



ORANGE COUNTY FIRE AUTHORITY AGENDA

Budget and Finance Committee Meeting

Wednesday, November 6, 2013

12:00 Noon

Orange County Fire Authority Regional Fire Operations and Training Center

1 Fire Authority Road

Room AE117

Irvine, California 92602

Elizabeth Swift, Chair

Randal Bressette, Vice Chair

Sam Allevato Trish Kelley Jerry McCloskey Al Murray Steven Weinberg

Bruce Channing - Ex Officio

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

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

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



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

CALL TO ORDER

PLEDGE OF ALLEGIANCE by Director Kelley

ROLL CALL

PUBLIC COMMENTS

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

MINUTES

- 1. Minutes for the October 9, 2013, Budget and Finance Committee Meeting**
Submitted by: Sherry Wentz, Clerk of the Authority

Recommended Action:
Approve as submitted.

CONSENT CALENDAR

- 2. Approval of the Meeting Schedule for the Budget and Finance Committee for Calendar Year 2014**
Submitted by: Sherry Wentz, Clerk of the Authority

Recommended Action:
Approve the proposed 2014 Meeting Schedule for the Orange County Fire Authority Budget and Finance Committee.

- 3. First Quarter Financial Newsletter – July to September 2013**
Submitted by: Lori Zeller, Assistant Chief, Business Services Department

Recommended Action:
Review the proposed agenda item and direct staff to place this item on the agenda for the Executive Committee meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

DISCUSSION CALENDAR

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

Recommended Action:
Receive and file the report.

5. Monthly Investment Report

Submitted by: Patricia Jakubiak, Treasurer

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

6. Annual Statement of Investment Policy and Investment Authorization

Submitted by: Patricia Jakubiak, Treasurer

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Review and approve the submitted Investment Policy of the Orange County Fire Authority, to be effective January 1, 2014.
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, 2014.

7. Audited Financial Reports for the Fiscal Year Ended June 30, 2013

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

Recommended 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. Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors receive and approve the reports.

8. FY 2012/13 Backfill/Overtime and Total Earnings/Compensation Analysis

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

Recommended Actions:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors receive and file the report.

- 9. 2013 Update – Fiscal Health Plan & Financial Stability Budget Policy**
Submitted by: Lori Zeller, Assistant Chief, Business Services Department

Recommended Actions:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors adopt the submitted policies.

- 10. Refunds for Unverified Hazardous Materials Disclosure Inspections – Follow-up Actions**

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

Recommended Actions:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with recommendations to be developed by staff through discussion with the Budget and Finance Committee.

REPORTS

No items.

COMMITTEE MEMBER COMMENTS

ADJOURNMENT – The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, January 8, 2014, at 12:00 noon.

AFFIDAVIT OF POSTING

I hereby certify under penalty of perjury under the laws of the State of California, that the foregoing Agenda was posted in the lobby and front gate public display case of the Orange County Fire Authority, Regional Fire Operations and Training Center, 1 Fire Authority Road, Irvine, CA, not less than 72 hours prior to the meeting. Dated this 31st day of October 2013.

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

UPCOMING MEETINGS:

| | |
|--------------------------------------|---|
| Claims Settlement Committee Meeting | Thursday, November 21*, 2013, 5:30 p.m. |
| Executive Committee Meeting | Thursday, November 21*, 2013, 6:00 p.m. |
| Board of Directors Meeting | Thursday, November 21*, 2013, 6:30 p.m. |
| Budget and Finance Committee Meeting | Wednesday, January 8, 2014, 12:00 noon |

*regular meeting move forward by one week due to Thanksgiving Holiday conflict

December is dark for Board/Committee meetings, unless it is determined that there is a need for a special meeting.

MINUTES ORANGE COUNTY FIRE AUTHORITY

Budget and Finance Committee Meeting
Wednesday, October 9, 2013
12:00 Noon

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

CALL TO ORDER

A regular meeting of the Orange County Fire Authority Budget and Finance Committee was called to order on October 9, 2013, at 12:00 p.m. by Chair Swift.

PLEDGE OF ALLEGIANCE

Director 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:

Assistant Chief Lori Zeller
Assistant Chief Laura Blaul
Assistant Chief Brian Stephens
Clerk of the Authority Sherry Wentz

General Counsel David Kendig
Assistant Chief Dave Thomas
Assistant Clerk Lydia Slivkoff

PUBLIC COMMENTS (F: 12.02B3)

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

MINUTES

1. Minutes for the September 11, 2013, Budget and Finance Committee Meeting (F: 12.02B2)

On motion of Vice Chair Bressette and second by Director Murray, the Committee voted to approve the minutes of the September 11, 2013, Budget and Finance Committee Meeting, as submitted.

CONSENT CALENDAR

2. Monthly Investment Report (F: 11.10D2)

On motion of Vice Chair Bressette and second by Director Kelley, the Committee voted unanimously to receive and file the report.

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

On motion of Vice Chair Bressette and second by Director Kelley, the Committee voted unanimously to receive and file the report.

DISCUSSION CALENDAR

4. Internal Control Review on Purchasing/Procurement (F: 15.02A1)

Assistant Chief Lori Zeller introduced Finance Manager/Auditor Jim Ruane who provided a report on the internal control review on purchasing/procurement. Purchasing Manager Debbie Casper provided an overview of the Supplemental Purchasing Information Activity Report 2012/13. Finance Manager/Auditor Jim Ruane introduced Bryan Gruber, CPA of Lance, Soll & Lunghard, LLC, who provided a report on the audit for purchasing/procurement.

Stephen Wontrobski, Mission Viejo resident, provided public comments regarding the audit and his concerns with the OCFA procurement process.

On motion of Director Murray and second by Director Kelley, the Committee voted unanimously to direct staff to place the item on the agenda for the Executive Committee meeting of October 24, 2013, with the Budget and Finance Committee’s recommendation that the Executive Committee direct staff to implement the Auditor’s recommendations as stated under OCFA management responses in the report.

5. Acceptance of DHS/FEMA Administrative Preparedness Grant (F: 16.02B)

Assistant Chief Dave Thomas introduced Division Chief Bryan Brice, who provided an overview of the DHS/FEMA Administrative Preparedness Grant.

On motion of Director Murray and second by Vice Chair Bressette, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors:

1. Adopt the submitted resolution to accept the Department of Homeland Security/Federal Emergency Management Agency's (DHS/FEMA) Administrative Preparedness Grant.
2. Direct staff to increase revenue and appropriations in the amount of \$1,244,654 in the General Fund (Fund 121).

REPORTS (F: 12.02B6)

No items.

COMMITTEE MEMBER COMMENTS (F: 12.02B4)

Director Murray commended staff for a job well done at the Board of Supervisors meeting on October 8, 2013, regarding the ambulance proposal process. He also commended Battalion Chief Kelly Zimmerman for his communications with the City of Tustin.

Chair Swift commended Division Chief Greg McKeown and OCFA firefighters for participating in the Walk to School Day. She also commended the Orange County Professional Firefighters Association, Local 3631, for its letter regarding seatbelts and for taking responsibility.

ADJOURNMENT – Chair Swift adjourned the meeting at 1:01 p.m. The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, November 6, 2013, at 12 noon.

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

CONSENT CALENDAR - AGENDA ITEM NO. 2
BUDGET AND FINANCE COMMITTEE MEETING
November 6, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Sherry Wentz
Clerk of the Authority

SUBJECT: **Approval of the Meeting Schedule for the Budget and Finance Committee for Calendar Year 2014**

Summary:

Attached is the Budget and Finance Committee meeting schedule for calendar year 2014 for committee approval.

Recommended Action:

Approve the proposed 2014 Meeting Schedule for the Orange County Fire Authority Budget and Finance Committee.

Background:

Per the Board Rules of Procedure-Rule 10(b): The Budget and Finance Committee shall be established as a standing committee. The regular meetings of the Budget and Finance Committee will be on the second Wednesday of each month, with the exception of December, at noon, located in Classroom 1 (Board Breakout Room) at the Regional Fire Operations and Training Facility.

It has also been a regular practice to move the regular November meeting forward by one week to accommodate the Thanksgiving holiday.

In February 2014, there is a holiday conflict; the Budget and Finance Committee's regular meeting falls on the same date as the Lincoln's Birthday holiday (Wednesday, February 12). It is recommended that the regular meeting for February be moved forward by one week to Wednesday, February 5, 12 noon, to remediate the holiday conflict.

Impact to Cities/County:

Not Applicable.

Fiscal Impact:

Not Applicable.

Staff Contact for Further Information:

Sherry Wentz, Clerk of the Authority
sherrywentz@ocfa.org
(714) 573-6041

Attachment:

2014 Meeting Schedule for OCFA Budget and Finance Committee

2014 MEETING SCHEDULE



ORANGE COUNTY FIRE AUTHORITY Budget and Finance Committee

MEETING DATES

January 8

February 5*

March 12

April 9

May 14

June 11

July 9

August 13
(Election of Chair/Vice Chair)

September 10

October 8

November 5*

December Dark

MEETING TIME - 12:00 NOON

LOCATION OF MEETINGS:

RFOTC – Board Break-Out Room (Room AE117)
1 Fire Authority Road
Irvine, California 92602
(714) 573-6000

* meeting date moved forward by one week to accommodate holiday

CONSENT CALENDAR - AGENDA ITEM NO. 3
BUDGET AND FINANCE COMMITTEE MEETING
November 6, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **First Quarter Financial Newsletter – July to September 2013**

Summary:

This agenda item is submitted to provide information regarding FY 2013/14 first quarter revenue and expenditures in the General Fund and the Capital Improvement Program Funds.

Recommended Action:

Review the proposed agenda item and direct staff to place this item on the agenda for the Executive Committee meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

Background:

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

Impact to Cities/County:

Not Applicable.

Fiscal Impact:

Not Applicable.

Staff Contacts for Further Information:

Serene Tang, Budget Analyst
serenetang@ocfa.org
(714) 573-6312

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

Attachment:

First Quarter Financial Newsletter – July to September 2013



Orange County Fire Authority

First Quarter Financial Newsletter – July to September 2013

OVERVIEW

This report covers activities for the first quarter of fiscal year 2013/14. Budget figures include projects and grants which were rebudgeted from FY 2012/13 to FY 2013/14, and also new grant funds as authorized by the Board this fiscal year.

GENERAL FUND

With 25% of the year completed, General Fund Revenues are 12.2% of budget and expenditures are 22.7% as shown below:

| General Fund | Budget | YTD Actual | Percent |
|--------------|-------------|------------|---------|
| Revenues | 295,309,626 | 35,997,833 | 12.2% |
| Expenditures | 290,554,478 | 65,924,268 | 22.7% |

Top Five Revenues. Our top five revenue sources represent 97.6% of our total revenue this fiscal year, giving us an excellent picture of our revenue position. Overall, the key revenues are performing as anticipated for this point in the fiscal year based on billing/payment schedules and past trends. Highlights are noted as follows:

| Top Five Revenues | Budget | YTD Actual | % Rec'd |
|----------------------|--------------------|-------------------|--------------|
| Property Taxes | 186,998,721 | 5,183,173 | 2.8% |
| Cash Contracts | 83,980,236 | 26,016,951 | 31.0% |
| Local-CRA pass-thru | 7,149,498 | 13,351 | 0.2% |
| Fire Prevention Fees | 5,608,437 | 2,083,955 | 37.2% |
| Ambulance Reimb. | 4,570,574 | -295,604 | -6.5% |
| Total | 288,307,466 | 33,001,826 | 11.4% |

• **Property tax.** First quarter activity includes the first distribution of unsecured property taxes and two distributions of supplemental taxes. The first significant distribution of secured property tax, the largest component of our property tax, will not be received until November; however, the secured tax billing provided by the Auditor/Controller reflected a 3.79% increase over last year's initial billing. After adjusting for estimated refunds, preliminary projections show a \$1.35M increase compared to budget. Supplemental property tax is also expected to exceed expectations. Staff will continue to monitor this revenue source and will return to the Board with a mid-year adjustment, if necessary.

- **Cash contracts.** The slight overage in Cash Contract revenue is due to payments made monthly in advance by Santa Ana, per contract.
- **Local - Community Redevelopment Agency (CRA) Pass-Through.** The 2013/14 budget includes an estimate of \$7.1M for this category of revenue. Payments are expected in January and May of 2014.
- **Fire Prevention Fees.** Increased activity in Inspection Services and P&D during this first quarter is resulting in higher revenue than budget. This category of revenue will be monitored for a mid-year budget adjustment.
- **Ambulance Reimbursement.** The percentage received for this revenue category will be lower than budget until year-end due to the timing of payments as required by current ambulance contracts. The timing of payments, combined with reverse-accruals for FY 2012/13 entries, is temporarily creating the negative amount shown. This will resolve as the year progresses.

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

| Expenditures By Department | Budget | YTD Actual | % Expended |
|----------------------------|--------------------|-------------------|--------------|
| Executive Mgt. | 5,144,734 | 1,144,285 | 22.2% |
| HR Division | 5,289,900 | 1,990,580 | 37.6% |
| Operations | 229,666,357 | 52,476,733 | 22.8% |
| Fire Prevention | 15,159,271 | 3,185,124 | 21.0% |
| Business Services | 11,461,740 | 1,767,489 | 15.4% |
| Support Services | 23,832,476 | 5,360,057 | 22.5% |
| Total | 290,554,478 | 65,924,268 | 22.7% |

Expenditures by type are within budget:

| Expenditures by Type | Budget | YTD Actual | % Expended |
|----------------------|--------------------|-------------------|--------------|
| S&EB | 266,981,237 | 60,806,767 | 22.8% |
| S&S | 23,400,841 | 5,033,630 | 21.5% |
| Equipment | 172,400 | 83,871 | 48.6% |
| Total | 290,554,478 | 65,924,268 | 22.7% |

CIP FUNDS

The following summarizes revenues and expenditures for the Capital Improvement Program funds. Any variances are noted as follows:

Facilities Maintenance & Improvement

| Fund 122 | Budget | YTD Actual | Percent |
|--------------|-----------|------------|---------|
| Revenue | 1,116,416 | 73,404 | 6.6% |
| Expenditures | 2,137,614 | 121,580 | 5.7% |

- The revenue and expenditure budgets reflect increases of \$890,000 for the Community Development Block Grant as approved by the Board on 9/26/2013. The funds are for improvement projects to 9 of the 10 fire stations in Santa Ana.

Facilities Replacement

| Fund 123 | Budget | YTD Actual | Percent |
|--------------|------------|------------|---------|
| Revenue | 4,106,161 | 657,460 | 16.0% |
| Expenditures | 12,956,900 | 2,201,950 | 17.0% |

- Actual revenue reflects unbudgeted developer contributions for Baker Ranch, UDR/Pacific Los Alisos, and Avalon Irvine II. The budget will be adjusted at mid-year to account for this increase.
- \$2.2M was rebudgeted from 2012/13 to 2013/14 for Phase II of the Station 41 Hangar. Expenditures of \$2.2M in July reflect the purchase of this hangar.
- The expenditure budget also included a \$5.5M increase in appropriations for the purchase of a US&R warehouse, which was approved at the 9/26/2013 Board meeting.

Communications & Info. Systems Replacement

| Fund 124 | Budget | YTD Actual | Percent |
|--------------|------------|------------|---------|
| Revenue | 970,445 | 13,634 | 1.4% |
| Expenditures | 13,029,617 | 2,009,875 | 15.4% |

- Budgeted revenue includes state reimbursements of \$920,000 for the replacement of the 911 telephone system.
- The expenditure budget includes about \$7.6M for the Public Safety System project, of which \$1.7M was rebudgeted from 2012/13 to 2013/14 for the CAD project. A purchase order was issued in the amount of \$1.2M for the fire station alerting system portion of this project.

Vehicle Replacement

| Fund 133 | Budget | YTD Actual | Percent |
|--------------|------------|------------|---------|
| Revenue | 2,117,789 | 442,904 | 20.9% |
| Expenditures | 11,948,441 | 725,942 | 6.1% |

- Actual revenue includes the quarterly Cash Contract payments for vehicle depreciation.
- Year-to-date expenditure activity includes the lease-purchase financing agreement payments for the helicopters totaling \$633,000.
- Nearly \$4.0M was rebudgeted from 2012/13 to 2013/14, which includes funding for three 75' Quints and one Type 1 engine.
- The expenditure budget also includes appropriations of \$208K for the purchase of a Compressed Air Foam System Patrol vehicle which was approved at the 9/26/2013 Board meeting.

SUMMARY

For more information. This summary is based on detailed information from our financial system. If you would like more information or have any questions about the report, please contact Tricia Jakubiak, Treasurer at 573-6301 or Serene Tang, Budget Analyst at 573-6312.

DISCUSSION CALENDAR – AGENDA ITEM NO. 4
BUDGET AND FINANCE COMMITTEE MEETING
November 6, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

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

Summary:

This agenda item is submitted to provide a status update regarding steps taken during October 2013, to improve the Orange County Employees' Retirement System's (OCERS) financial policies, procedures, and practices.

Recommended Action:

Receive and file the report.

Background:

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

Actions Taken/Financial Policies & Practices – October 2013

OCERS BOARD OF RETIREMENT October 21, 2013:

MUNICIPAL INSOLVENCY: FAT TAIL EVENTS AND HOW TO MANAGE THE RISKS

Mr. Harvey Leiderman, OCERS Fiduciary Counsel, presented an overview of California law regarding municipal bankruptcies, and discussed what that might mean in OCERS' context. It was a timely topic for the Board to consider given the recent growing bankruptcy concerns in Stockton, San Bernardino and Detroit. (Attachment 1)

COMPENSATION PHILOSOPHY

There has been much concern on the part of many stakeholders regarding the compensation philosophy that OCERS staff had developed with the assistance of the OCERS Board's ad hoc Compensation Committee. Many saw this whole effort as a means of providing large pay increases to OCERS staff which was not the intent. The ad hoc Committee met again earlier this month and directed staff to simplify the philosophy document in order to prevent misunderstandings in the future (Attachment 2). The County CEO submitted a letter to OCERS commenting on the proposed Compensation Philosophy. (Attachment 3). The Compensation Philosophy was approved by the OCERS' Board.

There is a second issue tied to this discussion – whether to modify the salary ranges (not the actual salaries) that have not been reviewed since 2007. The ad hoc Committee directed that those should be carried to the full Board for discussion at the October 25 Budget Workshop. In its final action, the ad hoc Compensation Committee dissolved itself, directing that all remaining work on this topic be conducted with the full Board.

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

Impact to Cities/County:

Not Applicable.

Fiscal Impact:

Not Applicable.

