



ORANGE COUNTY FIRE AUTHORITY AGENDA

Budget and Finance Committee Meeting

Wednesday, October 9, 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 McCloskey

ROLL CALL

PUBLIC COMMENTS

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

MINUTES

- 1. Minutes for the September 11, 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 October 24, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

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

Recommended Action:
Receive and file the report.

DISCUSSION CALENDAR

- 4. Internal Control Review on Purchasing/Procurement**
Submitted by: Lori Zeller, Assistant Chief, Business Services Department

Recommended Actions:
Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of October 24, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee direct staff to implement the Auditor's recommendations as stated under OCFA management responses in the report.

REPORTS

No items.

COMMITTEE MEMBER COMMENTS

ADJOURNMENT – The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, November 6, 2013, at 12:00 noon.

AFFIDAVIT OF POSTING

I hereby certify under penalty of perjury under the laws of the State of California, that the foregoing Agenda was posted in the lobby and front gate public display case of the Orange County Fire Authority, Regional Fire Operations and Training Center, 1 Fire Authority Road, Irvine, CA, not less than 72 hours prior to the meeting. Dated this 3rd day of October 2013.

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

UPCOMING MEETINGS:

Claims Settlement Committee Meeting	Thursday, October 24, 2013, 5:30 p.m.
Executive Committee Meeting	Thursday, October 24, 2013, 6:00 p.m.
Budget and Finance Committee Meeting	Wednesday, November 6, 2013, 12:00 noon

MINUTES ORANGE COUNTY FIRE AUTHORITY

Budget and Finance Committee Meeting
Wednesday, September 11, 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 September 11, 2013, at 12:01 p.m. by Chair Swift.

PLEDGE OF ALLEGIANCE

Vice Chair Bressette led the assembly in the Pledge of Allegiance to our Flag.

ROLL CALL

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

Absent: None

Also present were:

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

PUBLIC COMMENTS (F: 12.02B3)

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

MINUTES

1. **Minutes for the August 14, 2013, Budget and Finance Committee Meeting** (F: 12.02B2)

Stephen Wontrobski, Mission Viejo resident, pulled the Minutes to request that his position stated on the Minutes regarding the proposed salary and benefit survey be changed from opposed to support.

On motion of Vice Chair Bressette and second by Director Murray, the Committee voted to approve the minutes of the August 14, 2013, Budget and Finance Committee Meeting, as amended to include public speaker Stephen Wontrobski's support of a salary and benefit survey. Directors Kelley and Weinberg abstained.

CONSENT CALENDAR

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

On motion of Director Weinberg and second by Director Murray, the Committee voted unanimously to direct staff to place the item on the agenda for the 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** (F: 17.06)

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

4. **Fourth Quarter Financial Newsletter – April to June 2013** (F: 15.07)

On motion of Director Weinberg and second by Director Murray, the Committee voted unanimously to 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** (F: 15.04 FY 12/13)

On motion of Director Weinberg and second by Director Murray, the Committee voted unanimously to 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 (F: 18.10A2a)

Assistant Chief Lori Zeller introduced Risk Management Analyst Rhonda Haynes who provided a PowerPoint presentation on the First Quarter Workers' Compensation Program Update – June 2013 through August 2013.

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

7. 2013 Long Term Liability Study (F: 17.06A)

Assistant Chief Lori Zeller introduced Treasurer Tricia Jakubiak who provided a PowerPoint presentation on the 2013 Long Term Liability Study.

A lengthy discussion ensued.

On motion of Director Weinberg and second by Director Murray, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of 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.

Minutes

OCFA Budget and Finance Committee Meeting
September 11, 2013 Page - 3

8. Paying Down OCFA's Unfunded Pension Liability with Orange County Employees Retirement System (F: 17.06)

Assistant Chief Lori Zeller provided a comprehensive overview on paying down OCFA's Unfunded Pension Liability with Orange County Employees Retirement System.

A lengthy discussion ensued.

On motion of Director Weinberg and second by Director Murray, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of 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 (F: 15.04A) (X: 22.05A1) (X: 19.09A)

Assistant Chief Brian Stephens provided an overview of the Proposed Capital Improvement Program Projects–FY 2013/14.

On motion of Director Weinberg and second by Director Murray, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of 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.

Minutes

OCFA Budget and Finance Committee Meeting
September 11, 2013 Page - 4

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 (F: 12.02B6)

Assistant Chief Brian Stephens informed the Committee that a repair check has been received from the insurance company to repair Engine 61. Routinely, this would be an agenda item that would be scheduled for consideration by the Budget and Finance Committee prior to the Board; however, staff did not wish to delay the deposit of the repair check issued and received after the posting of the Committee's agenda, as such, he will be forwarding this item directly to the Board.

COMMITTEE MEMBER COMMENTS (F: 12.02B4)

Director Murray requested the committee review OCFA procurement practices.

ADJOURNMENT – Chair Swift adjourned the meeting at 1:25 p.m. The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, October 9, 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
October 9, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Patricia Jakubiak, Treasurer

SUBJECT: **Monthly Investment Report**

Summary:

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

Recommended Action:

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

Background:

Attached is the final monthly investment report for the month ended August 31, 2013. A preliminary investment report as of September 13, 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 – August 2013/Preliminary Report – September 2013

Orange County Fire Authority Monthly Investment Report



Final Report – August 2013

Preliminary Report – September 2013



Monthly Investment Report Table of Contents

<i>Final Investment Report – August 31, 2013</i>	<i>1</i>
<i>Executive Summary.....</i>	<i>2</i>
<i>Benchmark Comparison.....</i>	<i>3</i>
<i>Portfolio Size, Yield, & Duration.....</i>	<i>3</i>
<i>Portfolio Summary.....</i>	<i>4</i>
<i>Portfolio Details.....</i>	<i>5</i>
<i>Aging Report</i>	<i>8</i>
<i>Notes to Portfolio Management Report.....</i>	<i>9</i>
<i>Local Agency Investment Fund.....</i>	<i>10</i>
<i>Preliminary Investment Report – September 13, 2013.....</i>	<i>12</i>
<i>Portfolio Summary.....</i>	<i>13</i>
<i>Portfolio Details.....</i>	<i>14</i>
<i>Aging Report.....</i>	<i>17</i>
<i>Notes to Portfolio Management Report.....</i>	<i>18</i>



Orange County Fire Authority

Final Investment Report

August 31, 2013



EXECUTIVE SUMMARY

Portfolio Activity & Earnings

During the month of August 2013, the size of the portfolio decreased significantly by \$22.4 million to \$121.2 million. Major receipts for the month included a cash contract payment for \$2.9 million and various intergovernmental contract and grant payments totaling \$1.5 million. Significant disbursements for the month included primarily biweekly payrolls. However, there were three pay periods in the month of August instead of the typical two per month. The portfolio's balance is expected to decrease further in the following month as there are no major receipts scheduled for September.

In August, the portfolio's yield to maturity (365-day equivalent) increased by 3 basis points to 0.35%. The effective rate of return also increased by 3 basis points to 0.35% for the month, but edged up by 1 basis point to 0.33% for the fiscal year to date. The average maturity of the portfolio lengthened by 32 days to 321 days to maturity.

Economic News

The U.S. economy continued to grow moderately in August 2013, but overall activity remained mixed. Employment conditions improved slightly from the prior month, but were weaker than expected. There were a total of 169,000 new jobs created in August, but a higher number of newly created jobs had been expected for the month. In addition, downward revisions were also made to the prior two months for a net decrease of 74,000 jobs. The unemployment rate, on the other hand, dropped a notch to 7.3% from 7.4% previously. The Conference Board Consumer Confidence Index reversed and increased slightly in August, but the University of Michigan Consumer Sentiment Index dropped for the month. Retail sales increased, but continued to rise at a softer pace than expected. Housing activity continued to improve, albeit remained at a moderate level overall. The NFIB (National Federation of Independent Business) small business optimism index remained largely unchanged in August. Both the non-manufacturing and manufacturing sectors continued expanding. Industrial production increased slightly in August, and inflation remained tamed. On September 18, 2013, at the second day of the Federal Open Market Committee's scheduled meeting, the Committee voted to keep the federal funds rate unchanged at a target range of 0-0.25%. The Committee also decided to maintain the current pace of its asset purchasing program for now.



BENCHMARK COMPARISON AS OF AUGUST 31, 2013

3 Month T-Bill: 0.04%	1 Year T-Bill: 0.13%
6 Month T-Bill: 0.07%	LAIF: 0.27%
OCFA Portfolio: 0.35%	

PORTFOLIO SIZE, YIELD, & DURATION

	<u>Current Month</u>	<u>Prior Month</u>	<u>Prior Year</u>
Book Value-	\$121,225,361	\$143,622,094	\$109,212,380
Yield to Maturity (365 day)	0.35%	0.32%	0.55%
Effective Rate of Return	0.35%	0.32%	0.28%
Days to Maturity	321	289	570



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

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

(See Note 1 on page 9)

(See Note 2 on page 9)

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	7,179,143.11	7,179,143.11	7,179,143.11	5.88	1	1	0.001	0.001
Federal Agency Coupon Securities	51,000,000.00	50,457,180.00	51,004,753.89	41.74	1,269	758	0.557	0.565
Federal Agency Disc. -Amortizing	18,000,000.00	17,999,730.00	17,998,990.00	14.73	155	26	0.075	0.076
Local Agency Investment Funds	48,000,000.00	46,012,567.52	46,000,000.00	37.65	1	1	0.267	0.271
Investments	122,179,143.11	121,648,620.63	122,182,887.00	100.00%	553	321	0.344	0.349
Cash and Accrued Interest (See Note 4 on page 9)								
Passbook/Checking (not included in yield calculations)	-478,380.19	-478,380.19	-478,380.19		0	0	0.000	0.000
Accrued Interest at Purchase		1,553.33	1,553.33					
Subtotal		-476,826.86	-476,826.86					
Total Cash and Investments	121,700,762.92	121,171,793.77	121,706,060.14		553	321	0.344	0.349

Total Earnings	August 31 Month Ending	Fiscal Year To Date
Current Year	38,711.55	78,080.20
Average Daily Balance	131,525,370.25	139,276,088.64
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."

Patricia Jakubiak
 Patricia Jakubiak, Treasurer 9/6/13

Cash and Investments with GASB 31 Adjustment:	
Book Value of Cash & Investments before GASB 31 (Above)	\$ 121,706,060.14
GASB 31 Adjustment to Books (See Note 3 on page 9)	\$ (480,699.41)
Total	\$ 121,225,360.73

Page 4

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

(See Note 1 on page 9)

(See Note 2 on page 9)

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SYS528	528	High Mark 100% US Treasury MMF		(See Note 4 on page 9)	7,179,143.11	7,179,143.11	7,179,143.11	0.001	0.001	1	
Subtotal and Average			6,167,906.39		7,179,143.11	7,179,143.11	7,179,143.11		0.001	1	
Commercial Paper Disc. -Amortizing											
Subtotal and Average			8,418,798.23								
Federal Agency Coupon Securities											
3133ECBT0	799	Federal Farm Credit Bank (Callable anytime)		12/26/2012	9,000,000.00	8,993,180.00	9,000,000.00	0.375	0.375	863	06/28/2015
3133ECM76	809	Federal Farm Credit Bank (Callable anytime)		04/25/2013	9,000,000.00	8,924,940.00	8,994,437.05	0.400	0.424	984	04/22/2016
3133804V8	787	Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,838,120.00	6,000,000.00	1.000	0.981	1,438	08/09/2017
313380B22	788	Fed Home Loan Bank (Callable anytime)		08/20/2012	6,000,000.00	5,988,200.00	6,000,000.00	0.450	0.440	718	08/20/2015
3133813R4	800	Fed Home Loan Bank (Callable 9-9-13)		12/20/2012	9,000,000.00	8,762,760.00	9,012,345.20	1.000	0.818	8	11/09/2017
313382DC4	803	Fed Home Loan Bank (Callable anytime)		03/15/2013	12,000,000.00	11,940,000.00	11,997,971.84	0.470	0.477	918	03/07/2016
Subtotal and Average			51,004,766.26		51,000,000.00	50,467,180.00	51,004,763.89		0.565	768	
Federal Agency Disc. -Amortizing											
313589MV2	808	Fed Natl Mortg Assoc		04/25/2013	9,000,000.00	8,999,820.00	8,999,200.00	0.080	0.081	40	10/11/2013
313387LR0	807	Freddie Mac		04/25/2013	9,000,000.00	8,999,910.00	8,999,790.00	0.070	0.071	12	09/13/2013
Subtotal and Average			17,998,427.50		18,000,000.00	17,999,730.00	17,998,990.00		0.078	26	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmnt Fund			46,000,000.00	46,012,567.52	46,000,000.00	0.271	0.271	1	
Subtotal and Average			47,935,483.87		46,000,000.00	46,012,567.52	46,000,000.00		0.271	1	
Total and Average			131,625,370.25		122,179,143.11	121,648,620.63	122,182,887.00		0.349	321	

Page 5

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
August 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	-763,380.19	-763,380.19	-763,380.19	(See Note 4 on page 9)	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			0
				Subtotal		-476,826.86	-476,826.86			
Total Cash and Investments			131,525,370.25		121,700,762.92	121,171,793.77	121,706,060.14		0.349	321

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of September 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	(09/01/2013 - 09/01/2013)	6 Maturities	0 Payments	52,700,762.92	43.30%	52,700,762.92	52,713,330.44
Aging Interval:	1 - 30 days	(09/02/2013 - 10/01/2013)	1 Maturities	0 Payments	9,000,000.00	7.39%	8,999,790.00	8,999,910.00
Aging Interval:	31 - 60 days	(10/02/2013 - 10/31/2013)	1 Maturities	0 Payments	9,000,000.00	7.39%	8,999,200.00	8,999,820.00
Aging Interval:	61 - 91 days	(11/01/2013 - 12/01/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	92 - 121 days	(12/02/2013 - 12/31/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	122 - 152 days	(01/01/2014 - 01/31/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	153 - 183 days	(02/01/2014 - 03/03/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	184 - 274 days	(03/04/2014 - 06/02/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	275 - 365 days	(06/03/2014 - 09/01/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	368 - 1095 days	(09/02/2014 - 08/31/2016)	4 Maturities	0 Payments	36,000,000.00	29.57% *	35,992,408.69	35,856,300.00
Aging Interval:	1096 - 1825 days	(09/01/2016 - 08/31/2018)	2 Maturities	0 Payments	15,000,000.00	12.34%	15,012,349.20	14,600,880.00
Aging Interval:	1826 days and after	(09/01/2018 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Total for			14 Investments	0 Payments		100.00	121,704,508.81	121,170,240.44

Page 8 of 8

*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.
- 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 August 31, 2013, OCFA has \$46,000,000 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 \$46,012,568 or \$12,568 above cost. Although the fair value of the LAIF investment is higher than cost, OCFA can withdraw the actual amount invested at any time.

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



Orange County Fire Authority

Preliminary Investment Report

September 13, 2013



ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
September 13, 2013

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

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

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	11,928,167.06	11,928,167.06	11,928,187.06	9.78	1	1	0.001	0.001
Federal Agency Coupon Securities	51,000,000.00	50,354,160.00	51,004,752.61	41.83	1,269	750	0.557	0.565
Federal Agency Disc. -Amortizing	9,000,000.00	8,999,910.00	8,999,460.00	7.38	169	27	0.080	0.081
Local Agency Investment Funds	50,000,000.00	50,013,660.35	50,000,000.00	41.01	1	1	0.267	0.271
Investments	121,928,167.06	121,295,897.41	121,932,379.67	100.00%	544	316	0.349	0.353
Cash and Accrued Interest								
Passbook/Checking (not included in yield calculations)	(See Note 4 on page 18) -267,608.79	-267,608.79	-267,608.79		0	0	0.000	0.000
Accrued Interest at Purchase		300.00	300.00					
Subtotal		-267,308.79	-267,308.79					
Total Cash and Investments	121,660,558.27	121,028,588.62	121,665,070.88		544	316	0.349	0.353

Total Earnings	September 13 Month Ending	Fiscal Year To Date
Current Year	16,125.27	94,205.47
Average Daily Balance	125,125,762.68	136,823,365.48
Effective Rate of Return	0.38%	0.34%

"I certify that this investment report accurately reflects all pooled investments and is in compliance with the investment policy adopted by the Board of Directors to be effective on January 1, 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."

[Signature] 9/30/13
 Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	\$ 121,665,070.88
GASB 31 Adjustment to Books (See Note 3 on page 18)	\$ (480,699.41)
Total	\$ 121,184,371.47

Page 13

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
September 13, 2013

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	(See Note 1 on page 18) Market Value	(See Note 2 on page 18) Book Value	Stated Rate	YTM/WC 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SYS528	528	High Mark 100% US Treasury MMF	(See Note 4 on page 18)		11,928,167.06	11,928,167.06	11,928,167.06	0.001	0.001	1	
Subtotal and Average			8,044,835.25		11,928,167.06	11,928,167.06	11,928,167.06		0.001	1	
Federal Agency Coupon Securities											
3133ECBT0	799	Federal Farm Credit Bank (Callable anytime)		12/26/2012	9,000,000.00	8,990,370.00	9,000,000.00	0.375	0.375	650	06/26/2015
3133ECM76	809	Federal Farm Credit Bank (Callable anytime)		04/25/2013	9,000,000.00	8,907,930.00	8,984,513.09	0.400	0.424	951	04/22/2016
3133804V6	787	Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,814,540.00	6,000,000.00	1.000	0.681	1,425	08/09/2017
313380B22	788	Fed Home Loan Bank (Callable anytime)		08/20/2012	6,000,000.00	5,991,720.00	6,000,000.00	0.450	0.440	705	08/20/2015
3133813R4	800	Fed Home Loan Bank (Callable 10-9-13)		12/20/2012	9,000,000.00	8,724,240.00	9,012,238.77	1.000	0.818	25	11/09/2017
313382DC4	803	Fed Home Loan Bank (Callable anytime)		03/15/2013	12,000,000.00	11,925,360.00	11,988,000.75	0.470	0.477	905	03/07/2016
Subtotal and Average			51,004,753.20		51,000,000.00	50,354,160.00	51,004,752.61		0.566	760	
Federal Agency Disc. -Amortizing											
313589MV2	808	Fed Natl Mortg Assoc		04/25/2013	9,000,000.00	8,999,910.00	8,999,460.00	0.080	0.081	27	10/11/2013
Subtotal and Average			17,308,943.46		9,000,000.00	8,999,910.00	8,999,460.00		0.081	27	
Local Agency Investment Funds											
SYS336	336	Local Agency Investmt Fund			50,000,000.00	50,013,660.35	50,000,000.00	0.271	0.271	1	
Subtotal and Average			48,769,230.77		50,000,000.00	50,013,660.35	50,008,000.00		0.271	1	
Total and Average			125,125,762.68		121,928,167.06	121,295,897.41	121,932,379.67		0.353	316	

Page 14

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
September 13, 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	-552,608.79	-552,608.79	-552,608.79	(See Note 4 on page 18)	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		300.00	300.00			0
					Subtotal	-267,308.79	-267,308.79			
Total Cash and Investments			125,125,782.68		121,660,558.27	121,028,588.62	121,665,070.88		0.353	316

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of September 14, 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	(09/14/2013 - 09/14/2013)	6 Maturities 0 Payments	61,660,558.27	50.88%	61,660,558.27	61,874,218.62
Aging Interval:	1 - 30 days	(09/15/2013 - 10/14/2013)	1 Maturities 0 Payments	9,000,000.00	7.40%	8,999,460.00	8,999,910.00
Aging Interval:	31 - 60 days	(10/15/2013 - 11/13/2013)	0 Maturities 0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	61 - 91 days	(11/14/2013 - 12/14/2013)	0 Maturities 0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	92 - 121 days	(12/15/2013 - 01/13/2014)	0 Maturities 0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	122 - 152 days	(01/14/2014 - 02/13/2014)	0 Maturities 0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	153 - 183 days	(02/14/2014 - 03/16/2014)	0 Maturities 0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	184 - 274 days	(03/17/2014 - 06/15/2014)	0 Maturities 0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	275 - 365 days	(06/16/2014 - 09/14/2014)	0 Maturities 0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	366 - 1095 days	(09/15/2014 - 09/13/2018)	4 Maturities 0 Payments	36,000,000.00	29.58% *	35,992,513.84	35,816,330.00
Aging Interval:	1096 - 1825 days	(09/14/2016 - 09/13/2018)	2 Maturities 0 Payments	15,000,000.00	12.34%	15,012,238.77	14,538,780.00
Aging Interval:	1826 days and after	(09/14/2018 -)	0 Maturities 0 Payments	0.00	0.00%	0.00	0.00
Total for			13 Investments 0 Payments		100.00	121,664,770.88	121,028,288.62

*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 and continued in September which automatically resulted in a higher percentage for this category as its balance remained unchanged from the prior month.

Page 17



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.

CONSENT CALENDAR – AGENDA ITEM NO. 3
BUDGET AND FINANCE COMMITTEE MEETING
October 9, 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 September 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 – September 2013

OCERS BOARD OF RETIREMENT – Strategic Planning Workshop September 19, 2013:

The OCERS Board did not have a regular board meeting in September, but rather held an offsite annual Strategic Planning Workshop. The Board does not vote on items during their Workshop as the items presented are informational in nature.

PLAN SPONSORS – LOCAL CHALLENGES

This discussion was an overview of the challenges being faced by OCERS' stakeholders, both employers and members. The intent was to give the OCERS Board a better understanding of the context of the decisions they make. The first speaker was Mr. Lorenzo Tyner of the Orange County Sanitation District, followed by Mr. Frank Kim representing the County of Orange and Mr. Don Drozd representing the Orange County Employees Association. One of the key points made during the presentations, was that plan sponsors are looking for stability in their retirement rates.

MACRO LOOK AT PENSION NEWS

Mr. Keith Brainard, Research Director for the National Association of State Retirement Administrators (NASRA) gave a presentation focused on understanding how national news items regarding public pensions may have implications for OCERS (Attachment 1). As research director Mr. Brainard collects, prepares and distributes to NASRA members news, studies and reports pertinent to public retirement system administration and policy. NASRA members are the directors and administrators of 82 statewide public retirement systems in the United States. Combined, these systems hold assets of more than \$2 trillion in trust to fund pension and other benefits for most of the nation's 22 million working and retired employees of state and local government.

ACTUARIAL CONSIDERATIONS IN OCERS PLAN DESIGN

Mr. Paul Angelo of the Segal Company discussed two primary topics during this portion of the agenda:

1. The issue of the cost of COST OF LIVING ADJUSTMENTS (COLA) and how that cost is shared among employers and members. (Attachment 2)
2. The issue of “accelerated employer contribution payments,” a topic that was discussed last month by the OCERS Board, and is scheduled to return to the Board in October. (Attachment 3). Mr. Angelo wanted to get clarification on a number of questions by OCERS' trustees that arose at last month's meeting and will be taken up at the October OCERS Board meeting. These were informational presentations and no votes were taken.

Mr. Angelo also reviewed the list of questions that have been posed by OCERS Trustees (Attachment 4) in anticipation of the November 18 Board meeting when the topics of the OCERS Board's Actuarial Funding policy and the issue of **Amortization Periods** will be discussed.

OCERS INVESTMENTS: POTENTIAL FUNDING, LIQUIDITY and CASH FLOW DRIVERS

Mr. Girard Miller, OCERS Chief Investment Officer (CIO), identified several topics the Board may want to consider next year including:

1. Knowing that the OCERS fund will run positive cash flow through 2021, what are the investment implications?
2. How should OCERS think about private equity and other illiquid asset classes?
3. What should be the 5 year strategy for private equity if the CIO is able to access lower-cost vehicles?
4. Should OCERS consider investment strategies that focus more on income and less on market appreciation in the foreseeable future?

5. Looking longer term, what should be the fund policies regarding investment allocations in periods of very high or low funding ratios?
6. What path should/could OCERS take if the County were to someday consider issuing dual-purpose Section 115 “Benefits Bonds” that might fund either pensions or retiree health that might effectively remove OCERS from the investment decision process?
7. Strategically, how and when should OCERS begin thinking about dynamic asset allocation and risk management in order to reduce risks of underperforming actuarial assumptions between now and the bottom of the next recession? (Attachment 5)

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

Impact to Cities/County:

Not Applicable.

Staff Contacts for Further Information:

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(714) 573-6020

Tricia Jakubiak, Treasurer

TriciaJakubiak@ocfa.org

(714) 573-6301

Attachments:

1. A Macro Look at Pension News by the National Association of State Retirement Administrators (NASRA)
2. The Segal Company Presentation on Actuarial Considerations
3. Letter from The Segal Company on Annual Payoff Assumptions, September 16, 2013
4. Questions for the OCERS’ Actuary from the OCERS’ Trustees, September 16, 2013
5. OCERS Investment Strategy Session, September 19, 2013

A Macro Look at Pension News



Board of Retirement Strategic Planning Workshop

Keith Brainard
Research Director
National Association of State Retirement Administrators
September 19, 2013

Comparison of Retirement Benefits in the U.S.

Private Sector

- Between employers that do not sponsor a retirement benefit and employees that elect to not participate when one is sponsored, 65% of full-time private sector workers participate in an employer-sponsored retirement plan
- 50% when part-time workers are counted
- Fewer than one in five have a traditional pension (DB) plan
- Social Security coverage is universal

Public Sector

- Nearly all full-time workers have access to an employer-sponsored retirement benefit
- 85%+ participate in a traditional pension (DB plan)
- Three-fourths participate in Social Security

Distinguishing elements of public pension plans

- Mandatory participation
- Employee-employer cost sharing
- Assets that are pooled and professionally invested
- A benefit that cannot be outlived, i.e., mandatory annuitization

Bird's-eye view of public pensions in the U.S.

