



# ORANGE COUNTY FIRE AUTHORITY AGENDA

## Budget and Finance Committee Meeting

Wednesday, January 10, 2018

12:00 Noon

### Orange County Fire Authority Regional Fire Operations and Training Center

1 Fire Authority Road

Room AE117

Irvine, California 92602

Ed Sachs, Chair

Joe Muller, Vice Chair

Shelley Hasselbrink Gene Hernandez Al Murray Beth Swift Tri Ta

Bruce Channing - Ex Officio

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. Unless legally privileged, all supporting documents, including staff reports, and any writings or documents provided to a majority of the Budget and Finance Committee after the posting of this agenda are available for review at the Orange County Fire Authority Regional Fire Operations & 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 Thursday, and every other Friday from 8 a.m. to 5 p.m. and available online at <http://www.ocfa.org>

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 Hasselbrink

## 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.

**1. PRESENTATIONS**

No items.

**2. MINUTES****A. Minutes for the November 8, 2017, Budget and Finance Committee Regular Meeting**

Submitted by: Sherry Wentz, Clerk of the Authority

Recommended Action:

Approve as submitted.

**3. CONSENT CALENDAR****A. Orange County Employees' Retirement System Quarterly Status Update**

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

Recommended Action:

Receive and file the report.

**B. Annual Grant Priorities for 2018**

Submitted by: Brian Young, Assistant Chief/Operations Department

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of January 25, 2018, with the Budget and Finance Committee's recommendation that the Board of Directors approve OCFA's Annual Grant Priorities for 2018.

**C. First Quarter Financial Newsletter**

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

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of January 25, 2018, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

**4. DISCUSSION CALENDAR****A. Monthly Investment Reports**

Submitted by: Patricia Jakubiak, Treasurer

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of January 25, 2018, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

**B. FY 2017/18 Mid-Year Financial Report**

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

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of January 25, 2018, with the Budget and Finance Committee's recommendation that the Board of Directors direct staff to continue monitoring the budget for further refinement and return in March 2018 for approval of the proposed FY 2017/18 budget adjustments.

**REPORTS**

No items.

**COMMITTEE MEMBER COMMENTS**

**ADJOURNMENT** – The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, February 14, 2018, at 12:00 noon.

**AFFIDAVIT OF POSTING**

I hereby certify under penalty of perjury under the laws of the State of California, that the foregoing Agenda was posted in the lobby and front gate public display case of the Orange County Fire Authority, Regional Training and Operations Center, 1 Fire Authority Road, Irvine, CA, not less than 72 hours prior to the meeting. Dated this 4<sup>th</sup> day of January 2018.

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

**UPCOMING MEETINGS:**

Claims Settlement Committee Meeting	Thursday, January 25, 2018, 5:00 p.m.
Executive Committee Meeting	Thursday, January 25, 2018, 5:30 p.m.
Board of Directors Meeting	Thursday, January 25, 2018, 6:00 p.m.

# MINUTES ORANGE COUNTY FIRE AUTHORITY

## **Budget and Finance Committee Regular Meeting**

**Wednesday, November 8, 2017**

**12:00 Noon**

**Regional Fire Operations and Training Center**

**Room AE117**

**1 Fire Authority Road**

**Irvine, CA 92602**

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### **CALL TO ORDER**

A regular meeting of the Orange County Fire Authority Budget and Finance Committee was called to order on November 8, 2017, at 12:00 p.m. by Chair Sachs.

### **PLEDGE OF ALLEGIANCE**

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

### **ROLL CALL**

**Present:** Elizabeth Swift, Buena Park  
Al Murray, Tustin  
Ed Sachs, Mission Viejo  
Gene Hernandez, Yorba Linda  
Shelley Hasselbrink, Los Alamitos

**Absent:** Joseph Muller, Dana Point  
Tri Ta, Westminster

### **Also present were:**

Interim Fire Chief Patrick McIntosh	Assistant Chief Dave Anderson
Assistant Chief Mike Schroeder	Assistant Chief Lori Zeller
Human Resources Director Brigitte Gibb	General Counsel David Kendig
Clerk of the Authority Sherry Wentz	

### **PUBLIC COMMENTS**

Chair Sachs opened the Public Comments portion of the meeting. Chair Sachs closed the Public Comments portion of the meeting without any comments from the general public.

## **1. PRESENTATIONS**

No items.

## **2. MINUTES**

### **A. Minutes for the October 11, 2017, Budget and Finance Committee Regular Meeting (F: 12.02B2)**

On motion of Director Murray and second by Director Hasselbrink, the Budget and Finance Committee voted unanimously by those present to approve the Minutes of the October 11, 2017, regular meeting as submitted.

Director Hernandez was recorded as an abstention due to his absence from the meeting.

## **3. CONSENT CALENDAR**

### **A. Annual Statement of Investment Policy and Investment Authorization (F: 12.02B2)**

On motion of Director Murray and second by Chair Sachs, the Committee voted unanimously by those present to direct staff to place the item on the agenda for the Board of Directors meeting of November 16, 2017, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Review and approve the submitted Investment Policy of the Orange County Fire Authority, to be effective January 1, 2018.
2. Pursuant to Government Code Sections 53601 and 53607, renew delegation of investment authority to the Treasurer for a one-year period, to be effective January 1, 2018.

## **4. DISCUSSION CALENDAR**

### **A. Monthly Investment Reports (F: 11.10D2)**

On motion of Director Swift and second by Director Murray, the Committee voted unanimously by those present to direct staff to place the item on the agenda for the Executive Committee meeting of November 16, 2017, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

### **B. Audited Financial Reports for the Fiscal Year Ended June 30, 2017 (F: 15.06)**

Assistant Chief Lori Zeller introduced Jim Ruane Finance Manager/Auditor who introduced Roger Alfaro, of Vavrinek, Trine, Day & Co (VTD), who provided recent OCFA audit results.

On motion of Director Murray and second by Director Hernandez, the Committee voted unanimously by those present to direct staff to place the item on the agenda for the Board of Directors meeting of November 16, 2017, with the Budget and Finance Committee's

recommendation that the Board of Directors:

1. Receive and approve the reports.
2. Review the calculations used to determine the fund balance amounts assigned to the capital improvement program and workers' compensation, and confirm the calculations' consistency with the OCFA's Assigned Fund Balance Policy.
3. Allocate the FY 2016/17 year-end unencumbered fund balance of \$14,174,516 as follows:
  - a. Approve a FY 2017/18 budget transfer from the General Fund (121) to the Structural Fire Entitlement Fund (171) in the amount of \$1,000,000.
  - b. Approve a FY 2017/18 budget adjustment in the General Fund (121) increasing appropriations by \$13,174,516 and direct and immediate payment of this amount to the Orange County Employees Retirement System for the purpose of paying down the unfunded pension liability.

#### **C. Service Delivery Enhancements – Phase Four (F: 17.10D)**

Assistant Chief Mike Schroeder provided a PowerPoint presentation on Phase 4 Service Delivery Enhancements.

On motion of Director Hasselbrink and second by Director Swift, the Committee voted unanimously by those present to direct staff to place the item on the agenda for the Board of Directors meeting of November 16, 2017, with the Budget and Finance Committee's recommendation that the Board of Directors:

1. Authorize staff to increase FY 2017/18 appropriations in the General Fund (121) by \$343,340 in FY 2017/18 to fund a 4<sup>th</sup> position on Engine 13 effective December 22, 2017.
2. Authorize staff to add 3 Firefighter positions to the Master Position Control (one post position with three employees) for the Engine 13 position.

#### **REPORTS**

No items.

#### **COMMITTEE MEMBER COMMENTS (F: 12.02B4)**

Director Murray provided a Drowning Prevention Task Force meeting update.

**ADJOURNMENT** – Chair Sachs adjourned the meeting at 12:37 p.m. The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, January 10, 2018, at 12:00 noon.

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



Orange County Fire Authority  
**AGENDA STAFF REPORT**

**Budget and Finance Committee Meeting**  
**January 10, 2018**

**Agenda Item No. 3A**  
**Consent Calendar**

**Orange County Employees' Retirement System Quarterly Status Update**

**Contact(s) for Further Information**

Lori Zeller, Assistant Chief  
Business Services Department

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Tricia Jakubiak, Treasurer  
Treasury & Financial Planning

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**Summary**

This agenda item is a routine quarterly transmittal to the Committee to provide a report on actions taken by the Orange County Employees' Retirement System (OCERS) relating to financial issues, procedures, and business practices.

**Prior Board/Committee Action**

Not Applicable.

**RECOMMENDED ACTION(S)**

Receive and file the report.

**Impact to Cities/County**

Not Applicable.

**Fiscal Impact**

The assumption changes adopted by OCERS for the Triennial Study will increase OCFA's retirement contribution rates by 3.73% of pay or approximately \$5 million per year. These new assumptions will be implemented beginning in July 2019.

**Background**

*Actions Taken/Financial Policies & Practices October – December 2017*

**OCERS BOARD OF RETIREMENT MEETING October 16, 2017:**

**TRIENNIAL STUDY OF ACTUARIAL ASSUMPTIONS (THIRD DISCUSSION)**

Mr. Angelo from Segal Consulting returned to present final assumption options associated with the Triennial Study. The OCERS Board approved Recommendation B to be used in the December 31, 2017, actuarial valuation. That valuation will then be used to set employee and employer contribution rates effective July 2019. Recommendation B lowers the investment return from 7.25% to 7.0% and the price inflation rate from 3.0% to 2.75%. It also updates the mortality tables based on generational mortality. The updated mortality tables indicate that people are living longer which means they will collect a pension longer resulting in an increase in costs. (Page 14 of Attachment).

**OCERS INVESTMENT RETURN**

OCERS year-to-date preliminary investment return as of November was 13.1%. OCERS is on a calendar year basis and has an assumed rate of return of 7.0%.

OCFA staff will continue to monitor actions taken by OCERS and will report back in April regarding actions taken during the next quarter.

**Attachment(s)** (On file with the Clerk of the Authority, available upon request.)  
Segal Consulting Actuarial Experience Study, October 16, 2017



## Orange County Employees Retirement System

# 2017 Actuarial Experience Study – 3<sup>rd</sup> Presentation

October 16, 2017

*Paul Angelo, FSA*

*Segal Consulting, San Francisco*

# OCERS 2017 Review of Actuarial Assumptions

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## Ø New assumptions will be used in December 31, 2017 valuation

- Sets employer and member contributions for 2019 – 2020 fiscal year

## Ø 1st Presentation – August 21, 2017

- Based on full Experience Study report dated August 14, 2017
- Discussed all demographic and economic assumptions

## Ø 2nd Presentation – September 13, 2017

- Focus on mortality and alternative economic assumptions
- For alternative economic assumptions, terminology change:
  - “Recommended” became “Recommendation A”
  - “Alternative 1” became “Recommendation B”
  - “Alternative 2” became “Recommendation C”
  - All three are reasonable
- Includes cost impact by Rate Group (from full report)
- Included (but did not get to) illustration of phase-in of cost impact

## Ø 3rd presentation (today) – adopt assumptions

- More detail on phase-in of cost impact

# Always remember

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$$\mathbf{C + I = B + E}$$

**Contributions + Interest Income  
equals**

**Benefit Payments + Expenses**

- Ø Actuarial valuation determines the current or “measured” cost, not the ultimate cost
- Ø Assumptions and funding methods affect only the timing of costs
- Ø Desired pattern of cost incidence
  - Good assumptions produce level cost
  - Beware “results based” assumptions
    - Even if assumption selection is “results aware”

# Recommendations – Demographic Assumptions

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## Ø Retirement rates:

- Maintain age-based assumptions
- Overall, slight adjustments to retirement rates

## Ø Termination rates:

- Decrease in termination rates
- Decrease assumption for how many members elect a refund

## Ø Disability incidence:

- Increase assumption overall
  - Decrease assumption for General OCTA members

# Setting Demographic Assumptions – Mortality

- Ø Society of Actuaries (SOA) develops tables of mortality rates
  - RP-2000 followed by RP-2014 (Headcount-Weighted vs. Benefit-Weighted)
  - NOTE: Segal adjusts standard tables based on OCERS actual experience
- Ø SOA also develops scales to estimate future mortality improvements:
  - Scale BB – Interim standard scale issued in 2012
  - Scale MP-2016 – Issued in October 2016
- Ø Two ways to project future mortality improvements: Static or Generational
- Ø Static projection to a future year –
  - To reflect expected mortality at a future date, not as of today
  - Preferable to have a margin of around 20% to be consistent with generational
    - Actual deaths during the study period should be around 20% greater than the expected deaths
  - Current OCERS assumption
    - RP-2000 projected to 2020 with Scale BB
      - » For General, with no age adjustment for males or females
      - » For Safety, with ages “set back” two years for males and females
    - Provided a roughly 10% margin, which was previously the common practice

# Recommended Demographic Assumptions – Mortality

## Ø Recommend generational mortality

- Use most recent SOA tables (RP-2014) as a starting point (“base table”)
- Each future year has its own mortality table that reflects the forecasted improvements at every age
  - Probability of dying depends not only on age and sex but also what year it is
  - Younger participants have more future mortality improvement built in than for older participants
  - Current year tables reflect recent actual experience, with no margin
- Recommended: Headcount-Weighted RP-2014, projected generationally using the two-dimensional Scale MP-2016
  - For General, no age adjustment for males or females
  - For Safety, ages are set back four years for males and females

## Ø Administrative tables will still use static projection

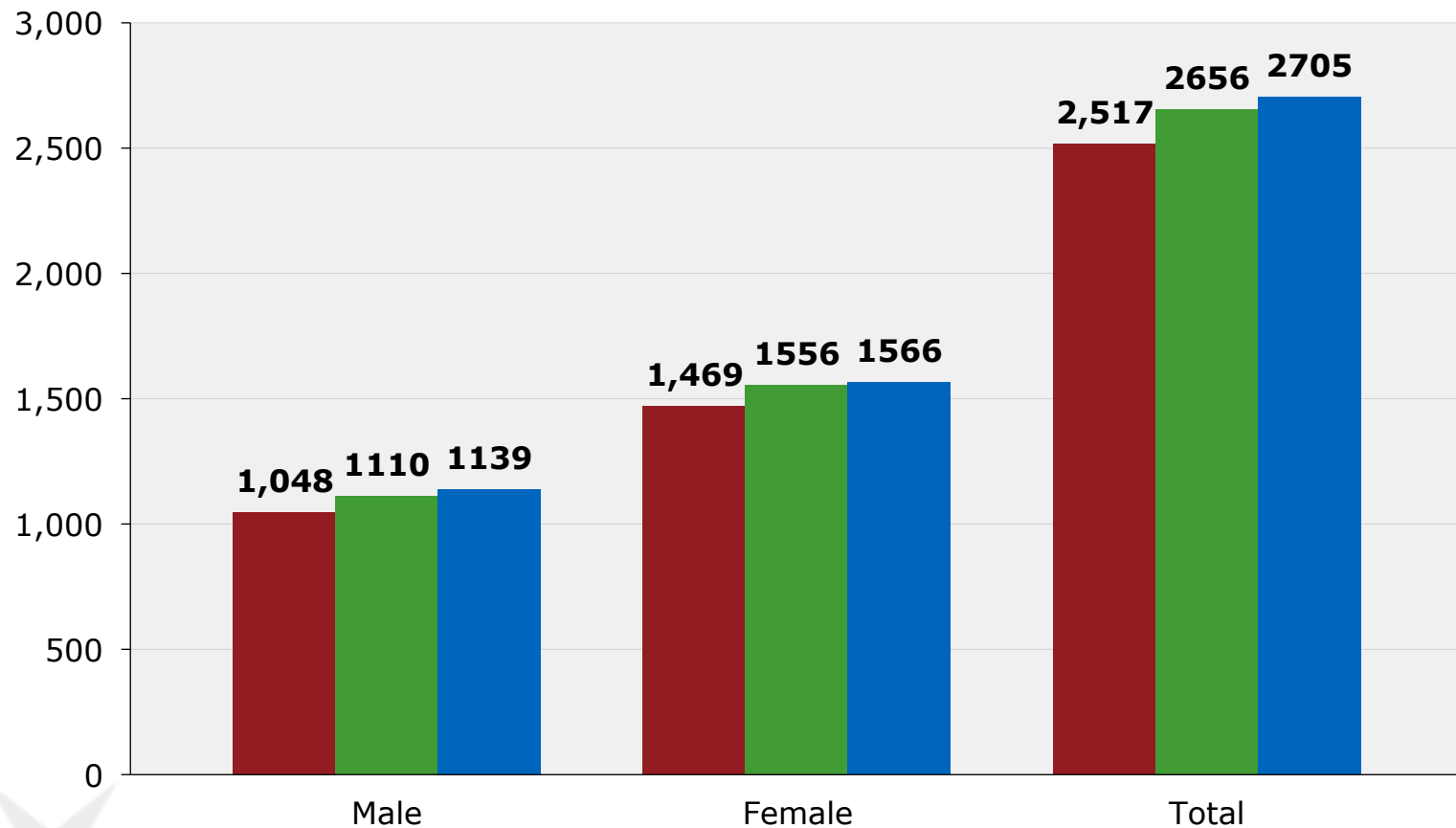
- Member contribution rates for legacy tiers, optional benefits and reserve factors
- Use same base table, with static projection for 20 years
  - Approximates generational mortality

# Setting Demographic Assumptions – Mortality Rates

## Ø Mortality Experience from Experience Study

**CHART 15: POST-RETIREMENT DEATHS  
NON-DISABLED GENERAL MEMBERS AND ALL BENEFICIARIES  
(JANUARY 1, 2008 THROUGH DECEMBER 31, 2016)**

■ Expected - Current ■ Actual ■ Expected - Proposed



# OCERS Recent Mortality Experience

General Healthy Including Spouse						9-year
2013-2016		2010-2013		2008-2010		
Expected:	976.5	Expected:	833.2	Expected:	708.1	<b>2,517</b>
Actual:	991.0	Actual:	939.0	Actual:	726.0	<b>2,656</b>
Ratio of Actual to Expected:	1.01	Ratio of Actual to Expected:	1.13	Ratio of Actual to Expected:	1.03	<b>1.06</b>
Proposed:	1018.6	Proposed:	888.6	Proposed:	798.5	<b>2,705</b>
Ratio of Actual to Proposed:	0.97	Ratio of Actual to Proposed:	1.06	Ratio of Actual to Proposed:	0.91	<b>0.98</b>
Safety Healthy						
2013-2016		2010-2013		2008-2010		
Expected:	53.4	Expected:	40.3	Expected:	31.1	125
Actual:	47.0	Actual:	43.0	Actual:	47.0	137
Ratio of Actual to Expected:	0.88	Ratio of Actual to Expected:	1.07	Ratio of Actual to Expected:	1.51	1.10
Proposed:	58.2	Proposed:	45.6	Proposed:	37.1	141
Ratio of Actual to Proposed:	0.81	Ratio of Actual to Proposed:	0.94	Ratio of Actual to Proposed:	1.27	0.97
General Disabled						
2013-2016		2010-2013		2008-2010		
Expected:	73.9	Expected:	64.8	Expected:	58.6	197
Actual:	76.0	Actual:	70.0	Actual:	69.0	215
Ratio of Actual to Expected:	1.03	Ratio of Actual to Expected:	1.08	Ratio of Actual to Expected:	1.18	1.09
Proposed:	78.8	Proposed:	71.1	Proposed:	67.9	218
Ratio of Actual to Proposed:	0.96	Ratio of Actual to Proposed:	0.99	Ratio of Actual to Proposed:	1.02	0.99
Safety Disabled						
2013-2016		2010-2013		2008-2010		
Expected:	17.2	Expected:	13.0	Expected:	10.0	40
Actual:	21.0	Actual:	14.0	Actual:	18.0	53
Ratio of Actual to Expected:	1.22	Ratio of Actual to Expected:	1.08	Ratio of Actual to Expected:	1.80	1.32
Proposed:	21.0	Proposed:	17.0	Proposed:	14.5	53
Ratio of Actual to Proposed:	1.00	Ratio of Actual to Proposed:	0.83	Ratio of Actual to Proposed:	1.24	1.00

Expected: Based on assumptions recommended in the December 31, 2014 triennial experience study (RP-2000 projected, General -0, Safety -2).