Staff Contacts for Further Information:

Lori Zeller, Assistant Chief/Business Services Department

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(714) 573-6020

Tricia Jakubiak, Treasurer

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(714) 573-6301

Attachments:

1. Municipal Insolvency Presentation
2. OCERS Compensation Philosophy
3. Letter from County CEO regarding OCERS' Compensation Philosophy, September 1, 2013

MUNICIPAL INSOLVENCY: FAT TAIL EVENTS AND HOW TO MANAGE THE RISKS

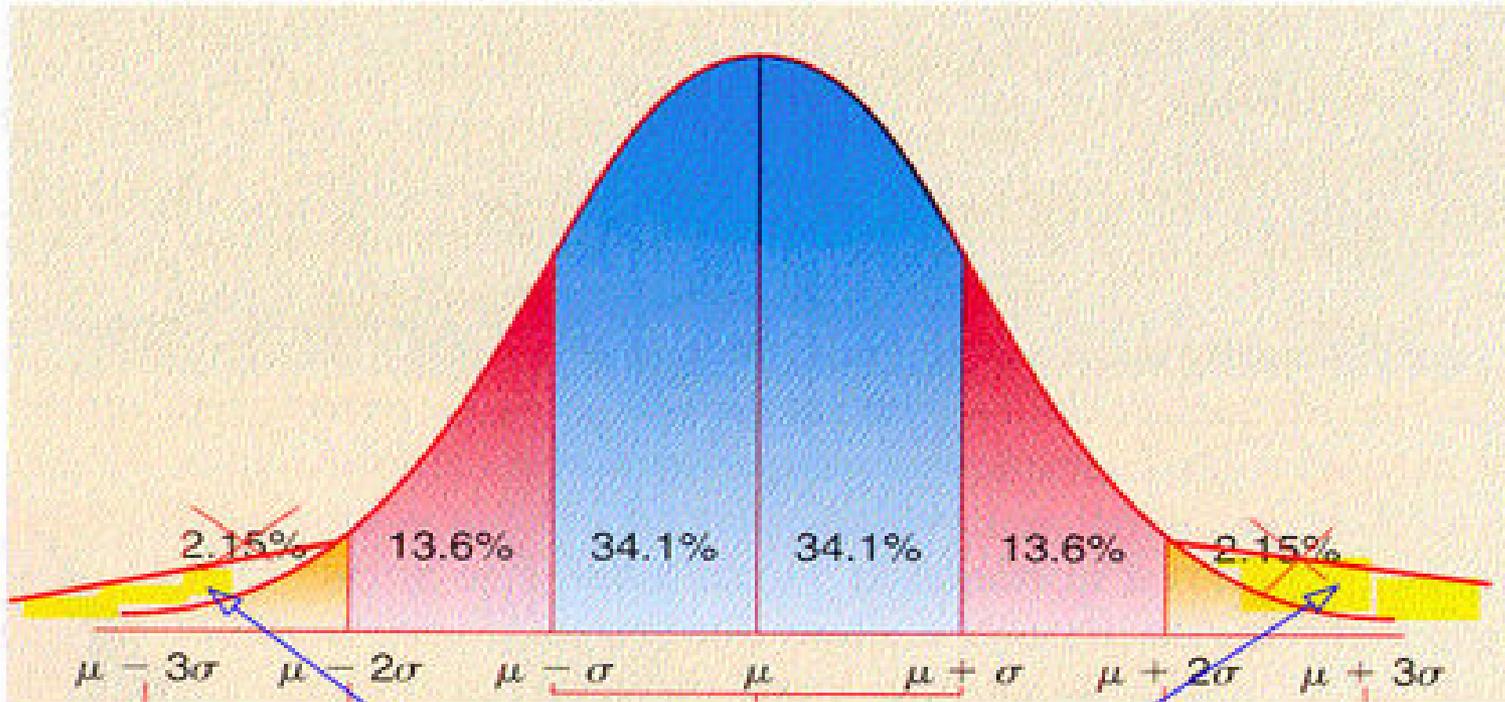
Presentation to the Board of Retirement
Orange County Employees' Retirement System
October 21, 2013

Harvey L. Leiderman

R

For Mature Audiences Only





In the markets, the probability of outsized events is much higher than predicted by a Normal Probability Distribution

Fat Tails

TWENTY YEARS OF FAT TAIL EVENTS IMPACTING OCERS

- 1994 Orange County bankruptcy
- 1997 *Ventura* decision
- 1999 SB 400 and “3%@50”
- 2000 Dot.com bust
- 2008 Banking bust
- 2014 ??

TWENTY YEARS OF AVOIDING THE CONSEQUENCES

- **1994** Refinance bonds
- **1997** Use “excess earnings” to pay
- **1999** “No-cost” windfall, plus contribution holidays
- **2000** Stretch the amortization
- **2008** Smooth it, phase it, widen it
- **2014** ??

BACK TO BASICS – PRUDENCE, NOT POLITICS

- **Your single purpose: Protect OCERS' ability to pay the promised benefits when due**
- **Your charge: Use care, skill, prudence and diligence under the prevailing circumstances**

WHAT ARE THE PREVAILING CIRCUMSTANCES TODAY?

- **Unfunded liabilities pushing contribution rates higher than ever and projected to go higher**
- **Increasing pressure on employers' budgets, employees' contributions and jobs**
- **Shrinking employee/retiree ratios**
- **Increasing life spans**
- **Compounding COLAs dwarfing original benefits**
- **Negative cash flows**
- **Riskier, more complex investments**

WHAT ARE THE PREVAILING CONSEQUENCES TODAY?

- **More susceptible to volatility swings**
- **More susceptible to “fat tail” events**
- **More susceptible to plan sponsor fiscal distress**
- **More risk of adverse public reaction imposing unanticipated changes**

TIME FOR A NEW PERSPECTIVE

- **The UAAL reflects a statutory commitment to the Fund by the plan sponsors**
- **Your plan sponsors are “borrowing” from the plan**
- **Are they creditworthy?**
- **Time to look into the lender’s toolbox**

ASK YOURSELF: WHAT HAPPENS IF OUR PLAN SPONSOR DEFAULTS?

Take two prudent steps to help protect the Fund:

- **Risk assessment**
- **Risk mitigation**

RISK ASSESSMENT – STRESS TEST THE PLAN

- **Contributions -- how vulnerable is the Fund to plan sponsor disruption?**
 - **County or district revenue source disruption**
 - **County or district bond defaults**
 - **County or district withdrawals from the plan**
 - **County or district bankruptcy**
 - **Employee contributions**
 - **Employer contributions – NC and UAAL**

RISK ASSESSMENT – STRESS TEST THE PLAN

- **Run “what if” scenarios on each plan sponsor**
- **How would it affect your cash flow?**
- **How would it affect your asset allocation?**
- **How would it affect other plan sponsors?**
- **How would it affect your retiree payroll?**

RISK ASSESSMENT – STRESS TEST YOUR PLAN

- **Take a distress manager to lunch**
- **Know your vulnerabilities and don't be surprised when the next Fat Tail hits**
- **Once you know the risks, initiate a plan of risk mitigation**

RISK MITIGATION – PROTECT THE FUND’S INTERESTS

- **Powers under the CA Constitution and the CERL**
- **Assure “actuarial soundness”**
- **Enforce statutory obligations**
- **Work closely with the plan sponsor on a positive exit strategy**

RISK MITIGATION – PROTECT THE FUND’S INTERESTS

Audit your plan sponsor:

- **Deconstruct the financial statements**
- **Review rating agency submissions**
- **Examine “restricted” and “unrestricted” funds**
- **Search for “unencumbered” assets**

RISK MITIGATION – PROTECT THE FUND’S INTERESTS

Impose fiscal discipline

- **Prevent profligacy – create negative covenants**
- **Establish benchmarks and targets**
- **Isolate the risks**
- **Use actuarial tools purposefully**
- **Establish contribution “sinking” funds**

RISK MITIGATION – PROTECT THE FUND’S INTERESTS

Impose fiscal discipline

- **Collateralize the promise**
 - **Pledges of real property assets and revenue streams**
 - **Assignment of rents**
- **Consider creative cross-system financial accommodations**
 - **Loans, sales and leasebacks**
 - **Credit enhancement**

RISK MITIGATION – PROTECT THE FUND’S INTERESTS

Take an active role in Chapter 9

- **Be at the table with your plan sponsor/debtor during AB 506 negotiations**
- **Assure continued post-petition payments**
- **Contest treatment as an “unsecured creditor” and the UAAL being treated as a “claim for debt”**
- **Test the Tenth Amendment**
- **Consider purchasing “blocking” claims to control confirmation of any Plan of Adjustment**

WHAT CAN THEY DO TO US IN CHAPTER 9?

- U.S. Constitution's Tenth Amendment
- Bankruptcy Code's states' rights recognition
- Difference between contract obligations to employees and statutory obligations to Plan
- Bankruptcy courts can approve rejection of executory contracts but not state statutes
- Bankruptcy courts can confirm plans that adjust contracts but not state statutes





OCERS COMPENSATION PHILOSOPHY

PURPOSE AND BACKGROUND

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

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

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

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

COMPENSATION STRATEGY

Total Compensation of OCERS employees includes both cash compensation and benefits. OCERS' Board of Retirement is responsible for approving salary ranges for each authorized position. The CEO is responsible for managing salaries within the approved salary ranges. The CEO will use the following process:

- In November of each year, or other time of year as determined by the Chief Executive Officer, each Executive, Management and/or Professional employee as of June 1 of that year shall receive a written performance evaluation and be eligible for an annual merit increase with a performance rating of meets performance standards or better.
- Salary increases within a range shall not be automatic. The Chief of each division will provide performance feedback and salary adjustment recommendations for the CEO's consideration. The CEO will make the final determination of salary awards based on the annual performance pool approved by the Board of Retirement in connection with the budget.
- Salary ranges will be reviewed annually with an intended purpose of keeping total compensation competitive. The CEO may ask the Board of Retirement to consider adjustments to the salary ranges during the annual budget approval process.

The Board of Retirement has entered into a Memorandum of Agreement with the County of Orange for providing and administrating employee benefits to OCERS’ direct employees. The agreement with the County calls for OCERS’ employees to receive the same benefits offered to County administrative and executive management employees.

Version Control:

| Version | Date | Changes from previous version |
|---------|------------|-------------------------------|
| 1.0 | 05/09/2013 | Initial Draft –to Board |
| 2.0 | 07/03/2013 | Revised Draft – to Board |
| 3.0 | 10/08/13 | Revised Draft-to Board |

Review:

| Reviewed by | Signature | Date |
|-------------|-----------|------|
| | | |

Approval:

| Approved by | Signature | Date |
|-------------|-----------|------|
| | | |



County of Orange
California

Michael B. Giancola
County Executive Officer

September 11, 2013

Steve Delaney, Chief Executive Officer
Orange County Employees Retirement System
2223 East Wellington Avenue, Suite 100
Santa Ana, CA 92701

RECEIVED

SEP 13 2013

Orange County Employees
Retirement System

RE: Comments on OCERS Compensation Philosophy

Dear Steve:

Thank you for asking the County to respond to OCERS proposed compensation philosophy for its 22 executive/management positions. As OCERS largest retirement plan sponsor, we appreciate the opportunity to provide feedback. My comments are provided below:

Compensation Philosophy

As context before providing comments on specific OCERS proposals, I believe it might be helpful to outline what I see as primary components of a compensation philosophy for a public sector organization. These components include:

- The primary objective of any compensation system is to attract and retain talent for the organization. Although motivation is typically an objective to be considered for rank and file employees, I consider it a prerequisite attribute for those in executive and management employees.
- Organizations that perform work for the public sector should primarily be considered a public sector organization for compensation purposes.
- Pay increases for executive and management employees should first be considered as a function of the organization's ability to pay. Each year, there are a number of variables to be considered in this decision. As such, it is rational to exclude mechanisms that result in automatic pay increases.
- When pay increases for executive and management employees are considered, they should typically be based on performance. Notwithstanding, periodically (every three years or so), other considerations such as market comps and increases due to inflation can also be addressed to maintain competitive salary schedules.

County Executive Office
333 W. Santa Ana Blvd.
Third Floor
Santa Ana, California
92701-4062

Tel: (714) 834-6200
Fax: (714) 834-3018
Web: www.ocgov.com

- Pay systems for public sector employees should not be “bulletproof.” By this I mean that public sector pay systems should not be structured in a way that an employee (particular executive or management) is guaranteed a pay increase no matter the fiscal health or performance of the organization. These types of structures have been notorious in the public sector and are significantly responsible for many of the fiscal calamities public organizations now face.

OCERS Proposed Changes to Salary Ranges

In examining the OCERS proposal, my first thought was to inquire as to whether OCERS currently has an attraction and/or retention problem for its executives/managers? If yes, then that situation may warrant some changes to the compensation structure in the short term. However, if OCERS does not have a problem either attracting or retaining its executives/managers, then modest solutions should suffice. In any event, it does not appear as if this question has been addressed in the OCERS analysis. I believe it is an important subject that should be analyzed before any changes are contemplated.

As stated above, I also believe that periodically OCERS should examine its salary ranges to ensure that they are competitive with the market. In its proposal, OCERS proposed doing a blended weighted average between the public (75%) and the private (25%) sector. This may be minimally acceptable, although as OCERS is a manager of a public retirement system, and with its employees receiving a public sector benefits package, I believe it would be more appropriate for OCERS to compare itself solely with the public sector.

Automatic CPI Adjustments

I believe there are more reasonable approaches for OCERS to consider rather than implementing automatic CPI adjustments for its executives/managers each year. As rationale for this position, there are a number of issues that should be considered before an organization can determine whether or not, and then how much, it can provide salary increases for its employees. Second, if a CPI increase (for inflation) were granted every year, it should be consistent. As such, in years when CPI was negative, an employee should be expected to take a corresponding pay cut. Historical data demonstrates that since 1913, there were 13 times that the average rate of inflation was a negative number. In addition, using this approach would not be affordable in many situations. To illustrate, again since 1913, there were ten occasions the average rate of inflation was over 10%. In such inflationary periods when employers are negatively impacted, it should not be expected that an employer would be *required* to pay its employees a 10% or more pay increase.

Granting Both CPI and Merit Increases

I believe providing OCERS executives/managers with both an annual CPI and merit increase misses the mark. First, OCERS would be providing its executives/managers with a benefit that is not provided to County employees that work alongside them. Second, as stated above, I do not generally support non-merit based pay increases (e.g., automatic CPI) for public executive and management employees. A public employee's base salary is established when they are hired. The salary chosen is typically determined by the employee's experience and education and in consideration of both the internal and external market. Once that base salary is set, future increases should generally be based on merit.

Third, a discussion of base and merit/incentive pay distinctions is typically only relevant in the private sector. In the private sector it is a routine practice for the employer to provide a modest base pay that is supplemented by significant opportunities for substantial bonuses for the achievement of company goals. However, in the current context, OCERS does not provide a modest base pay. OCERS base pay amounts are guaranteed full salaries comparable to the marketplace. As such, a proposal that seeks to pay both an annual CPI and merit increase should not be considered.

Merit Increase Amounts and Eligibility Based on Portfolio Performance

There are three issues in this area to address. The first is OCERS' proposal to fund a merit pool based on retirement plan portfolio returns. Since market returns are not the direct result of the performance of OCERS employees, it appears unreasonable to tie employee compensation to something most OCERS' employees have little control over. Second, the amount of merit increases proposed appears unreasonable given the current marketplace (i.e., 0 – 2.5% for "Meets Expectations", 2.5 – 5% for "Exceeds Expectations," and 5.5 – 8% for "Exceptional.") The County's last performance pool for its managers was 1.25% base building and 1.25% lump sum. Third, it does not appear mechanically feasible to give these amounts of increases in down market years when the merit pool is only funded one-half of its normal amount.

Incentive Pay

Given the entirety of the OCERS proposal, I have strong reservations about any proposal that also provides Incentive Pay. My initial thought is that it does not appear reasonable for executives and managers to be given incentive pay when it is part of their role and they are paid (e.g., salary, car allowance, deferred compensation, etc.) to demonstrate innovation and achieve results. Secondly, for those employees who would be eligible for incentive pay, I would assume, given their achievements, that this would result in three pay increases for the year: one raise for CPI (let's say 2.1% in 2012), an 8% raise for Exceptional performance, and finally a 2.5% bonus as incentive pay.

Bullet Proof Nature of OCERS Proposal for its Executives/Managers

As previously discussed, I do not think it is reasonable to develop a system where public employees are exempted from the negative impacts to the fiscal health of their employer. Yet, this is the picture presented in OCERS' proposed total compensation structure. For example, OCERS is currently or proposes to provide its executives/managers with:

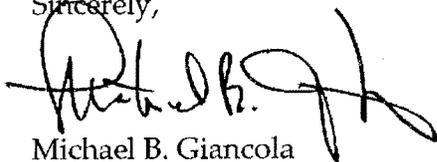
- A salary package on average 12% ahead of its public sector counterparts
- A defined benefit pension
- A full salary offset for executive/manager pickup of their portion of retirement
- Eligibility for an annual CPI, merit increase, and incentive pay
- No reductions in pay resulting from a negative CPI or underperforming portfolio returns

The list above essentially guarantees that each year an OCERS employee would in all likelihood receive an increase and never be subjected to any decreases in pay no matter the economy or fiscal health of the organization.

I realize that these observations are not what OCERS management was hoping for. However, given the importance of these issues, and in consideration of the vast compensation gap between the County (17,000 employees) and what OCERS (68 employees) is proposing, I believe it is necessary to provide the above perspective.

Please don't hesitate to contact me if you have any questions.

Sincerely,



Michael B. Giancola
County Executive Officer

cc: Members, Board of Supervisors

DISCUSSION CALENDAR - AGENDA ITEM NO. 5
BUDGET AND FINANCE COMMITTEE MEETING
November 6, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Patricia Jakubiak, Treasurer

SUBJECT: **Monthly Investment Report**

Summary:

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

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

Background:

Attached is the final monthly investment report for the month ended September 30, 2013. A preliminary investment report as of October 18, 2013, is also provided as the most complete report that was available at the time this agenda item was prepared.

Impact to Cities/County:

Not Applicable.

Fiscal Impact:

Not Applicable.

Staff Contact for Further Information:

Patricia Jakubiak, Treasurer

Triciajakubiak@ocfa.org

(714) 573-6301

Attachment:

Final Investment Report – September 2013/Preliminary Report – October 2013

Orange County Fire Authority Monthly Investment Report



Final Report – September 2013

Preliminary Report – October 2013



Monthly Investment Report Table of Contents

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Orange County Fire Authority

Final Investment Report

September 30, 2013



EXECUTIVE SUMMARY

Portfolio Activity & Earnings

During the month of September 2013, the size of the portfolio decreased slightly from \$121.2 million to \$120.3 million. Major receipts for the month included the first quarterly cash contract payments for the fiscal year 2013/14 totaling \$14.1 million and the first apportionment of unsecured property taxes in the amount of \$4.4 million. Significant disbursements for the month included primarily biweekly payrolls. The portfolio's balance is expected to decrease significantly further in the following month as there are no major receipts scheduled for October.

In September, the portfolio's yield to maturity (365-day equivalent) decreased by 1 basis point to 0.34%. The effective rate of return, on the other hand, increased by 1 basis point to 0.36% for the month, and also edged up by 1 basis point to 0.34% for the fiscal year to date. The average maturity of the portfolio shortened by 38 days to 283 days to maturity.

Economic News

The U.S. economic activity appeared to stay at a moderate pace and mixed in the month of September 2013, based on a limited number of economic reports available due to the U.S. government shutdown from October 1 – October 16, which resulted in various delayed economic reports for the month of September 2013. The delayed September employment report showed a weaker number for job growth than expected. There were a total of 148,000 new jobs created for the month while a consensus had forecasted 180,000 new jobs. Unemployment conditions, on the other hand, improved slightly declining by a notch to 7.2% from 7.3% previously. Both the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index declined for the month. The manufacturing sector continued to improve slightly in September while the non-manufacturing sector pulled back a bit for the month; however, its level of activity remained in expansion territory. The housing sector activity continued to improve, although stayed mixed and at a moderate pace. Despite some recent improvements, the U.S. prolonged economic recovery remains somewhat at a moderate pace. Thus, current expectations are that the Fed will likely continue with the asset purchasing program a bit longer.