Defined benefit plans for employees of state and local government in the U.S.:

- ~\$3.5 trillion in assets
- ~15 million active (working) participants
 - 12 percent of the nation's workforce
- 8.0 million retirees and their survivors receive ~\$225 billion annually in benefits
- Of 3,000+ public retirement systems, the largest 75 account for 80+ percent of assets and members
- Aggregate funding level = ~74%

Bird's-eye view of public pensions in California

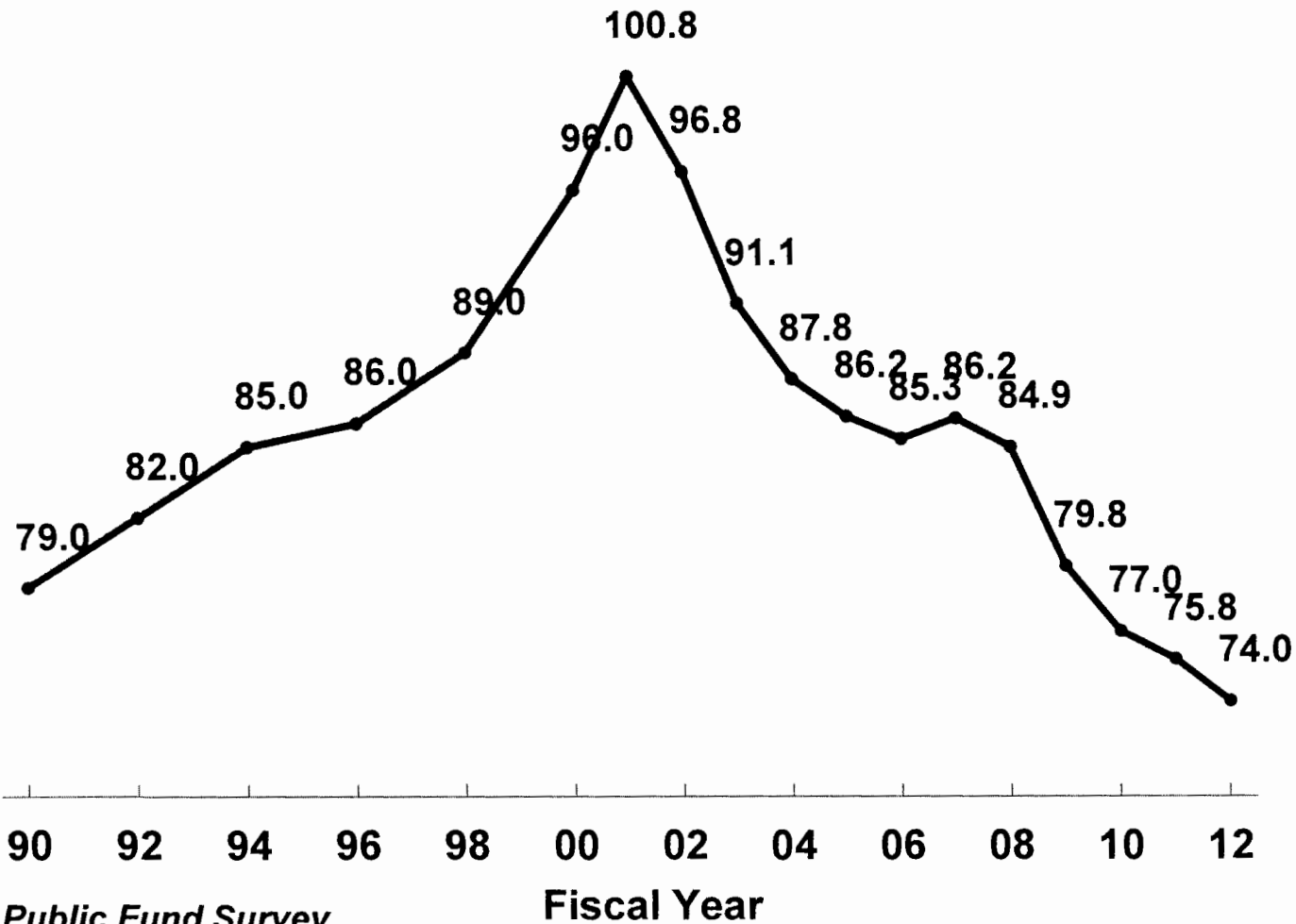
Defined benefit plans for employees of state and local government in California:

- ~\$650+ billion in assets
- 1.7 million active (working) participants
- 1.1 million retirees and their survivors receive \$36+ billion annually in benefits
- CalPERS and CalSTRS assets and participants account for approximately 65%

Overarching Public Pension Issues

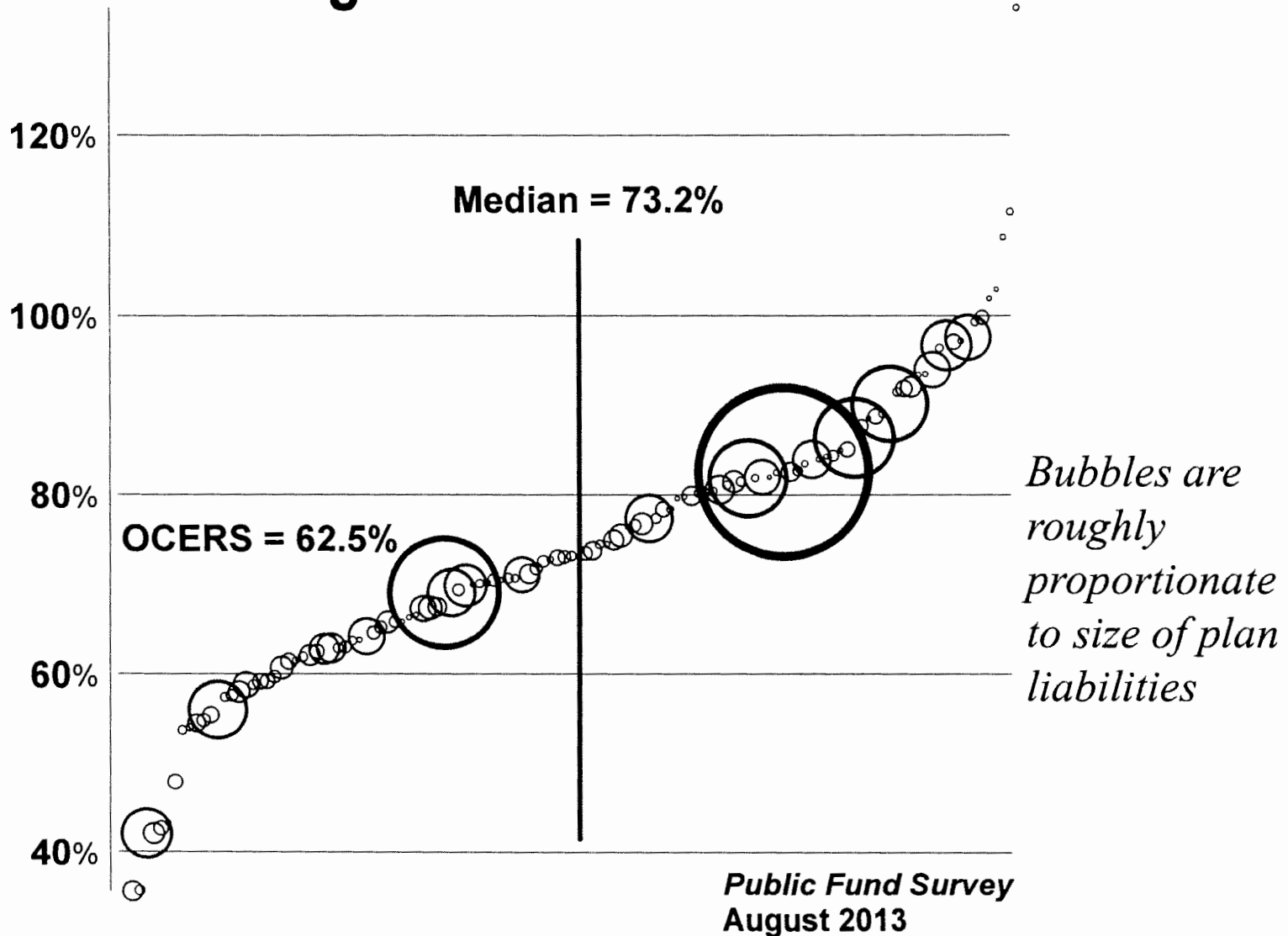
- Since 2009, we have witnessed an unprecedented:
 - number of legislative changes made to public pension benefits
 - number of legal challenges in response to legislative changes
 - reduction in state and local government employment (3.5%)
- New pension accounting standards are changing the way pensions are calculated
- Bond rating agencies are calculating their own pension numbers
- Investment return assumptions are under scrutiny and challenge

Historical aggregate public pension funding levels

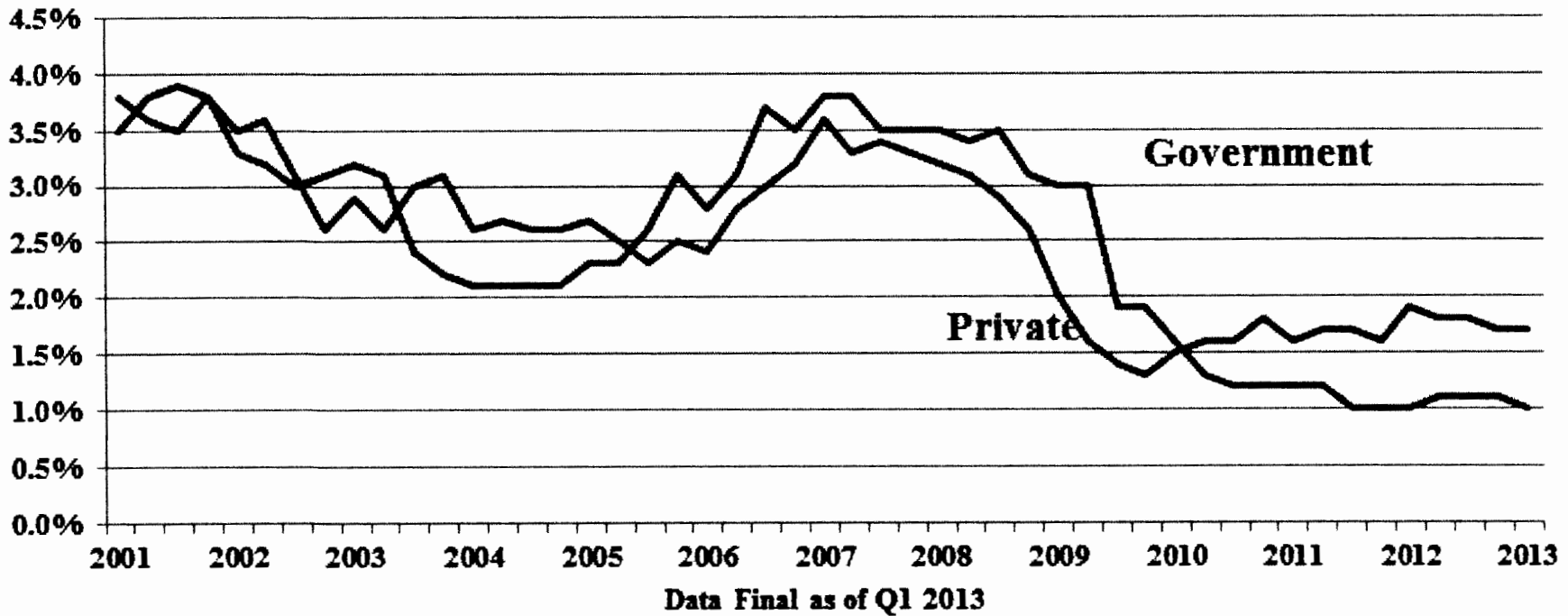


*Public Fund Survey
and Standard & Poor's
August 2013*

Distribution of public pension actuarial funding levels and relative size



Annualized Change in Wages and Salaries



BLS, compiled by NASRA

Legislative pension enactments in recent years

- Nearly every state has modified public pension benefits, raised employee contributions, or both, since 2009
- Lower benefits:
 - higher retirement age
 - more required years of service
 - longer vesting period
 - reduced or eliminated COLAs
- Increased use of hybrid retirement plans

No shift to defined contribution plans as the primary retirement benefit for broad employee groups on a statewide basis

Growing use of statewide hybrid plans

- Two main types of hybrid plans: “Combination” DB-DC, and cash balance
- Combo DB-DC plans feature a traditional, more modest pension, combined with a defined contribution plan
 - Mandatory: GA, IN, MI, OR, RI
 - VA as of 1/1/14
 - TN as of 7/1/14
- Optional in OH, WA

Statewide cash balance plans

- Cash balance plans feature pooled assets with notional accounts that pay a guaranteed minimum interest rate, with possibility of sharing “excess” investment earnings
 - Texas, for county and many municipal employees
 - Nebraska, for state and county workers
 - California, for community college employees and as a supplement for K-12 teachers
 - Kentucky, for state and local workers (not teachers) effective 1/1/14
 - Kansas for all new hires effective 1/1/15

“Shared risk” hybrids

- Many public pension plans have features in which risk is shared between employees and employers
- For example:
 - Retirement benefit for Wisconsin public employees has two parts: base benefit and a benefit tied to investment performance
 - The portion tied to investment performance can go up and down, and has gone down the last five years
 - Employee contribution rates in Arizona, Iowa, and Nevada fluctuate based on plan funding level
 - North Dakota PERS participants may direct employer contributions to a supplemental retirement plan in lieu of the DB plan
 - COLAs in Arizona are tied to investment performance

Pension reform in Rhode Island

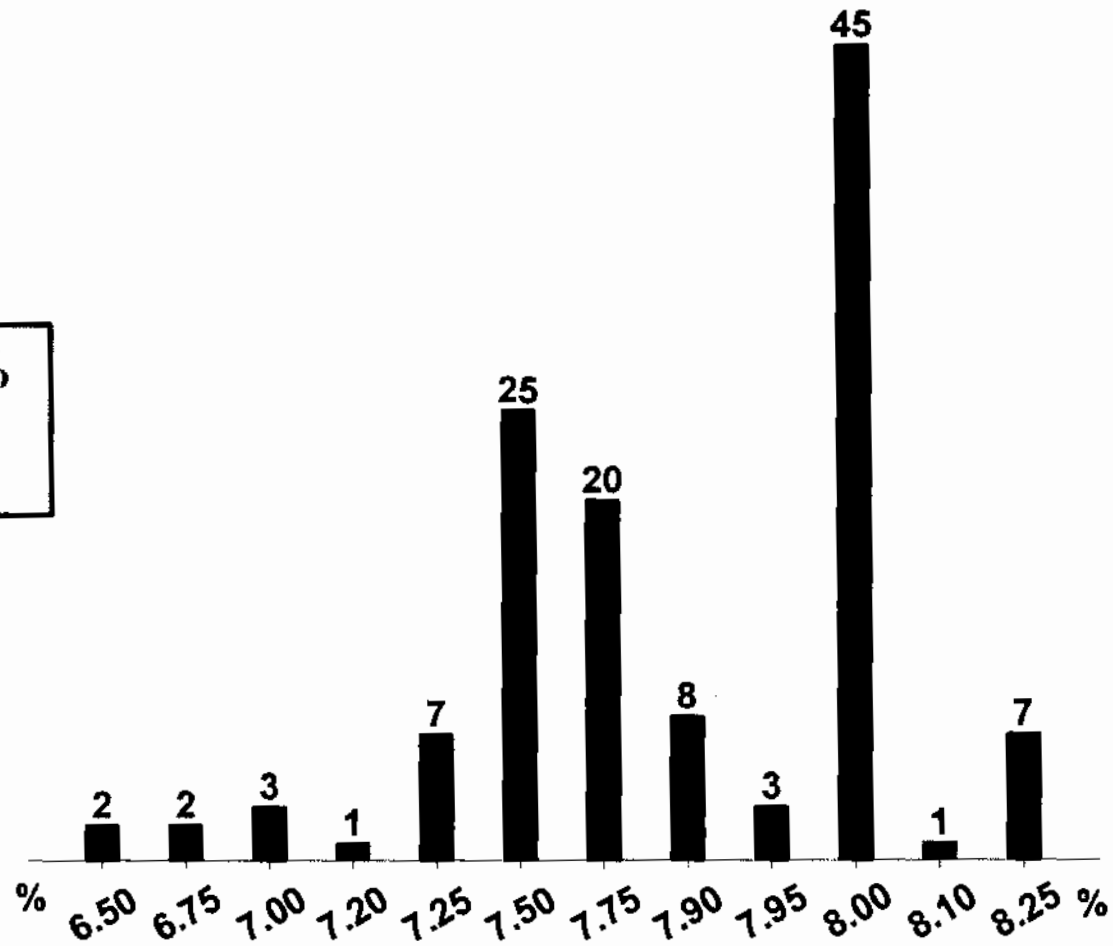
- Effective 7/1/12, all plan participants were moved from the traditional pension plan to a new DB-DC hybrid
- Reduced future rate of pension accrual
- Higher normal retirement age
- A portion of employee contribution is diverted to the DC plan
- COLA is suspended until funding level = 80%
- Changes were challenged in federal court and are now in arbitration

Pension reform in Utah

- New hires since 7/1/11 may choose from a defined benefit or defined contribution plan
- Employer contributes 10 percent of pay
- For the DB plan, retirement multiplier = 1.5 percent
- Total cost of the plan = 7.59 percent (10.45 percent for public safety)
- Remaining 2.41 percent (1.55 percent for public safety) is deposited into employees' defined contribution account
- Employees pay any cost of the DB plan above 10 percent (12 percent for public safety)
- Employers also contribute 5 percent to amortize UAL
- “A defined benefit plan with a defined contribution”

Distribution of public pension investment return assumptions

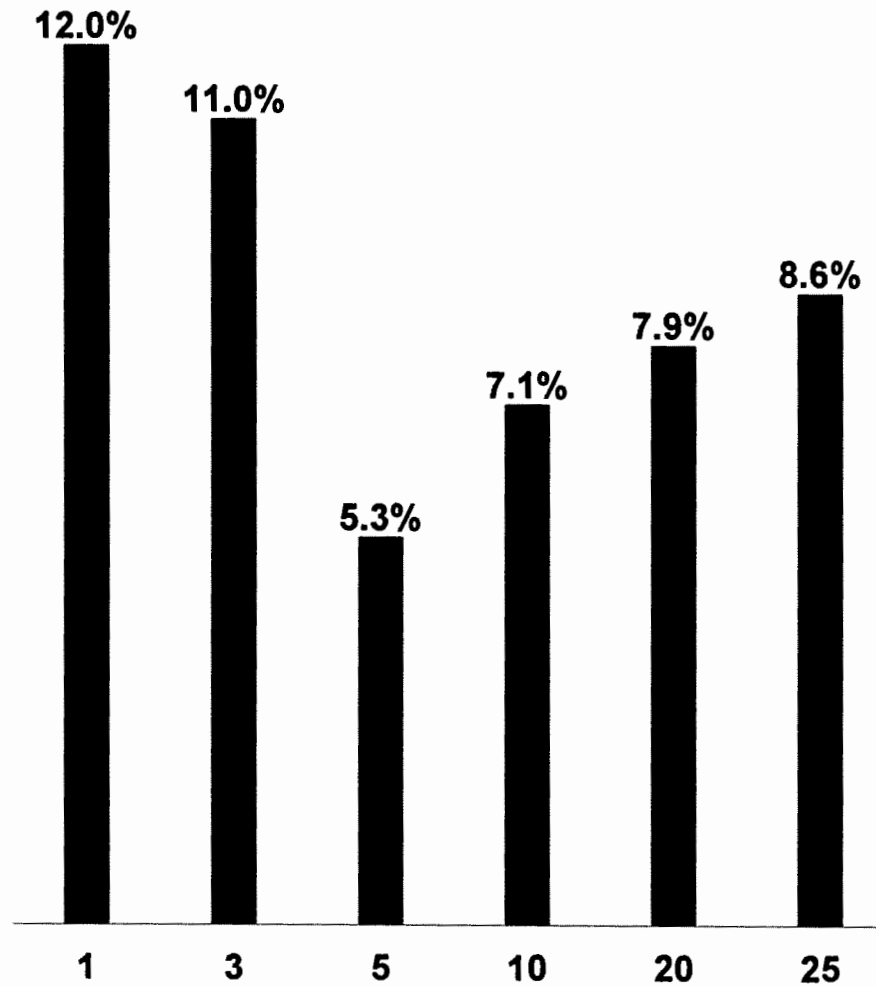
Average = 7.75%
NHRS = 7.25%



Public Fund Survey July 2013



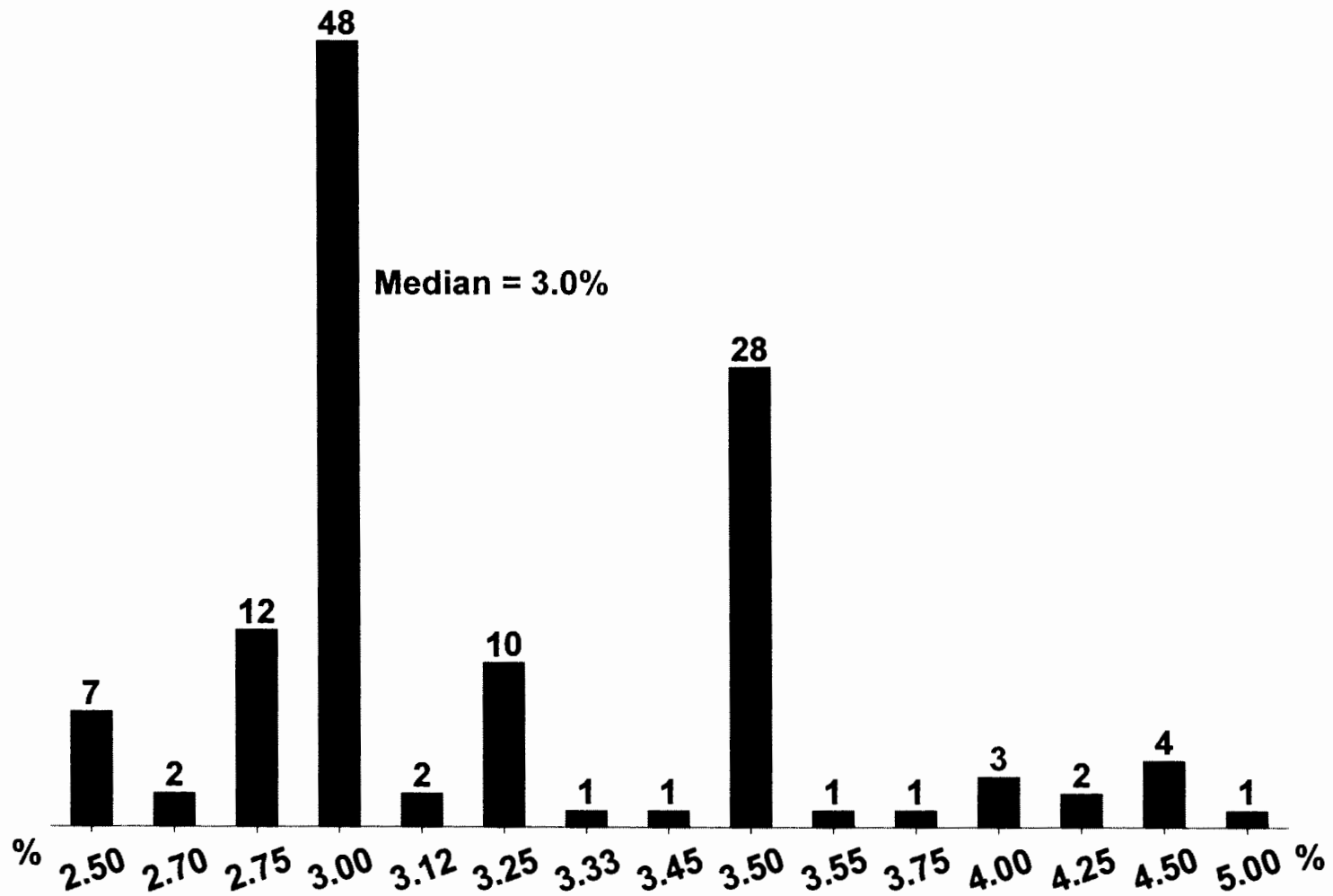
Median public pension investment returns for periods ended 6/30/13



Callan Associates

Years ended 06/30/13

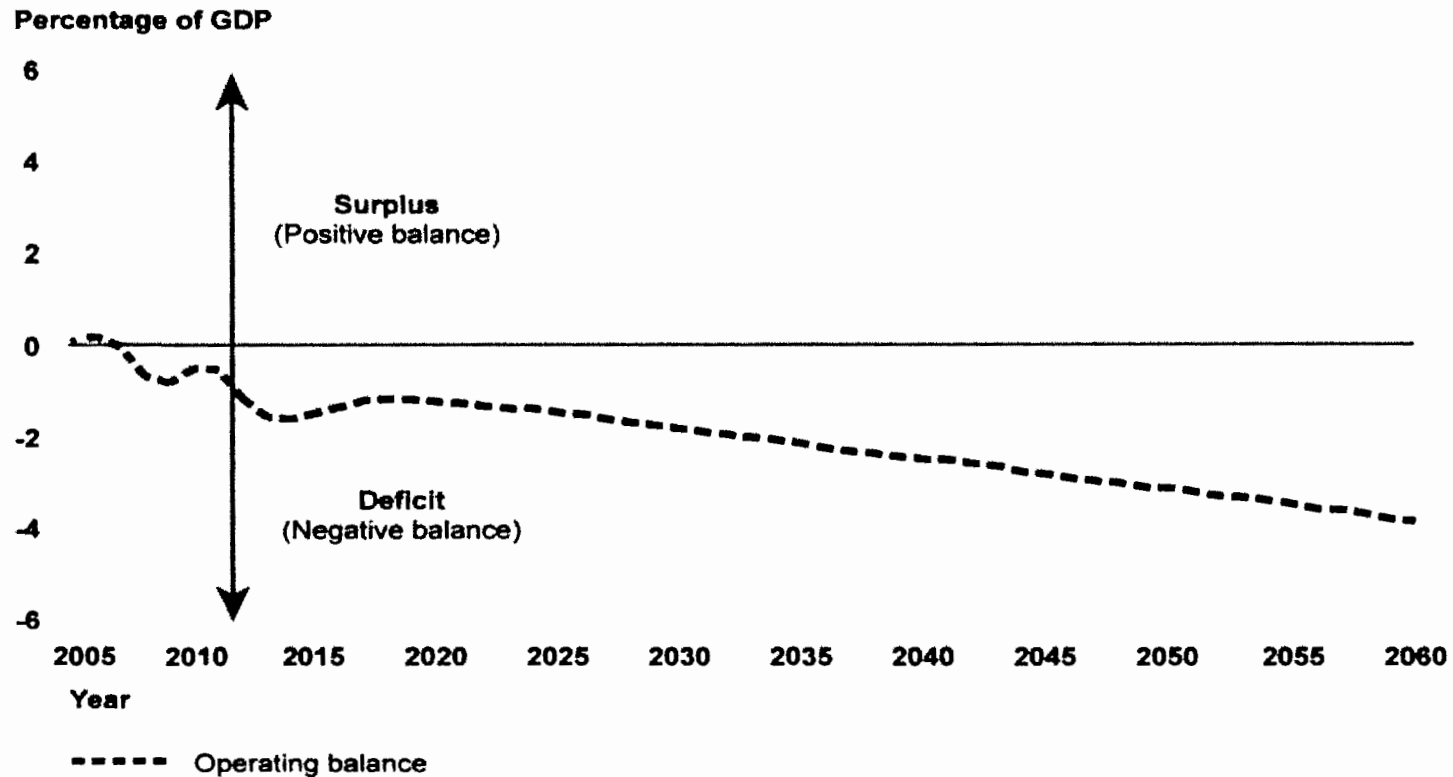
Distribution of current inflation assumptions



Public Fund Survey

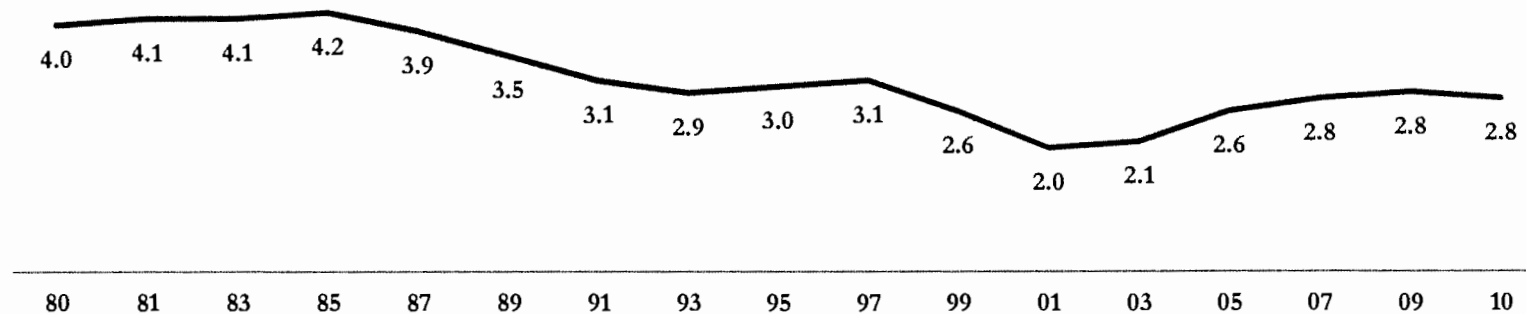
According to the Government Accountability Office, (GAO) the state and local government sector faces a long-term structural deficit that is projected to gradually worsen. The primary sources of this deficit are Medicaid and health care costs for retired public employees.

State and Local Operating Balance Measure,
as a Percentage of Gross Domestic Product (GDP)



Source: GAO simulations, updated April 2013.

Taxpayer spending on public pensions



U.S. Census Bureau

New Hampshire = 2.47%

- Not all state and local government spending is discretionary
- Percentage spending for local governments is generally higher than for states
- Spending will need to rise to 4% to 5% on a national basis, and much higher for some states, to eliminate unfunded liabilities.