Proposed: Based on assumptions recommended in the December 31, 2017 triennial experience study (RP-2014 base table, General -0, Safety -4).



# Cost Impact of Different Mortality Tables

	Employer and Member Combined Contribution Rate Impact
Headcount Weighted RP-2014 Family of Tables – Static Approach WITHOUT Increased Margin (10%)	1.5% of payroll
Headcount Weighted RP-2014 Family of Tables – Static Approach WITH Increased Margin (20%)	3.5% of payroll
Benefit Weighted RP-2014 Family of Tables – Static Approach without Increased Margin	5.1% of payroll
Headcount Weighted RP-2014 Family of Tables – Generational Approach (Recommended)	4.3% of payroll



# **DISCUSSION**

# Current and Recommended Economic Assumptions

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- Ø Last full review was for December 31, 2014 valuation
  - Price inflation (CPI): 3.00%
  - Wage inflation (includes price inflation plus real wage growth): 3.50%
    - So “across the board” real wage growth is 0.50%
  - Investment return: 7.25%
    - So net real return is 4.25%
    - Assumed return is net of investment and administrative expenses
- Ø New assumptions will be used in December 31, 2017 valuation
  - Sets contributions for 2019 – 2020 fiscal year

# Current and Recommended Economic Assumptions

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## Ø Price inflation (CPI)

- Maintain at 3.00%
  - Alternative recommendation: decrease from 3.00% to 2.75%

## Ø Salary increases – by component

- Maintain price inflation component at 3.00%
  - Alternative recommendation: decrease price inflation from 3.00% to 2.75%
- Maintain “across the board” real wage growth at 0.50%
- Total wage inflation maintained at 3.50%
  - Alternative recommendation: total wage inflation reduced from 3.50% to 3.25%
- Merit and promotional: slight increases overall for General and slight decreases overall for Safety
  - Alternative recommendation: slight decrease overall for General and Safety

# Economic Assumptions – Alternative Recommendations

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- Ø Investment return includes net real return and inflation components
- Ø Current assumption (from 2014) is 7.25%
  - Inflation is 3.00% so net real return is 4.25%
  - Assumed return is net of investment and administrative expenses
- Ø Recommendation A based on 3.00% inflation
  - Recommendation A: Decrease from 7.25% to 7.00%
    - Reduces net real return from 4.25% to 4.00%
- Ø Recommendations B and C based on 2.75% inflation
  - Recommendation B: Decrease from 7.25% to 7.00%
    - Maintains net real return at 4.25%
  - Recommendation C: Decrease from 7.25% to 6.75%
    - Reduces net real return from 4.25% to 4.00%

# Economic Assumptions – Alternative Recommendations

	12/31/2016 Valuation		Recommendation A		Recommendation B		Recommendation C	
	<u>Investment Return</u>	<u>Payroll Growth</u>	<u>Investment Return</u>	<u>Payroll Growth</u>	<u>Investment Return</u>	<u>Payroll Growth</u>	<u>Investment Return</u>	<u>Payroll Growth</u>
Price Inflation	3.00%	3.00%	3.00%	3.00%	2.75%	2.75%	2.75%	2.75%
Real Wages	n/a	0.50%*	n/a	0.50%*	n/a	0.50%*	n/a	0.50%*
Net Real Return	4.25%**	n/a	4.00%**	n/a	4.25%**	n/a	4.00%**	n/a
Total	7.25%**	3.50%*	7.00%**	3.50%*	7.00%**	3.25%*	6.75%**	3.25%*

\* Assumed individual salaries increases also include “merit and promotion” component:

- Merit component varies by service
- For General, increase ultimate assumption from 0.75% to 1.00%
- For Safety, maintain ultimate assumption at 1.50%

\*\* Return is net of investment and administrative expense

# Price Inflation (CPI)

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## Ø Historical Consumer Price Index

- Median 15-year moving average = 3.4%
- Median 30-year moving average = 3.9%
- Averages have been declining due to recent low inflation

## Ø NASRA Survey

- Median inflation assumption is 3.00%

## Ø Social Security Intermediate Forecast = 2.60%

## Ø Market based inflation expectations = 1.87% (June 2017)

## Ø Recommendation A: maintain at 3.00%

- Segal's 2017 recommended inflation for all our California public system clients
- Assumed COLAs remain unchanged (3.00%)

## Ø Recommendations B and C: decrease inflation to 2.75%

- Assumed COLAs reduced from 3.00% to 2.75%

# Salary Increase Assumption - Recommended

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- Ø Three components
- Ø Price inflation Recommendation A: maintain at 3.00%
  - Recommendations B and C: decrease from 3.00% to 2.75%
- Ø “Across the board” real wage growth: maintain at 0.50%
  - Department of Labor: Annual State and Local Government real productivity increase: 0.6% - 0.9% over 10 - 20 years
- Ø Promotional & Merit:
  - Based on years of service
  - General: 9.00% (0-1 years) to 1.00% (16+ years)
    - Small increases for some service categories
  - Safety: 14.00% (0-1 years) to 1.50% (16+ years)
    - Small decreases for some service categories
- Ø Net impact on total assumed future individual salary increases
  - Recommendation A: slight increase for General and slight decrease for Safety
    - Recommendations B and C: slight decrease for both General and Safety



# Payroll Growth Assumption

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- Ø Active member payroll growth based on wage inflation
  - Assumes constant future active headcount
  - Used to project total payroll for UAAL amortization
- Ø Includes price inflation and “across the board” real wage growth
  - Price inflation Recommendation A: maintain at 3.00%
    - Recommendations B and C: decrease from 3.00% to 2.75%
  - “Across the board” real wage growth: maintain at 0.50%
  - Recommendation A: maintains total payroll growth at 3.50%
    - Recommendations B and C: reduces total payroll growth from 3.50% to 3.25%

# Investment Earnings Assumption

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- Ø Also called the discount rate, investment return
  - Used for contribution requirements and financial reporting
- Ø Four components
  - Inflation: consistent with salary increase and COLA assumption
  - Real returns by asset class
    - Weighted by asset allocation
  - Reduced by assumed investment and administrative expenses
  - Reduced by “risk adjustment”
    - Margin for adverse deviation
    - Expressed as confidence level above 50%

# OCERS Earnings Assumption

## Preview: Components of Investment Return Assumption

	Current from 2014 Study	Current, Restated Expenses	Recommendation A	Recommendation B	Recommendation C
Assumed Inflation	3.00%	3.00%	3.00%	2.75%	2.75%
Portfolio Real Rate of Return	5.33%	5.33%	5.27%	5.27%	5.27%
Assumed Expenses	(0.60%)	(0.80%)	(0.80%)	(0.80%)	(0.80%)
Risk Adjustment	<u>(0.48%)</u>	<u>(0.28%)</u>	<u>(0.47%)</u>	<u>(0.22%)</u>	<u>(0.47%)</u>
Assumed Investment Return	7.25%	7.25%	7.00%	7.00%	6.75%
Confidence Level	56%	53%	55%	53%	55%

# Real Returns by Asset Class

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Ø Segal uses an average of 8 investment advisory firms retained by Segal public clients

- Used results from Meketa for asset categories unique to OCERS

Ø Small decrease (-0.06%) in real return is due to a combination of:

- Changes in the target asset allocation (-0.08%)
- Changes in real return assumptions in survey (-0.07%)
- Interaction of these two changes (+0.09%)

# OCERS Real Rate of Return

Asset Class	Target Allocation	Real Return	Weighted Return
Global Equity	35.0%	6.38%	2.23%
Core Bonds	13.0%	1.03%	0.13%
High Yield Bonds	4.0%	3.52%	0.14%
Bank Loan	2.0%	2.86%	0.06%
TIPS	4.0%	0.96%	0.04%
Emerging Market Debt	4.0%	3.78%	0.15%
Real Estate	10.0%	4.33%	0.43%
Core Infrastructure	2.0%	5.48%	0.11%
Natural Resources	10.0%	7.86%	0.79%
Risk Mitigation	5.0%	4.66%	0.23%
Mezzanine/Distressed Debts	3.0%	6.53%	0.20%
Private Equity	8.0%	9.48%	0.76%
Total	100.0%		5.27%

# Administrative and Investment Expenses (\$000s)

Plan Year	Valuation Value of Assets <sup>1</sup>	Administrative Expenses	Investment Expenses	Administrative %	Investment %	Total %
2009	\$7,748,380	\$10,893	\$34,819	0.14	0.45	0.69
2010	8,154,687	12,448	68,027 <sup>2</sup>	0.15	0.83	0.98 <sup>2</sup>
2011	8,672,592	15,479	39,023	0.18	0.45	0.63
2012	9,064,355	14,295	40,992	0.16	0.45	0.61
2013	9,469,208	14,904	38,759	0.16	0.41	0.57
2014	10,417,125	11,905	41,487	0.11	0.40	0.51
2015	11,449,911	12,521	54,532	0.11	0.48	0.59
2016	12,228,009	16,870	80,810 <sup>3</sup>	0.14	0.66	0.80 <sup>3</sup>
Last Experience Study Five-Year Average (2009-2013)				0.16	0.52	0.68
Current Experience Study Five-Year Average (2012-2016)				0.14	0.48	0.62

<sup>1</sup> As of the beginning of the plan year.

<sup>2</sup> Included some one-time expenses.

<sup>3</sup> We understand that this increase reflects a change in how expenses are reported.

Based on this experience, we have increased the future total expense component from 0.60% to 0.80%.

For comparison purposes, we include 2014 analysis with restated expenses

# Risk Adjustment Model and Confidence Level

- Ø Most useful for comparing risk position over time
- Ø Confidence level is based on standard deviation
  - Likelihood that actual average 15-year return will exceed investment return assumption

Year Ending December 31	Investment Return Assumption	Risk Adjustment	Confidence Level
2004-2007	7.75%	0.39%	56%
2008-2010	7.75%	0.80%	61%
2011	7.75%	-0.23%	<50%
2012-2013	7.25%	0.34%	55%
2014-2016	7.25%	0.48%	56%
2014-2016 (Restated)	7.25%	0.28%	53%
2017 Recommendation A	7.00%	0.47%	55%
2017 Recommendation B	7.00%	0.22%	53%
2017 Recommendation C	6.75%	0.47%	55%

# OCERS Earnings Assumption

## Components of Investment Return Assumption

	Current from 2014 Study	Current, Restated Expenses	Recommendation A	Recommendation B	Recommendation C
Assumed Inflation	3.00%	3.00%	3.00%	2.75%	2.75%
Portfolio Real Rate of Return	5.33%	5.33%	5.27%	5.27%	5.27%
Assumed Expenses	(0.60%)	(0.80%)	(0.80%)	(0.80%)	(0.80%)
Risk Adjustment	<u>(0.48%)</u>	<u>(0.28%)</u>	<u>(0.47%)</u>	<u>(0.22%)</u>	<u>(0.47%)</u>
Assumed Investment Return	7.25%	7.25%	7.00%	7.00%	6.75%
Confidence Level	56%	53%	55%	53%	55%



# Investment Earnings Assumption - 2017

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## Ø Recommendation A: 7.00% with 3.00% inflation

- Inflation maintained at 3.00%
- Portfolio real return decreased slightly from 5.33% to 5.27%
- Reported expenses increased from 0.60% to 0.80%
- Gives confidence level of 55%
  - slightly lower than for 7.25% in 2014 before restated expenses (56%)

## Ø Recommendation B: 7.00% return with 2.75% inflation

- Confidence level (53%) consistent with 7.25% in 2014 with restated expenses

## Ø Recommendation C: 6.75% return with 2.75% inflation

- Confidence level (55%) slightly lower than for 7.25% in 2014 before restated expenses (56%)

## Ø Segal would find any of these sets of assumptions to be reasonable

# Investment Earnings Assumption - 2017

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## Ø Comparison with other systems

- National median is 7.50% but continues to trend down nationwide
- Most common for California county employees retirement systems
  - Nine systems have adopted 7.25%
- Five California county employees retirement system have adopted 7.00% (Contra Costa, Fresno, Mendocino, Sacramento and Santa Barbara)
  - San Mateo is at 6.75% (with 2.50% inflation)
  - Both San Jose City systems are at 6.875%
  - San Diego City system recently approved reduction from 7.00% to 6.50% over two years
- CalPERS approved reduction from 7.50% to 7.00% over three years
- CalSTRS approved reduction from 7.50% to 7.00% over two years

# Anticipated Impact on Valuation Results

Modeled as of December 31, 2016 for illustration

Current Assumptions (7.25% Return & 3.00% Inflation)	Recommendation A (7.00% Return & 3.00% Inflation)	Recommendation B (7.00% Return & 2.75% Inflation)	Recommendation C (6.75% Return & 2.75% Inflation)
<b><u>Impact on Average Employer Contributions</u></b>			
Change due to demographic assumptions	3.94%	3.94%	3.94%
Change due to economic assumptions	<u>4.00%</u>	<u>0.70%</u>	<u>4.08%</u>
Total change in employer rate	7.94%	4.64%	8.02%
Total estimated change in annual dollar amount (\$000s)	\$140,411	\$80,539	\$140,077
<b><u>Impact on Average Member Contributions</u></b>			
Change due to demographic assumptions	0.57%	0.57%	0.57%
Change due to economic assumptions	<u>1.04%</u>	<u>0.20%</u>	<u>1.02%</u>
Total change in member rate	1.61%	0.77%	1.59%
Total estimated change in annual dollar amount (\$000s)	\$28,559	\$13,232	\$27,567
<b><u>Impact on UAAL and Funded Percentage</u></b>			
Change in UAAL	\$1,404 million	\$763 million	\$1,385 million
Change in funded percentage	From 73.1% to 67.7%	From 73.1% to 70.1%	From 73.1% to 67.9%

# Cost Impact of Assumption Components

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- Ø Economic assumptions are set in “clicks” of 0.25% (25 basis points)
  - Helps to avoid the “illusion of precision”
- Ø Results in “cost clicks” of cost increase (loss) or decrease (gain)
- Ø For lower assumed investment return:
  - Each cost click adds about 4% average employer and 1% average member rate
- Ø For lower assumed price inflation below 3.0%:
  - Each cost click saves about 3.3% average employer rate and 0.8% average member rate
  - Combined effect of lower salary increases and lower COLAs for 3% COLA tiers
- Ø For Rec. A versus Rec. C, these offset each other
- Ø For Rec. B versus Current, there is some net cost increase
  - about 0.7% average employer and 0.2% average member rate
- Ø Note the demographic assumptions add roughly one cost click
  - about 4% average employer and 0.6% average member rate

# Estimated Impact on Employer Contributions by Rate Groups -- Recommendation A

○ Recommendation A (7.00% Return & 3.00% Inflation) as of Dec. 31, 2016 for illustration

Increases in Employer Contribution Rates (% of Payroll) under Recommended Assumptions				
Rate Group	Normal Cost	UAAL	Total	Estimated Dollar Amounts <sup>(1)</sup> (in 000s)
Rate Group #1 (non-OCTA, non-OCSD)	1.87%	3.49% <sup>(2)</sup>	5.36%	\$4,462
Rate Group #2 (County et al.)	1.92%	5.50%	7.42%	\$79,640
Rate Group #3 (OCSD)	1.77%	1.06% <sup>(3)</sup>	2.83%	\$1,865
Rate Group #5 (OCTA)	2.02%	5.03%	7.05%	\$7,393
Rate Group #9 (TCA)	1.53%	3.22%	4.75%	\$325
Rate Group #10 (OCFA)	1.90%	4.42%	6.32%	\$1,698
Rate Group #11 (Cemetery)	1.77%	2.71% <sup>(4)</sup>	4.48%	\$63
Rate Group #12 (Law Library)	1.60%	4.39%	5.99%	\$71
Rate Group #6 (Probation)	3.20%	9.16%	12.36%	\$8,054
Rate Group #7 (Law Enforcement)	2.67%	9.45%	12.12%	\$26,599
Rate Group #8 (Fire Authority)	2.09%	6.31%	8.40%	\$10,241
<b>Total All Rate Groups Combined</b>	<b>2.07%</b>	<b>5.87%</b>	<b>7.94%</b>	<b>\$140,411</b>

<sup>(1)</sup> Based on December 31, 2016 projected annual payrolls as determined under each set of assumptions.

<sup>(2)</sup> Before adjusting for UAAL allotted to U.C.I and Department of Education.

<sup>(3)</sup> The UAAL for Rate Group #3 after reflecting the recommended assumptions has been partially offset by the OCSD UAAL Deferred Account of \$34,067,000 as of December 31, 2016. If Rate Group #3 had not been overfunded prior to the changes in assumptions and if the OCSD UAAL Account was not available to offset the change in UAAL due to the changes in assumptions, the UAAL Contribution rate impact due to the changes in assumptions would have been 5.36% of payroll.

<sup>(4)</sup> If Rate Group #11 had not been overfunded prior to the changes in assumptions, the UAAL contribution rate impact due to the changes in assumptions would have been 4.36% of payroll.

# Estimated Impact on Average Member Contributions by Rate Groups -- Recommendation A

○ Recommendation A (7.00% Return & 3.00% Inflation) as of Dec. 31, 2016 for illustration

Increases in Average Member Contribution Rates (% of Payroll) under Recommended Assumptions				
Rate Group	Current	Proposed	Difference	Estimated Dollar Amounts <sup>(1)</sup> (in 000s)
Rate Group #1 (non-OCTA, non-OCSD)	8.62%	10.19%	1.57%	\$1,310
Rate Group #2 (County et al.)	11.10%	12.58%	1.48%	\$15,943
Rate Group #3 (OCSD)	11.52%	12.98%	1.46%	\$967
Rate Group #5 (OCTA)	9.35%	10.71%	1.36%	\$1,434
Rate Group #9 (TCA)	10.08%	11.43%	1.35%	\$93
Rate Group #10 (OCFA)	11.03%	12.59%	1.56%	\$420
Rate Group #11 (Cemetery)	8.87%	10.26%	1.39%	\$20
Rate Group #12 (Law Library)	13.06%	14.49%	1.43%	\$17
Rate Group #6 (Probation)	15.53%	17.81%	2.28%	\$1,486
Rate Group #7 (Law Enforcement)	16.39%	18.46%	2.07%	\$4,540
Rate Group #8 (Fire Authority)	15.44%	17.35%	1.91%	\$2,329
<b>Total All Rate Groups Combined</b>	<b>12.01%</b>	<b>13.62%</b>	<b>1.61%</b>	<b>\$28,559</b>

<sup>(1)</sup> Based on December 31, 2016 projected annual payrolls as determined under each set of assumptions

# Estimated Impact on Employer Contributions by Rate Groups -- Recommendation B

○ Recommendation B (7.00% Return & 2.75% Inflation) as of Dec. 31, 2016 for illustration

Increases in Employer Contribution Rates (% of Payroll) under Recommended Assumptions				
Rate Group	Normal Cost	UAAL	Total	Estimated Dollar Amounts <sup>(1)</sup> (in 000s)
Rate Group #1 (non-OCTA, non-OCSD)	1.18%	2.30% <sup>(2)</sup>	3.48%	\$2,866
Rate Group #2 (County et al.)	1.08%	3.41%	4.49%	\$47,504
Rate Group #3 (OCSD)	0.97%	0.00% <sup>(3)</sup>	0.97%	\$628
Rate Group #5 (OCTA)	1.37%	3.22%	4.59%	\$4,756
Rate Group #9 (TCA)	0.88%	1.96%	2.84%	\$191
Rate Group #10 (OCFA)	1.08%	2.62%	3.70%	\$973
Rate Group #11 (Cemetery)	1.01%	0.99% <sup>(4)</sup>	2.00%	\$28
Rate Group #12 (Law Library)	0.86%	2.83%	3.69%	\$44
Rate Group #6 (Probation)	1.93%	5.84%	7.77%	\$4,980
Rate Group #7 (Law Enforcement)	1.12%	5.50%	6.62%	\$14,169
Rate Group #8 (Fire Authority)	0.63%	3.10%	3.73%	\$4,400
<b>Total All Rate Groups Combined</b>	<b>1.11%</b>	<b>3.53%</b>	<b>4.64%</b>	<b>\$80,539</b>

<sup>(1)</sup> Based on December 31, 2016 projected annual payrolls as determined under each set of assumptions.