BENCHMARK COMPARISON AS OF SEPTEMBER 30, 2013

| | |
|-----------------------|----------------------|
| 3 Month T-Bill: 0.02% | 1 Year T-Bill: 0.12% |
| 6 Month T-Bill: 0.04% | LAIF: 0.26% |
| OCFA Portfolio: 0.36% | |

PORTFOLIO SIZE, YIELD, & DURATION

| | <u>Current Month</u> | <u>Prior Month</u> | <u>Prior Year</u> |
|-----------------------------|----------------------|--------------------|-------------------|
| Book Value- | \$120,299,648 | \$121,225,361 | \$107,737,454 |
| Yield to Maturity (365 day) | 0.34% | 0.35% | 0.47% |
| Effective Rate of Return | 0.36% | 0.35% | 0.39% |
| Days to Maturity | 283 | 321 | 437 |



ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
September 30, 2013

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

(See Note 1 on page 9)

(See Note 2 on page 9)

| Investments | Par Value | Market Value | Book Value | % of Portfolio | Term | Days to Maturity | YTM/C 360 Equiv. | YTM/C 365 Equiv. |
|--|-----------------------|-----------------------|-----------------------|----------------|------------|------------------|------------------|------------------|
| Money Mkt Mutual Funds/Cash | 14,113,167.06 | 14,113,167.06 | 14,113,167.06 | 11.95 | 1 | 1 | 0.001 | 0.001 |
| Federal Agency Coupon Securities | 45,000,000.00 | 44,698,410.00 | 45,004,750.94 | 38.10 | 1,292 | 739 | 0.573 | 0.581 |
| Federal Agency Disc. -Amortizing | 9,000,000.00 | 8,999,910.00 | 8,999,800.00 | 7.62 | 169 | 10 | 0.080 | 0.081 |
| Local Agency Investment Funds | 50,000,000.00 | 50,028,366.00 | 50,000,000.00 | 42.33 | 1 | 1 | 0.253 | 0.257 |
| Investments | 118,113,167.06 | 117,839,853.06 | 118,117,718.00 | 100.00% | 506 | 283 | 0.332 | 0.337 |
| Cash and Accrued Interest | | | | | | | | |
| Passbook/Checking (not included in yield calculations) | 2,662,329.10 | 2,662,329.10 | 2,662,329.10 | | 1 | 1 | 0.000 | 0.000 |
| Accrued Interest at Purchase | | 300.00 | 300.00 | | | | | |
| Subtotal | | 2,662,629.10 | 2,662,629.10 | | | | | |
| Total Cash and Investments | 120,775,496.16 | 120,502,482.16 | 120,780,347.10 | | 506 | 283 | 0.332 | 0.337 |

| Total Earnings | September 30 Month Ending | Fiscal Year To Date |
|--------------------------|---------------------------|---------------------|
| Current Year | 36,464.47 | 113,520.93 |
| Average Daily Balance | 123,798,000.55 | 134,228,886.00 |
| Effective Rate of Return | 0.36% | 0.34% |

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

Patricia Jakubiak 10/4/13
 Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

| | |
|---|--------------------------|
| Book Value of Cash & Investments before GASB 31 (Above) | \$ 120,780,347.10 |
| GASB 31 Adjustment to Books (See Note 3 on page 9) | \$ (480,699.41) |
| Total | \$ 120,299,647.69 |

Page 4

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
September 30, 2013

(See Note 1 on page 9)

(See Note 2 on page 9)

| CUSIP | Investment # | Issuer | Average Balance | Purchase Date | Par Value | Market Value | Book Value | Stated Rate | YTM/C 365 | Days to Maturity | Maturity Date |
|---|--------------|---|-----------------------|---------------|-----------------------|-----------------------|-----------------------|-------------|--------------|------------------|---------------|
| Money Mkt Mutual Funds/Cash | | | | | | | | | | | |
| SYS528 | 528 | High Mark 100% US Treasury MMF | | | 14,113,167.06 | 14,113,167.06 | 14,113,167.06 | 0.001 | 0.001 | 1 | |
| Subtotal and Average | | | 10,927,110.01 | | 14,113,167.06 | 14,113,167.06 | 14,113,167.06 | | 0.001 | 1 | |
| Federal Agency Coupon Securities | | | | | | | | | | | |
| 3133ECBT0 | 799 | Federal Farm Credit Bank (Callable anytime) | | 12/26/2012 | 9,000,000.00 | 9,000,270.00 | 9,000,000.00 | 0.375 | 0.375 | 633 | 06/26/2015 |
| 3133ECM76 | 809 | Federal Farm Credit Bank (Callable anytime) | | 04/25/2013 | 9,000,000.00 | 8,949,870.00 | 8,994,612.53 | 0.400 | 0.424 | 934 | 04/22/2016 |
| 3133804V6 | 787 | Fed Home Loan Bank (Callable anytime) | | 08/09/2012 | 6,000,000.00 | 5,946,180.00 | 6,000,000.00 | 1.000 | 0.981 | 1,408 | 08/09/2017 |
| 3133813R4 | 800 | Fed Home Loan Bank (Callable 10-9-13) | | 12/20/2012 | 9,000,000.00 | 8,839,890.00 | 9,012,099.60 | 1.000 | 0.818 | 8 | 11/09/2017 |
| 313382DC4 | 803 | Fed Home Loan Bank (Callable anytime) | | 03/15/2013 | 12,000,000.00 | 11,962,200.00 | 11,998,038.81 | 0.470 | 0.477 | 888 | 03/07/2016 |
| Subtotal and Average | | | 50,804,752.37 | | 45,000,000.00 | 44,698,410.00 | 45,004,750.94 | | 0.581 | 739 | |
| Federal Agency Disc. -Amortizing | | | | | | | | | | | |
| 313589MV2 | 808 | Fed Natl Mortg Assoc | | 04/25/2013 | 9,000,000.00 | 8,999,910.00 | 8,999,800.00 | 0.080 | 0.081 | 10 | 10/11/2013 |
| Subtotal and Average | | | 12,599,471.50 | | 9,000,000.00 | 8,999,910.00 | 8,999,800.00 | | 0.081 | 10 | |
| Local Agency Investment Funds | | | | | | | | | | | |
| SYS336 | 336 | Local Agency Invstmt Fund | | | 50,000,000.00 | 50,028,366.00 | 50,000,000.00 | 0.257 | 0.257 | 1 | |
| Subtotal and Average | | | 49,466,666.67 | | 50,000,000.00 | 50,028,366.00 | 50,000,000.00 | | 0.257 | 1 | |
| Total and Average | | | 123,798,000.55 | | 118,113,167.06 | 117,839,853.06 | 118,117,718.00 | | 0.337 | 283 | |

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
September 30, 2013

| CUSIP | Investment # | Issuer | Average Balance | Purchase Date | Par Value | Market Value | Book Value | Stated Rate | YTM/C 365 | Days to Maturity |
|------------------------------------|--------------|-----------------------------|-----------------------|------------------------------|-----------------------|-----------------------|-----------------------|-------------|--------------|------------------|
| Money Mkt Mutual Funds/Cash | | | | | | | | | | |
| SYS10104 | 10104 | American Benefit Plan Admin | | 07/01/2013 | 15,000.00 | 15,000.00 | 15,000.00 | | 0.000 | 1 |
| SYS10033 | 10033 | Revolving Fund | | 07/01/2013 | 20,000.00 | 20,000.00 | 20,000.00 | | 0.000 | 1 |
| SYS4 | 4 | Union Bank of California | | 07/01/2013 | 2,377,329.10 | 2,377,329.10 | 2,377,329.10 | | 0.000 | 1 |
| SYS361 | 361 | YORK | | 07/01/2013 | 250,000.00 | 250,000.00 | 250,000.00 | | 0.000 | 1 |
| Average Balance | | | 0.00 | Accrued Interest at Purchase | | 300.00 | 300.00 | | | 1 |
| | | | | Subtotal | | 2,662,629.10 | 2,662,629.10 | | | |
| Total Cash and Investments | | | 123,798,000.55 | | 120,775,496.16 | 120,502,482.16 | 120,780,347.10 | | 0.337 | 283 |

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

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

| | | | | Maturity Par Value | Percent of Portfolio | Current Book Value | Current Market Value | |
|------------------|---------------------|-----------------------------|-----------------------|-----------------------|-------------------------|-----------------------|-------------------------|-----------------------|
| Aging Interval: | 0 days | (10/01/2013 - 10/01/2013) | 6 Maturities | 0 Payments | 66,775,496.16 | 55.29% | 66,775,496.16 | 66,803,862.16 |
| Aging Interval: | 1 - 30 days | (10/02/2013 - 10/31/2013) | 1 Maturities | 0 Payments | 9,000,000.00 | 7.45% | 8,999,800.00 | 8,999,910.00 |
| Aging Interval: | 31 - 60 days | (11/01/2013 - 11/30/2013) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 61 - 91 days | (12/01/2013 - 12/31/2013) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 92 - 121 days | (01/01/2014 - 01/30/2014) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 122 - 152 days | (01/31/2014 - 03/02/2014) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 153 - 183 days | (03/03/2014 - 04/02/2014) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 184 - 274 days | (04/03/2014 - 07/02/2014) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 275 - 365 days | (07/03/2014 - 10/01/2014) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 366 - 1095 days | (10/02/2014 - 09/30/2016) | 3 Maturities | 0 Payments | 30,000,000.00 | 24.83% | 29,992,651.34 | 29,912,340.00 |
| Aging Interval: | 1096 - 1825 days | (10/01/2016 - 09/30/2018) | 2 Maturities | 0 Payments | 15,000,000.00 | 12.43% | 15,012,099.60 | 14,786,070.00 |
| Aging Interval: | 1826 days and after | (10/01/2018 -) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Total for | | | 12 Investments | 0 Payments | | 100.00 | 120,780,047.10 | 120,502,182.16 |



NOTES TO PORTFOLIO MANAGEMENT REPORT

- Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The Union Bank Trust Department provides market values of the remaining investments.
- Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.
- Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2013 includes an increase of \$13,660 to the LAIF investment and a decrease of \$(494,359) to the remaining investments.
- Note 4: The Highmark money market mutual fund functions as the Authority's sweep account. Funds are transferred to and from the sweep account to/from OCFA's checking account in order to maintain a target balance of \$1,000,000 in checking. Since this transfer occurs at the beginning of each banking day, the checking account sometimes reflects a negative balance at the close of the banking day. The negative closing balance is not considered an overdraft since funds are available in the money market mutual fund. The purpose of the sweep arrangement is to provide sufficient liquidity to cover outstanding checks, yet allow that liquidity to be invested while payment of the outstanding checks is pending.



Local Agency Investment Fund (LAIF)

As of September 30, 2013, OCFA has \$50,000,000 invested in LAIF. The fair value of OCFA's LAIF investment is calculated using a participant fair value factor provided by LAIF on a quarterly basis. The fair value factor as of September 30, 2013 is 1.00056732. When applied to OCFA's LAIF investment, the fair value is \$50,028,366 or \$28,366 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 September 30, 2013 is included on the following page.

**State of California
Pooled Money Investment Account
Market Valuation
9/30/2013**

| Description | Carrying Cost Plus | | Fair Value | Accrued Interest |
|--------------------------------|-----------------------------|-----------------------------|-----------------------------|-------------------------|
| | Accrued Interest | Purch. | | |
| | Amortized Cost | | | |
| United States Treasury: | | | | |
| Bills | \$ 16,073,980,700.39 | \$ 16,085,823,591.60 | \$ 16,091,287,550.00 | NA |
| Notes | \$ 17,563,802,960.73 | \$ 17,563,335,015.37 | \$ 17,583,838,500.00 | \$ 14,889,100.00 |
| Federal Agency: | | | | |
| SBA | \$ 568,038,119.90 | \$ 568,027,282.47 | \$ 564,112,809.12 | \$ 539,907.74 |
| MBS-REMICs | \$ 159,739,683.78 | \$ 159,739,683.78 | \$ 173,101,489.62 | \$ 762,107.97 |
| Debentures | \$ 1,574,993,399.51 | \$ 1,574,391,795.33 | \$ 1,573,284,600.00 | \$ 3,905,036.66 |
| Debentures FR | \$ - | \$ - | \$ - | \$ - |
| Discount Notes | \$ 2,548,035,458.35 | \$ 2,549,005,486.11 | \$ 2,549,679,000.00 | NA |
| GNMA | \$ 109.26 | \$ 109.26 | \$ 109.34 | \$ 1.14 |
| IBRD Debenture | \$ 549,990,597.01 | \$ 549,990,597.01 | \$ 550,113,000.00 | \$ 710,762.50 |
| IBRD Deb FR | \$ - | \$ - | \$ - | \$ - |
| CDs and YCDs FR | \$ 400,000,000.00 | \$ 400,000,000.00 | \$ 400,000,000.00 | \$ 249,114.44 |
| Bank Notes | \$ - | \$ - | \$ - | \$ - |
| CDs and YCDs | \$ 7,475,000,000.00 | \$ 7,475,000,000.00 | \$ 7,472,128,794.54 | \$ 2,625,888.88 |
| Commercial Paper | \$ 1,974,637,513.87 | \$ 1,974,883,972.23 | \$ 1,974,778,729.16 | NA |
| Corporate: | | | | |
| Bonds FR | \$ - | \$ - | \$ - | \$ - |
| Bonds | \$ - | \$ - | \$ - | \$ - |
| Repurchase Agreements | \$ - | \$ - | \$ - | \$ - |
| Reverse Repurchase | \$ - | \$ - | \$ - | \$ - |
| Time Deposits | \$ 4,376,640,000.00 | \$ 4,376,640,000.00 | \$ 4,376,640,000.00 | NA |
| AB 55 & GF Loans | \$ 3,352,638,649.37 | \$ 3,352,638,649.37 | \$ 3,352,638,649.37 | NA |
| TOTAL | \$ 56,617,497,192.17 | \$ 56,629,476,182.53 | \$ 56,661,603,231.15 | \$ 23,681,919.33 |

Fair Value Including Accrued Interest

\$ 56,685,285,150.48

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

The value of each participating dollar equals the fair value divided by the amortized cost (1.00056732). As an example: if an agency has an account balance of \$20,000,000.00, then the agency would report its participation in the LAIF valued at \$20,011,346.41 or \$20,000,000.00 x 1.00056732.



Orange County Fire Authority

Preliminary Investment Report

October 18, 2013



ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
October 18, 2013

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

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

| Investments | Par Value | Market Value | Book Value | % of Portfolio | Term | Days to Maturity | YTM/C 360 Equiv. | YTM/C 365 Equiv. |
|--|-----------------------|-----------------------|-----------------------|----------------|------------|------------------|------------------|------------------|
| Money Mkt Mutual Funds/Cash | 13,632,202.21 | 13,632,202.21 | 13,632,202.21 | 12.10 | 1 | 1 | 0.001 | 0.001 |
| Commercial Paper Disc. -Amortizing | 4,000,000.00 | 3,998,000.00 | 3,999,226.67 | 3.55 | 89 | 87 | 0.080 | 0.081 |
| Federal Agency Coupon Securities | 45,000,000.00 | 44,751,330.00 | 45,004,749.18 | 39.96 | 1,292 | 728 | 0.573 | 0.581 |
| Local Agency Investment Funds | 50,000,000.00 | 50,028,366.00 | 50,000,000.00 | 44.39 | 1 | 1 | 0.253 | 0.257 |
| Investments | 112,632,202.21 | 112,409,898.21 | 112,636,178.06 | 100.00% | 520 | 294 | 0.345 | 0.349 |
| Cash and Accrued Interest | | | | | | | | |
| Passbook/Checking (not included in yield calculations) | 1,099,666.87 | 1,099,666.87 | 1,099,666.87 | | 1 | 1 | 0.000 | 0.000 |
| Accrued Interest at Purchase | | 300.00 | 300.00 | | | | | |
| Subtotal | | 1,099,966.87 | 1,099,966.87 | | | | | |
| Total Cash and Investments | 113,731,869.08 | 113,509,865.08 | 113,736,144.93 | | 520 | 294 | 0.345 | 0.349 |

| Total Earnings | October 18 Month Ending | Fiscal Year To Date |
|--------------------------|-------------------------|---------------------|
| Current Year | 20,369.09 | 133,890.02 |
| Average Daily Balance | 118,938,252.04 | 131,726,782.26 |
| Effective Rate of Return | 0.35% | 0.34% |

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

Patricia Jakubiak 10/25/13
 Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

| | |
|---|--------------------------|
| Book Value of Cash & Investments before GASB 31 (Above) | \$ 113,736,144.93 |
| GASB 31 Adjustment to Books (See Note 3 on page 18) | \$ (480,699.41) |
| Total | \$ 113,255,445.52 |

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
October 18, 2013

(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 | | | 13,632,202.21 | 13,632,202.21 | 13,632,202.21 | 0.001 | 0.001 | 1 | |
| Subtotal and Average | | | 18,487,428.30 | | 13,632,202.21 | 13,632,202.21 | 13,632,202.21 | | 0.001 | 1 | |
| Commercial Paper Disc. -Amortizing | | | | | | | | | | | |
| 36959JAE3 | 810 | GEN ELEC CAP CRP | | 10/17/2013 | 4,000,000.00 | 3,998,000.00 | 3,999,226.67 | 0.080 | 0.081 | 87 | 01/14/2014 |
| Subtotal and Average | | | 444,358.03 | | 4,000,000.00 | 3,998,000.00 | 3,999,226.67 | | 0.081 | 87 | |
| Federal Agency Coupon Securities | | | | | | | | | | | |
| 3133ECBT0 | 799 | Federal Farm Credit Bank (Callable anytime) | | 12/26/2012 | 9,000,000.00 | 9,000,090.00 | 9,000,000.00 | 0.375 | 0.375 | 615 | 06/26/2015 |
| 3133ECM76 | 809 | Federal Farm Credit Bank (Callable anytime) | | 04/25/2013 | 9,000,000.00 | 8,956,620.00 | 8,994,717.83 | 0.400 | 0.424 | 916 | 04/22/2016 |
| 3133804V6 | 787 | Fed Home Loan Bank (Callable anytime) | | 08/09/2012 | 6,000,000.00 | 5,958,780.00 | 6,000,000.00 | 1.000 | 0.981 | 1,390 | 08/09/2017 |
| 3133813R4 | 800 | Fed Home Loan Bank (Callable 11-9-13) | | 12/20/2012 | 9,000,000.00 | 8,864,640.00 | 9,011,952.25 | 1.000 | 0.818 | 21 | 11/09/2017 |
| 313382DC4 | 803 | Fed Home Loan Bank (Callable anytime) | | 03/15/2013 | 12,000,000.00 | 11,971,200.00 | 11,998,079.10 | 0.470 | 0.477 | 870 | 03/07/2016 |
| Subtotal and Average | | | 45,004,750.01 | | 45,000,000.00 | 44,751,330.00 | 45,004,749.18 | | 0.581 | 728 | |
| Federal Agency Disc. -Amortizing | | | | | | | | | | | |
| Subtotal and Average | | | 4,999,950.00 | | | | | | | | |
| Local Agency Investment Funds | | | | | | | | | | | |
| SYS336 | 336 | Local Agency Invstmt Fund | | | 50,000,000.00 | 50,028,366.00 | 50,000,000.00 | 0.257 | 0.257 | 1 | |
| Subtotal and Average | | | 50,001,765.70 | | 50,000,000.00 | 50,028,366.00 | 50,000,000.00 | | 0.257 | 1 | |
| Total and Average | | | 118,938,252.04 | | 112,632,202.21 | 112,409,898.21 | 112,636,178.06 | | 0.349 | 294 | |

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
October 18, 2013

| CUSIP | Investment # | Issuer | Average Balance | Purchase Date | Par Value | Market Value | Book Value | Stated Rate | YTM/C 365 | Days to Maturity |
|------------------------------------|--------------|-----------------------------|-----------------------|-------------------------------------|-----------------|-----------------------|-----------------------|-----------------------|--------------|------------------|
| Money Mkt Mutual Funds/Cash | | | | | | | | | | |
| SYS10104 | 10104 | American Benefit Plan Admin | | 07/01/2013 | 15,000.00 | 15,000.00 | 15,000.00 | | 0.000 | 1 |
| SYS10033 | 10033 | Revolving Fund | | 07/01/2013 | 20,000.00 | 20,000.00 | 20,000.00 | | 0.000 | 1 |
| SYS4 | 4 | Union Bank of California | | 07/01/2013 | 814,666.87 | 814,666.87 | 814,666.87 | | 0.000 | 1 |
| SYS361 | 361 | YORK | | 07/01/2013 | 250,000.00 | 250,000.00 | 250,000.00 | | 0.000 | 1 |
| Average Balance | | | 0.00 | Accrued Interest at Purchase | | 300.00 | 300.00 | | | |
| | | | | | Subtotal | 1,099,966.87 | 1,099,966.87 | | | |
| Total Cash and Investments | | | 118,938,252.04 | | | 113,731,869.08 | 113,509,865.08 | 113,736,144.93 | 0.349 | 294 |

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of October 19, 2013

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

Page 17

| | | | | | Maturity Par Value | Percent of Portfolio | Current Book Value | Current Market Value |
|------------------|---------------------|-----------------------------|-----------------------|-------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Aging Interval: | 0 days | (10/19/2013 - 10/19/2013) | 6 Maturities | 0 Payments | 64,731,869.08 | 56.91% | 64,731,869.08 | 64,760,235.08 |
| Aging Interval: | 1 - 30 days | (10/20/2013 - 11/18/2013) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 31 - 60 days | (11/19/2013 - 12/18/2013) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 61 - 91 days | (12/19/2013 - 01/18/2014) | 1 Maturities | 0 Payments | 4,000,000.00 | 3.52% | 3,999,226.67 | 3,998,000.00 |
| Aging Interval: | 92 - 121 days | (01/19/2014 - 02/17/2014) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 122 - 152 days | (02/18/2014 - 03/20/2014) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 153 - 183 days | (03/21/2014 - 04/20/2014) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 184 - 274 days | (04/21/2014 - 07/20/2014) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 275 - 365 days | (07/21/2014 - 10/19/2014) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Aging Interval: | 366 - 1095 days | (10/20/2014 - 10/18/2016) | 3 Maturities | 0 Payments | 30,000,000.00 | 26.37% * | 29,992,796.93 | 29,927,910.00 |
| Aging Interval: | 1096 - 1825 days | (10/19/2016 - 10/18/2018) | 2 Maturities | 0 Payments | 15,000,000.00 | 13.20% | 15,011,952.25 | 14,823,420.00 |
| Aging Interval: | 1826 days and after | (10/19/2018 -) | 0 Maturities | 0 Payments | 0.00 | 0.00% | 0.00 | 0.00 |
| Total for | | | 12 Investments | 0 Payments | | 100.00 | 113,735,844.93 | 113,509,565.08 |

*The OCFA's Investment Policy calls for this category not to exceed 25% of portfolio. This technical non-compliance was caused by the seasonally declining and fluctuating portfolio's balances which are typical during the months of July through October.