Books, Budgets & Bonds: calculating and reporting public pension liabilities

- Until recently, there was one set of public pension calculations, performed pursuant to GASB
- Those numbers were recognized and used universally, by policymakers, to fund the plan, by bond rating agencies, auditors, and other stakeholders
- We are now witnessing the splintering of public pension liability calculations, based on different needs for different purposes

Calculating and reporting public pension liabilities (continued)

- To fill the void created by GASB's new standards, a coalition of national public sector groups has developed funding guidelines similar to previous GASB standards:
 - Designed to promote:
 - Cost stability and predictability
 - Intergenerational equity
 - Actuarially-determined costs
- Others, including actuaries, have developed funding guidelines

Calculating and reporting public pension liabilities (continued)

- GASB has established new standards for calculating and reporting public pension liabilities
- New calculations focus on accounting only
- New calculations do not inform public pension plan sponsors how much to contribute, or fund, the plan
- Public pensions are expected to calculate two sets of numbers: one to satisfy GASB requirements, another to inform policymakers of how much is needed to fund the plan
- Employers' unfunded liabilities will be placed on basic financial statements

Bond rating agencies and public pensions

- Moody's recently announced a new methodology for assessing public pensions:
 - Market value of assets (no smoothing)
 - Uniform 20-year amortization period
 - Risk-free discount rate (currently below four percent)
 - Proportional assignment of pension liabilities to employers (for cost-sharing plans)
 - Moody's: "Not intended as a funding number"
- Fitch is applying a uniform 7 percent discount rate, and may make changes in response to new GASB approach
- S&P has not changed its methodology post-GASB, but may do so

Understanding all those pension numbers

- Public retirement systems need to educate their stakeholders on the different pension calculations
- This includes trustees, employers, participants, and the media
- Different numbers are being calculated for different audiences and different purposes
- We need to guard against confusion and selective use

Public pension outlook

- Focus on reforms will continue
- More risk shifted to workers
- Public pension legal protections will continue to be tested and clarified
- Continued pressure to reduce investment return assumptions
- New and expanding methods for measuring pensions will cause confusion

**OCERS
Board of Retirement
Strategic Planning Workshop
September 19, 2013**

**Actuarial Considerations:
Member Contributions
and
Accelerated Funding of UAAL**

**Paul Angelo
The Segal Company
San Francisco**

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5270016v3



Agenda

- Development of Member Contributions
 - Annual Payoff Assumptions
 - Used in calculating employer rates (basic and COLA)
 - Not used in calculating basic member rates
 - Used in calculating COLA member rates

- Accelerated Funding of Unfunded Actuarial Accrued Liability (UAAL)
 - Option A – Immediate buy down of UAAL and associated UAAL contribution rates
 - Option B – Held back from UAAL and used to reduce UAAL payment period

Member Contributions: Annual Payoff Assumption

- Cash outs of accumulated annual leave, sick leave or compensatory time off
 - Used in benefit calculation as a result of OCERS' (and other 1937 CERL systems) settlement in Ventura Decision
 - Same for other 1937 CERL systems
 - Include in “compensation earnable” if earned and cashed out during final average salary measuring period
 - Only applicable to legacy (or non-CalPEPRA plans)
 - Specifically excluded by CalPEPRA for new members entering OCERS on/after January 1, 2013

Member Contributions: Annual Payoff Assumption

- After Ventura, new assumption for payoffs at retirement added to actuarial valuation
 - For payoffs greater than received during career
 - Increased actuarial accrued liability and (total) normal cost
 - Increased employer contribution rates

- No change in the CERL to address basic and COLA member contribution rates calculation for new Ventura pay elements
 - Some systems (including OCERS) continued to use same procedure to calculate member contribution rates

Member Contributions: Annual Payoff Assumption

- Assumptions used in developing basic member rates
 - Based on PARTIAL actuarial assumptions used in valuation
 - Salary increases, mortality, interest (discount rate)
 - » No disability or survivor benefits
 - Amount to fund percent of final pay at single retirement age
 - » Percent and age set in 1937 CERL

- Assumptions used in developing COLA member rates
 - Based on ALL actuarial assumptions used in valuation
 - Service retirement, disability retirement, survivor benefits, deferred retirement, withdrawal
 - Cost of COLA benefit is shared equally by member and the employer
 - » As required by 1937 CERL

Member Contributions: Annual Payoff Assumption

- After Ventura Decision, payoff assumption added to valuation
 - Increased COLA contribution rates for both employer and members – consistent with 1937 CERL
- Open question: should new payoff assumption be included in basic member rate calculation?
 - Many systems (including OCERS) did not; rationale:
 - Some of the plan's actuarial assumptions have always been excluded in developing basic member rates
 - Concern with overcharging categories of members with generally smaller levels of annual payoffs
 - Over time some systems added payoff assumption to basic member rate calculation

Member Contributions: Annual Payoff Assumption

➤ Impact of including annual payoffs in basic member rates

	Average Member Rate Before Adjustment to Basic Rate For Annual Payoffs	Average Member Rate After Adjustment to Basic Rate For Annual Payoffs	Increase in Average Member Rate
Rate Group #1 – Plans A, B and U (non-OCTA, non-OCSD)	8.93%	9.08%	0.15%
Rate Group #2 – Plans I, J, O, P, S, T and U	12.64%	12.83%	0.19%
Rate Group #3 – Plans B, G, H and U (Law Library, OCSD)	12.65%	12.83%	0.18%
Rate Group #5 – Plans A, B and U (OCTA)	9.72%	9.87%	0.15%
Rate Group #9 – Plans M, N and U (TCA)	10.83%	10.95%	0.12%
Rate Group #10 – Plans I, J, M, N and U (OCFA)	12.66%	12.85%	0.19%
Rate Group #11 – Plans M and N, future service, and U (Cemetery)	9.41%	9.46%	0.05%
Rate Group #6 – Plans E, F and V (Probation)	14.77%	14.98%	0.21%
Rate Group #7 – Plans E, F, Q, R and V (Law Enforcement)	15.63%	15.97%	0.34%
Rate Group #8 – Plans E, F, Q, R and V (Fire Authority)	14.44%	14.57%	0.13%



Informational Discussion Only

(No Board Action will be Taken)

Accelerated Funding of Unfunded Actuarial Accrued Liability (UAAL)

➤ Two options

- Option A – Immediate buy down of UAAL and associated UAAL contribution rates
 - Illustration using results prepared for OCTA
- Option B – Additional contribution held back from UAAL and used in later years to reduce UAAL payment period
 - Requires an account similar to County Investment Account
 - Illustration using results prepared for OCFA
- Special case: Employer pays off entire UAAL
 - Illustration using results prepared for Cemetery District
- Special case: Reamortize UAAL over a single period and increase contribution to shorten that period
 - Illustration using results prepared for OCFA

Accelerated Funding of UAAL

- Option A – immediate buy down of UAAL and UAAL rates
 - Illustration using results prepared for OCTA
 - Hypothetical \$10m additional contributions made on 6/30/14
 - » Discounted value of \$9,003,000 on 12/31/12
 - Three Alternatives
 - Alt. 1: Apply additional contributions over 15 years
 - » Considered current policy since contribution is a “gain”
 - Alt. 2: Apply additional contributions in proportion to all UAAL layers
 - » Currently longer than 15 years based on amortization layers for OCTA
 - » Smaller immediate contribution relief than Alt. 1
 - Alt. 3: Apply additional contributions to shortest UAAL layers
 - » Larger immediate contribution relief than Alt. 1

Accelerated Funding of UAAL

➤ Amortization schedule for OCTA before additional contributions

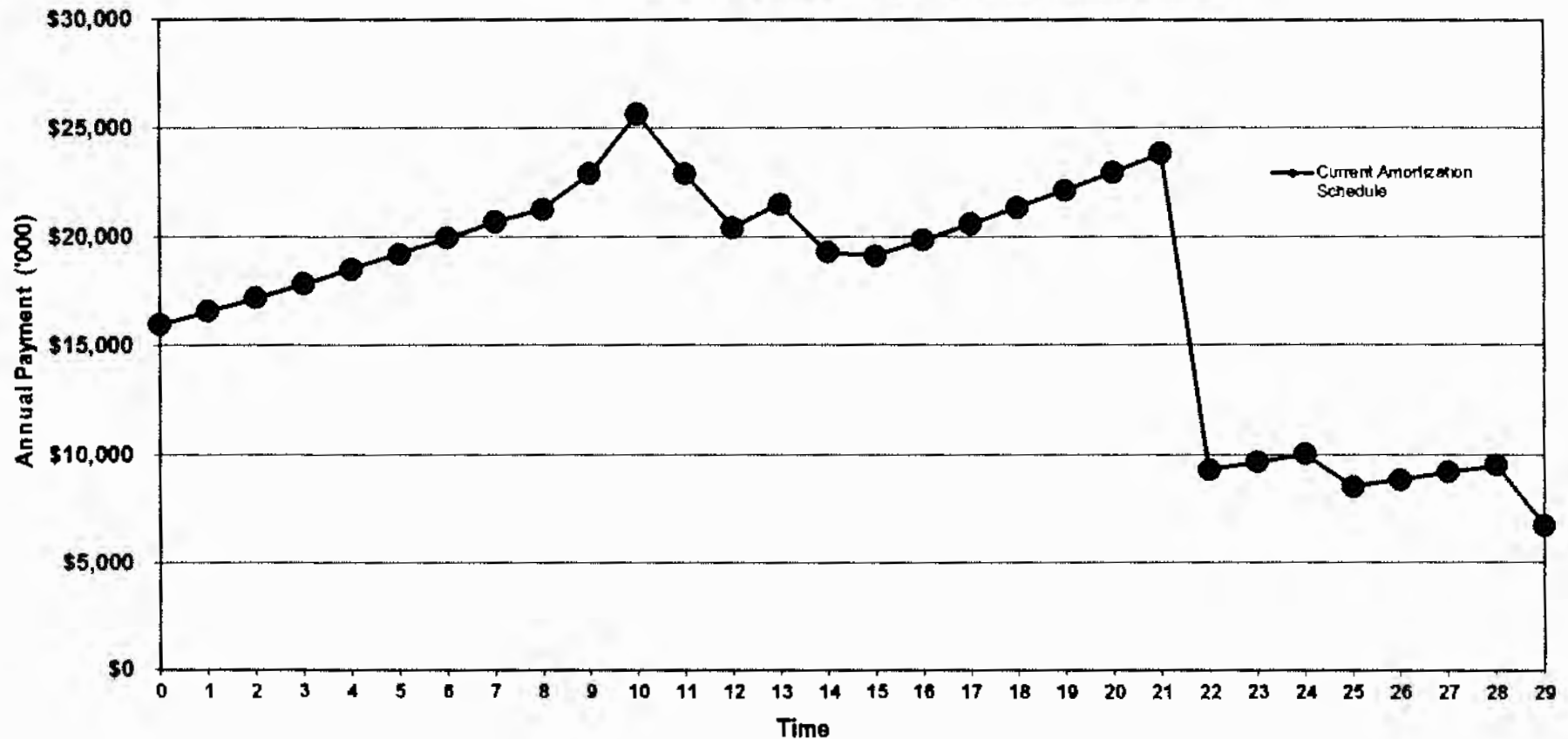
UAAL Amortization Schedule as of December 31, 2012 under Current Amortization Schedule Before Considering any Additional UAAL Contributions

Date Established	Source	Initial Base	Years Remaining	Remaining Base	Amortization Amount Base
12/31/2004	Restart amortization	\$70,302,000	22	\$77,577,000	\$5,075,000
12/31/2005	Actuarial (gain) or loss	1,340,000	8	1,036,000	151,000
12/31/2006	Actuarial (gain) or loss	(5,778,000)	9	(4,762,000)	(625,000)
12/31/2007	Actuarial (gain) or loss	(12,467,000)	10	(10,825,000)	(1,299,000)
12/31/2007	Assumption change	11,504,000	25	12,364,000	743,000
12/31/2008	Actuarial (gain) or loss	24,594,000	11	22,275,000	2,469,000
12/31/2009	Inclusion of Premium Pay	26,400,000	22	27,105,000	1,773,000
12/31/2009	Actuarial (gain) or loss	22,306,000	12	20,902,000	2,157,000
12/31/2010	Reallocation of assets	95,000	22	97,000	6,000
12/31/2010	Actuarial (gain) or loss	(2,073,000)	13	(1,996,000)	(193,000)
12/31/2011	Actuarial (gain) or loss	20,064,000	14	19,737,000	1,800,000
12/31/2011	Assumption change	19,530,000	29	19,859,000	1,089,000
12/31/2012	Actuarial (gain) or loss	5,904,000	15	5,904,000	510,000
12/31/2012	Assumption change	42,963,000	30	<u>42,963,000</u>	<u>2,310,000</u>
				\$232,236,000	\$15,966,000

Accelerated Funding of UAAL

- Projected future UAAL contributions for OCTA before additional contributions

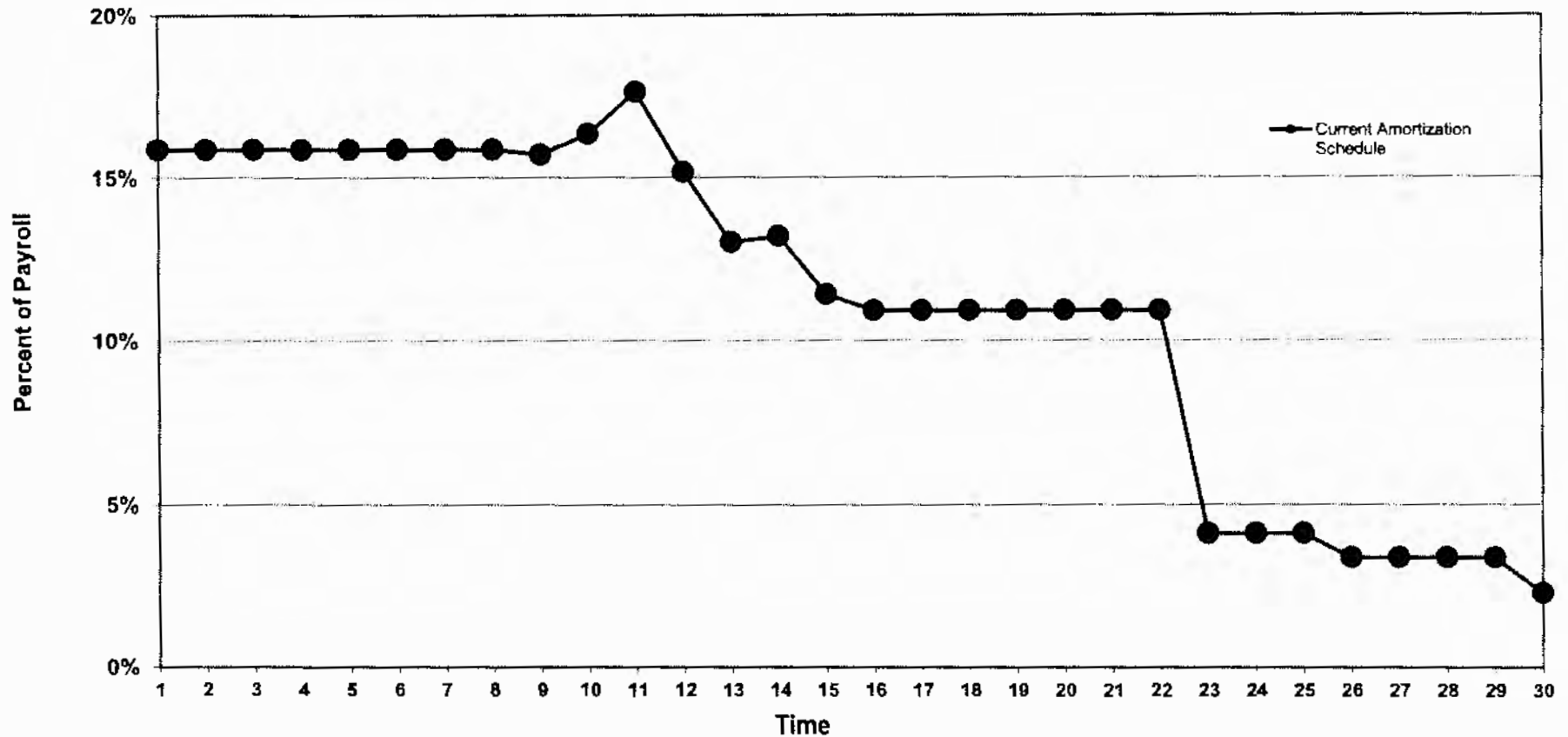
Annual UAAL Payments for OCTA Under Current Amortization Schedule
Before Considering Any Additional UAAL Contributions
(Payments Starting with Year Following the December 31, 2012 Valuation)



Accelerated Funding of UAAL

- Projected future UAAL contributions for OCTA before additional contributions – percentage of pay

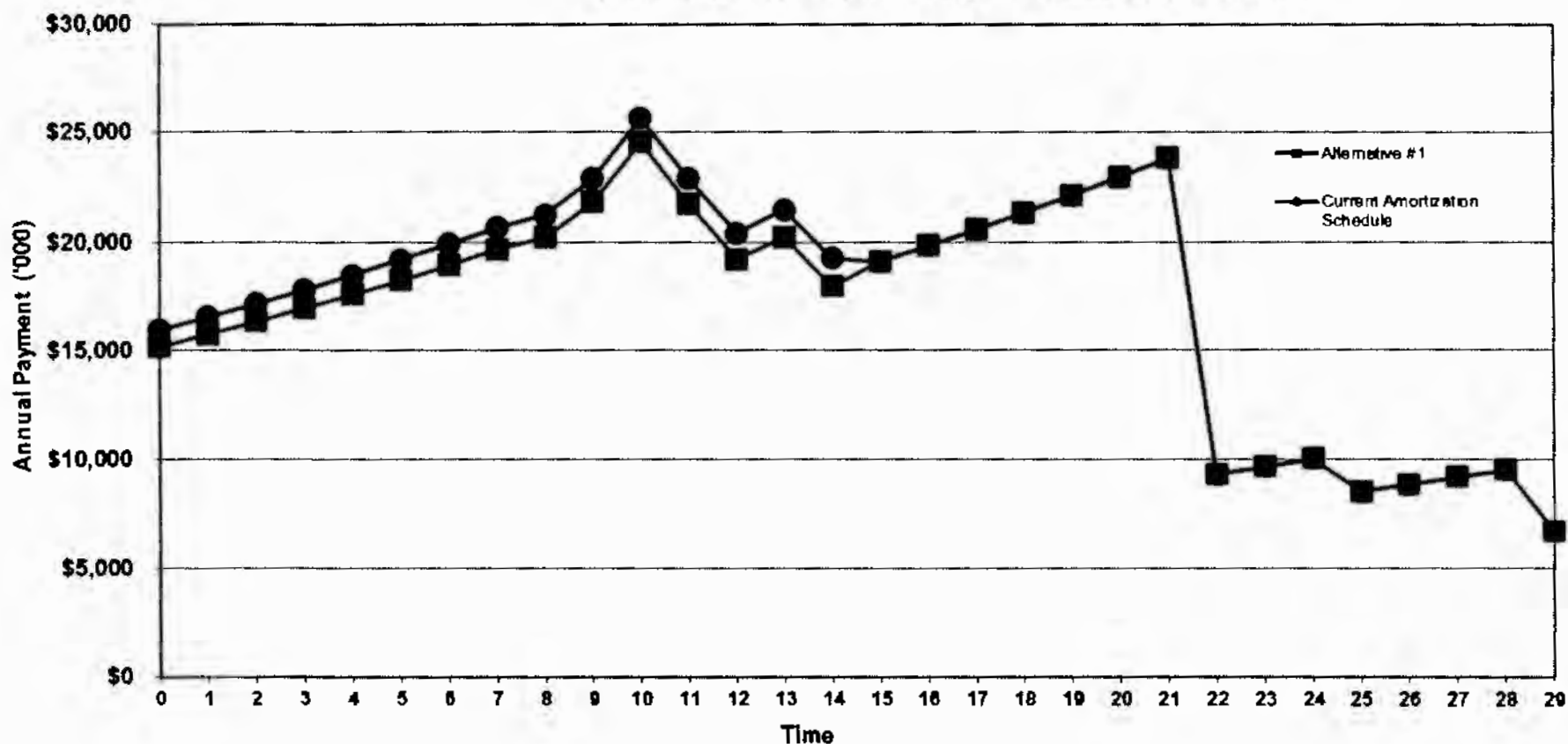
Comparison of Annual UAAL Payments as a Percent of Payroll for OCTA Under Current Amortization Schedule
(Payments Starting with Year Following the December 31, 2012 Valuation)



Accelerated Funding of UAAL

➤ Alt. 1 - Apply \$10m additional contributions over 15 years

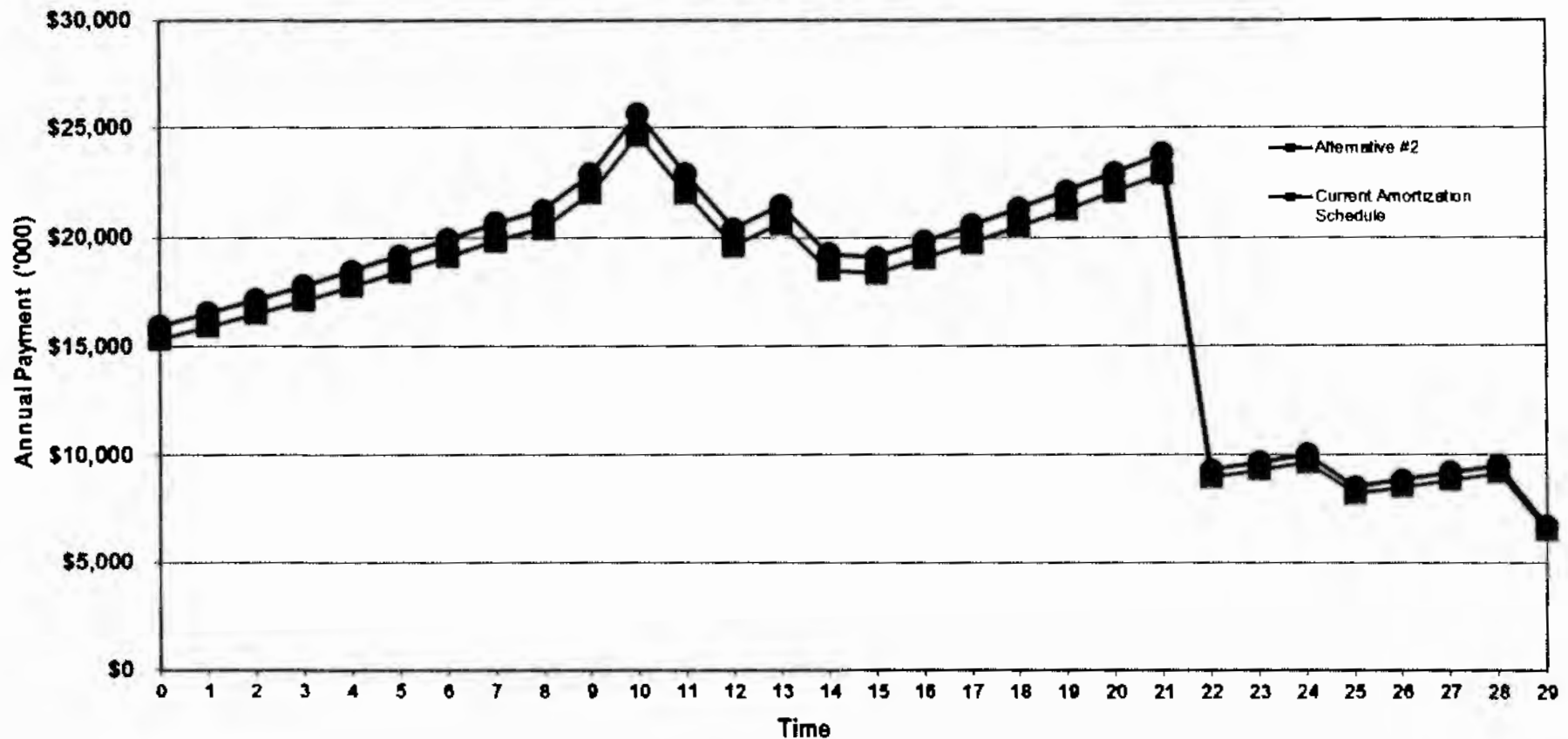
Comparison of Annual UAAL Payments for OCTA Under Current Amortization Schedule
With UAAL Payments After Additional Contributions Under Alternative One
(Payments Starting with Year Following the December 31, 2012 Valuation)



Accelerated Funding of UAAL

- Alt. 2 - Apply \$10m additional contributions in proportion to all UAAL layers

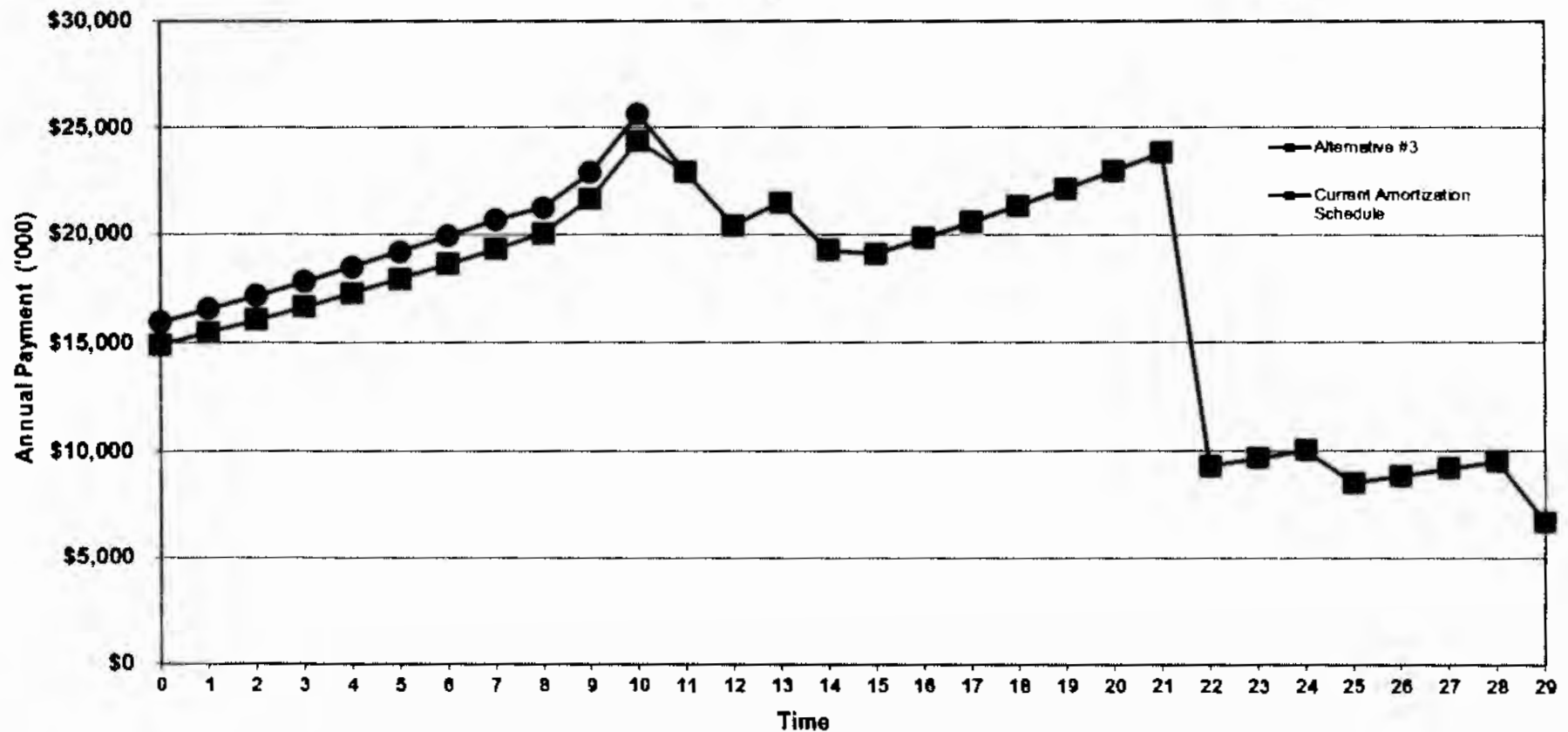
Comparison of Annual UAAL Payments for OCTA Under Current Amortization Schedule With UAAL Payments After Additional Contributions Under Alternative Two (Payments Starting with Year Following the December 31, 2012 Valuation)



Accelerated Funding of UAAL

- Alt. 3 - Apply \$10m additional contributions over shortest UAAL layers

Comparison of Annual UAAL Payments for OCTA Under Current Amortization Schedule
With UAAL Payments After Additional Contributions Under Alternative Three
(Payments Starting with Year Following the December 31, 2012 Valuation)



Accelerated Funding of UAAL

- Alt. 3 - Apply \$10m additional contributions over shortest UAAL layers (OCTA)

UAAL Amortization Schedule as of December 31, 2012 under Alternative Three

Date Established	Source	Initial Base	Years Remaining	Remaining Base (before addl \$10M)	Amortization Amount Base (before addl \$10M)	Remaining Base (after addl \$10M)	Amortization Amount Base (after addl \$10M)
12/31/2004	Restart amortization	\$70,302,000	22	\$77,577,000	\$5,075,000	\$77,577,000	\$5,075,000
12/31/2005	Actuarial (gain) or loss	1,340,000	8	1,036,000	151,000	0	0
12/31/2006	Actuarial (gain) or loss	(5,778,000)	9	(4,762,000)	(625,000)	(4,762,000)	(625,000)
12/31/2007	Actuarial (gain) or loss	(12,467,000)	10	(10,825,000)	(1,299,000)	(10,825,000)	(1,299,000)
12/31/2007	Assumption change	11,504,000	25	12,364,000	743,000	12,364,000	743,000
12/31/2008	Actuarial (gain) or loss	24,594,000	11	22,275,000	2,469,000	14,308,000	1,586,000
12/31/2009	Inclusion of Premium Pay	26,400,000	22	27,105,000	1,773,000	27,105,000	1,773,000
12/31/2009	Actuarial (gain) or loss	22,306,000	12	20,902,000	2,157,000	20,902,000	2,157,000
12/31/2010	Reallocation of assets	95,000	22	97,000	6,000	97,000	6,000
12/31/2010	Actuarial (gain) or loss	(2,073,000)	13	(1,996,000)	(193,000)	(1,996,000)	(193,000)
12/31/2011	Actuarial (gain) or loss	20,064,000	14	19,737,000	1,800,000	19,737,000	1,800,000
12/31/2011	Assumption change	19,530,000	29	19,859,000	1,089,000	19,859,000	1,089,000
12/31/2012	Actuarial (gain) or loss	5,904,000	15	5,904,000	510,000	5,904,000	510,000
12/31/2012	Assumption change	42,963,000	30	<u>42,963,000</u>	<u>2,310,000</u>	<u>42,963,000</u>	<u>2,310,000</u>
				\$232,236,000	\$15,966,000	\$223,233,000	\$14,932,000