<sup>(2)</sup> Before adjusting for UAAL allotted to U.C.I and Department of Education.

<sup>(3)</sup> The UAAL for Rate Group #3 after reflecting the recommended assumptions has been offset by the OCSD UAAL Deferred Account of \$34,067,000 as of December 31, 2016. If Rate Group #3 had not been overfunded prior to the changes in assumptions and if the OCSD UAAL Account was not available to offset the change in UAAL due to the changes in assumptions, the UAAL Contribution rate impact due to the changes in assumptions would have been 2.81% of payroll.

<sup>(4)</sup> If Rate Group #11 had not been overfunded prior to the changes in assumptions, the UAAL contribution rate impact due to the changes in assumptions would have been 2.56% of payroll.

# Estimated Impact on Average Member Contributions by Rate Groups -- Recommendation B

○ Recommendation B (7.00% Return & 2.75% Inflation) as of Dec. 31, 2016 for illustration

Increases in Average Member Contribution Rates (% of Payroll) under Recommended Assumptions				
Rate Group	Current	Proposed	Difference	Estimated Dollar Amounts <sup>(1)</sup> (in 000s)
Rate Group #1 (non-OCTA, non-OCSD)	8.62%	9.56%	0.94%	\$767
Rate Group #2 (County et al.)	11.10%	11.85%	0.75%	\$7,864
Rate Group #3 (OCSD)	11.52%	12.26%	0.74%	\$477
Rate Group #5 (OCTA)	9.35%	10.11%	0.76%	\$784
Rate Group #9 (TCA)	10.08%	10.79%	0.71%	\$48
Rate Group #10 (OCFA)	11.03%	11.86%	0.83%	\$216
Rate Group #11 (Cemetery)	8.87%	9.59%	0.72%	\$10
Rate Group #12 (Law Library)	13.06%	13.79%	0.73%	\$9
Rate Group #6 (Probation)	15.53%	16.53%	1.00%	\$627
Rate Group #7 (Law Enforcement)	16.39%	17.16%	0.77%	\$1,598
Rate Group #8 (Fire Authority)	15.44%	16.16%	0.72%	\$832
<b>Total All Rate Groups Combined</b>	<b>12.01%</b>	<b>12.78%</b>	<b>0.77%</b>	<b>\$13,232</b>

<sup>(1)</sup> Based on December 31, 2016 projected annual payrolls as determined under each set of assumptions



# Estimated Impact on Employer Contributions by Rate Groups -- Recommendation C

○ Recommendation C (6.75% Return & 2.75% Inflation) as of Dec. 31, 2016 for illustration

Increases in Employer Contribution Rates (% of Payroll) under Recommended Assumptions				
Rate Group	Normal Cost	UAAL	Total	Estimated Dollar Amounts <sup>(1)</sup> (in 000s)
Rate Group #1 (non-OCTA, non-OCSD)	1.92%	3.48% <sup>(2)</sup>	5.40%	\$4,460
Rate Group #2 (County et al.)	2.01%	5.48%	7.49%	\$79,313
Rate Group #3 (OCSD)	1.84%	1.00% <sup>(3)</sup>	2.84%	\$1,851
Rate Group #5 (OCTA)	2.12%	4.99%	7.11%	\$7,372
Rate Group #9 (TCA)	1.65%	3.26%	4.91%	\$332
Rate Group #10 (OCFA)	1.99%	4.39%	6.38%	\$1,691
Rate Group #11 (Cemetery)	1.87%	2.72% <sup>(4)</sup>	4.59%	\$64
Rate Group #12 (Law Library)	1.71%	4.43%	6.14%	\$72
Rate Group #6 (Probation)	3.40%	9.17%	12.57%	\$8,102
Rate Group #7 (Law Enforcement)	2.87%	9.39%	12.26%	\$26,520
Rate Group #8 (Fire Authority)	2.32%	6.27%	8.59%	\$10,300
<b>Total All Rate Groups Combined</b>	<b>2.18%</b>	<b>5.84%</b>	<b>8.02%</b>	<b>\$140,077</b>

<sup>(1)</sup> Based on December 31, 2016 projected annual payrolls as determined under each set of assumptions.

<sup>(2)</sup> Before adjusting for UAAL allotted to U.C.I and Department of Education.

<sup>(3)</sup> The UAAL for Rate Group #3 after reflecting the recommended assumptions has been partially offset by the OCSD UAAL Deferred Account of \$34,067,000 as of December 31, 2016. If Rate Group #3 had not been overfunded prior to the changes in assumptions and if the OCSD UAAL Account was not available to offset the change in UAAL due to the changes in assumptions, the UAAL Contribution rate impact due to the changes in assumptions would have been 5.31% of payroll.

<sup>(4)</sup> If Rate Group #11 had not been overfunded prior to the changes in assumptions, the UAAL contribution rate impact due to the changes in assumptions would have been 4.38% of payroll.

# Estimated Impact on Average Member Contributions by Rate Groups -- Recommendation C

○ Recommendation C (6.75% Return & 2.75% Inflation) as of Dec. 31, 2016 for illustration

Increases in Average Member Contribution Rates (% of Payroll) under Recommended Assumptions				
Rate Group	Current	Proposed	Difference	Estimated Dollar Amounts <sup>(1)</sup> (in 000s)
Rate Group #1 (non-OCTA, non-OCSD)	8.62%	10.20%	1.58%	\$1,298
Rate Group #2 (County et al.)	11.10%	12.59%	1.49%	\$15,733
Rate Group #3 (OCSD)	11.52%	13.00%	1.48%	\$960
Rate Group #5 (OCTA)	9.35%	10.71%	1.36%	\$1,408
Rate Group #9 (TCA)	10.08%	11.41%	1.33%	\$90
Rate Group #10 (OCFA)	11.03%	12.59%	1.56%	\$412
Rate Group #11 (Cemetery)	8.87%	10.24%	1.37%	\$19
Rate Group #12 (Law Library)	13.06%	14.50%	1.44%	\$17
Rate Group #6 (Probation)	15.53%	17.66%	2.13%	\$1,361
Rate Group #7 (Law Enforcement)	16.39%	18.33%	1.94%	\$4,160
Rate Group #8 (Fire Authority)	15.44%	17.21%	1.77%	\$2,109
<b>Total All Rate Groups Combined</b>	<b>12.01%</b>	<b>13.60%</b>	<b>1.59%</b>	<b>\$27,567</b>

<sup>(1)</sup> Based on December 31, 2016 projected annual payrolls as determined under each set of assumptions



# **DISCUSSION**

# Possible Phase-In of Cost Impact of Assumption Changes

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- Ø Many systems (including OCERS) have managed the impact of assumption changes on employers by phasing in the cost impact.
  - Over two or three years (i.e., no longer than until the next experience study)
  - Some increase in employer cost for contributions not made during phase-in
    - Following slides illustrate the additional cost of the phase-in
  - Member rate changes are not phased in
    - Smaller impact (Normal Cost only, not UAAL cost)
    - Cost of phase-in would be shifted to employers
- Ø In 2015 OCERS adopted a three-year phase-in of the total cost impact of all assumption changes for the Safety Cost Groups
  - For the December 31, 2014 valuation
- Ø Recently some California systems have phased-in only the UAAL contribution rate impact, and not the Normal Cost impact
  - PEPPRA tier members pay one-half the Normal Cost and member rate impact is not phased in
  - In Employer Rate Impact table, phase-in only the UAAL portion, not the Normal Cost

# Cost to Phase-In Contribution Rate Impact

## Rec. A (7.00% / 3.00%) – Phase-in Total Impact

Cumulative Cost Increase			
Fiscal Year	Without Phase-in	With Two-year Phase-in	With Three-year Phase-in
2019/20	7.94%	3.97%	2.65%
2020/21	7.94%	8.21%	5.65%
2021/22 and later	7.94%	8.21%	8.48%

# Cost to Phase-In Contribution Rate Impact

## Rec. A (7.00% / 3.00%) – Phase-in UAAL Impact Only

Cumulative Cost Increase in UAAL Amortization			
Fiscal Year	Without Phase-in	With Two-year Phase-in	With Three-year Phase-in
2019/20	5.87%	2.94%	1.96%
2020/21	5.87%	6.07%	4.17%
2021/22 and later	5.87%	6.07%	6.26%

Cumulative Cost Increase (including Normal Cost impact = 2.07%)			
Fiscal Year	Without Phase-in	With Two-year Phase-in	With Three-year Phase-in
2019/20	7.94%	5.01%	4.03%
2020/21	7.94%	8.14%	6.24%
2021/22 and later	7.94%	8.14%	8.33%

# Cost to Phase-In Contribution Rate Impact

## Rec. B (7.00% / 2.75%) – Phase-in Total Impact

Cumulative Cost Increase			
Fiscal Year	Without Phase-in	With Two-year Phase-in	With Three-year Phase-in
2019/20	4.64%	2.32%	1.55%
2020/21	4.64%	4.80%	3.30%
2021/22 and later	4.64%	4.80%	4.96%

# Cost to Phase-In Contribution Rate Impact

## Rec. B (7.00% / 2.75%) – Phase-in UAAL Impact Only

Cumulative Cost Increase in UAAL Amortization			
Fiscal Year	Without Phase-in	With Two-year Phase-in	With Three-year Phase-in
2019/20	3.53%	1.77%	1.18%
2020/21	3.53%	3.65%	2.51%
2021/22 and later	3.53%	3.65%	3.77%

Cumulative Cost Increase (including Normal Cost impact = 1.11%)			
Fiscal Year	Without Phase-in	With Two-year Phase-in	With Three-year Phase-in
2019/20	4.64%	2.88%	2.29%
2020/21	4.64%	4.76%	3.62%
2021/22 and later	4.64%	4.76%	4.88%



# Cost to Phase-In Contribution Rate Impact

## Rec. C (6.75% / 2.75%) – Phase-in Total Impact

Cumulative Cost Increase			
Fiscal Year	Without Phase-in	With Two-year Phase-in	With Three-year Phase-in
2019/20	8.02%	4.01%	2.67%
2020/21	8.02%	8.29%	5.71%
2021/22 and later	8.02%	8.29%	8.56%

# Cost to Phase-In Contribution Rate Impact

## Rec. C (6.75% / 2.75%) – Phase-in UAAL Impact Only

Cumulative Cost Increase in UAAL Amortization			
Fiscal Year	Without Phase-in	With Two-year Phase-in	With Three-year Phase-in
2019/20	5.84%	2.92%	1.95%
2020/21	5.84%	6.04%	4.15%
2021/22 and later	5.84%	6.04%	6.23%

Cumulative Cost Increase (including Normal Cost impact = 2.18%)			
Fiscal Year	Without Phase-in	With Two-year Phase-in	With Three-year Phase-in
2019/20	8.02%	5.10%	4.13%
2020/21	8.02%	8.22%	6.33%
2021/22 and later	8.02%	8.22%	8.41%



**Orange County Fire Authority**  
**AGENDA STAFF REPORT**

**Budget and Finance Committee Meeting**  
**January 10, 2018**

**Agenda Item No. 3B**  
**Consent Calendar**

**Annual Grant Priorities for 2018**

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**Contact(s) for Further Information**

Brian Young, Assistant Chief Operations Department	<a href="mailto:brianyoung@ocfa.org">brianyoung@ocfa.org</a>	714.573.6012
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**Summary**

This annual agenda item is submitted to the Budget and Finance Committee for adoption of OCFA's Annual Grant Priorities for 2018.

**Prior Board/Committee Action**

Not Applicable.

**RECOMMENDED ACTION(S)**

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of January 25, 2018, with the Budget and Finance Committee's recommendation that the Board of Directors approve OCFA's Annual Grant Priorities for 2018.

**Impact to Cities/County**

Successful grant applications for staffing and equipment will provide significant benefit to member cities and the county.

**Fiscal Impact**

If grant funds are awarded for staffing or equipment, these funds will help offset expenses.

**Background**

OCFA's application for a Federal Emergency Management Agency (FEMA) *Staffing for Adequate Fire and Emergency Response* (SAFER) grant of \$3.6 million to fund a fourth firefighter position for Buena Park, Tustin, Placentia, and San Clemente was approved in 2017. OCFA also submitted applications in 2017 for FEMA's *Assistance to Firefighters* grants for extrication tools, a regional grant for firefighter turnout washers, and a California Office of Traffic Safety grant for extrication tools; however, these applications were denied.

The attached document outlines details on projects considered for 2018.

**Attachment(s)**

OCFA's Annual Grant Priorities for 2018



## Orange County Fire Authority

***Annual Grant Priorities***

2018

**Staffing for Adequate Fire and Emergency Response (SAFER)****\$3.6 million award**

This Federal Emergency Management Agency (FEMA) grant funds the hiring of “front-line” firefighters. In 2017, the OCFA requested and received funding for new firefighter positions, including the addition of a fourth firefighter on engines to enhance service delivery, improve efficiency, and enhance firefighter safety. The grant provides three years of funding with a federal share of 75% in the first two years and 35% in the final year. There is no requirement the positions be maintained after the three-year grant period ends; however, OCFA and the impacted cash contract cities listed below have agreed to maintain the positions after the grant.

**2017 Award**

Firefighter Staffing: OCFA’s grant award will fund a fourth firefighter for a single unit in each of the member cities of Buena Park, San Clemente, Placentia, and Tustin. Each city has an engine currently staffed with three firefighters. Adding a fourth firefighter on these units will improve service delivery and enhance firefighter safety. At the conclusion of the three-year grant period the cost of each position will be phased in for Buena Park, San Clemente, and Tustin. These cities will not incur the full cost of the positions until FY 2024/25.

No application can be submitted during the current award period of 2018-2021.

**Assistance to Firefighters Grant (AFG)****Applications Closes:** February 2, 2018

This FEMA grant funds the purchase of firefighting vehicles and safety equipment. Safety equipment applications are accepted for tools, personal protective equipment (PPE), training, wellness and fitness, and station modifications. Departments may submit one application and an additional “regional application,” in partnership with one or more other fire departments.

**2018 Application**

RFOTC Training Ground: The Operations Department has identified the upgrade and replacement of equipment at OCFA’s Regional Fire Operations Training Center (RFOTC) as a priority. The project is in the early phase of construction planning to expand north of the current training tower and drill grounds. The project will include installation of new fire simulators, training “props,” and technology. OCFA will seek funds to upgrade our current training ground simulators and equipment. At this time, an estimated cost figure has not been determined for the total project. Staff is researching eligible training equipment items under AFG that can be purchased and installed within the project timeframes.

**California Office of Traffic Safety (OTS)****Application Closes:** January 30, 2018

This grant provides federal funds through California's OTS for local agencies that provide emergency medical services. For local fire agencies, the grant typically prioritizes applications to purchase extrication tools that will free traffic accident victims more quickly and speed patient treatment. OCFA's 2017 application to replace ten-year-old extrication tools on 15 OCFA fire trucks was not funded.

In October, the OCFA Board approved the purchase of new extrication tools. Staff will submit an application to replace high pressure air bag kits used in conjunction with extrication tools. The air bags are specifically designed to lift vehicles, and will cost approximately \$225,000 to replace on all OCFA fire trucks.

**FEMA Fire Prevention and Safety Grant****Application Opens:** Spring 2018

Categories under this grant cover general education/awareness, arson investigation, and fire code education/awareness. Projects that may be considered include supporting OCFA's ongoing smoke alarm installations, and wildland safety efforts. OCFA is in need of 600 smoke alarms designed for hearing impaired individuals. These alarms provide a visual strobe light notification, and a physical vibration designed to wake individuals when an audible smoke alarm is activated.

**Urban Area Security Initiative****Application Opens:** January 2018

The Urban Area Security Initiative is designed to address the unique planning, equipment, training and exercise needs of high-threat, high-density urban areas. The Urban Area Working Group, comprised of Orange County law enforcement and fire representatives tasked with prioritizing and awarding funds, has awarded the OCFA \$587,170 in FY 2018/19 to support the purchase of a Forward Looking Infrared Radar (FLIR) camera. The estimated one-time cost to OCFA for the installation, electronics, and software to mount and run the camera is \$575,166.

A FLIR camera is used on helicopters to sense infrared radiation helping pilots to fly at night, in fog, or to detect warm objects against a cooler background. During search and rescue operations FLIR allows the use of Night Vision Goggles to identify search and rescue victims and aerial obstacles. FLIR allows flight crew's the ability to locate firelines through smoke or vegetation canopies and identify spot fires that can be extinguished by ground crews or targeted water drops.

**Drowning Prevention**

No specific applications or grantors are identified currently; however, staff is continuing to support efforts of the Orange County Task Force on Drowning Prevention to seek donations to support the marketing of drowning prevention campaign materials. In addition, the task force is considering the development of mock-drowning curriculum materials and swim lessons as possible projects for 2018. As needed, OCFA staff will support the development of grant applications.



**Orange County Fire Authority**  
**AGENDA STAFF REPORT**

**Budget and Finance Committee Meeting**  
**January 10, 2018**

**Agenda Item No. 3C**  
**Consent Calendar**

**First Quarter Financial Newsletter**

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**Contact(s) for Further Information**

Lori Zeller, Assistant Chief Business Services Department	<a href="mailto:lorizeller@ocfa.org">lorizeller@ocfa.org</a>	714.573.6020
Tricia Jakubiak, Treasurer	<a href="mailto:triciajakubiak@ocfa.org">triciajakubiak@ocfa.org</a>	714.573.6301
Deborah Gunderson, Budget Manager	<a href="mailto:deborahgunderson@ocfa.org">deborahgunderson@ocfa.org</a>	714.573.6302

**Summary**

This routine agenda item is submitted to provide information regarding revenues and expenditures in the General Fund and the Capital Improvement Program Funds through the first quarter of FY 2017/18.

**Prior Board/Committee Action**

Not Applicable.

**RECOMMENDED ACTION(S)**

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of January 25, 2018, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

**Impact to Cities/County**

Not Applicable.

**Fiscal Impact**

Not Applicable.

**Background**

The Quarterly Financial Newsletter provides information about the General Fund's top five revenue sources as well as expenditures by department and by type. Revenues and expenditures for the Capital Improvement Program (CIP) funds are also included. Revenues and expenditures for the General and CIP Funds are within budgetary expectations for this reporting period. Any notable items are detailed in the attached newsletter.

**Attachment(s)**

First Quarter Financial Newsletter – July to September 2017



# Orange County Fire Authority

## First Quarter Financial Newsletter – July 2017 to September 2017

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### **OVERVIEW**

This report covers fiscal activities in the General Fund and CIP Funds through the first quarter of Fiscal Year 2017/18. Budget figures include all budget adjustments authorized by the Board through the end of the first quarter.

### **GENERAL FUND**

With 25% of the year completed, General Fund revenues are 11.1% of budget and expenditures are 22.0% as shown below:

General Fund	YTD Actual	Budget	Percent
Revenues	40,680,080	367,122,266	11.1%
Expenditures	76,555,523	347,318,085	22.0%

**Top Five Revenues.** The analysis presented below compares the five largest revenue categories received through the first quarter, as compared to the budgetary estimate for this point in the fiscal year. Categories in which the variance is exceeded by 10% or \$1 million, are discussed below the table.

Top Five Revenues	YTD Actual Receipts	Trended Budget Estimate	Variance: Actual to Estimate in Dollars	% Variance
Cash Contracts	30,014,769	30,029,774	(15,005)	0%
Property Taxes	5,625,560	5,425,086	200,474	4%
State Reimbursements	2,620,233	1,486,667	1,133,566	43%
Community Risk Reduction Fees	1,351,228	1,458,065	(106,837)	-8%
Sales and Settlements	923,307	12,500	910,807	99%
<b>Total</b>	<b>40,535,097</b>	<b>38,412,092</b>	<b>2,123,005</b>	<b>5%</b>

- **State Reimbursements** – This category is trending higher than budget estimates by 43%, or approximately \$1.1 million, due to greater emergency activity. This category will be included in the Mid-Year Budget adjustment.
- **Sales and Settlements** – this category exceeds estimates by 99% or approximately \$911,000. This is due to an unbudgeted credit for the trade-in of the Zoll defibrillator monitors. This category will be adjusted at Mid-Year.