NOTES TO PORTFOLIO MANAGEMENT REPORT

- Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The Union Bank Trust Department provides market values of the remaining investments.
- Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.
- Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2013 includes an increase of \$13,660 to the LAIF investment and a decrease of \$(494,359) to the remaining investments.
- Note 4: The Highmark money market mutual fund functions as the Authority's sweep account. Funds are transferred to and from the sweep account to/from OCFA's checking account in order to maintain a target balance of \$1,000,000 in checking. Since this transfer occurs at the beginning of each banking day, the checking account sometimes reflects a negative balance at the close of the banking day. The negative closing balance is not considered an overdraft since funds are available in the money market mutual fund. The purpose of the sweep arrangement is to provide sufficient liquidity to cover outstanding checks, yet allow that liquidity to be invested while payment of the outstanding checks is pending.

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

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Patricia Jakubiak, Treasurer

SUBJECT: **Annual Statement of Investment Policy and Investment Authorization**

Summary:

This agenda item is submitted to the Committee in compliance with the Authority's Investment Policy that requires the Statement of Investment Policy to be reviewed and approved annually by the Budget and Finance Committee and the Board of Directors. This item is also being submitted in compliance with Government Code provisions which require the Board of Directors to review and renew the annual delegation of investment authority to the Treasurer for a one-year period.

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Review and approve the submitted Investment Policy of the Orange County Fire Authority, to be effective January 1, 2014.
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, 2014.

Background:

The Statement of Investment Policy is reviewed annually and revised by the Treasurer, if needed. The proposed Policy is then submitted to the Budget and Finance Committee and Board of Directors for approval every November to become effective on January 1 for the calendar year. During the past year, there were no significant legislative amendments to the California Government Code regarding investments.

In response to questions raised by Director Baker, San Clemente during the July 25, 2013 Board of Directors meeting, staff reviewed the Investment Policy asset allocation and maturity restrictions of several agencies in Orange County and compared them to what is permitted under the California Government Code (Attachment 1). OCFA's Investment Policy was developed over 18 years ago in the wake of the Orange County bankruptcy and while appropriate at that time, now seems unduly restrictive compared to other agencies and the California Government Code as shown on the attached survey. Therefore, a proposed change to the Investment Policy on Page 9 under *Maturity Diversification* is redlined for review and approval, to be effective January 1, 2014 (Attachment 2).

The current section reads as follows with the proposed change redlined:

15.3 Maturity Diversification: Every effort will be made to match investment maturities to cash flow needs. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing the market risk. Maximum maturities shall be as follows:

15.3. At least 50% of the portfolio is limited to a period of one year or less.

~~15.3.2 An additional 25% of the portfolio may have maturities extending to three years from the current date, and the remaining 25% may have maturities extending to five years from the current date.~~

15.3.32 Unless matched to a specific requirement and approved by the Executive Committee and the Board of Directors, no portion of the portfolio may exceed five years.

Even with the proposed change, OCFA will still have sufficient liquidity with the requirement that 50% of the portfolio be limited to one year or less. In addition, OCFA typically maintains the maximum balance in the LAIF, the State pool, which also provides sufficient liquidity.

In addition, in response to a suggestion by Director Bressette, the following language below stated as 7.5 was added under Ethics and Conflict of Interest on page 3:

7. Ethics and Conflicts of Interest: All officers, employees, and participants in the Authority's investment process shall:

7.1. Act responsibly as custodians of the public trust.

7.2. Avoid any transaction that might impair the public confidence in the Authority's ability to serve the citizens of our area of responsibility.

7.3. Refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

7.4. Abide by the Authority's adopted Conflict of Interest Code, which by reference is incorporated into this Investment Policy.

7.5. The Treasurer shall be prohibited from doing personal investment transactions with any broker or securities dealer with whom OCFA does business, with the exception of the OCFA's primary bank for banking services. Employees shall subordinate their personal investment transactions to those of OCFA, particularly with regard to the time of purchases and sales.

Impact to Cities/County:

Not Applicable

Fiscal Impact:

Not Applicable

Staff Contacts for Further Information:

Patricia Jakubiak, Treasurer

Triciajakubiak@ocfa.org

(714) 573-6301

Jane Wong, Assistant Treasurer

Janewong@ocfa.org

(714) 573-6305

Attachments:

1. 2013 Investment Policy Survey
2. Proposed Investment Policy (to be effective January 1, 2014)

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | CA GOVERNMENT CODE | MATURITY RESTRICTIONS | CA GOVERNMENT CODE |
|-------------|---|--|--|-----------------------|--------------------|
| <u>OCFA</u> | U.S. Treasury securities | 100% | None | 5 years | 5 Years |
| | Federal Agency securities | 75% | None | 5 years | 5 years |
| | Bankers Acceptances | 25% ("Issued by 1 of 10 largest domestic banks or 20 largest international banks based on assets") | 40% (30% in any one commercial bank) | 180 days | 180 days |
| | Local Agency Investment Fund (LAIF) | 75% | None | N/A | N/A |
| | Negotiable Certificates of Deposit | 25% | 30% | 5 years | 5 years |
| | Commercial Paper (CP) | 15% (must be rated highest-quality by at least 2 of 3 nationally recognized rating agencies...) | 25% (Must be of "prime" quality of the highest ranking of a nationally recognized statistical rating organization...) | 270 days | 270 days |
| | Money Market Mutual Funds | 15% (Whose portfolio consists solely short-term treasury securities. Must be rated "AAA" by 2 of 3 rating agencies) | 20% (Attained the highest ranking by not less than 2 national recognized statistical rating organizations) | N/A | N/A |
| | Repurchase Agreements | 15% | None | 14 days | 1 year |
| | Collateralized or insured passbook savings accounts or demand deposits | 15% | Shall not exceed shareholder's equity of any depository | N/A | None |
| | Collateralized or insured certificates of deposit | 15% | 30% | 5 years | 5 years |
| | Bond proceeds or other indebtedness may be invested in accordance with bond indenture, resolution, or other statutory provisions | N/A | None | N/A | None |
| | Retiree Medical Funds may be held in a separate trust fund. | N/A | None | N/A | None |
| | Notes: "At least 50% of the portfolio is limited to one year or less. An additional 20% of the portfolio may have maturities extending to 3 years from the current date, and the remaining 25% may have maturities extending to 5 years from the current date." "Unless matched to a specific requirement and approved by the Executive Committee and the Board of Directors, no portion of the portfolio may exceed 5 years." | | | | |
| | Unallowable Investments for OCFA: | | | | |
| | Derivatives, except for indirect investment through LAIF | N/A | Prohibits inverse floaters, range notes, mortgage derived and interest-only STRIPs | | |

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| <u>AGENCY</u> | <u>INVESTMENT TYPE</u> | <u>ALLOCATION RESTRICTIONS</u> | <u>CA GOVERNMENT CODE</u> | <u>MATURITY RESTRICTIONS</u> | <u>CA GOVERNMENT CODE</u> |
|---------------|---|--------------------------------|--|------------------------------|---------------------------|
| <u>OCFA</u> | Reverse Repurchase Agreements-(indirect investment through a pool is allowable up to a maximum of 10% of the pool's portfolio) | N/A | 20% | N/A | 92 days |
| | Financial futures or financial options | N/A | None | N/A | None |
| | Common stocks or corporate bonds | N/A | (Not allowed except Medium-Term Notes) | N/A | N/A |
| | Local Agency Bonds | N/A | None | N/A | 5 years |
| | State Obligations - CA and Others | N/A | None | N/A | 5 years |
| | CA Local Agency Obligations | N/A | None | N/A | 5 years |
| | Medium-Term Notes | N/A | 30% | N/A | 5 years |
| | Mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond | N/A | 20% | N/A | 5 years |

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|---------------------------|--|---|------------------------------|
| City of Buena Park | | | |
| | U.S. Treasury securities | No limit | 1 year |
| | U.S. Government Agency securities | No limit | |
| | Banker's Acceptances | 20% | |
| | Local Agency Investment Fund | 35% | |
| | Negotiable Certificates of Deposit | 30% | |
| | Commercial Paper | 20% | 270 days |
| | Mutual Fund administered by a major bank | 15% | |
| | Repurchase Agreements | 15% | |
| | Medium Term Notes | 30% | |
| | Investment in outside agency pools | N/A | |
| | | ("...limited to those specifically listed in the City's Investment Policy") | |

Note:

"The portfolio should consist a mix of various types of securities, issuers, and maturities."

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|---------------------------|------------------------|--------------------------------|------------------------------|
| <u>City of Buena Park</u> | | | |

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|---------------------------|--|---|--|
| <u>City of Dana Point</u> | | | |
| | U.S. Treasury securities | No limit | Maturity not to exceed the projected dates of the City's cash needs or five years, whichever is less |
| | U.S. Agency securities | No limit; however, the "prudent investor" rule shall apply for a single agency name | Maturity not to exceed the projected dates of the City's cash needs or five years, whichever is less |
| | Banker's Acceptances | 40% (10% for any one bank) | 180 days |
| | Local Agency Investment Fund (or any other single investment pool) | 50% (May exceed the 50% limit at the Treasurer's discretion under extraordinary circumstances) | 120 days if exceed the 50% limit |
| | Negotiable Certificates of Deposit | 30% | 2 years |
| | Commercial Paper | 15% (10% for any one issuing corporation; 10% of outstanding CP of any single issuer) | 270 days |
| | Money Market Funds | 20% (10% for any one money market fund) | N/A |

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|----------------------------------|---------------------------------------|--------------------------------|------------------------------|
| <u>City of Dana Point</u> | | | |
| | Repurchase Agreements | 50% | 1 year |
| | Time Deposits | 15% | 1 year |
| | Money held by Trustee or Fiscal Agent | N/A | N/A |

Note:

"...no investment shall be made in any security that at the time of the investment has a term remaining to maturity in excess of 5 years, unless the City Council has granted express authority...no less than 3 months prior to the investment."

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|------------------------------------|--|--|------------------------------|
| <u>City of Laguna Hills</u> | | | |
| | U.S. Treasury securities | 50% | |
| | Banker's Acceptances | 15% | 270 days |
| | Local Agency Investment Funds | 85% | |
| | Certificates of Deposit-Commercial Banks | 50% (25% for individual bank) | |
| | Certificates of Deposit-Savings and Loan | 25% (\$250K for individual institution/issuer) | |
| | Commercial paper | 10% | 180 days |
| | Money market mutual funds | 15% | |
| | Overnight Government Securities Investment account managed by the City's primary bank; Overnight commercial paper investment account managed by the City's primary bank; Overnight repurchase agreement managed by the City's primary bank | 50% | |

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|------------------------------------|---|--------------------------------|------------------------------|
| <u>City of Laguna Hills</u> | | | |
| | <u>Notes:</u> | | |
| | "All authorized investment instruments shall mature within 1 year from the time of purchase unless otherwise stated." | | |
| | "Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs..." | | |
| | "Investments of funds held under a trust indenture may have maturities up to 2 years in duration." | | |

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|-------------------------------------|---|--|------------------------------|
| <u>City of Laguna Niguel</u> | | | |
| | U.S. Treasury securities | No limit | 5 years |
| | U.S. Agency securities | 60% (25% single issuer limit) | 5 years |
| | Local Agency Investment Fund | \$40MM or 40% of portfolio whichever is less through 12/31/13; \$20MM or 30% of portfolio whichever is less after 12/31/13 | N/A |
| | Insured Certificates of Deposit | 30% (\$100K for single institution w/ maturity after 12/31/13; \$250K for single institution w/ maturity on or before 12/31/13) | 5 years |
| | Money Market Mutual Funds | 20% (10% per investment) | N/A |
| | Collateralized or Insured Money Market Accounts/Demand Deposits | No limit | N/A |
| | CA Asset Management Program | \$15MM or 20%, whichever is greater through 12/31/13 \$5MM after 12/31/13 | N/A |
| | The Investment Trust of California Short-Term Fund | \$15MM or 20%, whichever is greater through 12/31/13; \$0 after 12/31/13 | N/A |

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|-------------------------------------|------------------------|--------------------------------|------------------------------|
| <u>City of Laguna Niguel</u> | | | |

Notes:

"...Invested funds shall be diversified to minimize the risk of loss resulting from over concentration os assets in a specific maturity, specific issuer..."

"The City shall use LAIF...with a maturity of 1 year or less...As a general guideline, the balance of the portfolio should be invested in and evenly distributed between instruments with maturities 1 to 5 years unless...circumstances and/or the interest rate environment warrant an alternative investment approach. Specific instruments may be purchased to meet identified and scheduled capital expenditures."

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|------------------------------|---|--|--|
| City of Mission Viejo | | | |
| | U.S. Treasury securities | No limit | |
| | U.S. Agency securities (Investment in mortgage-backed bonds and collateralized mortgage obligations (CMOs) is prohibited, even if such bonds are issued by agencies of the U.S. Government) | \$14MM or 70% whichever is greater; \$7MM or 35% whichever is greater for single agency | |
| | Banker's Acceptances | \$4MM or 20% whichever is greater | 180 days |
| | Local Agency Investment Fund | \$8MM or 40% whichever is greater | N/A |
| | Negotiable Certificates of deposit | \$4MM or 20% whichever is greater | 180 days |
| | Commercial paper | 15% | 180 days |
| | Mutual Funds | 20% (10% in any one fund) | Permitted investments/securities in these funds must have remaining maturity of 1 year or less |
| | Repurchase Agreements | \$2MM or 10% whichever is greater | 30 days |

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|-------------------------------------|--|---|------------------------------|
| <u>City of Mission Viejo</u> | Federal Insured Time Deposits | N/A | 181 days |
| | Time Deposits | \$4MM or 20% whichever is greater | 180 days |
| | Local Agency Sponsored Investment Pools | \$3MM or 15% whichever is greater; 5% of the MV of any single pool | N/A |
| | FDIC Guaranteed Obligations; senior debt guaranteed by the FDIC under the Temporary Liquidity Guarantee Program (TLGP) | \$7MM or 35% whichever is greater; \$4MM or 20% for any single issuing corporation | |

Notes:

"No more than the greater of \$1MM or 5% of the total portfolio may be invested in securities of any single issuer, except that limits on investment securities issued by government agencies ..."

"The maximum stated final maturity of individual securities in the portfolio shall be 5 years."

Orange County Fire Authority
Investment Policy Survey - November 2013

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|---|--|--|------------------------------|
| <u>City of San Juan Capistrano</u> | | | |
| | U.S. Treasury securities | 100% | |
| | U.S. Agency securities | 75% | |
| | Banker's acceptances | 30% | 180 days |
| | Local Agency Investment Fund | 40% | |
| | Negotiable CDs | 30% | |
| | Non-negotiable CDs | 25% | |
| | Commercial paper | 25% | 270 days |
| | | (max 10% of o/s commercial paper of any single corp. issue) | |
| | Money market funds | 20% | |
| | Passbook Savings Account Demand Deposit | 5% | |
| | Municipal Obligations | 25% | |
| | Orange County Investment Pool | 10% | |

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|---|--|--------------------------------|------------------------------|
| <u>City of San Juan Capistrano</u> | Local Government Investment Pool (LGIPs) | 10% | |
| | Medium-term corporate notes | 30% | 5 years |

Notes:

"The City shall not invest in a security whose maturity exceeds 5 years from the date of purchase unless City Council has provided approval for a specific purpose at least 90 days before the investment is made."

"...City Treasurer may not invest more than 25% of the portfolio [for 3 years]. When matched to a specific requirement and with approval by the Council, the City Treasurer may invest more than 25% of the portfolio for a period greater than 3 years."

"No more than 5% of the City's Investment Portfolio may be invested in the securities of any one issuer... Excluding U.S. Treasuries, U.S. Government Agencies, and pooled investments such as LAIF, LGIPs, and money market funds."

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|------------------------------|---|---|---|
| <u>City of Tustin</u> | | | |
| | U.S. Treasury securities | No limit | 5 years |
| | U.S. Agency securities | 50% | 5 years |
| | Banker's acceptances | 25% | 180 days |
| | Government sponsored pools, such as LAIF and mutual funds | No limit | |
| | Negotiable Certificates of Deposit | "...of global banks only w/ highest short-term ratings." | |
| | Commercial paper | 25% | 90 days Average weighted maturity shall not exceed 31 days if commercial paper exceeds 15% of total portfolio assets |
| | Mutual Funds | | N/A |
| | Repurchase Agreements | | N/A |
| | Municipal securities | 10% of portfolio & 5% of any one issuer's securities; 10% for CA securities; 5% for other local government securities | |

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| <u>AGENCY</u> | <u>INVESTMENT TYPE</u> | <u>ALLOCATION RESTRICTIONS</u> | <u>MATURITY RESTRICTIONS</u> |
|-----------------------|------------------------|--------------------------------|---|
| <u>City of Tustin</u> | Corporate notes | 10% | 5 years |
| | Investment contracts | N/A | N/A (Bonds proceeds may be placed in investment contracts if authorized by borrowing documents) |

Notes:

"As a general rule, intermediate-term maturities shall not represent a significant percentage of the portfolio. Unless previously authorized by City Council, no investment may have a term final stated maturity longer than 5 years. At the time of purchase, holdings with maturities greater than 1 year shall not exceed 35 % of the total portfolio."

"The portfolio shall consist various types of securities approved by statute and this Statement of Investment Policy, as well as varied issuers and maturities."

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|-------------------------|-------------------------------------|--|---|
| <u>County of Orange</u> | | | |
| | U.S. Treasury securities | 100% | 5 years for long-term & 397 days for short-term |
| | U.S. Government Agency securities | 100%; each issuer is limited to 30% of any individual pool's total assets | 5 years for long-term & 397 days for short-term |
| | Banker's acceptances | 40% of any individual pool's total assets; 5% in any single issuer | 180 days |
| | Negotiable Certificates of Deposit | 30% of any individual pool's total assets; 5% in any single issuer | 5 years for long-term & 397 days for short-term |
| | Commercial paper | 40% of any individual pool's total assets; 5% in any single issuer | 270 days |
| | Money Market Mutual Funds | 20% of any individual pool's total assets; 10% in a single money market fund | Weighted average maturity of 60 days or less |
| | Repurchase Agreements | 20% of any individual pool's total assets; 10% in any single issuer | 1 year |
| | Investment Pool/Mutual Funds (JPAs) | 20% of any individual pool's total assets; 10% in any one fund | N/A |

**Orange County Fire Authority
Investment Policy Survey - November 2013**

| AGENCY | INVESTMENT TYPE | ALLOCATION RESTRICTIONS | MATURITY RESTRICTIONS |
|--------------------------------|------------------------|---|---|
| <u>County of Orange</u> | | | |
| | Municipal debt | 30% of any individual pool's total assets; 5% in a single issuer, except 10% in County of Orange's pool | 5 years for long-term & 397 days for short-term |
| | Medium Term Notes | 30% of any individual pool's total assets; 5% in any single issuer | 5 years for long-term & 397 days for short-term |

Notes:

"At the time of purchase, an individual pool may invest up to 10% of its total market value in a single issuer for a period up to 3 business days only with approval of the Treasurer. The fund may not invest in the securities of more than one issuer under this provision at any time."

"The long-term pools, such as extended fund, shall have duration not to exceed a leading 1-3 year index +25%"



ORANGE COUNTY FIRE AUTHORITY

INVESTMENT POLICY

Calendar Year 2014



INVESTMENT POLICY

History of OCFA's Investment Policy & Cash Management Program

Following the formation of the Orange County Fire Authority in March 1995, OCFA funds were initially invested in the Orange County Investment Pool (OCIP) and the Local Agency Investment Fund (LAIF). At that time, investment options were limited since the Authority was using County services for treasury, banking, and accounting systems pending implementation of its own systems. During this transitional stage, OCFA staff worked to establish independent banking, custodian, and broker/dealer agreements, installed a portfolio management system, and implemented the Banner Financial System. Staff also researched and drafted a comprehensive Investment Policy. On January 1, 1997, the OCFA Board of Directors adopted the Investment Policy and appointed a Treasurer. Immediately thereafter, OCFA assumed in-house responsibility for Treasury services and implemented its own Cash Management & Investment Services Program.