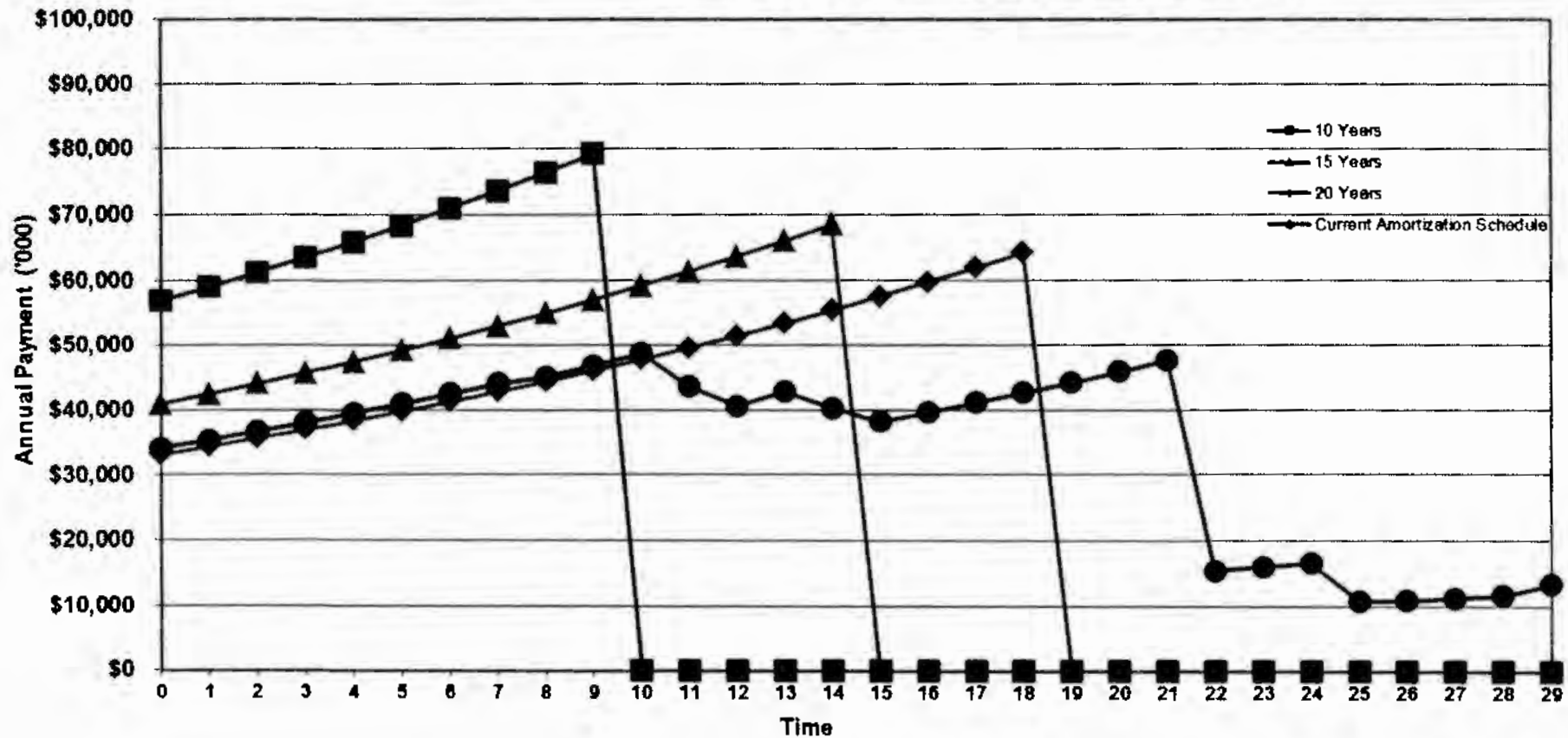
Accelerated Funding of UAAL

- Option B – Additional contribution held back from UAAL and used in later years to reduce UAAL payment period
 - Illustration using results prepared for OCFA
 - OCFA Scenario #2 - \$1m in year 1, \$2m in year 2, through \$10m in year 10
 - » No UAAL contributions after 21 years
 - OCFA Scenario #3 - \$2m in year 1, \$2m in year 2, etc.
 - » No UAAL contributions after 22 years
- OCFA Scenario #1 – Reduce period to 20, 15 or 10 years
 - First must re-amortize UAAL over 20, 15 or 10 years
 - Shows differences between current layered amortization and single layer restart of UAAL amortization

Accelerated Funding of UAAL

➤ Scenario #1 – 20, 15 and 10 years amortization of UAAL

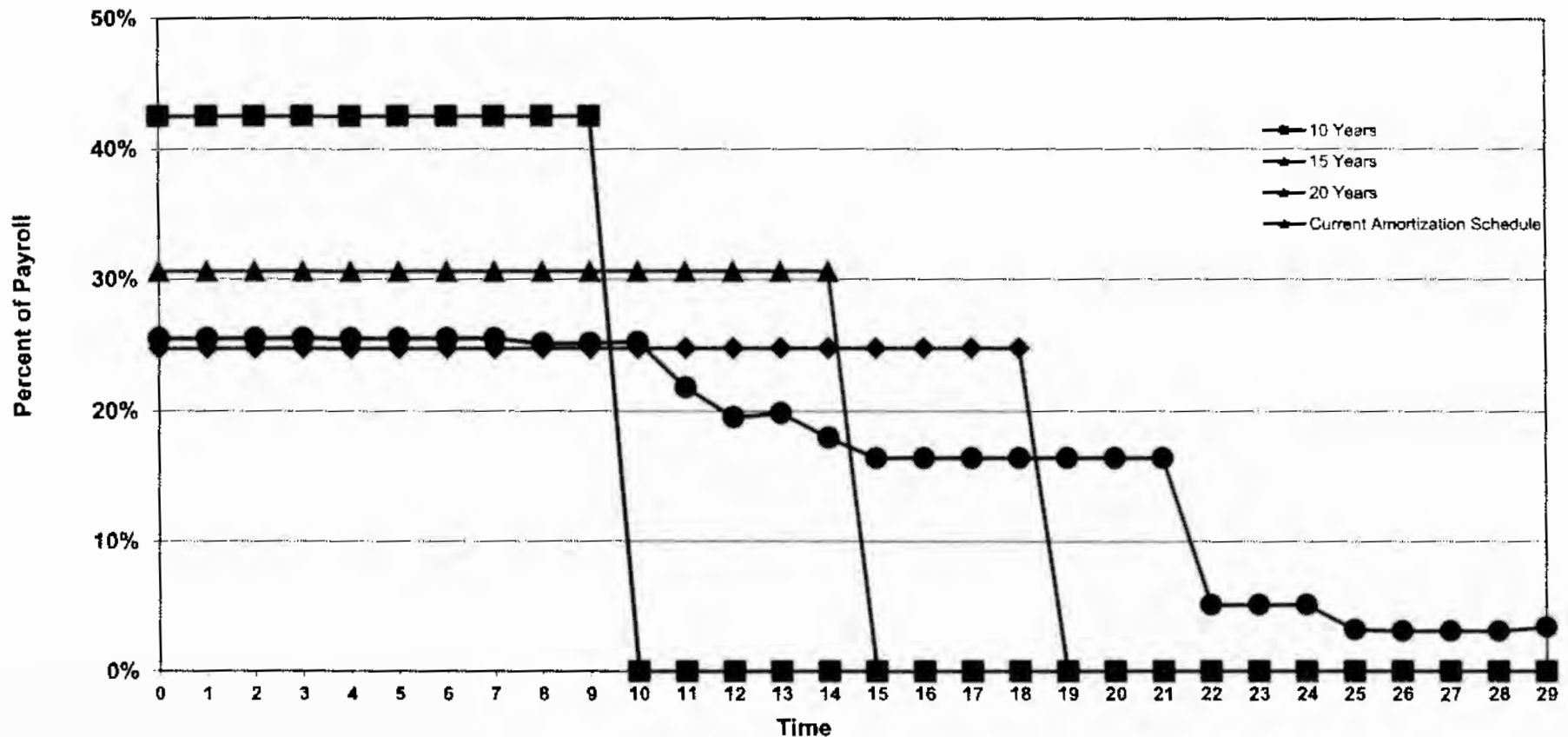
Comparison of Annual UAAL Payments for OCFA Under Current Amortization Schedule and Alternative Single Amortization Periods Under Scenario #1
(Payments Starting with Year Following the December 31, 2012 Valuation)



Accelerated Funding of UAAL

➤ Scenario #1 – 20, 15 and 10 years amortization of UAAL - percentage of pay

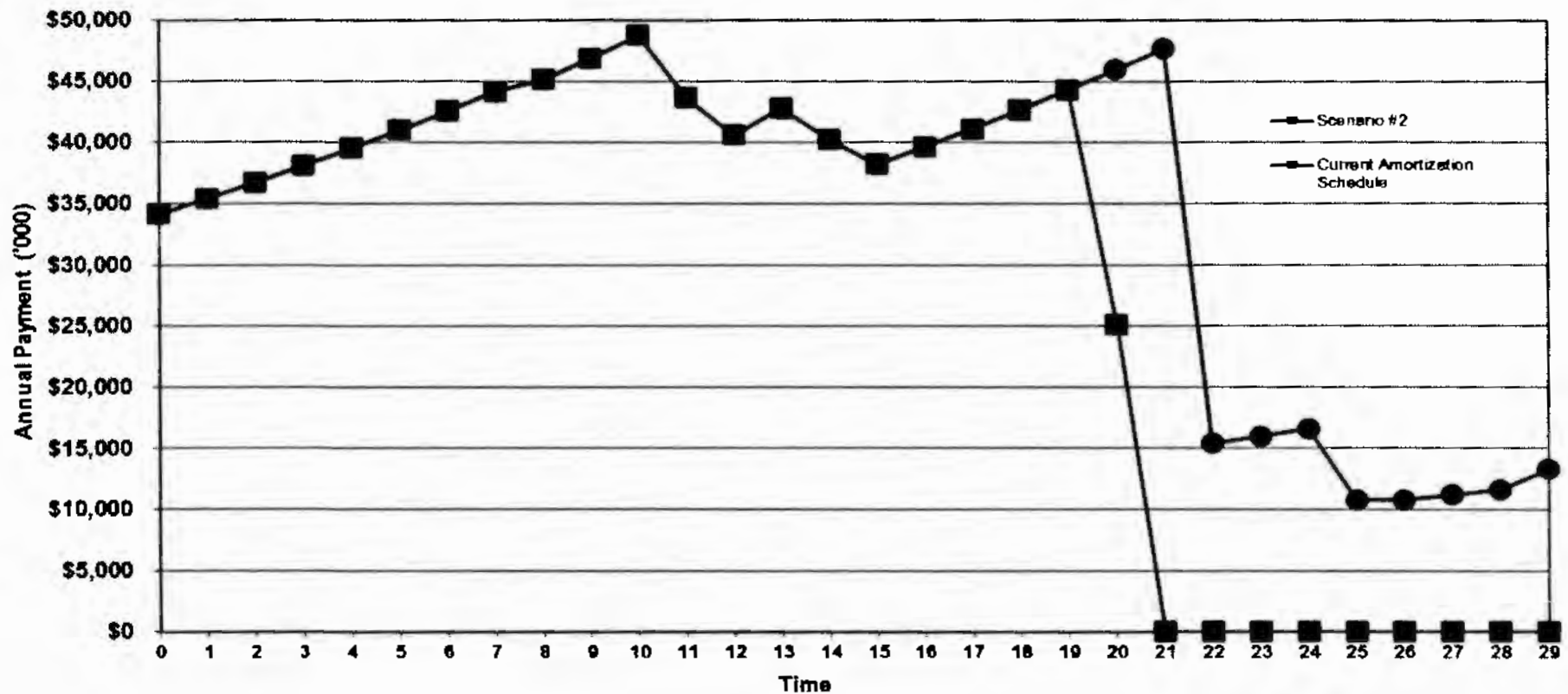
Comparison of Annual UAAL Payments as a Percent of Payroll for OCFA Under Current Amortization Schedule and Alternative Single Amortization Periods Under Scenario #1
(Payments Starting with Year Following the December 31, 2012 Valuation)



Accelerated Funding of UAAL

- Scenario #2 – \$1m in year 1, \$2m in year 2, ..., \$10m in year 10, applied at the end of the schedule

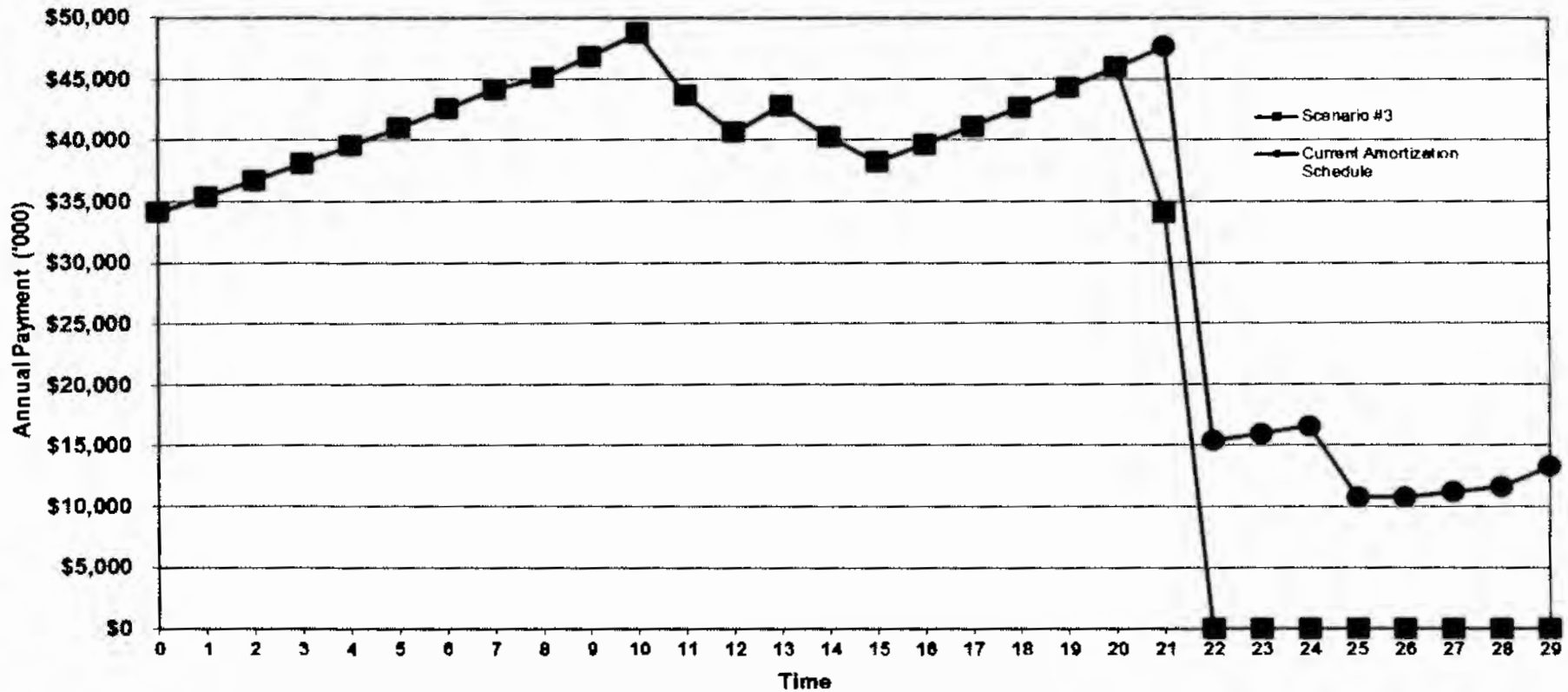
Comparison of Annual UAAL Payments for OCFA Under Current Amortization Schedule
With UAAL Payments After Additional Contributions Under Scenario #2
(Payments Starting with Year Following the December 31, 2012 Valuation)



Accelerated Funding of UAAL

- Scenario #3 – \$2m in year 1, \$2m in year 2, etc., applied at the end of the schedule

Comparison of Annual UAAL Payments for OCFA Under Current Amortization Schedule
With UAAL Payments After Additional Contributions Under Scenario #3
(Payments Starting with Year Following the December 31, 2012 Valuation)



Accelerated Funding of UAAL

- Special Case – employer pays off entire UAAL
 - Illustration using results prepared for Cemetery District
 - UAAL amount is \$1,981,000 as of 12/31/12
 - » actual payment required determined with interest adjustment and adjustment for 18-month delay between UAAL rate calculation and rate implementation
 - » If made prior to 6/30/14, employer's contribution reduces to Normal Cost rate only for 2014/2015
 - New UAAL (positive or negative) in future valuations
 - » Positive UAAL requires resumption of UAAL contributions
 - » Negative UAAL (Surplus) allows actual employer contribution less than Normal Cost rate
 - › Under CalPEPRA, only if funded ratio >120%



Informational Discussion Only

(No Board Action will be Taken)



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

September 16, 2013

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

Re: Application of Annual Payoff Assumptions in the Development of Member Contribution Rates

Dear Steve:

As part of our discussions with the Board regarding actuarial funding policy, we listed several long-standing practices (including cost sharing structure) at OCERS that are followed by Segal (and OCERS' prior actuary) in developing the contribution rates in the actuarial valuation.

As we have indicated during those discussions, we have also been following the same method used by the prior actuary (presumably applied by them since OCERS' settlement in the Ventura Decision) to reflect annual payoffs at retirement when establishing member contribution rates. For this discussion, "annual payoffs" refer to the cashing out of accumulated annual leave, sick leave or compensatory time off both earned and available to be cashed out during the final average salary measuring period. The method used to reflect annual payoffs in determining member rates as well as employer rates is described in this letter.

Background

As a result of OCERS' Ventura Settlement, members in the current legacy plans¹ may use cashout from their time-off programs during the final salary averaging period (one-year for Tier 1 and three-year for Tier 2) to enhance the amount of compensation earnable for use in determining retirement benefits.

While there are separate and specific procedures outlined in the County Employees Retirement Law (CERL) of 1937 that public plan actuaries have followed in determining member's basic and COLA contribution rates, those procedures were not modified by the legislature after the Ventura Decision to clarify how elements of salary that emerge primarily during the final salary

¹ Note that as a result of the passage of the California Public Employees' Pension Reform Act of 2013 (CalPEPRA), annual payoffs would no longer be considered in determining pensionable compensation for members covered by the CalPEPRA plans.

averaging period immediately preceding retirement should be treated in determining member basic and COLA contribution rates. As a result, some retirement systems that entered into settlement agreements (including OCERS) have continued to follow the same procedures used before the Ventura Settlement Agreement to establish member's basic and COLA contribution rates. Those procedures are detailed in Attachment A of this letter.

As discussed in Attachment A, actuarial assumptions as to expected annual payoff amounts are applied in developing employer contribution rates (basic and COLA) as well as the members' COLA contribution rates. However, the annual payoff assumptions are not applied in developing member's basic contribution rates. Again, a more detailed discussion of all the assumptions that apply in the development of each of the basic and COLA member rates is provided in Attachment A.

It is our recollection that this difference in treatment for the annual payoff assumptions originated from informal discussions among public plan actuaries shortly after the Ventura Decision, as well as discussions between those actuaries and their client systems. During those discussions, concerns were expressed that it might not be equitable to apply the same aggregate plan based annual payoff assumptions used in developing employer rates when calculating the individual entry age based basic member rates.

One consideration was that female members might reach retirement with lower levels of accumulated leave as compared to male members. Another consideration was that members entering at younger ages could have more service at retirement and so might have higher cashout at retirement. These considerations are not a concern when setting the employer rates where average experience is pooled across all members. However, basing the basic member rates on average annual payoff experience would potentially overcharge categories of members with generally smaller levels of annual payoffs.

As a result, the annual payoff assumptions were not applied in developing the basic member rates at some 1937 Act systems. Note that (as detailed in Appendix A) even for these systems member COLA rates did reflect the annual payoff assumptions because, under the 1937 CERL, they are based on the employer COLA rates.

It is our understanding that since the Ventura Decision many 1937 CERL systems that originally excluded the annual payoff assumptions from the basic member rate calculation now include that assumption. To our knowledge systems that continue to exclude this assumption include OCERS and CCCERA.

Impact of Extending Annual Payoff Assumptions to Develop Basic Member Rates


If the same annual payoff assumptions used in developing the employer rates and the COLA member rates were applied in developing the basic member rates, it would result in an increase in the member rates and a comparable decrease in the employer rates after adjusting the employer rates for refundability.

A comparison of the average member contribution rates developed in the December 31, 2012 valuation before and after this adjustment is provided in the table below:

	Average Member Rate Before Adjustment to Basic Rate For Annual Payoffs	Average Member Rate After Adjustment to Basic Rate For Annual Payoffs	Increase in Average Member Rate
Rate Group #1 – Plans A, B and U (non-OCTA, non-OCSD)	8.93%	9.08%	0.15%
Rate Group #2 – Plans I, J, O, P, S, T and U	12.64%	12.83%	0.19%
Rate Group #3 – Plans B, G, H and U (Law Library, OCSD)	12.65%	12.83%	0.18%
Rate Group #5 – Plans A, B and U (OCTA)	9.72%	9.87%	0.15%
Rate Group #9 – Plans M, N and U (TCA)	10.83%	10.95%	0.12%
Rate Group #10 – Plans I, J, M, N and U (OCFA)	12.66%	12.85%	0.19%
Rate Group #11 – Plans M and N, future service, and U (Cemetery)	9.41%	9.46%	0.05%
Rate Group #6 – Plans E, F and V (Probation)	14.77%	14.98%	0.21%
Rate Group #7 – Plans E, F, Q, R and V (Law Enforcement)	15.63%	15.97%	0.34%
Rate Group #8 – Plans E, F, Q, R and V (Fire Authority)	14.44%	14.57%	0.13%

Please let us know if you have any comments or questions, and look forward to discussing this issue with the Board.

Sincerely,



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



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

MYM/gxk
Enclosure

cc: Julie Wyne
Brenda Shott

Attachment A

Detailed Discussion on Development of Member Basic and Member COLA Contribution Rates

Member Basic Contribution Rate

The member's basic contribution rate is calculated to fund the present value of a specified percent of final average salary at a specified age.

The present value is calculated assuming level benefit (i.e., no COLA) payable over a member's lifetime only (i.e., it excludes the 60% automatic continuance payable to an eligible spouse/domestic partner). Both the percent and age are specified for each retirement benefit formula. For instance, for General members covered under the 2.7% at 55 benefit formula (Plans I and J), member basic contribution rates are calculated to fund the present value of a benefit equal to 1% of one-year average salary (for Plan I) or three-year average salary (for Plan J) per year of service assuming that the benefit would be paid commencing at age 55.

Under the current procedure, the following actuarial assumptions are used to calculate member's basic rate:

- Salary increase assumption to project the change in compensation from entry age to the specified age
- Mortality assumption used for service retiree to estimate how long the benefit would be paid to a member at the specified benefit commencement age
- Investment return assumption to calculate the present value of the future benefit and the present value of the future salary in determining the contribution rate

In addition to the partial set of actuarial assumptions described above for calculating the member basic rate, the following experience based actuarial assumptions are included in the valuation to determine the total basic contribution rate (and hence the net employer's basic contribution rate because that rate is just the difference between the total rate and the member rate):

- Probability of a member with a spouse/domestic partner eligible for an automatic continuance benefit
- Probability of a member either dying, terminating, or becoming disabled and receiving benefits specific to those events
- Probability of service retirement (this is different from the specified benefit commencement age used in developing the member's basic rate because the probability of service retirement has been developed based on the experience of members retiring at various actual retirement ages).

- Level of annual payoffs observed at service and disability retirement and has been developed based on the experience of members retiring at actual retirement ages

As can be observed from the above discussions, the last four actuarial assumptions are only used in developing the employer's basic rate. In particular, the annual payoffs assumption developed using the experience observed at the actual retirement ages is not used in developing the member's basic rate.

Member COLA Contribution Rate

The member's COLA contribution rate is calculated so that the cost to provide a COLA benefit is "shared equally between the county or district and the contributing members" as described in Section 31873 of the CERL.

Based on this definition, the member's COLA contribution rates are calculated taking into account the level of the annual COLA benefit plus the full set of actuarial assumptions described above for use in setting the total basic contribution rates. In particular, the actual retirement ages and the annual payoffs assumption developed observed at those ages are used in developing both the member and the employer's COLA rates.

While not every retirement system under the CERL had entered into a Settlement Agreement, we are aware of one other retirement system that has followed these same procedures in setting member basic and COLA contribution rates. For another system that had entered into a Settlement Agreement, they originally used the same procedures as described above but amended their procedures so that the terminal pay assumption observed at the actual retirement ages is applied (unchanged) in developing member basic contribution rates at the specified age.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

MEMORANDUM

DATE: September 16, 2013
TO: Members of the Board of Retirement
FROM: Steve Delaney, Chief Executive Officer
SUBJECT: QUESTIONS FOR THE OCERS' ACTUARY

To the members of the OCERS Board of Retirement,

In preparation for the November 18 OCERS Board's administrative meeting, which we anticipate to include a review of the Actuarial Funding Policy, specifically the Amortization Periods, as well as a review of OCERS' current Assumed Earnings Rate, I have been fielding a number of questions from various Board members.

More than one member of the Board has asked that I share the questions posed to-date, as they may help other Trustees in forming their own questions or queries. Below you will find a list of the questions posed, and in some cases, the initial response from Segal as to how they will approach crafting a response.

I have asked Mr. Angelo to review this list with the full Board this Thursday, when he is participating in the Strategic Planning Workshop. This will give Mr. Angelo an opportunity to pose some clarifying questions directly to those of you who have requested preparation of additional data.

QUESTIONS POSED IN PREPARATION FOR NOVEMBER 18

From Mr. Flanigan:

Ask SEGAL if they could estimate what the OCERS FUNDING level would be at an expected return on Investments of 6-6.5% over the longer term [say 10 years].

From Mr.Hilton:

I would like to know the impacts of a shorter amortization period of 20 years for current UAAL (\$4,741.1 million), including the 12/31/12 \$931.6 million assumption changes. I would direct you to slide 25 of your June 19, 2013 Board presentation for reference.

- Looking at the slide it would appear the employer rate would be reduced by -0.4% by going to a 20 year amortization period. Correct so far?
- Would it be appropriate to “restart” the amortization layers to a fixed and declining 20 year period? Are there any “drawbacks” and/or benefits from restarting or combining the amortization layers?
- By amortizing the current UAAL including the assumption changes for a 20 year period, would it create less negative amortization than the current structure (including assumption changes)? Is it possible to give an estimate on the amount of savings in dollars?
- Using the information and same market rate return scenarios as stated in the August 30, 2013 letter, can you give a 15 year illustration of employer contributions rates after December 31, 2012 for the above 20 year amortization period? I would request only the aggregate information similar to page 1 and 5 of the letter.

From Mr. Lindholm:

Items that would be helpful for the board meeting if we are to revisit the amortization.

- In the Actuarial Valuation, pg 70 the assumed payroll growth rate is 3.75%. The graph, slide 16 of the Actuarial Funding Policy is based on the 3.75%. Lets have Segal run it with the actual 2.9% number, I’m afraid this will make a significant difference in the curves.
- Slide 13 of the Policy gives an illustration of the amortization costs for different periods. We know the UAAL caused by the assumption rate

change is \$935 Million, let's run the actual numbers with that number. In other words we can tell exactly what our interest cost total is for 15, 20, 25, and 30 years. Let's also add 18 years as that was suggested by other systems as the one that didn't create negative amortization.

- With the \$935 Million we can also identify the points on the negative amortization slide 16 so what is the peak that it grows to with the different amortization periods. In other words in year 13 what has the \$935 Million grown to if you use 30 year amortization and what is the peak for 25 years, etc.
- It was stated that it would only cost \$15 Million more a year to save almost \$1 Billion in interest payments. \$7.5 Billion would save ½ Billion etc. Let's get the actual additional cost each year to associate with the savings created.
- Let's have them add a slide that has the info for other clients like Janet Nguyen requested and was presented a couple months ago. There were several 18's as that was the number that didn't create negative amortization.
- While they are at it let's compare level percent of pay vs. level dollar. They do this for 30 year level dollar but let's add 20 and 25 and put numbers, again with the \$935 Million to it!

In response to this list, I provided Mr. Lindholm with some feedback from Segal:

I've asked Paul to be ready to go through the basic core presentation that Andy had shared with us back in July, as by November many will have forgotten what the issues under consideration might be.

Regarding your Item #1 [ABOVE], Segal would prefer to make a verbal response while reviewing that slide, saying in essence "While this shows the payroll growth rate at 3.75%, we have been asked to comment on the impact of showing an actual payroll growth rate of 2.9% on the curves reflected here." Paul is concerned with putting in print, something that they fundamentally disagree with – that is, looking at short term actual vs. long term assumptions.

They will have expanded slides, charts, and in some cases accompanying appendices (where it would be too much data to put on a slide) to respond to all of your other requests [ABOVE]

AN ADDITIONAL QUESTION FROM Mr. LINDHOLM with a SEGAL RESPONSE

- Paul spent quite a bit of time talking about amortization under the Percent Of Pay scenario. That takes into account number of participants as well as future raises.

Can we get Paul to remind us what those assumptions are and chart our actual metrics against the assumptions for the last 10 years? Like the "New Normal" if we don't have the anticipated wage changes or growth it will have a disastrous effect on paying off UAAL with this method!

In response to this question, I provided Mr. Lindholm with some feedback from Segal:

Paul Angelo will do the 10 year history as you request, and specifically to the concern over using Percent of Pay when salaries aren't growing, he offered to use the "San Jose" Option. Seems there was a Board member there who had your same concern, and they ended up using an "either or outcome" - if salaries are growing, its Percent of Pay, but a Level Fee option is also calculated, and can be used in those years when salaries are stagnant.

ADDITIONAL QUESTIONS FROM Mr. LINDHOLM:

- Can we have Segal get us a chart reflecting the last 10 years average return going back 10 years, i.e. 1995 thru 2004, then 1996 thru 2005, up to now. I know the current 9 year average is 6.28%, maybe we need to go to 7%?
- Could we get a chart from Segal of the UAAL trends since 2000 or 2004 when they started by rate group? What I'm wondering if Sheriff has grown much faster than the others with only a 5% contribution. The chart should show last year for them at \$988M

- Paul Angelo mentioned too short of amortization causes volatility, can we have them talk about experiences and clients that have gone to ARSL type amortizations or even 18 years? It's one thing to say it, where have they experienced it?

From Mr. Prevatt:

My apologies to Mr. Prevatt, he posed a question at the June Board meeting, and I have discussed it with the Segal Company previously, but cannot presently find a copy of his question. I will locate that information and share it with the Board when we are discussing all of these items on Thursday, September 18.

