter	116,700	112,988	109,113	104,930	97,303	91,758	90,154	88,713	87,111	85,095	82,297	78,840	74,617	70,308	67,627

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	71.5%	71.8%	71.5%	71.5%	72.4%	73.1%	74.6%	76.2%	77.9%	79.5%	81.2%	82.9%	84.7%	86.4%	87.9%
#2: 7.25% for all years	71.5%	72.8%	73.7%	74.7%	76.4%	77.8%	79.1%	80.4%	81.6%	82.9%	84.3%	85.7%	87.1%	88.4%	89.5%
#3: 14.5% (2013), 7.25% thereafter	71.5%	73.8%	75.9%	77.9%	80.5%	82.5%	83.5%	84.5%	85.5%	86.4%	87.4%	88.4%	89.4%	90.4%	91.1%

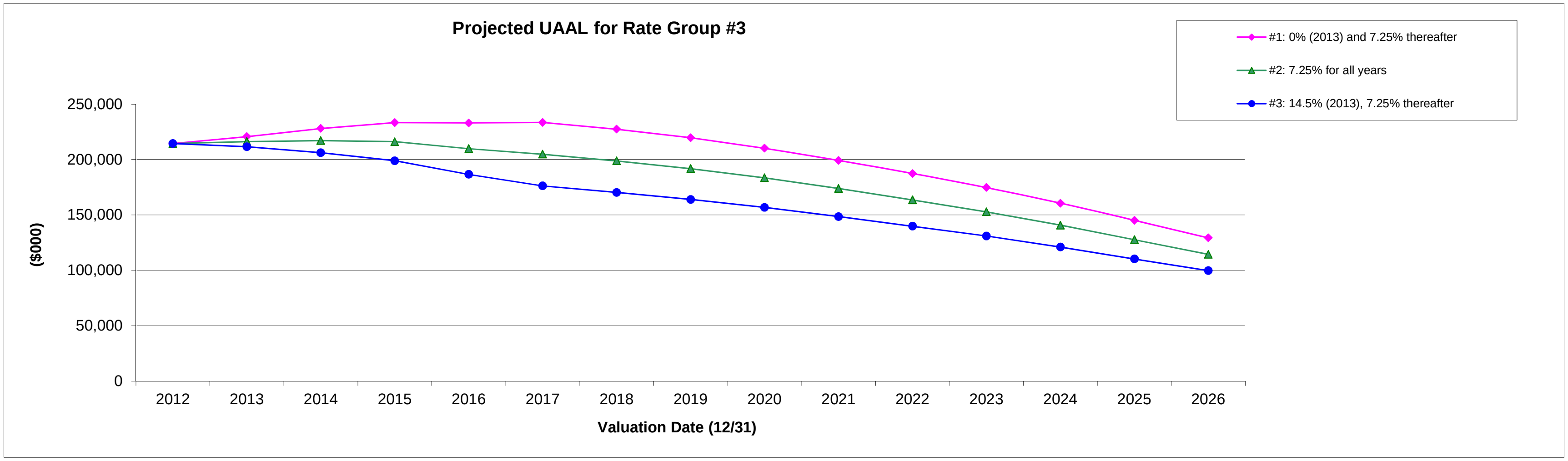
Attachment E
Projected UAAL and Funded Ratio for Rate Group #2
Plans I, J, O, P, S, T and U



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	3,442,983	3,552,879	3,683,225	3,782,216	3,789,535	3,810,019	3,728,241	3,621,315	3,489,176	3,334,268	3,161,866	2,968,898	2,747,448	2,516,306	2,291,118
#2: 7.25% for all years	3,442,983	3,474,876	3,499,176	3,494,282	3,405,654	3,339,975	3,259,437	3,164,420	3,051,314	2,918,841	2,772,606	2,609,810	2,422,910	2,231,016	2,050,276
#3: 14.5% (2013), 7.25% thereafter	3,442,983	3,396,872	3,315,121	3,206,325	3,021,669	2,869,722	2,790,531	2,707,543	2,613,602	2,503,644	2,383,591	2,250,986	2,098,656	1,946,030	1,809,596

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	60.6%	61.7%	62.6%	63.7%	65.6%	67.3%	69.6%	72.0%	74.4%	76.7%	79.0%	81.2%	83.4%	85.4%	87.3%
#2: 7.25% for all years	60.6%	62.5%	64.4%	66.5%	69.1%	71.3%	73.5%	75.5%	77.6%	79.6%	81.6%	83.5%	85.3%	87.1%	88.7%
#3: 14.5% (2013), 7.25% thereafter	60.6%	63.4%	66.3%	69.2%	72.6%	75.3%	77.3%	79.1%	80.8%	82.5%	84.2%	85.7%	87.3%	88.7%	90.0%