**Expenditures.** The analysis presented on the following page compares the actual expenditures through the first quarter, as compared to the budgetary estimate for this point in the fiscal year. Categories in which the variance is exceeded by 10% or \$1 million, are discussed below the table.

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Expenditures by Department	YTD Actual Expenditures	Trended Budget Estimate	Variance: Actual to Estimate in Dollars	% Variance
Business Services	2,487,222	2,634,029	(146,807)	-6%
Community Risk Reduction	3,662,339	3,586,387	75,952	2%
Executive Management	3,326,038	3,426,368	(100,330)	-3%
Operations	59,274,249	60,518,107	(1,243,858)	-2%
Organizational Planning	1,370,798	1,266,984	103,814	8%
Support Services	7,423,516	7,559,758	(136,242)	-2%
<b>Total</b>	<b>77,544,162</b>	<b>78,991,634</b>	<b>(1,447,472)</b>	<b>-2%</b>

*Totals may not equal the sum of components, or Authority-wide totals, due to rounding*

- **Operations:** This department is expending less than estimated by 2% or approximately \$1.2 million. This is primarily due to lower salary expenditures from vacancy savings and lower than anticipated sick and vacation payoff.

Expenditures by type are outlined below, with exception details below:

Expenditures by Type	YTD Actual Expenditures	Trended Budget Estimate	Variance: Actual to Estimate in Dollars	% Variance
Salary & Employee Benefits	69,770,860	71,567,266	(1,796,406)	-3%
Services and Supplies	7,529,139	7,372,868	156,272	2%
Equipment	244,162	51,500	192,662	79%
<b>Total</b>	<b>77,544,162</b>	<b>78,991,634</b>	<b>(1,447,472)</b>	<b>-2%</b>

*Totals may not equal the sum of components, or Authority-wide totals, due to rounding*

- **Salary & Employee Benefit:** This category is trending lower than budget estimates by approximately \$1.8 million or 3%. This is primarily due to lower salary expenditures from vacancy savings.
- **Equipment:** Actual expenditures through the first quarter finished approximately \$193,000 or 79% over estimates. This is primarily as a result of the budget for the purchases being placed in the Supplies category rather than Equipment. This will be corrected at Mid-Year.

## **CIP FUNDS**

On the following page, revenues and expenditures for the Capital Improvement Program funds are summarized. Any variances are noted following the fund table:



## General Fund CIP

Fund 12110	YTD Actual	Budget	Percent
Expenditures	453,069	2,444,781	19%

- This Fund receives transfers from the General Fund as its revenue source.
- Appropriations of \$1.2M included funding for replacement of small equipment such as pagers, PCs, laptops, printers, 800 MHz radios, VHF radios, MDC system, fire station telephone/alarm system upgrade, network servers, and data storage. In addition, \$1.3M was rebudgeted from FY 2016/17 to FY 2017/18, which included \$350K for EOC upgrade and remote cameras on the County Tower which will be funded by the CalFire Augmentation Grant.
- Expenditures included a \$253K purchase order issued for remote cameras on the County Tower.

## Fire Stations and Facilities

Fund 123	YTD Actual	Budget	Percent
Revenue	232,557	309,306	75.2%
Expenditures	45,144	9,914,115	0.5%

- Revenues exceeded the budget due to the receipt of unbudgeted developer contributions as well as higher than projected bankruptcy loss recovery.
- Appropriations of \$2M included funding for replacement of Fire Station 9, US&R warehouse improvements, Infrastructure enhancements, and site stabilization at Fire Station 42. In addition, \$7.5M was rebudgeted from FY 2016/7 to FY 2017/18 for the replacement of Fire Station 10, and \$100K for the vehicle sheds at Fire Station 18.
- Minimal expenditures occurred in the first quarter as contracts for major items like Fire Station 10 replacement, Fire Station 9 replacement and Fire station 42 site stabilization, had not yet been awarded.

## Communications & Info. Systems Replacement

Fund 124	YTD Actual	Budget	Percent
Revenue	271,412	323,152	84.0%
Expenditures	67,204	5,640,297	1.2%

- Revenues are comprised primarily of bankruptcy loss recovery proceeds.
- Appropriations of \$3.8M included funding for RFOTC Data Center Fire Suppression system upgrade, the OCFA Disaster Recovery Co-Location Facility, CRR Automation-IFP Replacement, Incident Reporting Application Replacement and the Next Generation CAD2CAD projects. Approximately \$1.9M in projects were rebudgeted from FY 2016/17 to FY 2017/18, which included the 800 MHz Replacement, Audio Video Equipment Upgrades, and the unspent portions of the IFP Replacement and Incident Reporting Application Replacement projects. There is minimal expenditures in the first quarter as the projects were still in planning stages.

**Fire Apparatus**

Fund 133	YTD Actual	Budget	Percent
Revenue	621,415	1,677,430	37.0%
Expenditures	703,956	11,435,499	6.2%

- Actual revenue includes the quarterly Cash Contract payments for vehicle depreciation, and higher than projected bankruptcy loss recovery proceeds.
- About \$10M was appropriated for FY 2017/18, and \$1.4M rebudgeted from FY 2016/17 to FY 2017/18. The major expenditure during the first quarter was the quarterly lease payment on the helicopters.

**SUMMARY**

***For more information.*** This summary is based on detailed information from our financial system. If you would like more information or have any questions about the report, please contact Deborah Gunderson, Budget Manager at 714-573-6302, or Tricia Jakubiak, Treasurer at 714-573-6301.



**Orange County Fire Authority**  
**AGENDA STAFF REPORT**

**Budget and Finance Committee Meeting**  
**January 10, 2018**

**Agenda Item No. 4A**  
**Discussion Calendar**

**Monthly Investment Reports**

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**Contact(s) for Further Information**

Tricia Jakubiak, Treasurer Treasury & Financial Planning	<a href="mailto:triciajakubiak@ocfa.org">triciajakubiak@ocfa.org</a>	714.573.6301
Jane Wong, Assistant Treasurer	<a href="mailto:jane Wong@ocfa.org">jane Wong@ocfa.org</a>	714.573.6305

**Summary**

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

**Prior Board/Committee Action**

Not Applicable.

**RECOMMENDED ACTION(S)**

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of January 25, 2018, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

**Impact to Cities/County**

Not Applicable.

**Fiscal Impact**

Not Applicable.

**Background**

Since the Committee did not meet in December, attached are the final monthly investment reports for the months ending October 31 and November 30, 2017. A preliminary investment report as of December 15, 2017, is also provided as the most complete report that was available at the time this agenda item was prepared.

**Attachment(s)**

1. Final Investment Report – October 2017/Preliminary Report – November 2017
2. Final Investment Report – November 2017/Preliminary Report – December 2017



# ORANGE COUNTY FIRE AUTHORITY

P.O. Box 57115, Irvine, CA 92619-7115 • 1 Fire Authority Road, Irvine, CA 92602


Patrick McIntosh, Interim Fire Chief

(714) 573-6000

[www.ocfa.org](http://www.ocfa.org)

December 7, 2017

TO: Budget and Finance Committee  
Orange County Fire Authority

FROM: Patricia Jakubiak, Treasurer 

SUBJECT: **Investment Report**

Due to the cancellation of the December 13, 2017 meeting of the Budget and Finance Committee, I am enclosing the monthly investment report for your review. The report includes the following:

- Final Investment Report for October 2017
- Preliminary Investment Report for November 2017

Since the December meeting of the Executive Committee has also been cancelled, this report will be forwarded to the January 10, 2018 meeting of the Budget and Finance Committee for action to be taken. If you have any questions, please call me at (714) 573-6301.

Enclosure

# ***Orange County Fire Authority Monthly Investment Report***



***Final Report – October 2017***

***Preliminary Report – November 2017***



## ***Monthly Investment Report Table of Contents***

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***Orange County Fire Authority***

***Final Investment Report***

***October 31, 2017***





## **EXECUTIVE SUMMARY**

### ***Portfolio Activity & Earnings***

During the month of October 2017, the size of the portfolio decreased significantly from \$141.3 million to \$118.7 million. Significant receipts for the month included a cash contract payment, a property tax receipt, charges for current services and other intergovernmental agency payments totaling \$7.3 million. Significant disbursements for the month included primarily two biweekly payrolls which were approximately \$12.5 million each with related benefits. Total October cash outflows amounted to approximately \$30.8 million. The portfolio's balance is expected to increase in November.

In October, the portfolio's yield to maturity (365-day equivalent) increased by 8 basis points to 1.11%. The effective rate of return rose by 6 basis points to 1.08% for the month and edged up by 1 basis point to 1.04% for the fiscal year to date. The average maturity of the portfolio lengthened by 56 days to 137 days to maturity.

### ***Economic News***

The U.S. economy continued to grow in October 2017 in the aftermath of Hurricanes Irma and Harvey, albeit some mixed activity. The employment report for October reversed and showed a solid increase of 261,000 new jobs added for the month. Also, the unemployment rate continued to improve declining further to 4.1% from 4.2% previously. Both the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index increased to a highest level in over ten years. Retail sales grew better than expected. Manufacturing activity pulled back slightly while the non-manufacturing sector rose. Durable goods orders unexpectedly declined as industrial production came in better than expected. Both new and existing home sales picked up in October. The CPI (Consumer Price Index) increased slightly, and longer term inflation remained low. On November 1, 2017, the Federal Open Market Committee met and voted to keep the federal funds rate unchanged at a target range of 1.0% - 1.25%. The Committee also upgraded its outlook on the economy. Current expectations are high for a rate increase at the Fed's next meeting in December.





**BENCHMARK COMPARISON AS OF OCTOBER 31, 2017**

3 Month T-Bill: 1.09%

1 Year T-Bill: 1.40%

6 Month T-Bill: 1.25%

LAIF: 1.14%

OCFA Portfolio: 1.08%

**PORTFOLIO SIZE, YIELD, & DURATION**

	<u><i>Current Month</i></u>	<u><i>Prior Month</i></u>	<u><i>Prior Year</i></u>
<i>Book Value-</i>	\$118,668,912	\$141,285,259	\$121,932,169
<i>Yield to Maturity (365 day)</i>	1.11%	1.03%	0.64%
<i>Effective Rate of Return</i>	1.08%	1.02%	0.60%
<i>Days to Maturity</i>	137	81	107



**ORANGE COUNTY FIRE AUTHORITY**  
**Portfolio Management**  
**Portfolio Summary**  
**October 31, 2017**

Orange County Fire Authority  
1 Fire Authority Road  
Irvine, 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	7,016,000.00	7,016,000.00	7,016,000.00	5.93	1	1	0.562	0.570
Federal Agency Coupon Securities	35,000,000.00	34,896,120.00	35,000,000.00	29.57	971	449	1.223	1.240
Treasury Coupon Securities	9,000,000.00	8,999,370.00	8,999,858.70	7.60	209	14	0.904	0.916
Treasury Discounts -Amortizing	10,000,000.00	9,991,900.00	9,991,541.67	8.44	170	29	1.055	1.070
Local Agency Investment Funds	57,344,164.33	57,289,232.69	57,344,164.33	48.45	1	1	1.127	1.143
<b>Investments</b>	<b>118,360,164.33</b>	<b>118,192,622.69</b>	<b>118,351,564.70</b>	<b>100.00%</b>	<b>318</b>	<b>137</b>	<b>1.099</b>	<b>1.114</b>
<b>Cash</b>								
Passbook/Checking (not included in yield calculations)	523,351.28	523,351.28	523,351.28		1	1	0.000	0.000
<b>Total Cash and Investments</b>	<b>118,883,515.61</b>	<b>118,715,973.97</b>	<b>118,874,915.98</b>		<b>318</b>	<b>137</b>	<b>1.099</b>	<b>1.114</b>

Total Earnings	October 31 Month Ending	Fiscal Year To Date
Current Year	116,032.85	525,989.86
Average Daily Balance	126,221,924.66	150,124,528.74
Effective Rate of Return	1.08%	1.04%

"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, 2017. 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, Treasurer

**Cash and Investments with GASB 31 Adjustment:**

Book Value of Cash & Investments before GASB 31 (Above)

\$ 118,874,915.98

GASB 31 Adjustment to Books (See Note 3 on page 9)

\$ (206,003.82)

Total

\$ 118,668,912.16

**ORANGE COUNTY FIRE AUTHORITY**  
**Portfolio Management**  
**Portfolio Details - Investments**  
**October 31, 2017**

(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
<b>Money Mkt Mutual Funds/Cash</b>											
SYS528	528	Federated Treasury Obligations			7,016,000.00	7,016,000.00	7,016,000.00	0.570	0.570	1	
<b>Subtotal and Average</b>			<b>5,686,861.13</b>		<b>7,016,000.00</b>	<b>7,016,000.00</b>	<b>7,016,000.00</b>		<b>0.570</b>	<b>1</b>	
<b>Federal Agency Coupon Securities</b>											
3133EFJP3	869	Federal Farm Credit Bank (Callable Anytime)		10/15/2015	10,000,000.00	9,969,200.00	10,000,000.00	1.100	1.054	348	10/15/2018
3133EGPD1	921	Federal Farm Credit Bank (Callable Anytime)		04/20/2017	7,000,000.00	6,941,410.00	7,000,000.00	1.180	1.375	638	08/01/2019
3134G7FK2	863	Fed Home Loan Mtg Corp		06/30/2015	9,000,000.00	8,992,620.00	9,000,000.00	1.100	1.065	142	03/23/2018
3134GBHT2	922	Fed Home Loan Mtg Corp		04/25/2017	9,000,000.00	8,992,890.00	9,000,000.00	1.625	1.518	723	10/25/2019
<b>Subtotal and Average</b>			<b>35,001,161.87</b>		<b>35,000,000.00</b>	<b>34,896,120.00</b>	<b>35,000,000.00</b>		<b>1.240</b>	<b>449</b>	
<b>Federal Agency Disc. -Amortizing</b>											
<b>Subtotal and Average</b>			<b>5,514,867.22</b>								
<b>Treasury Coupon Securities</b>											
912828G20	920	Treasury Note		04/20/2017	9,000,000.00	8,999,370.00	8,999,858.70	0.875	0.916	14	11/15/2017
<b>Subtotal and Average</b>			<b>8,999,707.31</b>		<b>9,000,000.00</b>	<b>8,999,370.00</b>	<b>8,999,858.70</b>		<b>0.916</b>	<b>14</b>	
<b>Treasury Discounts -Amortizing</b>											
912796ME6	923	US Treasury Bill		06/13/2017	10,000,000.00	9,991,900.00	9,991,541.67	1.050	1.070	29	11/30/2017
<b>Subtotal and Average</b>			<b>9,987,166.67</b>		<b>10,000,000.00</b>	<b>9,991,900.00</b>	<b>9,991,541.67</b>		<b>1.070</b>	<b>29</b>	
<b>Local Agency Investment Funds</b>											
SYS336	336	Local Agency Invstmnt Fund			57,344,164.33	57,289,232.69	57,344,164.33	1.143	1.143	1	
<b>Subtotal and Average</b>			<b>61,052,160.46</b>		<b>57,344,164.33</b>	<b>57,289,232.69</b>	<b>57,344,164.33</b>		<b>1.143</b>	<b>1</b>	
<b>Total and Average</b>			<b>126,221,924.66</b>		<b>118,360,164.33</b>	<b>118,192,622.69</b>	<b>118,351,564.70</b>		<b>1.114</b>	<b>137</b>	

**ORANGE COUNTY FIRE AUTHORITY**  
**Portfolio Management**  
**Portfolio Details - Cash**  
**October 31, 2017**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
<b>Money Mkt Mutual Funds/Cash</b>										
SYS10033	10033	Revolving Fund		07/01/2017	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank		07/01/2017	503,351.28	503,351.28	503,351.28		0.000	1
		<b>Average Balance</b>	<b>0.00</b>							<b>1</b>
<b>Total Cash and Investments</b>			<b>126,221,924.66</b>		<b>118,883,515.61</b>	<b>118,715,973.97</b>	<b>118,874,915.98</b>		<b>1.114</b>	<b>137</b>

“We visualize problems and solutions  
through the eyes of those we serve.”





**ORANGE COUNTY FIRE AUTHORITY**  
**Aging Report**  
**By Maturity Date**  
**As of November 1, 2017**

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

				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
Aging Interval: 0 days	( 11/01/2017 - 11/01/2017 )	4 Maturities	0 Payments	64,883,515.61	54.58%	64,883,515.61	64,828,583.97
Aging Interval: 1 - 30 days	( 11/02/2017 - 12/01/2017 )	2 Maturities	0 Payments	19,000,000.00	15.98%	18,991,400.37	18,991,270.00
Aging Interval: 31 - 60 days	( 12/02/2017 - 12/31/2017 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 61 - 91 days	( 01/01/2018 - 01/31/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 92 - 121 days	( 02/01/2018 - 03/02/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 122 - 152 days	( 03/03/2018 - 04/02/2018 )	1 Maturities	0 Payments	9,000,000.00	7.57%	9,000,000.00	8,992,620.00
Aging Interval: 153 - 183 days	( 04/03/2018 - 05/03/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 184 - 274 days	( 05/04/2018 - 08/02/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	( 08/03/2018 - 11/01/2018 )	1 Maturities	0 Payments	10,000,000.00	8.41%	10,000,000.00	9,969,200.00
Aging Interval: 366 - 1095 days	( 11/02/2018 - 10/31/2020 )	2 Maturities	0 Payments	16,000,000.00	13.46%	16,000,000.00	15,934,300.00
Aging Interval: 1096 days and after	( 11/01/2020 - )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Total for		10 Investments	0 Payments		100.00	118,874,915.98	118,715,973.97



**NOTES TO PORTFOLIO MANAGEMENT REPORT**

- Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The MUFG Union Bank (formerly Union Bank) Trust Department provides market values of the remaining investments.
- Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.
- Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2017 includes a decrease of (\$68,353) to the LAIF investment and a decrease of (\$137,651) to the remaining investments.
- Note 4: The Federated Treasury Obligations money market mutual fund functions as the Authority's sweep account. Funds are transferred to and from the sweep account to/from OCFA's checking account in order to maintain a target balance of \$1,000,000 in checking. Since this transfer occurs at the beginning of each banking day, the checking account sometimes reflects a negative balance at the close of the banking day. The negative closing balance is not considered an overdraft since funds are available in the money market mutual fund. The purpose of the sweep arrangement is to provide sufficient liquidity to cover outstanding checks, yet allow that liquidity to be invested while payment of the outstanding checks is pending.



## ***Local Agency Investment Fund (LAIF)***

As of October 31, 2017, OCFA has \$57,344,164 invested in LAIF. The fair value of OCFA's LAIF investment is calculated using a participant fair value factor provided by LAIF on a quarterly basis. The fair value factor as of September 30, 2017 is 0.999042071. When applied to OCFA's LAIF investment, the fair value is \$57,289,233 or (\$54,932) below cost. Although the fair value of the LAIF investment is lower than cost, OCFA can withdraw the actual amount invested at any time.

LAIF is included in the State Treasurer's Pooled Money Investment Account (PMIA) for investment purposes. The PMIA market valuation at October 31, 2017 is included on the following page.





