ORANGE COUNTY FIRE AUTHORITY AGENDA

Budget and Finance Committee Meeting

Wednesday, January 14, 2015
12:00 Noon

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

Vacant, Chair
Jerry McCloskey, Vice Chair
Sam Allevato   Al Murray   Elizabeth Swift
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 Allevato

ROLL CALL

ELECTION OF CHAIR AND VICE CHAIR

1. PRESENTATIONS
No items.

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.

2. MINUTES

A. Minutes for the November 5, 2014, Budget and Finance Committee Meeting
Submitted by: Sherry Wentz, Clerk of the Authority

Recommended Action:
Approve as submitted.

3. CONSENT 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 15, 2015, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

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

Recommended Action:
Receive and file the report.

C. Updated Broker/Dealer List
Submitted by: Patricia Jakubiak, Treasurer

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee Meeting of January 15, 2015, with the Budget and Finance Committee's recommendation that the Executive Committee approve the proposed Broker/Dealer List to include the following three firms:

- FTN Financial
- Raymond James
- UBS Financial Services

4. DISCUSSION CALENDAR

A. FY 2014/15 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 22, 2015, with the Budget and Finance Committee's recommendation that the Board of Directors approve the recommended actions listed below.

1. Approve a budget adjustment in Fund 121 to allocate $3,000,000 of available unencumbered funds identified in the FY 2013/14 financial audit to OCFA's unfunded pension liability and allocate any remaining funds to OCFA's Capital Improvement Program.
2. Approve a budget adjustment in Fund 121 to increase the FY 2014/15 Jurisdictional Equity Adjustment Payments by $4,978,772 resulting in full accrual of the Payments per the Second Amendment to the Amended Joint Powers Agreement, pending resolution of the appeal.
3. Authorize the following staffing changes:
   a. Unfreeze two Fire Prevention Specialist positions in the Community Risk Reduction Department to improve OCFA's response to increased development activity.
   b. Convert the 22 Hand Crew Firefighter positions from limited-term to permanent status.
4. Direct staff to return to the Board of Directors in March 2015 for approval of all additional budget adjustments discussed herein for the FY 2014/15 budget.

B. Internal Control Review of Capital Assets and Inventory Control

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

Recommended Actions:

1. Receive and file the attached Independent Auditors' Report of Internal Controls on Procurement/Disbursement Practices related to the Capital Assets and Inventory Control.
2. Direct staff to implement the corrective actions as stated in the report.

C. OCFA 2015 Grants Priorities

Submitted by: Sandy Cooney, Communications Director, Corporate Communications

Recommended Action:

Review the proposed grant programs identified by staff and place the item on the agenda for the Board of Directors meeting of January 22, 2015, with the Budget and Finance Committee's recommendation that the Board of Directors approve OCFA's grant priorities for 2015.

REPORTS
No items.

COMMITTEE MEMBER COMMENTS

ADJOURNMENT – The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, February 11, 2015, 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 8th day of January 2015.

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

UPCOMING MEETINGS:

Claims Settlement Committee Meeting	Thursday, January 15, 2015, 5:30 p.m.
Executive Committee Meeting	Thursday, January 15, 2015, 6:00 p.m.
Board of Directors Meeting	Thursday, January 22, 2015, 6:00 p.m.
Human Resources Committee Meeting	Tuesday, February 3, 2015, 12:00 noon
Budget and Finance Committee Meeting	Wednesday, February 11, 2015, 12:00 noon

MINUTES
ORANGE COUNTY FIRE AUTHORITY

Budget and Finance Committee Meeting
Wednesday, November 5, 2014
12:00 Noon

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

CALL TO ORDER

A regular meeting of the Orange County Fire Authority Budget and Finance Committee was called to order on November 5, 2014, at 12:00 p.m. by Chair Bressette.

PLEDGE OF ALLEGIANCE

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

ROLL CALL

Present:

Randal Bressette, Laguna Hills
Trish Kelley, Mission Viejo
Jerry McCloskey, Laguna Niguel
Al Murray, Tustin
Elizabeth Swift, Buena Park
Steven Weinberg, Dana Point

Absent:

Sam Allevato, San Juan Capistrano

Also present were:

Fire Chief Jeff Bowman
Assistant Chief Lori Smith
Assistant Chief Lori Zeller
Communications Director Sandy Cooney
Deputy Chief Craig Kinoshita
Assistant Chief David Thomas
General Counsel David Kendig
Clerk of the Authority Sherry Wentz

PUBLIC COMMENTS

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

MINUTES

1. Minutes for the October 8, 2014, Budget and Finance Committee Meeting

On motion of Director Murray and second by Director Weinberg, the Committee voted unanimously to approve the Minutes of the October 8, 2014, Budget and Finance Committee Meeting, as submitted.

CONSENT CALENDAR (Agenda Item No. 3 was pulled from the Consent Calendar for separate consideration.)

2. Monthly Investment Reports

On motion of Director Kelley and second by Director Murray, the Committee voted to direct staff to place the item on the agenda for the Executive Committee's meeting of November 20, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports. Director Swift was absent for the vote.

3. First Quarter Financial Newsletter – *July 2014 to September 2014*

Vice Chair McCloskey pulled this item to request clarification regarding the variances in the financial newsletter.

On motion of Director McCloskey and second by Director Weinberg, the Committee voted to place this item on the agenda for the Executive Committee meeting on November 20, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report. Director Swift was absent for the vote.

4. Annual Statement of Investment Policy and Investment Authorization

On motion of Director Kelley and second by Director Murray, the Committee voted to direct staff to place the item on the agenda for the Board of Director's meeting of November 20, 2014, with the Budget and Finance Committee's recommendation that the Board of Directors taking the following actions:

1. Review and approve the submitted Investment Policy of the Orange County Fire Authority, to be effective January 1, 2015.
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, 2015.

Director Swift was absent for the vote.

Director Swift arrived at this point (12:07 p.m.)

DISCUSSION CALENDAR

5. Audited Financial Reports for the Fiscal Year Ended June 30, 2014

Assistant Chief Lori Zeller introduced Finance Manager Jim Ruane who introduced Rich Kikuchi, LSL Partner, who provided a report on the Audited Financial Reports for the Fiscal Year Ended June 30, 2014.

On motion of Director Weinberg and second by Director Kelley, the Committee voted unanimously to take the following actions:

1. Review the calculations used to determine the fund balance amounts assigned to the capital improvement program and workers' compensation, and confirm the calculations' consistency with the OCFA's *Assigned Fund Balance Policy*.
2. Direct staff to place the item on the agenda for the Board of Directors meeting of November 20, 2014, with the Budget and Finance Committee's recommendation that the Board of Directors receive and approve the reports.

6. Updated Cost Reimbursement Rates and Methodologies

Assistant Chief Lori Zeller introduced Finance Manager Jim Ruane who provided an update on cost reimbursement rates and methodologies.

On motion of Director Weinberg and second by Vice Chair McCloskey, the Committee voted unanimously to place the item on the agenda for the Board of Directors meeting of November 20, 2014, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Adopt the updated Equipment Cost Reimbursement Rate schedule effective November 21, 2014.
2. Approve and adopt the proposed Resolution authorizing suppression (safety) personnel to be reimbursed portal to portal for time assigned on an in or out of county incident.

Director Kelley left at this point (1:10 p.m.)

7. FY 2013/14 Backfill/Overtime and Total Earnings/Compensation Analysis

Assistant Chief Lori Zeller introduced Finance Manager Jim Ruane who provided a PowerPoint presentation on the FY 2013/14 Backfill/Overtime and Total Earnings/Compensation Analysis.

On motion of Director Swift and second by Director Murray, the Committee voted unanimously to place the item on the agenda for the Board of Directors meeting of November 20, 2014, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Direct staff to pursue reductions in overtime by filling *permanent* vacancies (exceeding those required by MOU) as quickly as possible after the positions become vacant.
2. Direct staff to continue using overtime to fill *temporary* vacancies rather than hiring additional personnel, recognizing this as a cost-effective practice for temporary needs.
3. Direct staff to continue implementation of the overtime cap (recently approved as part of the Firefighter Unit MOU) to limit the number of overtime hours an employee can work per year.
4. Direct staff to report back to the Board in November 2015 on actual savings achieved by no longer including sick/vacation leave as hours worked for purposes of calculating overtime.

Director Kelley was absent for the vote.

REPORTS

Fire Chief Jeff Bowman commended Chair Bressette for his tenure as the Budget and Finance Committee's Chair.

Assistant Chief Lori Zeller thanked Chair Bressette, Director Kelley, and Director Weinberg for their leadership and guidance while on the Budget and Finance Committee.

COMMITTEE MEMBER COMMENTS

Director Weinberg congratulated Director Murray and Director Swift on their reelection. He also thanked the Chiefs and Treasurer Tricia Jakubiak for all of their hard work while he served on the Budget and Finance Committee.

Director Murray congratulated Director Swift on her reelection and thanked the outgoing Budget and Finance Committee members for their hard work.

Vice Chair McCloskey also commended Chair Bressette on his term as the Budget and Finance Committee Chair and stated he looked forward to chairing the January meeting.

Chair Bressette thanked staff for all of their work on the Comprehensive Annual Financial Report. He also congratulated Director Murray and Director Swift on their reelection. He went on to express his gratitude to the Finance Department and Treasurer Tricia Jakubiak for their hard work while he served on the Budget and Finance Committee.

ADJOURNMENT – Chair Bressette adjourned the meeting at 1:19 p.m. The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, January 14, 2015, at 12:00 noon.

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

Orange County Fire Authority

AGENDA STAFF REPORT

Budget and Finance Committee Meeting — **Agenda Item No. 3A**
January 14, 2015 — **Consent Calendar**

Monthly Investment Reports

Contact(s) for Further Information

Patricia Jakubiak, Treasurer — Triciajakubiak@ocfa.org — 714.573.6301
Treasury & Financial Planning

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 15, 2015, 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

Attached are the final monthly investment reports for the months ended October 31, 2014, and November 30, 2014, and preliminary investment report as of December 19, 2014. Since all regular Committee meetings go dark during the month of December, no prior committee action was taken on the monthly investment report for the month ended October 31, 2014; however, this staff report was forwarded to members of the Budget and Finance Committee for review, and has also been included with this month's staff report for Committee action.

Attachment(s)

1. Final Investment Report – November 2014/Preliminary Report – December 2014
2. Final Investment Report – October 2014/Preliminary Report – November 2014

Attachment 1

Orange County Fire Authority Monthly Investment Report

Final Report – November 2014

Preliminary Report – December 2014

Monthly Investment Report
Table of Contents

Orange County Fire Authority

Final Investment Report

November 30, 2014

EXECUTIVE SUMMARY

Portfolio Activity & Earnings

During the month of November 2014, the size of the portfolio decreased further to $128.7 million from $133.9 million. Significant receipts for the month included the first apportionment of secured property taxes for $9.7 million, a cash contract payment for $3.1 million, and various charges for current services and intergovernmental agency payments totaling $2.2 million. Significant disbursements for the month included primarily two biweekly payrolls, which were approximately $9.3 million each with related benefits. Total November cash outflows for operating expenditures amounted to approximately $20.8 million. The portfolio's balance is expected to increase significantly in the following month as the next major apportionments of property taxes are scheduled for December.

In November, the portfolio's yield to maturity (365-day equivalent) edged up by 1 basis point to 0.28%. The effective rate of return, on the other hand, decreased by 2 basis points to 0.27% for the month and stayed unchanged at 0.27% for the fiscal year to date. The average maturity of the portfolio shortened further by 9 days to 179 days to maturity.

Economic News

The U.S. economic activity continued to pick up moderately in November 2014, although overall activity remained mixed. Employment conditions strengthened further. There were a total of 321,000 new jobs created in November, a much stronger job growth pace than expected. In addition, a net increase of 44,000 jobs was adjusted for the previous two months. The unemployment rate stayed unchanged at 5.8%. Retail sales posted a stronger increase than forecasted for November, even though consumer confidence measures were mixed for the month. Non-manufacturing activity increased more than expected while the manufacturing sector declined slightly, albeit still at a strong level. Industrial production came in stronger than expected while durable goods orders unexpectedly dropped. Energy prices continued to decline causing inflation to stay low. The NFIB (National Federation of Independent Business) small business optimism index increased. Housing activity stayed mixed and slow. On December 17, 2014, at the second day of the Federal Open Market Committee's scheduled meeting, the Fed voted to keep the federal funds rate unchanged at a target range of 0 – 0.25%. The Committee upgraded its outlook on the economy slightly. However, it also stated that "it can be patient in beginning to normalize the stance of monetary policy."

BENCHMARK COMPARISON AS OF NOVEMBER 30, 2014

3 Month T-Bill:	*0.02%*	*1 Year T-Bill:*	*0.13%*
6 Month T-Bill:	*0.07%*	*LAIF:*	*0.26%*

OCFA Portfolio: 0.27%

PORTFOLIO SIZE, YIELD, & DURATION

	Current Month	**Prior Month**	**Prior Year**
Book Value-	*$128,741,870*	*$133,906,613*	*$103,368,721*
Yield to Maturity (365 day)	*0.28%*	*0.27%*	*0.38%*
Effective Rate of Return	*0.27%*	*0.29%*	*0.39%*
Days to Maturity	*179*	*188*	*298*

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

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
November 30, 2014

Investments	Par Value	Market Value (See Note 1 on page 9)	Book Value (See Note 2 on page 9)	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	8,430,959.24	8,430,959.24	8,430,959.24	6.57	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	12,000,000.00	11,996,160.00	11,997,330.00	9.35	105	58	0.115	0.117
Federal Agency Coupon Securities	24,888,888.78	24,827,421.00	24,894,543.80	19.40	1,520	825	0.746	0.756
Federal Agency Disc. -Amortizing	33,000,000.00	32,997,580.00	32,996,952.36	25.71	135	51	0.060	0.060
Local Agency Investment Funds	50,000,000.00	50,009,064.20	50,000,000.00	38.97	1	1	0.257	0.261
Investments	**128,319,848.02**	**128,261,184.44**	**128,319,785.40**	**100.00%**	**340**	**179**	**0.271**	**0.275**
Cash								
Passbook/Checking (not included in yield calculations)	516,250.75	516,250.75	516,250.75		1	1	0.000	0.000
Total Cash and Investments	**128,836,098.77**	**128,777,435.19**	**128,836,036.15**		**340**	**179**	**0.271**	**0.275**

Total Earnings	November 30 Month Ending	Fiscal Year To Date
Current Year	29,400.03	170,220.21
Average Daily Balance	**132,123,225.41**	**152,479,566.08**
Effective Rate of Return	**0.27%**	**0.27%**

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

12/5/14

Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	*$*	*128,836,036.15*
GASB 31 Adjustment to Books (See Note 3 on page 9)	*$*	*(94,166.47)*
Total	*$*	*128,741,869.68*

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
November 30, 2014

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value (See Note 1 on page 9)	Book Value (See Note 2 on page 9)	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SYS528	528	High Mark 100% US Treasury MMF			8,430,959.24	8,430,959.24	8,430,959.24	0.001	0.001	1	
		Subtotal and Average	10,435,712.50		8,430,959.24	8,430,959.24	8,430,959.24		0.001	1	
Commercial Paper Disc. -Amortizing											
36959JP56	835	GEN ELEC CAP CRP		09/29/2014	6,000,000.00	5,996,940.00	5,997,680.00	0.160	0.162	87	02/26/2015
36960MMX8	838	GEN ELEC CAP CRP		10/31/2014	6,000,000.00	5,999,220.00	5,999,650.00	0.070	0.071	30	12/31/2014
		Subtotal and Average	11,996,774.16		12,000,000.00	11,996,160.00	11,997,330.00		0.117	58	
Federal Agency Coupon Securities											
3133ECM76	809	Federal Farm Credit Bank (Callable anytime)		04/25/2013	9,000,000.00	8,984,880.00	8,997,069.36	0.400	0.424	508	04/22/2016
3133804V6	787	Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,999,280.00	6,000,000.00	1.000	0.981	982	08/09/2017
3133813R4	800	Fed Home Loan Bank (Callable 12-9-14)		12/20/2012	9,000,000.00	8,954,550.00	9,008,661.28	1.000	0.966	1,074	11/09/2017
313382DC4	803	Fed Home Loan Bank (Callable anytime)		03/15/2013	888,888.78	888,711.00	888,813.16	0.470	0.477	462	03/07/2016
		Subtotal and Average	24,894,575.28		24,888,888.78	24,827,421.00	24,894,543.80		0.756	825	
Federal Agency Disc. -Amortizing											
313396BF9	832	Freddie Mac		07/01/2014	9,000,000.00	8,999,370.00	8,998,650.00	0.090	0.093	60	01/30/2015
313396AN3	836	Freddie Mac		10/08/2014	7,000,000.00	6,999,650.00	6,999,707.36	0.035	0.036	43	01/13/2015
313396CZ4	837	Freddie Mac		10/27/2014	8,000,000.00	7,998,560.00	7,998,640.00	0.060	0.062	102	03/13/2015
313385R99	834	Fed Home Loan Bank		09/11/2014	9,000,000.00	9,000,000.00	8,999,955.00	0.045	0.046	4	12/05/2014
		Subtotal and Average	34,796,163.47		33,000,000.00	32,997,580.00	32,996,952.36		0.060	51	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			50,000,000.00	50,009,064.20	50,000,000.00	0.261	0.261	1	
		Subtotal and Average	50,000,000.00		50,000,000.00	50,009,064.20	50,000,000.00		0.261	1	
		Total and Average	132,123,225.41		128,319,848.02	128,261,184.44	128,319,785.40		0.275	179	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
November 30, 2014

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10104	10104	American Benefit Plan Admin		07/01/2014	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2014	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank		07/01/2014	231,250.75	231,250.75	231,250.75		0.000	1
SYS361	361	CORVEL		07/01/2014	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	**0.00**							**1**
		Total Cash and Investments	**132,123,225.41**		**128,836,098.77**	**128,777,435.19**	**128,836,036.15**		**0.275**	**179**

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

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	(12/01/2014 - 12/01/2014)	6 Maturities	0 Payments	58,947,209.99	45.75%	58,947,209.99	58,956,274.19
Aging Interval:	1 - 30 days	(12/02/2014 - 12/31/2014)	2 Maturities	0 Payments	15,000,000.00	11.64%	14,999,605.00	14,999,220.00
Aging Interval:	31 - 60 days	(01/01/2015 - 01/30/2015)	2 Maturities	0 Payments	16,000,000.00	12.42%	15,998,357.36	15,999,020.00
Aging Interval:	61 - 91 days	(01/31/2015 - 03/02/2015)	1 Maturities	0 Payments	6,000,000.00	4.66%	5,997,680.00	5,996,940.00
Aging Interval:	92 - 121 days	(03/03/2015 - 04/01/2015)	1 Maturities	0 Payments	8,000,000.00	6.21%	7,998,640.00	7,998,560.00
Aging Interval:	122 - 152 days	(04/02/2015 - 05/02/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	153 - 183 days	(05/03/2015 - 06/02/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	184 - 274 days	(06/03/2015 - 09/01/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	275 - 365 days	(09/02/2015 - 12/01/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	366 - 1095 days	(12/02/2015 - 11/30/2017)	4 Maturities	0 Payments	24,888,888.78	19.32%	24,894,543.80	24,827,421.00
Aging Interval:	1096 days and after	(12/01/2017 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
		Total for	16 Investments	0 Payments		100.00	128,836,036.15	128,777,435.19

NOTES TO PORTFOLIO MANAGEMENT REPORT

Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The MUFG Union Bank (formerly Union Bank) Trust Department provides market values of the remaining investments.

Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.

Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2014 includes an increase of $14,938 to the LAIF investment and a decrease of $(109,104) to the remaining investments.

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

Local Agency Investment Fund (LAIF)

As of November 30, 2014, OCFA has $50,000,000 invested in LAIF. The fair value of OCFA's LAIF investment is calculated using a participant fair value factor provided by LAIF on a quarterly basis. The fair value factor as of September 30, 2014 is 1.000181284. When applied to OCFA's LAIF investment, the fair value is $50,009,064 or $9,064 above cost. Although the fair value of the LAIF investment is higher than cost, OCFA can withdraw the actual amount invested at any time.

LAIF is included in the State Treasurer's Pooled Money Investment Account (PMIA) for investment purposes. The PMIA market valuation at November 30, 2014 is included on the following page.

State of California
Pooled Money Investment Account
Market Valuation
11/30/2014

Description	Carrying Cost Plus Accrued Interest Purch.	Fair Value	Accrued Interest
United States Treasury:			
Bills	$ 10,538,667,444.97	$ 10,546,275,000.00	NA
Notes	$ 18,513,014,023.84	$ 18,543,501,500.00	$ 22,694,052.50
Federal Agency:			
SBA	$ 553,499,874.74	$ 548,921,194.35	$ 505,566.51
MBS-REMICs	$ 106,043,915.39	$ 113,799,308.91	$ 505,203.42
Debentures	$ 1,859,336,454.92	$ 1,858,423,600.00	$ 3,706,154.50
Debentures FR	$ -	$ -	$ -
Discount Notes	$ 1,099,463,750.00	$ 1,099,927,000.00	NA
GNMA	$ -	$ -	$ -
Supranational Debentures	$ 450,249,234.19	$ 450,669,000.00	$ 514,159.00
CDs and YCDs FR	$ -	$ -	$ -
Bank Notes	$ 400,000,000.00	$ 399,885,438.88	$ 132,888.88
CDs and YCDs	$ 6,850,026,364.38	$ 6,847,124,343.87	$ 4,180,201.41
Commercial Paper	$ 4,919,049,528.28	$ 4,919,582,669.15	NA
Corporate:			
Bonds FR	$ -	$ -	$ -
Bonds	$ -	$ -	$ -
Repurchase Agreements	$ -	$ -	$ -
Reverse Repurchase	$ -	$ -	$ -
Time Deposits	$ 4,986,240,000.00	$ 4,986,240,000.00	NA
AB 55 & GF Loans	$ 9,554,876,467.74	$ 9,554,876,467.74	NA
TOTAL	$ 59,830,467,058.45	$ 59,869,225,522.90	$ 32,238,226.22

Fair Value Including Accrued Interest $ 59,901,463,749.12

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 19, 2014

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

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

Investments	Par Value	Market Value (See Note 1 on page 18)	Book Value (See Note 2 on page 18)	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	18,248,993.55	18,248,993.55	18,248,993.55	8.71	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	12,000,000.00	11,997,360.00	11,998,058.34	5.73	105	39	0.115	0.117
Federal Agency Coupon Securities	24,888,888.78	24,755,175.45	24,894,502.55	11.89	1,520	806	0.746	0.756
Federal Agency Disc. -Amortizing	104,320,000.00	104,295,324.00	104,296,139.45	49.80	109	80	0.081	0.083
Local Agency Investment Funds	50,000,000.00	50,009,064.20	50,000,000.00	23.87	1	1	0.257	0.261
Investments	**209,457,882.33**	**209,305,917.20**	**209,437,693.89**	**100.00%**	**241**	**138**	**0.197**	**0.200**
Cash (See Note 4 on page 18)								
Passbook/Checking (not included in yield calculations)	260,969.43	260,969.43	260,969.43		1	1	0.000	0.000
Total Cash and Investments	**209,718,851.76**	**209,566,886.63**	**209,698,663.32**		**241**	**138**	**0.197**	**0.200**

Total Earnings	December 19 Month Ending	Fiscal Year To Date
Current Year	19,301.65	189,521.86
Average Daily Balance	**152,044,822.55**	**152,431,542.09**
Effective Rate of Return	**0.24%**	**0.26%**

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

P Jakubiak 12/26/14

Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	*$*	*209,698,663.32*
GASB 31 Adjustment to Books (See Note 3 on page 18)	*$*	*(94,166.47)*
Total	*$*	*209,604,496.85*

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

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value (See Note 1 on page 18)	Book Value (See Note 2 on page 18)	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SYS528	528	High Mark 100% US Treasury MMF		(See Note 4 on page 18)	18,248,993.55	18,248,993.55	18,248,993.55	0.001	0.001	1	
		Subtotal and Average	**10,962,035.22**		**18,248,993.55**	**18,248,993.55**	**18,248,993.55**		**0.001**	**1**	
Commercial Paper Disc. -Amortizing											
36959JPS6	835	GEN ELEC CAP CRP		09/29/2014	6,000,000.00	5,997,600.00	5,998,186.67	0.160	0.162	68	02/26/2015
36960MMX8	838	GEN ELEC CAP CRP		10/31/2014	6,000,000.00	5,999,760.00	5,999,871.67	0.070	0.071	11	12/31/2014
		Subtotal and Average	**11,997,713.33**		**12,000,000.00**	**11,997,360.00**	**11,998,058.34**		**0.117**	**39**	
Federal Agency Coupon Securities											
3133ECM76	809	Federal Farm Credit Bank (Callable anytime)		04/25/2013	9,000,000.00	8,972,820.00	8,997,180.50	0.400	0.424	489	04/22/2016
3133804V6	787	Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,983,080.00	6,000,000.00	1.000	0.981	963	08/09/2017
3133813R4	800	Fed Home Loan Bank (Callable 1-9-15)		12/20/2012	9,000,000.00	8,911,800.00	9,008,505.74	1.000	0.966	1,055	11/09/2017
313382DC4	803	Fed Home Loan Bank (Callable anytime)		03/15/2013	888,888.78	887,475.45	888,816.31	0.470	0.477	443	03/07/2016
		Subtotal and Average	**24,894,522.09**		**24,888,888.78**	**24,755,175.45**	**24,894,502.55**		**0.756**	**806**	
Federal Agency Disc. -Amortizing											
313312AQ3	845	Farm Credit Disc Note		12/18/2014	5,000,000.00	4,999,750.00	4,999,783.34	0.060	0.062	26	01/15/2015
313312FH8	846	Farm Credit Disc Note		12/18/2014	9,000,000.00	8,995,860.00	8,995,135.00	0.140	0.144	139	05/08/2015
313588AP0	843	Fed Natl Mortg Assoc		12/09/2014	2,085,000.00	2,084,895.75	2,084,956.56	0.030	0.031	25	01/14/2015
313396BF9	832	Freddie Mac		07/01/2014	9,000,000.00	8,999,280.00	8,999,077.50	0.090	0.093	41	01/30/2015
313396AN3	836	Freddie Mac		10/08/2014	7,000,000.00	6,999,720.00	6,999,836.67	0.035	0.036	24	01/13/2015
313396CZ4	837	Freddie Mac		10/27/2014	8,000,000.00	7,998,160.00	7,998,893.33	0.060	0.062	83	03/13/2015
313396AP8	841	Freddie Mac		12/08/2014	5,235,000.00	5,234,738.25	5,234,890.94	0.030	0.031	25	01/14/2015
313396ED1	847	Freddie Mac		12/18/2014	9,000,000.00	8,996,760.00	8,997,086.25	0.105	0.108	111	04/10/2015
313396FX6	848	Freddie Mac		12/18/2014	9,000,000.00	8,995,500.00	8,995,027.50	0.130	0.134	153	05/22/2015
313396GM9	849	Freddie Mac		12/18/2014	9,000,000.00	8,994,870.00	8,994,363.75	0.135	0.139	167	06/05/2015
313384BV0	839	Fed Home Loan Bank		12/04/2014	9,000,000.00	8,998,920.00	8,999,175.00	0.060	0.062	55	02/13/2015
313384DP1	840	Fed Home Loan Bank		12/04/2014	9,000,000.00	8,997,570.00	8,998,302.50	0.070	0.072	97	03/27/2015
313384AP4	842	Fed Home Loan Bank		12/09/2014	6,000,000.00	5,999,700.00	5,999,916.67	0.020	0.021	25	01/14/2015
313384AP4	844	Fed Home Loan Bank		12/18/2014	8,000,000.00	7,999,600.00	7,999,694.44	0.055	0.057	25	01/14/2015
		Subtotal and Average	**54,190,551.90**		**104,320,000.00**	**104,295,324.00**	**104,296,139.45**		**0.083**	**80**	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			50,000,000.00	50,009,064.20	50,000,000.00	0.261	0.261	1	
		Subtotal and Average	**50,000,000.00**		**50,000,000.00**	**50,009,064.20**	**50,000,000.00**		**0.261**	**1**	

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

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
		Total and Average	152,044,822.55		209,457,882.33	209,305,917.20	209,437,693.89		0.200	138

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

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10104	10104	American Benefit Plan Admin		07/01/2014	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2014	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank		07/01/2014	-24,030.57	-24,030.57	-24,030.57	*(See Note 4 on page 18)*	0.000	1
SYS361	361	CORVEL		07/01/2014	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	**0.00**							**1**
		Total Cash and Investments	**152,044,822.55**		**209,718,851.76**	**209,566,886.63**	**209,698,663.32**		**0.200**	**138**

ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of December 20, 2014

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	(12/20/2014 - 12/20/2014)		6 Maturities	0 Payments	68,509,962.98	32.67%	68,509,962.98	68,519,027.18
Aging Interval: 1 - 30 days	(12/21/2014 - 01/19/2015)		7 Maturities	0 Payments	39,320,000.00	18.75%	39,318,950.29	39,318,164.00
Aging Interval: 31 - 60 days	(01/20/2015 - 02/18/2015)		2 Maturities	0 Payments	18,000,000.00	8.58%	17,998,252.50	17,998,200.00
Aging Interval: 61 - 91 days	(02/19/2015 - 03/21/2015)		2 Maturities	0 Payments	14,000,000.00	6.67%	13,997,080.00	13,995,760.00
Aging Interval: 92 - 121 days	(03/22/2015 - 04/20/2015)		2 Maturities	0 Payments	18,000,000.00	8.58%	17,995,388.75	17,994,330.00
Aging Interval: 122 - 152 days	(04/21/2015 - 05/21/2015)		1 Maturities	0 Payments	9,000,000.00	4.29%	8,995,135.00	8,995,860.00
Aging Interval: 153 - 183 days	(05/22/2015 - 06/21/2015)		2 Maturities	0 Payments	18,000,000.00	8.58%	17,989,391.25	17,990,370.00
Aging Interval: 184 - 274 days	(06/22/2015 - 09/20/2015)		0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	(09/21/2015 - 12/20/2015)		0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 366 - 1095 days	(12/21/2015 - 12/19/2017)		4 Maturities	0 Payments	24,888,888.78	11.87%	24,894,502.55	24,755,175.45
Aging Interval: 1096 days and after	(12/20/2017 -)		0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
		Total for	26 Investments	0 Payments		100.00	209,698,663.32	209,566,886.63

NOTES TO PORTFOLIO MANAGEMENT REPORT

Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The MUFG Union Bank Trust Department provides market values of the remaining investments.

Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.

Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2014 includes an increase of $14,938 to the LAIF investment and a decrease of $(109,104) to the remaining investments.

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

Orange County Fire Authority
Monthly Investment Report

Final Report – October 2014

Preliminary Report – November 2014

Monthly Investment Report
Table of Contents

Orange County Fire Authority

Final Investment Report

October 31, 2014

EXECUTIVE SUMMARY

Portfolio Activity & Earnings

During the month of October 2014, the size of the portfolio decreased significantly from $148.1 million to $133.9 million. Significant receipts for the month included cash contract payments, a property tax apportionment, and various charges for current services and intergovernmental agency payments totaling $7.9 million. Significant disbursements for the month included primarily two biweekly payrolls, which were approximately $9.7 million each with related benefits. Total October cash outflows for operating expenditures amounted to approximately $23.0 million. The portfolio's balance is expected to decrease slightly further in November.

In October, the portfolio's yield to maturity (365-day equivalent) decreased by 2 basis points to 0.27%. The effective rate of return, on the other hand, increased by1 basis point to 0.29% for the month and also edged up by 1 basis point to 0.27% for the fiscal year to date. The average maturity of the portfolio shortened slightly by 2 days to 188 days to maturity.

Economic News

The U.S. economic activity improved and picked up moderately in October 2014. Although overall activity remained mixed, more positive economic indicators were posted for the month. Employment conditions continued to strengthen in October. There were a total of 214,000 new jobs created in October, albeit a slightly higher number had been expected for the month. However, a combined increase of 31,000 new jobs was also adjusted for the previous two months. The unemployment rate also continued to improve, dropping further by 1 basis point to 5.8% from 5.9% previously. Retail sales reversed and increased slightly better than expected. Consumer confidence increased with both the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index rising in October. Manufacturing activity expanded more than expected while the non-manufacturing sector pulled back slightly. After a strong increase in September, industrial production declined slightly by 0.1% in October. Energy prices continued to drop in October keeping inflation down. On October 29, 2014, at the second day of the Federal Open Market Committee's scheduled meeting, the Fed voted to keep the federal funds rate unchanged at a target range of 0 – 0.25%. The Committee also upgraded its outlook on the economy and, as widely expected, voted to end its asset purchase program in October.