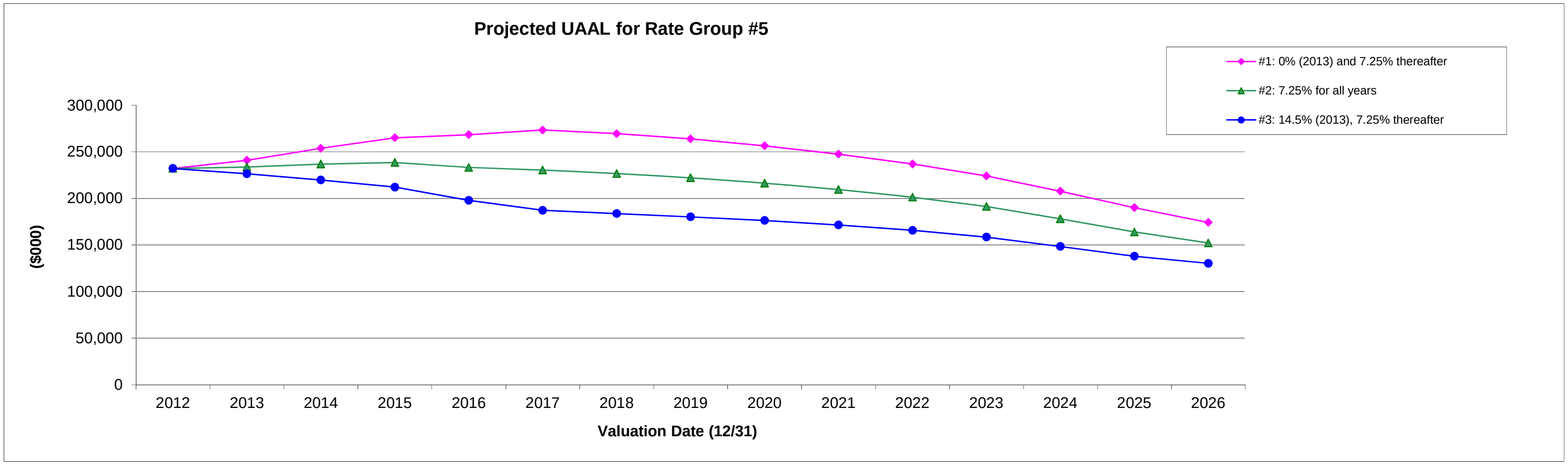
Attachment F
Projected UAAL and Funded Ratio for Rate Group #3
Plans B, G, H and U (Law Library, OCSD)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	214,503	220,757	228,037	233,341	233,006	233,483	227,415	219,663	210,202	199,186	187,337	174,789	160,590	145,148	129,240
#2: 7.25% for all years	214,503	216,174	217,115	216,099	209,823	204,860	198,850	191,812	183,508	173,853	163,586	152,859	140,739	127,667	114,442
#3: 14.5% (2013), 7.25% thereafter	214,503	211,591	206,195	198,872	186,664	176,266	170,307	163,985	156,845	148,556	139,880	130,990	120,971	110,283	99,749

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	59.0%	60.6%	62.0%	63.6%	66.0%	68.1%	70.8%	73.6%	76.2%	78.8%	81.3%	83.6%	85.8%	87.9%	89.8%
#2: 7.25% for all years	59.0%	61.4%	63.8%	66.3%	69.4%	72.0%	74.5%	76.9%	79.3%	81.5%	83.7%	85.6%	87.5%	89.3%	91.0%
#3: 14.5% (2013), 7.25% thereafter	59.0%	62.2%	65.6%	69.0%	72.7%	75.9%	78.2%	80.3%	82.3%	84.2%	86.0%	87.7%	89.3%	90.8%	92.1%

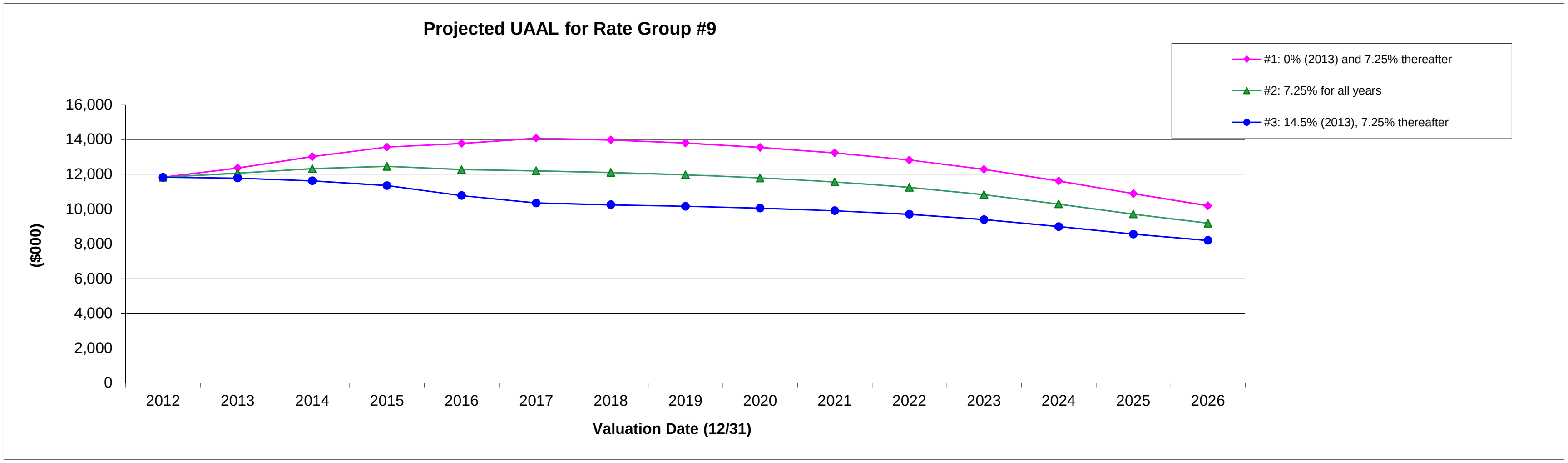
Attachment G
Projected UAAL and Funded Ratio for Rate Group #5
Plans A, B and U (OCTA)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	232,236	240,957	253,841	265,174	268,531	273,460	269,573	263,895	256,458	247,496	236,958	224,155	207,740	190,091	174,184
#2: 7.25% for all years	232,236	233,716	236,815	238,639	233,274	230,416	226,663	222,089	216,400	209,500	201,373	191,342	178,085	164,031	152,195
#3: 14.5% (2013), 7.25% thereafter	232,236	226,474	219,787	212,089	197,985	187,335	183,719	180,241	176,304	171,469	165,743	158,481	148,394	137,949	130,199

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	68.0%	68.7%	69.0%	69.5%	70.9%	72.1%	74.0%	76.0%	78.0%	79.9%	81.8%	83.7%	85.7%	87.6%	89.3%
#2: 7.25% for all years	68.0%	69.7%	71.1%	72.6%	74.7%	76.5%	78.2%	79.8%	81.4%	83.0%	84.6%	86.1%	87.8%	89.3%	90.6%
#3: 14.5% (2013), 7.25% thereafter	68.0%	70.6%	73.2%	75.6%	78.6%	80.9%	82.3%	83.6%	84.9%	86.1%	87.3%	88.5%	89.8%	91.0%	92.0%