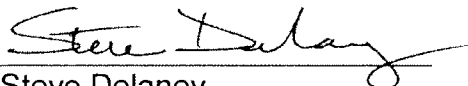
IN CONCLUSION

A final note, more than one Trustee has also requested that Segal provide their responses earlier than would normally be the case when preparing materials for the November 18 meeting of the OCERS Board of Retirement. Following Mr. Angelo's discussion of the above questions with the Board this Thursday, his intent is that Segal will have as much of this information as possible ready by the October 21 meeting of the OCERS Board of Retirement, giving the Trustees almost a month to consider the material being provided.

If you have any questions, comments or concerns on this topic, please contact me.

Thank you,

Submitted:



Steve Delaney
Chief Executive Officer

Questions for Actuary (please add a Powerpoint slide or written document with the details whenever possible). If there is something that is not feasible or significantly time-consuming, please let me know and I will see if I can find an alternative way to get my questions answered:

- **Flat Dollar versus % of Pay:** In the agenda packets, we have a comparison on the different 12-31-12 UAAL amortization methods that starts with a 25 year flat dollar rate. Did OCERS at one point use this method, if so, approximately when was the change made and a reason if you know? Do any other public agencies in California use this method? I know that this method is prevalent in local agencies in the State of Illinois who do not have significant current unfunded issues, do you know whether this method is prevalent in any other states? What are the advantages and disadvantages of using this method since it appears that many systems currently use it? It would also appear that using a flat dollar rate would eliminate much of the volatility to the employer rates that seems to be one of the key factors for employers for each layer of UAAL. Don't most corporate and multiemployer plans use flat dollar amortization? Don't they have the same expected salary increases as public sector? Why is it appropriate for them, but not for us? What happens when actual payroll growth is flat, doesn't this method better track it? Do we know what the expected payroll growth is for the plan sponsors? Are they consulted when you use the 3.75% rate or how is this rate developed (see also below)? If we have been continually having less payroll growth than expected as inflation is less, does this flat dollar approach better match recent or expected short-term future trends? Is flat dollar a more conservative approach than the % of pay? Does the less volatility for plan sponsors outweigh any of the negatives with this flat dollar method?
- **Salary growth %:** The current illustration of amortization methods uses the 3.75 salary increase. I thought that our discount rate included 3.25% of salary increase. Is this a different number than what was used for the discount rate calculation? If so, why? What is this number made up of, does it include inflation and real salary increases? What is the specific impact on the amortization amount if the actual percent is different? Can you show us a calculation on what happens and how the difference is treated for the next five years if inflation stays low during this period for a plan sponsor (the County) and the actual is less than the 3.75%? Does it reduce the next year's contribution by the amount of difference? What has been the last five year history of this adjustment to the plan sponsor's payment amounts and what percentage has it saved the plan sponsor as a percent of their payroll also for the last five years? If you can quantify it for the County of Orange in a chart, it would be helpful. Since the prior year's actual salary increases have been lower, what impact does that have on the funding policy going forward? Does it mean that there will be higher contributions due later and actually change the amortization schedule for these higher payments? Or does it just impact the next year's contribution on a one time basis? Has any County not reduced contributions when actual salary increases are less than projected? Can we be using a blended rate with inflation

lower now and then increase the rate in a few years or does it need to be a steady rate the entire time? Also, the County had previously been in a hiring freeze, should this factor also be considering changes relating to the number of employees? For example, the County has dropped from 17,084 filled positions in FY 08/09 to 15,855 filled positions in FY 12/13. Should this be considered in this calculation also as this will have an impact on the total salary paid under the % of salary amortization schedule? Should the Plan Sponsors five year forecasts be considered to more closely reflect this number to actual? The five year schedule requested above should give the amount of the adjustments, if any, from the 3.75% that have had to be made, the % of payroll that they represent, and how they have affected the County contributions and future impacts on the amortization amounts, if any.

- **Expected earning rates in short-term:** Since our General Consultant expects that rates over the next 5-6 years (6.6%) will be below our current discount rate, what impact does that have on our funding policy which is based on the 7.25%? I know you just did the analysis for the next 15 years based on some projected assumptions. Should we also do an analysis of the general consultant's assumptions and then project out the remaining years after that as if we met the target rate or at a slightly higher rate to average it to the 7.25%? Or, can you give us an example based on the consultant's expected rates with our current asset allocation and identify the impact on the plan sponsor's rates / required contributions? I assume that the difference between the rate (6.6%) and the discount rate (7.25%) will be amortized over 5 years and will then slightly increase the required plan sponsor contribution. Is that assumption correct? Can you calculate the additional amount that would be required, the percentage of payroll and the effect on the main plan sponsor (the County) required amount over the G/L period for the five year period?

- **Detailed amortization schedules:** Please provide a schedule showing each year, how much would be required to be paid in total based on the actual amount of the 12-31-12 UAAL from the assumption change (\$935M). I have attached a sample schedule with some columns that I would like to have included. The schedule also has a column that will calculate the total payment after prepayment discount (if a sponsor were to prepay it) assuming the 7.25% rate and finally, a column for the increase from the 30 year amortization amount. Is there any significant effect from the two year phase in? Is so, please state what it would be. Please include a complete schedule for the following funding policies:
 - Flat dollar (15/20/25/30)
 - % of pay (15/20/25/30)

- **Actual impact on County contributions:** Prior meeting agendas back-up on the funding policy have not included the actual dollar amount of impact nor the amount of total payroll (from which the impact could be calculated) for any Plan

Sponsors, including the County, if the Board were to change the 12-31-12 UAAL amortization periods for the \$935 million to a shorter period from 30 years. During the last meeting, the actuary provided verbal comments on the actual impact on the County of Orange contribution amounts for the year of implementation if a different amortization period were to be used. Please document this information in a schedule and include the actual increase from the 30 year amortization period for the following amortization periods: 15/20/25 years so that there is no confusion on the actual amount annually that it would increase contributions to the County of Orange, and include the total payroll, general fund payroll, total amount and percent of impact for the next several years. Please also identify the total payroll for each major plan sponsor (general fund payroll and total payroll if possible) and the dollar impact and percentage impact of each of the above scenarios on them for the next few years. Can you produce a schedule for the County of Orange using the attached worksheet as a sample for the same period as the request above (15, 20, 25 years) instead of just a few years? I would then like to see the revised amount with the discount if they were to choose to take it based on the current rate of 7.25% (see columns on the attached schedule) and also the increase by year in the amortization amount from the 30 year amortization amount. (The schedule attached has these columns). With the questions above on the salary rate and level pay, should they be considered in coming up with these possible amortization amounts for the County? I know that the State of CA is actually having reduced contributions this year due to reduction in overall payroll and less than expected salary increases. This past year, the County has increased the amount that certain employees now pay for pension costs and AB 340 (PEPRA), will also have an impact on the County's total pension contribution. In reviewing the impact to the County and plan sponsors of changing the amortization, shouldn't we also review these other changes to other pension contributions that they will be making so that we see the total picture? Can this be quantified and calculated so that the impact of any amortization changes would be added to any other pension contribution changes to get the net impact on total contributions from the County for a year and also for several years out if that is possible. Can we also get a chart showing both the County's and the employees pension actual contributions versus the ARC (for the County) for both Normal Cost and UAAL for the past 10 years?

- **Negative Amortization:** In your presentation, on Slide 17 you mention that 25 is the new out of bounds and that under 15 years is too volatile. On the slide you first indicate that over 20 years there is too much negative amortization. Is that a general policy guideline from the actuaries that significant negative amortization should be avoided? You mentioned that the current UAAL is already at the long end of the 15-20 year range that you recommend for gains and losses and that to accelerate the plan's progress to 100% funding, the most direct way is to reamortize the current UAAL to a shorter period. Can you provide us with the CAAP comment draft of a statement of model funding policies and any comments included as further discussion for the amortization portion? Is 25 years

considered aggressive now and 15 years considered ultra conservative since those are the two ends from an actuarial viewpoint?

- **Service life:** What is the current average service life of the active members under the plan? I think I recall you mentioning 11 years, can you document this? If so, it seems very low, why is it only 11 years, can you explain the calculation of this? Is this lower/higher than other plans in the State? Should this be matched to the amortization period exactly or how closely should it match? You stated in your prior presentations that annual contributions should, at a minimum, maintain a close relationship to the cost of each year of service, and that the current service cost should bear a stable relationship to compensation. Can you define what a close relationship is? Is it expected to change under PEPR and what is the average service life expected to be in 10 or 15 years if that is part of the actuarial assumptions?
- **Retired member life expectancy:** Should the amortization period consider the average life expectancy of the retired members? What is that current period? What is the downside/upside if the amortization period is longer than this life expectancy or is there no relationship between these?
- **Policy Objectives:** Under General Policy Objectives 2 and 3, you mention reasonable in both of them, do you have a further refinement of what reasonable means under these objectives? Doesn't the level pay method remove some of the volatility under Objective 3? Objective 3 shall seek to manage and control future employer contribution volatility to the extent reasonably possible. Based on the Slide 17, it would appear that you believe that the 20 year would not be too volatile as it is midway between the 15 and 25 year spread. In the actual schedules that you are producing above for the amortization period, what is a guideline for how much period to period interperiod equity should not exceed? I know we adopted these policy objectives, but is there any other information on their relationship that can be provided as we relied on your recommendation in adopting these. Does it provide the downsides of negative amortization and any times that negative amortization should be considered reasonable? What are the primary actuarial benefits/downsides of decreasing amortization periods and what are the primary actuarial benefits/downsides of increasing amortization periods to consider as they relate to the policy objectives?
- **Model Actuarial Report:** When do we expect the SOA Blue Ribbon Panel to report on issues relating to public pension plans and the best use of actuarial methods and assumptions in funding plans?
- **Prior Combination/Re-amortization of Layers:** There was a review in 2005 that resulted in the prior layers of UAAL layers being combined and re-amortized as a level percent of pay over 30 years. Can you provide the background for why prior layers were combined and reamortized then?

- **Prepayment by Plan Sponsor:** Regardless of the amortization schedule, does the plan sponsor have the ability to prepay without penalty at any time? What are the advantages and disadvantages of prepaying contributions and how does it affect the actuarial tables? Can you show a sample calculation?
- **Comparison to Other Counties:** What other Counties in California are currently using the 25 year UAAL amortization and which are using less than 25 year UAAL amortization. Of them, which have recently changed from a 30 year to a lower amortization period and what did they change from and to? What percent funded are their plans as of 12-31-12? What is their average service life? Are they currently cash positive or cash negative?

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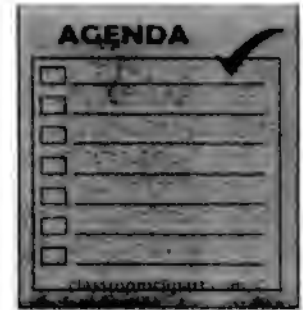
Investment Strategy Session



September 19, 2013

CIO Comments
Girard Miller, CFA

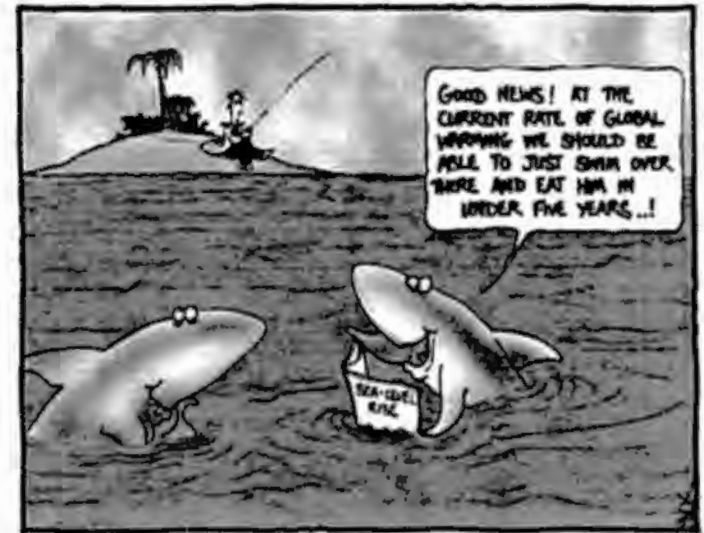
Today's Agenda



- Following up on September 4 Board Education session
- Several inter-related topics:
 - Relationships between investment strategy and
 - Cash flow positions and projections, long-term funding policy, current and future funding levels, and business cycles
 - Alternative ways to think about investments and funding
- We want trustees to build on the ideas of others, defend our solid foundations where they do exist, and also play devil's advocate

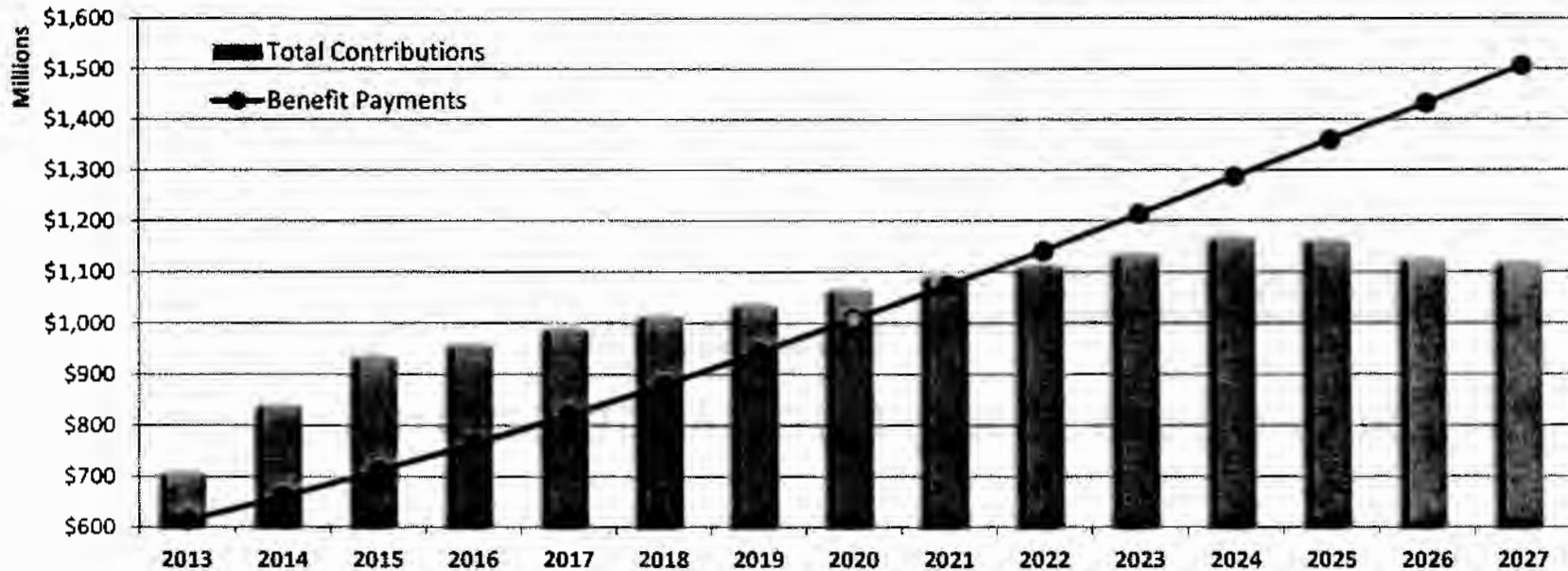
First, OCERS Cash Flow Projections

- Good news:
 - OCERS is projected to remain positive in cash flow through 2021, per latest Segal data
 - But only moderately: only 2% of portfolio value at most, and narrowing soon



Actuarial Projections – Contributions and Distributions

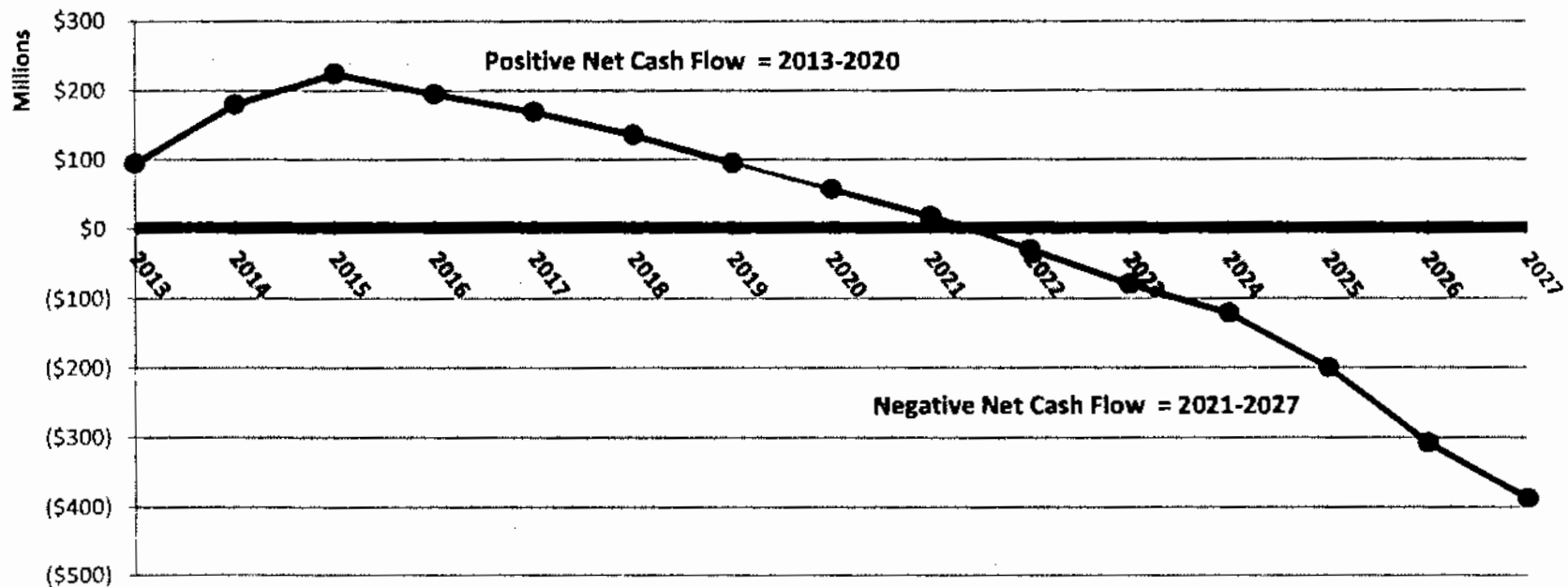
OCERS' Projected Contributions & Benefit Payments



Note: It is entirely normal for a pension fund, especially a mature pension fund, to eventually experience disbursements exceeding contributions. The actuarial purpose of pre-funding with an investment program is to provide the income and capital reserves to pay for retirees' benefits without resorting to "Pay-as-you-go" which burdens the future generations (like Social Security).

Actuarial Projections – Net Cash Flows

OCERS' Projected Net Cashflow 2013-2027



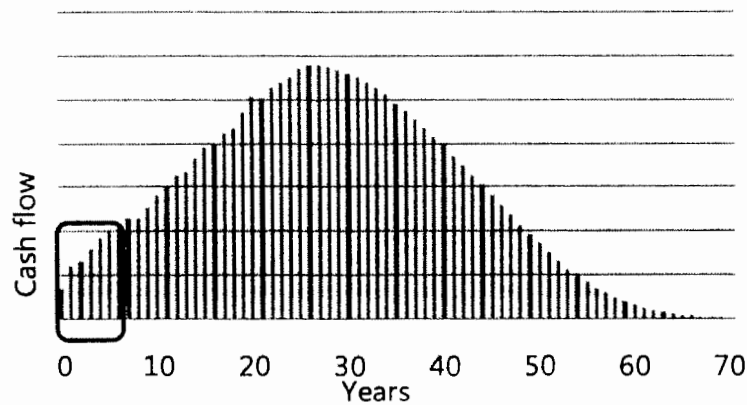
Negative cash flow is reflective of a mature pension plan, not itself a financial problem if UAAL is amortized adequately

The Impact of Demographics is Profound

Reducing the margin for error around asset growth

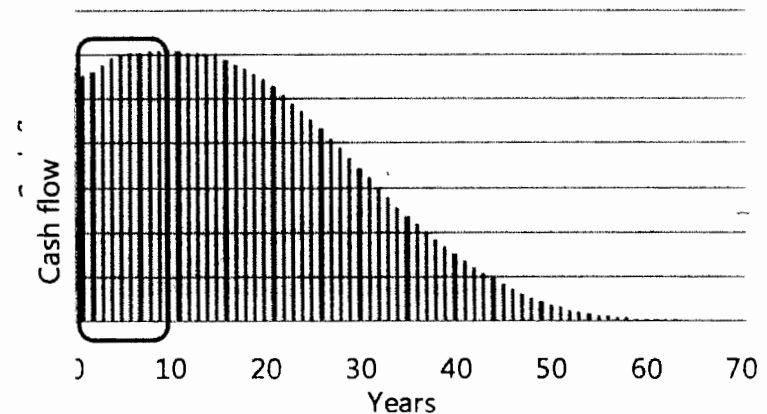
However, capacity to recover from downside losses is reduced as plan matures

Young pension fund
Typical liabilities in 1970s/1980s



- Back-loaded cash flows provide a longer time horizon for investing
- Less liquidity needed from assets provides investment flexibility
- Smaller cash outflows impose a smaller "drag" on underfunded plan

Mature pension fund
Current typical liabilities



- Front-loaded cash flows shorten the time horizon for investing
- More liquidity needed reduces investment flexibility
- Larger cash outflows increase "drag" from underfunding

SOURCE: PIMCO

Sample for illustrative purposes only.

Young pension fund refers to pension plans with higher proportion of active participants who are continuing to accrue pension benefits. Mature pension fund refers to pension plans with higher proportion of retirees who are no longer accruing pension benefits.



Investment Implications



- While positive in cash flow, OCERS still has a unique opportunity to place greater emphasis on illiquid investments that offer a premium return
- Examples:
 - Private equity: We are underweight vs. most public plans our size
 - CIO developing a strategy to ramp up moderately in 2014-16 under NEPC Directional Strategy, working with his CIO Network, and then expand in next recession
 - Direct lending: Part of NEPC's diversified credit strategy now underway and expanding
 - One trustee suggested a comprehensive review of illiquid investments as logical next step

Managing the Extremes In Funding Ratios



- When funding approaches 100% or exceeds that level on a market value basis, a long term policy should consider reduction of equity risk
- A contingency strategy to deal with a weak funding ratio (e.g. 50%) may be worth developing
 - Will actuarial amortization be sufficient?
 - Could employer shore up the plan using bond proceeds?
- A strategic plan for downside risk mitigation may be worthwhile, to avoid a meltdown scenario
- What strategic role, if any at this time, should the OCERS board consider? (vs. some time in future)

Lessons from LDI



- Whatever its ideological pros and cons, there have been lessons from Liability Driven Investing:
- **Lesson #1:** The achievement of full funding may present a better opportunity to batten down the hatches and secure retirees' benefits than to expect trees to grow to the moon in coming decades
 - Especially if full funding is achieved in a bubble world
- **Lesson #2:** Discount rates that exceed a corporate bond yield do involve risks, especially cyclical risks, that may not be fully appreciated or understood

“Migration from Risk” Strategy

	Current Target	Actual	Mix A	Mix B	Mix C	Mix D
Target Glidepath Funded %						
Cash	2%	5%	-7%	-8%	-8%	-8%
Large Cap Equities*	15%	13%	15%	12%	10%	7%
Small/Mid Cap Equities	5%	5%	5%	5%	5%	3%
Int'l Equities (Unhedged)	10%	9%	10%	10%	10%	5%
Emerging Int'l Equities	5%	4%	2%	0%	0%	0%
Total Equity	35%	32%	32%	27%	25%	15%
Credit Opportunities	8%	3%	2%	2%	0%	0%
Global Bonds (Unhedged)	5%	5%	3%	0%	0%	0%
TIPS	5%	5%	5%	3%	0%	0%
Long Treasuries	8%	5%	10%	15%	25%	32%
Long Credit	8%	5%	10%	15%	25%	32%
Total Fixed Income	33%	24%	30%	35%	50%	63%
Hedge Funds	10%	14%	15%	15%	12%	10%
Total Alternatives	10%	14%	15%	15%	12%	10%
Global Asset Allocation	10%	16%	20%	21%	13%	12%
Risk Parity	10%	10%	10%	10%	8%	8%
Total Other	20%	26%	30%	31%	21%	20%
Asset Duration						
Liability Duration						
Interest Rate Hedge Ratio						
Expected Return (5-7 Years)						
Expected Return (30 Years)						
Standard Dev of Asset Return						
Standard Dev of Surplus Return	19.1%	19.4%	18.6%	18.5%	12.1%	9.5%

Source: David Moore, NEPC

Risk Mitigation: Three Approaches to Discuss Today



- **Structural risk mitigation**
 - Relies primarily on dynamic asset allocation and/or risk parity concepts
- **Collar strategies**
 - Zero-cost collar: forfeits above-trend upside to limit the downside
 - Issue: >20% of bull market gains come in last 12 months, per Lazlo Birinyi's research (e.g. 1988-89)
 - *Typically you lose before you win*
- **Tail-risk hedging**
 - Purchase of options or other use of synthetics
- **All three strategies require patience and forbearance**

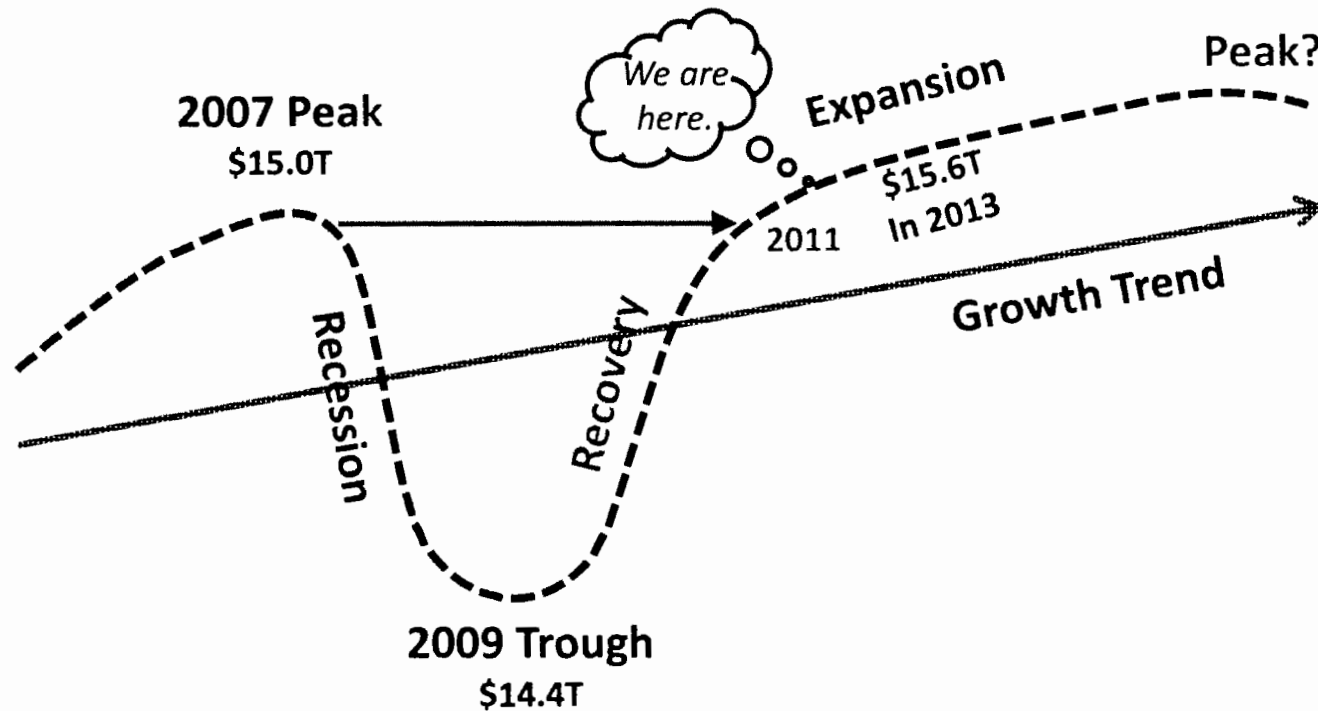


Static vs. Dynamic vs. Tactical Asset Allocation



- **Static** = “Set it and forget it”
 - Avoids blunders of emotion; avoids whipsaw
 - Benefits from systematic rebalancing
 - Consistent strategies often win out over long run
- Problem: business cycle
- Problem: long-term funding cycles
- **Dynamic** asset allocation strives to adjust for big picture: either long-wave or business cycle
 - Business cycle strategy sometimes called “sector rotation” or asset rotation
- **Tactical** asset allocation is typically shorter-term
 - May include or focus on business cycle or various business and market conditions

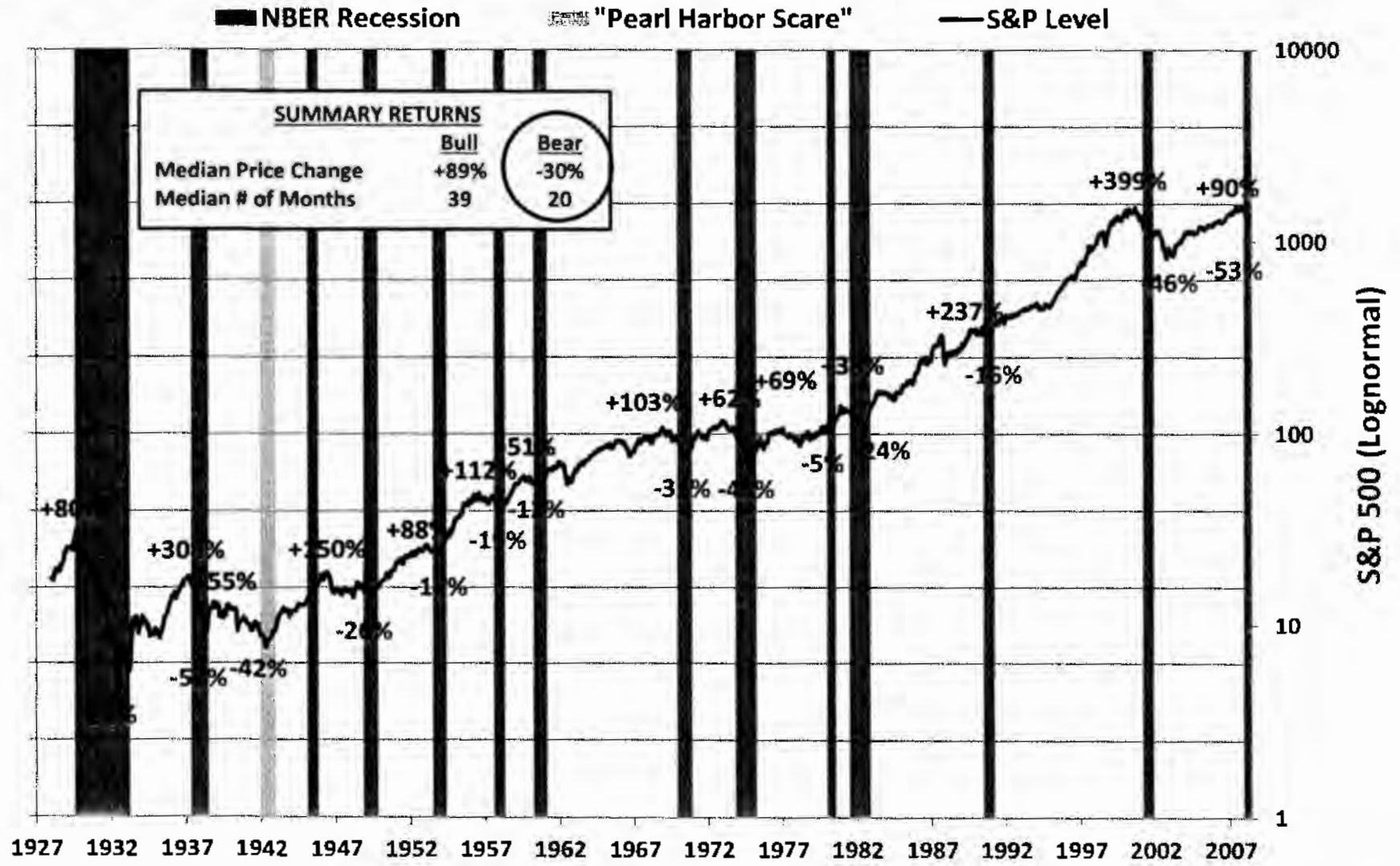
The Business Cycle -- From OCERS Latest "Dashboards"



Trend: A recession is considered to have occurred after 2 consecutive quarters of negative GDP growth. A recovery is defined as the period when the GDP level rebounds off the trough until it achieves the prior output peak. GDP growth beyond the prior output level is considered an expansion. A full business cycle is considered a round trip from one peak to the next, or one trough to the next.