BENCHMARK COMPARISON AS OF OCTOBER 31, 2014

3 Month T-Bill:	*0.02%*	*1 Year T-Bill:*	*0.10%*
6 Month T-Bill:	*0.05%*	*LAIF:*	*0.26%*

OCFA Portfolio: 0.29%

PORTFOLIO SIZE, YIELD, & DURATION

	Current Month	Prior Month	Prior Year
Book Value-	*$133,906,613*	*$148,128,923*	*$105,949,618*
Yield to Maturity (365 day)	*0.27%*	*0.29%*	*0.38%*
Effective Rate of Return	*0.29%*	*0.28%*	*0.35%*
Days to Maturity	*188*	*190*	*308*

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

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

(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	5,183,930.00	5,183,930.00	5,183,930.00	3.87	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	12,000,000.00	11,993,520.00	11,996,180.00	8.95	105	88	0.115	0.117
Federal Agency Coupon Securities	24,888,888.78	24,748,687.67	24,894,608.93	18.57	1,520	855	0.746	0.756
Federal Agency Disc. -Amortizing	42,000,000.00	41,997,330.00	41,995,245.69	31.32	134	65	0.060	0.061
Local Agency Investment Funds	50,000,000.00	50,009,064.20	50,000,000.00	37.29	1	1	0.257	0.261
Investments	**134,072,818.78**	**133,932,531.87**	**134,069,964.62**	**100.00%**	**334**	**188**	**0.264**	**0.267**
Cash (See Note 4 on page 9)								
Passbook/Checking (not included in yield calculations)	-69,184.82	-69,184.82	-69,184.82		0	0	0.000	0.000
Total Cash and Investments	**134,003,633.96**	**133,863,347.05**	**134,000,779.80**		**334**	**188**	**0.264**	**0.267**

Total Earnings	October 31 Month Ending	Fiscal Year To Date
Current Year	35,622.52	140,820.18
Average Daily Balance	**143,349,138.32**	**157,444,527.22**
Effective Rate of Return	**0.29%**	**0.27%**

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

Patricia Jakubiak, Treasurer   11/7/14

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	*$*	*134,000,779.80*
GASB 31 Adjustment to Books (See Note 3 on page 9)	*$*	*(94,166.47)*
Total	*$*	*133,906,613.33*

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

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value (See Note 1 on page 9)	Book Value (See Note 2 on page 9)	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SYS528	528	High Mark 100% US Treasury MMF		(See Note 4 on page 9)	5,183,930.00	5,183,930.00	5,183,930.00	0.001	0.001	1	
		Subtotal and Average	**7,984,769.44**		**5,183,930.00**	**5,183,930.00**	**5,183,930.00**		**0.001**	**1**	
Commercial Paper Disc. -Amortizing											
36959JP56	835	GEN ELEC CAP CRP		09/29/2014	6,000,000.00	5,995,380.00	5,996,880.00	0.160	0.162	117	02/26/2015
36960MMX8	838	GEN ELEC CAP CRP		10/31/2014	6,000,000.00	5,998,140.00	5,999,300.00	0.070	0.071	60	12/31/2014
		Subtotal and Average	**8,802,877.10**		**12,000,000.00**	**11,993,520.00**	**11,996,180.00**		**0.117**	**88**	
Federal Agency Coupon Securities											
3133ECM76	809	Federal Farm Credit Bank (Callable anytime)		04/25/2013	9,000,000.00	8,975,430.00	8,996,893.87	0.400	0.424	538	04/22/2016
3133804V6	787	Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,950,800.00	6,000,000.00	1.000	0.981	1,012	08/09/2017
3133813R4	800	Fed Home Loan Bank (Callable 11-9-14)		12/20/2012	9,000,000.00	8,934,120.00	9,008,906.88	1.000	0.966	1,104	11/09/2017
313382DC4	803	Fed Home Loan Bank (Callable anytime)		03/15/2013	888,888.78	888,337.67	888,808.18	0.470	0.477	492	03/07/2016
		Subtotal and Average	**36,177,496.72**		**24,888,888.78**	**24,748,687.67**	**24,894,608.93**		**0.756**	**855**	
Federal Agency Disc. -Amortizing											
313589N58	831	Fed Natl Mortg Assoc		07/01/2014	9,000,000.00	9,000,000.00	8,999,910.00	0.060	0.062	6	11/07/2014
313396BF9	832	Freddie Mac		07/01/2014	9,000,000.00	8,999,370.00	8,997,975.00	0.090	0.093	90	01/30/2015
313396AN3	836	Freddie Mac		10/08/2014	7,000,000.00	6,999,580.00	6,999,503.19	0.035	0.036	73	01/13/2015
313396CZ4	837	Freddie Mac		10/27/2014	8,000,000.00	7,998,560.00	7,998,240.00	0.060	0.062	132	03/13/2015
313385R99	834	Fed Home Loan Bank		09/11/2014	9,000,000.00	8,999,820.00	8,999,617.50	0.045	0.046	34	12/05/2014
		Subtotal and Average	**40,383,012.22**		**42,000,000.00**	**41,997,330.00**	**41,995,245.69**		**0.061**	**65**	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			50,000,000.00	50,009,064.20	50,000,000.00	0.261	0.261	1	
		Subtotal and Average	**50,000,982.85**		**50,000,000.00**	**50,009,064.20**	**50,000,000.00**		**0.261**	**1**	
		Total and Average	**143,349,138.32**		**134,072,818.78**	**133,932,531.87**	**134,069,964.62**		**0.267**	**188**	

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

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10104	10104	American Benefit Plan Admin		07/01/2014	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2014	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank		07/01/2014	-354,184.82	-354,184.82	-354,184.82	*(See Note 4 on page 9)*	0.000	1
SYS361	361	CORVEL		07/01/2014	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	0.00							0
	Total Cash and Investments		143,349,138.32		134,003,633.96	133,863,347.05	134,000,779.80		0.267	188

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

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	(11/01/2014 - 11/01/2014)	6 Maturities	0 Payments	55,114,745.18	41.13%	55,114,745.18	55,123,809.38
Aging Interval: 1 - 30 days	(11/02/2014 - 12/01/2014)	1 Maturities	0 Payments	9,000,000.00	6.72%	8,999,910.00	9,000,000.00
Aging Interval: 31 - 60 days	(12/02/2014 - 12/31/2014)	2 Maturities	0 Payments	15,000,000.00	11.19%	14,998,917.50	14,997,960.00
Aging Interval: 61 - 91 days	(01/01/2015 - 01/31/2015)	2 Maturities	0 Payments	16,000,000.00	11.94%	15,997,478.19	15,998,950.00
Aging Interval: 92 - 121 days	(02/01/2015 - 03/02/2015)	1 Maturities	0 Payments	6,000,000.00	4.48%	5,996,880.00	5,995,380.00
Aging Interval: 122 - 152 days	(03/03/2015 - 04/02/2015)	1 Maturities	0 Payments	8,000,000.00	5.97%	7,998,240.00	7,998,560.00
Aging Interval: 153 - 183 days	(04/03/2015 - 05/03/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 184 - 274 days	(05/04/2015 - 08/02/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 275 - 365 days	(08/03/2015 - 11/01/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval: 366 - 1095 days	(11/02/2015 - 10/31/2017)	3 Maturities	0 Payments	15,888,888.78	11.85%	15,885,702.05	15,814,567.67
Aging Interval: 1096 - 1825 days	(11/01/2017 - 10/31/2019)	1 Maturities	0 Payments	9,000,000.00	6.72%	9,008,906.88	8,934,120.00
Aging Interval: 1826 days and after	(11/01/2019 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
	Total for	17 Investments	0 Payments		100.00	134,000,779.80	133,863,347.05

NOTES TO PORTFOLIO MANAGEMENT REPORT

Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The MUFG Union Bank (formerly Union Bank) Trust Department provides market values of the remaining investments.

Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.

Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2014 includes an increase of $14,938 to the LAIF investment and a decrease of $(109,104) to the remaining investments.

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

Local Agency Investment Fund *(LAIF)*

As of October 31, 2014, OCFA has $50,000,000 invested in LAIF. The fair value of OCFA's LAIF investment is calculated using a participant fair value factor provided by LAIF on a quarterly basis. The fair value factor as of September 30, 2014 is 1.000181284. When applied to OCFA's LAIF investment, the fair value is $50,009,064 or $9,064 above cost. Although the fair value of the LAIF investment is higher than cost, OCFA can withdraw the actual amount invested at any time.

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

State of California
Pooled Money Investment Account
Market Valuation
10/31/2014

Description	Carrying Cost Plus Accrued Interest Purch.	Fair Value	Accrued Interest
United States Treasury:			
Bills	$ 11,138,020,722.75	$ 11,146,519,500.00	NA
Notes	$ 18,513,242,596.54	$ 18,535,692,500.00	$ 20,423,885.50
Federal Agency:			
SBA	$ 561,088,301.66	$ 556,484,910.43	$ 512,473.75
MBS-REMICs	$ 107,647,621.64	$ 115,348,260.67	$ 512,618.92
Debentures	$ 2,059,410,921.24	$ 2,058,696,450.00	$ 2,952,711.40
Debentures FR	$ -	$ -	$ -
Discount Notes	$ 1,099,463,750.00	$ 1,099,916,000.00	NA
GNMA	$ -	$ -	$ -
Supranational Debentures	$ 399,927,859.19	$ 400,281,000.00	$ 385,602.50
CDs and YCDs FR	$ -	$ -	$ -
Bank Notes	$ 300,000,000.00	$ 299,866,514.97	$ 72,888.89
CDs and YCDs	$ 8,150,026,364.38	$ 8,146,899,967.96	$ 3,667,270.85
Commercial Paper	$ 4,369,153,681.11	$ 4,369,120,664.17	NA
Corporate:			
Bonds FR	$ -	$ -	$ -
Bonds	$ -	$ -	$ -
Repurchase Agreements	$ -	$ -	$ -
Reverse Repurchase	$ -	$ -	$ -
Time Deposits	$ 4,942,740,000.00	$ 4,942,740,000.00	NA
AB 55 & GF Loans	$ 5,904,339,467.74	$ 5,904,339,467.74	NA
TOTAL	$ 57,545,061,286.25	$ 57,575,905,235.94	$ 28,527,451.81

Fair Value Including Accrued Interest $ 57,604,432,687.75

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 14, 2014

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

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
November 14, 2014

Investments	Par Value	Market Value (See Note 1 on page 18)	Book Value (See Note 2 on page 18)	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	15,622,959.24	15,622,959.24	15,622,959.24	11.53	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	12,000,000.00	11,995,020.00	11,996,716.66	8.85	105	74	0.115	0.117
Federal Agency Coupon Securities	24,888,888.78	24,751,202.11	24,894,578.54	18.37	1,520	841	0.746	0.756
Federal Agency Disc. -Amortizing	33,000,000.00	32,997,370.00	32,996,090.13	24.35	135	67	0.060	0.060
Local Agency Investment Funds	50,000,000.00	50,009,064.20	50,000,000.00	36.90	1	1	0.257	0.261
Investments	**135,511,848.02**	**135,375,615.55**	**135,510,344.57**	**100.00%**	**322**	**178**	**0.257**	**0.260**
Cash								
Passbook/Checking (not included in yield calculations)	1,021,441.56	1,021,441.56	1,021,441.56		1	1	0.000	0.000
Total Cash and Investments	**136,533,289.58**	**136,397,057.11**	**136,531,786.13**		**322**	**178**	**0.257**	**0.260**

Total Earnings	November 14 Month Ending	Fiscal Year To Date
Current Year	13,754.48	154,574.66
Average Daily Balance	**131,591,844.51**	**154,802,647.24**
Effective Rate of Return	**0.27%**	**0.27%**

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

P Jakubiak 11/21/14

Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	$	136,531,786.13
GASB 31 Adjustment to Books (See Note 3 on page 18)	$	(94,166.47)
Total	$	136,437,619.66

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
November 14, 2014

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

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SYS528	528	High Mark 100% US Treasury MMF			15,622,959.24	15,622,959.24	15,622,959.24	0.001	0.001	1	
		Subtotal and Average	**7,847,917.72**		**15,622,959.24**	**15,622,959.24**	**15,622,959.24**		**0.001**	**1**	
Commercial Paper Disc. -Amortizing											
36959JP56	835	GEN ELEC CAP CRP		09/29/2014	6,000,000.00	5,996,280.00	5,997,253.33	0.160	0.162	103	02/26/2015
36960MMX8	838	GEN ELEC CAP CRP		10/31/2014	6,000,000.00	5,998,740.00	5,999,463.33	0.070	0.071	46	12/31/2014
		Subtotal and Average	**11,996,467.50**		**12,000,000.00**	**11,995,020.00**	**11,996,716.66**		**0.117**	**74**	
Federal Agency Coupon Securities											
3133ECM76	809	Federal Farm Credit Bank(Callable anytime)		04/25/2013	9,000,000.00	8,978,400.00	8,996,975.77	0.400	0.424	524	04/22/2016
3133804V6	787	Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,951,460.00	6,000,000.00	1.000	0.981	998	08/09/2017
3133813R4	800	Fed Home Loan Bank (Callable 12-9-14)		12/20/2012	9,000,000.00	8,933,040.00	9,008,792.27	1.000	0.966	1,090	11/09/2017
313382DC4	803	Fed Home Loan Bank (Callable anytime)		03/15/2013	888,888.78	888,302.11	888,810.50	0.470	0.477	478	03/07/2016
		Subtotal and Average	**24,894,592.65**		**24,888,888.78**	**24,751,202.11**	**24,894,578.54**		**0.756**	**841**	
Federal Agency Disc. -Amortizing											
313396BF9	832	Freddie Mac		07/01/2014	9,000,000.00	8,999,460.00	8,998,290.00	0.090	0.093	76	01/30/2015
313396AN3	836	Freddie Mac		10/08/2014	7,000,000.00	6,999,440.00	6,999,598.47	0.035	0.036	59	01/13/2015
313396CZ4	837	Freddie Mac		10/27/2014	8,000,000.00	7,998,560.00	7,998,426.66	0.060	0.062	118	03/13/2015
313385R99	834	Fed Home Loan Bank		09/11/2014	9,000,000.00	8,999,910.00	8,999,775.00	0.045	0.046	20	12/05/2014
		Subtotal and Average	**36,852,866.64**		**33,000,000.00**	**32,997,370.00**	**32,996,090.13**		**0.060**	**67**	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			50,000,000.00	50,009,064.20	50,000,000.00	0.261	0.261	1	
		Subtotal and Average	**50,000,000.00**		**50,000,000.00**	**50,009,064.20**	**50,000,000.00**		**0.261**	**1**	
		Total and Average	**131,591,844.51**		**135,511,848.02**	**135,375,615.55**	**135,510,344.57**		**0.260**	**178**	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
November 14, 2014

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10104	10104	American Benefit Plan Admin		07/01/2014	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2014	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank		07/01/2014	736,441.56	736,441.56	736,441.56		0.000	1
SYS361	361	CORVEL		07/01/2014	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	**0.00**							**1**
		Total Cash and Investments	**131,591,844.51**		**136,533,289.58**	**136,397,057.11**	**136,531,786.13**		**0.260**	**178**

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of November 15, 2014

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	(11/15/2014 - 11/15/2014)	6 Maturities	0 Payments	66,644,400.80	48.81%	66,644,400.80	66,653,465.00
Aging Interval:	1 - 30 days	(11/16/2014 - 12/15/2014)	1 Maturities	0 Payments	9,000,000.00	6.59%	8,999,775.00	8,999,910.00
Aging Interval:	31 - 60 days	(12/16/2014 - 01/14/2015)	2 Maturities	0 Payments	13,000,000.00	9.52%	12,999,061.80	12,998,180.00
Aging Interval:	61 - 91 days	(01/15/2015 - 02/14/2015)	1 Maturities	0 Payments	9,000,000.00	6.59%	8,998,290.00	8,999,460.00
Aging Interval:	92 - 121 days	(02/15/2015 - 03/16/2015)	2 Maturities	0 Payments	14,000,000.00	10.25%	13,995,679.99	13,994,840.00
Aging Interval:	122 - 152 days	(03/17/2015 - 04/16/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	153 - 183 days	(04/17/2015 - 05/17/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	184 - 274 days	(05/18/2015 - 08/16/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	275 - 365 days	(08/17/2015 - 11/15/2015)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	366 - 1095 days	(11/16/2015 - 11/14/2017)	4 Maturities	0 Payments	24,888,888.78	18.23%	24,894,578.54	24,751,202.11
Aging Interval:	1096 days and after	(11/15/2017 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
		Total for	16 Investments	0 Payments		100.00	136,531,786.13	136,397,057.11

NOTES TO PORTFOLIO MANAGEMENT REPORT

Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The MUFG Union Bank Trust Department provides market values of the remaining investments.

Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.

Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2014 includes an increase of $14,938 to the LAIF investment and a decrease of $(109,104) to the remaining investments.

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

Orange County Fire Authority

AGENDA STAFF REPORT

Budget and Finance Committee Meeting	**Agenda Item No. 3B**
January 14, 2015	**Consent Calendar**

Quarterly Status Update
Orange County Employees' Retirement System

Contact(s) for Further Information

Lori Zeller, Assistant Chief lorizeller@ocfa.org 714.573.6020
Business Services Department

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's (OCERS) to improve its financial policies, 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

Not Applicable.

Background

Actions Taken/Financial Policies & Practices October –December 2014

<u>OCERS BOARD OF RETIREMENT MEETING December 15, 2014:</u>

OCERS PLAN SPONSOR REVIEW

This item was informational only. Mr. David James, OCERS Director of Internal Audit, presented a report that provides a deeper background on the various plan sponsors who participate in OCERS, with detail on their funding sources, and touching on the topic of contract cities and how they interact with the Orange County Fire Authority and the Orange County Sheriff's Department. Mr. James stated that the creditworthiness of the plan sponsors seems sound and the risk of default is low. None of the plan sponsors have ever missed a payment to OCERS, not even after the Orange County Bankruptcy. At the Board's request, Mr. James will include a section summarizing his conclusions and bring back a revised version of the report for the Board's approval in January (Attachment 1).

LESSONS FROM THE CITY OF STOCKTON BANKRUPTCY CASE

OCERS Fiduciary Counsel, Harvey Leiderman of ReedSmith LLP, gave a presentation on the City of Stockton and its Chapter 9 bankruptcy plan (Attachment 2).

OCERS INVESTMENT COMMITTEE MEETING October 29, 2014:

DIRECT LENDING

The Committee approved an additional investment of up to $60 million in the OCP Asia's Orchard Landmark direct lending fund, subject to completion of due diligence, contract reviews, fee negotiations and related terms as presented and discussed by the CIO. In November 2013 the Committee approved an investment of $60 million in the OCP Asia's Orchard Landmark direct lending fund, upon recommendation of the staff and NEPC. Onsite due diligence was conducted by the CIO in their Hong Kong and Singapore offices. Fee terms for that subscription were especially favorable under a NEPC client club pricing arrangement. OCERS' investment is subject to a rolling 3-year lockup, at which point the funds can be redeemed. In June 2014, OCP Asia was reviewed by the OCERS' Manager Monitoring Subcommittee and no issues were noted (Attachment 3).

The Committee approved a staff recommendation to place PIMCO on watch as a result of personnel and organizational changes (including the resignation of founder and Chief Investment Officer Bill Gross in September 2014). PIMCO presently manages $1.2 billion for OCERS in six different investment mandates and has been a portfolio manager for OCERS for 32 years.

In a related action, the Committee voted to resume the exploratory search for a "core plus" domestic fixed income manager; this due diligence search may or may not result in a replacement manager or a finalists' competition, as it represents an open-minded exploratory market scan without prejudice to PIMCO's incumbent management team - which will be evaluated and considered on their comparative merits, experience, processes and performance record in juxtaposition with competing firms.

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

Attachment(s)

1. OCERS Plan Sponsor Review December 2, 2014
2. Presentation by ReedSmith LLP, A Tale of Two Rulings: The City of Stockton and Chapter 9, December 15, 2014
3. Memo from OCERS' Chief Investment Officer on OCP Asia - Review of Additional Investment October 29, 2014

OCERS Plan Sponsor Review

Report Date: December 2, 2014

Internal Audit Division
Director of Internal Audit: David James, CPA, MBA
Internal Auditor: Mark Adviento, CPA

Table of Contents

Purpose of this Review

The Board of Retirement approved OCERS Internal Audit to prepare a report on key financial information on OCERS' plan sponsors at the May 19, 2014 Regular Board meeting. As such, this report is a compilation of key historical financial information on OCERS' plan sponsors such as revenue sources and net positions for a five-year period beginning with fiscal year July 1, 2008 – June 30, 2009 through fiscal year July 1, 2012 – June 30, 2013.

Scope

This report includes financial information on all fifteen OCERS plan sponsors for the five-year period mentioned above. Although this report includes financial information on the Orange County Fire Authority and the Orange County Sheriff's Department, it does not include financial information of the cities that contract with the Orange County Fire Authority (OCFA) and the Orange County Sheriff's Department. Fees received from contract cities represent the second highest source of revenues for the OCFA and the Orange County Sheriff's Department.

Background

According to the County Employees Retirement Law of 1937, plan sponsors are obligated to make annual payments to the pension system. Upon withdrawal from the retirement system, a plan sponsor is liable for its share of any unfunded actuarial liability:

> *"§31564.2. Liability of district upon termination of participation*
>
> *(a) If a district's participation in the retirement system is terminated pursuant to the provisions of Section 31564, the district shall remain liable to the retirement system for the district's share of any unfunded actuarial liability of the system which is attributable to the officers and employees of the district who either have retired or will retire under the retirement system."*

There were 21,368 active members within OCERS' fifteen plan sponsors as of December 31, 2013. Plan sponsors contributed $427 million in employer contributions and $209 million in employee contributions for total contributions of $636 million to the OCERS plan during fiscal year ended December 31, 2013. See the chart below for plan sponsors, contributions, active member counts, and Unfunded Actuarial Accrued Liability (UAAL) as of December 31, 2013.

2013 Contributions to OCERS (in 000's)	Employer	Employee	Total	Percentage	Active Members	Percentage	12/31/13 UAAL**	Percentage
Orange County	$302,680	$162,675	$465,355	73.123%	16,281	76.193%	4,036,362	75.194%
OCFA	56,014	13,093	69,107	10.859%	1,185	5.546%	449,861	8.381%
Superior Court	27,090	16,301	43,391	6.818%	1,492	6.982%	388,668	7.241%
OCTA	19,181	7,913	27,094	4.257%	1,519	7.109%	219,042	4.081%
Sanitation District	16,558	6,645	23,203	3.646%	587	2.747%	204,965	3.818%
San Juan Capistrano	1,794	732	2,526	0.397%	81	0.379%	23,952	0.446%
OCERS	1,468	859	2,327	0.366%	65	0.304%	20,794	0.387%
Toll Roads	1,173	580	1,753	0.276%	77	0.360%	11,222	0.209%
Law Library	269	169	438	0.069%	17	0.080%	3,908	0.073%
Children & Families	297	115	412	0.065%	11	0.051%	3,897	0.073%
Cemetery District	202	97	299	0.047%	21	0.098%	1,721	0.032%
In-Home Support Services	126	66	192	0.030%	18	0.084%	1,265	0.024%
UCI	155	29	184	0.029%	11	0.051%	1,199	0.022%
LAFCO	74	26	100	0.016%	3	0.014%	975	0.018%
Dept of Education	13	1	14	0.002%	-	0.000%	88	0.002%
Total (net of prepaid discount):	**$427,095**	**$209,301**	**$636,396**	**100%**	**21,368**	**100%**	**5,367,917**	**100%**

**12/31/13 UAAL per plan sponsor are estimates, pending Segal's final calculation for GASB 67/68 purposes. OCFA, OCTA, Toll Roads, and Cemetery District each had their own rate group on the 12/31/13 valuation. Others are combinations of rate groups.

Primary Revenue Sources for OCERS' Top 5 Plan Sponsors – Year Ended June 30, 2013

Revenue Category	**County***	**OCFA**	**Superior Court ****	**OCTA**	**OCSD**
Intergovernmental	51%	7%	98%	25%	-
Property Taxes	23%	59%	-	2%	21%
Sales Taxes	-	-	-	57%	-
Service Charges	18%	33%	-	12%	79%
% of Total Revenues	92%	99%	98%	96%	100%
	$3.4 billion	$308 million	$182 million	$766 million	$383 million

* Excludes CalOptima revenues
**Year ended June 30, 2014 numbers available from Superior Court

County of Orange

The County of Orange (the County) was incorporated in 1889 and is one of the major metropolitan areas in the state of California (the State) and nation. The County occupies a land area of 798 square miles with a coastline of 42 miles serving a population of over 3 million. It represents the third most populous county in the state, and ranks sixth in the nation. The County is governed by a five-member Board of Supervisors (the Board), who each serve four-year terms, and annually elect a Chairman and Vice-Chairman. The supervisors represent districts that are each approximately equal in population. A County Executive Officer, who reports to the Board, oversees nineteen County departments, and elected department heads oversee seven county departments.

The County of Orange is OCERS' largest plan sponsor, with approximately 76.2% of OCERS' active members with 16,281 active members as of December, 31 2013. The County made $465.3 million in employee and employer contributions to OCERS, which represents 73.1% of OCERS' total contributions as of December, 31 2013.

As of County Fiscal Year 6/30/13

Total Assets	$7.2 billion ($2.2 billion in cash and cash equivalents)
Total Liabilities	$2.1 billion (excludes contributions to OCERS)
Net Position	$5.1 billion ($532 million in Unrestricted funds)

As of OCERS Fiscal Year 12/31/13

Share of OCERS' Total UAAL	$4 billion
Total Pension Contributions	$465 million

Revenues

The County's total revenues were $5.2 billion for the year ending June 30, 2013.

The County's total government fund revenues were $3.5 billion for the year ended June 30, 2013. The County's key sources of government fund revenue were intergovernmental revenues (received from outside agencies), taxes, and charges for services. This excludes revenues of $1.5 billion for CalOptima, Orange County's health plan for low-income families, children, seniors, and persons with disabilities. CalOptima is a legally, discrete unit of the County because the County Board has no control over the revenues, budgets, staff, or funding decisions made by CalOptima.

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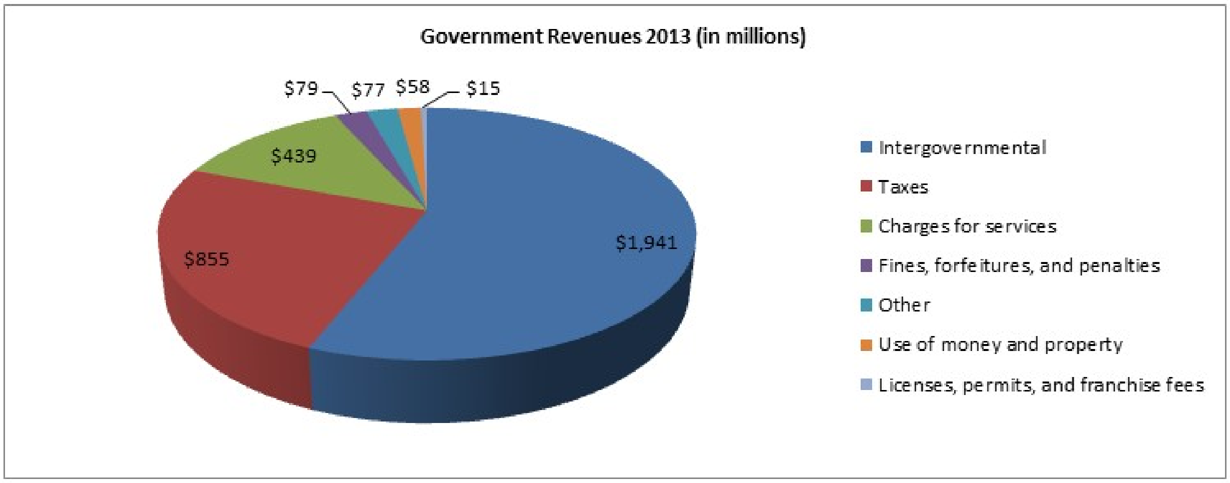


Intergovernmental revenues were $1.9 billion. This revenue is primarily an allocation of State and Federal revenues to the County and are restricted for the purpose of running various public assistance and health care programs, some of which were previously operated by the State. Of the county's 16,100 employees, approximately 2,200 employees work in the County's Health Care Agency and 3,900 employees work for the County's Social Services Agency. This revenue source does not have any impact on the County's ability to meet its pension payment obligations as they are restricted to funding specific programs.

The County collected taxes of $855 million in 2013. These included property taxes levied for the General Fund. The 1% tax rate is the levy for property tax based on assessed property values. From the 1% property tax collected, the County receives 6% for its General Fund operations. Taxes received to the General Fund were $313 million. The County received Property Taxes In-Lieu of Motor Vehicle License Fees of $310 million from the State in fiscal year 2013. As a part of the State Budget Act of 2004, the Legislature cut the backfill to cities and counties for reductions in the Vehicle License Fee and in return gave cities and counties additional property tax revenue. The remaining $232 million were taxes levied for parks, libraries, flood control, and other taxes.

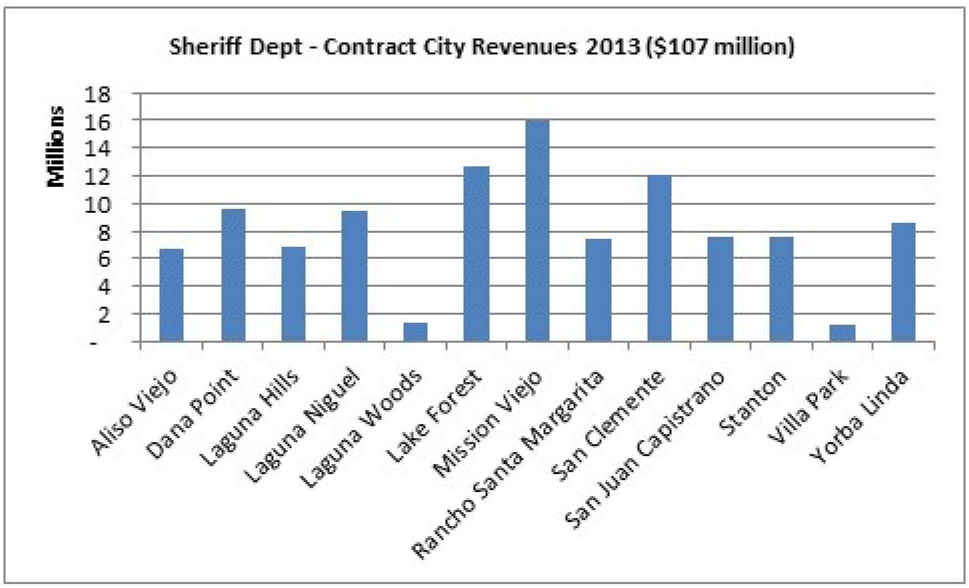
Tax revenues for the County will be affected in the future due to a 2013 Court ruling which required the County to pay $150 million, payable through 2019, to refund the state of California for property taxes previously withheld by the County. Payments to the state would start at $5 million this fiscal year, and in the following years will be $15 million, $25 million, $50 million, and $55 million. In addition, the County will lose approximately $50 million annually in SB 8 property tax revenues beginning in 2013 and will instead receive $53 million in VLFAA (vehicle license fee adjustment amount) revenues plus growth.

Charges for Services were $439 million.

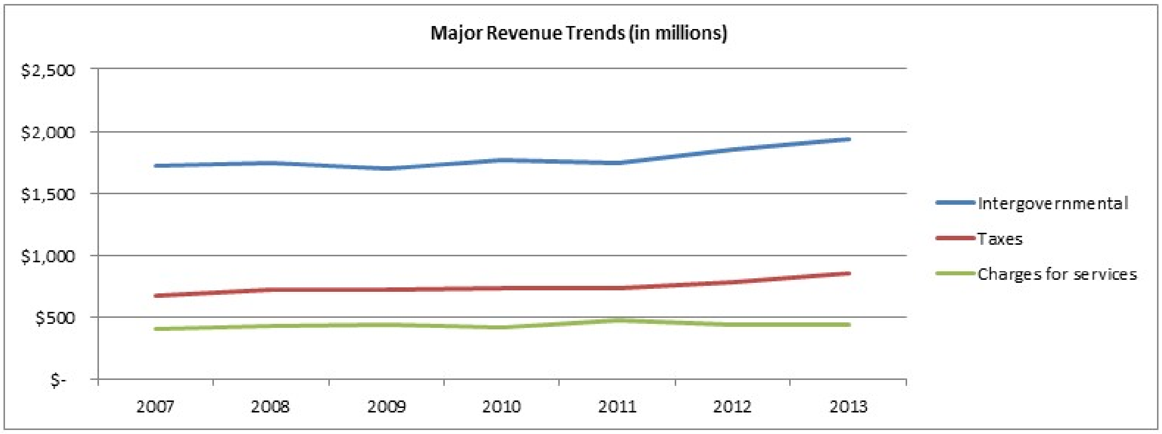
Sherriff's Department

A large component of service charges for government services was public safety provided by the Orange County Sherriff's Department to 13 contract cities, unincorporated areas of the County, and John Wayne Airport. The Orange County Sheriff-Coroner Department has approximately 3,000 sworn and professional staff members in addition to reserve personnel. The Department receives financial support from the Proposition 172 Public Safety ½ Cent Sales Tax which provided approximately $274 million. For fiscal 2013-14, 13 contract cities also paid approximately $107 million to obtain the services of the Sheriff's Department to recoup the cost of services. Rates for contract cities are budgeted to increase by an average of 5.78% for fiscal 2014-2015. These funds are in part used for pension contributions to OCERS.