# State of California

## Pooled Money Investment Account

### Market Valuation

### 10/31/2017

Description	Carrying Cost Plus		Fair Value	Accrued Interest
	Accrued Interest	Purch.		
United States Treasury:				
Bills	\$	14,571,617,028.20	\$ 14,625,191,000.00	NA
Notes	\$	18,775,856,287.54	\$ 18,715,501,000.00	\$ 40,660,397.50
Federal Agency:				
SBA	\$	873,720,729.05	\$ 863,104,933.35	\$ 1,099,545.15
MBS-REMICs	\$	35,683,029.70	\$ 37,054,381.86	\$ 167,238.71
Debentures	\$	1,378,212,472.56	\$ 1,372,832,150.00	\$ 3,127,490.95
Debentures FR	\$	-	\$ -	\$ -
Debentures CL	\$	250,000,000.00	\$ 248,717,000.00	\$ 1,061,402.00
Discount Notes	\$	7,150,407,458.06	\$ 7,170,445,000.00	NA
GNMA	\$	-	\$ -	\$ -
Supranational Debentures	\$	450,315,184.02	\$ 448,483,000.00	\$ 1,215,590.00
Supranational Debentures FR	\$	50,000,000.00	\$ 50,071,500.00	\$ 38,491.10
CDs and YCDs FR	\$	625,000,000.00	\$ 625,000,000.00	\$ 983,757.63
Bank Notes	\$	500,000,000.00	\$ 499,885,536.20	\$ 1,676,388.89
CDs and YCDs	\$	10,175,000,000.00	\$ 10,173,329,638.98	\$ 26,215,250.01
Commercial Paper	\$	6,775,842,555.54	\$ 6,784,644,874.97	NA
Corporate:				
Bonds FR	\$	-	\$ -	\$ -
Bonds	\$	-	\$ -	\$ -
Repurchase Agreements	\$	-	\$ -	\$ -
Reverse Repurchase	\$	-	\$ -	\$ -
Time Deposits	\$	5,654,240,000.00	\$ 5,654,240,000.00	NA
AB 55 & GF Loans	\$	5,096,486,000.00	\$ 5,096,486,000.00	NA
<b>TOTAL</b>	<b>\$</b>	<b>72,362,380,744.67</b>	<b>\$ 72,364,986,015.36</b>	<b>\$ 76,245,551.94</b>

Fair Value Including Accrued Interest

\$ 72,441,231,567.30

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



***Orange County Fire Authority***  
***Preliminary Investment Report***  
***November 24, 2017***



**ORANGE COUNTY FIRE AUTHORITY**  
**Portfolio Management**  
**Portfolio Summary**  
**November 24, 2017**

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

(See Note 1 on page 18)

(See Note 2 on page 18)

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	5,605,000.00	5,605,000.00	5,605,000.00	4.54	1	1	0.562	0.570
Federal Agency Coupon Securities	35,000,000.00	34,846,610.00	35,000,000.00	28.33	971	425	1.223	1.240
Treasury Discounts -Amortizing	18,000,000.00	17,987,580.00	17,986,843.89	14.56	122	24	1.085	1.100
Local Agency Investment Funds	64,944,164.33	64,881,952.43	64,944,164.33	52.57	1	1	1.127	1.143
<b>Investments</b>	<b>123,549,164.33</b>	<b>123,321,142.43</b>	<b>123,536,008.22</b>	<b>100.00%</b>	<b>293</b>	<b>125</b>	<b>1.123</b>	<b>1.138</b>

**Cash**

Passbook/Checking (not included in yield calculations)	527,051.83	527,051.83	527,051.83		1	1	0.000	0.000
<b>Total Cash and Investments</b>	<b>124,076,216.16</b>	<b>123,848,194.26</b>	<b>124,063,060.05</b>		<b>293</b>	<b>125</b>	<b>1.123</b>	<b>1.138</b>

Total Earnings	November 24 Month Ending	Fiscal Year To Date
Current Year	91,276.68	617,266.54
<b>Average Daily Balance</b>	<b>123,177,895.71</b>	<b>145,725,078.45</b>
<b>Effective Rate of Return</b>	<b>1.13%</b>	<b>1.05%</b>

"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, 2017. 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, Treasurer

**Cash and Investments with GASB 31 Adjustment:**

Book Value of Cash & Investments before GASB 31 (Above)

\$ 124,063,060.05

GASB 31 Adjustment to Books (See Note 3 on page 18)

\$ (206,003.82)

Total

\$ 123,857,056.23

# ORANGE COUNTY FIRE AUTHORITY

## Portfolio Management

### Portfolio Details - Investments

November 24, 2017

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

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
<b>Money Mkt Mutual Funds/Cash</b>											
SYS528	528	Federated Treasury Obligations			5,605,000.00	5,605,000.00	5,605,000.00	0.570	0.570	1	
<b>Subtotal and Average</b>			<b>6,364,291.78</b>		<b>5,605,000.00</b>	<b>5,605,000.00</b>	<b>5,605,000.00</b>		<b>0.570</b>	<b>1</b>	
<b>Federal Agency Coupon Securities</b>											
3133EFJP3	869	Federal Farm Credit Bank (Callable Anytime)		10/15/2015	10,000,000.00	9,959,100.00	10,000,000.00	1.100	1.054	324	10/15/2018
3133EGPD1	921	Federal Farm Credit Bank (Callable Anytime)		04/20/2017	7,000,000.00	6,927,830.00	7,000,000.00	1.180	1.375	614	08/01/2019
3134G7FK2	863	Fed Home Loan Mtg Corp		06/30/2015	9,000,000.00	8,993,070.00	9,000,000.00	1.100	1.065	118	03/23/2018
3134GBHT2	922	Fed Home Loan Mtg Corp		04/25/2017	9,000,000.00	8,966,610.00	9,000,000.00	1.625	1.518	699	10/25/2019
<b>Subtotal and Average</b>			<b>35,000,000.00</b>		<b>35,000,000.00</b>	<b>34,846,610.00</b>	<b>35,000,000.00</b>		<b>1.240</b>	<b>425</b>	
<b>Treasury Coupon Securities</b>											
<b>Subtotal and Average</b>			<b>5,249,961.73</b>								
<b>Treasury Discounts -Amortizing</b>											
912796ME6	923	US Treasury Bill		06/13/2017	10,000,000.00	9,999,100.00	9,998,541.67	1.050	1.070	5	11/30/2017
912796ML0	924	US Treasury Bill		11/09/2017	8,000,000.00	7,988,480.00	7,988,302.22	1.120	1.138	47	01/11/2018
<b>Subtotal and Average</b>			<b>15,319,477.87</b>		<b>18,000,000.00</b>	<b>17,987,580.00</b>	<b>17,986,843.89</b>		<b>1.100</b>	<b>24</b>	
<b>Local Agency Investment Funds</b>											
SYS336	336	Local Agency Invstmt Fund			64,944,164.33	64,881,952.43	64,944,164.33	1.143	1.143	1	
<b>Subtotal and Average</b>			<b>61,244,164.33</b>		<b>64,944,164.33</b>	<b>64,881,952.43</b>	<b>64,944,164.33</b>		<b>1.143</b>	<b>1</b>	
<b>Total and Average</b>			<b>123,177,895.71</b>		<b>123,549,164.33</b>	<b>123,321,142.43</b>	<b>123,536,008.22</b>		<b>1.138</b>	<b>125</b>	



**ORANGE COUNTY FIRE AUTHORITY**  
**Portfolio Management**  
**Portfolio Details - Cash**  
**November 24, 2017**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
<b>Money Mkt Mutual Funds/Cash</b>										
SYS10033	10033	Revolving Fund		07/01/2017	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank		07/01/2017	507,051.83	507,051.83	507,051.83		0.000	1
		<b>Average Balance</b>	<b>0.00</b>							<b>1</b>
<b>Total Cash and Investments</b>			<b>123,177,895.71</b>		<b>124,076,216.16</b>	<b>123,848,194.26</b>	<b>124,063,060.05</b>		<b>1.138</b>	<b>125</b>

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**ORANGE COUNTY FIRE AUTHORITY**  
**Aging Report**  
**By Maturity Date**  
**As of November 25, 2017**

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

				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
Aging Interval: 0 days	( 11/25/2017 - 11/25/2017 )	4 Maturities	0 Payments	71,076,216.16	57.29%	71,076,216.16	71,014,004.26
Aging Interval: 1 - 30 days	( 11/26/2017 - 12/25/2017 )	1 Maturities	0 Payments	10,000,000.00	8.06%	9,998,541.67	9,999,100.00
Aging Interval: 31 - 60 days	( 12/26/2017 - 01/24/2018 )	1 Maturities	0 Payments	8,000,000.00	6.44%	7,988,302.22	7,988,480.00
Aging Interval: 61 - 91 days	( 01/25/2018 - 02/24/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 92 - 121 days	( 02/25/2018 - 03/26/2018 )	1 Maturities	0 Payments	9,000,000.00	7.25%	9,000,000.00	8,993,070.00
Aging Interval: 122 - 152 days	( 03/27/2018 - 04/26/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 153 - 183 days	( 04/27/2018 - 05/27/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 184 - 274 days	( 05/28/2018 - 08/26/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	( 08/27/2018 - 11/25/2018 )	1 Maturities	0 Payments	10,000,000.00	8.06%	10,000,000.00	9,959,100.00
Aging Interval: 366 - 1095 days	( 11/26/2018 - 11/24/2020 )	2 Maturities	0 Payments	16,000,000.00	12.90%	16,000,000.00	15,894,440.00
Aging Interval: 1096 days and after	( 11/25/2020 - )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Total for		10 Investments	0 Payments		100.00	124,063,060.05	123,848,194.26



**NOTES TO PORTFOLIO MANAGEMENT REPORT**

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## GLOSSARY

### INVESTMENT TERMS

**Basis Point.** Measure used in quoting yields on bonds and notes. One basis point is .01% of yield.

**Book Value.** This value may be the original cost of acquisition of the security, or original cost adjusted by the amortization of a premium or accretion of a discount. The book value may differ significantly from the security's current value in the market.

**Commercial Paper.** Unsecured short-term promissory notes issued by corporations, with maturities ranging from 2 to 270 days; may be sold on a discount basis or may bear interest.

**Coupon Rate.** Interest rate, expressed as a percentage of par or face value, that issuer promises to pay over lifetime of debt security.

**Discount.** The amount by which a bond sells under its par (face) value.

**Discount Securities.** Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity. Treasury bills, bankers' acceptances and most commercial paper are issued at a discount.

**Effective Rate of Return.** Rate of return on a security, based on its purchase price, coupon rate, maturity date, and the period between interest payments.

**Federal Agency Securities.** Securities issued by agencies such as the Federal National Mortgage Association and the Federal Farm Credit Bank. Though not general obligations of the US Treasury, such securities are sponsored by the government and therefore have high credit ratings. Some are issued on a discount basis and some are issued with coupons.

**Federal Funds.** Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed Funds are considered to be immediately available funds.

**Fed Funds Rate.** The interest rate charged by one institution lending federal funds to another.

**Federal Open Market Committee.** The branch of the Federal Reserve Board that determines the direction of monetary policy.

**Local Agency Investment Fund (LAIF).** A California State Treasury fund which local agencies may use to deposit funds for investment and for reinvestment with a maximum of \$50 million for any agency (*excluding bond funds, which have no maximum*). It offers high liquidity because

deposits can be converted to cash in 24 hours and no interest is lost. Interest is paid quarterly and the State's administrative fee cannot exceed 1/4 of a percent of the earnings.

**Market value.** The price at which the security is trading and could presumably be purchased or sold.

**Maturity Date.** The specified day on which the issuer of a debt security is obligated to repay the principal amount or face value of security.

**Money Market Mutual Fund.** Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repurchase agreements and federal funds).

**Par.** Face value or principal value of a bond typically \$1,000 per bond.

**Rate of Return.** The amount of income received from an investment, expressed as a percentage. A *market rate of return* is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

**Treasury Bills.** Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

**Treasury Notes.** Intermediate U.S. government debt securities with maturities of one to 10 years.

**Treasury bonds.** Long-term U.S. government debt securities with maturities of 10 years or longer.

**Yield.** Rate of return on a bond.

**Yield-to-maturity.** Rate of return on a bond taking into account the total annual interest payments, the purchase price, the redemption value and the amount of time remaining until maturity.

### ECONOMIC TERMS

**Conference Board Consumer Confidence Index** A survey that measures how optimistic or pessimistic consumers are with respect to the economy in the near future.

**Consumer Price Index (CPI).** A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. Changes in CPI are used to assess price changes associated with the cost of living.



**Durable Goods Orders.** An economic indicator released monthly that reflects new orders placed with domestic manufacturers for delivery of factory durable goods such as autos and appliances in the near term or future.

**Gross Domestic Product.** The monetary value of all the finished goods and services produced within a country's borders in a specific time period. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

**Industrial Production.** An economic indicator that is released monthly by the Federal Reserve Board. The indicator measures the amount of output from the manufacturing, mining, electric and gas industries.

**ISM Institute for Supply Management (ISM) Manufacturing Index.** A monthly index that monitors employment, production inventories, new orders and supplier deliveries.

**ISM Non-manufacturing Index.** An index based on surveys of non-manufacturing firms' purchasing and supply executives. It tracks economic data for the service sector.

**Leading Economic Index.** A monthly index used to predict the direction of the economy's movements in the months to come. The index is made up of 10 economic components, whose changes tend to precede changes in the overall economy.

**National Federation of Independent Business Small Business Optimism Index.** An index based on surveys of small business owners' plans and expectations regarding employment, capital, inventories, economic improvement, credit conditions, expansion, and earnings trends in the near term or future.

**Producer Price Index.** An index that measures the average change over time in the selling prices received by domestic producers for their output.

**University of Michigan Consumer Sentiment Index.** An index that measures the overall health of the economy as determined by consumer opinion. It takes into account an individual's feelings toward his or her own current financial health, the health of the economy in the short term and the prospects for longer term economic growth.

# ***Orange County Fire Authority Monthly Investment Report***



***Final Report – November 2017***

***Preliminary Report – December 2017***



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***Orange County Fire Authority***

***Final Investment Report***

***November 30, 2017***





## **EXECUTIVE SUMMARY**

### ***Portfolio Activity & Earnings***

During the month of November 2017, the size of the portfolio reversed and increased significantly to \$144.5 million from \$118.7 million. Significant receipts for the month included the first and second apportionments of secured property taxes for a total of \$42.8 million and various intergovernmental agency payments and a cash contact payment totaling \$6.2 million. Significant disbursements for the month included primarily two biweekly payrolls which were approximately \$10.5 million each with related benefits. Total November cash outflows amounted to approximately \$24.7 million. The portfolio's balance is expected to increase significantly in the following month as the next major property tax receipt is expected in December.

In November, the portfolio's yield to maturity (365-day equivalent) stayed unchanged at 1.11%. The effective rate of return, on the other hand, rose by 7 basis points to 1.15% for the month and increased by 2 basis points to 1.06% for the fiscal year to date. The average maturity of the portfolio shortened by 28 days to 109 days to maturity.

### ***Economic News***

U.S. economic activity continued to pick up in November 2017. Employment conditions remained solid. There were a total of 228,000 new jobs created for the month, better than expected, and the unemployment rate stayed unchanged at a low rate of 4.1%. Both the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index were at a high level, with one exceeded a 17-year record. Retail sales rose and continued to beat expectations in November. Manufacturing and non-manufacturing activity also grew, albeit at a slower rate. Both durable goods orders and industrial production increased in November. Furthermore, both new and existing home sales exceeded more than 10-year records. The CPI (Consumer Price Index) increased more than expected, but longer term inflation remained moderate. On December 13, 2017, the Federal Open Market Committee met and voted, as widely expected, to raise the federal funds rate by a quarter point to a new target range of 1.25% - 1.50% and upgraded its outlook on the economy.



**BENCHMARK COMPARISON AS OF NOVEMBER 30, 2017**

3 Month T-Bill:	1.25%	1 Year T-Bill:	1.56%
6 Month T-Bill:	1.39%	LAIF:	1.17%
OCFA Portfolio: 1.15%			

**PORTFOLIO SIZE, YIELD, & DURATION**

	<u>Current Month</u>	<u>Prior Month</u>	<u>Prior Year</u>
Book Value-	\$144,470,372	\$118,668,912	\$133,595,605
Yield to Maturity (365 day)	1.11%	1.11%	0.58%
Effective Rate of Return	1.15%	1.08%	0.60%
Days to Maturity	109	137	93





**ORANGE COUNTY FIRE AUTHORITY**  
**Portfolio Management**  
**Portfolio Summary**  
**November 30, 2017**

Orange County Fire Authority  
1 Fire Authority Road  
Irvine, 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	19,460,000.00	19,460,000.00	19,460,000.00	13.39	1	1	0.592	0.600
Federal Agency Coupon Securities	35,000,000.00	34,820,580.00	35,000,000.00	24.08	971	419	1.223	1.240
Federal Agency Disc. -Amortizing	18,000,000.00	17,973,720.00	17,975,850.00	12.37	43	42	1.168	1.184
Treasury Discounts -Amortizing	8,000,000.00	7,989,840.00	7,989,795.56	5.50	63	41	1.122	1.138
Local Agency Investment Funds	64,944,164.33	64,881,952.43	64,944,164.33	44.68	1	1	1.156	1.172
<b>Investments</b>	<b>145,404,164.33</b>	<b>145,126,092.43</b>	<b>145,369,809.89</b>	<b>100.00%</b>	<b>243</b>	<b>109</b>	<b>1.096</b>	<b>1.111</b>
<hr/>								
<b>Cash</b>								
Passbook/Checking (not included in yield calculations)	-693,434.30	-693,434.30	-693,434.30		0	0	0.000	0.000
<b>Total Cash and Investments</b>	<b>144,710,730.03</b>	<b>144,432,658.13</b>	<b>144,676,375.59</b>		<b>243</b>	<b>109</b>	<b>1.096</b>	<b>1.111</b>

Total Earnings	November 30 Month Ending	Fiscal Year To Date
Current Year	117,409.22	643,399.08
<b>Average Daily Balance</b>	<b>124,109,835.47</b>	<b>145,023,608.49</b>
<b>Effective Rate of Return</b>	<b>1.15%</b>	<b>1.06%</b>

"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, 2017. 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, Treasurer

**Cash and Investments with GASB 31 Adjustment:**

Book Value of Cash & Investments before GASB 31 (Above)

\$ 144,676,375.59

GASB 31 Adjustment to Books (See Note 3 on page 9)

\$ (206,003.82)

Total

\$ 144,470,371.77

**ORANGE COUNTY FIRE AUTHORITY**  
**Portfolio Management**  
**Portfolio Details - Investments**  
**November 30, 2017**

(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											
				(See Note 4 on page 9)							
SYS528	528	Federated Treasury Obligations			19,460,000.00	19,460,000.00	19,460,000.00	0.600	0.600	1	
Subtotal and Average			6,806,520.35		19,460,000.00	19,460,000.00	19,460,000.00		0.600	1	
Federal Agency Coupon Securities											
3133EFJP3	869	Federal Farm Credit Bank (Callable Anytime)		10/15/2015	10,000,000.00	9,942,500.00	10,000,000.00	1.100	1.054	318	10/15/2018
3133EGPD1	921	Federal Farm Credit Bank (Callable Anytime)		04/20/2017	7,000,000.00	6,925,240.00	7,000,000.00	1.180	1.375	608	08/01/2019
3134G7FK2	863	Fed Home Loan Mtg Corp		06/30/2015	9,000,000.00	8,991,720.00	9,000,000.00	1.100	1.065	112	03/23/2018
3134GBHT2	922	Fed Home Loan Mtg Corp		04/25/2017	9,000,000.00	8,961,120.00	9,000,000.00	1.625	1.518	693	10/25/2019
Subtotal and Average			35,000,000.00		35,000,000.00	34,820,580.00	35,000,000.00		1.240	419	
Federal Agency Disc. -Amortizing											
313589RS4	925	Fed Natl Mortg Assoc		11/30/2017	18,000,000.00	17,973,720.00	17,975,850.00	1.150	1.184	42	01/12/2018
Subtotal and Average			599,195.00		18,000,000.00	17,973,720.00	17,975,850.00		1.184	42	
Treasury Coupon Securities											
Subtotal and Average			4,199,969.39								
Treasury Discounts -Amortizing											
912796ML0	924	US Treasury Bill		11/09/2017	8,000,000.00	7,989,840.00	7,989,795.56	1.120	1.138	41	01/11/2018
Subtotal and Average			15,519,986.41		8,000,000.00	7,989,840.00	7,989,795.56		1.138	41	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			64,944,164.33	64,881,952.43	64,944,164.33	1.172	1.172	1	
Subtotal and Average			61,984,164.33		64,944,164.33	64,881,952.43	64,944,164.33		1.172	1	
Total and Average			124,109,835.47		145,404,164.33	145,126,092.43	145,369,809.89		1.111	109	

**ORANGE COUNTY FIRE AUTHORITY**  
**Portfolio Management**  
**Portfolio Details - Cash**  
**November 30, 2017**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
<b>Money Mkt Mutual Funds/Cash</b>										
SYS10033	10033	Revolving Fund		07/01/2017	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank		07/01/2017	-713,434.30	-713,434.30	-713,434.30	(See Note 4 on page 9)	0.000	1
		<b>Average Balance</b>	<b>0.00</b>							<b>0</b>
<b>Total Cash and Investments</b>			<b>124,109,835.47</b>		<b>144,710,730.03</b>	<b>144,432,658.13</b>	<b>144,676,375.59</b>		<b>1.111</b>	<b>109</b>

“We visualize problems and solutions  
through the eyes of those we serve.”