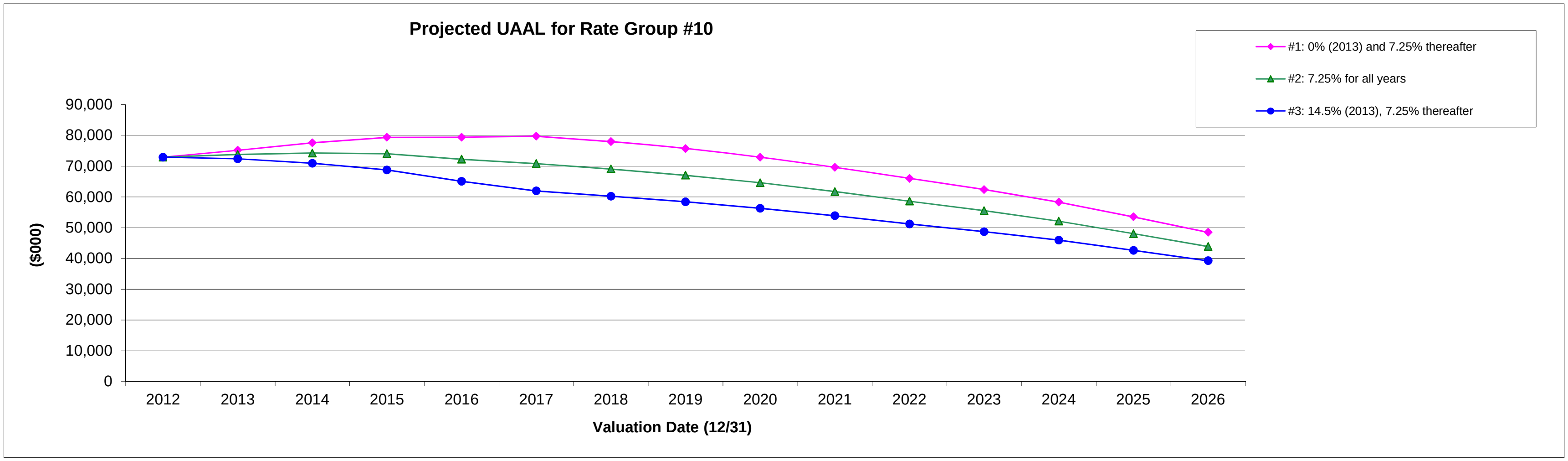
Attachment H
Projected UAAL and Funded Ratio for Rate Group #9
Plans M, N and U (TCA)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	11,822	12,352	13,010	13,558	13,769	14,070	13,968	13,790	13,537	13,221	12,813	12,275	11,606	10,876	10,187
#2: 7.25% for all years	11,822	12,064	12,315	12,451	12,267	12,199	12,095	11,960	11,780	11,550	11,243	10,821	10,283	9,702	9,181
#3: 14.5% (2013), 7.25% thereafter	11,822	11,775	11,621	11,346	10,772	10,341	10,241	10,152	10,047	9,903	9,696	9,389	8,982	8,550	8,196

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	61.9%	63.6%	64.9%	66.4%	68.6%	70.5%	73.0%	75.4%	77.7%	79.9%	81.9%	84.0%	85.9%	87.8%	89.4%
#2: 7.25% for all years	61.9%	64.4%	66.7%	69.1%	72.1%	74.4%	76.6%	78.7%	80.6%	82.4%	84.1%	85.9%	87.5%	89.1%	90.4%
#3: 14.5% (2013), 7.25% thereafter	61.9%	65.3%	68.6%	71.9%	75.5%	78.3%	80.2%	81.9%	83.4%	84.9%	86.3%	87.7%	89.1%	90.4%	91.4%

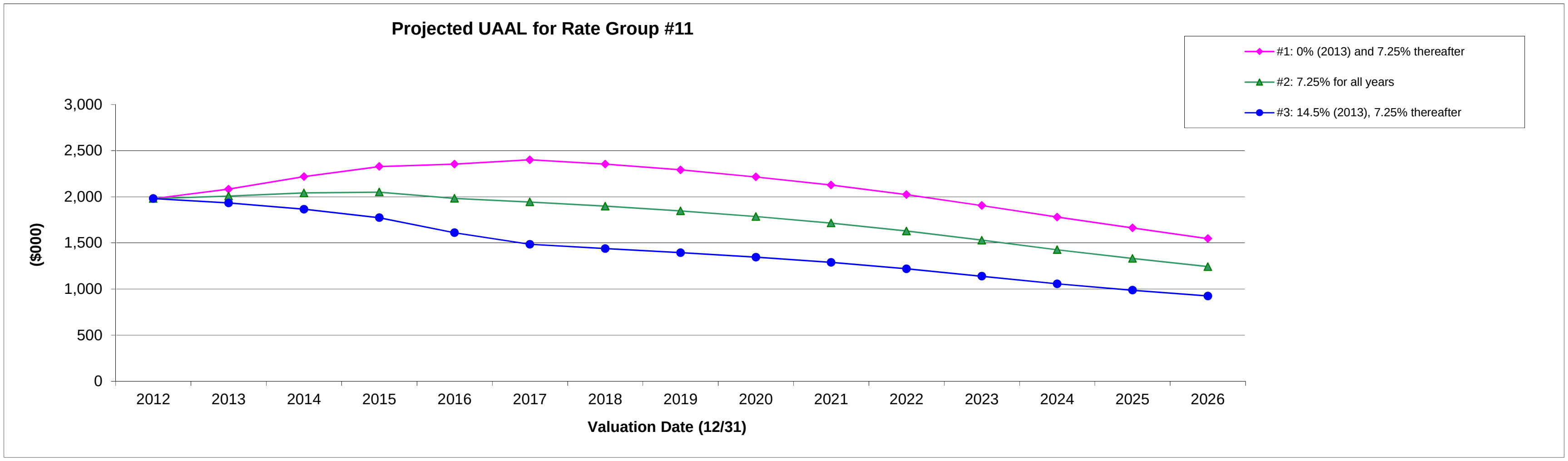
Attachment I
Projected UAAL and Funded Ratio for Rate Group #10
Plans I, J, M, N and U (OCFA)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	72,888	75,149	77,558	79,344	79,383	79,704	77,960	75,694	72,899	69,623	65,994	62,353	58,286	53,493	48,463
#2: 7.25% for all years	72,888	73,759	74,221	74,043	72,214	70,802	69,070	67,022	64,584	61,727	58,587	55,511	52,091	48,035	43,837
#3: 14.5% (2013), 7.25% thereafter	72,888	72,370	70,886	68,748	65,057	61,922	60,201	58,371	56,290	53,854	51,203	48,690	45,915	42,593	39,227