As the Cash Management program evolved, all remaining funds in the OCIP were gradually withdrawn. The Treasurer invested these funds in individual securities and scheduled maturities to correspond with cash flow needs. Investments included Treasury and Federal Agency securities, prime quality commercial paper, money market mutual funds (U.S. Treasury Obligations), and LAIF.

Since inception in 1997, the Treasurer has continued to refine the Investment Policy on an annual basis to meet the changing needs of the Authority. As a result of these enhancements, the policy was formally recognized by the Association of Public Treasurer's of the United States and Canada (APTA US&C) in 1999, 2001, and again in 2007. Certification is awarded when an investment policy meets the professional standards set forth by MTA US&C. Agencies may submit for re-certification after significant changes are made to the Policy.

During the past year, there were no significant legislative amendments to the California Government Code regarding investments that would require a change to the 2014 Investment Policy.



INVESTMENT POLICY

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INVESTMENT POLICY

ORANGE COUNTY FIRE AUTHORITY

1. **Policy:** The Orange County Fire Authority (the “Authority”) shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives, in priority order, of safety, liquidity, and return on investment.
2. **Scope:** This investment policy applies to all financial assets of the Orange County Fire Authority which are available for investment by the Authority’s Treasurer; except that funds in the Authority’s deferred compensation plan, defined contribution plan, and security deposits held in escrow in lieu of retention are excluded from this investment policy. The funds governed by this policy may be referred to herein as the OCFA portfolio.
 - 2.1. The Authority’s funds are accounted for in the Comprehensive Annual Financial Report (CAFR) and include the funds listed below and any new fund created by the Board of Directors unless specifically exempted.
 - Fund 121 General Fund
 - Fund 122 Facilities Maintenance and Improvements
 - Fund 123 Capital Projects
 - Fund 124 Communications and Information Systems Replacement
 - Fund 133 Vehicle Replacement
 - Fund 171 Structural Fire Fund Entitlement
 - Fund 190 Self-Insurance Fund
 - Fund 422 Extra-Help Retirement Trust
 - 2.2. Bond fund investments will be held separately and made in accordance with the bond debenture requirements.
 - 2.3. Retiree Medical Trust Funds may be held separately from the OCFA portfolio and invested in accordance with California Government Code Section 53620 to 53622 and/or Section 31694.3.

3. **Prudence:** The standard of prudence to be used shall be the “prudent person” standard (as cited in Probate Code Section 16040) and shall be applied in the context of managing the overall portfolio, not to a single item within a diversified portfolio. Investments shall be made with judgment and care (under circumstances then prevailing) which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.
4. **Objectives:** The primary objectives of investment activities, in order of priority, shall be:
 - 4.1. *Safety:* Safety of principal is the prime objective of the investment program. The investment program shall be designed and implemented to ensure preservation of capital in the overall portfolio. Invested funds shall be **diversified** to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities.
 - 4.2. *Liquidity:* The investment portfolio shall be structured in a manner which strives to time the maturity of securities with cash requirements. Additionally, since not all possible cash demands can be anticipated, the portfolio should consist of securities with an active secondary or resale market.
 - 4.3. *Return on investment:* The Authority shall attempt to obtain a reasonable return provided that the requirements of safety and liquidity are first met.
5. **Authorization and Delegation of Authority:** Under California Government Code Section 53601, the legislative body of a local agency (i.e., the Authority’s Board of Directors) is authorized to invest surplus moneys as specified in that code section. In accordance with California Government Code Section 53607, this authority is delegated to the Treasurer of the Authority for a one-year period. Subject to review, the Board of Directors may renew the delegation of authority under this code section each year. The Treasurer will be responsible for all investment transactions and shall establish a system of controls to regulate the activities of officials involved in any aspect of the investment program.
 - 5.1. *Investment Procedures:* The Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy. The procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. The procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction, except as provided under the terms of this policy and the procedures established by the Treasurer.
 - 5.2. *Delegation in Treasurer’s Absence:* In the Treasurer’s absence, the Treasurer delegates investment authority in the following order to (1) the Assistant Chief, Business Services and (2) the Deputy Fire Chief.

6. Duties and Responsibilities:

- 6.1. *Treasurer:* Charged with responsibility for all public funds and securities belonging to or under the control of the Authority, and for the deposit and investment of those funds in accordance with the principles of sound treasury management and in accordance with the applicable laws, ordinances and policies adopted by the Authority.
- 6.2. *Auditor:* Charged with recording investment activity in the accounting records and with verifying the Treasurer's records with broker confirmations, bank statements and safekeeping records.
- 6.3. *Assistant Chief, Business Services:* Charged with responsibility (in the absence of the Treasurer) for all public funds and securities belonging to or under the control of the Authority and for their deposit. Duties related to investment activities shall be performed by staff other than those responsible for the accounting of those investments.
- 6.4. *Fire Chief:* Charged with responsibility for implementation of and conformance to the policies and procedures approved by the Board of Directors for the investment of the Authority's funds.
- 6.5. *Budget and Finance Committee:* Charged with responsibility for investment oversight. The Committee shall review the monthly investment reports and significant investment activity being undertaken. The Committee's recommendations shall be reported in a monthly investment report to the Executive Committee.
- 6.6. *Executive Committee:* Charged with responsibility to receive, review and approve the monthly investment report, following review by the Budget and Finance Committee.
- 6.7. *Board of Directors:* May delegate to the Treasurer for a one-year period the authority to invest the Fire Authority's funds. Subject to review, the Board may renew the delegation of this authority each year. The Board shall also annually consider and approve a written Statement of Investment Policy at a public meeting. Any change to the Investment Policy at any time shall also be considered by the Board at a public meeting.

7. Ethics and Conflicts of Interest: All officers, employees, and participants in the Authority's investment process shall:

- 7.1. Act responsibly as custodians of the public trust.
- 7.2. Avoid any transaction that might impair the public confidence in the Authority's ability to serve the citizens of our area of responsibility.
- 7.3. Refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

- 7.4. Abide by the Authority's adopted Conflict of Interest Code, which by reference is incorporated into this Investment Policy.
- 7.5. The Treasurer shall be prohibited from doing personal investment transactions with any broker or securities dealer with whom OCFA does business, with the exception of the OCFA's primary bank for banking services. Employees shall subordinate their personal investment transactions to those of OCFA, particularly with regard to the time of purchases and sales.
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 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 National Association of Security Dealers certification.
 - 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.

9. **Authorized Investment Advisors and Investment Managers:**

Authorized Investment Advisors

Although the Authority does not currently use an investment advisor, these policies and procedures shall be applicable if an investment advisor is utilized in the future to provide advice and guidance for the investment of OCFA portfolio funds. Under Government Code, the Authority is authorized to engage specially trained and experienced firms for economic advice and services. The Board of Directors must approve, in advance, all contracts with an investment advisor, after review by the Authority's Counsel. The investment advisor may only provide advice and may not effectuate trades; he/she may not make investment decisions. The Treasurer shall provide the investment manager with a copy of the Authority's Investment Policy.

Authorized Investment Managers

The provisions above for authorized investment advisors also apply to authorized investment managers. In addition, an investment manager may effectuate trades upon specific authorization for each transaction; however, he/she may not make investment decisions. All investment decisions must be made and approved by the Treasurer in advance, before the investment manager is authorized to execute a transaction. The Treasurer shall provide the investment manager with a copy of the Authority's Investment Policy. Upon execution of any trade, the Authority must receive confirmation directly from the broker/dealer and the custodian, not from the investment manager. Investments recommended by the investment manager should be safe kept by the Authority's regular custodian, and not with the investment manager.

10. **Authorized and Suitable Investments:** The Authority is empowered by statute (California Government Code Section 53600 et seq., 53620 et seq., and Section 5922[d]) to invest in the following types of securities (see Section 15 of this Policy for maximum percentage limits imposed under Authority Policy):

- 10.1. U.S Treasury or Federal Agency securities.
- 10.2. Collateralized or insured passbook savings accounts and demand deposits.
- 10.3. Collateralized or insured certificates of deposit (or time deposits) placed with commercial banks (maximum term five years).
- 10.4. Bankers acceptances (issued by one of the 10 largest domestic banks or 20 largest international banks based on assets) with maturities not to exceed 180 days. State

statute restricts bankers' acceptances to no more than 40% of the agency's surplus funds and no more than 30% in any one commercial bank. Authority policy is more restrictive, with a maximum 25% limit (see Section 15.1.4). Bankers' acceptances are to be purchased only from institutions that are well capitalized as the term is defined in the glossary.

- 10.5. Money market mutual funds whose portfolio consists solely of short-term treasury securities (i.e., one year or less remaining until maturity, at purchase). Mutual funds must be AAA rated by at least 2 of the 3 largest rating agencies.
- 10.6. Repurchase agreements whose underlying collateral consists of U.S. Treasury obligations or U.S. government agency obligations and the collateralization level must be in accordance with Government Code section 53601(i)(2), effective January 1, 1996 (maximum maturity of 14 days). A Public Securities Association (PSA) Master Repurchase Agreement is required between the Authority and the bank or broker/dealer for all repurchase agreements transacted. Direct investment in reverse repurchase agreements is prohibited.
- 10.7. Local Agency Investment Fund (State of California Pool).
- 10.8. Commercial paper in compliance with the following requirements:
 - 10.8.1 Must be rated highest-quality by at least two of the following three nationally recognized rating agencies. Highest-quality ratings are defined as (1) Moody's Investor Services rating of P1; (2) Standard & Poor's rating of A1/A1+; (3) Fitch rating of F1/F1+.
 - 10.8.2 Investments will not be made with commercial paper issuers placed on negative credit watch by any one of the above rating agencies.
 - 10.8.3 Commercial paper issuers must be domestic corporations having assets in excess of \$500,000,000 and having an AA or better rating on its long term debentures as provided by Moody's, Standard & Poor's, or Fitch.
 - 10.8.4 Purchases of eligible commercial paper may not: (a) exceed 270 days to maturity; or (b) exceed 15% of the cost value of the portfolio. Although Government Code allows a maximum investment in commercial paper of 25%, Authority Policy maintains a 15% maximum, which is more restrictive.
 - 10.8.5 The Treasurer shall conduct research on commercial paper issuers prior to investing OCFA funds with those issuers. The Treasurer will avoid investing in issuers with current events that involve negative financial implications. Sources of research will include, at a minimum, WSJ.com, Bloomberg.com, CBS.marketwatch.com, and SmartMoney.com.
- 10.9. Negotiable certificates of deposit, issued by national or state-chartered banks or state

or federal savings institutions, commercial bank, savings bank (savings and loan association), or credit union that uses a private sector entity that assists in the placement of certificates of deposit under specified conditions. Government code limits negotiable certificates of deposit to 30% of the portfolio. Authority Policy, which is more restrictive, limits investment in these securities to 25% (see Section 15.1.5).

- 10.10. Proceeds of bonds or other indebtedness and any moneys set aside and pledged to secure payment of the bonds may be invested in accordance with the resolution, indenture, or other statutory provisions governing the issuance of those bonds or indebtedness.
 - 10.11. Retiree Medical Funds may be held in a separate trust fund and invested as permitted under California Government Code Section 53620 to 53622 and/or Section 31694.3 for the purpose of paying health insurance benefits to retirees.
11. **Unallowable Investments / Restrictions:** The Authority shall **not** invest OCFA portfolio funds in the following instruments:
- 11.1. Derivatives, except for indirect investment through the State's Local Agency Fund.
 - 11.2. Reverse repurchase agreements, although indirect investment through a pool is allowable up to a maximum of ten percent (10%) of the pool's portfolio.
 - 11.3. Financial futures or financial options.
 - 11.4. Common stocks or corporate bonds.
12. **Investment Pools:** Governmental sponsored pools and/or mutual funds should be carefully reviewed prior to investing and should be monitored on an ongoing basis. Requisite information on the pool includes the following:
- 12.1. A statement of investment policy and objectives.
 - 12.2. A list of allowable investments.
 - 12.3. Disclosure regarding settlement and safeguarding of investments.
 - 12.4. Description of securities pricing (fair value) and whether GASB 31 compliant.
 - 12.5. An explanation of interest calculations and distributions, plus fee disclosures.
 - 12.6. Deposit and withdrawal restrictions.
 - 12.7. Disclosure of audit findings and reports.

13. **Collateralization:** Collateral must always be held by an independent third party with whom the Authority has a current custodial agreement.
- 13.1. State law regarding collateralization of deposits of public funds requires that securities be held by an agent (i.e., a trust company) of the bank, which may include the bank's trust department only if acceptable to both the bank and the Treasurer, pursuant to California Government Code Sections 53656 and 53658. Under the provisions of California Government Code Section 53652, banks are required to secure the deposits of public funds, including certificates of deposits, by: a) pledging government securities with a value of 110% of the principal and accrued interest; b) pledging first trust deed mortgage notes having a value of 150% of the total agency deposit; or c) a letter of credit drawn on the Federal Home Loan Bank at 105% of the total agency deposit. Deposits must be secured at all times with eligible securities pursuant to Section 53651. A copy of the Call Report of Local Agency's Deposits and Securities must be supplied to the Authority and retained to document compliance with the collateral requirements.
- 13.2. Collateralization of repurchase agreements must be at least 102% of the market value of principal and accrued interest. Collateral must consist of U.S. Treasury obligations or U.S. Agency obligations. Other specific requirements on repurchase agreements must be addressed in a master repurchase agreement between the Authority and the bank or broker/dealer.
- 13.3. The Treasurer, at his/her discretion, may waive the collateral requirements for deposits up to \$100,000 which are fully insured by the Federal Deposit Insurance Corporation. The right of collateral substitution is granted.
14. **Safekeeping and Custody:** All security transactions shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party qualified custodian and evidenced by safekeeping receipts. The trust department of the Authority's bank may act as third party custodian, provided that the custodian agreement is separate and apart from the banking agreement.
15. **Diversification:** The Authority shall maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, issuer, or security type.
- 15.1. *Restrictions on Securities:* At no time shall the Authority's portfolio be invested in a single security type or in a single financial institution or pool in excess of 15% of the total investment portfolio, with the following exceptions:
- 15.1.1 Treasury securities 100%
- 15.1.2 Local Agency Investment Fund 75% (*Excludes moneys deposited in LAIF bond funds.*)
- 15.1.3 Federal Agency securities 75%

15.1.4 Bankers' Acceptances 25%

15.1.5 Negotiable CD's 25%

15.2. *Exception for Automatic Overnight Sweep:* There shall be no restriction on the amount that is automatically swept from the Authority's bank into the Highmark Money Market Mutual Fund of U.S. Treasury Obligations *on an overnight basis*, in order to accommodate immediate investment of large inflows of property taxes or other receipts, pending diversified investment into other securities by the Treasurer.

15.3. *Maturity Diversification:* Every effort will be made to match investment maturities to cash flow needs. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing the market risk. Maximum maturities shall be as follows:

15.3.1 At least 50% of the portfolio is limited to a period of one year or less.

15.3.2 Unless matched to a specific requirement and approved by the Executive Committee and the Board of Directors, no portion of the portfolio may exceed five years.

16. **Internal Control:**

16.1. Internal policies and procedures shall be developed to assure that appropriate controls are in place to document and confirm all transactions. A separate *Investment Procedures Manual* shall be established to assist Treasury staff with daily operations and shall be reviewed at least annually by the Treasurer.

16.2. An independent analysis by an external auditor shall be conducted annually to review internal control, account activity and compliance with policies and procedures.

16.3. To provide further protection of the Authority funds, written instructions require the Authority's bank to obtain verification of all wire transfers from two of the three following officers:

16.3.1 Treasurer.

16.3.2 Assistant Chief, Business Services.

16.3.3 Deputy Fire Chief.

17. **Performance Standards:** The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with investment risk constraints and cash flow needs.

17.1. *Investment Strategy:* The Authority's basic investment strategy is to buy and hold

investments until maturity. However, the Treasurer may sell a security due to adverse changes in credit or market risk or due to unexpected cash flow needs.

- 17.2. *Market Yield (Benchmark)*: The basis used by the Treasurer to determine whether market yields are being achieved shall be the rates of return from the following combination of indices: Local Agency Investment Fund (LAIF) and 3-month, 6-month and 1-year Treasury Bills (constant maturity).
- 17.3. *Review*: The investment policy shall be reviewed at least annually by the Budget and Finance Committee and approved by the Board of Directors to ensure its consistency with the overall objectives of safety (including diversification), liquidity and return, as well as its relevance to current law and financial/economics trends. The Authority's philosophy prohibits speculation (i.e., purchasing securities with the intent to profit from anticipated changes in future market conditions). Leveraging or borrowing money for the purpose of investing is specifically prohibited.

18. **Reporting:**

- 18.1. *Monthly Reports*: In compliance with Government Code Sections 53607 and 53646, the Treasurer shall file a monthly investment report with the Clerk of the Board, who will submit copies to the Board of Directors, the Executive Committee, the Budget and Finance Committee, the Fire Chief, the Assistant Chief of Business Services, the Auditor, and the Authority's outside auditor (as required). The investment report will be agendaized for the monthly meetings of the Budget and Finance Committee and the Executive Committee, and any Board member may request inclusion of the report on the Board's agenda at any time. This report shall certify that the Treasurer has complied with the Authority's *Investment Procedures Manual* and will include an *Executive Summary*, which provides a condensed summary of the most important information in the report, plus a detailed report covering the following elements:
 - 18.1.1 Type of investments and percent that each type represents in the portfolio.
 - 18.1.2 Issuer.
 - 18.1.3 Purchase date.
 - 18.1.4 Date of maturity.
 - 18.1.5 Amount of deposit.
 - 18.1.6 Face value of the securities.
 - 18.1.7 Current market value of securities.
 - 18.1.8 Portfolio yield and comparison to benchmark.

- 18.1.9 Interest earnings.
 - 18.1.10 Percentage of portfolio maturing within one year, 1-3 years, 3-5 years and over 5 years.
 - 18.1.11 Statement relating the report to the Investment Policy.
 - 18.1.12 Statement on availability of funds to meet its obligations for the next 30 days and the next 6 months.
 - 18.1.13 Description of funds, investments, or programs managed by contracted parties.
 - 18.1.14 Statement of compliance of the portfolio with the investment policy or manner in which the portfolio is out of compliance.
 - 18.1.15 GASB 31 effects on financial statements.
 - 18.1.16 Comments on the fixed income markets and economic conditions.
 - 18.1.17 Potential changes in future portfolio structure (if any), including risk factors.
 - 18.1.18 Any other information required by the Board.
- 18.2. *Annual Reports:* The Treasurer shall submit an annual report to the Budget and Finance Committee and the Executive Committee, following the close of the fiscal year which shall certify that the Treasurer has complied with the Authority's investment procedures and detail the following:
- 18.2.1 Analysis of the composition of the investment fund.
 - 18.2.2 Discussion of investment risk in the portfolio.
 - 18.2.3 GASB 31 impacts.
 - 18.2.4 A review of trends regarding the size of the investment fund.
 - 18.2.5 Portfolio performance and comparison to benchmark.
 - 18.2.6 Investment income.
 - 18.2.7 A statement of anticipated investment fund activity in the next fiscal year.

18.3 **Investment Policy Adoption:** The Treasurer shall annually render to the Fire Chief, the Budget and Finance Committee, and the Board of Directors a Statement of Investment Policy.

Glossary

Active Deposits. Funds which are immediately required for disbursement.

Active investment management. An investment strategy that involves the active trading of securities in an attempt to earn above-average returns on a portfolio. Active investment management requires frequent monitoring of financial markets.

Agency. A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA). An example of an FSA is the Federal National Mortgage Association (FNMA).

Arbitrage. Generally, transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a difference in prices in the two markets.

Bankers' Acceptances (BA's). Time drafts or bills of exchange that are accepted payment by banks engaged in the financing of international trade. BA's finance the importation, exportation, shipment or storage of foreign and domestic goods. BA's are usually backed by documentation such as invoices, bills of lading, or warehouse receipts. Upon acceptance by a bank, a BA becomes an irrevocable and unconditional obligation of the accepting bank, while it is also an obligation of the drawer as well as any endorser thereof.

Basis point. By common agreement, .01% of yield on a fixed income security (1/100 of 1%).

Bond Equivalent Yield (BEY). An annual yield, expressed as a percentage, describing the return provided to bond holders. A bond equivalent yield is double the simple interest, semiannual yield. Since Treasury and agency notes and bonds pay interest semiannually, the bond equivalent yield is a way to compare yields from discount securities, such as Treasury bills and bankers' acceptances with yields available from coupon securities. From that usage, this yield measure is also known as the coupon yield equivalent. For securities that pay daily, monthly or quarterly interest, the bond equivalent yield understates the benefits obtained from the compounding of those investments.