Contracts between contract cities and the County with Orange County Sheriff's Department are one year long, and either party can terminate the agreement with 180 days written notice. All cities currently under contract with the Orange County Sheriff's Department also contract with the Orange County Fire Authority for fire and emergency services.



County Revenue Past Trends



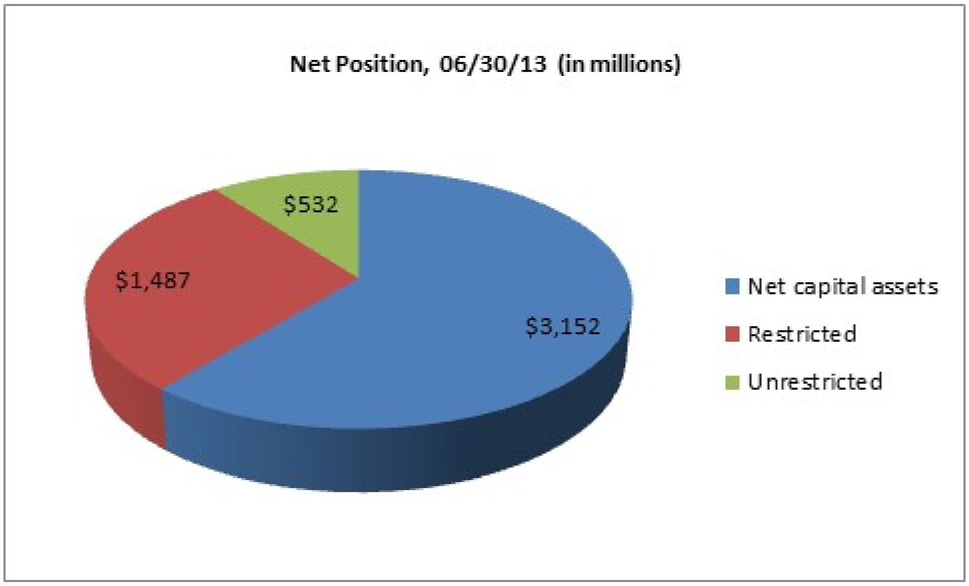
Orange County's total operating revenues for enterprise funds were $221 million in 2013. Enterprise funds are separately stated from government funds to emphasis the business-like nature of enterprise funds versus governmental operations. The County's enterprise revenues come from sources such as the John Wayne airport and the County's waste management facilities. The Airport's revenue was $114 million and Waste Management was $107 million during the year. Enterprise employee payments to pensions are paid from enterprise funds. The County pays its employer pension obligations using OCERS' prepayment program. The source of County payments is pension obligation bonds. True-up payments are made later in the year to make the 100% payment, including employer pickups.

Net Position as of June 30, 2013

The total assets of the County exceeded its total liabilities at June 30, 2013 by $5.1 billion. Of this amount, $532 million is unrestricted and may be used to meet the County's ongoing obligations to citizens and creditors. Total liabilities exclude employer contributions to OCERS, which were paid from pension bond proceeds.

The County's Net Position was comprised of the following:

- **Net Investments in capital assets** of $3.2 billion includes buildings, equipment, land, construction in progress, structures, equipment, software, and infrastructure.
- **Restricted** was $1.5 billion, which combined amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government) through constitutional provisions or by enabling legislation and was primarily for social services/welfare grants, pension obligation bonds, future capital projects, and the County's debt service.
- **Unrestricted** was $532 million. These are available for any purpose approved by the Board of Supervisors.



Budgeting and Forecasting by the County

The County Executive Office prepared the fiscal year 2014-15 Recommended Budget for approval by the Board of Supervisors. The "2013 Strategic Financial Plan" includes their forecast and what key indicators they use. The Strategic Financial Plan is influenced by several economic factors, measuring Orange County against the nation and other counties and against its own past performance:

- Comparative employment statistics against other Southern California counties
- Orange County's year-over-year property tax and general purpose revenue growth
- Comparison of Orange County's Fund Balance against other Southern California counties
- Comparative housing analysis of median home price, unit sales, and median family incomes against other Southern California counties
- Trends in taxable sales year-over-year
- Orange County's Sources and Uses for the County's discretionary General Purpose Revenue
- Additional funding or augmentations requests from the County General Fund and Reserve available to the General Fund
- Orange County's Capital Improvement Plan
- Orange County's Strategic Priorities for major projects/initiative and requested funding from the County General Fund.

The County uses the Anderson Forecast, which makes quarterly economic forecasts for Southern California, the State, and the United States. The Forecast reports consist of national and state level data and commentary including interest rates, real estate analysis, government revenues, online services, exports and imports, employment, financial activity, demographics, personal income, online services, and consumer spending.

The County also uses the Congressional Budget Office (CBO) Monthly Budget Review-Summary for forecasts of Gross Domestic Product, Consumer Price Index, unemployment, Treasury bill rates, and the federal deficit. The County uses the Legislative Analyst's Office revenue forecasts for the State. The County also uses the Chapman University forecast for economic and employment growth. Chapman also tracks and forecasts Permits for Dwelling Units and Resale Homes Index for Single Units. Both UCLA and Chapman have state forecasts of CPI, Taxable Sales, Personal Income, and Payroll Employment. The County tracks taxable sales and other economic data from various sources that help the County to forecast revenues.

Long-Term Debt and Bond Ratings (Non-OCERS' UAAL)

Standard & Poor's Rating Services has rated Orange County bonds AA, and its long-term rating and underlying rating on the County's lease revenue bonds, recovery bonds, and pension obligation bonds A+. S&P assigned AA- rating to the county's 2014-2015 pension obligation note. S&P's outlook on all ratings is stable.

The ratings reflect S&P's assessment of the following factors for the county:

- S&P considers the county's economy to be very strong, with projected per capita effective buying income at 122.3% of the U.S. and per capita market value of $144,921. Assessed valuation reached $443 billion for fiscal 2014, up 3.4% from the prior year. The county unemployment rate for calendar year 2012 was below 7.6%.
- S&P considers the County's budgetary performance factor to be adequate. The general fund and total governmental funds net adjusted results include a surplus of less than 1% for total governmental funds (before transfers) for fiscal 2012 and 2.9% for the general fund. General fund results were projected to be positive.
- S&P considers the liquidity of the County's finances to be very strong, with total government cash and investments (maturity of less than one year) equal to 28% of total governmental funds expenditures and 661% of total governmental funds debt service. S&P believes the county has exceptional access to external liquidity. The County currently has no variable-rate debt.
- S&P considers the County's management conditions as very strong with strong financial practices. Highlights include a five-year financial forecast and capital improvement plan, and the County provides quarterly budget reports to elected officials. The County sets a reserve target for the upcoming budget year in its strategic plan. In S&P's opinion, the County's debt and contingent liabilities profile is strong, with total governmental fund debt service as a percentage of total governmental fund expenditures at 4.3%, net direct debt (including tax increment bonds) as a percentage of total governmental fund revenue at 22.8%, and overall net debt less than 3% of market value. S&P considers the County's

pension obligation to be large, with a pension annual required contribution plus other postemployment benefits contribution at 11% of expenditures.

Moody's Investor Service rates the County Aa1.

County Long-Term Obligations

In its CAFR, the County specifies revenues it plans to use to pay long-term debt. The amount of general obligation bonded indebtedness the County can incur is limited by law to 1.25% of the last equalized assessment property tax roll. At June 30, 2013, the County had no net general obligation bonded debt. The County's legal debt limit for the year was $5.4 billion. In order for the County to issue general obligation bonds secured by ad valorem taxes on real property, California Constitution Article XIIIA, Section 1 requires the approval of 2/3 of the voters voting on the proposition.

Long-Term Debt as of June 30, 2013 was:

- Refunding Recovery Bonds (2005) had an outstanding principal balance of $37.4 million and interest of $2.6 million.
- Lease Revenue Refunding Bonds Series (2005) had an outstanding principal balance of $114.1 million and interest of $12.4 million. These are secured by lease payments made by the County.
- Refunding Certificates of Participation (1991) had an outstanding principal balance of $2.8 million and interest of $12.8 million. These are also secured by lease payments made by the County.
- Juvenile Justice Center Facility Lease Revenue Refunding Bonds (2012) had an outstanding principal balance of $32.7 million and interest of $4.5 million. These are also secured by lease payments made by the County.
- Lease Revenue Bonds (2006) had an outstanding principal balance of $19.8 million and interest of $2.8 million. These are also secured by lease payments made by the County.
- Series 1996A and 1997A Pension Obligation Bonds had outstanding principal balances of $16.4 million and $21.5 million, respectively.
- Airport Revenue Refunding Bonds (2003) had an outstanding principal balance of $23.7 million and interest of $0.6 million. These are secured by John Wayne Airport revenues.
- Airport Revenue Bonds, Series 2009A and 2009B had outstanding principal balances of $64.1 million and $152.7 million, respectively, and outstanding interest were $51.9 million and $90.2 million, respectively. These are secured by John Wayne Airport revenues.
- Waste Management System Refunding Revenue Bonds (1997) had an outstanding principal balance of $7.0 million and interest of $0.2 million. These are secured by Waste Management revenues.
- Tax exempt Teeter Plan Notes had an outstanding principal balance of $43.4 million.

Past Ten-Year Trends

The County of Orange CAFR also publishes a statistical section with information regarding financial trends, revenue capacity, and debt capacity for the past ten years. The net position for government and business type activities has for the most part steadily improved for the past ten years. Even the financial crisis of 2008 seems to have had a limited effect on the County net position, causing a relatively small decline only for two years before surpassing previous levels. The net change was negative only in 2008-09, and in 2011.

The assessed value of taxable property in Orange County declined in 2009-10, but by 2012-13, the value reached $428 billion, surpassing the high of 2008-2009.

Total County debt has declined steadily in the past ten years from $1.5 billion in 2003-04 to $700 million in 2012-13. The percentage of debt to personal income in this period went from 1.18% to 0.41%. Certificates of participation declined significantly. Redevelopment bonds and Teeter Plan revenue bonds have been retired. Airport revenue bonds have increased significantly in the period.

Orange County Fire Authority (OCFA)

The OCFA was formed on March 1, 1995, transitioning from the Orange County Fire Department to a Joint Powers Authority (JPA). The OCFA is an independent special district that services twenty-three member cities and the unincorporated areas of Orange County. A twenty-five member Board of Directors governs the OCFA. This Board includes an elected official from each of the twenty-three member cities and two representatives from the County Board of Supervisors. The OCFA is managed by an appointed Fire Chief who reports to the Board of Directors. Emergency response services are provided to 1.7 million residents in a 571 square mile area of Orange County. The OCFA's authorized staffing level (including all frozen/unfunded positions) was 1,343 full-time positions for fiscal year 2012-13.

As of OCFA Fiscal Year 6/30/13

Total Assets	$394 million ($157 million Cash and Investments)
Total Liabilities	$136 million (excludes contributions to OCERS)
Net Position	$258 million (Unrestricted - $75 million)

As of OCERS Fiscal Year 12/31/13

Share of OCERS' Total UAAL	$450 million
Total Pension Contributions	$69 million

OCFA is OCERS' second largest plan sponsor, making approximately 10.9%, or $69.1 million, of OCERS' contributions. It has 1,185 active members, or 5.5% of OCERS' active membership.

Through quarter ended March 2014 (75% of the year), OCFA's General Fund revenues are 67.3% of budget at a YTD total of $205 million and General Fund expenditures are 70.8% at a YTD total of $216 million. OCFA prepays its annual employer contributions to OCERS, and its total liabilities of $136 million does not include its employer contribution.

Revenues

OCFA's total revenues were $311 million for the year ending June 30, 2013.

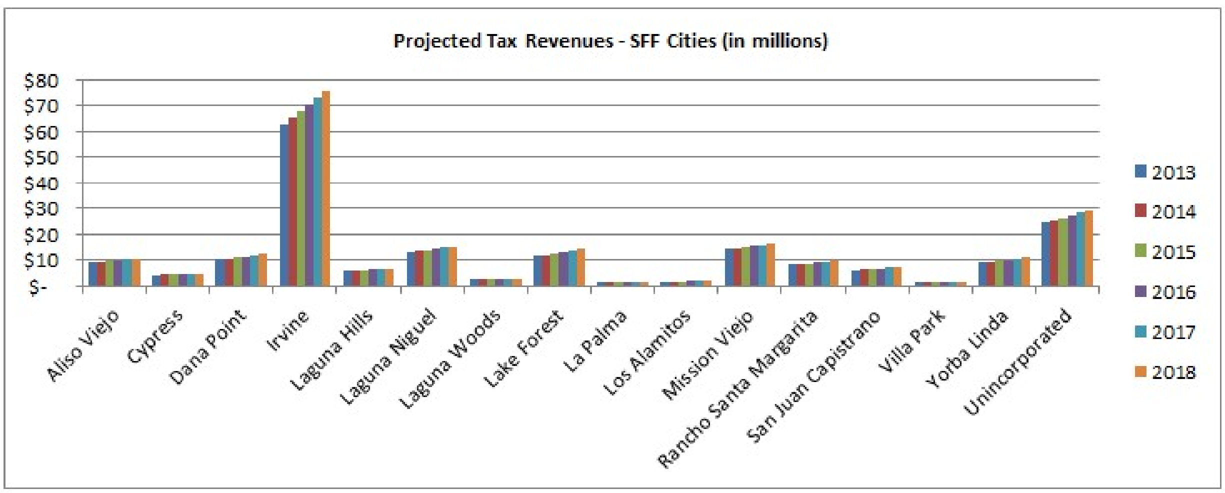
Two primary sources of OCFA revenue come from contract cities and the Structural Fire Fund as outlined in the Joint Powers Agreement for the OCFA. The majority of revenues came from property taxes ($182 million) from the Structural Fire Fund (SFF) and charges for services ($103 million) mostly paid by contract cities. Property tax is 63% of their budgeted revenues. OCFA also received $22 million in operating grants and capital grants from other governmental agencies. Miscellaneous revenues of $4 million consisted mostly of $3.3 million in contributions to the Firefighter Medical Trust Agreement and $0.7 million in other revenues.

Structural Fire Funds (SFF)

The County of Orange remits a portion of property taxes collected from SFF cities to OCFA in accordance with the County's tax apportionment procedures and schedules (i.e. a percentage of property tax revenues collected from the SFF cities and unincorporated areas of the County). In fiscal year 2012-2013, 11.56% of the county's collected property tax was allocated to OCFA for SFF.

SFF members currently include Aliso Viejo, Cypress, Dana Point, Irvine, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, La Palma, Los Alamitos, Mission Viejo, Rancho Santa Margarita, San Juan Capistrano, Villa Park, Yorba Linda, and unincorporated areas of the County. For SFF members, the current 20-year term began on July 1, 2010 and ends on June 30, 2030. Approximately 47% of property tax revenues allocated to OCFA are generated from the City of Irvine and the County's unincorporated territory.

Below is OCFA's projected five-year trend of forecasted property tax revenues for each of the SFF members, according to their consultant for forecasting, RSG. OCFA expects an average of 3.57% increase in property tax revenues over the next five years.

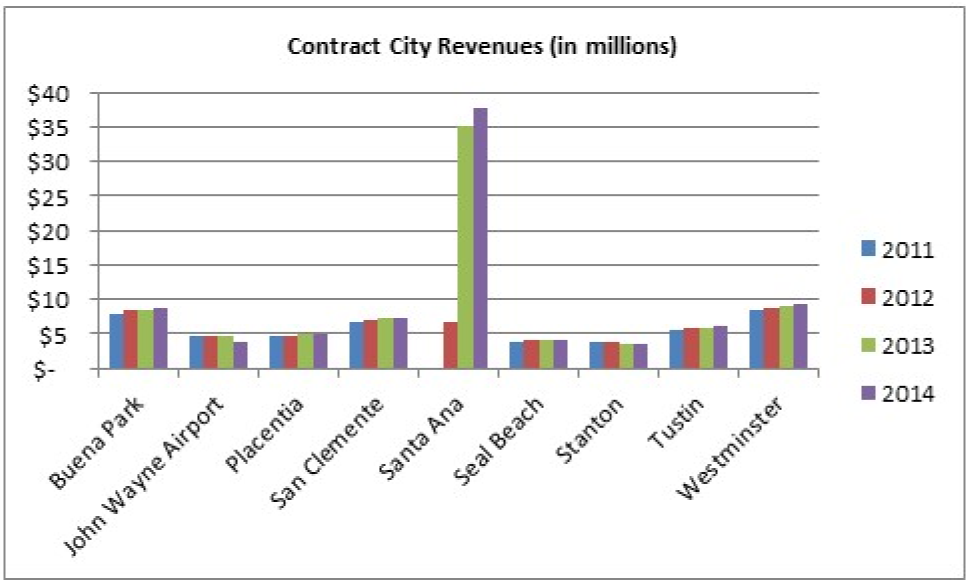


Contract Cities

Contract cities pay the OCFA for fire services out of their respective general funds. Contract cities currently include Buena Park, Placentia, San Clemente, Santa Ana, Seal Beach, Stanton, Tustin, Westminster and John Wayne Airport. There is also a contract with the state department of forestry that renews every three years. Contract cities are members of the OCFA for a current 20-year term that began on July 1, 2010 with the option of dropping out after 10 years.

Annually, OCFA calculates the total fire service charges for each contract city. The charge includes a base service charge, a shortfall catch up payment, vehicle replacement costs, and station maintenance costs. The base service charge is the sum of the prior year total service charge plus cost increases capped at no more than 4.5%. Generally, salary and benefits historically account for more than 90% of the base service charge. Thus, increases in salary and benefits have been the general drivers of the annual increase in base service charges. The shortfall catch up is a 10-year amortized payment of the difference between a contract city's 2009-2010 actual service charge and the contract city's service charge had there been no contractual caps of service charges for the 10 years prior to 2009-2010. Each city also pays into the vehicle replacement cost fund to recover depreciation expense for equipment assigned to that city. Finally, each contract cities contributes $15,000 per fire station in their boundaries to replenish the maintenance fund.

Every five years, OCFA compares actual operational costs for the fiscal year against the annual service charge of each contract city. Depending on the size of the difference between those two, the contract city may potentially end up paying to OCFA the entire difference in the current year or amortizing payment over the subsequent five years.



OCFA's Long-Term Liabilities (Non-OCERS' UAAL)

OCFA's long-term liabilities as of June 30, 2013 were $116 million composed of the following: $49 million in accrued workers' compensation claims, $38 million in other post-employment benefits (OPEB), $16 million in compensated balances for vacation and sick pay, and $13 million in capital lease obligations for helicopters.

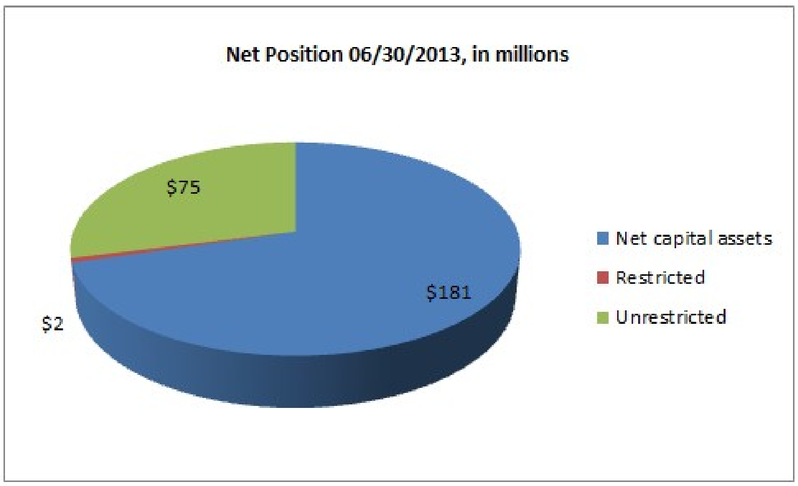
OCFA's Expedited UAAL Payment Plan

OCFA's total UAAL was $550 million as of December 31, 2013. In September 2013, the OCFA Board of Directors approved an "Expedited Pension UAAL Payment Plan" with an expected payment of the entire UAAL balance over 13 years. During FY 2013-14, OCFA made a total of $5.2 million in additional payments to OCERS to help pay down its share of the UAAL. Also, on July 2014, OCFA made an additional $18.3 million payment to help pay down the UAAL balance as required under OCFA's Memorandum of Understanding (MOU) with the Orange County Professional Firefighters Association.

Net Position as of June 30, 2013

The total assets of OCFA exceeded its total liabilities at June 30, 2013 by $258 million. Of this amount, $75 million is unrestricted and may be used to meet OCFA's ongoing obligations to citizens and creditors.

The OCFA's Net Position was classified as follows:



- **Net Investments in capital assets** of $181 million includes buildings, equipment, and vehicles.
- **Restricted** was $2 million, which mostly includes external contract revenues that are legally restricted for new fire station development or improvements to existing fire stations.
- **Unrestricted** was $75 million. These are available for any purpose approved by the Board of Directors.

City of Irvine and Payment Amendment to Joint Powers Agreement

Nearly 34%, or about $62 million, of 2013 SFF revenues were derived from the City of Irvine, more than any other city, or about 20% of total 2013 revenues. Beginning in fiscal year 2013-14, the OCFA amended its Joint Powers Agreement with SFF cities and the County to adjust revenues received from SFF members. OCFA agreed to pay “overfunded” SFF members a Jurisdictional Equity Adjustment Payment (JEAP). “Overfunded” means a SFF revenue rate greater than the average SFF revenue rate for all SFF members. The City of Irvine was entitled to receive its JEAP payment in fiscal year 2013-14. However, the County of Orange contested the JEAP amendment in Superior Court, and on August 4, 2014, the judge invalidated the JEAP amendment to the plan. This decision is under appeal as filed by attorneys for OCFA.

Contract Cities Agreements and UAAL

Neither the original March 1995 OCFA Joint Powers Authority Agreement, nor the March 2000 amendment, nor the July 2010 amendment renewing the OCFA membership of contract cities, structural fire fund cities, and the County, explicitly mention any requirement for a member city to pay a portion of OCFA’s unfunded actuarial accrued liability to OCERS upon leaving OCFA. However, the March 2012 “Fire Services and Medical Services Agreement” between the City of Santa Ana and OCFA states:

> “Upon termination or expiration of this Agreement or other cessation of city’s membership in OCFA, city agrees to pay OCFA the amount of the unfunded pension liability that had accrued during the term of this Agreement for the number of OCFA employees serving the city. In the event of any dispute regarding the amount of the unfunded pension liability at that time, the parties agree that the amount shall be determined by an independent actuary selected either by mutual agreement of the parties, or failing that, by the actuary used by the Orange County Employees Retirement System (OCERS).”

Leaving the JPA

Under the JPA, both SFF and Contract Cities shall be members of the Authority for a 20-year term commencing July 1, 2010. Twenty-year membership terms automatically renew in 2030. However, any city except the City of Irvine may give written notice of withdrawal prior to July 1 of the second to last year of every ten-year interval of a twenty-year term (e.g., for the first ten-year interval, notice must be given by July 1, 2018 to withdraw by June 30, 2020). However, the City of Irvine can leave the OCFA in 2020 if OCFA fails to make JEAP payments to Irvine, due to the Court decision.

Orange County Superior Court

The State of California has 58 superior courts—one in each of the state's 58 counties. Based on the number of authorized judicial officers, the Superior Court of Orange County is the third largest of the 58 courts. The Court has 124 Superior Court Judges and 20 Superior Court Commissioner positions. The Orange County Superior Court was part of the County of Orange until 1999 when it transitioned to the State of California and became a plan sponsor for OCERS.

As of OCERS Fiscal Year 12/31/13

Share of OCERS' Total UAAL	$389 million
Total Pension Contributions	$43 million

Superior Court is OCERS' third largest plan sponsor, making approximately 6.8%, or $43 million, of OCERS' contributions in OCERS' fiscal year 2013. It has 1,492 active members, or 7.0% of OCERS' active membership, as of OCERS' fiscal year 2013.

Trial courts in California are predominantly state-funded entities, whose funding appropriations are included in the State of California Budget under the Trial Court Trust Fund. Thus, the Judicial Branch is subject to the level of funding that is negotiated between the Governor and the state Legislature. Since the recession of 2008, the Judicial Branch has seen funding reductions. Over the past five years, the state of California has reduced State General Fund support for the Judicial Branch by nearly $1 billion. The Superior Court had their fiscal year 2013-14 base allocation distributed by the Judicial Council at $129.8 million.

Orange County Superior Court does not have audited financial statements solely for its entity. Financial information of Orange County Superior Court is included along with the other 57 superior courts in the audited financial statements for the state of California.

Revenue Allocation from California

For Fiscal Year 2012-13 the state budget for all funds was $142.5 billion and out of that the Judicial Branch budget was allocated 2.1 percent, or $2.95 billion. Out of this $2.95 billion, 78% ($2.3 billion) was allocated to the State's 58 trial courts, including the Superior Court of Orange County.

In 2012, the Governor and Legislature tasked the Judicial Branch with developing a new funding methodology to more equitably distribute funding to the 58 trial courts. In 2013, the new methodology named the Workload-Based Allocation and Funding Methodology (WAFM) establishes a baseline funding formula for each court using data such as total court filings, filing-driven costs, and U.S. Bureau of Labor Statistics (BLS) labor cost data. Adjustments are taken to account for the ratio of simple and complex cases for each of the 58 trial courts. The WAFM result for each court will be updated annually and will vary year-to-year depending on actual filing trends, workload costs, and other various adjustments. The new methodology will be phased in over a period of five years accordingly (see table below “Revenues 2009-2014”). The Orange County Superior Court’s calculated share of revenues allocated by the State for Superior Courts was 8.23% last year and reduced to 7.26% for the current year. The experience of the last few fiscal years is that the amount of money available to the Court is declining.

Use of Reserves

During the past five years, the Court has been able to use its financial reserves to make up for budget shortfalls. The reserve balances were $62.5 million at the conclusion of FY 2010-11. The court has used most of its reserves to replace an old case management system for family law and juvenile cases. To make its budget for 2013-14, the Court used $23.5 million from reserves. The use of reserves has been an important resource for the court system to make up for budget shortfalls. However, beginning June 30, 2014, the Governor is limiting the courts to carry a reserve balance of no more than 1% of the prior year’s operating budget plus restricted funds, which for the Court means an allowable reserve balance of just over $2 million for the next fiscal year. In the past, the Legislature has used funds from construction fund balances generated from fine revenues to make up for budget shortfalls, but it is unclear whether this will continue.

Revenues

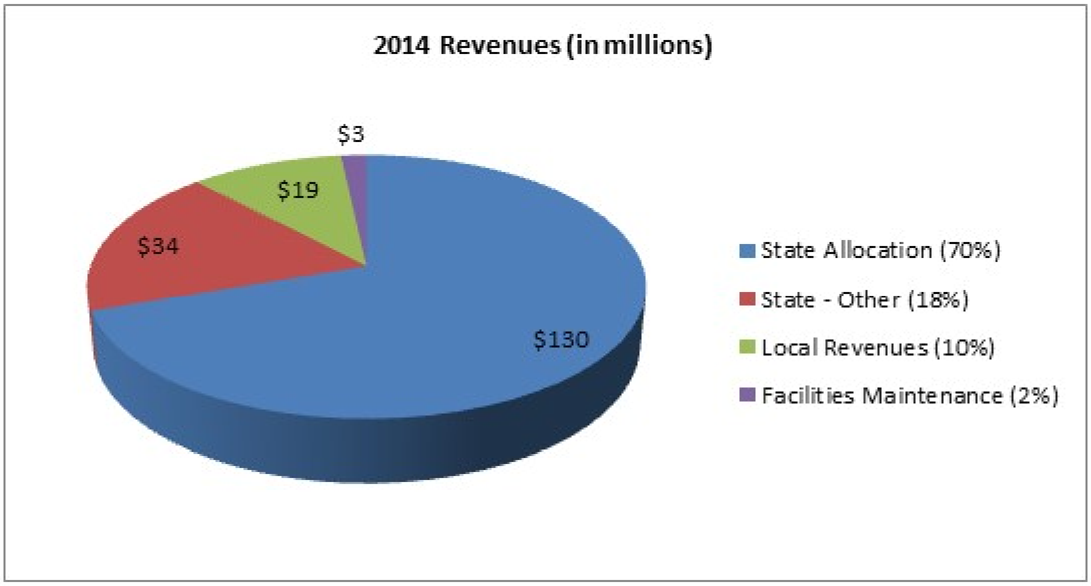
Superior Court’s total revenues were $186 million for the year ending June 30, 2014.

State Allocation of revenues to the Court was $130 million for fiscal year ended June 30, 2014 as discussed above.

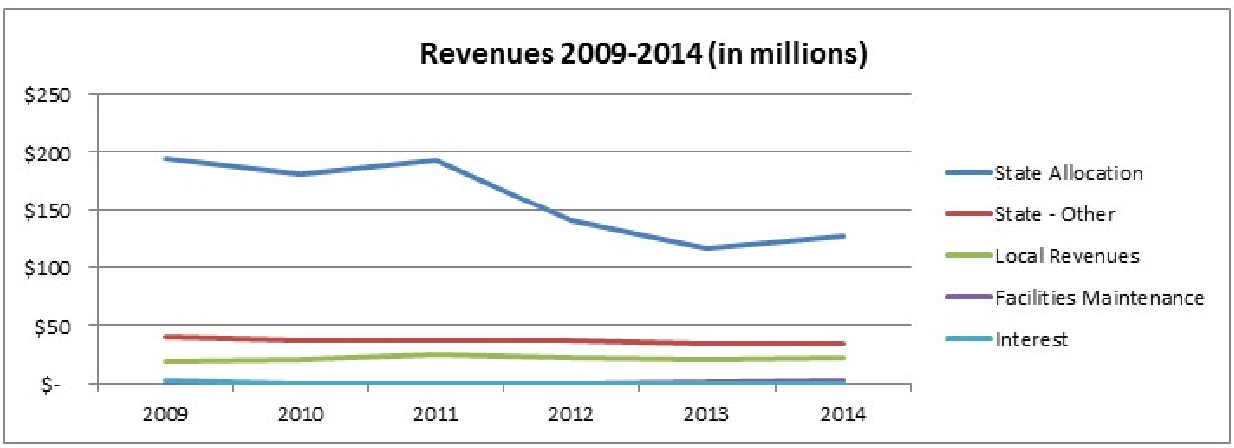
“State Other Revenue” was $34 million that includes state grants and dollar for dollar reimbursements of expenditures for language interpreters, jury pay expenditures, complex case programs, and self-help programs.

Local Revenues were $19 million and includes donations, reimbursements for services provided to the County, and cost recovery for the Enhanced Collections program and local fees, for example for copies of documents. Typically, local revenues remain consistent and do not fluctuate much from year to year. These are dollar in – dollar out reimbursement of expenses.

Facilities Maintenance was $3 million and is a three-year pilot program in which the court gets reimbursed for facility maintenance and modifications, also a dollar in/dollar out arrangement.



Superior Court's Past Revenue Trend



Orange County Transportation Authority (OCTA)

OCTA was established by state law on June 20, 1991. OCTA is governed by an 18-member Board of Directors (Board) that includes of five members of the Orange County Board of Supervisors, ten city representatives, two public members selected by the OCTA Board, and a non-voting representative appointed by the Governor of California. A Chief Executive Officer manages OCTA and acts in accordance with the directions, goals, and policies approved by the Board. OCTA serves Orange County residents and commuters by providing countywide bus and paratransit service, Metrolink commuter rail service, freeway improvements, street and road improvements, the 91 Express Lanes, motorist aid services, and taxi program regulation.

OCTA is OCERS' fourth largest plan sponsor, making approximately 4.3%, or $27.1 million, of OCERS' contributions in fiscal year 2013. It has 1,519 active members, or 7.1% of OCERS' active membership, as of 2013 year-end.