Funded Ratio	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	56.0%	57.9%	59.7%	61.7%	64.3%	66.6%	69.5%	72.4%	75.1%	77.8%	80.3%	82.5%	84.7%	86.8%	88.8%
#2: 7.25% for all years	56.0%	58.7%	61.4%	64.2%	67.5%	70.3%	73.0%	75.5%	78.0%	80.3%	82.5%	84.4%	86.3%	88.2%	89.8%
#3: 14.5% (2013), 7.25% thereafter	56.0%	59.5%	63.2%	66.8%	70.7%	74.1%	76.5%	78.7%	80.8%	82.8%	84.7%	86.4%	87.9%	89.5%	90.9%

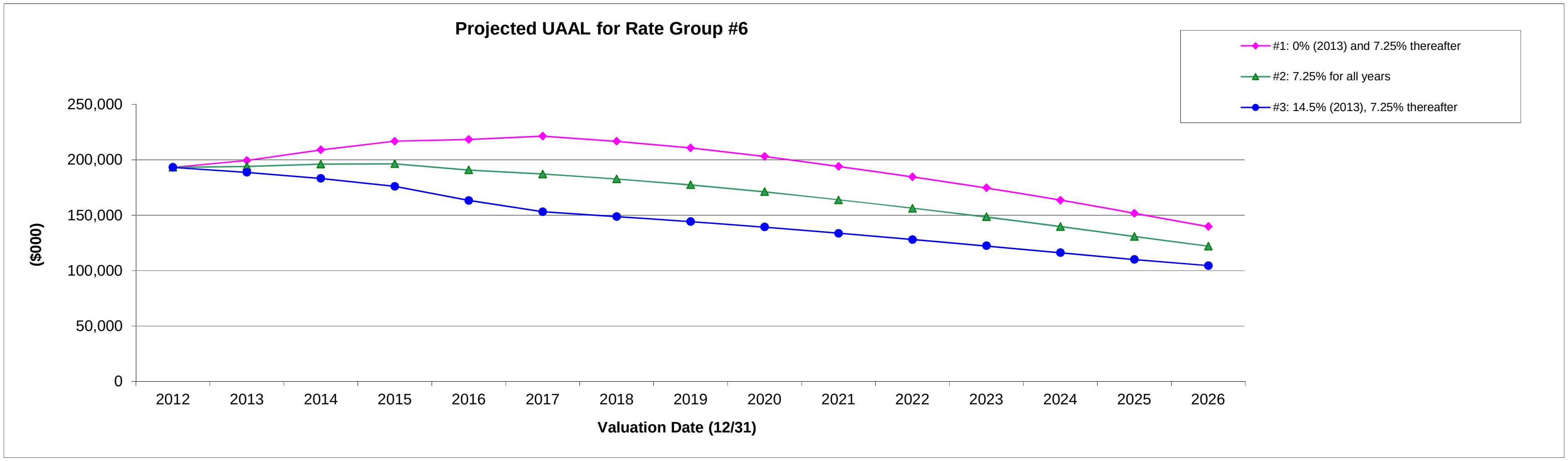
Attachment J
Projected UAAL and Funded Ratio for Rate Group #11
Plans M and N, future service, and U (Cemetery)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	1,981	2,082	2,219	2,328	2,354	2,400	2,354	2,292	2,215	2,127	2,024	1,905	1,780	1,662	1,546
#2: 7.25% for all years	1,981	2,008	2,042	2,050	1,983	1,944	1,898	1,847	1,786	1,715	1,629	1,529	1,425	1,332	1,242
#3: 14.5% (2013), 7.25% thereafter	1,981	1,933	1,865	1,772	1,610	1,485	1,438	1,393	1,345	1,289	1,219	1,139	1,056	987	924

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	71.8%	72.5%	72.9%	73.6%	75.2%	76.4%	78.5%	80.5%	82.4%	84.2%	86.0%	87.7%	89.2%	90.6%	91.8%
#2: 7.25% for all years	71.8%	73.5%	75.0%	76.7%	79.1%	80.9%	82.7%	84.3%	85.8%	87.3%	88.7%	90.1%	91.4%	92.4%	93.4%
#3: 14.5% (2013), 7.25% thereafter	71.8%	74.5%	77.2%	79.9%	83.0%	85.4%	86.9%	88.1%	89.3%	90.4%	91.6%	92.6%	93.6%	94.4%	95.1%