Book-entry clearance. A system for the transfer of ownership of securities through entries on the records of a centralized agency. The centralized agency holds securities on behalf of their owners; when the securities are sold, ownership is transferred by bookkeeping entry from the seller to the purchaser. In the case of U.S government securities, securities certificates are not issued, and ownership of the securities is evidenced in computer records maintained by the Federal Reserve System. For other types of securities, book entry clearance is made available through linked or interfaced systems maintained by four securities depositories, which hold securities and act on behalf of their participants.

Book-entry security. A security which is not available to purchasers in physical form. Such a security may be held either as a computer entry on the records of a central holder (as is the case with U.S. certain government securities) or in the form of a single, global certificate.

Book value. The value at which a security is carried on the inventory lists or other financial records of an investor. This value may be the original cost of acquisition of the security, or original cost adjusted by the amortization of a premium or accretion of a discount. The book value may differ significantly from the security's current value in the market.

Broker. A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position or take ownership of the security.

Certificate of Deposit (CD). A deposit of funds, in a bank or savings and loan association, for a specified term that earns interest at a specified rate or rate formula.

Collateralization. Process by which a borrower pledges securities, property or other deposits for the purpose of securing the repayment of a loan and/or security.

Commercial Paper. Unsecured short-term promissory notes issued by corporations, with maturities ranging from 2 to 270 days. May be sold on a discount basis or may bear interest. Firms with lower ratings or without well known names usually back their commercial paper with guarantees or bank letters of credit.

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

Credit Risk. The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return). A measure of the simple interest annual yield for interest-bearing investments with maturities of one year or more. To calculate the current yield, the annual coupon interest income is divided by the amount paid to acquire the investment. It is important to note that the current yield is only accurate for investments purchased at par. The current yield calculation includes just one income cash flow - the annual interest income. It ignores the profit or loss resulting from discounts and premiums.

Custody. The service of an organization, usually a financial institution, of holding (and reporting) a customer's securities for safekeeping. The financial institution is known as the **custodian**.

Dealer. An individual or firm who, as a matter of regular business, purchases or sells securities for his account and risk.

Delivery versus payment (DVP). A settlement procedure where payment for a securities purchase is made simultaneously with the transfer of the purchased securities. The same procedure applies for a securities sale; the securities are transferred as payment is made.

Derivative instrument. A security that derives its value from an underlying asset, group of assets, reference rate, or an index value. Some derivative instruments can be highly volatile and result in a loss of principal in changing interest rate environments.

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

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

Diversification. Dividing investment funds among a variety of securities, offering independent returns, to reduce risk inherent in particular securities.

Effective Annual Yield. A seldom used expression to refer to the yield on an investment expressed on a compound interest basis.

Fed Wire. Computerized network linking the Fed with its district banks, member banks, and primary dealers in government securities.

Federal Agency Securities. A variety of securities issued by several Federally sponsored agencies. Some are issued on a discount basis and some are issued with coupons. Several have the full faith and credit guarantee of the U.S. government, although others do not.

Federal Deposit Insurance Corporation (FDIC). A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

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

Fed Funds Rate - Interest rate charged by one institution lending federal funds to another.

Floater. A floating rate security with an interest rate that resets at specified intervals according to an underlying index, such as LIBOR (the London Interbank Offered Rate), and is based on a predetermined formula. The value of a floater will fluctuate as interest rates change and therefore can be very volatile.

Inactive deposits. Funds not immediately needed for disbursement.

Interest rate risk. The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Inverse floater. A security that reacts inversely to the direction of interest rates. These securities can be very volatile and can lose value in a rising interest-rate environment.

Leverage. An attempt to increase the rate of return on an investment by buying securities on margin or using borrowed funds for investment purposes. This practice can be risky if interest rates rise or if investment yields are lower than expected.

Liquidity. The quality of an asset that permits it to be converted quickly into cash without a significant loss of value.

Local Agency Investment Fund (LAIF). A special fund in the State Treasury which local agencies may use to deposit funds for investment and for reinvestment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of \$40 million for any agency (*excluding bond funds, which have no maximum*). It offers high liquidity because deposits can be converted to cash in 24 hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via a check, warrant, or direct deposit to the agency's State Pooled Fund account. The State keeps an amount for reasonable costs of making the investments, not to exceed 1/4 of a percent of the earnings.

Marketability. The measure of ease with which a security can be sold in the secondary market.

Mark-to-Market. The practice of valuing a security of portfolio according to its market value, rather than its cost or book value.

Market Rate of Return. The average yield of the 3-month U.S. Treasury Bill or other index that closely matches the average maturity of the portfolio.

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

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

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

Mutual Fund. An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines.

Negotiable. Salable.

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

Passive investment management. An investment strategy where securities are bought with the

intention of holding them to maturity or investments in benchmark products designed to yield a market rate of return.

Principal. The face amount or par value of a debt instrument.

Primary Dealer. A small group of large banks and brokers that have pledged to make a market for any Treasury securities at any time. They are required to report their inventory positions and volume of activities to the Federal Reserve. Because of this, they are given the right to deal directly with the Federal Reserve in their daily operations.

Prudent Investor Standard. A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing funds. The test of whether the standard is being met is if a prudent person acting in a similar situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

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

Public Securities Association. The bond market trade association, which publishes a Master Repurchase Agreement that is widely accepted as the industry standard.

Rating. Judgment of creditworthiness of an issuer made by an accepted rating service.

Repurchase Agreement (Repo). A form of secured, short-term borrowing in which a security is sold with a simultaneous agreement to buy it back from the purchaser at a future date. A *master repurchase agreement* is a written contract governing all future transactions between the parties and seeks to establish each party's rights in the transaction.

Reverse Repurchase Agreement. A form of secured, short-term investment in which a security is purchased with a simultaneous agreement to sell it back to the seller at a future date.

Safekeeping. A procedure where securities are held by a third party acting as custodian for a fee.

Secondary Market. Markets for the purchase and sale of any previously issued financial instrument. The first sale of a financial instrument by the original issuer is said to be done a primary market. All subsequent trades are said to be secondary market.

Securities Investors Protection Corporation (SIPC). A private corporation providing insurance to brokerage firms to cover customer accounts up to \$500,000 in securities (including 100,000 in cash).

Swap. The trading of one asset, or cash flows, for another. Sometimes used in active portfolio management to increase investment returns by "swapping" one type of security for another. Also used to manage risk; for example, swapping fixed interest rate payments for floating rate payments.

Total return. Interest income paid on the invested principal, plus interest income earned from the successive reinvestment of that interest income, plus projected capital gains (or minus losses) on the investment. Differs from yield to maturity because (1) it can include gains or losses from sales prior to maturity, and (2) it permits the assumption of a reinvestment rate different from the yield earned on the underlying principal.

Treasury Bills. Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Notes. Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.

Treasury Bonds. Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of \$1,000.

Uniform Net Capital Rule. Securities and Exchange Commission 15C3-1 outlining capital requirements for brokers.

Weighted Average Maturity (WAM). The average maturity of all the securities that comprise a portfolio.

Yield. Loosely refers to the annual return on an investment expressed as a percentage on an annual basis. For interest-bearing securities, the yield is a function of the rate, the purchase price, the income that can be earned from the reinvestment of income received prior to maturity, call or sale and the time from purchase to maturity, call or sale. Different formulas or methods are used to calculate yield. See Yield to Maturity and Total Return Analysis.

Yield-to-maturity. The rate of return yielded by a debt security held to maturity when both the interest payments and the investor's potential capital gain or loss are included in the calculation of the return.

DISCUSSION CALENDAR - AGENDA ITEM NO. 7
BUDGET AND FINANCE COMMITTEE MEETING
November 6, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **Audited Financial Reports for the Fiscal Year Ended June 30, 2013**

Summary:

This agenda item is submitted to present the OCFA's audited Comprehensive Annual Financial Report (CAFR) and other audited financial reports for the fiscal year ended June 30, 2013, in compliance with the provisions of Section 6505 of the California Government Code and the Amended Joint Powers Agreement.

Recommended 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. Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors receive and approve the reports.

Background:

Annual Financial Audit

Lance, Soll & Lunghard, LLP, Certified Public Accountants, performed the OCFA's annual financial audit for Fiscal Year 2012/13. Their audit included the following components:

- An audit of the OCFA's Financial Statements in accordance with generally accepted auditing standards (GAAS), which require that the audit be planned and performed to obtain reasonable assurance that the Financial Statements are free of material misstatements.
- A review of the OCFA's internal control in order to determine the depth of planned audit procedures.
- A Single Audit, which is required for agencies expending federal funds in excess of \$500,000 during the fiscal year.

While conducting the audit, the auditors provided positive compliments on the proficiency of and support from the OCFA's staff, as well as the completeness of the audit documents prepared by staff before their arrival.

Prior Period Adjustment

During Fiscal Year 2012/13, OCFA completed an internal review of its inspection records for the Fiscal Years 2005/06 through 2011/12. Upon completion of that review, it was determined that certain business were billed a hazardous materials verification fee, but the performance of a corresponding inspection by OCFA personnel could not be verified in the inspection records. Because revenues relating to these unperformed inspections were overstated in prior fiscal years,

beginning fund balance of the General Fund has been restated (reduced) in the amount of \$1,751,044. This is the total estimated amount of potential refunds due to hazardous materials services business and authorized for refund by the Board of Directors in June 2013.

Audited Financial Reports

Single Audit Report

The Single Audit Report (Attachment 1) included a review of federal funds expended by the OCFA during the fiscal year, which totaled \$3,841,006. The major programs selected by the auditors for more in-depth review and testing were the Assistance to Firefighters Grant, Urban Areas Security Initiative (UASI), and the Homeland Security Grant (HSG) program.

The Single Audit Report includes two reports which assess the OCFA's overall internal control over financial reporting and compliance, as well as internal control and compliance matters specific to its major federal programs. The OCFA has complied, in all material respects, with the United States Office of Management and Budget Circular A-133 Compliance Supplement requirements applicable to its major federal programs for Fiscal Year 2012/13. However, the Single Audit Report did identify one material weakness in OCFA's overall internal control over financial reporting. The material weakness related to the \$1,751,044 prior period adjustment for refunds to hazardous materials businesses, since revenues were unearned and overstated during previous fiscal years. The material weakness, along with management's response and corrective actions taken, is summarized in the Single Audit Report (Attachment 1, Page 8).

Financial Statements

The auditors have provided an unqualified or "clean" opinion on the OCFA's Financial Statements for the year ended June 30, 2013, stating that the OCFA's Financial Statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP) (Attachment 2, Page 1). In addition, the audit opinion includes a reference to the material weakness in internal control over financial reporting that is identified in the Single Audit Report.

Comprehensive Annual Financial Report

Staff has prepared the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013 (Attachment 3). The CAFR is comprised of three main sections and six sub-sections within the Financial Section.

Introductory Section This section is unaudited and includes the letter of transmittal, an organization chart, a list of the OCFA's management staff and appointed officials, a description of the organization of the Board of Directors and the GFOA Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2012.

Financial Section This portion of the report consists of OCFA's audited Financial Statements, which are also published separately as a stand-alone financial report. Although some formatting has been enhanced in the

following sub-sections, the information presented in the Financial Section of the CAFR is the same as the separately published Financial Statements:

- Independent Auditors' Report
- Management's Discussion and Analysis
- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements (including *Required Supplementary Information*)
- Supplementary Schedules

Statistical Section This section is unaudited and includes selected financial and demographic information relating to the County of Orange, California, where the OCFA provides fire protection and emergency response services to 23 member cities and the unincorporated areas of Orange County.

Distribution of Audited Financial Reports

The CAFR will be sent to each OCFA member agency. The Financial Statements and other financial reports will be filed with the County Auditor-Controller as required by Government Code, the State Controller's Office and the Federal Audit Clearinghouse, as applicable. Copies for public review are available at the office of the Clerk of the Authority. The CAFR will also be published electronically on OCFA's website.

Auditors' Communications with Those Charged with Governance

Professional standards require the auditors to communicate certain information pertaining to the audit directly to those charged with the OCFA's governance. The Audit Communication Letter (Attachment 4) includes information about the auditors' responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards, information related to the planned scope and timing of the audit, and required communication in the following areas:

- Qualitative Aspects of Accounting Practices
- Difficulties Encountered in Performing the Audit
- Corrected and Uncorrected Misstatements
- Disagreements with Management
- Management Representations
- Management Consultations with Other Independent Accountants
- Other Audit Findings or Issues

GASB 54 Assigned Fund Balance

During Fiscal Year 2010/11, OCFA implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which was intended to enhance the usefulness of fund balance information, clarify governmental fund type definitions, and promote greater comparability and consistency among municipal financial statements. GASB Statement No. 54 created five new categories of governmental fund

balance – nonspendable, restricted, committed, assigned, and unassigned. Assigned balance includes resources that are set aside for an intended use and represents current intentions (subject to change) as to how the resources will be expended.

On April 28, 2011, the Board of Directors adopted a new *Assigned Fund Balance Policy* (Attachment 5) at the recommendation of staff and the Budget and Finance Committee, in order to delegate its authority to assign fund balance amounts for the capital improvement program and workers’ compensation to the Assistant Chief of Business Services, or her designee, with a final review of the calculation by the Budget and Finance Committee. The Budget and Finance Committee’s review of the calculation occurs each year at the time the audited financial statements are approved, and confirms the calculation’s consistency with the *Assigned Fund Balance Policy*.

OCFA’s fund balance as of June 30, 2013, includes assignments for the capital improvement program and workers’ compensation as follows, with detailed calculations included as Attachments 6A and 6B:

| Fund | Fund Balance Assigned To | |
|---|-----------------------------|-----------------------|
| | Capital Improvement Program | Workers’ Compensation |
| General Fund | \$ - | \$53,230,384 |
| Facilities Maintenance & Improvements (122) | 2,577,414 | - |
| Communications & Information Systems (124) | 17,181,281 | - |
| Vehicle Replacement (133) | 28,588,494 | - |
| Facilities Replacement (123) | 15,130,349 | - |
| Total | \$63,477,538 | \$53,230,384 |

Current Year Changes in Financial Statement Reporting

During Fiscal Year 2012/13, OCFA implemented Governmental Accounting Standards Board (GASB) Statements No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65 *Items Previously Reported as Assets and Liabilities*. OCFA was required to implement Statement No. 63 during Fiscal Year 2012/13, and opted to early-implement Statement No. 65 one year prior to the Fiscal Year 2013/14 deadline.

- Significant impacts of GASB Statement No. 63 included changing the title of the Statement of Net Assets to the Statement of Net Position, and reformatting the Statement of Net Position to add separate sections for *deferred inflows of resources* and *deferred outflows of resources*.
- Significant impacts of GASB Statement No. 65 included reclassifying as *deferred inflows of resources* and *deferred outflows of resources* certain balances that were previously reported as assets and liabilities. GASB Statement No. 65 also required that certain debt issuance costs be reported as expense when incurred. The retroactive effect of implementing this change in reporting debt issuance costs resulted in a restatement to the beginning net position of OCFA’s governmental activities.

Upcoming Changes in Financial Statement Reporting

On June 25, 2012, the GASB approved two new accounting and reporting standards for pension plans provided by state and local governments:

- Statement No. 67, *Financial Reporting for Pension Plans* (applies to state and local pension plans established as trust or similar arrangements)
- Statement No. 68, *Accounting and Financial Reporting for Pensions* (applies to governmental employers that sponsor or contribute to pension plans)

These new standards make significant changes to pension accounting and financial reporting, because they disconnect pension *accounting* from pension *funding*. One of the most significant changes will impact how pension liabilities are presented in the Financial Statements. Currently, the Financial Statements report a pension liability only for the cumulative difference between required and actual contributions made over time (typically zero). Under the new standards, a government's proportionate share of the entire pension plan's net pension liability will be reported in the Financial Statements. Other differences between the new pension accounting standards and plan funding practices will include the discount rate, asset valuation method, amortization period, and calculation of annual pension expense.

The OCFA will be required to implement GASB Statements No. 67 and 68 during Fiscal Year 2013/14 (for the part-time employee plan reported as a pension trust fund) and Fiscal Year 2014/15 (for the full-time employee plan with the Orange County Employees' Retirement System). Staff will continue to research the new standards and will return to the Committee with a full analysis of their impact to OCFA at a later date.

Structural Fire Fund

The Amended Joint Powers Agreement gives the Board of Directors the sole discretion to determine if sufficient unencumbered funds from the prior fiscal year are available for OCFA-related services or resource enhancements to over-funded Structural Fire Fund (SFF) members. This determination is made after consideration of the audited Financial Statements and after consideration of the OCFA's financial needs. Based on the audited Financial Statements for the fiscal year ended June 30, 2013, the unencumbered fund balance is \$6,134,590 (Attachment 7), which is 2.09% of the General Fund budget for Fiscal Year 2013/14. Staff will make recommendations regarding the use and/or distribution of the unencumbered fund balance when the mid-year budget update is provided to the Board of Directors in January 2014.

Impact on Cities/County:

Not Applicable

Fiscal Impact:

Not Applicable

Independent Auditor Contact for Further Information:

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Attachments:

1. Single Audit Report for the year ended June 30, 2013
2. Audited Financial Statements for the year ended June 30, 2013 (on file in the Office of the Clerk)
3. Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013 (on file in the Office of the Clerk)
4. Audit Communication Letter for the year ended June 30, 2013
5. Assigned Fund Balance Policy
6. Assigned Fund Balance Calculations as of June 30, 2013 for:
 - A. Capital Improvement Program
 - B. Workers Compensation
7. Structural Fire Fund Calculation of Unencumbered General Operating Fund for FY 2012/13

ORANGE COUNTY FIRE AUTHORITY
Irvine, California

SINGLE AUDIT REPORT ON FEDERAL AWARDS

JUNE 30, 2013

ORANGE COUNTY FIRE AUTHORITY
Irvine, California

SINGLE AUDIT REPORT ON FEDERAL AWARDS

Year Ended June 30, 2013

ORANGE COUNTY FIRE AUTHORITY

Single Audit Report on Federal Awards

Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Orange County Fire Authority
Irvine, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Orange County Fire Authority (the OCFA) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the OCFA's basic financial statements and have issued our report thereon dated October 9, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the OCFA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OCFA's internal control. Accordingly, we do not express an opinion on the effectiveness of the OCFA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency, 2013-01, described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCFA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



To the Board of Directors
Orange County Fire Authority
Irvine, California

OCFA's Response to Findings

OCFA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. OCFA response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Solt & Lughard, LLP

Brea, California
October 9, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Orange County Fire Authority
Irvine, California

Report on Compliance for Each Major Federal Program

We have audited the Orange County Fire Authority (OCFA)'s compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of OCFA's major federal programs for the year ended June 30, 2013. OCFA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility for the Financial Statements

Management is responsible for compliance with the requirements of law, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express opinions on compliance for each of OCFA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, and OMB A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OCFA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of OCFA's compliance.

Opinion on Each Major Federal Program

In our opinion, OCFA complied, in all material respects, with the types of compliance requirements referred to above that could have a material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of OCFA is responsible for establishing and maintain effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our



To the Board of Directors
Orange County Fire Authority
Irvine, California

audit of compliance, we considered the OCFA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OCFA's internal control over compliance.