**ORANGE COUNTY FIRE AUTHORITY**  
**Aging Report**  
**By Maturity Date**  
**As of December 1, 2017**

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

				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
Aging Interval: 0 days	( 12/01/2017 - 12/01/2017 )	4 Maturities	0 Payments	83,710,730.03	57.86%	83,710,730.03	83,648,518.13
Aging Interval: 1 - 30 days	( 12/02/2017 - 12/31/2017 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 31 - 60 days	( 01/01/2018 - 01/30/2018 )	2 Maturities	0 Payments	26,000,000.00	17.95%	25,965,645.56	25,963,560.00
Aging Interval: 61 - 91 days	( 01/31/2018 - 03/02/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 92 - 121 days	( 03/03/2018 - 04/01/2018 )	1 Maturities	0 Payments	9,000,000.00	6.22%	9,000,000.00	8,991,720.00
Aging Interval: 122 - 152 days	( 04/02/2018 - 05/02/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 153 - 183 days	( 05/03/2018 - 06/02/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 184 - 274 days	( 06/03/2018 - 09/01/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	( 09/02/2018 - 12/01/2018 )	1 Maturities	0 Payments	10,000,000.00	6.91%	10,000,000.00	9,942,500.00
Aging Interval: 366 - 1095 days	( 12/02/2018 - 11/30/2020 )	2 Maturities	0 Payments	16,000,000.00	11.06%	16,000,000.00	15,886,360.00
Aging Interval: 1096 days and after	( 12/01/2020 - )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Total for		10 Investments	0 Payments		100.00	144,676,375.59	144,432,658.13





**NOTES TO PORTFOLIO MANAGEMENT REPORT**

- Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The MUFG Union Bank (formerly Union Bank) Trust Department provides market values of the remaining investments.
- Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.
- Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2017 includes a decrease of (\$68,353) to the LAIF investment and a decrease of (\$137,651) to the remaining investments.
- Note 4: The Federated Treasury Obligations money market mutual fund functions as the Authority's sweep account. Funds are transferred to and from the sweep account to/from OCFA's checking account in order to maintain a target balance of \$1,000,000 in checking. Since this transfer occurs at the beginning of each banking day, the checking account sometimes reflects a negative balance at the close of the banking day. The negative closing balance is not considered an overdraft since funds are available in the money market mutual fund. The purpose of the sweep arrangement is to provide sufficient liquidity to cover outstanding checks, yet allow that liquidity to be invested while payment of the outstanding checks is pending.



## ***Local Agency Investment Fund (LAIF)***

As of November 30, 2017, OCFA has \$64,944,164 invested in LAIF. The fair value of OCFA's LAIF investment is calculated using a participant fair value factor provided by LAIF on a quarterly basis. The fair value factor as of September 30, 2017 is 0.999042071. When applied to OCFA's LAIF investment, the fair value is \$64,881,952 or (\$62,212) below cost. Although the fair value of the LAIF investment is lower than cost, OCFA can withdraw the actual amount invested at any time.

LAIF is included in the State Treasurer's Pooled Money Investment Account (PMIA) for investment purposes. The PMIA market valuation at November 30, 2017 is included on the following page.



# State of California

## Pooled Money Investment Account

### Market Valuation

### 11/30/2017

Description	Carrying Cost Plus		Fair Value	Accrued Interest
	Accrued Interest	Purch.		
United States Treasury:				
Bills	\$	13,969,325,989.32	\$ 14,024,500,000.00	NA
Notes	\$	19,124,715,869.93	\$ 19,038,802,000.00	\$ 45,201,432.00
Federal Agency:				
SBA	\$	880,598,988.60	\$ 870,067,213.02	\$ 1,107,235.07
MBS-REMICs	\$	33,799,340.26	\$ 34,948,276.74	\$ 158,107.23
Debentures	\$	1,378,152,182.04	\$ 1,370,687,750.00	\$ 2,839,245.80
Debentures FR	\$	-	\$ -	\$ -
Debentures CL	\$	250,000,000.00	\$ 247,756,500.00	\$ 1,389,944.00
Discount Notes	\$	6,254,318,721.96	\$ 6,272,398,000.00	NA
GNMA	\$	-	\$ -	\$ -
Supranational Debentures	\$	450,315,184.02	\$ 447,873,000.00	\$ 966,424.00
Supranational Debentures FR	\$	50,000,000.00	\$ 50,064,000.00	\$ 99,266.51
CDs and YCDs FR	\$	625,000,000.00	\$ 625,000,000.00	\$ 1,811,907.84
Bank Notes	\$	500,000,000.00	\$ 499,826,177.96	\$ 1,657,111.13
CDs and YCDs	\$	8,675,000,000.00	\$ 8,673,927,950.18	\$ 28,617,875.03
Commercial Paper	\$	5,927,555,791.62	\$ 5,938,449,524.98	NA
Corporate:				
Bonds FR	\$	-	\$ -	\$ -
Bonds	\$	-	\$ -	\$ -
Repurchase Agreements	\$	-	\$ -	\$ -
Reverse Repurchase	\$	-	\$ -	\$ -
Time Deposits	\$	5,404,240,000.00	\$ 5,404,240,000.00	NA
AB 55 & GF Loans	\$	4,961,386,000.00	\$ 4,961,386,000.00	NA
<b>TOTAL</b>	<b>\$</b>	<b>68,484,408,067.75</b>	<b>\$ 68,459,926,392.88</b>	<b>\$ 83,848,548.61</b>

Fair Value Including Accrued Interest

\$ 68,543,774,941.49

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





***Orange County Fire Authority***  
***Preliminary Investment Report***  
***December 15, 2017***



**ORANGE COUNTY FIRE AUTHORITY**  
**Portfolio Management**  
**Portfolio Summary**  
**December 15, 2017**

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

(See Note 1 on page 18)

(See Note 2 on page 18)

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	7,800,567.03	7,800,567.03	7,800,567.03	6.06	1	1	0.592	0.600
Federal Agency Coupon Securities	35,000,000.00	34,812,500.00	35,000,000.00	27.19	971	404	1.223	1.240
Federal Agency Disc. -Amortizing	18,000,000.00	17,983,800.00	17,984,475.00	13.97	43	27	1.168	1.184
Treasury Discounts -Amortizing	8,000,000.00	7,993,440.00	7,993,528.89	6.21	63	26	1.122	1.138
Local Agency Investment Funds	59,944,164.33	59,886,742.08	59,944,164.33	46.57	1	1	1.156	1.172
<b>Investments</b>	<b>128,744,731.36</b>	<b>128,477,049.11</b>	<b>128,722,735.25</b>	<b>100.00%</b>	<b>274</b>	<b>116</b>	<b>1.140</b>	<b>1.155</b>
<b>Cash</b>								
Passbook/Checking (not included in yield calculations)	295,970.83	295,970.83	295,970.83		1	1	0.000	0.000
<b>Total Cash and Investments</b>	<b>129,040,702.19</b>	<b>128,773,019.94</b>	<b>129,018,706.08</b>		<b>274</b>	<b>116</b>	<b>1.140</b>	<b>1.155</b>

Total Earnings	December 15 Month Ending	Fiscal Year To Date
Current Year	63,857.19	707,256.27
Average Daily Balance	135,667,933.85	144,188,280.40
Effective Rate of Return	1.15%	1.07%

"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, 2017. 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, Treasurer

**Cash and Investments with GASB 31 Adjustment:**

Book Value of Cash & Investments before GASB 31 (Above)

\$ 129,018,706.08

GASB 31 Adjustment to Books (See Note 3 on page 18)

\$ (206,003.82)

Total

\$ 128,812,702.26

**ORANGE COUNTY FIRE AUTHORITY**  
**Portfolio Management**  
**Portfolio Details - Investments**  
**December 15, 2017**

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

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
<b>Money Mkt Mutual Funds/Cash</b>											
SYS528	528	Federated Treasury Obligations			7,800,567.03	7,800,567.03	7,800,567.03	0.600	0.600	1	
<b>Subtotal and Average</b>			<b>10,084,866.19</b>		<b>7,800,567.03</b>	<b>7,800,567.03</b>	<b>7,800,567.03</b>		<b>0.600</b>	<b>1</b>	
<b>Federal Agency Coupon Securities</b>											
3133EFJP3	869	Federal Farm Credit Bank (Callable Anytime)		10/15/2015	10,000,000.00	9,947,000.00	10,000,000.00	1.100	1.054	303	10/15/2018
3133EGPD1	921	Federal Farm Credit Bank (Callable Anytime)		04/20/2017	7,000,000.00	6,917,610.00	7,000,000.00	1.180	1.375	593	08/01/2019
3134G7FK2	863	Fed Home Loan Mtg Corp		06/30/2015	9,000,000.00	8,993,430.00	9,000,000.00	1.100	1.065	97	03/23/2018
3134GBHT2	922	Fed Home Loan Mtg Corp		04/25/2017	9,000,000.00	8,954,460.00	9,000,000.00	1.625	1.518	678	10/25/2019
<b>Subtotal and Average</b>			<b>35,000,000.00</b>		<b>35,000,000.00</b>	<b>34,812,500.00</b>	<b>35,000,000.00</b>		<b>1.240</b>	<b>404</b>	
<b>Federal Agency Disc. -Amortizing</b>											
313589RS4	925	Fed Natl Mtg Assoc		11/30/2017	18,000,000.00	17,983,800.00	17,984,475.00	1.150	1.184	27	01/12/2018
<b>Subtotal and Average</b>			<b>17,980,450.00</b>		<b>18,000,000.00</b>	<b>17,983,800.00</b>	<b>17,984,475.00</b>		<b>1.184</b>	<b>27</b>	
<b>Treasury Discounts -Amortizing</b>											
912796ML0	924	US Treasury Bill		11/09/2017	8,000,000.00	7,993,440.00	7,993,528.89	1.120	1.138	26	01/11/2018
<b>Subtotal and Average</b>			<b>7,991,786.67</b>		<b>8,000,000.00</b>	<b>7,993,440.00</b>	<b>7,993,528.89</b>		<b>1.138</b>	<b>26</b>	
<b>Local Agency Investment Funds</b>											
SYS336	336	Local Agency Invstmt Fund			59,944,164.33	59,886,742.08	59,944,164.33	1.172	1.172	1	
<b>Subtotal and Average</b>			<b>64,610,831.00</b>		<b>59,944,164.33</b>	<b>59,886,742.08</b>	<b>59,944,164.33</b>		<b>1.172</b>	<b>1</b>	
<b>Total and Average</b>			<b>135,667,933.85</b>		<b>128,744,731.36</b>	<b>128,477,049.11</b>	<b>128,722,735.25</b>		<b>1.155</b>	<b>116</b>	

**ORANGE COUNTY FIRE AUTHORITY**  
**Portfolio Management**  
**Portfolio Details - Cash**  
**December 15, 2017**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
<b>Money Mkt Mutual Funds/Cash</b>										
SYS10033	10033	Revolving Fund		07/01/2017	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank		07/01/2017	275,970.83	275,970.83	275,970.83		0.000	1
		<b>Average Balance</b>	<b>0.00</b>							<b>1</b>
<b>Total Cash and Investments</b>			<b>135,667,933.85</b>		<b>129,040,702.19</b>	<b>128,773,019.94</b>	<b>129,018,706.08</b>		<b>1.155</b>	<b>116</b>

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**ORANGE COUNTY FIRE AUTHORITY**  
**Aging Report**  
**By Maturity Date**  
**As of December 16, 2017**

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

				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
Aging Interval: 0 days	( 12/16/2017 - 12/16/2017 )	4 Maturities	0 Payments	68,040,702.19	52.74%	68,040,702.19	67,983,279.94
Aging Interval: 1 - 30 days	( 12/17/2017 - 01/15/2018 )	2 Maturities	0 Payments	26,000,000.00	20.14%	25,978,003.89	25,977,240.00
Aging Interval: 31 - 60 days	( 01/16/2018 - 02/14/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 61 - 91 days	( 02/15/2018 - 03/17/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 92 - 121 days	( 03/18/2018 - 04/16/2018 )	1 Maturities	0 Payments	9,000,000.00	6.98%	9,000,000.00	8,993,430.00
Aging Interval: 122 - 152 days	( 04/17/2018 - 05/17/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 153 - 183 days	( 05/18/2018 - 06/17/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 184 - 274 days	( 06/18/2018 - 09/16/2018 )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	( 09/17/2018 - 12/16/2018 )	1 Maturities	0 Payments	10,000,000.00	7.75%	10,000,000.00	9,947,000.00
Aging Interval: 366 - 1095 days	( 12/17/2018 - 12/15/2020 )	2 Maturities	0 Payments	16,000,000.00	12.40%	16,000,000.00	15,872,070.00
Aging Interval: 1096 days and after	( 12/16/2020 - )	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Total for		10 Investments	0 Payments		100.00	129,018,706.08	128,773,019.94





**NOTES TO PORTFOLIO MANAGEMENT REPORT**

- Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The MUFG Union Bank Trust Department provides market values of the remaining investments.
- Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.
- Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2017 includes a decrease of (\$68,353) to the LAIF investment and a decrease of (\$137,651) to the remaining investments.
- Note 4: The Federated Treasury Obligations 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.

## GLOSSARY

### INVESTMENT TERMS

**Basis Point.** Measure used in quoting yields on bonds and notes. One basis point is .01% of yield.

**Book Value.** This value may be the original cost of acquisition of the security, or original cost adjusted by the amortization of a premium or accretion of a discount. The book value may differ significantly from the security's current value in the market.

**Commercial Paper.** Unsecured short-term promissory notes issued by corporations, with maturities ranging from 2 to 270 days; may be sold on a discount basis or may bear interest.

**Coupon Rate.** Interest rate, expressed as a percentage of par or face value, that issuer promises to pay over lifetime of debt security.

**Discount.** The amount by which a bond sells under its par (face) value.

**Discount Securities.** Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity. Treasury bills, bankers' acceptances and most commercial paper are issued at a discount.

**Effective Rate of Return.** Rate of return on a security, based on its purchase price, coupon rate, maturity date, and the period between interest payments.

**Federal Agency Securities.** Securities issued by agencies such as the Federal National Mortgage Association and the Federal Farm Credit Bank. Though not general obligations of the US Treasury, such securities are sponsored by the government and therefore have high credit ratings. Some are issued on a discount basis and some are issued with coupons.

**Federal Funds.** Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed Funds are considered to be immediately available funds.

**Fed Funds Rate.** The interest rate charged by one institution lending federal funds to another.

**Federal Open Market Committee.** The branch of the Federal Reserve Board that determines the direction of monetary policy.

**Local Agency Investment Fund (LAIF).** A California State Treasury fund which local agencies may use to deposit funds for investment and for reinvestment with a maximum of \$50 million for any agency (*excluding bond funds, which have no maximum*). It offers high liquidity because



deposits can be converted to cash in 24 hours and no interest is lost. Interest is paid quarterly and the State's administrative fee cannot exceed 1/4 of a percent of the earnings.

**Market value.** The price at which the security is trading and could presumably be purchased or sold.

**Maturity Date.** The specified day on which the issuer of a debt security is obligated to repay the principal amount or face value of security.

**Money Market Mutual Fund.** Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repurchase agreements and federal funds).

**Par.** Face value or principal value of a bond typically \$1,000 per bond.

**Rate of Return.** The amount of income received from an investment, expressed as a percentage. A *market rate of return* is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

**Treasury Bills.** Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

**Treasury Notes.** Intermediate U.S. government debt securities with maturities of one to 10 years.

**Treasury bonds.** Long-term U.S. government debt securities with maturities of 10 years or longer.

**Yield.** Rate of return on a bond.

**Yield-to-maturity.** Rate of return on a bond taking into account the total annual interest payments, the purchase price, the redemption value and the amount of time remaining until maturity.

### ECONOMIC TERMS

**Conference Board Consumer Confidence Index** A survey that measures how optimistic or pessimistic consumers are with respect to the economy in the near future.

**Consumer Price Index (CPI).** A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. Changes in CPI are used to assess price changes associated with the cost of living.

**Durable Goods Orders.** An economic indicator released monthly that reflects new orders placed with domestic manufacturers for delivery of factory durable goods such as autos and appliances in the near term or future.

**Gross Domestic Product.** The monetary value of all the finished goods and services produced within a country's borders in a specific time period. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

**Industrial Production.** An economic indicator that is released monthly by the Federal Reserve Board. The indicator measures the amount of output from the manufacturing, mining, electric and gas industries.

**ISM Institute for Supply Management (ISM) Manufacturing Index.** A monthly index that monitors employment, production inventories, new orders and supplier deliveries.

**ISM Non-manufacturing Index.** An index based on surveys of non-manufacturing firms' purchasing and supply executives. It tracks economic data for the service sector.

**Leading Economic Index.** A monthly index used to predict the direction of the economy's movements in the months to come. The index is made up of 10 economic components, whose changes tend to precede changes in the overall economy.

**National Federation of Independent Business Small Business Optimism Index.** An index based on surveys of small business owners' plans and expectations regarding employment, capital, inventories, economic improvement, credit conditions, expansion, and earnings trends in the near term or future.

**Producer Price Index.** An index that measures the average change over time in the selling prices received by domestic producers for their output.

**University of Michigan Consumer Sentiment Index.** An index that measures the overall health of the economy as determined by consumer opinion. It takes into account an individual's feelings toward his or her own current financial health, the health of the economy in the short term and the prospects for longer term economic growth.



**Orange County Fire Authority**  
**AGENDA STAFF REPORT**

**Budget and Finance Committee Meeting**  
**January 10, 2018**

**Agenda Item No. 4B**  
**Discussion Calendar**

**FY 2017/18 Mid-Year Financial Report**

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**Contact(s) for Further Information**

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**Summary**

This item is submitted to provide a mid-year financial update on the FY 2017/18 budget in accordance with the OCFA's Fiscal Health Plan.

**Prior Board/Committee Action**

Not Applicable.

**RECOMMENDED ACTION(S)**

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of January 25, 2018, with the Budget and Finance Committee's recommendation that the Board of Directors direct staff to continue monitoring the budget for further refinement and return in March 2018 for approval of the proposed FY 2017/18 budget adjustments.

**Impact to Cities/County**

Annual increases for cash contract cities are estimated at 4.5% for FY 2018/19 and 4.5% for FY 2019/20 (excluding catch-up provision) based on the Five-Year Financial Forecast.

**Fiscal Impact**

Financial impact has been presented in the attached report.

**Background**

The OCFA's Fiscal Health Plan calls for a comprehensive system to monitor OCFA's fiscal performance. This includes a review and comparison of forecasted revenues and expenditures against actual revenues and expenditures, as well as a mid-year budget review. The attached report reviews the current year budget, highlights any potential financial challenges to the OCFA, and previews anticipated FY 2018/19 budget issues, to the extent they are known at this time.

***FY 2017/18 Budget Review***

Significant changes have occurred since the budget was adopted in May 2017, including increases to budgeted beginning fund balance, increase in property tax revenue, increases in both revenue and expenditures related to assistance-by-hire emergency responses, Firefighter Medical Trust review, as well as all approved adjustments to-date such as Carryover and new grant funds. These changes are detailed in the attached Mid-Year Financial Report.

**Attachment(s)**

Mid-year Financial Report

Exhibit 1 – 2017 Trend Analysis -- Forecast to Actual Comparison

Exhibit 2 – Updated Five-Year Financial Forecast (Summary & Detail)

Exhibit 3 – Five-Year Financial Forecast Assumptions





# ORANGE COUNTY FIRE AUTHORITY

## Mid-Year Financial Report

### January 2018

In March 2017, the Board of Directors approved the updated Fiscal Health Plan and Financial Stability Budget Policies. These documents describe the Authority's strong fiscal policies, a comprehensive system for monitoring OCFA's fiscal performance, and a framework to assure timely and appropriate response to adverse fiscal circumstances. Included in the Fiscal Health Plan is the requirement for a mid-year financial report, which is presented below.