For OCTA Fiscal Year Ended 6/30/13

Total Assets	$2,012 million ($155 million Cash and Cash Equivalents)
Total Liabilities	$736 million (excludes contributions to OCERS)
Net Position	$1,276 million (Unrestricted - $525 million)

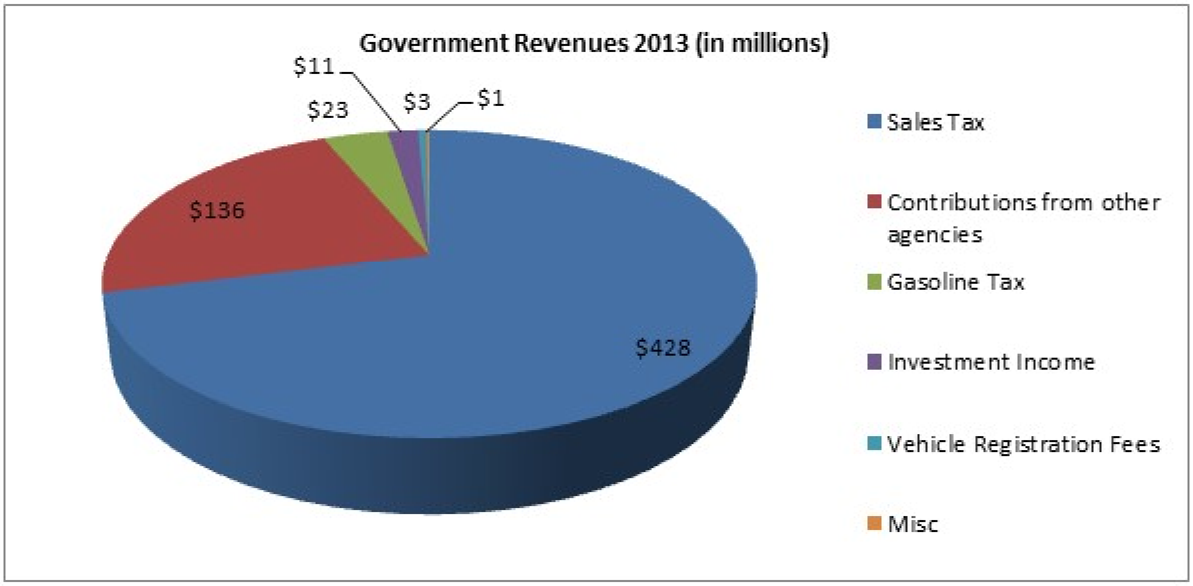
For OCERS Fiscal Year Ended 12/30/13

Share of OCERS' Total UAAL	$219 million
Total Pension Contributions	$27 million

OCTA's total revenues were $798 million for the year ending June 30, 2013.

2013 Revenues – Government Funds

OCTA's total government fund revenues were $602 million for the year ended June 30, 2013. OCTA's key sources of revenue were Measure M sales taxes, state sales tax, and contributions from other agencies.

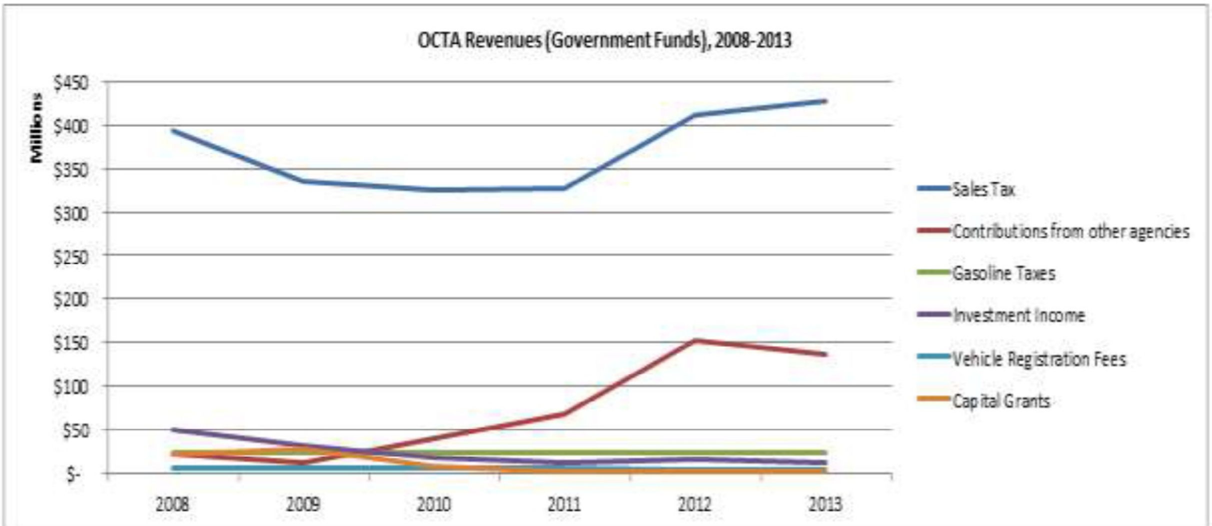


Sales Taxes of $428 million were comprised of Orange County's Measure M, California's Transportation Development Act, and State Transit Assistance programs:

- $265 million - Measure M ½ cent local sales tax - In 2006, Orange County voters renewed the M2 ½-cent sales tax for an additional 30 years. Allocation of M2 funds remains the same as the original M1 with 43% slated for freeway improvements, 32% for streets and roads, and 25% for transit projects and programs.
- $142 million – California's Transportation Development Act (TDA) ¼ cent state sales tax - TDA provides funding for public transportation via the Local Transportation Fund (LTF). This fund is for the development and support of public transportation needs that exist in California and are allocated to areas of each county based on population, taxable sales, and transit performance.
- $21 million - State Transit Assistance (STA) revenue is generated by the state sales tax on diesel fuel as specified under the gas tax swap enacted in March 2010. STA revenues are then distributed based on several demographic factors.

Contributions from other agencies ($136 million) include $69 million in Federal Operating Assistance Grants, $57 million in Federal Capital Assistance Grants, and $10 million in other federal or state grants. These funds are available for para-transit operating assistance, preventive maintenance, capital cost of contracting, demonstration projects, transportation planning, and acquisition and construction of facilities, transit vehicles and related support equipment. Federal grant funds are allocated on a formula and competitive basis for capital projects. Federal revenues are legally restricted to their intended purposes and cannot be used to pay pension costs.

OCTA'S Past Revenue Trends (Government Funds)



In addition to government fund revenues above, OCTA also had 2013 total proprietary (enterprise) operating revenues of $93 million and non-operating revenues of $103 million from the 91 Freeway Express Lanes (owned and operated by OCTA) and the Orange County Transit District (OCTA's predecessor agency which is now managed by OCTA). Enterprise funds are separately stated from government funds to emphasis the business-like nature of enterprise funds versus governmental operations. Operating revenues include cost recovery revenues for the 91 Freeway Express Lanes and OCTD. The 91 Express Lanes collected operating revenues of $39 million. The OCTD's operating revenues (farebox revenues) were $54 million. The OCTD's non-operating revenues mostly consisted of $60 million in Federal operating grants, $23 million in gas taxes, and $14 million in County property taxes during 2013.

Net Position as of June 30, 2013

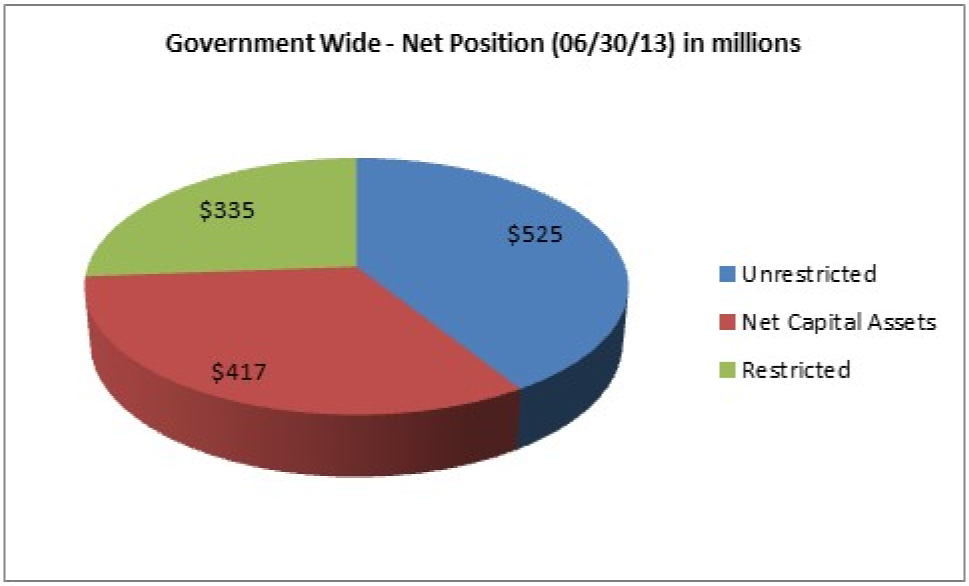
The total assets of OCTA exceeded its total liabilities at June 30, 2013 by $1.3 billion. Of this amount, $525 million is unrestricted and may be used to meet OCTA's ongoing obligations to citizens and creditors. OCTA prepays its annual employer contributions to OCERS, and its total liabilities do not include its employer contribution.

The OCTA's Net Position was assigned or restricted to the funds listed below:

- **Net Investments in capital assets** of $417 million includes buildings and improvements, machinery, equipment, furniture, transit vehicles, and transponders.
- **Restricted** was $335 million, represents net position that is not accessible for general use because their use is subject to restrictions enforceable by third parties. This is mostly

comprised of $290 million of net assets restricted by Measure M2 legislation for transportation programs and motorist services.

- **Unrestricted** was $525 million. These are available for any purpose approved by the Board of Directors.



Budgeting and Forecasting by OCTA

According to OCTA's CAFR, in 2005 when Measure M (M2) was being developed, the revenue forecast at that time assumed M2 would generate $24.3 billion during the 30 year program. With the economic downturn at the lowest point the forecast had dropped to $13.7 billion. This represents a 44% drop in anticipated revenue. Over the last 4 years, sales tax receipts have improved significantly, and the current forecast as of March 2014 is showing revenue at $15.5 billion over the life of the program. The impact of the overall reduction in funds for Measure M2 has also been aided by a favorable bidding environment with bids coming in below engineer's estimates.

Also according to OCTA' approved budget, the estimated taxable sales growth rate for FY 2014-15 is 6.7%. This blended rate is based on forecasts from Chapman University, California State University, Fullerton, and University of California, Los Angeles.

Long-Term Obligations and Bond Ratings (Non-OCERS' UAAL)

In 2008, OCTA issued $100 million in par value worth of commercial paper. The outstanding amount as of June 30, 2013 was $25 million. M2 sales tax revenues are the revenue source assigned to pay down this debt. Currently, bond rating agencies have assigned A-1 ratings for these bonds. The maturity date for this debt is October 2014.

In 2010, OCTA issued $293.5 million in par value worth of bonds. The outstanding amount as of June 30, 2013 was also $293.5 million. M2 sales tax revenues are the revenue source assigned to pay down this debt. Currently, bond rating agencies have assigned AA+ ratings for these bonds. The maturity date for this debt is February 2041.

Also in 2010, OCTA issued $59 million in par value worth of bonds. The outstanding amount as of June 30, 2013 was $46 million. M2 sales tax revenues are the revenue source assigned to pay down this debt. Currently, bond rating agencies have assigned AA+ ratings for these bonds. The maturity date for this debt is February 2020.

The above debt issuances financed the M2 program which has a spending allocation of 43% for freeway projects, 32% for street projects, and 25% for transit projects.

In 2013, OCTA issued $124 million in par value worth of bonds. The outstanding amount as of June 30, 2013 was also $124 million. 91 Express Lane toll revenue is the revenue source assigned to pay down this debt. Currently, bond rating agencies have assigned AA- ratings for these bonds. The maturity date for this debt is December 2030. This was issued to help OCTA finance the purchase of the 91 Express Toll lanes.

Past Trends

The CAFR also publishes a statistical section with information regarding financial trends, revenue capacity, and debt capacity for the past ten years. The net position for government and business type activities combined dropped by 24% during 2008 (due to the completion of the SR-22 project that transferred from OCTA's books to Caltrans) but has mostly remained steady since then.

Over the last four years, Orange County sales tax receipts have improved significantly, and the current forecast as of March 2014 is showing Measure M revenues at $15.5 billion over the life of the program.

Total OCTA debt had been steadily declining from 2004 until 2010. However, the issuance of $352 million of bonds in 2010, and $124 million in bonds in 2013, reversed this trend.

Orange County Sanitation District

The Sanitation District is a special district established by the California State legislature and governed by a 25-member board of directors. The directors are comprised of elected representatives for each of the sewer agencies or cities within OCSD's 479 square mile service area.

The Sanitation District owns and operates certain wastewater facilities in order to provide regional wastewater collection, treatment, and disposal services to approximately 2.5 million people in the northern and central portion of the County – 200 million gallons of daily wastewater. It is managed by an administrative organization comprised of directors appointed by the agencies and cities which are serviced by the Sanitation District.

The Sanitation District is OCERS' fifth largest plan sponsor, making approximately 3.7%, or $23.2 million, of OCERS' contributions in 2013. It has 587 active members, or 2.7% of OCERS' active membership, as of 2013 year end.

For OCSD Fiscal Year Ended 6/30/13

Total Assets	$3,145 million ($208 million Cash and Cash Equivalents)
Total Liabilities	$1,444 million (excludes contributions to OCERS)
Net Position	$1,701 million (Unrestricted - $520 million)

For OCERS Fiscal Year Ended 12/30/13

Share of OCERS' Total UAAL	$205 million
Total Pension Contributions	$23.2 million

Revenues

Sanitation District's total revenues were $383.6 million for the year ending June 30, 2013.

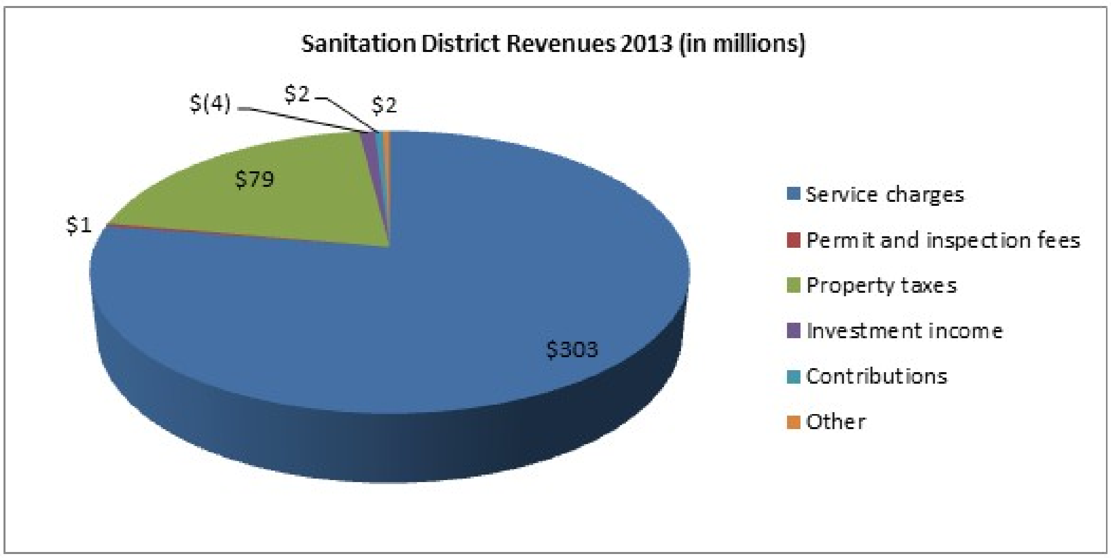
Service Charges were $303.4 million: user fees are ongoing fees for service paid by customers connected to the sewer system. A property owner, or user, does not pay user fees until connected to the sewer system and receiving services. Once connected, a user is responsible for his share of the system's costs, both fixed and variable, in proportion to his demand on the system. These fees are for both single family residences and multiple family residences. The 2013-14 single family residential rate, the underlying basis for all sewer rates, is $308. Rates for commercial and residential use are modified upward for the additional water flow that comes from these types of structures.

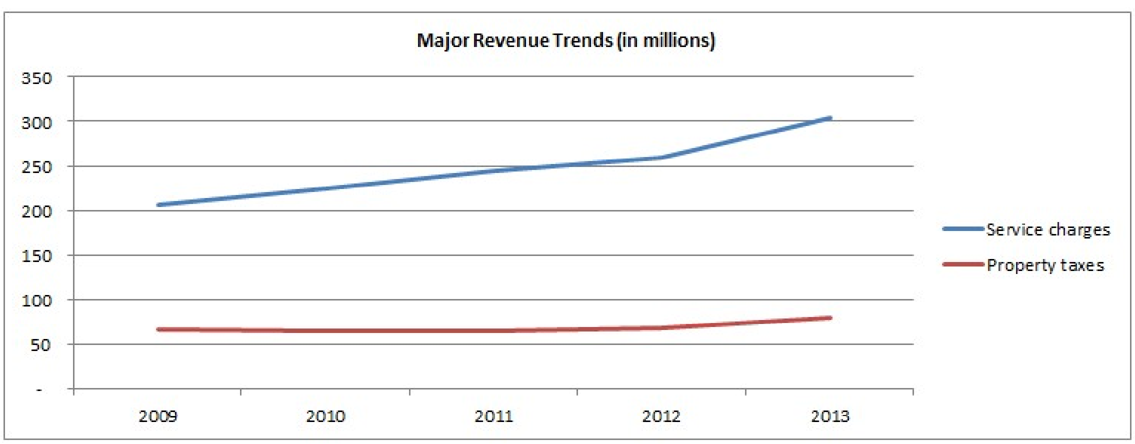
Property taxes were $79.2 million: the County is permitted by State law (Proposition 13) to levy taxes at 1 percent of full market value (at time of purchase) and can increase the assessed value no more than 2 percent per year. The District receives a share of the basic levy proportionate to what was received from 1976 to 1978. The District's share of this revenue is dedicated for the payment of debt service.

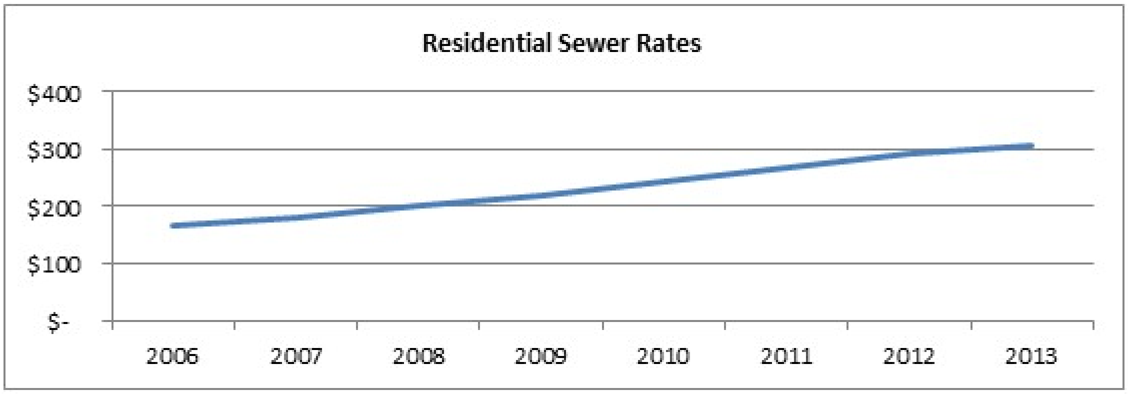
Contributions from other government were $2.0 million: this represents service charges to the Irvine Ranch Water District for its use of the Sanitation Districts' collection, treatment, and disposal system.

Permit and inspection fees were $1.2 million: large industrial and commercial properties that discharge high volumes or high strength wastewater are required to obtain a discharge permit and pay extra fees. These fees are for the owner's share of the system's costs, both fixed and variable, in proportion to the demand placed on the system.

Investment Losses of $3.9 million and Other Income of $1.7 million were also part of 2013 revenues.





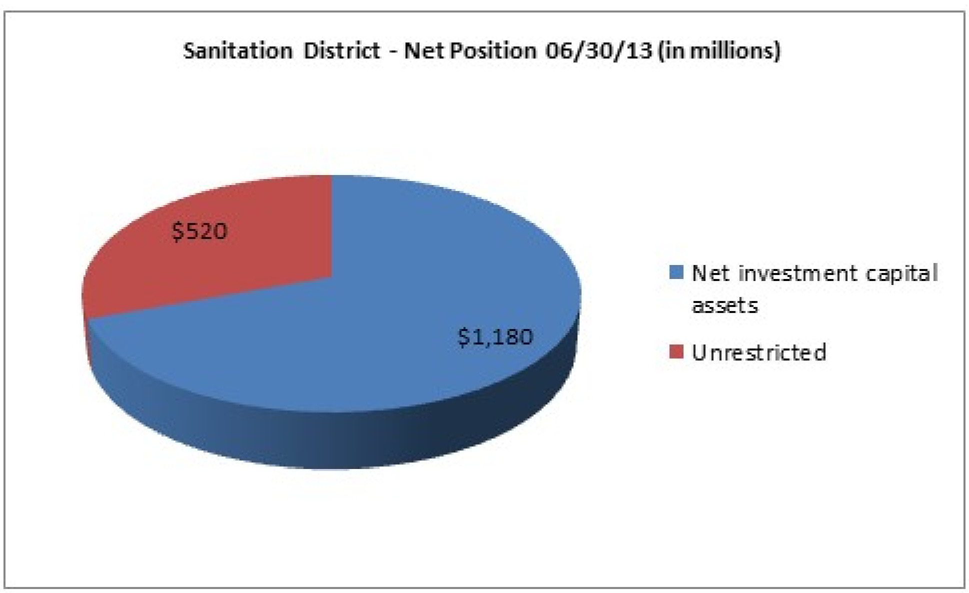


Net Position as of June 30, 2013

The total assets of the Sanitation District exceeded its total liabilities at June 30, 2013 by $1.7 billion. Of this amount, $520 million is unrestricted and may be used to meet the Sanitation District's ongoing obligations to citizens and creditors.

The County's Net Position was assigned or restricted to the funds listed below:

- Net investment in capital assets – $1.2 billion:
  - Collection system - $508.9 million
  - Treatment and disposal (land) $4.5 million
  - Treatment and disposal (equipment) $1.9 billion
  - (Less: debt of $1.2 billion)
- Unrestricted – $520 million: These are available for any purpose approved by the Board of Directors.



Long-Term Obligations and Bond Ratings (Non-OCERS' UAAL)

All of the outstanding debt of OCSD ($1.2 billion as of June 30, 2013) has rate covenants that require a minimum coverage ratio of 1.25. The minimum coverage ratio is the ratio of net annual revenues available for debt service requirements to total annual debt service requirements. As of June 30, 2013, the coverage ratio for senior lien debt was 3.01.

Both Standard and Poor's Corporation and Fitch Ratings reaffirmed their AAA rating of the Orange County District in the past fiscal year.

City of San Juan Capistrano

The City of San Juan Capistrano is OCERS' sixth largest plan sponsor, making approximately 0.4%, or $2.5 million, of OCERS' contributions in 2013. It has 81 active members, or 0.4% of OCERS' active membership, as of December 31, 2013. The City's Unfunded Actuarially Accrued Liability was estimated at $24 million as of December 2013.

The City has grown from a small community of approximately 10,000 persons in 1974 to a developed city of 34,593 in 2011. The City government is staffed by 81 employees plus seasonal and temporary workers and is governed by a City Council of five people elected to four year overlapping terms. San Juan Capistrano joined OCERS as a plan sponsor in 1975 and most current city employees are part of OCERS' Plan S (2.0% @ 57) or Plan J (2.7% at 55).

Revenues

The City's total revenues were $54 million for the year ending June 30, 2013.

The City's total governmental revenues were $32 million for the year ending June 30, 2013 and are broken down as follows:

Property Tax of $11.5 million was allocated from county property taxes for properties within the City boundaries. The base property tax rate is 1%, and the City is entitled to 11% of this property tax; the other 89% is allocated to other entities by the County. Also included are additional property taxes from the state in lieu of vehicle license fees historically allocated to the City, indicating an expected increase of property taxes collected. Included in these property tax receipts, the City is receiving property taxes from the state in lieu of a portion of the sales tax historically allocated to the City.

Four major factors affecting property tax revenue include the property turnover rate, pricing, new construction activity, and Proposition 13's 2% inflation cap. The City also expects the construction of an additional 2 million square feet of non-residential real estate and over 2,000 residential units over the next eight years.

Sales Tax of $8.1 million came from local sales tax charges. Sales tax is levied on all tangible retail goods sold within the San Juan Capistrano City limits. An 8% tax is levied at the site where the sale is made. One percent is remitted back to the City of San Juan Capistrano by the state of California.

The City categorizes its sales tax into six categories in descending order of historical receipts: 1) transportation (auto sales), 2) general retail, 3) food products, 4) construction, 5) business-to-business, and 6) miscellaneous. Currently there are eight auto dealerships in the city that generate a substantial portion of sales tax revenue for the City.

Franchise Tax of $0.3 million comes from taxes on franchise operations in the City including electric, gas, cable TV, waste management. For electric and gas companies, the City collects 2%

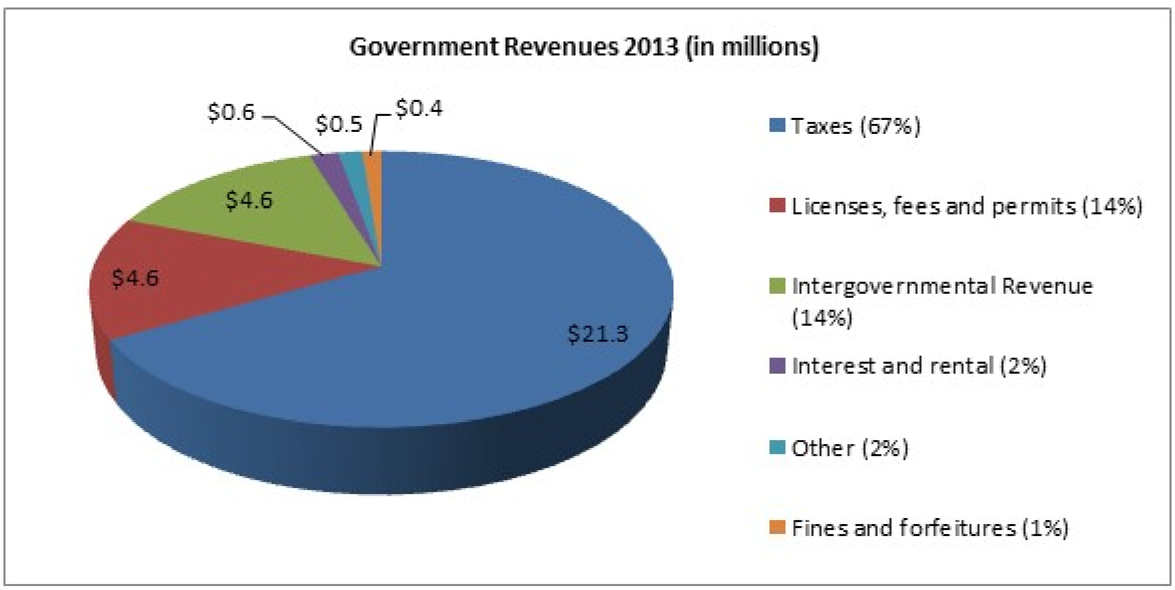
of gross revenues generated in the City. For cable TV, the rate is 5% for revenues generated in the City.

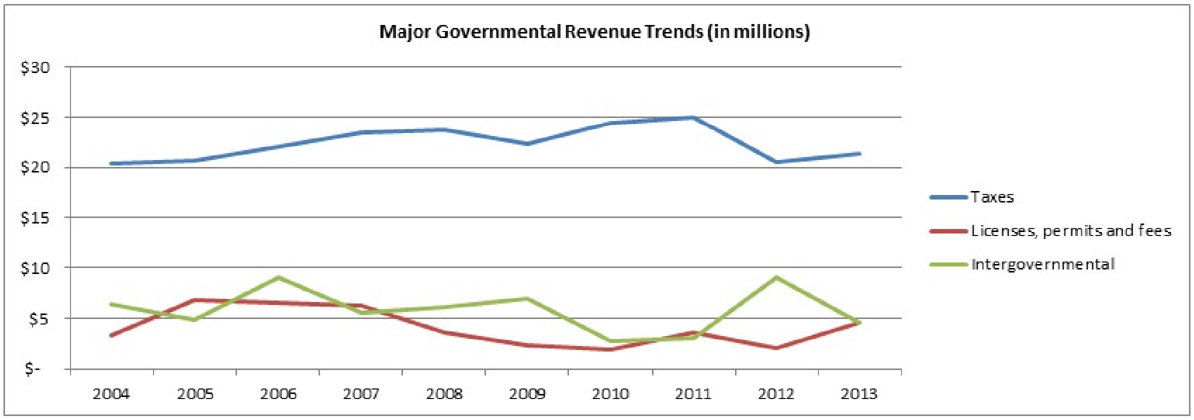
Other Taxes of $1.4 million include real property transfer taxes when property is sold and is based on the value of the property sold; hotel occupancy taxes, which have a 10% charge to total collected for hotel stays; and business license taxes.

License, fees, and permits were $4.6 million and consist largely of charges to process building permits and engineering and planning division reviews of building development related projects. Currently there are homebuilding developments that are expected to build over 2,000 residential units within the City.

Intergovernmental Revenue were $4.6 million and is mostly derived from highway and road constructions grants from both Federal and State sources, Measure M funds from the County of Orange, state gasoline tax revenue grants, and parks and recreation revenues.

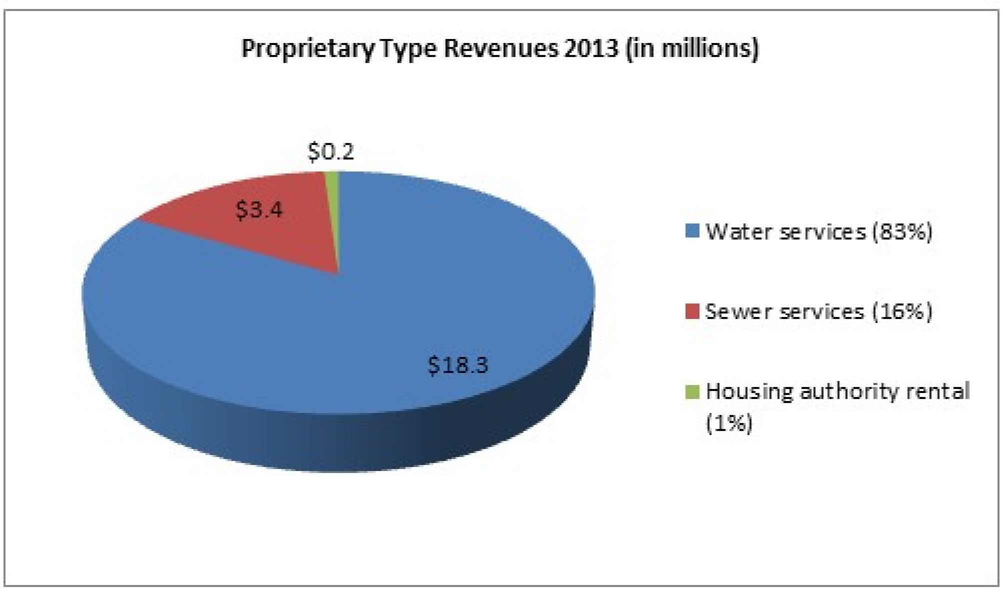
Other Revenues such as fines, forfeitures, interest income totaled $1.5 million.





The City's total proprietary fund operating revenues were $22 million for the year ended June 30, 2013. Proprietary funds are separately stated from government funds to emphasis the business-like nature of proprietary funds versus governmental operations.

Charges for water services and municipal sewer were 98% of operating revenues. Water service rates and municipal sewer rates are set by the City Council, primarily for cost recovery purposes. The remainder of service charges was comprised of rental income from low income housing projects within the City. Proprietary employee payments to pensions are paid from proprietary funds.

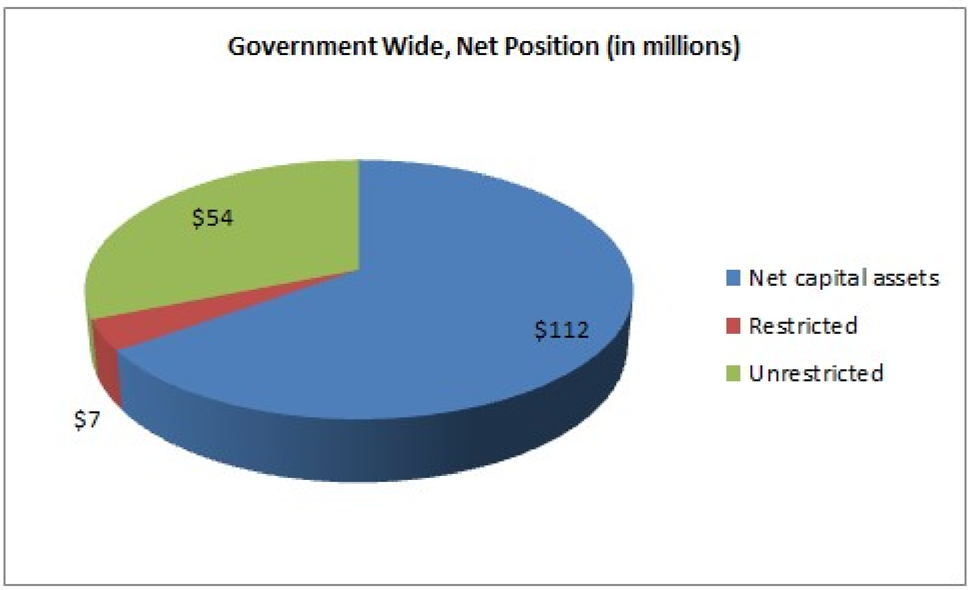


Net Position as of June 30, 2013

The total assets of the City of San Juan Capistrano exceeded its total liabilities at June 30, 2013 by $173 million. Of this amount, $54 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

The City' Net Position was assigned or restricted to the funds listed below:

- **Net Investments in capital assets** of $112 million includes buildings, equipment, and land and also included construction in progress, structures, equipment, software, and infrastructure.
- **Restricted** was $7 million, which combined amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government) through constitutional provisions or by enabling legislation. These funds are restricted to various public and development works projects and for the water rate stabilization project.
- **Unrestricted** was $54 million. These are available for any purpose approved by the City Council.