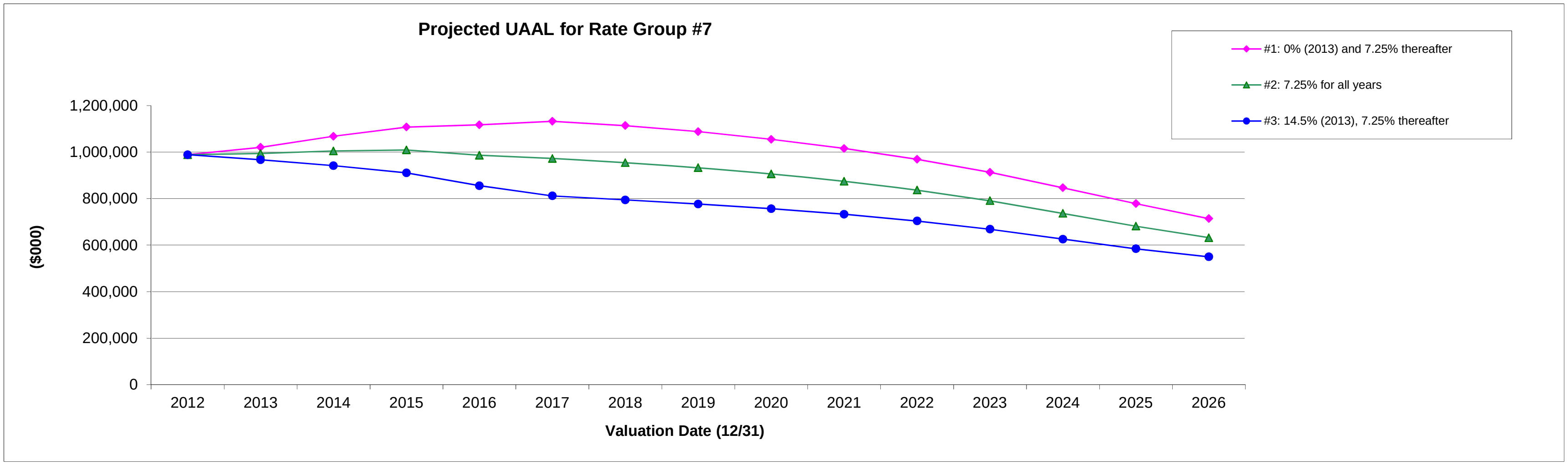
Attachment K
Projected UAAL and Funded Ratio for Rate Group #6
Plans E, F and V (Probation)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	193,245	199,481	209,033	216,906	218,430	221,364	216,827	210,723	203,068	194,087	184,593	174,775	163,543	151,708	139,758
#2: 7.25% for all years	193,245	194,108	196,150	196,490	190,880	187,227	182,744	177,489	171,209	163,840	156,223	148,574	139,823	130,807	122,051
#3: 14.5% (2013), 7.25% thereafter	193,245	188,734	183,272	176,092	163,369	153,163	148,737	144,322	139,418	133,675	127,949	122,477	116,220	110,036	104,484

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	65.0%	66.7%	67.9%	69.2%	71.4%	73.1%	75.6%	78.0%	80.3%	82.5%	84.5%	86.4%	88.1%	89.7%	91.2%
#2: 7.25% for all years	65.0%	67.6%	69.9%	72.1%	75.0%	77.3%	79.5%	81.5%	83.4%	85.3%	86.9%	88.4%	89.8%	91.1%	92.3%
#3: 14.5% (2013), 7.25% thereafter	65.0%	68.5%	71.8%	75.0%	78.6%	81.4%	83.3%	85.0%	86.5%	88.0%	89.3%	90.4%	91.6%	92.5%	93.4%

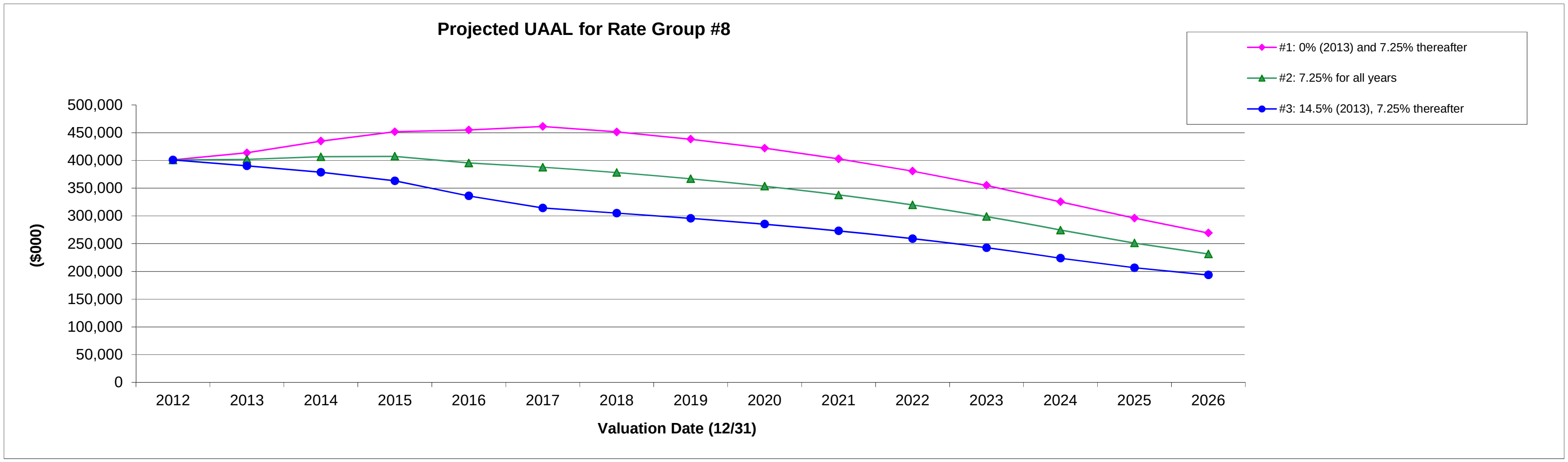
Attachment L
Projected UAAL and Funded Ratio for Rate Group #7
Plans E, F, Q, R and V (Law Enforcement)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	988,418	1,020,358	1,067,550	1,107,358	1,117,035	1,132,157	1,113,680	1,087,879	1,054,811	1,015,284	968,710	912,790	846,311	778,358	713,631
#2: 7.25% for all years	988,418	993,610	1,004,529	1,008,955	986,067	972,046	954,069	932,361	905,803	873,938	836,288	790,657	735,945	681,369	631,791
#3: 14.5% (2013), 7.25% thereafter	988,418	966,862	941,503	910,521	855,019	811,794	794,307	776,720	756,714	732,532	703,801	668,427	625,460	584,283	549,847