### **ECONOMIC OUTLOOK**

Property tax is OCFA's largest source of revenue. Although strong growth is still expected in 2018, the December 2017 Chapman Economic and Business Review forecast estimates a decline in housing appreciation rates from 6.4% in 2017 to 5.2% in 2018. Higher mortgage rates will tend to reduce housing affordability. A tight supply of unsold housing is expected to maintain upward pressure on pricing. Also in 2018, building permit activity is expected to increase by 11%, and be comprised of a greater portion of multi-family than single-family construction.

### **CURRENT FISCAL YEAR FINANCES**

The following are estimated changes to the General Fund budget that are needed since the FY 2017/18 budget was adopted in May 2017. Overall, the proposed changes in the General Fund result in a revenue increase of \$15.5 million and an expenditure increase of \$23.2 million. Of the \$23.2 million in expenditure increases, \$5.7 million are ongoing costs that we anticipate to recur in future annual budgets, and \$17.5 million are one-time expenses for FY 2017/18 only. Furthermore, of the \$23.2 million in expenditure increases, \$16.2 million are cost neutral since they are offset by corresponding sources of revenue or offset by allocation of fund balance as established by existing policies. These adjustments are further described below:

#### **FY 2017/18 Revenue Adjustments - \$15.5 million**

- Property Taxes:** Based on secured tax billings provided by the Auditor/Controller, preliminary projections indicate an approximate \$1.4 million increase over budget. **\$1,442,254**
- Assistance by Hire/Emergency Incident Costs:** Assistance by Hire (ABH) is the term used when OCFA responds to incidents outside our area of responsibility, on a reimbursement basis. Current year reimbursable incident activity is approximately \$10.4 million fiscal year-to-date. This amount is comprised of actual reimbursement requests that have been billed, and an estimate of the amount yet to be billed. Staff will continue to monitor and adjust this figure throughout the remainder of the year. **\$10,437,295**
- Firefighter Medical Trust Review:** The 2016 Firefighter Medical Trust review has been completed. An excess fund balance in the amount of \$2,275,829 was credited to OCFA, to be used as a payment to the Retiree Medical trust per the Firefighter Medical Agreement. A corresponding expenditure adjustment is also proposed to appropriate the payment. **\$2,275,829**



**Miscellaneous:** This category of revenue adjustments includes the following: **\$1,382,257**  
SAFER grant proceeds; receipt of bankruptcy proceeds; updates to cash contract city station maintenance charges; witness fees, insurance settlements, sale of surplus and other incidental miscellaneous revenues.

**FY 2017/18 Expenditure Adjustments - \$23.2 million**

**Assistance by Hire/Emergency Incident Costs:** As mentioned under Revenue, an adjustment of approximately \$10.4 million is needed for out-of-county responses, primarily in the overtime/backfill category, but also for response-related supplies. This amount is comprised of actual reimbursement requests that have been billed, and an estimate of the amount yet to be billed. Staff will continue to monitor and adjust this figure throughout the remainder of the year. **\$10,437,295<sup>1</sup>**

**Retiree Medical Trust:** As described above, this expenditure adjustment is needed to appropriate the payment from the Firefighter Medical Trust to the Retiree Medical Trust, per terms of the new Firefighter Medical Agreement. **\$2,275,829<sup>1</sup>**

**Additional UAAL payment from General Fund Surplus:** In March of 2017, the Board approved an update to the Financial Stability Budget policy, requiring the calculation of General Fund Surplus at mid-year and directing that the surplus be divided half to the CIP funds and half for additional pay-down of pension liability. This fiscal year, the calculation calls for a payment of \$2,785,224 (equaling 50% of the General Fund Surplus) to OCERS to pay-down pension liability. **\$2,785,224<sup>1</sup>**

**CAL FIRE Augmentation and SRA Fire Prevention Funds:** Appropriations in this category use funding received from CAL FIRE for projects intended to help carry out their mission. Projects include roadside clearance, the purchase/refurbishment of a crew bus, road grader, supplies for the Santiago crew, printing of wildland urban interface plans, a dozer trailer and a wildfire camera project, working in conjunction with San Diego Gas and Electric. **\$311,260<sup>1</sup>**

**Reimbursement to City of Irvine from Maruchan funds:** Each year, Maruchan Inc. donates funds to OCFA to be used in the City of Irvine on public safety related expenses. The City has planned projects for these funds including communications equipment for their Mobile Command Post and bi-directional amplifiers. **\$438,428<sup>1</sup>**

**Actions to Reduce Force Hiring:** This category is comprised of updates to salary, employee benefits, and supplies for OCFA's efforts to reduce force hires in the Safety ranks. The largest cost of \$4,645,688 reflects reversal of a portion of the \$8.1 million in salary savings from vacant positions that was assumed during budget development. With the unfreezing of over 50 firefighter positions in July and the emphasis on hiring this fiscal year, the assumed amount of salary savings is not being realized. Uniforms and personal protective gear for Academy 46 recruits are also included in this category. **\$5,069,481**

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<sup>1</sup> This expenditure increase is cost neutral, offset by a corresponding revenue source or offset by a fund balance allocation that is pre-established by existing policies.



**Classification and Compensation Actions:** This category is comprised of several updates to salary and employee benefits related to class and compensation studies approved by the Executive Committee earlier this fiscal year. Actions include revisions to the HR Analyst series, revisions to the EMS Nurse Educator I and II classifications, conversion of a part-time HR Analyst to full-time, benefits for the grant-funded Department of Homeland Security liaison position, and backfill costs for the temporary reassignment of a fire apparatus engineer to the HazMat program. **\$232,259**

**Supplies/Equipment/Professional Services:** This category includes funding for needed equipment and professional services which were unknown, or for which costs have increased since budget development. These include the Independent Review Panel on the Canyon Fires, fire chief recruitment services, public affairs consulting services, 4" hose for Wildland Urban Interface Engines, paramedic accreditation costs, Narcan and Epi pens, updated tuberculosis testing, hepatitis A vaccines, CPR cards, additional advanced life support gear, Zoll Monitor antennae repairs, overhaul of a helicopter rescue hoist, and carbon monoxide gas monitors. **\$639,080**

**Miscellaneous:** This expenditure category includes miscellaneous increases to the budget for: Flight Safety International training; Huey helicopter maintenance; various Information Technology licenses, software, equipment and contract increases; fire station 6 kitchen remodel; adjustment to budgeted grant programs; movement of US&R tenant improvement budget to the correct CIP fund; and funding for increased Department of Industrial Relations user funding assessment. **\$562,565**

**Interfund Borrowing:** At the time of budget development, staff was in the process of analyzing if OCFA's cash flows needs could met with interfund borrowing in lieu of issuing a TRAN. When the budget was adopted in May, the analysis had been completed and the Board approved interfund borrowing as our cash flow management mechanism in FY 2017/18. The money is borrowed from the CIP funds and repaid with interest which is reflected as a cost to the General Fund. **\$493,750**

**General Fund and CIP funds – Beginning Fund Balance and Budget Transfer Adjustment**

- **Budgeted beginning fund balances:** As part of the annual mid-year adjustment, budgeted beginning fund balances will be adjusted in accordance with the FY 2016/17 year-end audit. These increases resulted primarily from additional revenue received in the fiscal year, as well as salary savings and S&S savings in the General Fund. The beginning fund balance adjustments for Capital Improvement Funds (CIP) largely result from the timing for completion of projects. Funds for projects that did not get completed were carried-over to FY 2017/18.
- **General Fund Surplus Budget Transfer(s) to CIP Funds:** The update to the Financial Stability Budget Policy revised the timing of the General Fund Surplus budget transfers to the CIP funds. Rather than the transfer occurring at the beginning of the fiscal year, the calculation and resulting transfer occurs at the Mid-year Budget Adjustment. Further the policy now directs that the surplus be divided with half going to the CIP funds and the other half being used for additional pay-down of pension liability. The policy provides flexibility should the CIP funds be over, or underfunded, allowing more or less than 50% be transferred in years where it is needed. In this fiscal year we are transferring 50% of the general fund surplus, amounting to \$2,785,224 to the General Fund CIP fund.





- **Fund 123 – Fire Stations and Facilities:** The revenue budget in this fund will be adjusted to reflect receipt of \$151,922 in bankruptcy loss recovery funds. An expenditure adjustment of \$100,000 is needed to move the budget for the US&R tenant improvements from the General Fund to this fund, where it is most appropriately accounted for.
- **Fund 124 – Communications and Information Systems:** The revenue budget for this fund will be adjusted to reflect receipt of \$256,484 in bankruptcy loss recovery funds. The expenditure budget is being reduced by \$1,389,781 to reflect the timing of the Integrated Fire Prevention project. The funds will be re-budgeted in the next fiscal year when the project is expected to commence.
- **Fund 133 – Fire Apparatus:** Bankruptcy proceeds in the approximate amount of \$157,392 will be recognized in this fund.
- **Fund 190 – Self Insurance:** An expenditure adjustment in the amount of \$4.3 million is needed to match the cash flow timing of workers' compensation payments this fiscal year. Note that this adjustment is not an increase in workers' compensation expenses, it is only the cash flow timing of payments being made against expenditures which were previously recorded with funding already set-aside in the workers' compensation reserve fund.

### **FUTURE FISCAL YEAR FINANCES**

Significant factors that are anticipated to influence the FY 2018/19 budget include:

- **Prepayment of OCERS Contributions** – Staff will conduct an analysis of OCFA's cash flow position; we expect to prepay half of the employer contributions to take advantage of an approximately 4.5% discount. This discount has declined in recent years, from 7.25% to 5.8% and now to 4.5%. Although the discount has declined, it still amounts to savings of millions of dollars and is worth taking advantage of.
- **Property Taxes** - Since property tax is the largest source of income for the General Fund at about 64% we have again contracted with Rosenow, Spevacek Group, Inc. (RSG) to update our property tax projections. Updated preliminary information for our FY 2018/19 budget will not be available until February 2018; therefore, in the interim we are continuing to use RSG's prior projection for FYs 2018/19 through 2021/22 of the Five-Year Financial Forecast.
- **Retirement Rates** - The Orange County Employees Retirement System (OCERS) Board has adopted retirement rates for FY 2018/19. Compared to rates used in the Five-Year Cashflow Forecast, employer rates for general employees increased by 0.52% and rates for the safety employees increased by approximately 1.16% after removing the impact of the additional pension liability contributions OCFA has made to OCERS. Consistent with Board direction, we continue to pay the original rates, capturing those savings and increasing payments directly to our unfunded liability.

### **PENDING ISSUES**

- **Tax Legislation** – The tax bill recently passed through Congress and signed by the President includes provisions that lowered the cap on mortgage debt interest deductions from \$1 million to \$750,000. Although current homeowners would not be affected by the lower cap, this cap could potentially impact future real estate transactions in Orange County as median home values approach or exceed



the threshold. In 2015, the median home price in Orange County was \$703,000, according to the 2017 Chapman economic forecast. Economists believe this change will put downward pressure on prices as well as sales. This change, as well as the newly introduced cap to the deduction for state and local taxes, may affect property tax revenue growth in future years.

- **TRAN** – After review and consultation with our financial advisors, we concluded a Tax Revenue Anticipation Note (TRAN) issue was not needed for cashflow purposes in the current fiscal year. The determination of whether we will need to issue a TRAN for FY 2018/19 will be made as we get closer to budget development for the next fiscal year. Many factors influence whether we will need to issue a TRAN, including the amount and timing of expenditures towards large capital projects.

## **MONITORING FINANCIAL HEALTH**

### **Financial Forecast**

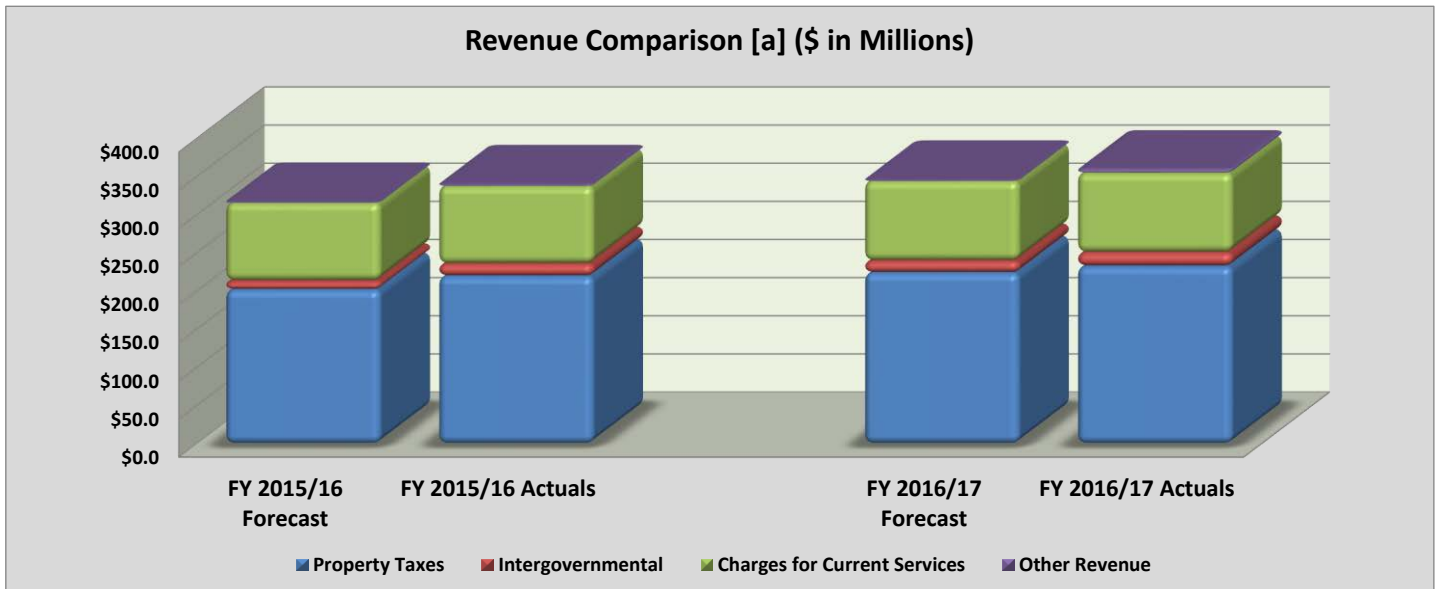
The Fiscal Health Plan directs staff to monitor our financial indicators through frequent updates to the Authority's Five Year Financial Forecast, measuring revenues, expenditures, debt, and committed and uncommitted fund balance. These categories are forecast using all available information, Board actions, and economic conditions (Exhibits 2 and 3).

A trend report has been developed comparing the differences between the forecasted data and actual financial results and is attached to this Review as Exhibit 1.

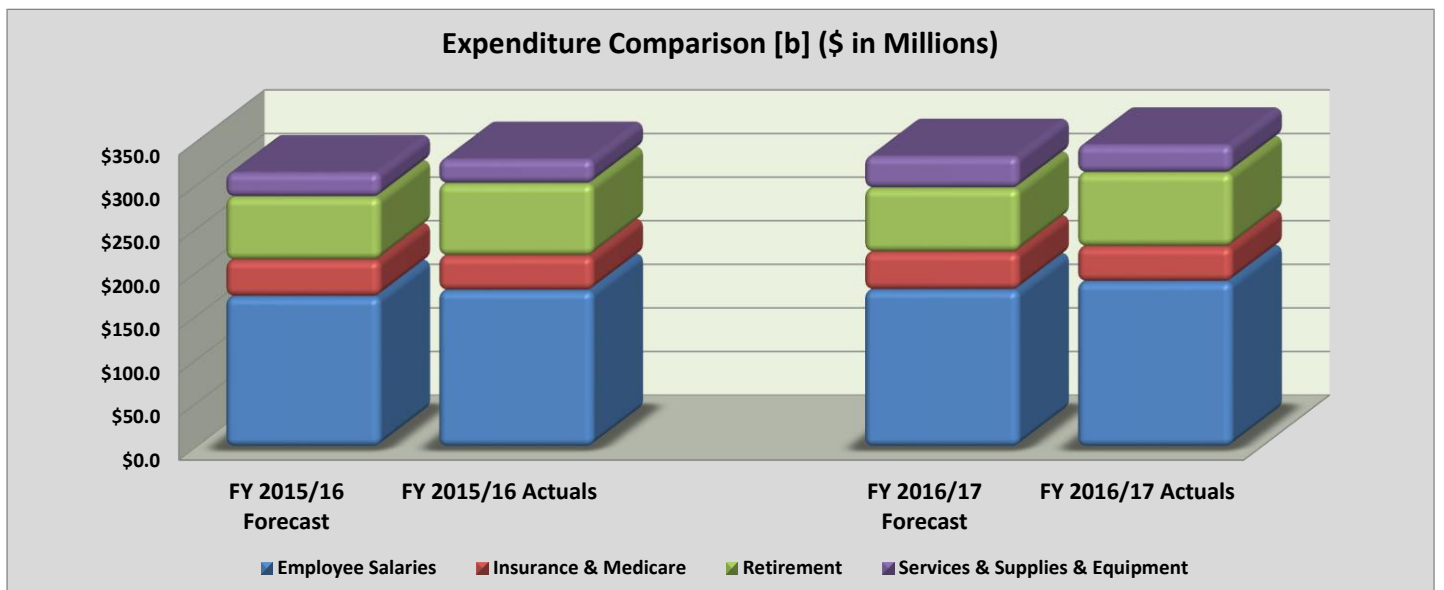
## 2017 Trend Analysis: Summary of 2-Year Forecast vs. Adjusted Actuals

Comparison of 2015/16 Forecast as Presented in 2014/15 Adopted Budget to 2015/16 Actuals  
and

Comparison of 2016/17 Forecast as Presented in 2015/16 Adopted Budget to 2016/17 Actuals



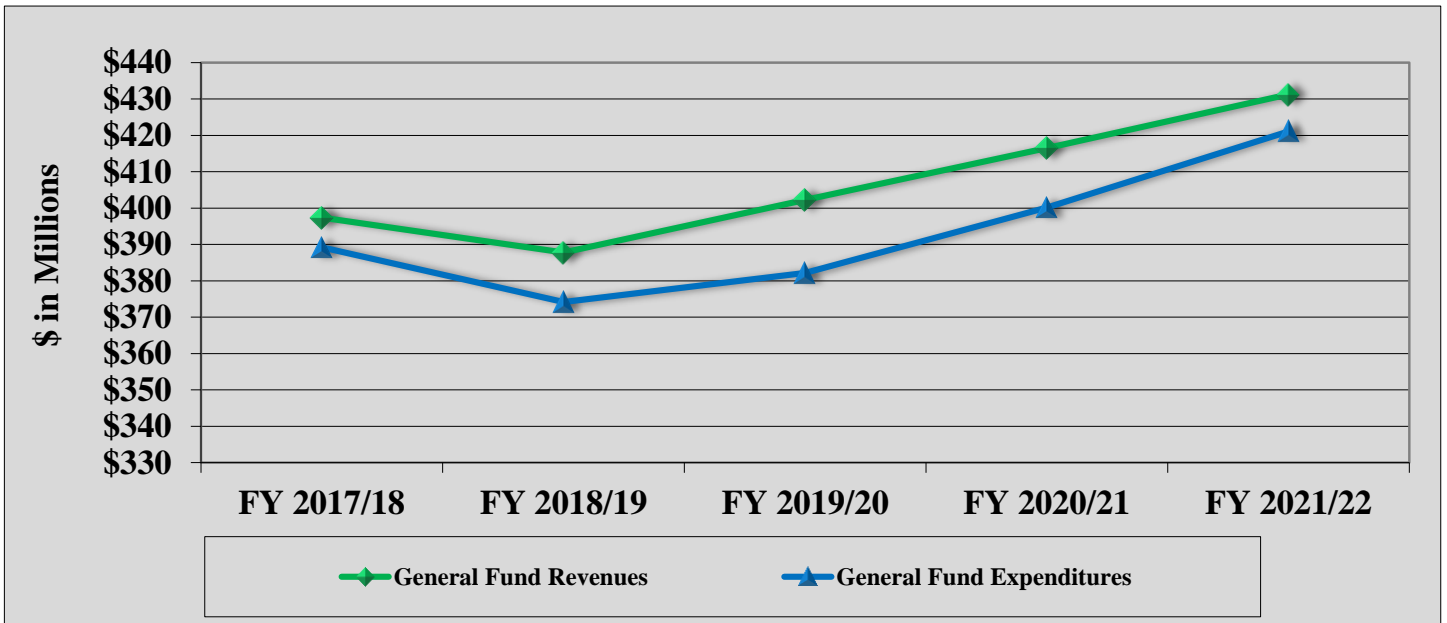
[a] Actual revenue adjusted for one-time sources not forecasted such as assistance by hire revenue, grant revenue, and one-time revenue associated with RDA dissolutions.