A deficiency in internal control exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or, significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

We have audited the financial statements of OCFA's as of and for the year ended June 30, 2013, and have issued our report thereon dated October 9, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Brea, California
October 9, 2013

ORANGE COUNTY FIRE AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

| <u>Federal Grantor / Pass-through Grantor / Program Title</u> | <u>Federal CFDA Number</u> | <u>Program / Project Identification Number</u> | <u>Expenditures</u> |
|---|------------------------------------|--|----------------------------|
| <u>U.S. Department of Homeland Security:</u> | | | |
| Direct assistance via Federal Emergency Management Agency: | | | |
| National Urban Search and Rescue (US&R) Response System: | | | |
| 2011 Cooperative Agreement | 97.025 | EMW-2011-CA-00065 | \$ 224,025 |
| 2012 Cooperative Agreement | 97.025 | EMW-2012-CA-K00007 | 959,589 |
| Subtotal | | | <u>1,183,614</u> |
| Assistance to Firefighters Grant*: | | | |
| 2010 - Smoke Alarms | 97.044 | EMW-2010-FP-01751 | 19,433 |
| 2011 - Self Contained Breathing Apparatus | 97.044 | EMW-2011-FO-03278 | 1,393,854 |
| Subtotal | | | <u>1,413,287</u> |
| Passed through the City of Santa Ana: | | | |
| Urban Areas Security Initiative (UASI)*: | | | |
| 2011 UASI - Regional and TLO Training | 97.067 | DHS 2011-SS-0077 | 111,583 |
| Passed through the City of Anaheim: | | | |
| Urban Areas Security Initiative (UASI)*: | | | |
| 2010 UASI - TLO Training | 97.067 | DHS 2010-GPD-0067 | 54,850 |
| Passed through the Orange County Sheriff's Department: | | | |
| Homeland Security Grant (HSG) Program*: | | | |
| 2010 HSGP - TLO Program | 97.067 | DHS-2010-0085 | 44,813 |
| 2011 HSGP - TLO Program | 97.067 | DHS 2011-SS-0077 | 90,186 |
| 2010 HSGP - Command Vehicles | 97.067 | DHS-2010-0085 | 813,940 |
| 2010 HSGP - Metropolitan Medical Response System (MMRS) | 97.067 | DHS-2010-0085 | 101,156 |
| 2010 HSGP - Hot Sticks | 97.067 | DHS-2010-0085 | 27,577 |
| Subtotal | | | <u>1,244,105</u> |
| Total U.S. Department of Homeland Security | | | <u>3,841,006</u> |
| Total Federal Expenditures | | | <u>\$ 3,841,006</u> |

* Major Program

Note a: Refer to Note 1 to the Schedule of Expenditures of Federal Awards for a description of significant accounting policies used in preparing this schedule.

Note b: There were no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Total amount provided to subrecipients during the year was \$0.

ORANGE COUNTY FIRE AUTHORITY

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the Orange County Fire Authority, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

ORANGE COUNTY FIRE AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-01: Fund Balance Restatement:

As a result of our audit procedures, we noted an item requiring a fund balance restatement in the General Fund related to hazardous materials verification fees. During fiscal year ended June 30, 2013, Orange County Fire Authority completed an internal review of its inspection records from all seventy-one (71) fire stations and the Fire Prevention Department for fiscal years June 30, 2006 through 2012. Upon completion of that review, it was determined that Orange County Fire Authority's inspection records (via paper or electronic) could not verify that the performance of such inspections were conducted for certain businesses that were billed a hazardous material verification fee.

In June 2013, Orange County Fire Authority's Board of Directors authorized refunds to those businesses, underlining the accounting position that revenues from hazardous material verification fees were unearned and overstated in the prior before-mentioned fiscal years. As a result, Orange County Fire Authority restated its beginning fund balances and net position to establish an accrued liability for \$1,751,044, which is the total estimated amount of potential refunds due to hazardous materials service businesses and authorized for refund by the Board of Directors.

Management's Response:

We concur with this finding, and a fund balance restatement in the amount of \$1,751,044 has been recorded in OCFA's General Fund and Governmental Activities for Fiscal Year 2012/13. The following corrective actions have been taken:

- Prior to Fiscal Year 2012/13, the hazardous materials verification fees were billed to customers by the Orange County Health Care Agency (HCA), on behalf of OCFA, at the beginning of each fiscal year before the inspections were completed. Beginning in Fiscal Year 2012/13, those fees were billed in arrears and were based on actual inspections completed by OCFA personnel during the year.
- In February 2013, OCFA's Board of Directors approved the transition of the California Accidental Release Plans (CalARP) program and the Hazardous Materials Disclosure (HMD) program to the HCA, effective July 1, 2013. OCFA will continue to provide first responders with hazardous materials information from its ongoing inspection program and will continue to have access to information collected by HCA; however, OCFA will no longer recognize revenues associated with these discontinued programs beginning in Fiscal Year 2013/14.
- OCFA contracts with Lance, Soll & Lunghard, LLP, (LSL) a firm of certified public accountants, to conduct periodic reviews of its processes and internal controls. In March 2013, OCFA's Budget and Finance Committee approved a review of the billing and revenue recognition for all Fire Prevention fees. That report was finalized in July 2013, and included recommendations to implement various changes to OCFA's workflows and business practices. In August 2013, OCFA hired a Finance Manager to help implement the proposed recommended actions in the Fire Prevention Department.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

ORANGE COUNTY FIRE AUTHORITY

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.



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

October 9, 2013

To the Board of Directors
Orange County Fire Authority
Irvine, California

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Orange County Fire Authority (the OCFA) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 2, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the OCFA are described in the notes to the financial statements. As described in Note 3 to the financial statements, the OCFA changed its accounting policies related to debt issuance cost by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, Items Previously Reported as Assets and Liabilities, in the fiscal year ended June 30, 2013. Accordingly, the cumulative effect of the accounting change as of the beginning of the fiscal year is reported in the Statement of Activities and the Statement of Changes in Net Position. We noted no transactions entered into by the OCFA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.



To the Board of Directors
Orange County Fire Authority
Irvine, California

During fiscal year 2013, Management identified an error in revenues recognized in years prior related to hazardous material verification fees. As a result, a restatement in the amount of \$1,751,044 was made by management in the fiscal year ended June 30, 2013, which is the total estimated amount of potential refunds due to businesses. This restatement has been identified in our report dated October 9, 2013 in accordance with Generally Accepted Government Auditing Standards (GAGAS).

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 9, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

The following new Governmental Accounting Standards Board (GASB) pronouncements were effective for fiscal year 2012-2013 audit:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. *The OCFA was not affected by this pronouncement at this time.*



To the Board of Directors
Orange County Fire Authority
Irvine, California

GASB Statement No. 61, The Financial Reporting Entity: Omnibus-an amendment of GASB Statement 14 and 34. The OCFA properly implemented this pronouncement.

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The OCFA properly implemented this pronouncement.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The OCFA properly implemented this pronouncement.

The OCFA elected to early implement GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

The following Governmental Accounting Standards Board (GASB) pronouncements are effective in your next fiscal year 2013-2014 audit and should be reviewed for proper implementation by management:

GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees

This information is intended solely for the use of the members of the Board of Directors or individuals charged with governance and management of the OCFA and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads 'Lance, Soll & Lughard, LLP'. The signature is written in a cursive, flowing style.

Brea, California

| |
|--|
| <p style="text-align: center;">ASSIGNED FUND BALANCE POLICY</p> |
|--|

1. PURPOSE

The purpose of the Assigned Fund Balance Policy is to establish the authority by which OCFA may set aside cumulative resources in fund balance for an intended future use.

2. ADOPTION AND REVIEW

- 2.1. This policy shall be reviewed periodically for recommended revisions in order to maintain the policy in a manner that reflects the ongoing financial goals of the OCFA. Staff shall revise the policy upon approval by the Board of Directors.
- 2.2. Each year at the time the audited financial statements are approved, the Budget and Finance Committee shall review the calculations used to determine the amounts assigned to workers' compensation and the capital improvement program, and shall confirm the calculations' consistency with the Assigned Fund Balance Policy.

3. POLICY

- 3.1. In accordance with Governmental Accounting Standard Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balance amounts intended to be used by a government for a specific purpose should be presented in the financial statements as "assigned" fund balance. Assigned balance includes resources that are set aside for an intended use and represents current intentions (subject to change) as to how the resources will be expended.
- 3.2. The Board of Directors has the authority to assign fund balance. The Board of Directors shall delegate its authority to assign amounts for *workers' compensation* and the *capital improvement program* to the Assistant Chief of Business Services, or her designee.
- 3.3. The Assistant Chief of Business Services, or her designee, shall assign and un-assign fund balance for the specific purposes of *workers' compensation* and the *capital improvement program*, in accordance with the guidelines described in this policy. The authority to assign and un-assign fund balance for any other specific purposes shall be retained by the Board of Directors.

- 3.4. The assignment for *workers' compensation* will reflect the cumulative difference between actual workers' compensation expenditures incurred (cash-flow basis) and budgeted costs, which are based on an annual actuarial valuation prepared by an external actuary and a confidence level set by the Board of Directors.
 - 3.4.1 The amount of the assignment will be calculated annually in conjunction with the fiscal year-end closing process.
- 3.5. The assignment for the *capital improvement program* will reflect cumulative amounts transferred from the General Fund to the OCFA's capital improvement funds in accordance with the *Financial Stability Budget Policy*, net of actual cumulative project expenditures and other revenue sources accounted for in those funds.
 - 3.5.1 The amount of the assignment will be calculated annually in conjunction with the fiscal year-end closing process.
 - 3.5.2 The amount of the assignment will not exceed projects currently identified in the OCFA's five-year capital improvement program, including projects that have been identified as deferred pending improved financial conditions.
- 3.6. Assigned funds must be expended in conjunction with the spending authority provided by the annual budget and any subsequent amendments.

ORANGE COUNTY FIRE AUTHORITY
Fund Balance Assigned for Capital Improvement Program
Final Calculation
As of June 30, 2013

| Source | Maintenance & Improvements Fund 122 | Comm. & Info. Systems Fund 124 | Vehicle Replacement Fund 133 | Facilities Replacement Fund 123 | Total |
|---|--|-----------------------------------|---------------------------------|------------------------------------|---------------------|
| <u>Actual Fund Balance Available for CIP Assignment</u> | | | | | |
| Total actual fund balance @ 6/30/2013 | 2,584,684 | 19,079,126 | 30,875,249 | 16,683,531 | 69,222,590 |
| Less nonspendable fund balance (prepaid items) | - | (124,314) | (228,004) | - | (352,318) |
| Less restricted fund balance: | | | | | |
| Station 56 (Ortega Valley) | - | - | - | (1,019,950) | (1,019,950) |
| CALFIRE station(s) | - | - | - | (533,232) | (533,232) |
| Less outstanding encumbrances: | | | | | |
| Pertaining to assigned resources | (7,270) | (1,773,531) | (2,058,751) | - | (3,839,552) |
| Actual fund balance available for CIP assignment @ 6/30/2013 (A) | 2,577,414 | 17,181,281 | 28,588,494 | 15,130,349 | 63,477,538 |
| <u>Possible CIP Expenditures, Net of Offsetting Revenues and Funding Sources</u> | | | | | |
| <u>Possible CIP Expenditures</u> | | | | | |
| Re-budgeted appropriations | - | 2,347,400 | 3,963,049 | 2,206,900 | 8,517,349 |
| Subtotal | - | 2,347,400 | 3,963,049 | 2,206,900 | 8,517,349 |
| Planned project expenditures: | | | | | |
| Projects in five-year CIP plan | 6,514,408 | 25,175,370 | 36,772,726 | 5,250,000 | 73,712,504 |
| Projects beyond five-year plan - helicopter lease debt service | - | - | 1,265,862 | - | 1,265,862 |
| Subtotal | 6,514,408 | 25,175,370 | 38,038,588 | 5,250,000 | 74,978,366 |
| Deferred project expenditures: | | | | | |
| Deferred five-year CIP plan | - | 1,527,500 | 4,527,004 | 15,750,000 | 21,804,504 |
| Subtotal | - | 1,527,500 | 4,527,004 | 15,750,000 | 21,804,504 |
| Possible CIP expenditures | 6,514,408 | 29,050,270 | 46,528,641 | 23,206,900 | 105,300,219 |
| <u>Offsetting Revenues and Funding Sources</u> | | | | | |
| Restricted fund balance for projects in 5-year CIP and deferred plans: | | | | | |
| Station 56 (Ortega Valley) | - | - | - | (1,019,950) | (1,019,950) |
| CALFIRE station(s) | - | - | - | (533,232) | (533,232) |
| Subtotal | - | - | - | (1,553,182) | (1,553,182) |
| Cash Contract City revenues: | | | | | |
| Station maintenance charges (5 years) | (1,950,000) | - | - | - | (1,950,000) |
| Vehicle replacement charges (5 years) | - | - | (7,495,168) | - | (7,495,168) |
| Subtotal | (1,950,000) | - | (7,495,168) | - | (9,445,168) |
| Other budgeted developer/grant/CALFIRE funding: | | | | | |
| Station 56 - additional budgeted developer contributions | - | - | - | (4,230,050) | (4,230,050) |
| Station 56 - developer funded vehicle | - | - | (643,106) | - | (643,106) |
| Station 18 - CALFIRE | - | - | - | - | - |
| Subtotal | - | - | (643,106) | (4,230,050) | (4,873,156) |
| Possible offsetting revenues | (1,950,000) | - | (8,138,274) | (5,783,232) | (15,871,506) |
| Possible CIP expenditures, net of offsetting revenues (B) | 4,564,408 | 29,050,270 | 38,390,367 | 17,423,668 | 89,428,713 |
| Over (under) funded as of 6/30/2013 (A-B) | (1,986,994) | (11,868,989) | (9,801,873) | (2,293,319) | (25,951,175) |
| <u>Final Fund Balance Assignment</u> | | | | | |
| Actual fund balance available for CIP assignment @ 6/30/2013 | 2,577,414 | 17,181,281 | 28,588,494 | 15,130,349 | 63,477,538 |
| Less: Over funded amount to be transferred back to the General Fund | - | - | - | - | - |
| Final fund balance assignment @ 6/30/2013 | 2,577,414 | 17,181,281 | 28,588,494 | 15,130,349 | 63,477,538 |

ORANGE COUNTY FIRE AUTHORITY
Fund Balance Assigned for Workers Compensation
Final Calculation
As of June 30, 2013

Attachment 6B

| Description | Source | Self Insurance Fund | | |
|--|---------------------------------|----------------------|------------------------------------|----------------------|
| | | Final Budget | Positive (Negative) Variance | Actual |
| Revenues: | | | | |
| Interest | FYE 6/30/2013 CAFR, pages 85,87 | \$ 128,552 | (170,729) | \$ (42,177) |
| Workers' compensation charges | FYE 6/30/2013 CAFR, pages 85,87 | 9,892,711 | - | 9,892,711 |
| Subtotal - revenues | | 10,021,263 | (170,729) | 9,850,534 |
| Expenditures: | | | | |
| Workers' compensation claims paid | FYE 6/30/2013 CAFR, pages 85,87 | (9,569,235) | 3,558,023 | (6,011,212) |
| Subtotal - expenditures | | (9,569,235) | 3,558,023 | (6,011,212) |
| Transfers In: | | | | |
| Transfers in from General Fund 121 | FYE 6/30/2013 CAFR, pages 85,87 | 15,244,794 | - | 15,244,794 |
| Subtotal - transfers in | | 15,244,794 | - | 15,244,794 |
| Total change in fund balance | | \$ 15,696,822 | \$ 3,387,294 | \$ 19,084,116 |
| | | (A) | (B) | |
| Assignment for Workers' Compensation: | | | | |
| Actual assignment @ 6/30/2012 | FYE 6/30/2012 CAFR, page 25 | | \$ 34,146,268 | |
| Budgeted change in fund balance | (A) | | 15,696,822 | |
| Budgeted assignment @ 6/30/2013 | | | 49,843,090 | |
| Variance between final budget and actual amounts | (B) | | 3,387,294 | |
| Actual assignment @ 6/30/2013 | FYE 6/30/2013 CAFR, page 25 | | \$ 53,230,384 | |

**Orange County Fire Authority
Calculation of Unencumbered Fund Balance
Fund 121 General Operating Fund*
Fiscal Year 2012/13**

| | Final Budget | Actual | Difference |
|---|---------------------------|---------------------------|----------------------------|
| Property tax revenue (Structural Fire Fund - SFF) | \$ 181,204,709 | \$ 181,720,253 | \$ 515,544 |
| Other revenues | 126,491,759 | 127,262,672 | 770,913 |
| Transfers in | - | - | - |
| Subtotal revenues and transfers in | <u>307,696,468</u> | <u>308,982,925</u> | <u>1,286,457</u> |
| Expenditures | 294,755,016 | 289,296,018 | 5,458,998 |
| Transfers out | 15,626,016 | 15,626,016 | - |
| Subtotal expenditures and transfers out | 310,381,032 | 304,922,034 | 5,458,998 |
| Less: Prior year encumbrances | <u>(2,202,659)</u> | <u>(2,162,964)</u> | <u>(39,695)</u> |
| Subtotal | 308,178,373 | 302,759,070 | 5,419,303 |
| Plus: Current year encumbrances | - | 560,761 | (560,761) |
| Subtotal budgetary expenditures | <u>308,178,373</u> | <u>303,319,831</u> | <u>4,858,542</u> |
| Total unencumbered fund balance before adjustments | | | <u>6,144,999</u> |
| Reconciling items: | | | |
| GASB 31 interest adjustment | | | <u>120,864</u> |
| Rebudget of FY 2012/13 uncompleted projects: | | | |
| Increase budgeted FY 2013/14 revenues | | | \$1,089,231 |
| Increase budgeted FY 2013/14 appropriations | | | <u>(1,220,504)</u> |
| | | | <u>(131,273)</u> |
| Total reconciling items | | | <u>(10,409)</u> |
| <i>Total unencumbered fund balance with adjustments</i> | | | <u>\$ 6,134,590</u> |
| FY 2013/14 General Fund Budget - expenditures, other uses and transfers out | | | <u>\$ 293,457,707</u> |
| Unencumbered fund balance as a percentage of the General Fund's budget | | | <u>2.09%</u> |

* In the 2012/13 Financial Statements, the Combined General Fund includes the Structural Fire Entitlement Fund (Fund 171) and the Workers' Compensation Fund (Fund 190), which should not be included in the calculations of unencumbered fund balance. Therefore, all Fund 171 and 190 activities have been eliminated in the calculations.

DISCUSSION CALENDAR - AGENDA ITEM NO. 8
BUDGET AND FINANCE COMMITTEE MEETING
November 6, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **FY 2012/13 Backfill/Overtime and Total Earnings/Compensation Analysis**

Summary:

This agenda item is submitted to provide an overview and analysis of Fiscal Year 2012/13 Backfill and Overtime earnings.

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors receive and file the report.

Background:

The Orange County Fire Authority's annual General Fund budget consists primarily of labor costs with approximately 92% of the final FY 2012/13 budget allocated to salaries and employee benefits. The 2012/13 budget for backfill/overtime costs was \$34,893,229 and final backfill/overtime expenditures were \$38,157,263. The overtime costs in excess of the overtime budget were 100% offset by savings in the base salary budget, as further explained in this report. The primary factors driving OCFA's backfill/overtime costs are:

- S OCFA's Constant Staffing Policy
- S Major Emergency Incident Response
- S Training Requirements
- S Frozen Positions

Further discussion regarding each of these driving factors is provided below, along with a review of the methods used to budget for annual backfill/overtime and to monitor backfill/overtime spending, both discretionary and non-discretionary.

OCFA's Constant Staffing Policy (Non-Discretionary)

The OCFA maintains a Constant Staffing Policy that requires suppression personnel to backfill (i.e., work overtime) for any suppression post-position¹ that is vacant. Listed below are situations that result in a backfill requirement to maintain constant staffing:

- S Positions temporarily vacant due to personnel on leave (sick, vacation, jury duty, military leave, bereavement, workers' compensation, etc.)
- S Positions vacant due to cost control measures (open positions per MOU side agreement)

¹ A suppression post-position is a seat on a fire or EMS response unit (including engines, trucks and paramedic vans) that must be filled to meet the staffing requirement of that unit.

- S Positions vacant as a result of retirements, promotions, or the opening of a new station (open positions pending recruitment)
- S Positions temporarily vacant due to personnel responding to major in/out of county incidents

Whether to hold a position open or hire/promote to fill the position is a discretionary decision of management or, at times it can be a term that is negotiated with labor. Once management decides to hold the position open, then that overtime is deemed to be non-discretionary.

All backfill/overtime costs associated with the Constant Staffing Policy are considered non-discretionary. For FY 2012/13, \$31.8M (83%) of the total backfill/overtime expenditures was attributable to the Constant Staffing Policy.

Major Emergency Incident Response (Non-Discretionary)

Another form of non-discretionary backfill/overtime costs that are incurred by OCFA is for major emergency incident response. OCFA responds to emergency incidents at the request of surrounding fire agencies (Mutual Aid), California Department of Forestry (CAL FIRE), Cleveland National Forest Service (CNF), and the California Office of Emergency Services (OES).

Backfill/overtime costs for responding to major emergency incidents in FY 2012/13 totaled \$2.6M and represented approximately 7% of total backfill/overtime expenditures. Approximately 90-100% of these emergency related incident response costs (except Mutual Aid) are reimbursable.

All backfill/overtime costs associated with the Constant Staffing Policy and Major Emergency Incident responses as stated above are considered non-discretionary. For FY 2012/13, the sum of these two expenditures represents \$34.4M (90%) of the total backfill / overtime expenditures for the fiscal year.