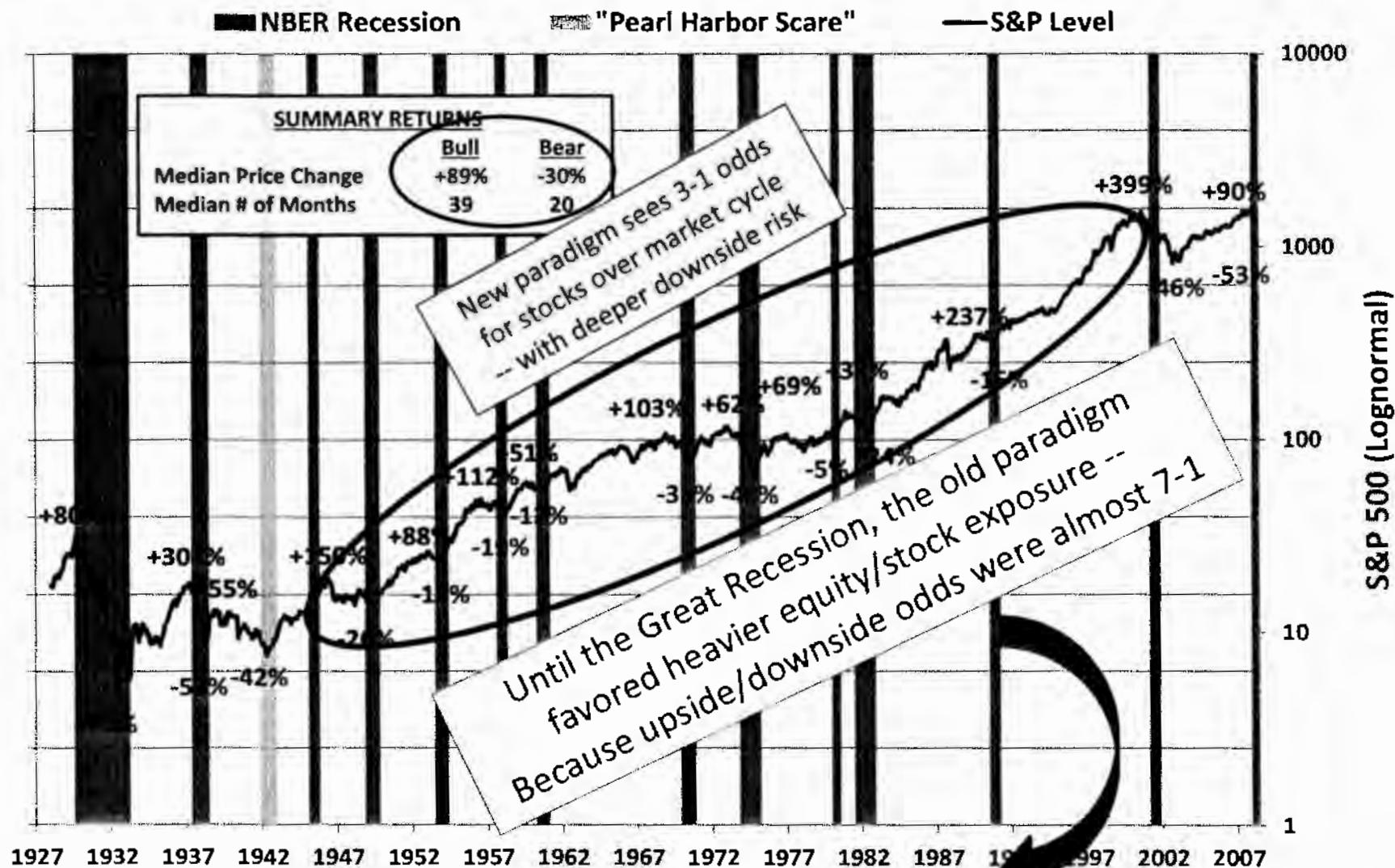
Reference to quarterly, seasonally adjusted data for the U.S. Real GDP indicates that the current business cycle has lasted for 22 quarters and is now entering the expansion stage. The prior peak occurred during October 2007 when the real GDP level was \$14,996 billion. The last trough occurred during April 2009 when GDP output had fallen by nearly \$640 billion. The U.S. recovery took 2 years and ended when GDP finally surpassed the prior peak during April 2011 at a level of \$15,011 billion. Since then, the U.S. has been in an expansion, and after 2 years the GDP level is \$637 billion (4.4%) above the 2007 peak in real terms.

Bull and Bear Stock Market Phases of the U.S. Business Cycle



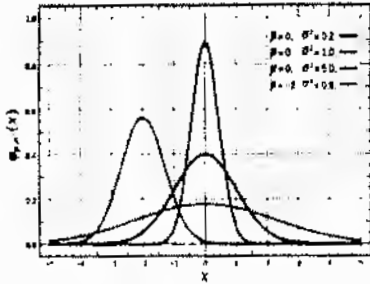
Source: Bloomberg/PFM Group

Bull and Bear Stock Market Phases of the U.S. Business Cycle

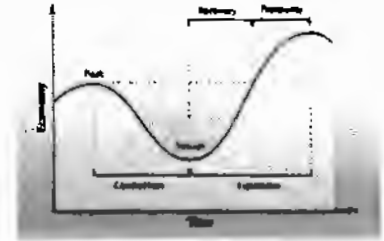


Source: Bloomberg/PFM Group

From WWII until 2000, the average expansionary gain was 145% and the average recessionary decline was 22%



Ugly Math: Business Cycles vs. Actuarial Probabilities



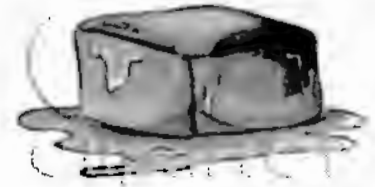
- Actuarial math assumes that returns on investments are normally distributed and follow the laws of parametric statistical probability
- But business cycles are not totally random or parametric
 - Nor are stock market cycles
 - Example: a “3 standard-deviation event” has a 0.13% downside probability (e.g., a 99.83% confidence interval), corresponding to a 33% downside in the S&P, but stocks have declined by 30% on average over the last 14 cycles and by more than 33% at least 7 times in 88 years.
- From current levels, stocks would have to double in next four years to sustain a funding ratio of 65% after an “average” recession – even with ongoing amortization of UAAL

Putting Downside Risk Into Perspective



- BlackRock analysis of OCERS portfolio shows a downside equity risk factor of 0.55 portfolio-wide
 - 20% decline in S&P = 11% loss portfolio-wide
 - 30% decline in S&P = 16% loss portfolio-wide
- With a discount rate of 7.25%, that implies a downside recession risk of approximately -25% of plan assets
 - Average recession = 20 months, so 1.6 yrs x 7.25% = 12% unrealized assumed growth
 - 30% decline = 16% loss against 12% assumed gain = 25% actuarial shortfall
- Only if stocks double over a four year period or longer, can the OCERS funding ratio improve enough to offset that recessionary loss in the funding ratio.
- An “average” recession in 2014 would take our current funding ratio from approximately 65% to 50% on a market value basis
- This projection is consistent with CalPERS actuary’s modeling on their portfolio, although calculated differently

The Melt-Down Scenario



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- A 50% funding ratio is challenging at best
- A mature plan that suffers losses from a level below 50% is typically viewed as at-risk of a downward spiral
 - Funding the UAAL becomes increasingly problematic and painful to both employer and employees
 - And similar cyclical math applies in the next cycle, especially if contributions/amortization are deferred when it's painful (and stocks are cheapest at the cycle low)



The Perfect-Storm Strategy: POBs?

- Shoring up a pension plan that has fallen below 60% in its funding ratio on an MVA basis is feasible, but requires advance planning
 - Investment equivalent of a disaster-recovery plan for computer systems
- **Pension Obligation Bonds** may be more cost-effective, even “profitable”
 - But they have been deployed naively in past 30 years with a generally poor track record because of naïve implementation and thoughtless timing
 - That said, savings to OCERS stakeholders could exceed \$1 billion total and \$100 million annually if properly and prudently executed
- The “New POB paradigm” addresses flaws in old model
 - There is a limited “Benefits Bonds Window” for POBs and their cousins, OPEB-Obs
 - A new trust structure under IRS review could entirely bypass OCERS
- To work here in the multi-employer OCERS system, a POB strategy would require several years of preparation and plan-sponsor labor relations work -- and is ultimately the plan sponsor(s)’ decision
 - OCERS can cooperate, but cannot be the leader or instigator
 - Do you want a seat at the table if/when the topic arises?

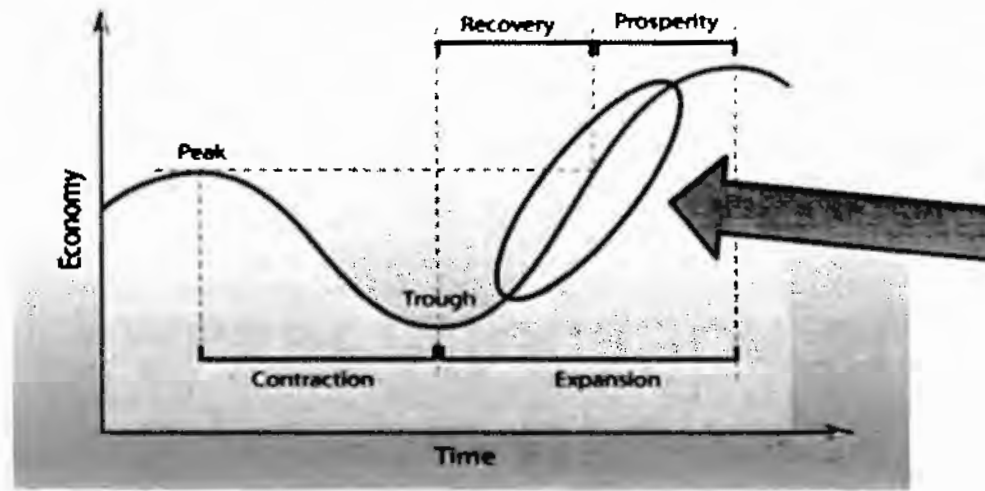
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 - *Typically you lose before you win*
- **Tail-risk hedging**
 - Purchase of options or other use of synthetics
 - Today we will hear about SBCERA's approach
- **All three strategies require patience and forbearance**

Dynamic Business Cycle Asset Allocation Strategy

- During most of past business recovery cycles, the cost of economy-based tail-risk hedges has typically exceeded benefits, until late in the cycle when economy is running at full steam
 - This does not include geopolitical risks of course



CIO View:
Tail risk hedges
have less value
in "alpha" zone of
economic expansion
where equities grow
>15%/yr on average

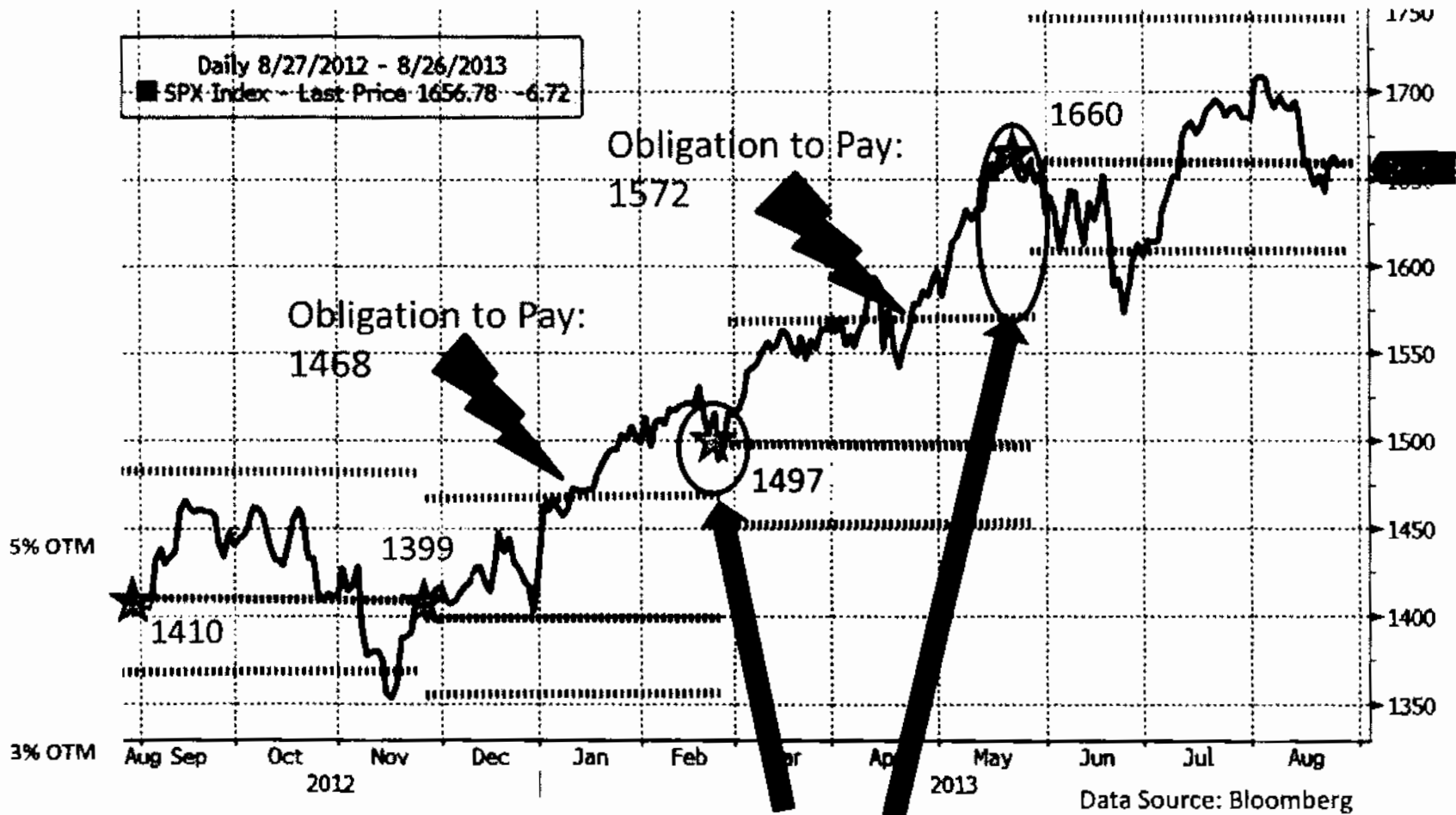


Dynamic Business Cycle Asset Allocation Strategy



- Typically reduce bond exposure during recovery and primary expansion phase of cycle, as rates trend upward and equities flourish with >15% normal average returns (vs 10% long-term)
- As cycle matures, build some cash reserves (there is “options value” to cash) and
- As equity valuations stretch, tilt more heavily toward bonds -- especially as yields become punitive
- Goal is to capture growth and minimize capital losses on both bonds and stocks when they are overvalued and then underperforming

90 Day Collar on S&P 500 Over Last 12 Months



Cumulative opportunity loss on the calls was approximately 8% of 17% upside or 47% of market's upside gains

How to Pay for Tail Risk Hedging?



- Greater emphasis on income as a source of return, vs capital appreciation
 - SBCERA strategy would be an example
- “Carry” = interest, dividends, rent, and other forms of recurring portfolio income
 - Carry provides an important buffer in recessions, especially if plan sponsor’s ability to make contributions is ever jeopardized
 - Portfolios with higher carry ratios tend to be less volatile, and suffer less market loss, in drawdown periods -- even if they contain structurally risky credits in some segments.
- Income oriented investing may become more important when OCERS turns negative in cash flow, anyway
- Can also be viewed as a cost to deduct from owning equities more aggressively
- But at the end of the day, the cost of buying options is mostly a drag on expected returns and thus the discount rate. **This requires a more comprehensive risk-return trade-off discussion that is well beyond the scope of today’s educational forum, and is not the purpose of this meeting.** That said, the approach at San Bernardino could be enlightening.

IN A FLASH, PRESIDENT JONES KNEW WHAT
THE UNIVERSITY'S STRATEGIC PLAN HAD TO BE.



Strategic Suggestions

- Develop a plan to set policies and strategies for funding-cycle extremes
- Develop a four-pronged risk mitigation plan
 - Dynamic asset allocation component
 - Collar strategies component
 - Outright tail risk strategies component
 - Balance downside protection with upside potential
- Annually review portfolio risk mitigation plan and timely strategic and tactical options

DISCUSSION CALENDAR - AGENDA ITEM NO. 4
BUDGET AND FINANCE COMMITTEE MEETING
October 9, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **Internal Control Review on Purchasing/Procurement**

Summary:

This agenda item is submitted to present the independent accountants' Agreed-Upon Procedures report of OCFA's internal control review on Purchasing/Procurement.

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of October 24, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee direct staff to implement the Auditor's recommendations as stated under OCFA management responses in the report.

Background:

At the March 14, 2012, Budget and Finance Committee meeting, the Committee approved the selection of Lance, Soll & Lunghard, LLP (LSL) as the auditing firm to complete a comprehensive review of OCFA's financial internal controls over the next three years. At the February 13, 2013, and March 13, 2013, Budget and Finance Committee meetings, the Committee approved the scope of work for the first year of the comprehensive internal control review. The scope included the following areas:

1. Revenue Recognition - Fire Prevention Fees
2. Procurement/Disbursements Practices Relating to Cal Cards (credit cards), Travel-Related Activities, and Fuel Usage
3. Purchasing/Procurement Review

Review of Internal Controls on Purchasing/Procurement:

LSL has completed their test work and compiled a report of the observations noted during their review. Included in the report are recommendations by the auditors to improve the process based on their observations. LSL submitted the report to OCFA management for inclusion of the appropriate responses to the recommendations. A copy of the report, along with OCFA's management responses, is included as an attachment to this staff report. All corrective actions stated in the Management's Responses of the Independent Auditors' Report of Internal Controls over Purchasing/Procurement are in the process of being implemented by staff.

Historically, internal control review reports are presented to the Budget and Finance committee (that also serves as the OCFA audit committee) for discussion and approval. Due to the recent concerns raised by members of the public and the media regarding public sector procurement

practices, staff felt it was important to also present this report to the Executive Committee which is responsible for approving all purchases and contracts (except public works) that exceed specific dollar thresholds as defined in the OCFA Roles/Responsibilities/Authorities matrix.

Impact to Cities/County:

Not applicable

Fiscal Impact:

None

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

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Staff Contact for Further Information:

Jim Ruane, Finance Manager/Auditor

Finance Division

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(714) 573-6304

Attachment:

Agreed-Upon Procedures Review on Purchasing/Procurement with OCFA responses



ORANGE COUNTY FIRE AUTHORITY

**Independent Accountant's Report on Applying
Agreed-Upon Procedures on
Purchasing/Procurement**

September 17, 2013

Lance Soll & Lunghard, LLP
Vilmur, Peeler & Boucher

Orange County
Silicon Valley
Temecula Valley
Los Angeles County

www.LSLCPAs.com

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated in the sections below, which were agreed to by the Orange County Fire Authority (the Authority), solely to assist you with respect to the Purchasing/Procurement process. The agreed-upon period, in which was examined, was from January 1, 2012 to December 31, 2012. The Authority's management is responsible for the policies and procedures related to Purchasing/Procurement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Authority. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Initiating and Authorizing

1. We obtained copies of policies and procedures and conducted interviews of personnel responsible for initiating and authorizing purchases/procurement to gain an understanding of responsibilities and processes surrounding the access to initiate purchases and the internal controls involved in the process.

Observation 1: During our observations we noted that page 101 of the fiscal year 12/13 Budget Book distinguishes approval levels for both service contracts and consultants, but does not indicate how to determine which contracts will be considered consultants, and which will be considered service contracts. Service contracts require board approval if the contract is at least \$100,000, while consultant contracts require Board approval if the contract is at least \$25,000.

Evaluation: Depending on the type of services performed, some contracts can be classified as either service contracts or consultant contracts, and at times the classification can be subjective, and it is possible to have consultant services be defined as a service contract to avoid Board approval.

Recommendation: We recommend that the definition of a service contract or a consultant contract be more detailed as to allow certain types of services to be more defined or to change the approval levels so that service contracts and consultant contracts require the same approval limits so the handling of the contracts would be consistent.



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

OCFA Management's Response:

We agree with the auditor's recommendation to better define the differences between service and consultant contracts. As staff prepares the revision to the purchasing ordinance, consideration will also be given in setting the same approval limits for both consulting and service contracts. This will provide consistency in the policy and eliminate the incentive to have a consultant service defined as a service contract to avoid Board approval.

Observation 2:

During our observations we noted that the Authority utilizes physical purchase requisitions to initiate the purchasing process, but that these requisitions do not have a sequential numbering system in place to track the outstanding requisitions. Each requisition is recorded by the Purchasing Department on an excel spreadsheet, but it is manually recorded, allowing for errors and omissions to be present in the log. We also noted that the Banner system does have the capabilities to utilize system generated purchase requisitions but has not been put into place.

Evaluation:

To be effective, requisitions should have a pre-numbered numerical sequence attached and they should be recorded and reviewed to verify there are not missing requisitions. Online requisitions will strengthen the controls and monitoring of these documents.

Recommendation:

We recommend that the Authority utilize the Banner system or another available platform for purchase requisitions and if possible, online approval queues to track the requisitions. We also recommend that requisitions be assigned a preprinted number to facilitate the tracking of each document.

OCFA Management's Response:

Staff agrees with the auditor's recommendations that it would be best to utilize the Banner system for requisitions. The current requisition is a Word document available on SharePoint. However, at this time, there are financial and agency-wide access limitations in utilizing the requisitioning system available in Banner; therefore Purchasing staff will research of creating an online purchasing requisition system utilizing SharePoint.

Observation 3:

During our observations we noted that the Authority maintains a purchase requisition log that is only used by the Purchasing Department to track requisitions that make it to the Purchasing Department for approval. This does not capture requisitions that have been misplaced or misused. The requisition log is updated to include the purchase order numbers and other useful information but it is not reviewed for accuracy or completeness. We selected a sample of 28 purchase orders and 5 blanket purchase orders from the requisition log and noted 6 purchase orders were unable to be located with the information listed on the log.



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

Evaluation: Without pre-numbered sequential purchase requisition there is not a way to verify the requisition log is complete. The log is also susceptible to errors and omissions and without proper review these errors and omissions can go unnoticed.

Recommendation: We recommend that the requisition logs be updated and reviewed on a monthly basis to ensure each requisition is monitored and properly accounted for.

OCFA Management's Response: We agree with the auditor's recommendation. Purchasing staff will research the ability of creating an online purchasing requisition system utilizing SharePoint that will facilitate automated maintenance of a tracking log. In the meantime, purchasing staff will continue to utilize the manual requisition log and update/review the log regularly.

Documentation/Communication and Reporting

1. We obtained copies of policies and procedures and conducted interviews of personnel responsible for documenting and communicating purchases/procurement to gain an understanding of responsibilities and processes surrounding the documentation and reporting of purchases/procurements.

Observation 1: We noted there were cases in which purchase orders were issued change orders because the original purchase order was not approved for the proper amount of expenditures and the approved amount needed to be increased. According to the Authority's Standard Operating Procedures for Purchasing, standard acquisitions over \$10,000 require three informal bids. In some cases, change orders are issued for items that originally had not exceeded the \$10,000 threshold, so the proper bid requirements were not performed. While we noted no specific exceptions, there is a risk that when change orders are issued in these cases the Authority could be overriding internal controls established and may not be in compliance with its policy.

Evaluation: Prior to submitting requisitions, Departments should be performing an analysis with available information relating to the desired purchase to include prior year expenditures, current year budget and current year projections. This research should be attached to the requisition so that the Purchasing Department can verify proper research has been attained.

Recommendation: We recommend research and support for the amounts listed on purchase requisitions be attached to allow the Purchasing Department to have a more clear understanding of the reason for the purchase and the amount necessary to accomplish the desired tasks. This procedure should encompass all purchase requisitions for regular purchase orders, blanket purchase orders, consultant service contracts, and public works contracts.



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

**OCFA Management's
Response:**

Management agrees with the auditor's recommendation. To address these concerns, purchasing and accounting will be providing purchasing and finance training to the departments in the current fiscal year in an effort to educate them on processes.

Observation 2:

We noted that the Authority utilizes "sole source" vendors for items that can only be purchased by one vendor or for which all other vendors have been eliminated for proper business reasons. Under the Authority's current procedure, the documentation used to support the use of a sole source vendor may be insufficient or unclear, especially if only reviewing the purchase order. Under Observation 3 related to Initiating and Authorizing (above) it was mentioned that we selected a sample of purchase orders. Of this sample, three purchase orders listed had contracted with sole source vendors for items over the \$10,000 threshold. The documentation appeared to be incomplete because there was no documentation attached to the purchase order.

Evaluation:

The purchasing manual does have a section that discusses sole source vendors and various approval levels and limits. Based on the documentation provided for each individual purchase order, it is difficult to determine if the approval limits have been followed.

Recommendation:

We recommend that the Authority establish a sole source vendor form that should be filled out and stored in the vendor file. These forms should also be attached to individual purchase orders that should indicate lines to include the Fire Chief and Executive Committee approvals when necessary.

**OCFA Management's
Response:**

We agree with the auditor's recommendation. Purchasing staff is currently working on the creation of a sole source form that will help to standardize the requests for sole source purchases. Implementation of this process should be accomplished by the end of the calendar year.

Observation 3:

We noted that the Authority utilizes "Cooperative Agreements" in which they can "piggy back" on other contracts made publicly available between larger Governmental Agencies and various companies. The Standard Operating Procedures Ordinance Number 7, Section 7 states that the bidding requirements don't apply "when the Board of Directors finds that the public interest and convenience require the purchase of services, supplies, and equipment utilizing purchasing agreements maintained by county, state or other public entities". This is the only documentation listed for Cooperative Agreements.

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

Evaluation: Cooperative Agreements can benefit the Authority because the Authority can compare a current contract on the books to one another larger Governmental Agency has entered into and get better pricing in some cases. The Authority should have a system in place that requires the documentation of the research that is done related to these cooperative agreements to justify the use of these agreements.

Recommendation: We recommend that the Authority establish written policies and procedures related to Cooperative Agreements to include the amount of research to be documented, the support required, and proper procedures to follow.

OCFA Management's Response: Management agrees with the recommendation and will address the use of cooperative agreements in the revision of the purchasing ordinance.

Observation 4: The Standard Operating Procedures developed by the Authority has areas that are not addressed as specifically and in as much detail as is necessary.