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	64.8%	65.8%	66.3%	67.1%	68.7%	70.1%	72.2%	74.3%	76.5%	78.6%	80.7%	82.7%	84.8%	86.8%	88.5%
#2: 7.25% for all years	64.8%	66.7%	68.3%	70.0%	72.4%	74.3%	76.2%	78.0%	79.8%	81.6%	83.3%	85.0%	86.8%	88.4%	89.8%
#3: 14.5% (2013), 7.25% thereafter	64.8%	67.6%	70.3%	72.9%	76.0%	78.5%	80.2%	81.7%	83.1%	84.5%	85.9%	87.4%	88.8%	90.1%	91.1%

Attachment M
Projected UAAL and Funded Ratio for Rate Group #8
Plans E, F, Q, R and V (Fire Authority)



UAAL	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
#1: 0% (2013) and 7.25% thereafter	400,904	413,738	434,772	451,686	454,961	461,172	451,487	438,461	422,125	402,899	380,744	354,994	325,381	295,984	269,158
#2: 7.25% for all years	400,904	402,003	406,761	407,453	395,465	387,694	378,156	366,967	353,606	337,874	319,793	298,742	274,493	251,194	231,276
#3: 14.5% (2013), 7.25% thereafter	400,904	390,267	378,757	363,248	336,033	314,333	304,952	295,609	285,231	273,005	258,993	242,627	223,743	206,551	193,532

Funded Ratio															
#1: 0% (2013) and 7.25% thereafter	66.2%	67.8%	68.7%	69.9%	71.8%	73.5%	75.9%	78.2%	80.5%	82.6%	84.7%	86.7%	88.6%	90.3%	91.7%
#2: 7.25% for all years	66.2%	68.7%	70.7%	72.8%	75.5%	77.7%	79.8%	81.8%	83.6%	85.4%	87.1%	88.8%	90.4%	91.8%	92.9%
#3: 14.5% (2013), 7.25% thereafter	66.2%	69.6%	72.7%	75.8%	79.2%	81.9%	83.7%	85.3%	86.8%	88.2%	89.6%	90.9%	92.2%	93.2%	94.1%

ADOPTED FY 2013/14 BUDGET

Includes Accelerated Payment of UAAL	Traditional Five-Year Forecast Period					Extended Ten-Year Forecast				
Includes Deferred CIP Projects Beginning in 2018/19										
Includes Equity Rebates	ADOPTED	PROJECTED	PROJECTED	PROJECTED	PROJECTED	PROJECTED	PROJECTED	PROJECTED	PROJECTED	PROJECTED
Includes Handcrew throughout Forecast	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
BEGINNING FUND BALANCE	**153,558,420**	**140,447,654**	**138,789,479**	**138,171,942**	**132,576,351**	**134,863,592**	**137,881,930**	**144,042,024**	**149,649,037**	**157,673,897**
GENERAL FUND REVENUES										
Property Taxes	187,618,789	192,914,164	200,461,660	208,677,160	216,825,779	225,480,315	234,501,138	243,903,752	253,704,315	263,919,670
State Reimbursements	4,193,788	4,193,788	4,193,788	4,193,788	4,193,788	4,319,602	4,449,190	4,582,665	4,720,145	4,861,750
Federal Reimbursements	100,000	100,000	100,000	100,000	100,000	103,000	106,090	109,273	112,551	115,927
Community Redevelopment Agency Pass-thru	7,149,498	7,326,880	7,511,172	7,706,470	8,248,676	8,413,650	8,581,923	8,753,561	8,928,632	9,107,205
Cash Contracts	83,980,236	87,822,101	90,254,150	92,688,651	94,727,582	99,013,416	103,457,693	107,506,840	111,443,379	115,566,900
Fire Prevention Fee	5,608,437	5,776,690	5,949,991	6,128,491	6,312,345	6,501,716	6,696,767	6,897,670	7,104,600	7,317,738
ALS Supplies & Transport Reimbursement	4,570,574	4,570,574	4,570,574	4,570,574	4,570,574	4,707,691	4,848,922	4,994,390	5,144,221	5,298,548
Interest Earnings	221,379	429,249	626,816	814,907	1,186,005	1,198,358	1,217,241	1,236,945	1,257,598	1,279,177
Other Revenue	998,584	998,584	998,584	998,584	998,584	998,584	998,584	998,584	998,584	998,584
TOTAL REVENUES	**294,441,285**	**304,132,030**	**314,666,735**	**325,878,625**	**337,163,333**	**350,736,331**	**364,857,548**	**378,983,680**	**393,414,026**	**408,465,499**
GENERAL FUND EXPENDITURES										
New Positions for New Stations		1,091,834	2,201,862	2,231,538	4,489,004	4,572,865	6,987,440	7,117,976	9,667,934	9,848,545
Employee Salaries	167,037,200	167,037,200	167,037,200	167,037,200	167,037,200	172,048,316	177,209,765	182,526,058	188,001,840	193,641,895
Retirement - Regular Annual Payments	59,984,495	68,635,549	71,028,235	70,649,208	70,415,902	71,303,995	75,056,876	76,637,840	78,097,620	79,030,991
Retirement - Paydown of UAAL (Rate Reductions)	2,500,000	0	1,292,059	1,653,114	1,886,420	3,167,397	1,648,658	2,368,859	3,279,280	4,787,217
Retirement - Paydown of UAAL ($1M per Year)				1,000,000	2,000,000	3,000,000	4,000,000	5,000,000	5,000,000	5,000,000
Workers' Comp Transfer out to Self-Ins. Fund	12,763,412	13,664,036	13,942,894	14,361,181	14,792,016	15,188,335	15,595,272	16,013,112	16,442,148	16,882,678
Other Insurance	22,040,779	24,052,390	26,248,708	28,656,377	31,292,764	34,171,698	37,315,495	40,748,520	44,497,384	48,591,143
Medicare	2,202,793	2,422,039	2,422,039	2,422,039	2,422,039	2,494,701	2,569,542	2,646,628	2,726,027	2,807,807
Salaries & Employee Benefits	266,528,679	276,903,048	284,172,999	288,010,658	294,335,346	305,947,307	320,383,047	333,058,994	347,712,233	360,590,277
Services & Supplies/Equipment	22,431,181	23,565,686	23,565,686	23,565,686	23,565,686	24,272,657	25,000,836	25,750,861	26,523,387	27,319,089
New Station/Enhancements S&S Impacts		50,653	104,345	107,475	221,399	228,041	352,323	362,893	498,373	513,324
TOTAL EXPENDITURES	**288,959,860**	**300,519,387**	**307,843,029**	**311,683,819**	**318,122,431**	**330,448,004**	**345,736,207**	**359,172,748**	**374,733,992**	**388,422,689**
NET GENERAL FUND REVENUE	**5,481,425**	**3,612,643**	**6,823,705**	**14,194,807**	**19,040,902**	**20,288,327**	**19,121,341**	**19,810,932**	**18,680,034**	**20,042,809**
Incremental Increase in GF 10% Contingency	**363,510**	**1,155,953**	**732,364**	**384,079**	**643,861**	**1,232,557**	**1,528,820**	**1,343,654**	**1,556,124**	**1,368,870**
Equity Rebates	4,219,070	1,731,022	3,607,646	6,843,888	7,842,098	8,170,712	8,513,247	8,870,296	9,242,481	9,958,919
Equity - Accrued Pmt to Irvine from 14/15 & 15/16				3,281,522	2,291,133					
GENERAL FUND SURPLUS / (DEFICIT)	**898,845**	**725,669**	**2,483,695**	**3,685,318**	**8,263,810**	**10,885,057**	**9,079,274**	**9,596,981**	**7,881,428**	**8,715,021**