Orange County Employees Retirement System (OCERS)

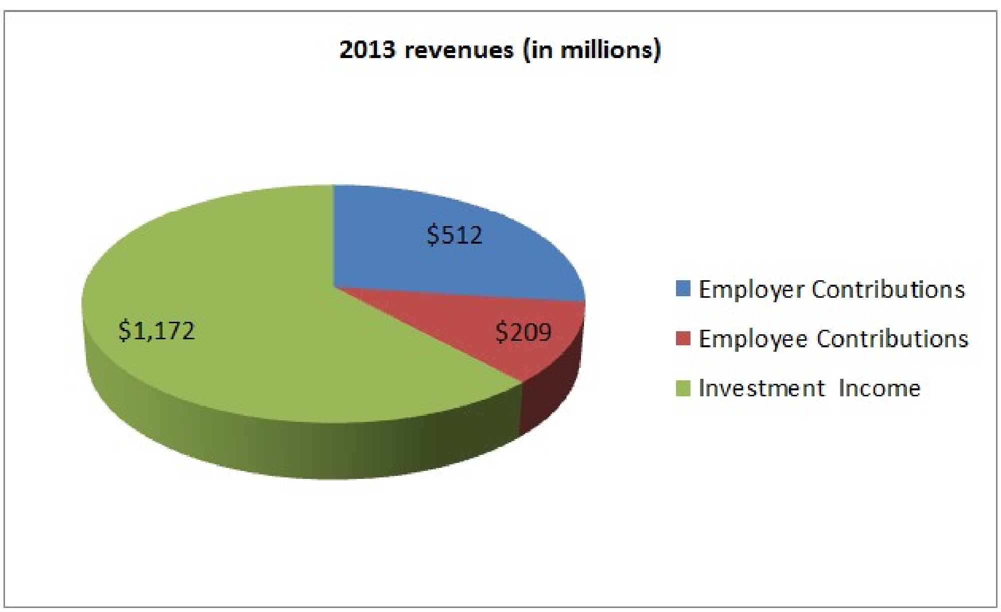
OCERS operates as a cost sharing multi-employer defined benefit pension plan for the County of Orange, the City of San Juan Capistrano, and 13 other special districts as described elsewhere in this report. As of December 31, 2013 the OCERS plan has approximately 26,000 active and deferred members and over 14,000 retired members. It is governed by a nine member Retirement Board with one alternate. OCERS also serves as the trustee for the County of Orange and OCFA other postemployment (OPEB) health care plan trusts.

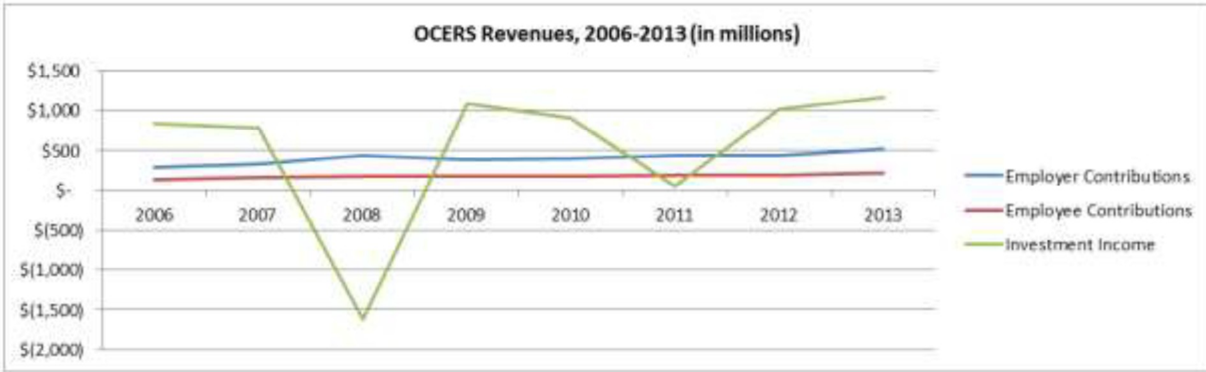
OCERS is also its seventh largest plan sponsor, making approximately 0.4%, or $2.3 million, of OCERS' contributions in 2013. It has 65 active members, or 0.3% of the OCERS plan's active membership, as of December 31, 2013. The Unfunded Actuarially Accrued Liability of OCERS as a plan sponsor was estimated at $21 million as of December 2013. Its 65 active members include 43 County of Orange employees assigned to work at OCERS and 22 employees who are directly employed by OCERS.

The revenues and net position reported below are held in trust for the benefit of all its plan sponsors, the OPEB plans for the County and OCFA, and to pay for the administration expenses of the OCERS plan.

Revenues

OCERS' total revenues were $1.9 billion for the year ending June 30, 2013.





Net Position as of December 31, 2013

The total assets of OCERS exceeded its total liabilities at December 31, 2013 by $11 billion. The entire amount is restricted for the benefit of all its plan sponsors, the OPEB plans for the County and OCFA, and to pay for the administrative expenses of the OCERS plan.

Transportation Corridor Agencies

The Transportation Corridor Agencies (TCA), or The Toll Roads, is OCERS' eighth largest plan sponsor, making approximately 0.3%, or $1.8 million, of OCERS' contributions for the year ended December 31, 2013. It had 77 active members, or 0.4% of OCERS' active membership, as of December 31, 2013. TCA's Unfunded Actuarially Accrued Liability was $11.2 million as of December 31, 2013.

TCA is comprised of the two joint-powers agencies -- the San Joaquin Hills Transportation Corridor Agency (SJHTCA) and the Foothill/Eastern Transportation Corridor Agency (FETCA) -- formed in 1986 to manage the planning, financing, construction and operation of State Routes 73, 133, 241 and 261. TCA's Board of Directors is composed of elected officials from 18 cities and three members of the Orange County Board of Supervisors.

The San Joaquin Hills Transportation Corridor, commonly known as the 73 Toll Road, opened to traffic in 1996. At June 30, 2014 approximately 83,000 transactions were recorded on the 73 Toll Road every weekday, serving as an alternative route to the 405 and 5 Freeways.

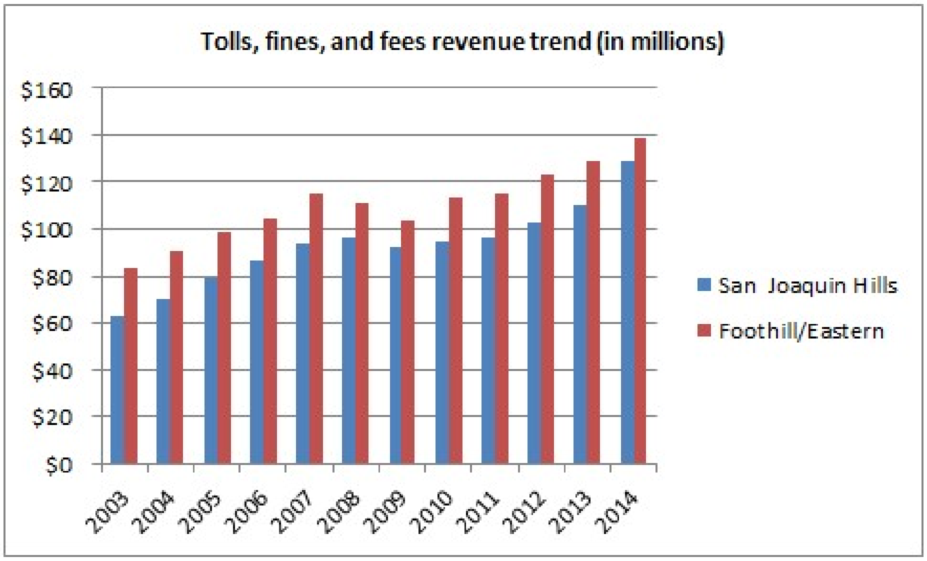
The Foothill/Eastern Transportation Corridor consists of the 241, 261, and 133 Toll Roads and first opened to traffic in 1993. As of June 30, 2014, approximately 177,000 transactions were recorded every weekday, serving as an alternative to local freeways and arterial roads.

Revenues

TCA' total revenues (SJHTCA and FETCA combined) were $292 million for the year ending June 30, 2014.

San Joaquin Hills Transportation Corridor Agency earned $129 million in tolls, fees, and fines during the year ended June 30, 2014. Foothill/Eastern Transportation Corridor Agency earned $139 million in tolls, fees, and fines during the year ended June 30, 2014.

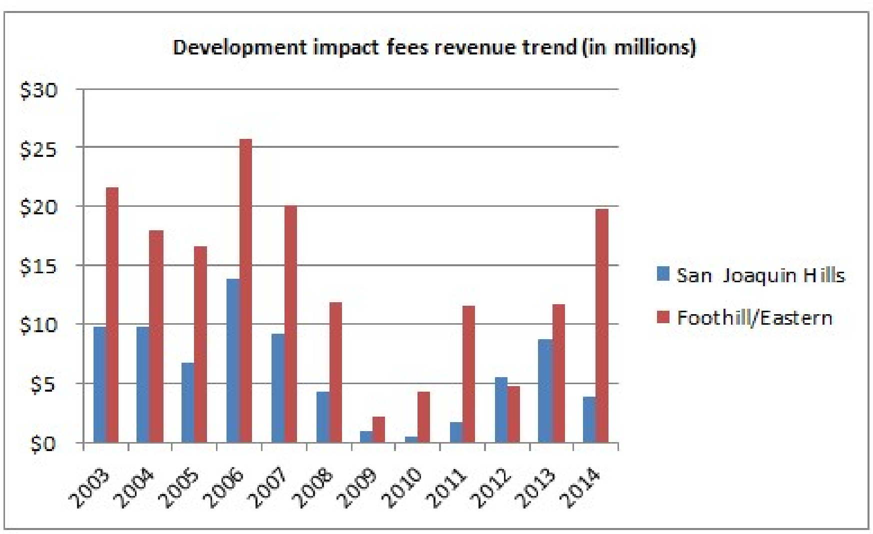
The bonds that financed the construction of the San Joaquin Hills toll road were restructured in 2011; in connection with this restructuring, toll rates were required to be adjusted annually to levels determined by an outside traffic consultant that would maximize toll revenue. However, during November 2014, SJHTCA completed a transaction that provided for refinancing $1.4 billion of its senior lien debt and removal of the requirement that toll rates be maximized. As is the case for the FETCA, toll rates for the San Joaquin Hills toll road will be determined and approved by the Board of Directors, with the assistance of a traffic consultant, at levels intended to meet debt covenant requirements and increase use of the toll road.

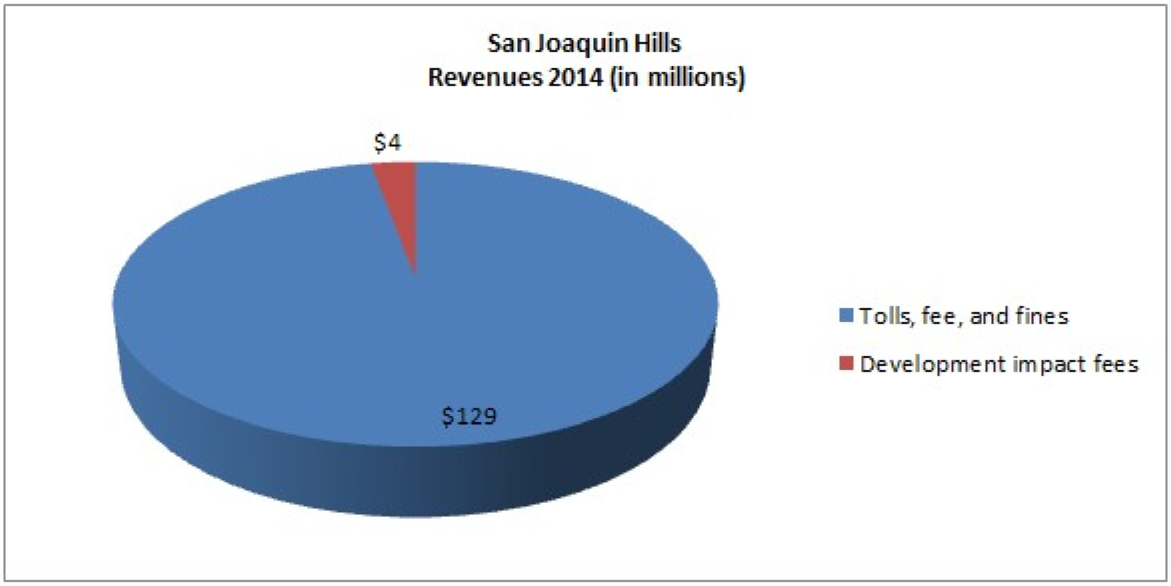


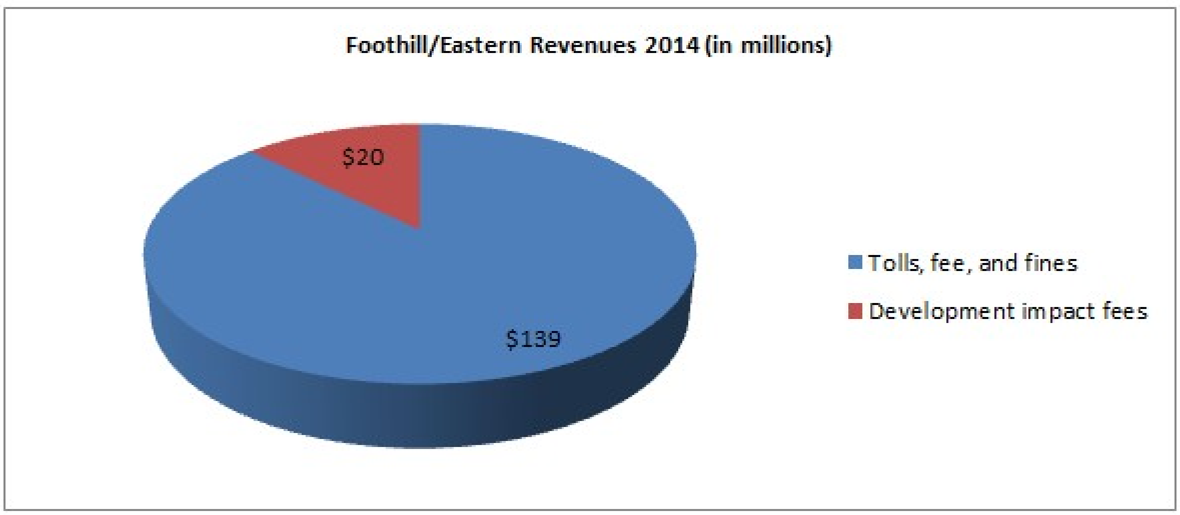
Development impact fees during the year ended June 30, 2014:

- San Joaquin Hills Transportation Corridor Agency earned $4 million in development impact fees during the year ended June 30, 2014.
- Foothill/Eastern Transportation Corridor Agency earned $20 million in development impact fees during the year ended June 30, 2014.

Development impact fees are fees charged for new residential units and new commercial square footage developed in certain cities that surround and benefit from the Toll Roads. The cities collect these fees from property developers and remit them directly to the Toll Roads. Of the $24 million development impact fees noted above, the City of Irvine was the largest city to remit funds and remitted $14 million collected from the developers during the year ending June 30, 2014.







Long-Term Debt

Out of SJHTCA's long-term debt of $2.2 billion as of June 30, 2014, approximately $1.4 billion has maturities extending up to 2050. Approximately $2.2 billion of FETCA's $2.4 billion in long-term debt as of June 30, 2014 has maturities between 2020 and 2053. According to the JPA, SJHTCA's and FETCA's existence as independent agencies collecting tolls is to "sunset," or cease, upon the payment in full of its respective debts. However, as has been done in the past, refinancing of debt can push back the "sunset" provision beyond the years 2050 and 2053, respectively, as noted above.

As rated by S&P, Fitch, and Moody's, the bonds of SJHTCA and FETCA have ratings that fall in the BB (speculative grade) and BBB (good credit quality/investment grade) categories.

Net Position as of June 30, 2014

- **Restricted –** $346 million and $436 million, respectively, for SJHTCA and FETCA. This portion of Net Position is subject to externally imposed conditions that can be fulfilled by the actions of the agency or by the passage of time, and is related primarily to restricted bond proceeds and certain revenues collected.

- **Unrestricted –** $23 million and $126 million, respectively, for SJHTCA and FETCA. These amounts are available for any purpose approved by the Board of Directors.

- **Capital Assets –** Negative $2,142 million and negative $2,016 million, respectively, for SJHTCA and FETCA. The portion of Net Position related to investment in capital assets is actually a negative balance because ownership of the toll roads and related rights-of-way has been transferred to the State of California's Department of Transportation and these assets are not presented within each agency's financial statements. Thus, the balances presented include only certain other capital assets, offset by the debt that financed construction of the toll roads.

Orange County Public Law Library

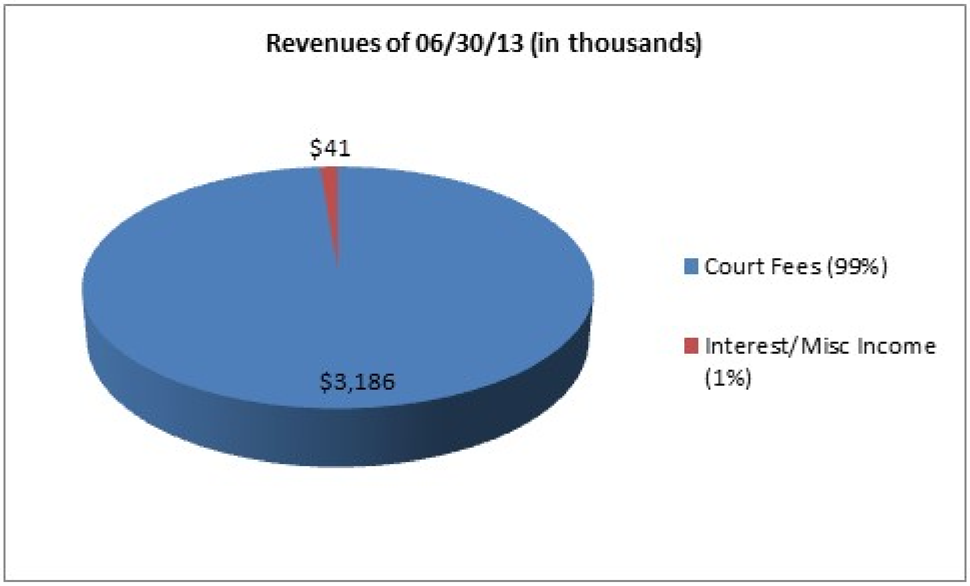
The Orange County Law Library is OCERS' ninth largest plan sponsor, making approximately 0.07%, or $0.44 million, of OCERS' contributions in 2013. It has 17 active members, or 0.08% of OCERS' active membership, as of December 31, 2013. The Law Library's Unfunded Actuarially Accrued Liability was estimated at $4 million as of December 2013.

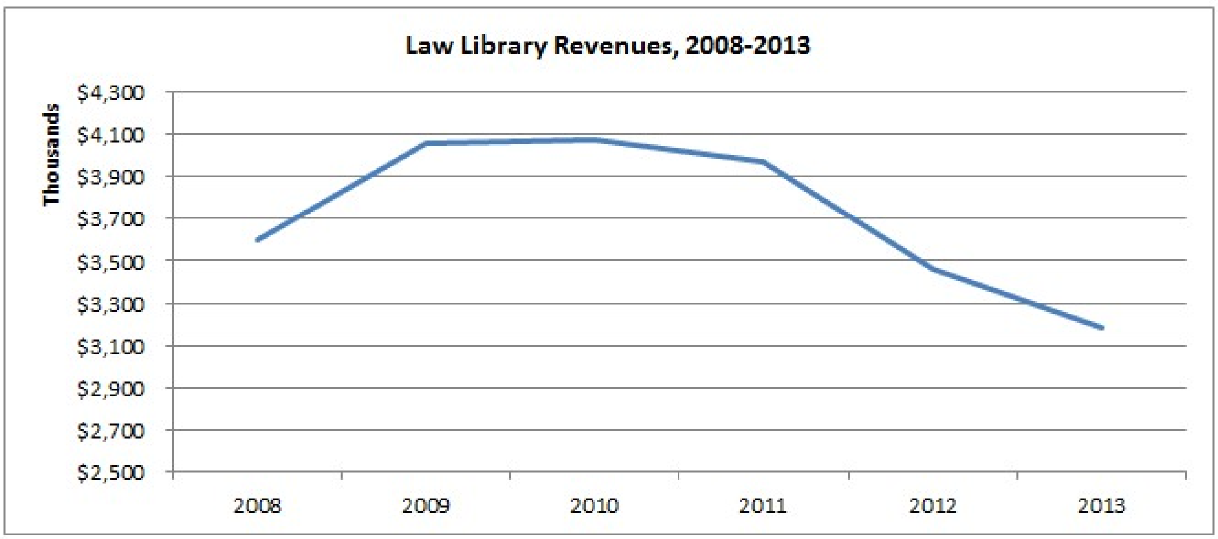
Founded in 1891, the Orange County Law Library's mission statement states, "The Orange County Public Law Library is a state chartered comprehensive public library, the purpose of which is to provide reference materials and research services on state, federal and international statutes, case law and supporting materials to the general public and legal community of Orange County, California." The library's Board of Trustees is composed of five judges chosen by the Orange County Superior Court and two attorneys chosen by the Orange County Board of Supervisors. The library has a collection of over 150,000 pieces in the main library and served over 45,000 visitors in 2013, in addition to providing services to inmates of Orange County jails.

Revenues

The Law Library's total revenues were $3.2 million for the year ending June 30, 2013.

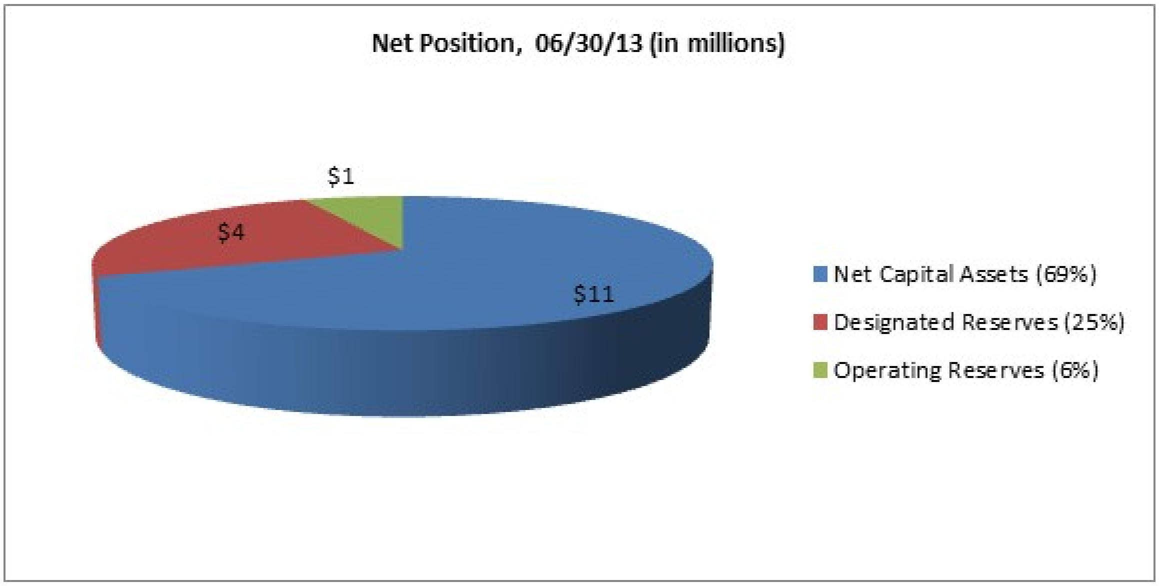
Filing Fees received by the Library accounted for 99% of total revenues for the year. The remaining 1% of revenues consisted of investment income and miscellaneous income. The library's court filing fees are derived from a filing fee paid for every civil action filed in Orange County Superior Court. The filing fee of $35 ($2 for small claims cases) is set statutorily by California and this rate has been stable for several years. However, the number of civil cases filed in court has declined – an 8% decline in 2013 preceded by a 13% decline in 2012 - leading to decreased court filing fee revenues for the library. Fee waivers granted by the court for civil cases also have a negative impact on revenues. Accordingly, the law library has no control over the number of civil filings nor the filing fee rate set by the state of California.





Net Position as of June 30, 2013

- **Net Investments in capital assets** of $11 million comprised of facility, books and equipment.
- **Designated Reserves** of $4 million, assets set aside by the Board of Trustees for replacement of equipment, future expansion of the existing facility, a self-insurance fund for protecting against earthquake damage, and other future capital requirements of the library.
- **Operating Reserves** of $1 million – Net assets subject available for the general use of the library.


Net Position, 06/30/13 (in millions)
$1
$4
$11
Net Capital Assets (69%)
Designated Reserves (25%)
Operating Reserves (6%)

Children and Families Commission

The Children and Families Commission is OCERS' tenth largest plan sponsor, making approximately 0.07%, or $0.41 million, of OCERS' contributions in 2013. It has 11 active members, or 0.05% of OCERS' active membership, as of December 31, 2013. The Children and Families Commission's Unfunded Actuarially Accrued Liability was estimated at $4 million as of December 2013.

The Children and Families Commission of Orange County was created as a result of Proposition 10, the California Children and Families Act of 1998. The proposition added a 50-cent sales tax on tobacco products sold in California and requires that funds raised be used to support education, health and child development programs for children from the prenatal stage through age five. The State Commission, or First 5 California, receives 20 percent of Proposition 10 funds for state-wide programs and public outreach. The remaining 80 percent of funds are allocated to commissions in each of California's 58 counties by birth rate. Only Los Angeles and San Diego counties surpassed Orange County in terms of birth rate totals for 2011 in the state of California.

The commission is governed by a nine member board consisting of the County's Health Care Agency director, the County's Social Services Agency Director, one member of the County's Board of Supervisors, and six members from the public appointed by the Board of Supervisors.

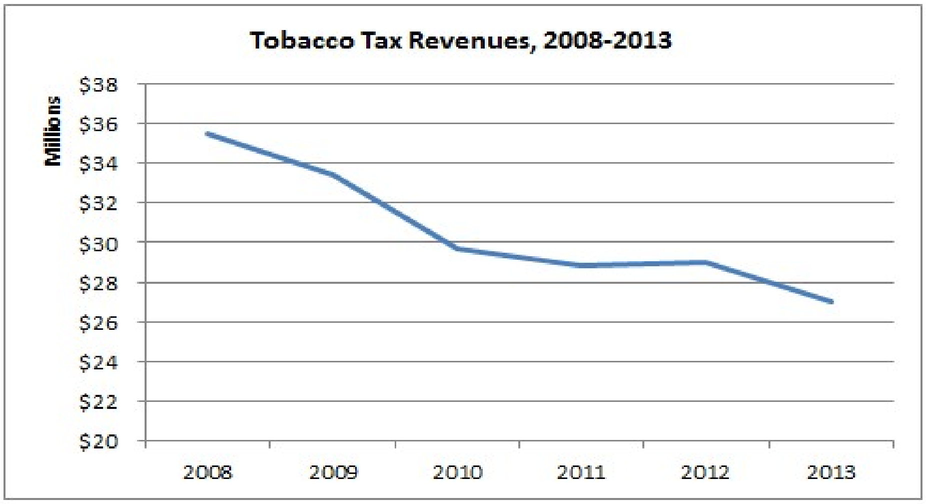
Revenues

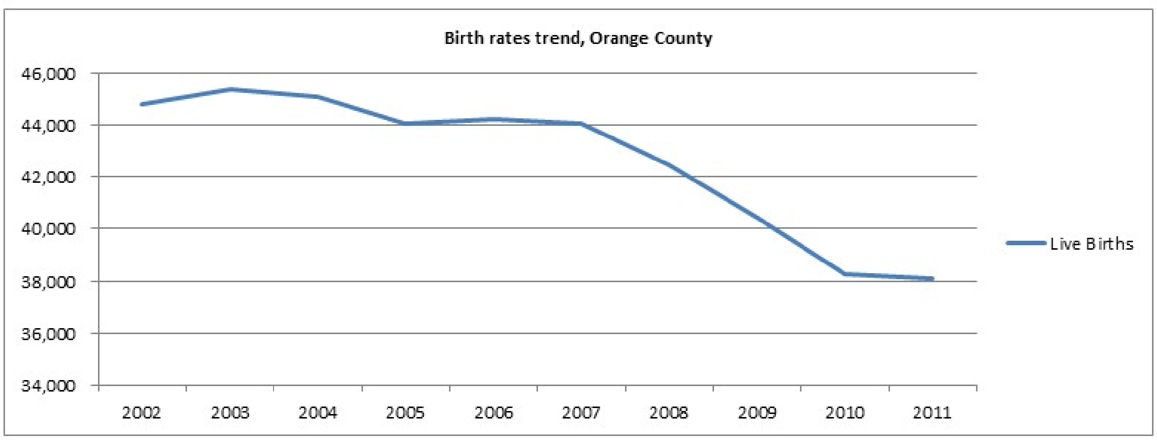
OC Children and Families Commission's total revenues were $28.2 million for the year ending June 30, 2013.

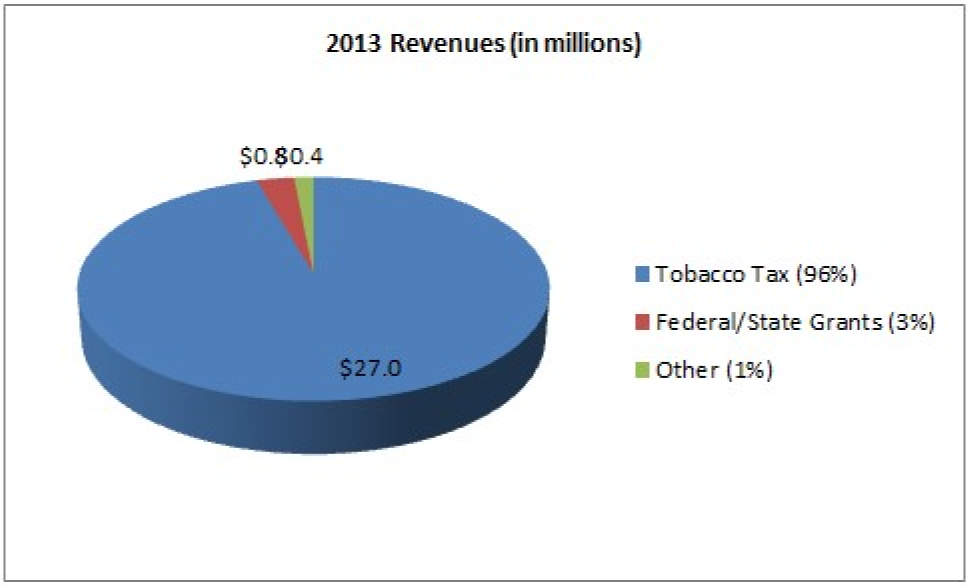
Tobacco Tax revenues received by the commission in 2013 amounted to $27 million, or 96%, of total revenues for the year. The major purpose of the Tobacco Tax is to reduce smoking in California and accordingly tobacco tax revenues have declined by 33% since 2005; declining county birth rates of 15% over a similar period have also contributed to lower tax revenues. The commission budgets an annual decrease of 3% in tobacco tax revenues. Revenues of $800,000, or 3%, were for from various State and Federal grants for children programs such as the state's Child Signature Program and the federal American Recovery and Reinvestment Act (ARRA) Health Research grant. The remaining revenues of $400,000, or 1%, included investment income and other revenues.

Net Position as of June 30, 2013

The total assets of the Children and Families Commission exceeded its total liabilities at June 30, 2013 by $72 million. The entire amount is unrestricted and may be used to meet the Commission's ongoing obligations to citizens and creditors as directed by its Board of Commissioners.






2013 Revenues (in millions)
$0.8
$0.4
$27.0
Tobacco Tax (96%)
Federal/State Grants (3%)
Other (1%)

Orange County Cemetery District

The Orange County Cemetery District is OCERS' eleventh largest plan sponsor, making approximately 0.05%, or $0.30 million, of OCERS' contributions in 2013. It has 21 active members, or 0.1% of OCERS' active membership, as of 2013 year end. The Cemetery District's Unfunded Actuarially Accrued Liability was $1.7 million as of December 2013.