Evaluation: The Model Procurement Code gives a solid base from which to establish basic policies, procedures, and controls in relation to Procurement and Purchasing.

Recommendation: We recommend that the Authority obtain a copy of the Model Procurement Code developed by the American Bar Association and incorporate the applicable items from the Model Code into the Authority's Standard Operating Procedures.

OCFA Management's Response: We agree with the auditor's recommendation. Staff has a copy of the Model Procurement Code and intends to revise and develop a Model Procurement Code based Ordinance. Once the ordinance has been adopted, the standard operating procedures will be updated to reflect the changes.

Reconciliation and Review

1. We obtained copies of policies and procedures and conducted interviews of personnel responsible for reconciling and reviewing purchases/procurement to gain an understanding of responsibilities and processes surrounding the reconciliation of purchases/procurements and review.

Observation 1: During our observations we noted there are certain situations that arise in which Departments are authorized to purchase items without receiving a standard purchase order. These transactions are referred to as "direct pay" purchases. Ordinance Number 007, Section 7 states that "purchases of services, supplies, and equipment shall be made and accomplished in conformity with Section 8 (bidding procedures) unless the amount is less than \$10,000." There is general confusion throughout the Authority on the interpretation of this item and the approval process is not clearly identified.



Jim Ruane, Finance Manager / Auditor
Orange County Fire Authority
Page 6

Evaluation: There is confusion about responsibilities and consistent treatment across Departments regarding direct pay purchases.

Recommendation: We recommend that the Authority evaluate this section of the Ordinance and communicate to all Departments the expectations and procedures involved with these direct pay transactions.

OCFA Management's Response: Management agrees with the auditor's recommendation. This concern will be addressed in the revised purchasing ordinance and will be better defined. The bidding procedures will be included in the purchasing and finance training that will be offered to the departments.

Observation 2: Please refer to Observation 1 in this section, above.

Evaluation: The Authority does not have procedures discussed in detail for direct pay transactions in the standard operating procedures. Individual and Departmental responsibilities should be documented as well as indicate a clear description of how these transactions should be handled.

Recommendation: We recommend that the Authority include direct pay transaction procedures in the standard operating procedures document.

OCFA Management's Response: We agree with the auditor's recommendation. Management is looking for ways to minimize the use of direct payments through the utilization of established blanket order contracts. Additional attention will be given to the use of direct payment transactions in the purchasing ordinance revision. In addition, direct payment procedures will be covered in the purchasing training.

Compliance and Monitoring

1. We obtained copies of policies and procedures and conducted interviews of personnel responsible compliance and monitoring of purchases/procurement to gain an understanding of responsibilities and processes surrounding the procedures used to verify the Authority is in compliance with laws and regulations.

Observation 1: We noted there were instances in which members of the community or vendors that did not get the award for bids would complain and demand evidence from the Authority justifying certain decisions. It is important that the documentation maintained by the Authority support decisions made by management and the Board of Directors in each situation.

Evaluation: Each request for proposal that goes out to public bid has a section that deals with objections and disputes, but there is nothing in the Standard Operating Procedures that discusses these items.



Jim Ruane, Finance Manager / Auditor
Orange County Fire Authority
Page 7

Recommendation: We recommend that the Authority include the section of the request for proposals that discusses objections and disputes and include additional information that details out how to properly document these objections and disputes, and the procedures the Authority needs to take.

OCFA Management's Response: Management agrees with the recommendation and will include a protest procedure in the revision of the purchasing ordinance.

Observation 2: During our observations we noted that the current procedures in place make it difficult for the Authority to properly monitor existing contracts and when they expire.

Evaluation: Many of the contracts the Authority enters into are for over \$10,000, which would require the Authority to solicit for bids. The Request for Proposal process can be lengthy and proper timing and planning is essential in order to monitor contracts as they expire. The current system in place used to monitor blanket orders and Executive Committee approval is inefficient and needs to be updated.

Recommendation: We recommend that the Authority revise the current procedures in place to facilitate timely and proper monitoring of contracts as they expire. There are also various programs or software available to the Authority that will track and monitor contracts and projects, and when the contracts will expire.

OCFA Management's Response: We agree with the auditor's recommendation. Purchasing staff has prepared an excel list of all the blanket orders and the years remaining on the contract and will be better able to issue the solicitations in a timely manner. In addition, staff is gathering information on software programs available for contract management in an effort to move away from a manual system. Staff will make a recommendation to management based on the findings.

Additional Procedures

1. We performed additional procedures with respect to blanket orders for Bright Way Building Maintenance, Harbor Pointe A/C, and all vendors with multiple blanket orders issued since January 2011.

Observation: See Attachment A to this report.



Jim Ruane, Finance Manager / Auditor
Orange County Fire Authority
Page 8

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

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

Lance, Soll & Loughard, LLP

Brea, California
September 17, 2013

ORANGE COUNTY FIRE AUTHORITY

**Independent Accountant's Report on Applying Agreed-
Upon Procedures on Procurement Contracts for Blanket
Purchase Orders**

September 17, 2013

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated in the sections below, which were agreed to by the Orange County Fire Authority (the Authority), solely to assist you with respect to the procurement contracts for blanket purchase orders. The agreed-upon period in which was examined covered the contract period related to blanket order 1158 and 1201 for Harbor Pointe A/C and Controls and blanket order 1095 for Bright Way Building Maintenance, as well as all vendors with multiple blanket orders issued since January 2011. The Authority's management is responsible for the policies and procedures related to Purchasing/Procurement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Authority. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Blanket Orders

Bright Way Building Maintenance

1. We obtained copies of policies and procedures and conducted interviews of personnel responsible for initiating, authorizing, and monitoring purchases/procurement. We obtained and reviewed information pertaining to the procurement of services with Bright Way Building Maintenance.

Observation:

We noted that the contract between the Authority and Bright Way Building Maintenance was for the period of 05/01/08 through 04/30/09, with the option of four one-year renewals through 4/30/13 for Janitorial Services at the Regional Fire Operations & Training Center (RFOTC). This contract was approved by the Executive Committee on April 24, 2008. The Authority exercised each of these renewals, and the contract expired on 4/30/13 without a new contract in place. The Authority continued to receive services from Bright Way Building Maintenance after the expiration of the contract. On May 23, 2013, the Authority submitted a request to the Executive Committee to "approve and authorize the Purchasing Manager to extend the blanket order contract terms on a month-to-month basis not-to-exceed six months pending completion of a Request for Proposal process" not-to-exceed \$70,914.

Evaluation:

The procedures currently in place at the Authority make it difficult on the Purchasing staff to properly monitor contracts as they expire. This allows situations to arise where the Authority doesn't have time to properly complete the Request for Proposal process and to adapt

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

contracts to fit the immediate needs. As a result of the ineffective monitoring procedures over contracts, the agreement to extend the contract with Bright Way Building Maintenance was not solicited for bids. The Authority also received services for a period of time without an approved agreement in place.

Recommendation: We recommend that the Authority revise the current procedures in place to facilitate timely and proper monitoring of contracts as they expire. Many of the contracts require the Authority to submit request for proposals, which can be a rather lengthy process. There are also different software programs the Authority can purchase that will track and monitor contracts and projects, and when the contracts will expire.

OCFA Management's Response: Purchasing staff has prepared an excel list of all the blanket orders and the years remaining on the contract. Past practice was to notify the department the month the contract expired. This did not provide sufficient time to issue a bid and award a contract prior to contract expiration. With the information from the new excel report; purchasing staff will be more proactive in working with the departments to get the solicitations issued prior to contract expiration. In addition, staff is gathering information on software programs available for contract management in an effort to move away from a manual system. Staff will make a recommendation based on the findings.

Harbor Pointe A/C and Controls

2. We obtained copies of policies and procedures and conducted interviews of personnel responsible for initiating, authorizing, and monitoring purchases/procurement. We obtained and reviewed information pertaining to the procurement of services with Harbor Pointe A/C and Controls.

Observation 1: We noted that the contract between the Authority and Harbor Pointe A/C and Controls was originally for the period of 11/01/08 through 10/31/09, with the option of two one-year renewals through 10/31/11 for HVAC Maintenance at the RFOTC. The contract was awarded after an RFP was issued. This contract was not approved by the Executive Committee because the contract was considered a service contract and Authority management may approve the contract up to \$100,000 per year. This contract received blanket order number 1158.

On March 27, 2009, the Authority entered into a second contract with Harbor Pointe A/C and Controls for HVAC Maintenance for the Fire Stations for the period of 4/1/09 through 3/31/10, with the option of four one year renewals through 3/31/14. This contract was also awarded after an RFP was issued. This contract was not approved by the Executive Committee because the contract was considered a service



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

contract and Authority management may approve the contract up to \$100,000 per year. This contract received blanket order number 1201.

On January 24, 2013, the Executive Committee approved the combination of the contracts and extensions through October 31, 2015. The Contract Duration Policy approved by the Board of Director's on November 15, 2007 provides Authority Management the ability to extend the contract for circumstances warranting longer periods of coverage for the continuity of service. Blanket order number 1158 was discontinued at this time.

Evaluation:

The contract extension through October 31, 2015, should have only been extended through March 31, 2014. Both of these blanket orders were for service contracts accomplishing the same purpose at different locations throughout the Authority. The Authority's Purchasing policies do not define whether the annual expenditures are combined for similar projects with the same vendor. The total lifetime expenditures were as follows:

<u>RFOTC BO#1158</u>		<u>Fire Stations BO#1201</u>	
11/01/08-10/31/09	\$53,024.11	04/01/09-03/31/10	\$92,670.57
11/01/09-10/31/10	\$82,685.70	04/01/10-03/31/11	\$75,537.65
11/01/10-10/31/11	\$88,024.77	04/01/11-03/31/12	\$69,979.38
11/01/11-10/31/12	\$59,964.85	04/01/12-03/31/13	\$244,784.45
11/01/12-01/31/13	\$14,724.45		
Totals	\$298,423.88	Totals	\$482,972.05

It is noted from this summary that neither of individual contracts exceeded the \$100,000 annual threshold requiring Executive Committee approval until the period of 04/01/12 through 03/31/13. Once the threshold was met, the Authority took the contract to the Executive Committee, as documented in Observation 1, above. The Authority extended the contract with Harbor Pointe A/C and Controls at RFOTC once blanket order #1158 had expired as of October 31, 2011, by combining the services into blanket order #1201.

Recommendation:

We recommend that the Authority re-submit a request for proposal to solicit public bids for HVAC Maintenance contracts for both the RFOTC and the Fire Stations. This is because the current term for the RFOTC contract has expired and was combined with the Fire Station contract without being re-submitted for proposal.

The current purchasing policies do not specify whether the Authority can submit two separate bids for the RFOTC and the Fire Stations separately even if it is for the same service and with the same vendor. We recommend the policy be updated to add some clarity to the subject and also discuss dollar thresholds for approval.



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

OCFA Management's Response:

While management agrees with the Auditor's recommendation, it should be noted that there were two separate formal solicitations which allowed for separate vendors to compete for the individual contract awards. As a result of the separate solicitations, both contracts were awarded to Harbor Pointe. The intent of combining the contracts and submitting this to the Executive Committee for approval was done in an effort to be transparent and was not to avoid a formal process. Purchasing staff intends to send out a new solicitation for these services and has only extended the contract through March 31, 2014.

Observation 2:

During our observations we noted that the contracts between the Authority and Harbor Pointe A/C and Control contained numerous change orders each year.

Evaluation:

According to the Roles/Responsibilities/Authorities for OCFA Section of the Policy and Guidelines contained in the Budget Book on page 101, Authority management has the authorization to "approve change order/modifications up to 15%, but not to exceed a total value of \$50,000". Each year for both contracts, the Authority management approved change orders in excess of 15%. However, individual change orders did not exceed \$50,000, but in total the change orders have exceeded that threshold on several occasions.

Despite the change orders, the individual expenditures related to each contract never exceeded the \$100,000 annual threshold for service contracts as documented in the Evaluation to Observation 1 above until the period of 04/01/12 through 03/31/13, in which the Authority submitted the contract for Executive Committee Approval.

The current policies in place regarding change orders and Executive Committee approval, as written, do not appear to be followed in this situation.

Recommendation:

We recommend that the Authority clarify the current policies in place for change orders and the approval process for the different type of purchases, as it presently appears to be unclear.

OCFA Management's Response:

Management agrees with the auditor's assessment. To address these concerns, purchasing and finance staff are planning to provide training to the departments in an effort to further educate them on the procurement process and adhering to the OCFA Roles/Responsibilities/and Authorities matrix.. In addition, change orders will be addressed in the revision to the purchasing ordinance.



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

Blanket Orders

3. We obtained a schedule of all blanket purchase orders issued by the Authority from the period of January 1, 2011 through May 8, 2013. We evaluated all blanket orders and judgmentally selected all items that contained the following criteria:

One Vendor
Multiple Blanket Orders Issued
Same Contract Period

We have included a schedule of all blanket orders inspected as a result of our sample as Exhibit A, attached to this report.

Observation: The Authority has issued 841 blanket orders from the start of 2011. As a result of our selections, 234 separate blanket orders were identified as higher risk items, or those meeting the above criteria. We physically inspected each blanket order listed in Exhibit A, and noted the following exceptions:

Randstad North America blanket order #112-6 was originally approved to expire on 5/31/13, but a current RFP and contract was not available at the expiration of the contract, so the Authority submitted a 6 month extension to the Executive Committee on May 23, 2013, through November 30, 2013. This situation is similar to the one documented under the Brightway Building Maintenance blanket orders documented in section 1 of this report.

Trucparco blanket order #1102-4 was originally approved to expire on 4/30/13, but a current RFP and contract was not available at the expiration of the contract, so the Authority extended the contract 2 months. This extension did not need Executive Committee approval because it was under the \$100,000 annual threshold. This situation is similar to the one documented under the Brightway Building Maintenance blanket orders documented in section 1 of this report.

Verizon Wireless blanket order 1085-2 and 1341 had two issues noted. The first issue was that the date of the last annual change order did not match the dates of the original blanket order. The second issue noted was that the last two change orders were issued for higher amounts than what the Executive Committee approved.



Jim Ruane, Finance Manager / Auditor
Orange County Fire Authority
Page 6

Evaluation: The evaluation in Section 1 of this Report is sufficient to address the issues related to Randstad North America blanket order #1122-6 and Trucparco blanket order #1102-4.

The internal controls over the recording and processing of blanket orders need to be improved through the use of technology and segregation of duties. Adequate segregation of duties among the tasks of initiating, approving, recording, and reviewing blanket orders will strengthen controls. Computer and program controls implemented can provide data entry controls, edit checks, exception reports, access controls, and reviews of input or output data.

Recommendation: Based on the additional analysis of all blanket orders, the recommendations made in Section 1 and 2 of this Report, related to monitoring expiring contracts and clarifying policy on handling multiple agreements with same vendor, have not changed. We recommend that the internal controls over the initiating, recording, and review of blanket orders be strengthened so that the terms approved by the Executive Committee (duration and amount) be the same as the actual blanket order.

OCFA Management's Response: Management agrees with the recommendation to strengthen internal controls. We understand from the audit that the three blanket orders discussed above represent only 1.5% of the 234 blanket orders reviewed, and actions are underway to address these findings. Part of the reason for the audit finding on these three blanket orders are the existing manual system, limited procurement staffing levels and the need to provide additional training to the departments. The solicitation was issued for Information Technology staffing (Randstad); proposals have been received and are currently being evaluated with anticipated recommendation for award at the October Executive Committee. The auto parts contract (Truckparco) was bid and multiple contract awards were made

We were not engaged to, and did not; conduct an audit, the objective of which would be the expression of an opinion on the procurement contracts of the Orange County Fire Authority for blanket order 1158 and 1201 for Harbor Pointe A/C and Controls, and blanket order 1095 for Bright Way Building Maintenance, as well as all vendors with multiple blanket orders issued since January 2011. And accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Lance, Soll & Loughard, LLP

Brea, California
September 17, 2013

Orange County Fire Authority Blanket Order Exhibit A

PO Number	Vendor Name	Description of Service or Commodity	Annual BO Amt	Bid/RFP #	Date of Bid	Contract Start Date	Contract End Date	Executive Committee Approval
B01215-1	ACS GOVERNMENT SYSTEMS	Hourly remote database assistance	\$30,000.00	Sole Source	N/A	7/1/2010	6/30/2011	N/A
B01215-2	ACS GOVERNMENT SYSTEMS	Hourly remote database assistance	\$30,000.00	Sole Source	N/A	7/1/2011	6/30/2012	N/A
E00099-9	ACS GOVERNMENT SYSTEMS	Now B01456. No longer ENC	\$79,205.53	Sole Source	N/A	5/1/2010	4/30/2011	Yes, 5/9/96
E00100-9	ACS GOVERNMENT SYSTEMS	Now B01455. No longer ENC	\$8,251.55	Sole Source	N/A	5/1/2010	4/30/2011	Yes, 5/9/96
E00253	ACS GOVERNMENT SYSTEMS	Now B01455. No longer ENC	\$9,422.24	Sole Source	N/A	5/1/2011	4/30/2012	Yes, 5/9/96
E00253-1	ACS GOVERNMENT SYSTEMS	Now B01455. No longer ENC	\$9,335.60	Sole Source	N/A	5/1/2012	4/30/2013	Yes, 5/9/96
E00254	ACS GOVERNMENT SYSTEMS	Now B01456. No longer ENC	90,442.80	Sole Source	N/A	5/1/2011	4/30/2012	Yes, 5/9/96
E00254-1	ACS GOVERNMENT SYSTEMS	Now B01456. No longer ENC	\$89,611.14	Sole Source	N/A	5/1/2012	4/30/2013	Yes, 5/9/96
B01454	ACS GOVERNMENT SYSTEMS BANNER/FINANCE	Banner Finance Maintenance	\$89,819.16	Sole Source	N/A	5/1/2013	4/30/2014	Yes, 5/9/96
B01455	ACS GOVERNMENT SYSTEMS WEB FOR EMPLOYEES	"Web For Employees" Maintenance	\$9,357.26	Sole Source	N/A	5/1/2013	4/30/2014	Yes, 5/9/96
B09943-4	ALLSTAR FIRE EQUIPM ENT	Purchase of Firefighting Gloves	\$10,000.00	MD1311	10/3/2006	11/1/2010	10/31/2011	N/A
B09964-3	ALLSTAR FIRE EQUIPM ENT	Purchase of Flashlights	\$5,000.00	MD1349	1/16/2007	2/1/2010	1/31/2011	N/A
B01020-3	ALLSTAR FIRE EQUIPM ENT	Purchase of Clothing and Accessories	\$400,000.00	JC1342	1/30/2007	5/1/2010	4/30/2011	N/A
B01020-4	ALLSTAR FIRE EQUIPM ENT	Purchase of Clothing and Accessories	\$400,000.00	JC1342	1/30/2007	5/1/2011	4/30/2012	N/A
B01020-5	ALLSTAR FIRE EQUIPM ENT	Purchase of Clothing and Accessories	\$450,000.00	JC1342	1/30/2007	5/1/2012	4/30/2013	N/A
B01020-6	ALLSTAR FIRE EQUIPM ENT	Purchase of Clothing and Accessories	\$400,000.00	JC1342	1/30/2007	5/1/2013	4/30/2014	N/A
B01184-1	ALLSTAR FIRE EQUIPM ENT	Purchase Wildland Protective Clothing	\$40,000.00	MP1610	12/23/2008	2/1/2010	1/31/2011	N/A
B01184-2	ALLSTAR FIRE EQUIPM ENT	Purchase Wildland Protective Clothing	\$40,000.00	MP1610	12/23/2008	2/1/2011	1/31/2012	N/A
B01184-3	ALLSTAR FIRE EQUIPM ENT	Purchase Wildland Protective Clothing	\$40,000.00	MP1610	12/23/2008	2/1/2013	1/31/2013	N/A
B01184-4	ALLSTAR FIRE EQUIPM ENT	Purchase Wildland Protective Clothing	\$40,000.00	MP1610	12/23/2008	2/1/2013	1/31/2014	N/A
B01214-4	ALLSTAR FIRE EQUIPM ENT	Purchase of Scott Airpack Parts	\$145,000.00	MP1663	5/8/2009	5/1/2013	4/30/2014	N/A
B01221-1	ALLSTAR FIRE EQUIPM ENT	Purchase of Rubber Turnout Boots	\$15,000.00	MP1676	6/10/2009	6/1/2010	5/31/2011	N/A
B01221-2	ALLSTAR FIRE EQUIPM ENT	Purchase of Rubber Turnout Boots	\$10,000.00	MP1676	6/10/2009	6/1/2011	5/31/2012	N/A
B01221-3	ALLSTAR FIRE EQUIPM ENT	Purchase of Rubber Turnout Boots	\$10,000.00	MP1676	6/10/2009	6/1/2012	5/31/2013	N/A
B01221-4	ALLSTAR FIRE EQUIPM ENT	Purchase of Rubber Turnout Boots	\$10,000.00	MP1676	6/10/2009	6/1/2013	5/31/2014	N/A
B01236-1	ALLSTAR FIRE EQUIPM ENT	Purchase of Fire Hose	\$195,000.00	JC1671	6/17/2009	8/1/2010	7/31/2013	N/A
B01236-2	ALLSTAR FIRE EQUIPM ENT	Purchase of Fire Hose	\$195,000.00	JC1671	6/17/2009	8/1/2011	7/31/2012	N/A
B01236-3	ALLSTAR FIRE EQUIPM ENT	Purchase of Fire Hose	\$195,000.00	JC1671	6/17/2009	8/1/2012	7/31/2013	N/A
B01241-1	ALLSTAR FIRE EQUIPM ENT	Purchase of Phenix Helmets	\$50,000.00	N/A	N/A	9/1/2010	8/31/2011	N/A
B01241-2	ALLSTAR FIRE EQUIPM ENT	Purchase of Phenix Helmets	\$50,000.00	N/A	N/A	9/1/2011	8/31/2012	N/A
B01241-3	ALLSTAR FIRE EQUIPM ENT	Purchase of Phenix Helmets	\$70,000.00	N/A	N/A	9/1/2012	8/31/2013	N/A
B01355	ALLSTAR FIRE EQUIPM ENT	Purchase of Firefighting Gloves	\$30,000.00	MD1742	5/23/2011	6/1/2011	5/31/2012	N/A
B01355-1	ALLSTAR FIRE EQUIPM ENT	Purchase of Firefighting Gloves	\$30,000.00	MD1742	5/23/2011	6/1/2012	5/31/2013	N/A
B01355-2	ALLSTAR FIRE EQUIPM ENT	Purchase of Firefighting Gloves	\$30,000.00	MD1742	5/23/2011	6/1/2013	5/31/2014	N/A
B01439	ALLSTAR FIRE EQUIPM ENT	Purchase of Flashlights	\$15,000.00	JA1812	5/29/2012	7/1/2012	6/30/2013	N/A
B01439-1	ALLSTAR FIRE EQUIPM ENT	Purchase of Flashlights	\$5,000.00	JA1812	5/29/2012	7/1/2013	6/30/2014	N/A
B01169-3	ASSETWORKS, INC.	FA Software Maintenance and Support	\$190,000.00	JC1521	10/23/2008	1/1/2012	12/31/2012	Yes 10-23-2008
B01170-3	ASSETWORKS, INC.	FA Software Maintenance and Support	\$10,440.00	JC1521	10/23/2008	1/1/2012	12/31/2012	Yes 10-23-2008
B01170-4	ASSETWORKS, INC.	FA Software Maintenance and Support	\$10,562.00	JC1521	10/23/2008	1/1/2013	12/31/2013	Yes 10-23-2008
B01386	CITY OF COSTA MESA	Purchase of Business Cards	\$3,000.00	N/A	N/A	11/1/2011	10/31/2012	N/A
B01389	CITY OF COSTA MESA	Printing Services	\$20,000.00	MD1781	8/23/2011	11/1/2011	10/31/2012	N/A
B01341-1	CITY OF FULLERTON	Lease of Fire Station 41	\$51,786.00	N/A	N/A	1/1/2010	2/28/2011	Yes (1/10/2000)
B01337	CITY OF FULLERTON	Lease of Fire Station 41	\$60,364.08	N/A	N/A	7/1/2011	6/30/2012	Yes 1-28-10
B01337-1	CITY OF FULLERTON	Lease of Fire Station 41	\$99,898.74	N/A	N/A	7/1/2012	6/30/2013	Yes 1-28-10
B01337-2	CITY OF FULLERTON	Lease of Fire Station 41	\$102,840.00	N/A	N/A	7/1/2013	6/30/2014	Yes 1-28-10
B01365	CITY OF FULLERTON	Flow Fee to City of Fullerton	\$5,000.00	N/A	N/A	1/1/2011	12/31/2011	Yes 1/28/10
B01365-1	CITY OF FULLERTON	Flow Fee to City of Fullerton	\$5,000.00	N/A	N/A	1/1/2012	12/31/2012	Yes 1/28/10
B01365-2	CITY OF FULLERTON	Flow Fee to City of Fullerton	\$5,000.00	N/A	N/A	1/1/2013	12/31/2013	Yes 1/28/10
B00880-4	CLEANSOURCE, INC	Maintenance and Repair of Floor Scrubber	\$5,000.00	N/A	N/A	4/1/2010	3/31/2011	N/A