[b] Actual expenditures adjusted for one-time items not forecasted such as grant expenditures.

**Scenario 1 - 12/18/17 Segal Study Retirement Rates (7.00% for All Years), 2% Salary Inc. after MOU Expirations**  
**Orange County Fire Authority**  
**Five-Year Financial Forecast**

	<b>Adjusted FY 2017/18</b>	<b>Year 2 FY 2018/19</b>	<b>Year 3 FY 2019/20</b>	<b>Year 4 FY 2020/21</b>	<b>Year 5 FY 2021/22</b>
Beginning Fund Balance	194,017,160	162,003,863	154,292,426	160,533,875	170,866,954
General Fund Revenues	397,339,431	387,779,769	402,262,098	416,493,687	431,251,898
General Fund Expenditures	370,148,634	364,989,924	372,522,236	387,758,071	406,791,651
Paydown of UAAL	19,060,936	9,167,397	9,648,658	12,368,859	14,279,280
Total General Fund Expenditures	389,209,570	374,157,321	382,170,894	400,126,930	421,070,931
<b>Net General Fund Revenue</b>	<b>8,129,861</b>	<b>13,622,449</b>	<b>20,091,204</b>	<b>16,366,757</b>	<b>10,180,967</b>
Less Incremental Increase in 10% GF Op. Cont.	2,559,414	675,457	753,231	1,523,583	1,903,358
<b>General Fund Surplus / (Deficit)</b>	<b>5,570,447</b>	<b>12,946,992</b>	<b>19,337,972</b>	<b>14,843,173</b>	<b>8,277,609</b>
Operating Transfer to GF Cashflow	-	-	-	-	-
Operating Transfer to CIP Funds	2,785,224	6,473,496	9,668,986	7,421,587	4,138,804
Paydown of UAAL from General Fund Surplus	2,785,224	6,473,496	9,668,986	7,421,587	4,138,804
Draws from GF Fund Balances	(13,174,516)	-	-	-	-
CIP/Other Revenues	20,384,273	24,497,312	28,806,966	25,140,595	23,544,501
CIP/Other Expenses	41,782,467	32,884,206	23,318,748	16,331,100	14,945,343
<b>CIP Surplus / (Deficit)</b>	<b>(21,398,194)</b>	<b>(8,386,894)</b>	<b>5,488,218</b>	<b>8,809,495</b>	<b>8,599,158</b>
<b>Ending Fund Balance</b>	<b>162,003,863</b>	<b>154,292,426</b>	<b>160,533,875</b>	<b>170,866,954</b>	<b>181,369,470</b>



	<b>FY 2017/18</b>	<b>FY 2018/19</b>	<b>FY 2019/20</b>	<b>FY 2020/21</b>	<b>FY 2021/22</b>
General Fund Revenues	\$ 397.34	\$ 387.78	\$ 402.26	\$ 416.49	\$ 431.25
General Fund Expenditures	\$ 389.21	\$ 374.16	\$ 382.17	\$ 400.13	\$ 421.07

**Scenario 1 - 12/18/17 Segal Study Retirement Rates (7.00% for All Years), 2% Salary Inc. after MOU Expirations**

	ADJUSTED FY 2017/18	PROJECTED FY 2018/19	PROJECTED FY 2019/20	PROJECTED FY 2020/21	PROJECTED FY 2021/22
<b>A. BEGINNING FUND BALANCE</b>	<b>194,017,160</b>	<b>162,003,863</b>	<b>154,292,426</b>	<b>160,533,875</b>	<b>170,866,954</b>
<b>GENERAL FUND REVENUES</b>					
Property Taxes	243,813,306	257,211,599	266,548,377	276,346,727	286,371,955
State Reimbursements	5,786,668	5,786,668	5,786,668	5,786,668	5,786,668
Federal Reimbursements	100,000	100,000	100,000	100,000	100,000
One-Time Grant/ABH/RDA	12,618,674	-	-	-	-
Community Redevelopment Agency Pass-thru	9,842,993	10,610,959	11,128,457	11,633,730	12,216,561
Cash Contracts	96,596,269	101,512,739	106,124,970	110,088,037	114,200,240
Community Risk Reduction Fees	6,448,604	6,448,604	6,448,604	6,448,604	6,448,604
ALS Supplies & Transport Reimbursement	3,929,330	3,929,330	3,929,330	3,929,330	3,929,330
Interest Earnings	664,714	1,225,672	1,241,493	1,266,706	1,304,655
Other Revenue	4,364,357	954,199	954,199	893,885	893,885
Unencumbered Fund Balance for Paydown of UAAL	13,174,516	-	-	-	-
<b>TOTAL REVENUES</b>	<b>397,339,431</b>	<b>387,779,769</b>	<b>402,262,098</b>	<b>416,493,687</b>	<b>431,251,898</b>
<b>GENERAL FUND EXPENDITURES</b>					
New Positions for New Stations	-	2,015,962	2,062,659	5,848,805	13,834,880
Employee Salaries	201,824,693	209,680,789	213,383,452	217,987,953	222,700,871
Retirement - Regular Annual Payments	72,264,556	77,239,336	79,496,174	83,999,682	86,469,050
Retirement - Paydown of UAAL (Rate Savings)	1,886,420	3,167,397	1,648,658	2,368,859	3,279,280
Retirement - Paydown of UAAL (Unencumb. Funds)	13,174,516	-	-	-	-
Retirement - Paydown of UAAL (\$1M per Year from WC)	1,000,000	1,000,000	1,000,000	1,000,000	-
Retirement - Paydown of UAAL (\$1M per Year, Increasing)	3,000,000	5,000,000	7,000,000	9,000,000	11,000,000
Workers' Comp Transfer out to Self-Ins. Fund	12,687,256	13,035,532	13,383,808	13,749,498	15,191,983
Other Insurance	28,159,824	29,258,718	30,984,533	32,822,927	34,782,157
Medicare	2,772,582	2,928,587	2,933,983	2,991,829	3,050,817
One-Time Grant/ABH Expenditures	10,789,359	-	-	-	-
Salaries & Employee Benefits	347,559,206	343,326,320	351,893,267	369,769,552	390,309,039
Services & Supplies/Equipment	40,526,445	30,726,809	30,170,309	30,060,309	30,050,309
New Station/Enhancements S&S Impacts	-	104,192	107,318	297,069	711,584
One-Time Grant Expenditures	1,123,919	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>389,209,570</b>	<b>374,157,321</b>	<b>382,170,894</b>	<b>400,126,930</b>	<b>421,070,931</b>
<b>NET GENERAL FUND REVENUE</b>	<b>8,129,861</b>	<b>13,622,449</b>	<b>20,091,204</b>	<b>16,366,757</b>	<b>10,180,967</b>
<b>B. Incremental Increase in GF 10% Contingency</b>	<b>2,559,414</b>	<b>675,457</b>	<b>753,231</b>	<b>1,523,583</b>	<b>1,903,358</b>
<b>GENERAL FUND SURPLUS / (DEFICIT)</b>	<b>5,570,447</b>	<b>12,946,992</b>	<b>19,337,972</b>	<b>14,843,173</b>	<b>8,277,609</b>
<b>C. Operating Transfers (from) Operating Contingency</b>	-	-	-	-	-
Transfers to CIP Funds					
Transfers to CIP from General Fund Surplus	2,785,224	6,473,496	9,668,986	7,421,587	4,138,804
Total Operating Transfers to CIP	2,785,224	6,473,496	9,668,986	7,421,587	4,138,804
One-Time Paydown of UAAL from General Fund Surplus	2,785,224	6,473,496	9,668,986	7,421,587	4,138,804
<b>Capital Improvement Program/Other Fund Revenues</b>					
Interest Earnings	1,932,592	2,405,653	2,372,956	2,538,031	2,739,291
Cash Contracts	1,310,005	1,349,306	1,389,785	1,431,479	1,474,423
Developer Contributions	1,103,400	1,016,577	1,774,683	-	-
Workers' Comp Transfer in from GF	12,687,256	13,035,532	13,383,808	13,749,498	15,191,983
Miscellaneous	565,796	216,748	216,748	-	-
Operating Transfers In	2,785,224	6,473,496	9,668,986	7,421,587	4,138,804
Total CIP, W/C, Other Revenues	20,384,273	24,497,312	28,806,966	25,140,595	23,544,501
<b>Capital Improvement Program/Other Fund Expenses</b>					
Fund 12110 - General Fund CIP	3,111,074	1,685,700	1,648,700	2,200,700	1,100,100
Fund 123 - Fire Stations and Facilities	10,014,115	7,525,000	2,500,000	-	500,000
Fund 124 - Communications & Information Systems	4,250,516	6,484,148	2,006,511	-	-
Fund 133 - Fire Apparatus	11,435,499	8,444,811	7,770,818	4,116,012	2,668,040
Sub-Total CIP Expenses	28,811,204	24,139,659	13,926,029	6,316,712	4,268,140
Fund 171 - SFF Entitlement	549,651	-	-	-	-
Fund 190 - WC Self-Ins. (Cashflow Payments per Actuary)	12,421,612	8,744,547	9,392,719	10,014,388	10,677,203
Total CIP, W/C, Other Expenses	41,782,467	32,884,206	23,318,748	16,331,100	14,945,343
<b>D. CIP SURPLUS/(DEFICIT)</b>	<b>(21,398,194)</b>	<b>(8,386,894)</b>	<b>5,488,218</b>	<b>8,809,495</b>	<b>8,599,158</b>
<b>ENDING FUND BALANCE (A+B+C+D) [a]</b>	<b>162,003,863</b>	<b>154,292,426</b>	<b>160,533,875</b>	<b>170,866,954</b>	<b>181,369,470</b>
Fund Balances					
Operating Contingency (10% of Expenditures)	35,823,536	36,498,992	37,252,224	38,775,807	40,679,165
Reserve Exceeding Required Contingency	18,097,645	18,097,645	18,097,645	18,097,645	18,097,645
Reserve for Cash Contract City Station Maintenance	405,000	405,000	405,000	405,000	405,000
Donations & Restricted Funds	3,897,614	3,897,614	3,897,614	3,897,614	3,897,614
Committed - SFF Cities Enhancement	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Capital Improvement Program	25,956,829	11,807,909	11,853,991	15,376,387	17,785,707
Fund 190 - WC Self-Insurance	76,823,240	82,585,266	88,027,401	93,314,500	99,504,338
Total Fund Balances	162,003,863	154,292,426	160,533,875	170,866,954	181,369,470

[a] Calculation removes fund balance transfers shown under General Fund Revenues as these are already included in Beginning Fund Balance.

# Forecast Assumptions – Mid-Year Revised

## **Basic Assumptions:**

The Adopted FY 2017/18 budget, and the Five-Year Capital Improvement Plan approved by the Board of Directors on May 25, 2017 form the basis for this financial forecast with the following adjustments:

- Updated total beginning fund balance from the FY 2016/17 audited financial statements
- All approved budget adjustments that have occurred since the adoption of the budget
- Proposed FY 2017/18 mid-year adjustments

## **General Fund Revenues:**

- ***Secured Property Taxes*** – Rosenow Spevacek Group’s Final 2017 Report provides the growth factors assumed for the forecast. The following are projections of current secured property tax growth:

FY 2017/18	5.61%
FY 2018/19	5.88%
FY 2019/20	3.87%
FY 2020/21	3.91%
FY 2021/22	3.85%

- ***Public Utility, Unsecured, Homeowners Property Tax Relief, and Supplemental Delinquent Taxes*** – All of these categories of property taxes are projected to remain constant during the forecast period.
- ***State Reimbursements*** – State reimbursements are expected to remain constant, pending more details from CAL FIRE.
- ***Federal Reimbursements*** – This revenue is projected to remain constant.
- ***One-Time Grant/ABH/RDA Proceeds*** – These are one-time only revenues that vary significantly from year to year and therefore are not forecasted beyond the current year. Board actions to date and proposed mid-year adjustments have increased the FY 2017/18 adopted budget by \$7.5M for one-time increases in grants and assistance by hire.
- ***Community Redevelopment Agency Pass-thru Revenue*** – RSG completed a preliminary Redevelopment Area Excess Revenue Analysis of pass-thru and residual revenues from the dissolution of the redevelopment agencies dated 4/4/2017. The forecast figures come from this report.
- ***Cash Contracts*** – The forecast calculations are based on the Joint Powers Agreement and subsequent amendments and year-over-year changes are estimated between 3.75% and 4.50% per year. In addition, this revenue category includes estimated John Wayne Airport contract proceeds with an annual 4% increase cap, which is projected to continue through the forecast period.

- **Community Risk Reduction Fees** – Community risk reduction fees are projected to remain constant through the forecast period, pending any changes approved by the Board.
- **ALS Supplies & Transport Reimbursements** – This revenue is estimated to remain flat, pending any changes approved by the Board.
- **Interest Earnings** – Assumes an annual return of 1.50% for FY 2017/18, and 2.25% for FY 2018/19 through FY 2021/22.
- **Other Revenue** – This revenue source includes various items such as reimbursements for training and cost recovery for the firefighter handcrew.

### **General Fund Expenditures**

- **Salaries & Employee Benefits** – S&EB is composed of the following factors:
  - ✓ **New Positions for New Stations** – The forecast assumes that four post positions for a Station 20 Truck will be unfrozen 6/1/2018 (the remaining prorated cost not included in the FY 2017/18 budget is added in FY 2018/19). Vehicles will be in service beginning 7/1/2020 for Station 67, 1/1/2021 for Station 68, and 7/1/2021 for Station 69.
  - ✓ **Employee Salaries** – Projected salaries reflect increases consistent with the approved labor group MOUs. In addition, annual salary increases of 2% projected for the years that follow expiration of the current MOUs.
  - ✓ **Retirement** – Retirement costs reflecting the projected employer retirement rates are based on the OCERS provided rates for FY 2017/18 that do not include the 3-year phase-in of the impact of a change in economic assumptions on employer contribution rates for Safety Members (“3-Year Phase-In”). The projected employer rates in the outer years of the forecast are based on a study prepared by Segal Consulting and provided by OCERS on 12/18/2017. FY 2018/19 rates are approximately 1.16% higher for safety and 0.52% higher for non-safety compared to FY 2017/18 rates.

<b>FY</b>	<b>Safety</b>	<b>General</b>	<b>Source</b>
2017/18	50.78%	33.80%	Effective rates for FY 2017/18 provided by OCERS without 3-Year Phase-In
2018/19	51.95%	34.62%	Per Segal Study dated 12/18/2017. Effective rates after removing impact of additional OCFA UAAL contributions, assuming 7.00% rate or return for all years.
2019/20	53.55%	35.72%	
2020/21	55.45%	37.22%	
2021/22	55.95%	37.62%	

*Note: employer rates shown in the table above do not include the portion of the employee rate that is paid by OCFA*

FY 2017/18 includes a mid-year adjustment of \$13.2M for accelerated paydown of OCFA’s Unfunded Actuarial Accrued Liability (UAAL) from unencumbered fund balance carried over from FY 2016/17.

In accordance with the Updated Snowball Strategy presented to the board in November 2015, outer years of the forecast include the following projected UAAL paydowns:



- Contributing additional funds each year using projected savings that will be realized under new Public Employees' Pension Reform Act (PEPRA) of \$1.9M in FY 2017/18 and continuing in different amounts until payment is complete.
  - Contributing an additional \$1M each year starting in FY 2016/17 and increasing by \$2M each year until it reaches \$15M and continuing at \$15M thereafter.
  - Contributing \$1 million per year from surplus fund balance available in the Workers' Compensation Self Insurance Fund starting in FY 2016/17 for 5 years.
- ✓ **Workers' Compensation** – FY 2017/18 assumes a 50% confidence level for ongoing Workers' Compensation costs. The 50% confidence level is assumed throughout the forecast period. Workers' Compensation costs in the forecast period are based on projected payments in the Rivelle Consulting Services February 2017 Study.
- ✓ **Other Insurance** – Medical insurance rates for firefighters are assumed to remain flat for calendar years 2017 and 2018 and increase by 5% in 2019, 2020, and 2021 per the Health Plan Agreement dated 3/29/2017. For staff members, it is projected to grow by 10% annually. This category also includes \$60,000 for unemployment insurance in FY 2017/18.
- ✓ **Medicare** – Annual amounts are calculated at 1.45% of projected salaries.
- **One-Time Grant/ABH Expenditures** – These are one-time only expenditures that vary significantly from year to year and therefore are not forecasted beyond FY 2017/18.
  - **Services and Supplies (S&S)** – S&S is held flat unless a new fire station is built, specific increases have been identified by section managers, or one-time grant proceeds have been received.

### **Net General Fund Revenue**

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

### **Incremental Increase in General Fund 10% Contingency:**

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

### **General Fund Surplus/(Deficit):**

This figure is equal to the Net General Fund Revenue less the incremental increase in the General Fund 10% Contingency. In years when there is a surplus, unless an exception is triggered, 50% is transferred to the CIP funds and 50% is used to paydown the UAAL as outlined in the Financial Stability Budget Policy approved by the Board on 3/23/2017. In years when there is a deficit, the deficit amount must be drawn from the 10% Contingency, and once those are exhausted, from fund balance for CIP.

### **Capital Improvement Program/Other Funds Revenue:**

- ***Interest Earnings*** – Assumes an annual return of 1.50% for FY 2017/18, and 2.25% for FY 2018/19 through FY 2021/22.
- ***State/Federal Reimbursement*** – The forecast assumes no State/Federal reimbursement revenue in the forecast period.
- ***Cash Contracts*** – The forecast calculations are based on the Joint Powers Agreement and subsequent amendments.
- ***Developer Contributions*** – The forecast assumes developer contributions will be used to various vehicles for Rancho Mission Viejo Station 67 in FY 2018/19 and FY 2019/20.
- ***Workers' Compensation Transfer*** – These amounts equal the General Fund Workers' Compensation budget which reflects a reduction of \$1M used to paydown the UAAL per the Snowball Plan.
- ***Operating Transfer In*** – This figure equals the Operating Transfer Out from the General Fund.

### **Capital Improvement Program/Other Funds Expenditures:**

Expenditures for each CIP fund are based on the CIP Budget.

- ***Structural Fire Fund Entitlement (Fund 171)*** – The forecast period assumes no Structural Fire Fund Entitlement expenditures past the current year.
- ***Self-Insurance Fund (Fund 190)*** – Self-Insurance fund expenditures are based on projected payments in the Rivelle Consulting Services Feb 2017 Workers' Compensation Actuarial Study.

### **Fund Balances:**

- ***Operating Contingency*** – Reflects policy of 10% of the General Fund expenditures each year (less one-time expenditures and UAAL payments). General Fund deficits (if applicable) are deducted from this category of fund balance once the Cash Flow fund balance is exhausted.

### ***Assigned Fund Balances***

- ***Self-Insurance Fund (Fund 190)*** – Funding is set aside for Workers' Compensation outstanding claims at the 50% confidence level per Board policy. The required amount is based on the actuarial report for Estimated Outstanding Losses as of the last full fiscal year prior to report issuance. The required funding levels are maintained by retaining funds in fund balance that reflect the difference between the workers' compensation transfer and Fund 190 expenditures.
- ***Capital Improvement Program*** – This fund balance includes funding for future capital replacements and is reduced annually by the cost of capital assets and increased in years when there are Operating Transfers into the CIP.