In early 2014, the Cemetery District became the only current OCERS plan sponsor to pay off its entire unfunded actuarially accrued liability. It paid its full share of $1.7 million.

The Orange County Cemetery District is an independent special district governed by an appointed Board of Trustees who serve four-year terms. The three cemeteries owned and operated by the District are among the County's oldest with each having recorded burials prior to 1900.

Although privately owned in the beginning, the cemeteries were formed into separate independent districts in 1926. In 1985 the districts were consolidated under one governing board to create the Orange County Cemetery District. The district has three cemetery locations in Anaheim, Lake Forest and Santa Ana. The district typically averages between 800 to 900 lot sales per year.

Restricted funds have been set aside to fund the perpetual maintenance and care of cemeteries in accordance with the provisions of the Health and Safety Code, which will require continued staffing. The Orange County Cemetery District has also committed $2.5 million for future land acquisitions.

Revenues

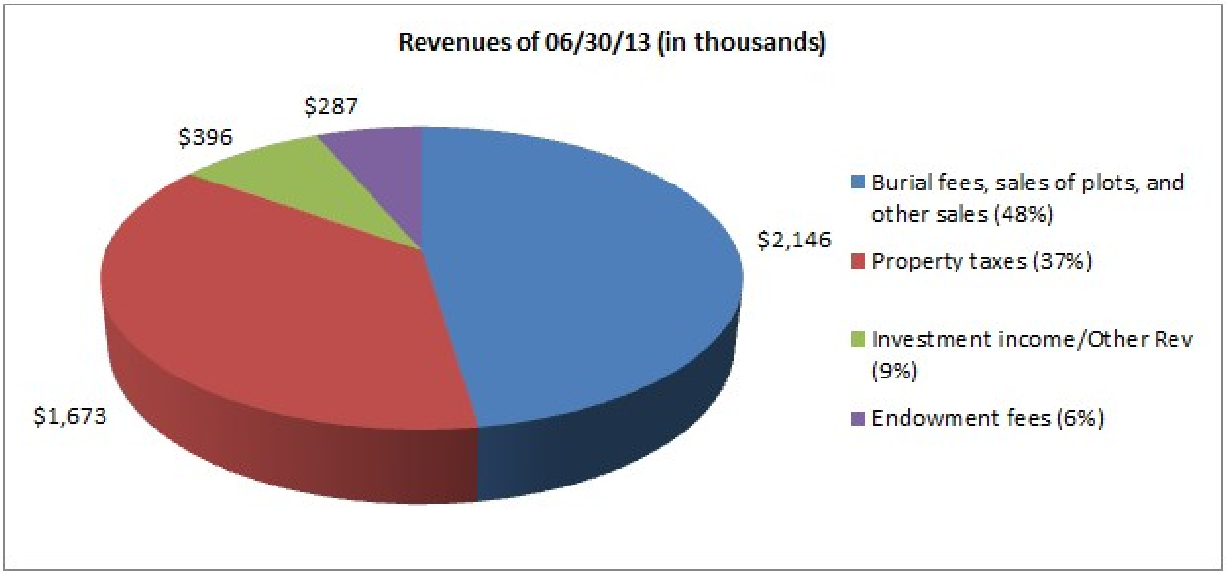
OC Cemetery District's total revenues were $4.5 million for the year ending June 30, 2013.

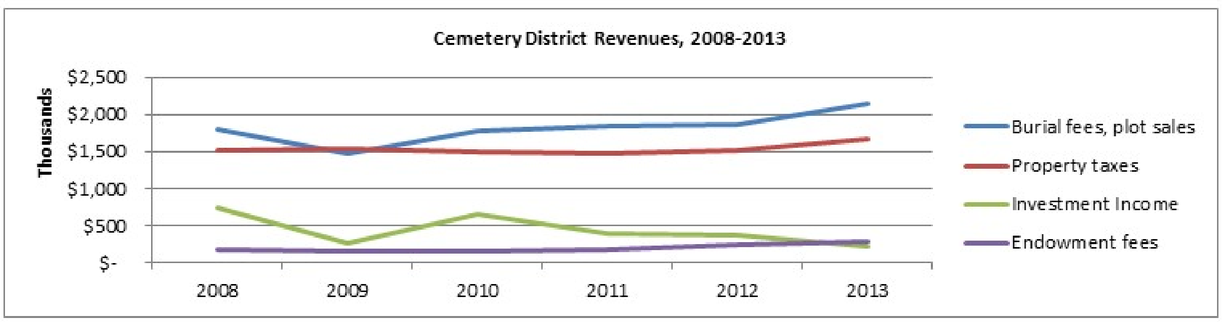
Burial fees, sales of plots, and other sales were $2.1 million, which represents 48% of revenues received by the district in 2013. Since the district is a government agency, general burial and cremation costs are meant to help recover costs, keeping in line with price inflation and the district's expected share of property tax revenues.

Property taxes were $1.7 million, or 37% of revenues, and were allocated to the district in 2013 from their minor share of County property tax revenues. Since county property tax revenue is allocated to the district to help keep burial costs lower, non-county residents must pay an extra fee to be buried at a district cemetery.

Investment Income and Other Revenues were $396 thousand, or 9% of revenues.

Endowment fees were $287 thousand, or 6% of revenues. Endowment fees of $200-$400 per regular burial/cremation are collected and placed into an endowment principal fund established to provide for the maintenance and care of all three cemeteries in accordance with the provisions of the County's Health and Safety Code.



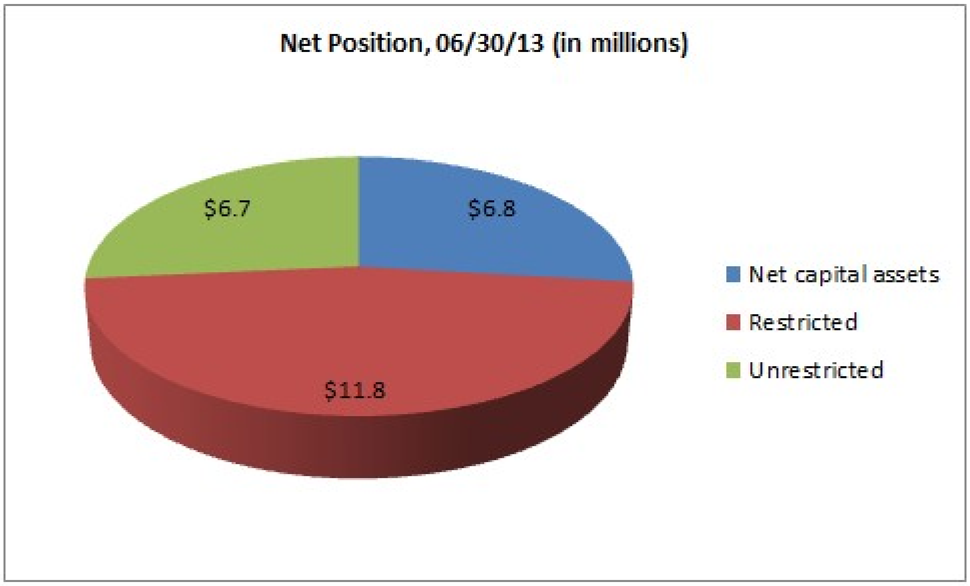


Net Position as of June 30, 2013

The total assets of the Cemetery District exceeded its total liabilities at June 30, 2013 by $25.3 million. Of this amount, $6.7 million is unrestricted and may be used to meet the Cemetery's ongoing obligations to citizens and creditors.

The Cemetery's Net Position was assigned or restricted to the funds listed below:

- **Net Investments in capital assets** of $6.8, invested in capital assets (e.g., land, structures and improvements, and furniture and equipment) that are used to provide services to citizens; consequently.
- **Restricted** was $11.8 million, restricted for the perpetual care of the cemetery grounds. These funds are invested and will continue to earn interest income which will eventually be used for the maintenance and operation of the District's cemeteries.
- **Unrestricted** was $6.7 million. These are available for any purpose approved by the Board of Trustees.


Net Position, 06/30/13 (in millions)
$6.7
$6.8
$11.8
Net capital assets
Restricted
Unrestricted

OC In-Home Supportive Services Public Authority

The Orange County In-Home Supportive Services Public Authority is OCERS' twelfth largest plan sponsor, making approximately 0.03%, or $0.2 million, of OCERS' contributions in 2013. It has 18 active members, or 0.1% of OCERS' active membership, as of 2013 year end. Its Unfunded Actuarially Accrued Liability was estimated at $1.3 million as of December 2013. The financial statements of Orange County In-Home Supportive Services are blended with other government fund units in the CAFR for the County of Orange.

UC Irvine – Medical Center and Campus

The UC Irvine Medical Center and Campus is OCERS' thirteenth largest plan sponsor, making approximately 0.03%, or $0.2 million, of OCERS' contributions in 2013. It has 11 active members, or 0.05% of OCERS' active membership, as of 2013 year end. Its Unfunded Actuarially Accrued Liability was estimated at $1.2 million as of December 2013. Both UC Irvine and the County of Orange evenly split the payment of UC Irvine's employer contributions to OCERS.

Orange County Local Agency Formation Commission (LAFCO)

The LAFCO is OCERS' fourteenth largest plan sponsor, making approximately 0.02%, or $0.1 million, of OCERS' contributions in 2013. It had only three active members as of 2013 year end. LAFCO's Unfunded Actuarially Accrued Liability was estimated at $0.9 million as of December 2013.

In 1963, the California state legislature formed Local Agency Formation Commissions for each of the 58 counties located in the state. These Commissions are primary responsible for monitoring the boundaries of cities and special districts with the goal of ensuring municipal service are allocated efficiently and cost-effectively. This process includes the review and approval of incorporating cities within the county, annexing unincorporated areas to cities and special districts, and forming special districts among other actions. An example of a recent project includes the annexation of approximately 15,000 acres of land located in the City of Anaheim, Irvine Ranch Water District, and Yorba Linda Water District to the Orange County Water District.

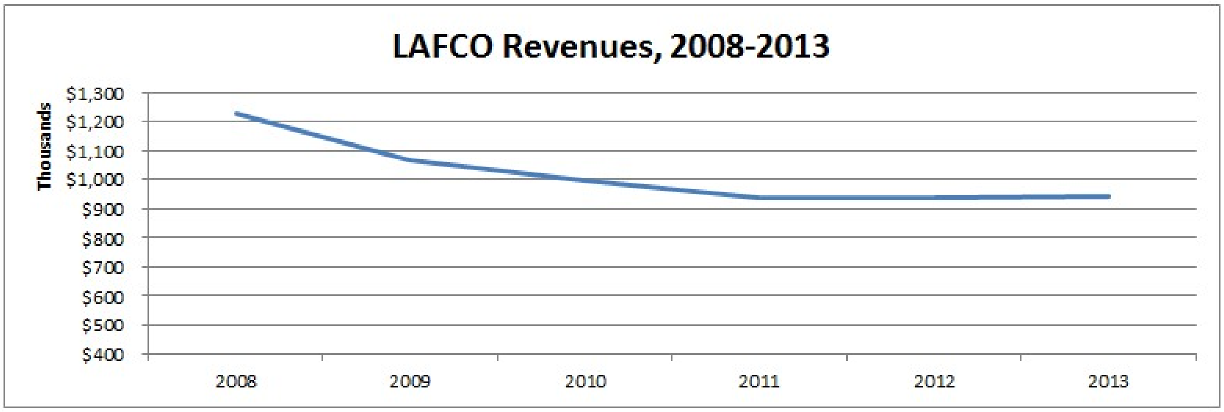
The appointed Board of Commissioners consists of two commissioners representing the County, two commissioners representing cities; two represent special districts; and one commissioner representing the public. An alternate also exists for each of these positions.

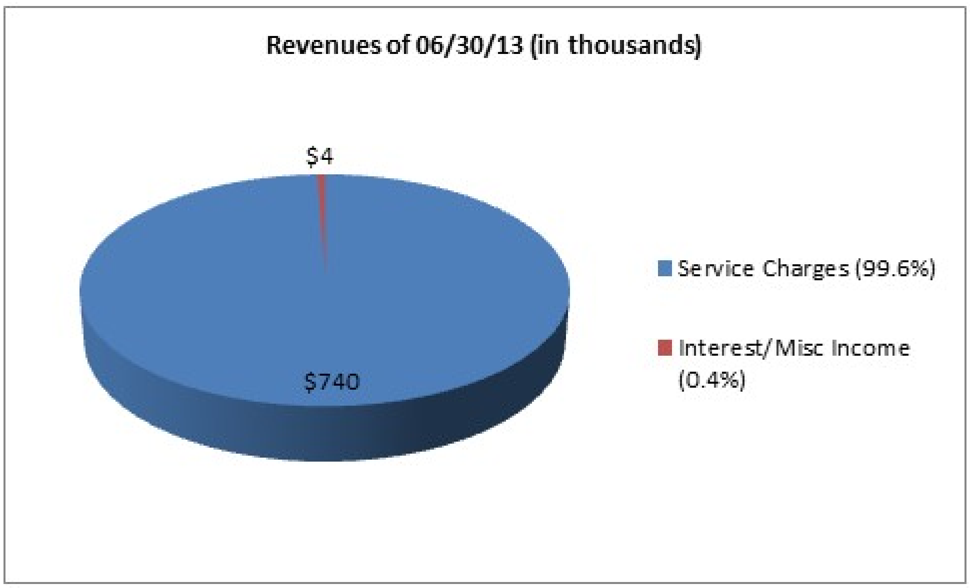
2013 Revenues

LAFCO's total revenues were $940,000 for the year ending June 30, 2014.

Total Service Charges received by the Commission in 2013 amounted to $940,000 and accounted for 99% of total revenues for the year. However, the Commission made a one-time refund of $200,000 to its funding agencies, which include 34 cities, 27 special districts, and the County of Orange, for the year.

The Commission's Service Charge revenue is comprised of funding apportionments allocated among the Commission's funding agencies. One-third is paid by the County of Orange. One-third is paid collectively by the 34 cities within Orange County. The final one-third is paid by special districts, such as the Orange County Water District, that operate in the County. Revenues are set annually by the Commissioners to fully recover the costs of operating the Commission which is staffed currently by four employees. Forecasted revenues over the next three years include an average 7% increase in service charges.



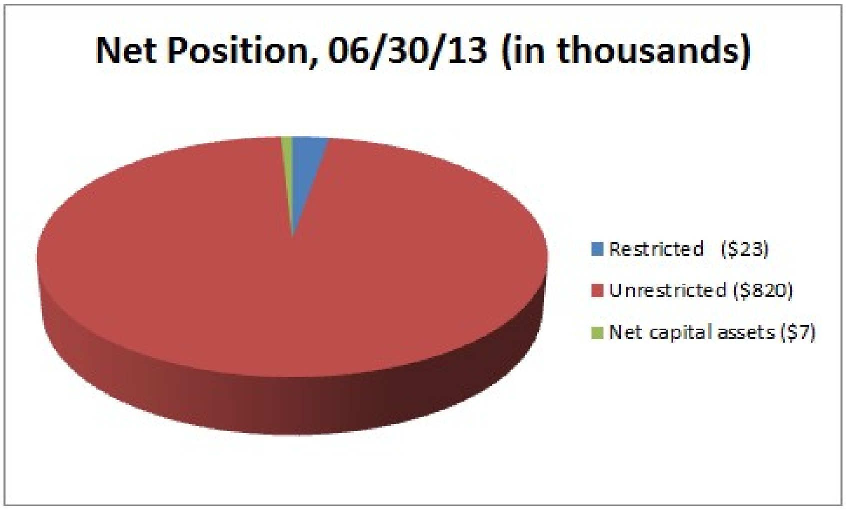


Net Position as of June 30, 2013

The total assets of LAFCO exceeded its total liabilities at June 30, 2013 by $850,000. Of this amount, $820,000 is unrestricted and may be used to meet LAFCO's ongoing obligations to citizens and creditors.

LAFCO's Net Position was assigned or restricted to the funds listed below:

- **Net Investments in capital assets** of $7,000, consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted** was $23,000, consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** was $820,000. These are available for any purpose approved by the Board of Commissioners.


Net Position, 06/30/13 (in thousands)
Restricted ($23)
Unrestricted ($820)
Net capital assets ($7)

Department of Education

The Department of Education is OCERS' smallest plan sponsor, making approximately $14,000 of OCERS' contributions in 2013. However, it has no current active members as of 2013 year-end. Its Unfunded Actuarially Accrued Liability was estimated at $0.09 million as of December 2013.

ReedSmith

The business of relationships.℠

A TALE OF TWO RULINGS: The City of Stockton and Chapter 9

Board of Retirement
Orange County Employees' Retirement System
December 15, 2014

Harvey L. Leiderman

Attachment 2

THE UNIQUE CHARACTERISTICS OF CHAPTER 9

- Just for municipalities
- Adjustment of debts
- Constitutional balance of federalism and states' rights
  - Uniform bankruptcy laws
  - Supremacy clause
  - 10th Amendment – powers reserved to states

ReedSmith

THE FEDERAL - STATE BALANCE

- Not all Bankruptcy Code provisions apply
- State control over municipality's political and governmental powers continues - §903
- The Court cannot interfere with municipality's political or governmental powers - §904
- Only the municipality can propose a plan
- Same reason why OCERS is non-ERISA

WHO MAY FILE CHAPTER 9?

Federal law requirements:

- A "municipality." Includes a political subdivision, public agency <u>or</u> instrumentality of a state. Counties, cities and districts are; the State is not
- Authorized under state law to be a debtor under federal bankruptcy law (CA Govt. Code §53760)
- Insolvent – unable to, or not paying debts when due (cash flow test, not balance sheet)
- Desires to effect a plan to adjust its debts
- Negotiations with creditors and bargaining units are at impasse or futile

ReedSmith

CITY OF STOCKTON - BACKGROUND

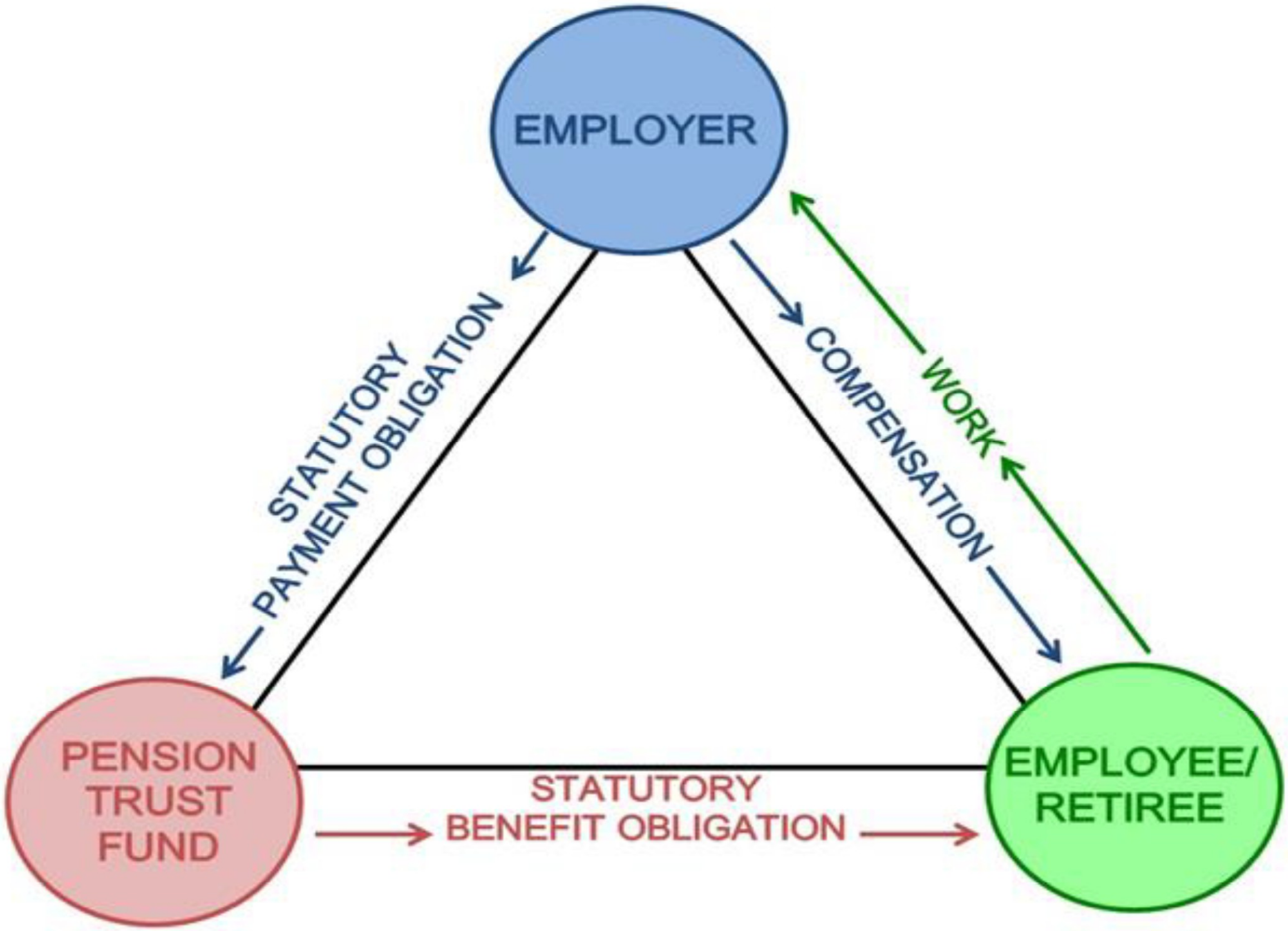
- Victim of Great Recession
- Negotiated with creditors and bargaining units for over a year (unlike San Bernardino)
- Filed Ch. 9 when negotiations grew futile
- Kept CalPERS current during Ch. 9
- Proposed Plan of Adjustment – new tax, new labor contracts, pay creditors cents-on-dollar, CalPERS unimpaired
- One under-secured creditor opposes Plan

STOCKTON & CALPERS:
A UNIQUE RELATIONSHIP

- PERS benefits elected by City, not mandatory
- Stockton is a "contracting agency"
- Contract triggers all applicable PERS statutes
- Funding obligation is statutory
- Contract termination is permitted, but triggers UAAL funding on a "risk-free" basis
- Failure to pay full termination amount could trigger retiree benefit reductions

ReedSmith

UNDERSTANDING PENSION OBLIGATIONS UNDER CALIFORNIA LAW



ReedSmith

JUDGE KLEIN'S OCTOBER 1 RULING – THE THEORY

- Hearing on Plan confirmation
- Considering the CalPERS obligation because of Franklin's objection to Plan
- Stockton's obligations are contractual
- Bankruptcy courts alter contracts. Bk. §365
- CA can control gateway to Ch. 9, but not the municipality's conduct once in Ch. 9. PERL §20487 is invalid

ReedSmith

JUDGE KLEIN'S OCTOBER 1 RULING – THE THEORY

- **Real creditors are retirees and employees; CalPERS is just a collection agency. So no state power being impaired if contract were rejected**
- **Pensions are a municipality's commercial, proprietary function, not a governmental function. Bk. §903 restraints do not apply**
- **Stockton should have considered pension alternatives – own plan, other gov't plans, private plans (the "art of the possible")**

JUDGE KLEIN'S
OCTOBER 1 RULING – THE THEORY

- **"Why haven't you been talking settlement?"**
- **The ghost of *Vallejo***
- **Decision on Plan confirmation postponed to October 30**
- **If Plan confirmed as City proposes, this ruling would be irrelevant ("All talk, no hat!")**

DID THE COURT GET IT RIGHT?

- **Exercise due federal judicial restraint? Tenth Amendment and Bk. § § 903, 904**
- **Are employee pensions a *commercial* enterprise, not a core governmental activity?**
- **Is CalPERS just a collection agency, not a trust?**
- **Forgot that only *executory* contracts may be rejected? Is there anything left for retirees to perform?**
- **Is UAAL even a "debt" that can be "adjusted"? Not under CA law!**

ReedSmith

JUDGE KLEIN'S
OCTOBER 30 RULING – THE REALITY

- Plan in best interests of creditors, feasible and proposed in good faith, meets all requirements
- Culmination of two years of negotiation, compromise, sacrifice, reduced employee pay and benefits, voter-approved tax hike. No viable alternatives and too late to start over
- Retirees already sharing the pain
- Poison pill: Impairing CalPERS and retirees would create huge unsecured claims and prevent any plan confirmation

TAKE THIS AWAY

- Legal reasoning still to be addressed by a higher authority – here or elsewhere
- Pension impairment is likely a hollow threat:
  - Municipalities are reluctant to deeply harm their employees
  - Rejecting pensions will tank any Plan proposal
  - Too costly to contest
  - Expect legislation to close the gateway further

ReedSmith

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

MEMORANDUM

DATE: October 29, 2014

TO: Members of the Investment Committee

FROM: Girard Miller CFA, Chief Investment Officer

SUBJECT: OCP Asia – Review of Additional Investment

Recommendation:

Approve an additional investment of up to $60 million in the OCP Asia's Orchard Landmark direct lending fund, subject to completion of due diligence, contract reviews, fee negotiations and related terms as presented and discussed by the CIO.

Background:

In November 2013 the Committee approved an investment of $60 million in the OCP Asia's Orchard Landmark direct lending fund, upon recommendation of the staff and NEPC. Onsite due diligence was conducted by the CIO in their Hong Kong and Singapore offices. Fee terms for that subscription were especially favorable under a NEPC client club pricing arrangement. As a reminder, OCERS' investment is subject to a rolling 3-year lockup, at which point the funds can be redeemed.

In June 2014, OCP Asia was reviewed by the OCERS' Manager Monitoring Subcommittee and no issues were noted.

OCP Asia has now completed its initial funding round, and has made commitments against approximately $300 million of capital, with the majority of that amount now deployed. The investment returns have been quite favorable in the early stages, with the current portfolio yielding low double digits on a cash basis and high double digits on an aggregate yield basis which includes the value of "sweeteners" that OCP secures for its clients through warrants and other equity kickers. The firm has additional attractive lending opportunities in its underwriting pipeline, and approached the CIO last month to see if OCERS would have an interest in additional investments at this time. Our response was that we would require favorable fee arrangements to consider them further, and they replied with a willingness to negotiate certain fee concessions for us as a founding-round investor if we were to supplement our mandate by $40 to $60 million.

On October 21, the staff conducted and satisfactorily completed a review of the current portfolio and additional due diligence by teleconference. NEPC has prepared its independent report which is included in the Committee materials and supports an additional investment as recommended here.

Several rounds of fee negotiations have been completed through triangulation between the firm, the CIO and NEPC. Advantageous NEPC club deal terms included a potential management fee discount from their now standard rate, for new investments of $50 million, and an expense cap on ancillary costs. In addition, the CIO has negotiated separately for a highly advantageous "semi-soft" performance hurdle of 10% which will be implemented through a special Rebate Share class in which OCERS receives a rebate of the entire OCP performance fee (15% now) at the third anniversary of new investments if our annualized return on those shares net of fees is less than 10%. This special arrangement applies only to OCERS as a lead/anchor investor with $100 million in aggregate investment. This accomplishes a powerful alignment of interests and a strong statement by the manager that OCP continues to expect to deliver double digit net returns, as they are putting more than half their compensation at risk at this above-market level. Given the level of cash yields, the 10% IRR threshold provides a very strong incentive to OCP to avert and mitigate defaults of principal, which is our foremost concern in this strategy.

Analysis:

Asian lending has proven to offer the highest risk-adjusted return-on-capital opportunities anywhere in the world this year. OCP has exceeded its original expectations for portfolio yields in assembling the current portfolio, and OCERS' supplemental capital investments immediately would enjoy those returns in parity with the founding investors with very little J-curve effect. We are now dealing with a known quantity.

This is not a grab for yield. As CIO, I continue to encourage realistic expectations in this space that would be lower than those presented in the NEPC memo. It is inevitable that there will ultimately arise a default by one or more of these borrowers which could easily reduce our ultimate IRR from the current lofty first-year pro-forma yields. Accordingly the staff continues to view this strategy as most likely to produce low-teen returns over longer periods of time including recessions.

Despite what I would characterize as a higher risk lending portfolio on its face, we have more downside protection against global economic and geopolitical forces in this fund than anywhere else in the OCERS' portfolio. Downside macro risk on this fund is hedged extensively by equity index puts, as the manager will explain. OCP typically spends roughly 1% of its nominal returns to provide its clients with peace of mind on the downside, and to position itself to negotiate very favorable terms in adverse periods by having supplemental capital available when its borrowers and competitors will be facing liquidity crises. Previously they have used this position of strength to optimize their returns by bargaining harder for clients in systemic default periods.

By making a second investment to be funded in 2014-15 (which will probably be phased in over several months as they increase their AUM, to avoid over-concentration), OCERS will benefit from having staggered redemption periods -- which is mutually beneficial to us, the manager and the fund as this will reduce redemption cash flow issues on their end as the fund grows in size.

Ideally, in my view, OCP would double the fund's total size in the next 12-18 months, through additional incremental investments, as long as those can be thoughtfully and prudently deployed in similar secured loans of high quality.

Looking longer-term, if OCP successfully navigates individual loan defaults and adverse industry or economic downturns to our satisfaction in the next year or two, this investment strategy and product structure could be a worthwhile candidate to serve as an "income-producing surrogate parking lot" for undeployed private equity investments, given its return profile and the staggered maturities that we will be building here. Instead of over-allocating to public market equities as a surrogate for undeployed private equity commitments, this fund may provide superior return-risk characteristics. But that remains to be proven through actual experience during an incident or period of adversity. In the meantime, we will continue to monitor OCP's performance and default management, and work with them to keep our preferential future investment term options open as appropriate to both parties.

Prepared by:	**Approved by:**
OCERS G.M.- Approved	Steve Delaney
Girard Miller, CFA	Steve Delaney
Chief Investment Officer	Chief Executive Officer

Orange County Fire Authority

AGENDA STAFF REPORT

Budget and Finance Committee Meeting
January 14, 2015

Agenda Item No. 3C
Consent Calendar

Updated Broker/Dealer List

Contact(s) for Further Information

Patricia Jakubiak, Treasurer | Triciajakubiak@ocfa.org | 714.573.6301
Treasury & Financial Planning

Summary

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

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 15, 2015, with the Budget and Finance Committee's recommendation that the Executive Committee approve the proposed Broker/Dealer List to include the following three firms:

- FTN Financial
- Raymond James
- UBS Financial Services

Impact to Cities/County

Not Applicable.

Fiscal Impact

Not Applicable.

Background

See attached extended background regarding the process and selection of the recommend service providers.

Attachment(s)

OCFA's 2015 Investment Policy Excerpt Regarding Broker/Dealers

Background

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

During prior OCFA meetings, a member of the public has repeatedly raised concern with the broker/dealer selection process noting that this selection should be conducted using a Request for Proposal (RFP). The OCFA typically performs a RFP process to lock in clear specifications regarding what we wish to buy, how we want something built, what pricing will be provided, and/or time of delivery. In the case of investment transactions through broker/dealer services, none of these traditional specifications may be locked in through an RFP.

The Investment Policy encourages competitive bidding on investment transactions from an approved broker/dealer list. The Policy also requires that the broker/dealer list be reviewed and updated annually. The Executive Committee approved the last broker/dealer list update on January 23, 2014. The list is limited to three firms, due to the impracticality of dealing with a large list of service providers when obtaining competitive bids.

To qualify, broker/dealer service providers must meet the following ***minimum*** requirements:

- Agree to comply with the investment policies of the Authority
- Be a primary or regional dealer that qualifies under the Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule)
- Have a branch office in California
- Be experienced in institutional trading practices and familiar with the California Government Code as related to investments for local governmental agencies
- Have been in business for at least three years
- Provide current audited financial statements
- Provide proof of Financial Industry Regulatory Authority (FINRA) certification

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

In addition to the standard requirements, other factors such as competitiveness of quotes, responsiveness, reputation, and reliability are also considered in the annual review process. This year, all three of the firms are recommended for renewal due to the quality service they have provided over the past year.

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

Staff also reviewed reports from the Financial Regulatory Authority (FINRA) for each firm and broker. FINRA is dedicated to investor protection and market integrity through effective and efficient regulation of the securities industry. It protects investors by making sure the securities industry operates fairly and honestly by:

- writing and enforcing rules governing the activities of more than 4,100 securities firms with approximately 639,780 brokers;
- examining firms for compliance with those rules;
- fostering market transparency; and
- educating investors

FINRA provides information on any disclosure event or arbitration cases where the brokerage firm was named as a respondent. In reviewing the FINRA reports for calendar year 2014, there were no recent disclosure events including criminal matters, regulatory actions, and/or civil judicial proceedings that would have a direct negative impact on the OCFA.