PO Number	Vendor Name	Description of Service or Commodity	Annual BO Amt	Bid/RFP #	Date of Bid	Contract Start Date	Contract End Date	Executive Committee Approval
B00860-5	CLEANSOURCE, INC	Maintenance and Repair of Floor Scrubber	\$5,000.00	N/A	N/A	4/1/2011	3/31/2012	N/A
B00860-6	CLEANSOURCE, INC	Maintenance and Repair of Floor Scrubber	\$5,000.00	N/A	N/A	4/1/2012	3/31/2013	N/A
B01235-1	CLEANSOURCE, INC	Cooperative contract that was cancelled on 3/11/10.	\$222,937.50	N/A	N/A	11/1/2010	10/31/2011	N/A
B01235-2	CLEANSOURCE, INC	Cooperative contract that was cancelled on 3/11/10.	\$50,000.00	N/A	N/A	11/1/2011	10/31/2012	N/A
B01235-3	CLEANSOURCE, INC	Cooperative contract that was cancelled on 3/11/10.	\$50,000.00	N/A	N/A	11/1/2012	10/31/2013	N/A
B01240-1	CLEANSOURCE, INC	Purchase of Cleaning Supplies	\$25,000.00	SMA San Diego	N/A	8/15/2010	9/30/2011	N/A
B01070-2	COM M ERICIAL SERVICE SOLUTIONS	Fire Stations Carpet Cleaning and Maintenance	\$41,357.44	MP1459	1/17/2008	3/1/2010	2/28/2011	N/A
B01070-3	COM M ERICIAL SERVICE SOLUTIONS	Fire Stations Carpet Cleaning and Maintenance	\$40,357.44	MP1459	1/17/2008	3/1/2011	2/28/2012	N/A
B01112-2	COM M ERICIAL SERVICE SOLUTIONS	Fire Stations Carpet Cleaning and Maintenance	\$15,000.00	MP1503	5/8/2008	6/1/2010	5/31/2011	N/A
B01393	COM M ERICIAL SERVICE SOLUTIONS	Fire Stations Carpet Cleaning and Maintenance	\$35,000.00	MD1776	11/18/2011	12/1/2011	11/30/2012	N/A
B01393-1	COM M ERICIAL SERVICE SOLUTIONS	Fire Stations Carpet Cleaning and Maintenance	\$80,000.00	MD1776	11/18/2011	12/1/2012	11/30/2013	N/A
B01407	COM M ERICIAL SERVICE SOLUTIONS	Fire Stations Carpet Cleaning and Maintenance	\$45,000.00	MP1459	1/17/2008	4/1/2012	11/30/2012	N/A
B00660-7	COUNTY OF ORANGE/TREASURER-TAX	OC Communications System Service Contract	\$290,323.00	N/A	N/A	7/1/2010	6/30/2011	Yes (8/28/03)
B00660-8	COUNTY OF ORANGE/TREASURER-TAX	OC Communications System Service Contract	\$279,541.00	N/A	N/A	7/1/2011	6/30/2012	Yes (8/28/03)
B00660-9	COUNTY OF ORANGE/TREASURER-TAX	OC Communications System Service Contract	\$320,732.00	N/A	N/A	7/1/2012	6/30/2013	Yes (8/28/03)
B01013-3	COUNTY OF ORANGE/TREASURER-TAX	900mhz Paging System Access	\$38,400.00	N/A	N/A	7/1/2010	6/30/2011	N/A
B01013-4	COUNTY OF ORANGE/TREASURER-TAX	900mhz Paging System Access	\$38,400.00	N/A	N/A	7/1/2011	6/30/2012	N/A
B01013-5	COUNTY OF ORANGE/TREASURER-TAX	900mhz Paging System Access	\$38,400.00	N/A	N/A	7/1/2012	6/30/2013	N/A
B01116-2	COUNTY OF ORANGE/TREASURER-TAX	Printing Services	\$25,000.00	N/A	N/A	7/1/2010	6/30/2011	N/A
B01116-3	COUNTY OF ORANGE/TREASURER-TAX	Printing Services	\$10,000.00	N/A	N/A	7/1/2011	6/30/2012	N/A
B01223-1	COUNTY OF ORANGE/TREASURER-TAX	Communication Equipment Maintenance	\$155,000.00	RP0085	5/1/1996	7/1/2010	6/30/2011	N/A
B01223-2	COUNTY OF ORANGE/TREASURER-TAX	Communication Equipment Maintenance	\$155,000.00	RP0085	5/1/1996	7/1/2011	6/30/2012	N/A
B01223-3	COUNTY OF ORANGE/TREASURER-TAX	Communication Equipment Maintenance	\$155,000.00	RP0085	5/1/1996	7/1/2012	6/30/2013	N/A
B01246-3	COURY & BUEHLER PHYSICAL THERAPY	PT, Rehab and Wellness Services	\$35,000.00	MP1599	11/6/2008	9/15/2012	9/14/2013	N/A
B01405	COURY & BUEHLER PHYSICAL THERAPY-IRVINE	PT, Rehab and Wellness Services	\$60,000.00	MP1599	11/6/2008	2/8/2012	9/14/2013	N/A
B01137-2	ESRI, INC.	Technology Professional Services	\$100,000.00	MP1477	2/15/2008	8/19/2010	8/18/2011	N/A
B01137-3	ESRI, INC.	Technology Professional Services	\$100,000.00	MP1477	2/15/2008	8/19/2011	8/18/2012	N/A
B01137-4	ESRI, INC.	Technology Professional Services	\$100,000.00	MP1477	2/15/2008	8/19/2012	8/18/2013	N/A
B01291	ESRI, INC.	Professional GIS Maintenance Services	\$75,000.00	Sole Source	N/A	2/15/2010	2/14/2011	5/27/2010
B01291-1	ESRI, INC.	Professional GIS Maintenance Services	\$85,000.00	Sole Source	N/A	2/15/2011	2/14/2012	5/27/2010
B01291-2	ESRI, INC.	Professional GIS Maintenance Services	\$75,000.00	Sole Source	N/A	2/15/2012	2/14/2014	5/27/2010
B01015-3	FIREFIGHTERS SAFETY CENTER	Purchase of Helmet Shields	\$7,500.00	MD1381	5/1/2007	6/1/2010	5/31/2011	N/A
B01015-4	FIREFIGHTERS SAFETY CENTER	Purchase of Helmet Shields	\$7,000.00	MD1381	5/1/2007	6/1/2011	5/31/2012	N/A
B01015-5	FIREFIGHTERS SAFETY CENTER	Purchase of Helmet Shields	\$13,000.00	MD1381	5/1/2007	6/1/2012	5/31/2013	N/A
B01297	FIREFIGHTERS SAFETY CENTER	Purchase of Wildland Boots	\$60,000.00	JCI726	6/2/2010	7/1/2010	6/30/2011	N/A
B01297-1	FIREFIGHTERS SAFETY CENTER	Purchase of Wildland Boots	\$60,000.00	JCI726	6/2/2010	7/1/2011	6/30/2012	N/A
B01297-2	FIREFIGHTERS SAFETY CENTER	Purchase of Wildland Boots	\$60,000.00	JCI726	6/2/2010	7/1/2012	6/30/2013	N/A
B01297-3	FIREFIGHTERS SAFETY CENTER	Purchase of Wildland Boots	\$45,000.00	JCI726	6/2/2010	7/1/2013	6/30/2014	N/A
B01319-1	GALLS INC	Purchase of Uniforms	\$500,000.00	RL0439	9/14/1999	1/1/2012	12/31/2012	N/A
B01319-2	GALLS INC	Purchase of Uniforms	\$200,000.00	RL0439	9/14/1999	1/1/2013	3/31/2013	N/A
B01319-3	GALLS INC	Purchase of Uniforms	\$400,000.00	RL0439	9/14/1999	4/1/2013	6/30/2014	N/A
B01225-2	GM F SOUND, INC.	A/V Equipment Repair Services	\$10,000.00	N/A	N/A	7/1/2011	6/30/2012	N/A
B01225-3	GM F SOUND, INC.	A/V Equipment Repair Services	\$10,000.00	N/A	N/A	7/1/2012	6/30/2013	N/A
B01239-2	GM F SOUND, INC.	Purchase of Sound System Components	\$10,000.00	N/A	N/A	8/1/2011	7/31/2012	N/A
B01336	GM F SOUND, INC.	Purchase of A/V and Station Alarm Components	\$20,000.00	MPI758	2/10/2011	2/1/2011	1/31/2012	N/A
B01336-1	GM F SOUND, INC.	Purchase of A/V and Station Alarm Components	\$20,000.00	MPI758	2/10/2011	2/1/2012	1/31/2013	N/A
B01336-2	GM F SOUND, INC.	Purchase of A/V and Station Alarm Components	\$20,000.00	MPI758	2/10/2011	2/1/2013	1/31/2014	N/A
B01382	GRAINGER	Purchase Communication and IT Supplies	\$20,000.00	Coop. Tucson AZ #090188	11/1/2010	1/1/2011	12/31/2011	N/A
B01382-1	GRAINGER	Purchase Communication and IT Supplies	\$20,000.00	Coop. Tucson AZ #090188	11/1/2010	1/1/2012	12/31/2012	N/A
B01382-2	GRAINGER	Purchase Communication and IT Supplies	\$7,500.00	Coop. Tucson AZ #090188	11/1/2010	1/1/2013	12/31/2013	N/A
B01412	GRAINGER	Purchase of Misc Tools and Hardware	\$20,000.00	Coop. Tucson AZ #090188	11/1/2010	5/1/2012	12/31/2014	N/A
B01438	GRAINGER	Purchase of Duracell Procell Batteries	\$32,000.00	Coop. Tucson AZ #090188	11/1/2010	1/1/2012	12/31/2012	N/A

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B01438-1	GRAINGER	Purchase of Duracell Procell Batteries	\$32,000.00	Coop. Tacton AZ #090188	11/1/2010	1/1/2013	12/31/2013	N/A
B01223-1	HARBOR POINTE A/C & CONTROLS	Portable and Fixed Air Compressor Service	\$30,000.00	MP1680	7/15/2009	8/1/2010	7/31/2011	N/A
B01223-2	HARBOR POINTE A/C & CONTROLS	Portable and Fixed Air Compressor Service	\$50,000.00	MP1680	7/15/2009	8/1/2011	7/31/2012	N/A
B01223-3	HARBOR POINTE A/C & CONTROLS	Portable and Fixed Air Compressor Service	\$50,000.00	MP1680	7/15/2009	8/1/2012	7/31/2013	N/A
B00595-7	HEWLETT-PACKARD COM PANY	Now B0144 due to system limitations -9. Reference B01442 description and notes	\$9,163.57	Coop. WSCA #A63309 (End 8/31/09) Renewed WSCAII B27164 exp. 9/1/14	2/1/2003	8/31/2010	9/1/2011	N/A
B00595-8	HEWLETT-PACKARD COM PANY	Now B0144 due to system limitations -9. Reference B01442 description and notes	\$8,241.03	Coop. WSCA #A63309 (End 8/31/09) Renewed WSCAII B27164 exp. 9/1/14	2/1/2003	8/31/2011	9/1/2012	N/A
B00595-9	HEWLETT-PACKARD COM PANY	Now B0144 due to system limitations -9. Reference B01442 description and notes	\$5,242.86	Coop. WSCA #A63309 (End 8/31/09) Renewed WSCAII B27164 exp. 9/1/14	2/1/2003	8/31/2012	9/1/2013	N/A
B01209-1	HEWLETT-PACKARD COM PANY	HP Support Plus 24 Hour Services	\$12,357.24	MP1666	5/8/2009	5/1/2010	4/30/2011	N/A
B01342	HEWLETT-PACKARD COM PANY	HP Support Plus 24 Hour Services	\$11,267.04	WSCAIII Contract B27164	5/1/2012	5/1/2011	4/30/2012	N/A
B01342-1	HEWLETT-PACKARD COM PANY	HP Support Plus 24 Hour Services	\$11,267.04	WSCAIII Contract B27164	5/1/2012	5/1/2012	4/30/2013	N/A
B01342-2	HEWLETT-PACKARD COM PANY	HP Support Plus 24 Hour Services	\$11,266.68	WSCAIII Contract B27164	5/1/2012	5/1/2013	4/30/2014	N/A
B01442	HEWLETT-PACKARD COM PANY	VMX and UNIX Software Maintenance	\$5,044.81	Coop. WSCA #A63309 (End 8/31/09) Renewed WSCAII B27164 exp. 9/1/14	2/1/2003	2/1/2013	1/31/2014	N/A
B01205-1	KM E FIRE APPARATUS	Fire Apparatus Repair and Maintenance	\$65,000.00	MP1651	3/24/2009	4/1/2010	3/31/2011	N/A
B01205-2	KM E FIRE APPARATUS	Fire Apparatus Repair and Maintenance	\$55,000.00	MP1651	3/24/2009	4/1/2011	3/31/2012	N/A
B01205-3	KM E FIRE APPARATUS	Fire Apparatus Repair and Maintenance	\$95,000.00	MP1651	3/24/2009	4/1/2012	3/31/2013	N/A
B01205-4	KM E FIRE APPARATUS	Fire Apparatus Repair and Maintenance	\$55,000.00	MP1651	3/24/2009	4/1/2013	3/31/2014	N/A
B01275	KM E FIRE APPARATUS	Purchase of Akron Parts	\$7,000.00	MP1713	3/18/2010	4/1/2010	3/31/2011	N/A
B01275-1	KM E FIRE APPARATUS	Purchase of Akron Parts	\$7,000.00	MP1713	3/18/2010	4/1/2011	3/31/2012	N/A
B01275-2	KM E FIRE APPARATUS	Purchase of Akron Parts	\$17,000.00	MP1713	3/18/2010	4/1/2012	3/31/2013	N/A
B01404	KM E FIRE APPARATUS	Purchase of Hale Pump Parts	\$17,000.00	MP1588	10/21/2008	3/1/2012	2/28/2013	N/A
B00454-9	LN CURTIS & SONS	Hurst Jaws of Life Parts and Repairs	\$15,000.00	MP0619	1/8/2001	3/1/2010	2/28/2011	N/A
B00959-4	LN CURTIS & SONS	Purchase of Structural Firefighting Boots	\$30,000.00	MD1337	12/11/2006	12/15/2010	12/14/2011	N/A
B00959-5	LN CURTIS & SONS	Purchase of Structural Firefighting Boots	\$30,000.00	MD1337	12/11/2006	12/15/2011	12/14/2012	N/A
B00959-6	LN CURTIS & SONS	Purchase of Structural Firefighting Boots	\$30,000.00	MD1337	12/11/2006	12/15/2012	12/14/2013	N/A
B01230-1	LN CURTIS & SONS	Purchase of Fire Equipment and Supplies	\$200,000.00	MP1677	6/23/2009	8/1/2010	7/31/2011	N/A
B01230-2	LN CURTIS & SONS	Purchase of Fire Equipment and Supplies	\$200,000.00	MP1677	6/23/2009	8/1/2011	7/31/2012	N/A
B01230-3	LN CURTIS & SONS	Purchase of Fire Equipment and Supplies	\$200,000.00	MP1677	6/23/2009	8/1/2012	7/31/2013	N/A
B01240-1	LN CURTIS & SONS	Purchase of Lifeline and Rescue Equipment	\$30,000.00	MP1691	9/16/2009	10/1/2010	9/30/2011	N/A
B01240-2	LN CURTIS & SONS	Purchase of Lifeline and Rescue Equipment	\$25,000.00	MP1691	9/16/2009	10/1/2011	9/30/2012	N/A
B01240-3	LN CURTIS & SONS	Purchase of Lifeline and Rescue Equipment	\$25,000.00	MP1691	9/16/2009	10/1/2012	9/30/2013	N/A
B01289	LN CURTIS & SONS	Purchase of Firefighting Foam	\$40,000.00	MP1729	5/21/2010	6/1/2010	5/31/2011	N/A
B01289-1	LN CURTIS & SONS	Purchase of Firefighting Foam	\$40,000.00	MP1729	5/21/2010	6/1/2011	5/31/2012	N/A
B01289-2	LN CURTIS & SONS	Purchase of Firefighting Foam	\$40,000.00	MP1729	5/21/2010	6/1/2012	5/31/2013	N/A
B01330	LN CURTIS & SONS	Hurst Jaws of Life Parts and Repairs	\$33,000.00	MP0619	1/8/2001	3/1/2011	2/28/2012	N/A
B01330-1	LN CURTIS & SONS	Hurst Jaws of Life Parts and Repairs	\$33,000.00	MP0619	1/8/2001	3/1/2012	2/28/2013	N/A
B01330-2	LN CURTIS & SONS	Hurst Jaws of Life Parts and Repairs	\$33,000.00	MP0619	1/8/2001	3/1/2013	2/28/2014	N/A
B01394	LN CURTIS & SONS	Purchase of Streamlight E-Spot Upgrade Kit	\$16,000.00	DC1796	12/13/2011	1/1/2012	12/31/2012	N/A
B01394-1	LN CURTIS & SONS	Purchase of Streamlight E-Spot Upgrade Kit	\$10,000.00	DC1796	12/13/2011	1/1/2013	12/31/2013	N/A
B00490-9	M OTOROLA SOLUTIONS INC.	Mobile Computer Repair and Maintenance	\$47,345.64	Sole Source	N/A	8/1/2010	7/31/2011	N/A
B01367-1	M OTOROLA SOLUTIONS INC.	Mobile Computer Repair and Maintenance	\$48,765.96	Sole Source	N/A	8/1/2011	7/31/2012	N/A
B01367-1	M OTOROLA SOLUTIONS INC.	Mobile Computer Repair and Maintenance	\$48,357.84	Sole Source	N/A	8/1/2012	7/31/2013	N/A
B01367-2	M OTOROLA SOLUTIONS INC.	Mobile Computer Repair and Maintenance	\$49,808.52	Sole Source	N/A	8/1/2013	7/31/2014	N/A
B01381	M OTOROLA SOLUTIONS INC.	Purchase of Communication Parts and Accessories	\$30,000.00	County of Orange MA06-10012594	5/21/2010	10/12/2011	9/30/2012	N/A
B01381-1	M OTOROLA SOLUTIONS INC.	Purchase of Communication Parts and Accessories	\$30,000.00	County of Orange MA06-10012594	5/21/2010	10/12/2012	9/30/2013	N/A
B01397	M UNICIPAL EM ERGENCY SERVICES	Purchase of Jackson Wildcat Goggles	\$10,000.00	DC1799	1/18/2012	1/1/2012	12/31/2012	N/A
B01397-1	M UNICIPAL EM ERGENCY SERVICES	Purchase of Jackson Wildcat Goggles	\$10,000.00	DC1799	1/18/2012	1/1/2013	12/31/2013	N/A
B01443	M UNICIPAL EM ERGENCY SERVICES	Purchase of SCBA Fit Testing Services	\$25,500.00	DC1802	1/18/2013	1/1/2013	12/31/2013	N/A
E00256	M UNICIPAL EM ERGENCY SERVICES	Now B01397. No longer encumbered	\$18,768.00	N/A	N/A	1/1/2012	12/31/2012	N/A

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B00256-1	MUNICIPAL EMERGENCY SERVICES	Now B01397. No longer encumbered	\$18,768.00	N/A	N/A	1/1/2013	12/31/2013	N/A
B00915-4	NICKEY PETROLEUM	Purchase of Gasoline and Diesel Fuel	\$10,000.00	N/A	N/A	8/1/2010	7/31/2011	N/A
B00915-5	NICKEY PETROLEUM	Purchase of Gasoline and Diesel Fuel	\$10,000.00	N/A	N/A	8/1/2011	7/31/2012	N/A
B00915-6	NICKEY PETROLEUM	Purchase of Gasoline and Diesel Fuel	\$10,000.00	N/A	N/A	8/1/2012	7/31/2013	N/A
B00994-3	NICKEY PETROLEUM	Purchase of Absorbents and Related Items	\$15,000.00	MP1364	3/29/2007	8/1/2010	7/31/2011	N/A
B01084-7	NICKEY PETROLEUM	Purchase of Lubricants	\$33,500.00	MP1487	3/14/2008	4/1/2010	3/31/2011	N/A
B01343	NICKEY PETROLEUM	Purchase of Lubricants	\$29,500.00	MD1765	3/30/2011	4/1/2011	3/31/2012	N/A
B01343-1	NICKEY PETROLEUM	Purchase of Lubricants	\$45,500.00	MD1765	3/30/2011	4/1/2012	3/31/2013	N/A
B01343-2	NICKEY PETROLEUM	Purchase of Lubricants	\$40,000.00	MD1765	3/30/2011	4/1/2013	3/31/2014	N/A
B00909-4	OPTISOURCE TECHNOLOGIES, INC.	Document Imaging and Processing Services	\$15,480.00	Sole Source	N/A	7/1/2010	6/30/2011	N/A
B00909-5	OPTISOURCE TECHNOLOGIES, INC.	Document Imaging and Processing Services	\$15,480.00	Sole Source	N/A	7/1/2011	6/30/2012	N/A
B00909-6	OPTISOURCE TECHNOLOGIES, INC.	Document Imaging and Processing Services	\$17,980.00	Sole Source	N/A	7/1/2012	6/30/2013	N/A
B00909-7	OPTISOURCE TECHNOLOGIES, INC.	Document Imaging and Processing Services	\$17,980.00	Sole Source	N/A	7/1/2013	6/30/2014	N/A
B00910-4	OPTISOURCE TECHNOLOGIES, INC.	Document Imaging and Processing Services	\$10,000.00	Sole Source	N/A	7/1/2010	6/30/2011	N/A
B00910-6	OPTISOURCE TECHNOLOGIES, INC.	Document Imaging and Processing Services	\$10,000.00	Sole Source	N/A	7/1/2012	6/30/2013	N/A
B00910-7	OPTISOURCE TECHNOLOGIES, INC.	Document Imaging and Processing Services	\$10,000.00	Sole Source	N/A	7/1/2013	6/30/2014	N/A
B00911-4	OPTISOURCE TECHNOLOGIES, INC.	Document Imaging and Processing Services	\$10,000.00	Sole Source	N/A	7/1/2010	6/30/2011	N/A
B00911-5	OPTISOURCE TECHNOLOGIES, INC.	Document Imaging and Processing Services	\$10,000.00	Sole Source	N/A	7/1/2011	6/30/2012	N/A
B00911-6	OPTISOURCE TECHNOLOGIES, INC.	Document Imaging and Processing Services	\$10,000.00	Sole Source	N/A	7/1/2012	6/30/2013	N/A
B00911-7	OPTISOURCE TECHNOLOGIES, INC.	Document Imaging and Processing Services	\$10,000.00	Sole Source	N/A	7/1/2013	6/30/2014	N/A
B01122-5	RANDSTAD NORTH AM ERICA, L.P.	Professional Technology Services	\$539,446.00	MP1477	3/7/2008	6/1/2011	5/31/2012	Yes, 5/22/08
B01122-6	RANDSTAD NORTH AM ERICA, L.P.	Professional Technology Services	\$996,446.00	MP1477	3/7/2008	6/1/2012	11/30/2013	Yes, 5/22/08
B01219-4	RANDSTAD NORTH AM ERICA, L.P.	GIS Services	\$304,750.00	MP1477	3/7/2008	6/1/2011	5/31/2012	Yes, 1/28/10
B01219-5	RANDSTAD NORTH AM ERICA, L.P.	GIS Services	\$304,750.00	MP1477	3/7/2008	6/1/2012	5/31/2013	Yes, 1/28/10
B01219-6	RANDSTAD NORTH AM ERICA, L.P.	GIS Services	\$304,750.00	MP1477	3/7/2008	6/1/2013	5/31/2014	Yes, 1/28/10
B01416	RANDSTAD NORTH AM ERICA, L.P.	Network Technology Services	\$192,000.00	Agreement from Santa Ana: A-2011-133	N/A	4/20/2012	4/19/2013	Board yes 3/22/12
B01122-3	SAPPHIRE TECHNOLOGIES, LP	Now Randstad Reference B01122	\$533,050.00	MP1477	3/7/2008	6/1/2010	5/31/2011	Yes, 1/28/10
B01122-4	SAPPHIRE TECHNOLOGIES, LP	Now Randstad Reference B01122	\$539,446.00	MP1477	3/7/2008	6/1/2011	5/31/2012	Yes, 1/28/10
B01219-2	SAPPHIRE TECHNOLOGIES, LP	Now Randstad Reference B01219	\$265,000.00	MP1477	3/7/2008	6/1/2010	5/31/2011	Yes, 1/28/10
B01219-3	SAPPHIRE TECHNOLOGIES, LP	Now Randstad Reference B01219	\$304,750.00	MP1477	3/7/2008	6/1/2011	5/31/2012	Yes, 1/28/10
B01418	TRITECH SOFTWARE SYSTEMS	Software Support Services for Santa Ana CAD	\$126,422.17	N/A	N/A	6/1/2012	5/31/2013	BOD 3/22/12. Exec 5/23/13
B01418-1	TRITECH SOFTWARE SYSTEMS	Software Support Services for Santa Ana CAD	\$128,931.05	N/A	N/A	6/1/2013	5/31/2014	BOD 3/22/12. Exec 5/23/13
E00258	TRITECH SOFTWARE SYSTEMS	Installation & Licensing CAD Safety Systems	\$2,835,640.00	MD1743	6/6/2011	9/27/2012	9/30/2013	9/27/2012
B00967-3	TRUCPARCO	Purchase of Truck Starters & Alternators	\$27,187.50	MP1347	1/22/2007	2/1/2010	1/31/2011	N/A
B00967-4	TRUCPARCO	Purchase of Truck Starters & Alternators	\$10,000.00	MP1347	1/22/2007	2/1/2011	1/31/2012	N/A
B01102-2	TRUCPARCO	Purchase of Misc Truck Parts	\$40,000.00	MP1516	5/8/2008	5/1/2010	4/30/2011	N/A
B01102-3	TRUCPARCO	Purchase of Misc Truck Parts	\$35,000.00	MP1516	5/8/2008	5/1/2011	4/30/2012	N/A
B01102-4	TRUCPARCO	Purchase of Misc Truck Parts	\$60,000.00	MP1516	5/8/2008	5/1/2012	6/30/2013	N/A
B01329	TRUCPARCO	Purchase of Truck Starters & Alternators	\$25,000.00	MD1757	1/31/2011	2/1/2011	1/31/2012	N/A
B01329-1	TRUCPARCO	Purchase of Truck Starters & Alternators	\$25,000.00	MD1757	1/31/2011	2/1/2012	1/31/2013	N/A
B01329-2	TRUCPARCO	Purchase of Truck Starters & Alternators	\$25,000.00	MD1757	1/31/2011	2/1/2013	1/31/2014	N/A
B00972-4	VERIZON WIRELESS	Purchase of Aircard Cellphone Services for USAR	\$8,000.00	N/A	N/A	12/1/2010	11/30/2011	N/A
B00972-5	VERIZON WIRELESS	Purchase of Aircard Cellphone Services for USAR	\$23,000.00	N/A	N/A	12/1/2011	11/30/2012	N/A
B00972-6	VERIZON WIRELESS	Purchase of Aircard Cellphone Services for USAR	\$23,000.00	N/A	N/A	12/1/2012	11/30/2013	N/A
B01085-1	VERIZON WIRELESS	Purchase Mobile Phone Access Services	\$291,500.00	LA-5274520	N/A	3/1/2009	3/31/2011	11/20/2008
B01085-2	VERIZON WIRELESS	Purchase Mobile Phone Access Services	\$261,500.00	LA-5274520	N/A	4/1/2011	6/29/2011	N/A
B01341	VERIZON WIRELESS	Purchase Equipment and Wireless Services	\$261,500.00	WSCA contact 7-10-70-16	N/A	11/1/2010	10/31/2011	N/A
B01341-1	VERIZON WIRELESS	Purchase Equipment and Wireless Services	\$261,500.00	WSCA contact 7-10-70-16	N/A	11/1/2011	10/31/2012	N/A
B00927-4	VERIZON, INC.	Purchase of Utility Telephone Service	\$7,000.00	County/ATT contract S0000000029	7/1/1996	3/1/2010	2/28/2011	N/A
B00927-5	VERIZON, INC.	Purchase of Utility Telephone Service	\$7,000.00	County/ATT contract S0000000029	7/1/1996	3/1/2011	2/28/2012	N/A
B01255-1	VERIZON, INC.	Purchase of Maintenance and Support Services	\$42,060.00	MP1681	9/2/2009	7/1/2011	6/30/2012	N/A

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B01255-2	VERIZON, INC.	Purchase of Maintenance and Support Services	\$40,928.32	MP1681	9/2/2009	7/1/2012	6/30/2013	N/A
B01255-3	VERIZON, INC.	Purchase of Maintenance and Support Services	\$42,906.90	MP1681	9/2/2009	7/1/2013	6/30/2014	N/A
B01256-1	VERIZON, INC.	Purchase of Maintenance and Support Services	\$30,967.44	MP1681	9/2/2009	7/1/2011	6/30/2012	N/A
B01256-2	VERIZON, INC.	Purchase of Maintenance and Support Services	\$30,967.44	MP1681	9/2/2009	7/1/2012	6/30/2013	N/A
B01098-2	WILLIAMS & MAHER INC	Electrical Systems Repair and Maintenance	\$75,000.00	MP1500	4/30/2008	5/1/2010	4/30/2011	N/A
B01299	WILLIAMS & MAHER INC	Purchase of Communication Cabling	\$50,000.00	MP1624	3/3/2009	7/1/2010	6/30/2011	N/A
B01299-1	WILLIAMS & MAHER INC	Purchase of Communication Cabling	\$50,000.00	MP1624	3/3/2009	7/1/2011	6/30/2012	N/A
B01299-2	WILLIAMS & MAHER INC	Purchase of Communication Cabling	\$80,000.00	MP1624	3/3/2009	7/1/2012	6/30/2013	N/A
B01356	WILLIAMS & MAHER INC	Electrical Systems Repair and Maintenance	\$100,000.00	MP1500	4/30/2008	5/1/2011	4/30/2012	N/A
B01356-1	WILLIAMS & MAHER INC	Electrical Systems Repair and Maintenance	\$95,000.00	MP1500	4/30/2008	5/1/2012	4/30/2013	N/A
B01356-2	WILLIAMS & MAHER INC	Electrical Systems Repair and Maintenance	\$95,000.00	MP1500	4/30/2008	5/1/2013	4/30/2014	N/A
B00694-6	XEROX CORPORATION	Xerox Copier Leases for RFOTC	\$115,000.00	County of LA MAS-IS-42663-10	N/A	4/1/2010	3/31/2011	N/A
B00694-7	XEROX CORPORATION	Xerox Copier Leases for RFOTC	\$115,000.00	County of LA MAS-IS-42663-10	N/A	4/1/2011	3/31/2012	N/A
B00694-8	XEROX CORPORATION	Xerox Copier Leases for RFOTC	\$115,000.00	County of LA MAS-IS-42663-10	N/A	4/1/2012	3/31/2013	N/A
B00694-9	XEROX CORPORATION	Xerox Copier Leases for RFOTC	\$115,000.00	County of LA MAS-IS-42663-10	N/A	4/1/2013	3/31/2014	N/A
B00729-5	XEROX CORPORATION	Xerox Copier Leases for Fire Stations	\$75,000.00	County of LA MAS-IS-42663-10	N/A	4/1/2010	3/31/2011	N/A
B00729-6	XEROX CORPORATION	Xerox Copier Leases for Fire Stations	\$70,000.00	County of LA MAS-IS-42663-10	N/A	4/1/2011	3/31/2012	N/A
B00729-7	XEROX CORPORATION	Xerox Copier Leases for Fire Stations	\$70,000.00	County of LA MAS-IS-42663-10	N/A	4/1/2012	3/31/2013	N/A
B00729-8	XEROX CORPORATION	Xerox Copier Leases for Fire Stations	\$70,000.00	County of LA MAS-IS-42663-10	N/A	4/1/2013	3/31/2014	N/A
B01278	XEROX CORPORATION	Purchase of Xerox Paper	\$31,000.00	MP1712	3/24/2010	4/1/2010	3/31/2011	N/A
B01278-1	XEROX CORPORATION	Purchase of Xerox Paper	\$31,000.00	MP1712	3/24/2010	4/1/2011	3/31/2012	N/A
B01278-2	XEROX CORPORATION	Purchase of Xerox Paper	\$31,000.00	MP1712	3/24/2010	4/1/2012	3/31/2013	N/A
B01129-2	ZOLL MEDICAL CORP	Purchase of Defibrillation, Electrodes, and Cables	\$320,000.00	MP1545	7/16/2008	8/1/2010	7/31/2011	Yes, 1/28/10
B01129-3	ZOLL MEDICAL CORP	Purchase of Defibrillation, Electrodes, and Cables	\$320,000.00	MP1545	7/16/2008	8/1/2011	7/31/2012	Yes, 1/28/10
B01129-4	ZOLL MEDICAL CORP	Purchase of Defibrillation, Electrodes, and Cables	\$320,000.00	MP1545	7/16/2008	8/1/2012	7/31/2013	Yes, 1/28/10
B01131-3	ZOLL MEDICAL CORP	Purchase of ECG Monitoring Electrodes	\$200,000.00	MP1546	7/17/2008	8/1/2010	7/31/2011	Yes, 1/28/10
B01131-3	ZOLL MEDICAL CORP	Purchase of ECG Monitoring Electrodes	\$200,000.00	MP1546	7/17/2008	8/1/2011	7/31/2012	Yes, 1/28/10
B01131-4	ZOLL MEDICAL CORP	Purchase of ECG Monitoring Electrodes	\$200,000.00	MP1546	7/17/2008	8/1/2012	7/31/2013	Yes, 1/28/10