Orange County Fire Authority
Unencumbered Fund Balance
1998 - 2013

Fiscal Year	**Amount**
1998/99	3,866,630
1999/00	1,631,036
2000/01	1,554,081
2001/02	2,185,955
2002/03	2,450,966
2003/04	1,706,428
2004/05	3,995,675
2005/06	4,511,546
2006/07	6,687,369
2007/08	6,392,265
2008/09	9,013,694
2009/10	3,346,916
2010/11	1,244,212
2011/12	5,244,794
2012/13 **	6,134,590 **
Average	**$3,997,744**

** The value for FY 2012/13 is a very preliminary estimate, pending posting of final accounting entries for the fiscal year, and completion of the year-end financial audit.

Orange County Fire Authority
Expedited Payment of UAAL
Snowball Effect of Multiple Strategies

Years	Fiscal Year	Unencumbered Fund Balance Available	Annual Savings from PEPRA	Annual Savings from Other Reductions to OCFA Retirement Contribution Rates (Note)	Annual Increase of $1M/year to OCFA Budget for Retirement Contributions	Annual Snowball Amount	Cumulative Extra UAAL Payment
		Estimated Annual UAAL Payments from Various Strategies / Sources					
1	13/14	3,000,000	250,000	2,500,000	-	5,750,000	5,750,000
2	14/15	3,000,000	500,000	250,000	-	3,750,000	9,500,000
3	15/16	3,000,000	750,000	500,000	-	4,250,000	13,750,000
4	16/17	3,000,000	1,000,000	500,000	1,000,000	5,500,000	19,250,000
5	17/18	3,000,000	2,000,000	1,000,000	2,000,000	8,000,000	27,250,000
6	18/19	3,000,000	3,000,000	1,000,000	3,000,000	10,000,000	37,250,000
7	19/20	3,000,000	4,000,000	2,000,000	4,000,000	13,000,000	50,250,000
8	20/21	3,000,000	4,000,000	2,000,000	5,000,000	14,000,000	64,250,000
9	21/22	3,000,000	4,000,000	3,000,000	5,000,000	15,000,000	79,250,000
10	22/23	3,000,000	5,000,000	3,000,000	5,000,000	16,000,000	95,250,000
11	23/24	3,000,000	5,000,000	4,000,000	5,000,000	17,000,000	112,250,000
12	24/25	3,000,000	5,000,000	4,000,000	5,000,000	17,000,000	129,250,000
13	25/26	3,000,000	5,000,000	5,000,000	5,000,000	18,000,000	147,250,000
14	26/27	3,000,000	5,000,000	5,000,000	5,000,000	18,000,000	165,250,000
15	27/28	3,000,000	5,000,000	5,000,000	5,000,000	18,000,000	183,250,000
16	28/29	3,000,000	5,000,000	5,000,000	5,000,000	18,000,000	201,250,000
17	29/30	3,000,000	5,000,000	5,000,000	5,000,000	18,000,000	219,250,000

Note: For FY 2013/14, the OCFA's safety retirement rate was less than 2012/13; however, the rate was held flat in the Adopted Budget, with the difference being directed towards OCFA's UAAL at OCERS. In future years, as the OCFA pays down UAAL, the underlying required contribution rate will begin to decline. OCFA will continue paying the same level of retirement contributions, without reducing contributions to the required level, resulting in additional payments towards UAAL.

DISCUSSION CALENDAR - AGENDA ITEM NO. 9
BUDGET AND FINANCE COMMITTEE MEETING
September 11, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Brian Stephens, Assistant Chief
Support Services Department

SUBJECT: **Proposed Capital Improvement Program Projects – FY 2013/14**

Summary:
This item is submitted for Committee approval to add two projects to the Capital Improvement Program (CIP) funds and adjust the adopted CIP Budget for FY 2013/14. The proposed additional projects include the purchase of a warehouse storage facility in support of California Task Force 5 (CA-TF5) and the purchase of a Compressed Air Foam Patrol (CAFS).

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of September 26, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors:

1. Approve a CIP budget adjustment to Fund 123 (Facilities Replacement) for FY 2013/14 to increase appropriations by $5,500,000 for the purchase/modification of an Urban Search and Rescue central warehouse, utilizing developer contribution revenue from the existing Secured Fire Protection Agreement with Heritage Fields El Toro, LLC.
2. Authorize the Fire Chief or his designee to enter into tentative discussions with property owners for the purchase of a warehouse.
3. Direct the Fire Chief to return to the Board for final approval to enter escrow and purchase the identified property.
4. Approve a CIP budget adjustment to Fund 133 (Vehicle Replacement) for FY 2013/14 to increase appropriations by $208,000 for the purchase of a Compressed Air Foam System Patrol vehicle.