Attachment

ORANGE COUNTY FIRE AUTHORITY

INVESTMENT POLICY

Excerpt Regarding Broker/Dealers

Calendar Year 2015

Effective January 1, 2015

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

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

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

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

8.1.3 Must have an branch office in California.

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

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

8.1.6 Must provide current audited financial statements.

8.1.7 Must provide proof of Financial Industry Regulatory Authority(FINRA) .

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

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

8.2.1 Current audited financial statements.

8.2.2 Depository contracts.

8.2.3 A copy of the latest FDIC call report.

8.2.4 Proof that the institution is state or federally chartered.

Orange County Fire Authority

AGENDA STAFF REPORT

Budget and Finance Committee Meeting
January 14, 2015

Agenda Item No. 4A
Discussion Calendar

FY 2014/15 Mid-Year Financial Report

Contact(s) for Further Information

Lori Zeller, Assistant Chief Business Services Department	lorizeller@ocfa.org	714.573.6020
Tricia Jakubiak, Treasurer	triciajakubiak@ocfa.org	714.573.6301
Deborah Gunderson, Budget Manager	deborahgunderson@ocfa.org	714.573.6302

Summary

This item is submitted to provide a mid-year financial update on the FY 2014/15 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 22, 2015, with the Budget and Finance Committee's recommendation that the Board of Directors approve the recommended actions listed below.

1. Approve a budget adjustment in Fund 121 to allocate $3,000,000 of available unencumbered funds identified in the FY 2013/14 financial audit to OCFA's unfunded pension liability and allocate any remaining funds to OCFA's Capital Improvement Program.
2. Approve a budget adjustment in Fund 121 to increase the FY 2014/15 Jurisdictional Equity Adjustment Payments by $4,978,772 resulting in full accrual of the Payments per the Second Amendment to the Amended Joint Powers Agreement, pending resolution of the appeal.
3. Authorize the following staffing changes:
    a. Unfreeze two Fire Prevention Specialist positions in the Community Risk Reduction Department to improve OCFA's response to increased development activity.
    b. Convert the 22 Hand Crew Firefighter positions from limited-term to permanent status.
4. Direct staff to return to the Board of Directors in March 2015 for approval of all additional budget adjustments discussed herein for the FY 2014/15 budget.

Impact to Cities/County

Annual increases for cash contract cities are currently estimated at 2.5% per year for 2015/16 and 2016/17 (excluding catch-up provision) based on the Five-Year Financial Forecast.

Fiscal Impact

Financial impact has been presented in the attached report.

Background
See the attached Mid-year Financial Report.

Attachment(s)
Mid-year Financial Report

Attachment

ORANGE COUNTY FIRE AUTHORITY
Mid-Year Financial Report
January 2015

In November 2013, 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 here for the Budget and Finance Committee's review.

ECONOMIC OUTLOOK

Property tax is OCFA's largest source of revenue; therefore this section focuses on economic factors impacting property values. The December 2014 Chapman Economic and Business Review forecast estimates a 4% median home price increase in Orange County in 2015. The factors influencing this estimate are much the same as this time last year. Mortgages are becoming less affordable as a result of anemic income growth coupled with increases in home prices that occurred in the past two years, while new and resale properties will enter the market, placing "downward pressure on home price appreciation."

Chapman estimates that increased construction spending seen in 2014 will continue in 2015, stating that "the permits drawn in 2014 will become actual spending in 2015." This will have a longer-term positive benefit for OCFA's largest revenue source, property tax, as constructed properties are sold and/or reassessed after improvements are made.

CURRENT FISCAL YEAR FINANCES

The following are estimated changes to the General Fund budget that are needed since the adoption of the FY 2014/15 budget in May 2014. Overall the currently proposed changes in the General Fund result in an estimated total revenue increase of approximately $13.3 million and an estimated total expenditure increase of $12.7 million when the full Jurisdictional Equity Adjustment Payment (JEAP) to Irvine, and additional lump sum payment to OCERS is included. Staff expects to return in March 2015 to request budget adjustments in the required areas:

FY 2014/15 Potential Revenue Adjustments

- **Property Taxes – $8.5 million increase**: Based on secured tax billings provided by the Auditor/Controller, preliminary projections indicate an approximately $8.5 million increase over budget. This is likely due to the Orange County Assessor's office conducting re-assessments of properties post the Great Recession. This re-captured value results in a large increase in property tax revenue in the current fiscal year, and future property tax revenues will now grow from a larger base.
- **Assistance by Hire (ABH) – $4.7 million increase:** Assistance by Hire is the term used when OCFA responds to requests for assistance on incidents outside areas of our responsibility on a reimbursement basis. Current year activity is $4.7 million greater than budget due to various out-of-county responses. Staff will be monitoring this source of revenue for additional reimbursements. A corresponding expenditure adjustment is also proposed to the overtime/backfill category.

- **Community Risk Reduction (CRR) Fees - $891K decrease:** On July 24th the Board approved a change to the CRR fee schedule. The approved fee schedule results in a net reduction to CRR fees and associated revenues. The volume of requests has not changed significantly year over year.
- **Community Redevelopment Agency (CRA) Pass-Through - $717K increase**: A one-time payment of approximately $717,000 is scheduled to be received due to the settlement of a lawsuit between the City of Irvine and the California Department of Finance.
- **Other Miscellaneous Revenues - $324K increase:** Various changes are anticipated to categories of miscellaneous revenues, for a total net increase of $323,978.

<u>FY 2014/15 Potential Expenditure Adjustments</u>

- **JEAP payment set-aside – $5.0 million increase:** With the ratification of the Second Amendment to the Joint Powers Agreement (JPA), Jurisdictional Equity Adjustment Payments (JEAP) are required for qualifying Structural Fire Fund (SFF) members. The Second Amendment specifically provides that the City of Irvine be paid 100% of their JEAP in FY 2014/15. Other qualifying agencies are due 25% of their calculated payment in this year with subsequent years' ratio growing until it reaches 100%. The JEAP calculation has been performed and is attached as Exhibit 2, indicating that total payments of $6,989,875 are due to qualifying SFF members.

  OCFA's adopted budget anticipated use of the option allowed in the Second Amendment to delay a portion of Irvine's JEAP from FY 2014/15 to future years, since revenues were originally estimated to be insufficient to accommodate the entire payment due. The updated property tax revenues provide the opportunity to accrue the entire payment due in the current year, significantly smoothing the impact to the General Fund in later years. Although the financial forecast model has been updated to include a full JEAP to Irvine in the current year, the budget itself requires a $5.0 million adjustment

  On August 7, 2014, a Superior Court judge ruled the Second Amendment to the JPA invalid. OCFA and the City of Irvine are appealing this ruling, as the Second Amendment is very important to the long-term stability of the OCFA and all member agencies. Given the uncertainty of the legal outcome and based on advice from General Counsel, OCFA will be transferring JEAPs to appropriate Equity Payment holding accounts pending resolution of the appeal. Any interest accrued during the time the funds are held will be paid when the legal action has resolved.

- **Overtime/backfill - $3.2 million increase:** As mentioned under Revenue for Assistance by Hire, this account will require an increase of approximately $3.2 million related to out-of-county responses.
- **Accelerated pension pay-down payment to OCERS - $3.0 million:** The FY 2013/14 annual audit identified approximately $6 million of unencumbered fund balance available at the end of the fiscal year. In furtherance of the Board's direction to accelerate the funding of the unfunded pension liability, staff is recommending that $3 million of the unencumbered fund balance be used to make a lump sum payment to OCERS. Staff is also recommending that the remaining $3 million be allocated to the Capital Improvement Program.

- **FS 56 Salaries/Benefits -- $920K decrease:** The FY 2014/15 budget contained funding for salaries and benefits for three post positions (9 employees) for half of the year, anticipating the station opening on January 1, 2015. With the station on track to open in July 2015, this funding is no longer necessary in the current fiscal year.
- **Firefighter MOU -- $1.4M increase:** The approval of the Firefighter MOU results in selected net increases in various S&EB categories which take effect during the current fiscal year.
- **Orange County Employees Association (OCEA) MOU - $122K increase:** A tentative agreement has been reached with OCEA on a new MOU. Upon approval of the new MOU, selected net increases in various S&EB categories will take effect during the current fiscal year.
- **Training Needs – $172K increase:** Increases in costs for the staffing of the OCFA Training Section and provision of training programs to OCFA employees are needed and requested as follows:
  - Due to retirements and promotions, a second firefighter academy is needed at an estimated cost of $100,000, which may vary depending on the required parameters for the additional academy. The adopted budget only included funding for one academy which was conducted during the first-half of the fiscal year.
  - OCFA's Training Section has been experiencing difficulties for multiple years attracting and retaining field personnel to serve in an administrative capacity for delivery of new recruit academies and ongoing training of field personnel. A review of the staffing issues found that qualified field personnel incurred roughly a 10% pay-cut when moving into the Training Section, due to loss of bonus pay assigned to specialty positions in the field. As previously discussed with the Board, and to resolve these issues, staff is recommending implementation of a 10% bonus pay for qualified personnel who agree to serve in a staff capacity in the Training Section. The estimated cost for the remainder of FY 2014/15 is approximately $57,000.
  - To assist in meeting staff development and succession planning goals, funding is requested for purchase of a Microsoft Training platform. The training will be available to all employees, for completion at their own pace, covering those Microsoft software programs of greatest use to each employee, for a three-year cost of $15,000.
- **Staffing Needs - $78K increase:**
  - Planning & Development (P&D): This Section has experienced a significant increase in service demands, requiring a need to reassess the level of staffing and frozen positions. P&D continues to be impacted by increasing construction activity in Orange County. Providing service to the development community without causing delays in turnaround times and excessive overtime use will require us to unfreeze and fill two vacant Fire Prevention Specialist (inspection) positions. These positions are intended to initially be filled with Trainee level employees at an annual cost of $189,000, of which a pro-rated adjustment of approximately $78,000 would be required. The eventual estimated annual cost for two full-time Specialist inspectors is $271,000.
  - Hand Crew Firefighters -- OCFA currently has 22 Hand Crew Firefighter positions. These positions have been staffed as a limited term classification for several years. Changing the classification from limited term to full-time regular has no budgetary impact since limited term employees earn the same pay and benefits as a regular full-time employee during the term of

their employment. This change only reflects the OCFA's plan to maintain these positions in the future and updates the authorized position count for OCFA.

- **Other Miscellaneous Expenses - $707K increase:** Various expenditure changes that have been separately reviewed with the Executive Committee and/or Board are being requested for a total net increase of $707,471. These include items such as increases for OCFA's labor negotiator ($150,000), special litigation counsel ($25,000), General Counsel ($100,000), and a combination of transfer from the existing CIP budget, and increase, for helicopter components including a hoist ($305,000).

General Fund and CIP funds – Beginning Fund Balance Adjustment

Beginning fund balances will be adjusted in accordance with the FY 2013/14 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 CIP beginning fund balance adjustments largely result from ongoing projects not being completed during the FY which were rebudgeted to FY 2014/15.

FY 2014/15 "Trigger" Formula Calculation for Base Salary Increase Determination

In accordance with Memorandums of Understanding (MOU) with selected represented groups, a "trigger" formula calculation has been used to determine whether employee base salary increases shall be scheduled for February 2015. This "trigger" calculation determines how much is available for increases to base salary, after funding all general fund expenditures, the incremental increase to the contingency fund balance, and designating an amount equal to 5% of general fund expenditures for transfer to the Capital Improvement Funds. Per the existing MOUs, FY 2014/15 is the last year in which the "trigger" formula remains applicable. Thereafter, any future salary increases will be pursuant to successor MOUs.

The attached calculation (Exhibit 1) is based on figures from the 2014/15 adopted budget as well as the actual secured property tax initial tax levy from the County as required by the agreed upon methodology. The calculation for this year resulted in a negative approximately $7.5 million, indicating that there are no funds available for "triggered" base salary increases.

FUTURE FISCAL YEAR FINANCES

Significant factors that are anticipated to influence the FY 2015/16 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 OCERS to take advantage of an approximately 5.8% discount. The discount factor was lowered in the past several months from 7.25% to 5.8%.
- **Property Taxes** - Since property tax is the largest source of income for the General Fund at about 63% we have again contracted with Rosenow, Spevacek Group, Inc. (RSG) to update our property tax projections. Updated preliminary information for our FY 2015/16 budget will not be available until February 2015; therefore, in the interim we are continuing to use RSG's prior projection for FYs 2015/16 through 2018/19 of the Five-Year Financial Forecast. The Chapman Economic and Business Review forecast projected that property tax revenue will show continued, albeit slow, growth.

- **Retirement Rates -** The Orange County Employees Retirement System (OCERS) Board has adopted retirement rates for FY 2015/16. Employer rates for safety employees will increase by approximately 0.34% of pay and employer rates for general employees will increase by approximately 0.70% of pay compared to rates used to develop the FY 2014/15 budget adopted in May 2014. The latest rates reflect the full impact of OCERS' 0.50% decrease in the assumed rate of return from 7.75% to 7.25%. This change took effect in FY 2014/15 and was phased-in over two fiscal years.

PENDING ISSUES

- **TRAN –** As in the current fiscal year, the OCFA is anticipating the need to issue a Tax Revenue Anticipation Note (TRAN) in early FY 2015/16. The TRAN will provide for short-term cash needs until we receive our regular property tax payment from the Auditor-Controller, which typically occurs in December and April.

- **Adjudication of Appeal on Second Amendment to JPA –** Staff continues to monitor the legal process as the appeal relating to the ruling in the validation matter for the Second Amendment to the JPA continues. Given the uncertainty of the legal outcome and based on advice from OCFA General Counsel, we have elected to transfer any calculated JEAP payments to internal Equity Payment holding accounts pending resolution of the appeal. Per the JPA, the funds will accrue interest at the rate earned on the OCFA portfolio, which will be transferred to the qualifying agency upon a successful resolution of the appeals process.

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 4 and 5).

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 3.

Accelerated Paydown of UAAL

The FY 2014/15 Adopted Budget included an initial payment of approximately $18.3 million towards accelerated paydown of the OCFA's Unfunded Actuarial Accrued Liability (UAAL) with OCERS. This proposed mid-year review also includes an additional $3 million lump sum payment towards the UAAL, in compliance with the "Snowball" plan adopted by the Board in September 2013. With approval of this agenda item, total accelerated payments for FY 2014/15 will be $21.3 million.

OCFA TRIGGER FORMULA
(Reformatted from the Five Year Financial Forecast - Baseline Model)
FY 2014-15

GENERAL FUND REVENUES			**GENERAL FUND EXPENDITURES**		
Property Taxes	200,615,240	*	Salaries	171,035,923	
State Reimbursements	4,429,534		Retirement	69,456,192	
Federal Reimbursements	100,000		Worker's Comp	13,811,667	
One-Time Grant Proceeds	-		Insurance, Medicare, Etc.	25,562,204	
CRA Pass-Thru's	6,608,025		Salaries & Employee Benefits	279,865,986	
Cash Contracts	87,934,667		Services & Supplies/Equipment	23,574,477	
Haz Mat Services Section	-		One-Time Grant Expenditures	-	
Fire Prevention Fee	7,340,160		TRAN Debt Service - Interest Expense	895,000	
ALS Supplies & Transport Reimbursement	4,570,574		Incremental Increase to Contingency Fund Balance	1,582,301	*(a)*
Interest Earnings	886,749				
Other Revenue	1,171,785				
TOTAL REVENUES (A)	**313,656,734**		**TOTAL EXPENDITURES (B)**	**305,917,764**	

(a) This item is in addition to the total shown for General Fund expenditures on the Five Year Financial Forecast. For purposes of the Forecast, this item is reflected in Section B. Should additional increases be needed to replenish Contingency Fund Balance that may have been used for budget deficits, these increases will be funded first from the cash flow fund balance.

GENERAL FUND SURPLUS/(DEFICIT) = (A-B)	**7,738,970**
Fund 5% of General Fund Expenditures to CIP *(excludes incremental increase to Contingency Fund Balance)*	(15,216,773)
TRIGGER FORMULA FUNDS AVAILABLE - ALL GROUPS	**(7,477,803)**

** - FY 2014/15 adopted total property tax amount adjusted by the FY 2014/15 secured property tax ledger. Assumes 1% roll change/refund factor.*

Exhibit 1

Orange County Fire Authority
FY 2014/15 Equity Calculations
Updated 12/2014

I. Calculate Average SFF Rate

Description	Agmt. Ref.	Source	Amount	Calculation
Total SFF Revenue Figure	Pg. 3, Sec. 4.A.(1)	AT68AD-73 Auditor Controller Accumulation of Combined Prior Year and Current Year ATI	200,309,490	[A]
Total AV Figure	Pg. 4, Sec. 4.A.(2)	AT04VC-74 Auditor Controller District Values Used to Set Tax Rates	172,965,666,284	[B]
SFF Basic Levy Figure	Pg. 4, Sec. 4.A.(3)	Total AV Figure X 1%	1,729,656,663	[C] = [B] X 1%
Average SFF Rate	Pg. 4, Sec. 4.A.(4)	SFF Revenue Figure / SFF Basic Levy Figure	11.58%	[D] = [A] / [C]

II. Calculate Jurisdictional Equity Adjustment Payment

City	Jurisdictional SFF Revenue Figure per Auditor-Controller AT68AD-73 Report	Jurisdictional AV Figure per Auditor-Controller AT04VC-74 Report (L&I)	Jurisdictional Basic Levy Figure	Jurisdictional SFF Rate	Over-Funded SFF Jurisdictions	Jurisdictional Equity Adjustment Payment	Phase in payment due in FY 2014/15 (applicable agencies) 25%	
Agreement Ref.	Pg. 5, Sec. 4.A.(5).a	Pg. 5, Sec. 4.A.(5).b	Pg. 5, Sec. 4.A.(5).c	Pg. 5, Sec. 4.A.(5).d	Pg. 5, Sec. 4.A.(6)	Pg. 6, Sec. 4.A.(6)		
Calculation	[E]	[F]	[G]=[F] X 1%	[H]=[E] / [G]	IF [H] > [D]	[I]=([H]X[G])-([D]X[G])		
Aliso Viejo	9,724,276	8,533,234,588	85,332,346	11.40%				
Cypress	4,454,860	5,000,069,905	50,000,699	8.91%				
Dana Point	11,082,066	9,645,289,772	96,452,898	11.49%				
Irvine	68,300,059	53,352,431,215	533,524,312	12.80%	11.58%	6,513,240	6,513,240	*
Laguna Hills	6,147,936	5,979,270,552	59,792,706	10.28%				
Laguna Niguel	13,896,437	13,231,874,048	132,318,740	10.50%				
Laguna Woods	2,834,724	2,428,365,849	24,283,658	11.67%	11.58%	22,463	5,616	
Lake Forest	12,472,117	10,769,038,612	107,690,386	11.58%	11.58%	621	155	
La Palma	1,428,958	1,555,327,250	15,553,273	9.19%				
Los Alamitos	1,716,485	1,718,475,408	17,184,754	9.99%				
Mission Viejo	15,017,493	14,034,290,989	140,342,910	10.70%				
Rancho Santa Margarita	8,888,108	7,206,553,173	72,065,532	12.33%	11.58%	542,284	135,571	
San Juan Capistrano	6,557,877	5,700,231,442	57,002,314	11.50%				
Villa Park	1,555,844	1,523,569,454	15,235,695	10.21%				
Yorba Linda	9,789,479	10,600,737,150	106,007,372	9.23%				
County Unincorporated	26,442,771	21,675,034,251	216,750,343	12.20%	11.58%	1,341,170	335,293	
Total OCFA SFF	**200,309,490**	**172,953,793,658**	**1,729,537,937**			**8,419,778**	**6,989,875**	

* Per 2nd Amendment to JPA, Irvine receives full payment in FY 2014/15

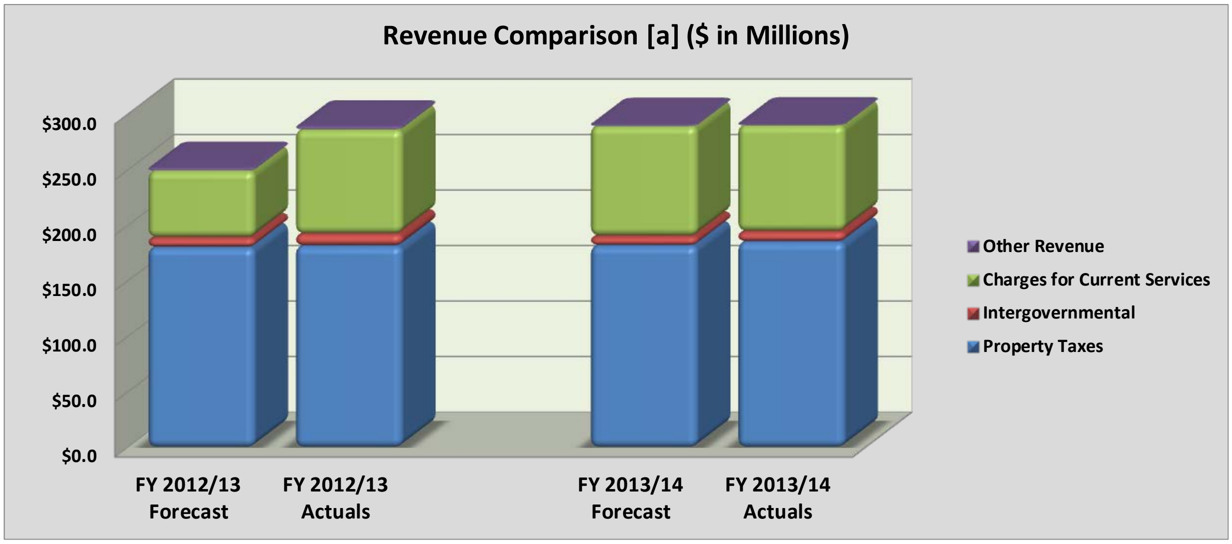
Exhibit 2

2014 Trend Analysis: Summary of 2-Year Forecast vs. Adjusted Actuals

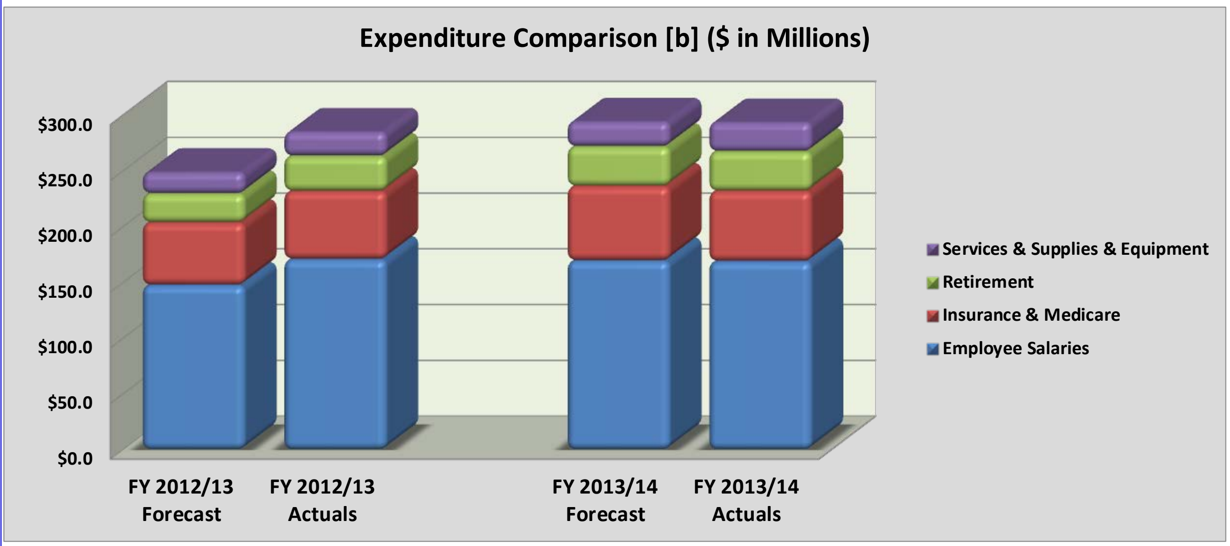
Comparison of 2012/13 Forecast as Presented in 2011/12 Adopted Budget to 2012/13 Actuals

and

Comparison of 2013/14 Forecast as Presented in 2012/13 Adopted Budget to 2013/14 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. See Exhibit D - 2-Year Forecast vs. Actuals Detail. Difference between forecast and actuals in FY 2012/13 primarily due to Santa Ana joining OCFA.



[b] Actual expenditures adjusted for one-time items not forecasted such as Santa Ana start-up costs and grant expenditures. See Exhibit D - 2-Year Forecast vs. Actuals Detail. Difference between forecast and actuals in FY 2012/13 primarily due to Santa Ana joining OCFA.

Exhibit 3

Updated* Five-Year Financial Forecast

*Includes all Board approved adjustments and proposed Mid-Year adjustments

	ADJUSTED FY 2014/15	PROJECTED FY 2015/16	PROJECTED FY 2016/17	PROJECTED FY 2017/18	PROJECTED FY 2018/19
A. BEGINNING FUND BALANCE	**171,491,991**	**142,930,063**	**146,604,438**	**152,473,541**	**160,381,348**
GENERAL FUND REVENUES					
Property Taxes	203,945,724	211,056,991	217,835,535	225,256,580	232,899,937
State Reimbursements	4,429,534	4,429,534	4,429,534	4,429,534	4,429,534
Federal Reimbursements	100,000	100,000	100,000	100,000	100,000
One-Time Grant/ABH/RDA	7,421,176	-	-	-	-
Community Redevelopment Agency Pass-thru	6,608,025	6,769,574	7,063,054	7,225,940	7,393,311
Cash Contracts	87,934,667	90,799,468	93,284,824	95,093,429	97,665,775
Community Risk Reduction Fees	6,448,604	6,448,604	6,448,604	6,448,604	6,448,604
ALS Supplies & Transport Reimbursement	4,570,574	4,570,574	4,570,574	4,570,574	4,570,574
Interest Earnings	886,749	224,336	332,769	444,078	449,050
Other Revenue	1,495,763	1,313,235	1,313,235	1,313,235	1,313,235
Transfers from General Fund Cashflow Fund (OCERS Pre-Pay)	18,290,238	-	-	-	-
TOTAL REVENUES	**342,131,054**	**325,712,316**	**335,378,129**	**344,881,974**	**355,270,020**
GENERAL FUND EXPENDITURES					
New Positions for New Stations	-	1,099,221	1,120,424	4,025,616	4,103,267
Employee Salaries	172,113,942	174,076,756	174,699,904	175,172,781	175,172,781
Retirement - Regular Annual Payments	69,066,956	69,826,841	68,672,613	67,910,657	66,202,726
Retirement - Paydown of UAAL (Rate Savings)	-	2,493,453	3,629,709	4,391,665	8,268,666
Retirement - Paydown of UAAL (Unencumbered Funds)	21,290,238	-	-	-	-
Retirement - Paydown of UAAL ($1M per Year)	-	-	1,000,000	2,000,000	3,000,000
Workers' Comp Transfer out to Self-Ins. Fund	13,811,667	13,941,323	14,235,795	14,662,869	15,102,755
Other Insurance	23,295,121	25,431,609	27,764,373	30,311,479	33,092,655
Medicare	2,306,992	2,482,270	2,482,270	2,482,270	2,482,270
One-Time Grant/ABH Expenditures	4,284,696	-	-	-	-
Salaries & Employee Benefits	306,169,612	289,351,473	293,605,089	300,957,337	307,425,120
Equity Payments	6,989,875	7,746,727	8,525,408	9,366,741	9,706,379
Services & Supplies/Equipment	24,399,798	24,206,779	24,266,549	24,314,749	24,289,359
New Station/Enhancements S&S Impacts	-	45,977	45,977	168,581	168,581
One-Time Grant Expenditures	999,394	-	-	-	-
Debt Service: Interest on TRAN	895,000	-	-	-	-
TOTAL EXPENDITURES	**339,453,679**	**321,350,956**	**326,443,023**	**334,807,408**	**341,589,439**
NET GENERAL FUND REVENUE	**2,677,375**	**4,361,360**	**8,935,106**	**10,074,566**	**13,680,581**
B. Incremental Increase in GF 10% Contingency	**-**	**522,130**	**217,713**	**576,110**	**156,539**
GENERAL FUND SURPLUS / (DEFICIT)	**2,677,375**	**3,839,230**	**8,717,393**	**9,498,456**	**13,524,042**
C. Operating Transfers to/(from) GF Cashflow (OCERS Pre-Pay)	-	-	-	-	-
D. Operating Transfers (from) Operating Contingency	-	-	-	-	-
Transfers to CIP Funds					
Transfers to CIP from General Fund Surplus	2,677,375	3,839,230	8,717,393	9,498,456	13,524,042
Total Operating Transfers to CIP	2,677,375	3,839,230	8,717,393	9,498,456	13,524,042
Capital Improvement Program/Other Fund Revenues					
Interest Earnings	246,134	1,198,903	1,872,457	2,631,668	2,835,109
State/Federal Reimbursement	1,124,780	-	-	-	-
Cash Contracts	1,673,564	1,692,596	1,735,275	1,779,233	1,824,510
Developer Contributions	7,771,556	1,465,353	-	2,360,970	-
Workers' Comp Transfer in from GF	13,811,667	13,941,323	14,235,795	14,662,869	15,102,755
Miscellaneous	559,279	-	-	-	-
Lease Purchase Proceeds	-	-	9,838,662	11,536,042	3,799,053
Operating Transfers In	2,677,375	3,839,230	8,717,393	9,498,456	13,524,042
Total CIP, W/C, Other Revenues	27,864,355	22,137,405	36,399,582	42,469,238	37,085,468
Capital Improvement Program/Other Fund Expenses					
Fund 122 - Facilities Maintenance & Improvements	2,654,276	1,302,122	1,330,505	1,359,669	1,389,634
Fund 123 - Facilities Replacement	5,749,437	-	-	-	-
Fund 124 - Communications & Info Systems Replace.	9,465,097	2,856,449	7,986,730	13,913,195	5,319,500
Fund 133 - Vehicle Replacement	12,961,164	7,112,716	11,957,241	7,996,290	3,776,467
Sub-Total CIP Expenses	30,829,974	11,271,287	21,274,476	23,269,154	10,485,601
Fund 171 - SFF Entitlement	216,213	-	-	-	-
Fund 190 - WC Self-Ins. (Cashflow Payments per Actuary)	7,089,858	7,713,874	8,308,297	8,948,526	9,638,090
Lease Purchase Payments	-	-	1,165,419	2,919,861	3,827,006
Total CIP, W/C, Other Expenses	38,136,045	18,985,161	30,748,192	35,137,541	23,950,697
E. CIP SURPLUS/(DEFICIT)	**(10,271,690)**	**3,152,244**	**5,651,390**	**7,331,698**	**13,134,771**
ENDING FUND BALANCE (A+B+C+D+E) [a]	**142,930,063**	**146,604,438**	**152,473,541**	**160,381,348**	**173,672,659**
Fund Balances					
Operating Contingency (10% of Expenditures)	30,588,948	31,111,078	31,328,791	31,904,900	32,061,439
Donations & Developer Contributions	4,923	4,923	4,923	4,923	4,923
Fund 171 - Structural Fire Fund Entitlement	570,472	580,542	596,271	618,377	642,192
Capital Improvement Program	43,134,679	39,554,377	38,489,403	38,998,036	45,473,710
Community Risk Reduction Fee-Funded Capital Needs	886,075	886,075	886,075	886,075	886,075
Fund 190 - WC Self-Insurance	67,744,967	74,467,443	81,168,078	87,969,037	94,604,319
Total Fund Balances	142,930,063	146,604,438	152,473,541	160,381,348	173,672,659

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

Exhibit 4

Forecast Assumptions – Mid-Year Revised

Basic Assumptions:

The Adopted FY 2014/15 budget, the Five-Year Capital Improvement Plan approved by the Board of Directors on May 22, 2014, and the proposed FY 2014/15 Mid-Year adjustments form the basis for this financial forecast.

General Fund Revenues:

- ***Secured Property Taxes*** – Rosenow Spevacek Group's (RSG) Final 2014 Report provides the growth factors assumed for the forecast. The following are projections of current secured property tax growth:

FY 2015/16	3.75%
FY 2016/17	3.45%
FY 2017/18	3.65%
FY 2018/19	3.63%

  Property Tax for FY 2014/15 reflects a proposed mid-year increase of approximately $8.5M based on the latest tax ledger data provided by the County Auditor-Controller.

- ***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. The FY 2014/15 budget was increased by approximately $7.4M for increases in grants and assistance by hire.

- ***Community Redevelopment Agency Pass-thru Revenue –*** RSG completed a Redevelopment Area Excess Revenue Analysis of pass-thru and residual revenues from the dissolution of the redevelopment agencies dated 4/2/2014. 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 2.0% and 4.5% per year, with a 4.5% cap. 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 –*** There is a proposed mid-year adjustment to revise FY 2014/15 revenue downward by a net approximately $892K due to a newly adopted fee schedule. 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 0.25% for FY 2014/15, 1.00% for FY 2015/16, 1.50% for FY 2016/17 and 2.00% for FY 2017/18 and FY 2018/19. Interest earnings in FY 2014/15 include earnings from the reinvestment of TRAN proceeds.
- ***Other Revenue* –** This revenue source includes various items such as reimbursements for training and cost recovery for the firefighter handcrew.

<u>General Fund Expenditures</u>

- ***Salaries & Employee Benefits* –** S&EB is composed of the following factors and reflects an estimated $1.4M net increase in annual costs resulting from the latest Firefighter MOU and an approximate $1.3M increase spread over four years based on the latest OCEA MOU that is pending approval:
  - ✓ ***New Positions for New Stations* –** Fire Station #56 (Village of Sendero) is anticipated to be operational on 7/1/2015 and a new Rancho Mission Viejo station is expected to open on 7/1/2019. The forecast also assumes that four positions for a Station 20 Truck will be unfrozen 7/1/2017.
  - ✓ ***Employee Salaries* –** Salaries reflect an increase for the Firefighter MOU and anticipated OCEA MOU impacts. The forecast does not contain estimated increases based on the "trigger" formula. In addition, salary increases are not projected for the years that follow expiration of the current MOUs.
  - ✓ ***Retirement* –** Retirement costs reflect a downward adjustment for the Firefighter MOU and anticipated OCEA MOU impacts due to increasing employee retirement contributions. Retirement costs reflecting the projected employer retirement rates are based on the initial December 31, 2013 Actuarial Valuation Report prepared by Segal Consulting and provided by OCERS on 5/10/2014. FY 2015/16 rates in the 12/31/2013 valuation are 1.03% lower for non-safety and 2.06% lower for safety compared to the projected rates for FY 2015/16 presented in the Segal Study dated 8/30/2013.

FY	Safety	General	Source
2014/15	49.66%	36.35%	12/31/2013 Actuarial Valuation Report
2015/16	49.84%	37.07%	
2016/17	49.54%	36.87%	Segal Report Dated 8/30/2013, adjusted by savings factor from 12/31/2013 Actuarial Valuation Report
2017/18	49.34%	36.77%	
2018/19	48.34%	36.17%	

The forecast includes the $18.3 million paydown of the UAAL that occurred early in FY 2014/15. The forecast also assumes an additional $3 million lump sum payment from unencumbered fund balance carried over from FY 2013/14.

In accordance with a September 2013 board action, outer years of the forecast include projected UAAL paydowns based on retirement rate savings and an additional $1 million per year for five years beginning in FY 2016/17.

- ✓ ***Workers' Compensation –*** FY 2014/15 continues the "stair-step" up to the 60% confidence level for ongoing Workers' Compensation costs as set by the Board of Directors. The 60% confidence level will be maintained going forward. Workers' Compensation costs in the forecast period are based on projected payments in the Rivelle Consulting Services July 2014 Study less $100,000 in savings in FY 2015/16 and $150,000 in savings in FY 2016/17 and thereafter due to implementation of Alternative Dispute Resolution.
- ✓ ***Other Insurance –*** Medical insurance rates for firefighters are assumed to grow annually by 9%. For staff members, it is projected to grow by 10% annually. This category also includes $30,000 for unemployment insurance in FY 2014/15.
- ✓ ***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 2014/15.
- ***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).

Equity Payments

Equity Payments for FY 2014/15 are calculated based on procedures set forth in the Second Amendment to the Joint Powers Agreement which references various reports produced by the County Auditor Controller's office. Equity payments in outer years are projected based on property tax growth forecasts in RSG's Final 2014 Report. Pursuant to the Second Amendment to the Joint Power Agreement, if there are insufficient funds to make Irvine Equity Payments in FY 2014/15 and/or FY 2015/16, a portion of the Irvine Equity Payment may be deferred for two years. The Adopted Budget assumed that a portion of the Irvine payment would be deferred in FY 2014/15 and FY 2015/16. Due to higher than anticipated property tax revenue, the forecast now assumes no deferral of equity payments, however the payments will be accrued and held in an internal Equity Payment holding account pending resolution of the appeal of the invalidation ruling.

General Fund Surplus/(Deficit):

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

Capital Improvement Program/Other Funds Revenue:

- ***Interest Earnings*** **–** Assumes an annual return of 0.25% for FY 2014/15, 1.00% for FY 2015/16, 1.50% for FY 2016/17 and 2.00% for FY 2017/18 and FY 2018/19.
- ***State/Federal Reimbursement*** **–** The forecast assumes $252K in grant revenue for purchase of a generator and backup power for FS 41 and well as $873K in rebudgets for a Community Development Block Grant in FY 2014/15.
- ***Cash Contracts*** **–** The forecast calculations are based on the Joint Powers Agreement and subsequent amendments.
- ***Developer Contributions*** **–** In 2014/15, Fire Station #56 (Village of Sendero) construction and apparatus will be funded by developer contributions. The forecast also assumes developer contributions will be used to fund a truck for Station 20 in FY 2016/17 and various vehicles for Rancho Mission Viejo Station #67 in FY 2017/18.
- ***Workers' Compensation Transfer*** **–** These amounts equal the General Fund Workers' Compensation budget.
- ***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)*** **–** Remaining funds will be expended through the forecast period.
- ***Self-Insurance Fund (Fund 190)*** **–** FY 2014/15 expenditures reflect a proposed decrease of approximately $3.8M based on the July 2014 Rivelle Consulting actuarial study. Self-Insurance fund expenditures in the forecast period are based on projected payments in the Rivelle Consulting Services July 2014 Study.

Fund Balances:

- ***Operating Contingency*** **–** Reflects policy of 10% of the General Fund expenditures each year (less one-time expenditures and equity payments). General Fund deficits (if applicable) are deducted from this category of fund balance once the Cash Flow fund balance is exhausted.
- ***Cash Flow*** **–** The fund balance for the previous year, reduced by any General Fund deficits (if applicable). Any available fund balance at the end of FY 2013/14 is

transmitted to OCERs in FY 2014/15 to paydown OCFA's unfunded pension liability pursuant to a side letter agreement to the MOU between OCFA and the Orange County Professional Firefighters Association.

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.

Exhibit 5

Orange County Fire Authority

AGENDA STAFF REPORT

Budget and Finance Committee Meeting **Agenda Item No. 4B**
January 14, 2015 **Discussion Calendar**

Internal Control Review of Capital Assets and Inventory Control

Contact(s) for Further Information

Lori Zeller, Assistant Chief Business Services Department	lorizeller@ocfa.org	714.573.6020
Jim Ruane, Finance Manager	jimruane@ocfa.org	714.573.6304
Bryan Gruber, CPA, Independent Auditor Lance, Soll & Lunghard, LLP	bryan.gruber@lslcpas.com	714.672.0022

Summary

This agenda item is submitted to present the independent accountants' Agreed-Upon Procedures report of OCFA's internal control review of Capital Assets and Inventory Control.

Prior Board/Committee Action

Not Applicable.

Recommended Action(s)

1. Receive and file the attached Independent Auditors' Report of Internal Controls on Procurement/Disbursement Practices related to the Capital Assets and Inventory Control.
2. Direct staff to implement the corrective actions as stated in the report.

Impact to Cities/County

Not Applicable.

Fiscal Impact

Not Applicable.

Background

At the March 14, 2012, Budget and Finance Committee meeting, the Committee approved the selection of Lance, Soll & Lunghard, LLP (LSL) as the auditing firm to complete a comprehensive review of OCFA's financial internal controls over the next three years. At the February 5, 2014, Budget and Finance Committee meeting, the Committee approved a scope of work, which included a review of Capital Assets and Inventory Control.

Review of Internal Controls on the Capital Assets and Inventory Control

LSL has completed their test work on forty processes relating to capital assets and inventory control in six different sections. Out of the forty processes, LSL has four recommendations to further enhance the process based on their observations. The results of the audit confirmed that the Authority has strong controls in place to account for its assets. LSL submitted the report to OCFA management for inclusion of the appropriate responses to the recommendations. A copy of LSL's report, along with OCFA's management responses, is included as an attachment to this staff report. All of the auditors' recommendations will be implemented by staff.

Future Internal Control Reviews
Staff will be returning to the Budget and Finance/Audit Committee in March 2015 to discuss the scope and approach of the future internal control reviews.

Attachment(s)
Agreed-Upon Procedures Review on the Capital Assets and Inventory Control with OCFA Management Responses

ORANGE COUNTY FIRE AUTHORITY

Independent Accountants' Report on Applying Agreed-Upon Procedures on Fixed/Controlled Assets, Parts/Supplies and Inventory Procedures

October 22, 2014

• David E. Hale, CPA, CFP
• Donald G. Slater, CPA
• Richard K. Kikuchi, CPA
• Susan F. Matz, CPA
• Bryan S. Gruber, CPA
• Deborah A. Harper, CPA
• Gary A. Cates, CPA
• Michael D. Mangold, CPA
• David S. Myers, CPA

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

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

We have performed the procedures enumerated in the sections below, which were agreed to by the Orange County Fire Authority (the Authority), solely to assist you with respects to fixed/controlled assets, parts/supplies, and inventory recordkeeping, reporting and reconciling practices of the Orange County Fire Authority. The agreed-upon period examined, was from January 1, 2013 to June 5, 2014. Orange County Fire Authority's management is responsible for the policies and procedures relating to fixed assets, controlled assets and parts and supplies inventory.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of Orange County Fire Authority. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

BACKGROUND

Fixed and controlled assets are monitored by the Authority's Finance Division. Fixed assets are property, plant and equipment with an estimated useful life greater than one year and with an initial individual cost of $5,000 or more. Fixed asset classes include land, buildings and improvements, vehicles and equipment. Controlled assets are equipment items that do not meet the fixed asset criteria, but require oversight to ensure legal compliance, protection of public safety and safeguarding or proper use of the asset. Controlled assets cost less than $5,000; have an estimated useful life greater than one year; and are sensitive, funded via federal grant, portable and/or prone to theft. The Finance Division monitors all fixed and controlled assets through the issuance of bar-coded asset tags.

Six Servicing Sections work with the Finance Division to independently monitor and manage fixed and controlled assets that are assigned throughout the Authority. Servicing Sections are responsible for the maintenance and repair of fixed and controlled assets in their respective areas, as well as maintaining the assigned locations of those assets. In addition, each Servicing Section is responsible for purchasing, warehousing and overseeing the use of various parts and supplies in their respective areas. Examples of these items include office supplies, tools, and parts. Parts and supplies are considered consumable goods and are not monitored by the Finance Division's bar-coded asset tag system.

The Authority's six Servicing Sections and their areas of responsibility are as follows:

- *Information Technology*: Fixed and controlled assets include computers, printers, scanners, laptops, tablets, network equipment, servers, and software. Parts and supplies include any other materials or tools related to information technology systems.

- *Communication Services*: Fixed and controlled assets include mobile and portable radios, mobile data computers (MDC's), mobile radio monitors, fax machines, radio modems, and automatic vehicle locators (AVL's). Parts and supplies include various items related to communications, such as pagers and cell phones.

- *Emergency Medical Services:* Fixed and controlled assets include ambulance cots, manikins, and automated external defibrillators (AED's). Parts and supplies include all other medical equipment and supplies.

- *Service Center:* Fixed and controlled assets include breathing apparatus, hydraulic tools, and thermal imaging cameras. Parts and supplies include a wide range of supplies and personal protective equipment, such as office and station supplies, cleaning products, uniforms, turnouts, and fire hose.

- *Fleet Services*: Fixed assets include vehicles, trailers, and fire apparatus. Parts and supplies include various parts and tools related to the maintenance of vehicles.

- *Urban Search and Rescue (US&R)*: US&R Task Force 5 is responsible for overseeing all fixed assets and other items purchased with federal fund for use in the US&R grant program. Fixed assets include a wide variety of specialty equipment such as tents, boats, and search equipment. Parts and supplies include all other items in the US&R cache that are necessary to maintain readiness for deployment under the program.

The result of the procedures performed below are documented according to each class of asset (fixed assets, controlled assets and parts and supplies) based on each Servicing Section's internal controls over the administration, monitoring, and record keeping of those assets.

FIXED AND CONTROLLED ASSETS

The purchase of fixed assets are initiated and authorized by a designated Section or Division Manager and/or a Division Chief. The Authority's Finance Division monitors the ordering and receipt of fixed assets to ensure that all fixed assets are accounted for and properly documented. The Finance Manager designates an accountant in the Finance Division as the Fixed Asset Accountant, responsible for issuing all fixed asset tag numbers to Divisions and Sections. The Finance Division is also responsible for performing periodic inventories of fixed assets, to ensure the completeness and existence of all fixed assets for financial statement reporting purposes.

<u>Information Technology (IT)</u>

1. We selected a sample of 20 fixed and controlled assets serviced by IT and performed the following: (a) inspected the assets to ensure that they were properly tagged, and (b) agreed the asset tag number and serial number to the asset listing reported by the Finance Division.

   Observation: No findings or deficiencies were noted during the performance of this procedure. All sampled fixed and controlled assets were properly tagged and recorded.

2. We obtained and reviewed the last physical inventory count performed by IT on fixed and controlled assets, to ensure that all items were properly accounted for and reported to the Finance Division; in addition, that any and all discrepancies were properly investigated and resolved.

   Observation: No findings or deficiencies were noted during the performance of this procedure. All sampled fixed and controlled assets were properly recorded.

3. We obtained an understanding of IT's processes and controls surrounding the initiation, authorization, receipt and tracking of fixed and controlled assets. Our understanding was obtained through performing inquiries of IT personnel and performing walkthroughs of the processes and controls.

   Observation: No findings or deficiencies were noted during the performance of this procedure.

4. We reviewed IT's physical security policies and procedures surrounding fixed and controlled assets.

   Observation: No findings or deficiencies were noted during the performance of this procedure.

<u>Communication Services (CS)</u>

5. We selected a sample of 20 fixed and controlled assets serviced by CS and performed the following: (a) inspected the assets to ensure that they were properly tagged, and (b) agreed the asset tag number and serial number to the asset listing reported by the Finance Division.

   Observation: No findings or deficiencies were noted during the performance of this procedure. All sampled fixed and controlled assets were properly tagged and recorded.

6. We obtained and reviewed the last physical inventory count performed by CS on fixed and controlled assets, to ensure that all items were properly accounted for and reported to the Finance Division; in addition, that any and all discrepancies were properly investigated and resolved.

   Observation: No findings or deficiencies were noted during the performance of this procedure. All sampled fixed and controlled assets were properly recorded.

7. We obtained an understanding of CS's processes and controls surrounding the initiation, authorization, receipt and tracking of fixed and controlled assets. Our understanding was obtained through performing inquiries of CS personnel and performing walkthroughs of the processes and controls.

   Observation: No findings or deficiencies were noted during the performance of this procedure.

8. We reviewed CS's physical security policies and procedures surrounding fixed and controlled assets.

   Observation: No findings or deficiencies were noted during the performance of this procedure.

Emergency Medical Services (EMS)

9. We selected a sample of 20 ambulance cots, manikins, and automated external defibrillators serviced by EMS and performed the following: (a) inspected the assets to ensure that they were properly tagged, and (b) agreed the asset tag number and serial number to the asset listing reported by the Finance Division.

   Observation: No findings or deficiencies were noted during the performance of this procedure. All sampled ambulance cots, manikins, and automated external defibrillators were properly tagged and recorded.

10. We obtained and reviewed the last physical inventory count performed by EMS on ambulance cots, manikins, and automated external defibrillators, to ensure that all items were properly accounted for and reported to the Finance Division; in addition, that any and all discrepancies were properly investigated and resolved.

    Observation: No findings or deficiencies were noted during the performance of this procedure. All sampled ambulance cots, manikins, and automated external defibrillators were properly recorded.

11. We obtained an understanding of EMS's processes and controls surrounding the initiation, authorization, receipt and tracking of ambulance cots, manikins, and automated external defibrillators. Our understanding was obtained through performing inquiries of EMS personnel and performing walkthroughs of the processes and controls.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

12. We reviewed EMS's physical security policies and procedures surrounding ambulance cots, manikins, and automated external defibrillators.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

Service Center

13. We selected a sample of 20 breathing apparatus, hydraulic tools, and thermal imaging cameras controlled by the Service Center and performed the following: (a) inspected the assets to ensure that they were properly tagged, and (b) agreed the asset tag number and serial number to the asset listing reported by the Finance Division.

    Observation: No findings or deficiencies were noted during the performance of this procedure. All sampled breathing apparatus, hydraulic tools, and thermal imaging cameras were properly tagged and recorded.

14. We obtained and reviewed the last physical inventory count performed by the Service Center on breathing apparatus, hydraulic tools, and thermal imaging cameras, to ensure that all items were properly accounted for and reported to the Finance Division; in addition, that any and all discrepancies were properly investigated and resolved.

    Observation: No findings or deficiencies were noted during the performance of this procedure. All sampled breathing apparatus, hydraulic tools, and thermal imaging cameras were properly recorded.

15. We obtained an understanding of the Service Center's processes and controls surrounding the initiation, authorization, receipt and tracking of breathing apparatus, hydraulic tools, and thermal imaging cameras. Our understanding was obtained through performing inquiries of the Service Center personnel and performing walkthroughs of the processes and controls.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

16. We reviewed the Service Center's physical security policies and procedures surrounding breathing apparatus, hydraulic tools, and thermal imaging cameras.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

<u>Fleet Services</u>

17. We selected a sample of 20 vehicles, trailers, and fire apparatus controlled by Fleet Services and performed the following: (a) inspected the assets to ensure that they were properly tagged, and (b) agreed the asset tag number and serial number to the asset listing reported by the Finance Division.

    Observation: No findings or deficiencies were noted during the performance of this procedure. All sampled vehicles, trailers, and fire apparatus were properly tagged and recorded.

18. We obtained and reviewed the last physical inventory count performed by Fleet Services on vehicles, trailers, and fire apparatus, to ensure that all items were properly accounted for and reported to the Finance Division; in addition, that any and all discrepancies were properly investigated and resolved.

    Observation: No findings or deficiencies were noted during the performance of this procedure. All sampled vehicles, trailers, and fire apparatus were properly recorded.

19. We obtained an understanding of Fleet Services processes and controls surrounding the initiation, authorization, receipt and tracking of vehicles, trailers, and fire apparatus. Our understanding was obtained through performing inquiries of the Fleet Services personnel and performing walkthroughs of the processes and controls.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

20. We reviewed Fleet Services physical security policies and procedures surrounding vehicles, trailers, and fire apparatus.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

Urban Search and Rescue (US&R)

21. We selected a sample of 20 fixed and controlled assets serviced by US&R and performed the following: (a) inspected the assets to ensure that they were properly tagged, and (b) agreed the asset tag number and serial number to the asset listing reported by the Finance Division.

    Observation: No findings or deficiencies were noted during the performance of this procedure. All sampled fixed and controlled assets were properly tagged and recorded.

PARTS AND SUPPLIES INVENTORY

As before mentioned, Servicing Sections are responsible for establishing desk policies, procedures and controls for the purchasing, warehousing and overseeing the use of parts and supplies inventory ("inventory") items in their respective areas. The purchase of inventory items are initiated and authorized by a designated employee, Division Chief or Manager, based on the level of need for those assets. The Authority's Finance Division monitors the ordering and receipt of inventory to ensure that all items are properly expensed when received. Divisions/Sections are responsible for the tracking of inventories and monitoring the level of use of each item. There is no need for the Finance Division to monitor the use of inventory; each Division/Section designates an individual within its area to track all transfers and use of inventory within their respective area.

Information Technology (IT)

22. We obtained and reviewed IT's desk procedures surrounding the purchasing, issuance of inventory items to Authority personnel, and the tracking of inventory items (if needed).

    Observation: No findings or deficiencies were noted during the performance of this procedure.

23. We selected a sample of inventory items and performed a cross reference with IT tracking software to ensure that inventory items are being properly issued and tracked in accordance with IT's internal desk procedures.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

24. We performed a spot inventory check of random inventory items per the records of IT as of March 20, 2014.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

25. We examined IT's physical security of inventory items that have not been issued to Authority personnel.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

Communication Services (CS)

26. We obtained and reviewed CS's desk procedures surrounding the purchasing, issuance of inventory items to Authority personnel, and the tracking of inventory items (if needed).

    Observation: No findings or deficiencies were noted during the performance of this procedure.

27. We selected a sample of inventory items and performed a cross reference with CS tracking software to ensure that inventory items are being properly issued and tracked in accordance with CS's internal desk procedures.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

28. We performed a spot inventory check of random inventory items per the records of CS as of March 20, 2014.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

29. We examined CS's physical security of inventory items that have not been issued to Authority personnel.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

Emergency Medical Services (EMS)

30. We obtained and reviewed EMS's desk procedures surrounding the purchasing, issuance of inventory items to Authority personnel, and the tracking of inventory items (if needed).

    Observation: No findings or deficiencies were noted during the performance of this procedure.

31. We selected a sample of inventory items and performed a cross reference with EMS tracking software to ensure that inventory items are being properly issued and tracked in accordance with EMS's internal desk procedures.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

32. We performed a spot inventory check of random inventory items per the records of EMS as of March 20, 2014.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

33. We examined EMS's physical security of inventory items that have not been issued to Authority personnel.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

Service Center

34. We obtained and reviewed the Service Center's desk procedures surrounding the purchasing, issuance of inventory items to Authority personnel, and the tracking of inventory items (if needed).

Observation: The Service Center does not have any written policies or procedures surrounding the issuance of inventory items to Authority personnel. The Service Center relies solely on the direction of the Service Center Manager, under the direction of the Purchasing Manager.

Evaluation: Policies and procedures should be documented to ensure that procedures are not circumvented by personnel and, to reduce the risk of asset misappropriation through the dependency of an individual.

Recommendation: We recommend that the Service Center develop and document internal desk procedures to ensure that the issuance and tracking of inventory items are properly being performed.

OCFA Response: In the past, the Service Center had a Service Center Operations manual that became outdated over time. The hard copy for that manual no longer exsists and we have plans in the near future to create a new manual that will be very detailed in describing all aspects of the Service Center's operations, policies, and procedures. We anticipate starting this manual in the next few months once we have achieved full implementation of the File Maker inventory/asset tracking system.

35. We selected a sample of inventory items and performed a cross reference with Service Center tracking software to ensure that inventory items are being properly issued and tracked in accordance with Service Center's internal desk procedures.

Observation I: The Service Center is utilizing a software application named FOGLE to track and monitor the quantity of inventory items on hand and available.

During our observation, we noted that the FOGLE application was outdated, making it very difficult for Service Center to maintain accurate records on available inventory. As a result, the Service Center was forced to use other applications outside of FOGLE to record the issuance of inventory items to Authority personnel.

Evaluation: The Service Center should have a system that maintains accurate records to efficiently monitor inventory levels, ensuring that proper amounts of inventory items are being ordered to replace utilized amounts. Thus, ensuring that the Authority is not exhausting resources to purchase excess inventory.

Recommendation: In conjunction with our recommendation at procedure 34 regarding implementing internal desk procedures, we also recommend that the Authority purchase a robust tracking system that allows for the Service Center to effectively monitor and report inventory levels on a real-time basis.

Observation II: The Service Center is utilizing a software application named FOGLE to track and monitor the quantity of inventory items on hand and available. During our observation, we noted that the FOGLE application was outdated, making it very difficult for Service Center to maintain accurate records on available inventory. As a result, the Service Center was forced to use other applications outside of FOGLE to record the issuance of inventory items to Authority personnel.

Evaluation: The Service Center should have a system that maintains accurate records to efficiently monitor inventory levels, ensuring that proper amounts of inventory items are being ordered to replace utilized amounts. Thus, ensuring that the Authority is not exhausting resources to purchase excess inventory.

Recommendation: In conjunction with our recommendation at procedure 34 regarding implementing internal desk procedures, we also recommend that the Authority purchase a robust tracking system that allows the Service Center to effectively monitor and report inventory levels on a real-time basis.

OCFA Response: In March 2014, we were still utilizing the FOGLE program for our inventory control and we were utilizing various spreadsheets for our asset tracking. We have since implemented a program called File Maker that is being utilized for our inventory control. The File Maker program provides us with real-time inventory levels on all Service Center supplies. We are also utilizing the File Maker program to track all of our assets. We are now tracking the following items as assets: Scott SCBA's, thermal imaging cameras, Hurst hydraulic tools, turnout coats and pants, and ballistic vests.

36. We examined Service Center's physical security of inventory items that have not been issued to Authority personnel.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

Fleet Services

37. We obtained and reviewed Fleet Service's desk procedures surrounding the purchasing, issuance of inventory items to Authority personnel, and the tracking of inventory items (if needed).

    Observation: No findings or deficiencies were noted during the performance of this procedure.

38. We selected a sample of inventory items and performed a cross reference with Fleet Services tracking software to ensure that inventory items are being properly issued and tracked in accordance with Fleet Service's internal desk procedures.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

39. We performed a spot inventory check of random inventory items per the records of Fleet Service as of March 20, 2014.

    Observation: No findings or deficiencies were noted during the performance of this procedure.

Jim Ruane, Finance Manager / Auditor
Orange County Fire Authority
Irvine, California
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40. We examined Fleet Service's physical security of inventory items that have not been issued to Authority personnel.

Observation: During our observation, we noted that Fleet Services has an area in the warehouse where loose parts inventory items are kept; and that this area is not restricted to general employees. During normal work hours, any general employee who is on call can access this area with no restriction.

Evaluation: Inventory items should be properly safeguarded to ensure to reduce the risk of misappropriation.

Recommendation: We recommend that Fleet Service restrict access to this area of the warehouse.

OCFA Response: Fleet Services is working on a solution to incorporate all the nuts and bolt drawers into the parts department. The bins would act as the lower area of the parts counter putting them in sight of the parts personnel. After hours, all these items would all be behind locked doors. In the interim time, fleet services will lock the nut and bold bins until the time comes when we can rework the parts counter. The keys will be kept by parts personnel and given out, as the parts are needed.

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

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

Lance, Soll & Lunghard, LLP

Brea, California
October 22, 2014

Orange County Fire Authority

AGENDA STAFF REPORT

Budget and Finance Committee Meeting
January 14, 2015

Agenda Item No. 4C
Discussion Calendar

OCFA 2015 Grants Priorities

Contact(s) for Further Information

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Summary

This agenda item is the annual transmittal of the OCFA's Grants Priorities for the upcoming year and is submitted to the Committee in compliance with the Board adopted Grants Policy.

Recommended Action(s)

Review the proposed grant programs identified by staff and place the item on the agenda for the Board of Directors meeting of January 22, 2015, with the Budget and Finance Committee's recommendation that the Board of Directors approve OCFA's grant priorities for 2015.

Impact to Cities/County

Not Applicable.

Fiscal Impact

Depending on specific grants and their requirements for matching funds there will be an impact to OCFA's budget. Grant applications are submitted with the approval of executive management and knowledge of those matching requirements.

Impact to Cities/County

Not Applicable.

Background

The Board of Directors adopted a formal Grants Policy at its meeting on November 17, 2011. The policy requires staff to annually present status of past grants and identify priorities for the upcoming year. The intent is not to provide an all-inclusive list of grants and projects that OCFA staff may pursue over the next year. As best as possible, staff identified grants and projects where there are existing needs and resources available. As opportunities arise in the future, staff will consider application if an appropriate project and resources are available. This will be done in compliance with the Board adopted Grants Policy.

Attachment(s)

Grant Priorities 2015

2015 OCFA Grant Priorities

Listed below are the major grant programs OCFA considers annually for application of projects that may be eligible along with a description of past and in some cases future projects staff has identified for submission.

Assistance to Firefighters Grant (AFG)

This federally funded grant is administered by the Federal Emergency Management Agency (FEMA) and seeks to improve firefighter safety by funding local projects in the categories of training, personal protective and firefighting equipment, wellness and fitness programs and interoperability. Past and pending applications include:

- Award- January 2012 purchase of 385 Self Contained Breathing Apparatus (SCBAs) for a total of $1,742,317.

- Award- December 2012 purchase of 16 Thermal Imaging Cameras for $172,400. As a result of a lower price than originally budgeted OCFA was able to purchase six additional cameras with grant funds.

- Application Pending- December 2014 request for extrication and rescue equipment for $548,095 to purchase new hand and power tools, protective gloves and training. The primary purpose of this application is to purchase improved power tools better suited for working with the higher end and reinforced cars that are common in Southern California.

Fire Prevention and Safety Grant (FPS)

This FEMA grant is targeted at activities that improve community safety. Typical priorities are projects that purchase and install smoke alarms; provide education on identified community risks, arson prevention, sprinkler and other prevention related projects. The 2014 funding cycle is set to open on March 16, 2015. Staff is considering projects such as wildland fire education activities, education props, curriculum materials or drowning prevention projects.

Staffing for Adequate Fire and Emergency Response (SAFER)

The SAFER grant funds the hiring or rehiring of firefighters. The next funding cycle is set to open for application on February 9, 2015. This grant was significantly revised in 2009 to focus on fire depratments that experienced significant declines in staffing due to the economic recession. The following priorities were established by FEMA:

1. Rehiring laid-off firefighters
2. Retention of firefighters who face imminent layoff and/or filling positions vacated through attrition, but not filled due to economic circumstances
3. Hiring new firefighters

The OCFA has not submitted an application in recent years due to the following concerns:

- Lack of OCFA's competitiveness in relation to FEMA priorities.
- OCFA's hiring freeze conflicts with grant rules requiring staffing levels to remain constant throughout grant period.

The OCFA would be eligible to submit an application for adding fourth firefighter/medics provided there was a net increase in positions. If OCFA sought to only realign current positions an application would not be eligible. Additional positions may be needed to add a fourth firefighter/medic to all OCFA engines. An application for this project would be eligible and is being researched by staff.

Predisaster Mitigation Grant (PDM)

This grant progam administered by FEMA funds projects that mitigate hazards identified by local agencies ranging from flood, wind storm, earthquake and wildfire. The OCFA received $252,00 under this program and has taken the following actions over 2014:

- Identified Fire Station 41 (Fullerton Airport) as needing a permanent backup generator to operate hangar doors in event of power loss and a delay in helicopter response.
- Requested Cal-OES and FEMA review of eligibility of project and secured approval.
- July 9, 2014 Budget and Finance approves directing funds to address risks present at Fire Station 41 that would threaten the operations of OCFA's helicopters during a major disaster.
- Application to be submitted February pending additional details from Property Management related to the placement, permitting and approvals required by City of Fullerton.

SRA Fee Grant

The Governor's 2014 Budget included $10 million from the State Responsibility Area fee to fund grants for education and fuel removal in the SRA. According to CAL FIRE's grant staff over $50 million worth of requests has been submitted across the State.

In the 2014 funding cycle the OCFA submitted 20 proposals either for OCFA's direct benefit or for other organizations that oversee public lands within the SRA for a total of $1,909,923. Projects recently invited to submit a full project application are noted below in apprentheses.

Audubon Starr Ranch $158,368 *(Invited)*

- 158 acres of fuel reduction
- Primary activities: Hazardous Fuel Mitigation, Fire and Emergency Access, Fuel Break Construction
- Resources: OCFA Hand crew, Heavy Equipment and Private Contracts

Irvine Ranch Conservancy (IRC) $330,000

- Countywide research and planning
- Primary activities: Field and remote assessments, risk mapping, intervention plans and proposals for capital funding on Orange County roads.
- Resources: Consultants and private contractors.

OCFA $363,100 *(Two invited under education/planning)*

- Two fuel reduction projects for 33 acres across Coto de Caza and Fire Safe Councils East Orange County.

- Three education/planning projects- Roadside message board to provide messaging for fire safe councils; countywide wildfire education (*invited*); development of a countywide Community Wildfire Protection Plan (*invited*).
- Primary activities: Hazardous Fuel Mitigation, Fire and Emergency Access, Educational Props/Materials, Planning/Mapping.
- Resources: OCFA Hand crew, Heavy Equipment, and Consultants.

Orange County Firewatch $34,650 (*One project invited*)

- Two educational projects- The first focused on providing public information, training and signage for red flag patrol program. Second, purchasing Smokey the Bear signs and other fire danger signs for all park areas within SRA (*invited*).
- Primary activities: Purchase of materials and training volunteers.
- Resources: OCFA Pre-Fire Management and IRC personnel.

Orange County Park $659,382 (*All invited*)

- Six fuel reduction projects for 102 acres in Caspers, Riley, Aliso Woods Canyon, and O'Neill Park
- Primary activities: Hazardous Fuel Mitigation; Fire and Emergency Access; Fuel Break Construction
- Resources: OCFA Hand crew, Heavy Equipment and Private Contracts

Rancho Mission Viejo $364,423 (*Six Invited*)

- Seven projects for 70 acres of fuel reduction.
- Primary activities: Hazardous Fuel Mitigation; Fire and Emergency Access; Fuel Break Construction
- Resources: OCFA Hand crew, Heavy Equipment and Private Contracts

Fire Safe California Grants Clearinghouse

The Grants Clearinghouse is a program of the California Fire Safe Council (CFSC) that administers grants funding from the US Forest Service, Bureau of Land Management, and the Department of Interior.

- Award- January 2013 hazardous fuel removal in Peters Canyon/Cowan Heights for $158,064. Completed in December 2014.
- Pending- Above SRA projects not funded are being considered for submission.