Background:
OCFA's Secured Fire Protection Agreement (SFPA) with Heritage Fields El Toro, LLC, defines the "fair share" contribution needed to adequately serve the intended development and current communities adjacent to this area. The funds from this SFPA ensure that the necessary resources will be available for OCFA to provide infrastructure and capital improvements to support the regional service delivery system. Depending on the number of dwelling units that are built under the SFPA, total development contributions over the next several years are anticipated at $10 million.

Central Warehouse for Urban Search and Rescue (US&R)

The OCFA's Urban Search and Rescue (US&R) team, identified as California Task Force Five (CA-TF5), is sponsored by the Orange County Fire Authority and is one of 28 National US&R Task Forces. CA-TF5 uses grant funds and activation reimbursements to equip and train task force members for the mission of rescuing victims in collapsed structures and for weapons of mass destruction/terrorist responses. The needed rescue equipment referred to as "cache," is stored loaded on vehicles purchased by the Federal grant and is comprised of five tractor-trailer trucks, six light duty vehicles (pickup trucks/SUV), and eight cargo trailers. This fleet of vehicles is used to transport and support $8 million dollars of equipment utilized in multi-hazard task force deployments including earthquakes, hurricanes, typhoons, storms, tornadoes, floods, dam failures, technological accidents, terrorist activities, and hazardous materials releases throughout the United States, the State of California, and in support of local emergencies.

Under the Cooperative Agreement with the Federal Emergency Management Agency (FEMA), OCFA is required to maintain the vehicle fleet and cache items in a secured, climate controlled environment. The storage requirement is currently accomplished by housing vehicles among seven OCFA fire stations (40, 42, 45, 51, 54, 57, and 58) throughout Orange County. The current storage arrangement strains OCFA's ability to store other OCFA purchased equipment/apparatus. It also creates accountability and efficiency issues for both the FEMA vehicle and equipment cache and OCFA apparatus and equipment.

During a 2013 Administrative Readiness Review (ARE) conducted by FEMA, OCFA was graded down in storage compliance for not possessing a central warehouse. CA-TF5 is the only Federal Team without a central warehouse and creates several operational inefficiencies, liabilities, and challenges, such as:

1. Diminished accountability of cache items.
2. Cost, delay, and inefficiency to continuously relocate vehicles for maintenance, inventory (unpacking/repacking), operations, and regular training.
3. Inefficient mobilization processing for the immediate activation, equipment issue, and dispatch of up to 210 personnel.

A US&R warehouse has been an identified priority for OCFA and received prior Board support as identified in the Santiago Fire After-Action Report. The warehouse will allow OCFA to meet the requirements of the FEMA Cooperative Agreement grant for the storage of federally purchased equipment and vehicles. It corrects the operational inefficiencies, challenges, and liabilities mentioned above. It moves CA-TF5 equipment and vehicles from the seven fire stations creating capacity at the stations for OCFA owned equipment and apparatus.

The ideal central storage facility would include:

1. A facility of at least 25,000 – 30,000 square feet
2. Office space to manage operations, maintenance, and mobilization
3. Multiple large vehicle drive in doors and dock loading
4. A secured, fenced, gated site of 3 acres
5. Located in central Orange County.

Preliminary investigation of possible locations identified suitable facilities that meet requirements. Preliminary market analysis revealed that similar facilities depending on condition and features range from about $150 to about $200 dollar per square foot. Acquisition of the facility described will provide the capability to acquire, store, and maintain other equipment/vehicle and cache as the US&R program may develop and change. Space not used by CA-TF5 also provides flexibility to store back-up reserve OCFA apparatus and vehicles currently store outside.

An expenditure of up to $5.5 million dollars would be offset by revenue received from the SFPA. Staff is requesting that appropriations for the purchase of a central warehouse, estimated at $5.5 million, be added to the CIP for FY 2013/14.

Compressed Air Foam System Patrol Vehicle

The OCFA uses patrol vehicles equipped with Compressed Air Foam Systems (CAFS) for initial attack and structure protection assignments on wildland and urban interface fires. These types of units have proven their capabilities and are being used and requested more frequently due to their versatility and availability during drawdown of more conventional resources.

OCFA currently has 12 CAFS Patrol vehicles located at Fire Stations (7,10,11,14,16,18,21,26,30,32,48,57). Eight of these units are staffed by Reserve Firefighters and four units are currently cross staffed by career personnel. The four career cross-staffed Patrols are now frequently used in strike team configuration which requires five units by definition. This requires the uncovering of a Community based Reserve Firefighter staffed unit for the duration of the strike team deployment; leaving potentially available Reserve Firefighters without a unit to respond with while their unit is borrowed to be part of a career staffed strike team.

The addition of another CAFS Patrol vehicle would enable the OCFA to staff a Strike Team of Type VI Engine Companies (aka Patrols) without uncovering a dedicated Community based Reserve Firefighter staffed unit. The ability to career cross staff a five engine strike team of these units without borrowing a Reserve Firefighter staffed unit would greatly enhance the OCFA's ability to provide a needed regional asset while maintaining reserve staffed station coverage.

Staff is requesting that appropriations for the purchase of a CAFS Patrol Vehicle, estimated at $208,000, be added to the CIP for FY 2013/14.

<u>Impact to Cities/County:</u>

The acquisition of a central US&R warehouse facility would enhance management, operations, training and deployment both regionally and nationally of a vital disaster response capability. The acquisition of an additional CAFS Patrol vehicle will help to alleviate gaps in local station coverage during major regional events.

Fiscal Impact:
Approval of the proposed projects will require an increase in appropriations in the FY 2013/14 CIP budget, estimated at $5.5 million for Fund 123 and $208,000 for Fund 133. Developer contributions from an existing SFPA will offset the cost of the proposed US&R central warehouse.

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Attachments:
None