Training Requirements (Discretionary & Non-Discretionary)

OCFA incurs additional backfill/overtime costs related to various training requirements for suppression personnel. Examples include mandatory training requirements for federal, state, and local programs including Urban Search and Rescue (US&R), Airport Rescue Firefighting (ARFF), Weapons of Mass Destruction (WMD), and Incident Command. Additionally, OCFA historically incurs overtime and backfill costs to provide training academies for new and/or promoted Dispatchers, Firefighters, Engineers, Captains, Battalion Chiefs, and Reserve Firefighters.

Backfill/overtime costs as a result of training activities in FY 2012/13 totaled \$2.4M and represented 6% of the total backfill/overtime expenditures. Approximately \$780,000 or 1/3 of the training costs incurred resulted from promotional and new recruit academies.

Discretionary Backfill/Overtime

For FY2012/13, total discretionary backfill/overtime was \$1.3M or 3.4%, including the following types of expenditures:

- S Employees staffing special events, participating on project teams, and Fire Explorer program activities
- S Information systems, GIS, automotive, communications services, and fire prevention personnel requested to work outside their normal work schedule

Method for Budgeting Annual Backfill/Overtime

When building the budget for OCFA's salary and employee benefits (S&EB), a budget is established for each authorized position, regardless of whether that position is currently filled or vacant (with the exception of vacant-frozen positions). Positions that remain vacant for a portion of the year (due to retirements, promotions, etc.) generate savings in the budget categories for employee salaries and benefits. Therefore, it is typical for OCFA to end each fiscal year showing budget savings in these budget categories.

In the case of constantly-staffed suppression positions, when the budgeted positions remain vacant for a portion of the fiscal year, other employees are required to backfill, or work overtime to fill them. This backfill/overtime activity generates overtime expenses beyond the level that was anticipated in the overtime budget; therefore, it is typical for OCFA to end each fiscal year showing expenses in excess of budget for this backfill/overtime category. The savings noted in the paragraph above offset the expenditure discussed herein, and as a result, bottom-line S&EB expenditures do not exceed the bottom-line S&EB budget.

The backfill/overtime budget that is developed annually as part of OCFA's budget process anticipates the level needed to fill behind employees who will be off for typical leave earned during a fiscal year, including sick and vacation leave. The backfill/overtime budget also anticipates a base level of funding for open positions created by promotions and retirements, as well as activity for responding to emergency incidents, but not for major incidents. Funding for a major emergency incident is requested at mid-year, if and when an actual event occurs.

Backfill/Overtime Monitoring & Analysis

OCFA financial staff prepares quarterly reports to track and monitor backfill/overtime activity. Reports are provided internally to management to show expenditures by section and by cause (reason) so that they can monitor and, if required, adjust activities as needed in their respective area. As discussed in this report, the majority of backfill/overtime incurred by OCFA is non-discretionary. Staff is bringing this FY 2012/13 Backfill/Overtime Analysis forward to the Budget and Finance Committee and the Board of Directors to expand upon the routine internal analysis that has been conducted. Staff will continue to provide this report annually following each fiscal year-end.

Compensation Cost Transparency

On September 27, 2012 the OCFA Board approved staffs response to the Grand Jury Report on Compensation Cost Transparency. One of the Grand Jury recommendations, that OCFA concurred with, is total employee compensation costs be posted and readily available on the OCFA website. Prior to the Grand Jury Report, the State Controllers employee compensation data, which defines compensation differently than the Grand Jury requirement, was posted on the OCFA website. While the State Controller again made significant changes to the employee compensation reporting requirements this year, it still varies from the Grand Jury reporting requirements.

The Grand Jury Report includes all earnings, regardless of pretax deductions, segregated by base salary, overtime, payouts, special pay, and other. Additionally, OCFA paid retirement and benefits are also included in the employee compensation report posted on the website. The Grand jury report was posted to the OCFA website on September 26, 2013 and the State Controller report was submitted to the State on October 10, 2013 in compliance with the October 18, 2013 due date.

Attached to this staff report is a list of frequently asked questions (Attachment 1) and an analysis (Attachment 2) that provides a historical overview of backfill/overtime expenditures for FY 2012/13 along with an analysis of firefighter total earnings for Calendar Year 2012. Attachment 2 also provides a summary of Firefighter and all OCFA employee total compensation which includes both earnings and employer provided benefits. All the analysis included in the staff report and attachments utilizes the Grand Jury compensation data. The Grand Jury compensation is an accurate reflection of actual employee earnings.

OCFA Management is working with the Orange County Professional Firefighter’s Association to develop a “Cap” on the number of backfill/overtime hours a firefighter may work (with certain exceptions) within a six-month timeframe.

Impact to Cities/County:

Not Applicable.

Fiscal Impact:

None.

Staff Contact for Further Information:

Jim Ruane, Finance Manager/ Auditor
Orange County Fire Authority
jimruane@ocfa.org
(714) 573-6304

Attachments:

1. Frequently Asked Questions and Responses
2. FY 2012/13 OCFA Firefighter Backfill/Overtime and Total Earnings Compensation Analysis

**FY 2012/13 BACKFILL/OVERTIME ANALYSIS
FREQUENTLY ASKED QUESTIONS**

1. What is a firefighter's standard work schedule?

Firefighters assigned to suppression positions work 24-hour shifts which equate to a 56-hour average work week or 2,912 hours per year. When firefighters are assigned to staff positions on a 40-hour work week, they average 2,080 regular hours per year.

2. What is the difference between backfill and overtime?

The OCFA maintains constant staffing levels. This means that everyday, all authorized Operations post-positions are staffed. A post-position is a seat on a fire or EMS response unit (including engines, trucks and paramedic vans) that must be filled to meet the staffing requirement of that unit. Backfill occurs when there is a vacancy in a position that requires constant staffing and the employee either volunteers or is forced to work to fill the vacancy. Overtime is used for work done above and beyond the constant staffing requirements. Examples of overtime include strike team or overhead assignments to emergency incidents, either in or out of the County, and mandatory training classes that occur on other than the employee's regularly assigned shift.

3. Because our backfill/overtime budget is significant, does that mean we are understaffed?

OCFA's backfill/overtime budget is significant due to the reasons outlined in #2 above. Due to retirements, promotions, and the hiring freeze, there are positions that have gone unfilled. In addition, a labor agreement includes provisions to hold 15 positions open for each rank in the firefighter labor group. As of June 2013, there were 64 positions being filled and required constant staffing on an Overtime/Backfill basis. Recent academies, promotional exams, and the transition of Santa Ana Fire to OCFA significantly reduced the number of vacancies and open positions.

4. How many continuous hours may a firefighter work?

The maximum number of continuous hours (regular and backfill/overtime) an employee may work is 96. Employees enter their availability to work into the OCFA's Staffing System. The staffing system hires employees based upon the premise of an equal distribution of overtime and agreed upon hiring list procedures. The Assistant Chief of Operations may suspend the 96-hour rule to ensure sufficient incident response capability and adequate station coverage. Personnel assigned to out of county strike teams or to overhead positions are often deployed for periods of 14 days. When assigned to these extended incidents, employees work within established work/rest cycles.

5. Is the OCFA concerned about employee fatigue as the result of the continuous work hour rules?

The OCFA recognizes that employee fatigue is a factor that impacts employee performance. Severe fatigue may increase the dangers inherent in the performance of emergency operations. The OCFA takes steps to protect employees from these dangers. The OCFA ensures that firefighters are trained, equipped and supervised to work as safely as possible. There is an additional emphasis on employee health and wellness provided through the WEFIT Program. Supervisors have the means by which to ensure employees are either adequately rested or relieved of duty where appropriate. Firefighters on extended incidents adhere to specified work/rest periods.

6. Is a portion of administrative overtime driven by fire prevention activities?

The OCFA has begun to experience increases in demands for planning and development services, although staffing levels in this section are still low following the economic recession. If activity levels remain consistently high, OCFA will fill vacant positions. In the interim, some work is being performed on overtime.



ORANGE COUNTY FIRE AUTHORITY

FY 2012/13

Backfill/Overtime & Total Earnings/Compensation Analysis



Budget & Finance Committee Meeting
November 13, 2013

Presented by:

Jim Ruane, Finance Manager/Auditor

Overview

Definitions & Background

- Backfill, Overtime, Discretionary, Non-Discretionary, Policy

Regular Vs. Overtime Analysis Fiscal Year 2012/13

- Estimated Cost Savings

Backfill/Overtime Historical Review Fiscal Year 2012/13

- Summary Charts

Firefighter Earnings for Calendar Year 2012

- Earning Analysis & Top 10

Firefighter/Employee Total Compensation Calendar Year 2012

- Grand Jury Version

Definitions & Background

Non-Discretionary

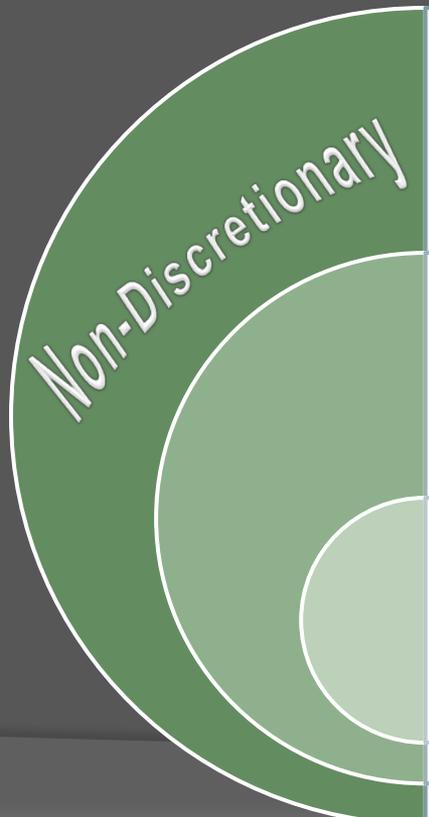
Constant Staffing Policy

- Maintains the minimum staffing level required to keep a suppression unit operational
 - Required by Memorandum of Understanding
 - Alternatives
 - Units out of service
 - Station Closures
 - Impact
 - Longer response times
 - Decreased resources available for response to incidents
- 

Definitions & Background

Backfill

Requires suppression personnel, in addition to the normal work schedule, to backfill a position primarily due to the following reasons:



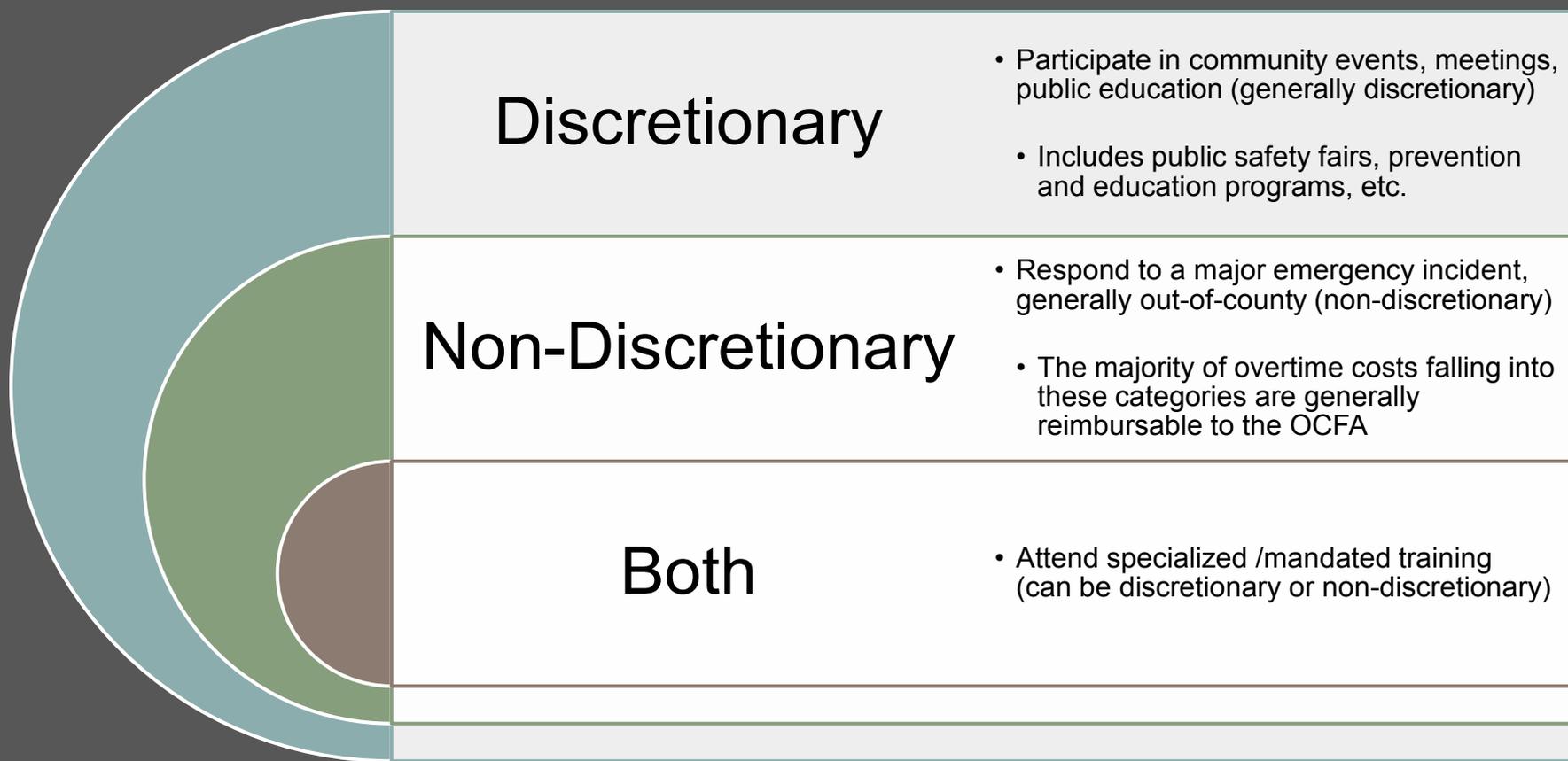
| | |
|-------------------|--|
| Non-Discretionary | Position vacant / Pending new hire (Open Position) |
| | Personnel on leave such as sick, vacation, military leave, workers' compensation |
| | On duty personnel responding to major incidents (In or out-of-county) |
| | |

Definitions & Background

Discretionary Vs. Non-Discretionary

Overtime Definition:

Requires suppression personnel to work outside the normal work schedule due primarily to the following reasons:

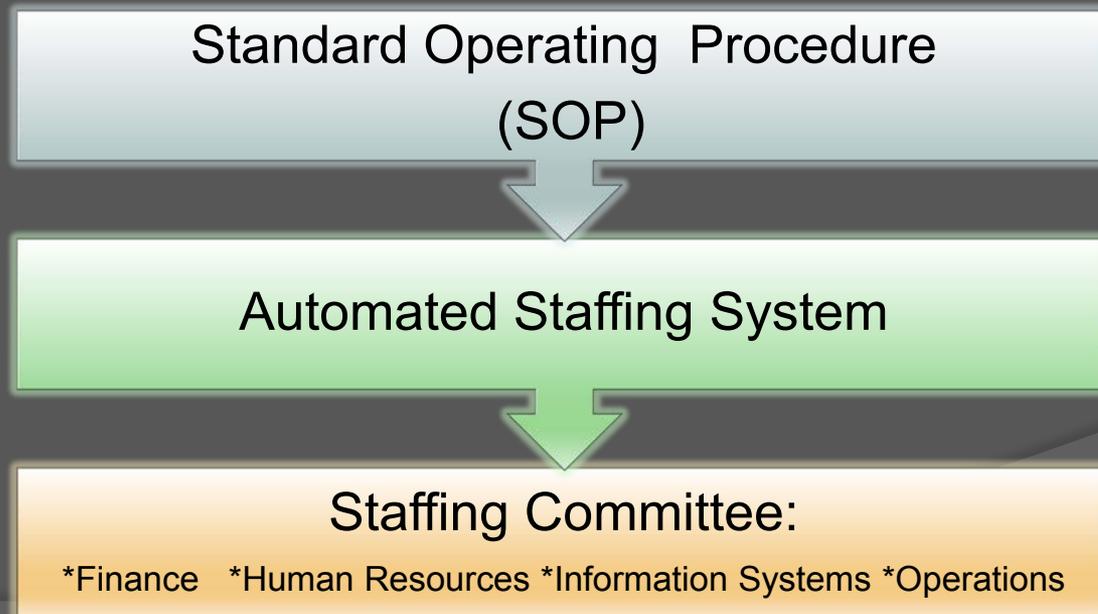


Definitions & Background

Backfill/Overtime Distribution

Backfill/Overtime Distribution

- ***Memorandum of Understanding (MOU)*** requires distribution be “fair and equitable”
- Staffing requirements are managed by:



Definitions & Background

Backfill/Overtime Distribution

Equitable
Distribution
of Backfill/
Overtime is
based on:

Employee availability

Special qualifications
required of the position
(Paramedic, Hazmat, etc.)

Backfill/Overtime hours
previously worked

FY 2012/13 Regular vs. Overtime Analysis

| RANK* | HOURS | (A) | (B) | (C) | (D) | TOTAL HOURLY S&EB | FY 2012/13 | |
|--|-----------------------------------|------------------------|---------------|------------------|---------------|-------------------------|------------------|-----------------------------|
| | | BASE HOURLY RATE | OTHER PAYS | BENEFITS | OT PREMIUM | | \$ DIFFERENCE | % DIFFERENCE FROM FTE |
| Fire Captain (FC) | REGULAR OVERTIME | \$ 37.30 37.30 | \$ 6.01 | \$ 31.60 2.64 | \$ \$18.65 | 74.91 58.59 | 16.32 | 21.79% |
| Fire Apparatus Engineer (FAE) | REGULAR OVERTIME | \$ 31.86 31.86 | \$ 5.33 | \$ 27.96 2.25 | \$ 15.93 | 65.15 50.04 | 15.11 | 23.19% |
| Firefighter (FF) | REGULAR OVERTIME | \$ 28.41 28.41 | \$ 4.92 | \$ 25.65 2.01 | \$ 14.21 | 58.98 44.63 | 14.35 | 24.33% |

NOTES:

(A) Salaries based on top step for each rank (at 56 hour equivalent) per Salary Schedule effective January 2013

(B) Other Pays include Holiday Pay, Education Incentive, EMT, FLSA (10 Hrs.)

(C) Benefits include Retirement, Health Insurance, Medicare, and Worker's Compensation

(D) OT premium calculated at 50% of base hourly rate

| REGULAR HOURS | FC | FAE | FF | Avg. % of Pay |
|-----------------------|----------------|----------------|----------------|---------------|
| Retirement | \$23.03 | \$19.78 | \$17.72 | 53% |
| Workers Comp | 2.12 | 1.82 | 1.63 | 5% |
| Unemployment | 0.01 | 0.01 | 0.01 | 0% |
| Health Insurance | 5.81 | 5.81 | 5.81 | 16% |
| Medicare | 0.63 | 0.54 | 0.48 | 0% |
| Total Benefits | \$31.60 | \$27.96 | \$25.65 | 74% |

| OVERTIME HOURS | FC | FAE | FF | Avg. % of Pay |
|-----------------------|---------------|---------------|---------------|---------------|
| Retirement | \$0.00 | \$0.00 | \$0.00 | 0% |
| Workers Comp | 1.83 | 1.56 | 1.39 | 4% |
| Unemployment | 0.00 | 0.00 | 0.00 | 0% |
| Health Insurance | 0.00 | 0.00 | 0.00 | 0% |
| Medicare | 0.81 | 0.69 | 0.62 | 2% |
| Total Benefits | \$2.64 | \$2.25 | \$2.01 | 6% |

Regular vs. Overtime Analysis

Fiscal Year 12/13 Firefighter Estimated Cost Savings:

| Classification | Actual Overtime Hours Worked FY 12/13 | <u>FTE Equivalent*</u> | Estimated** FTE Cost | Estimated ** Overtime Cost | Estimated** Cost Saving by Utilizing Overtime/Backfill |
|----------------|---|------------------------|-------------------------|-------------------------------|---|
| Fire Captain | 179,559 | 61.7 | \$ 13,450,765 | \$ 10,520,362 | \$ 2,930,403 |
| Engineer | 187,704 | 64.5 | \$ 12,230,793 | \$ 9,392,708 | \$ 2,838,084 |
| Firefighter | 313,540 | <u>107.7</u> | <u>\$ 18,492,589</u> | <u>\$ 13,993,290</u> | <u>\$ 4,499,299</u> |
| | | 233.8 | \$ 44,174,147 | \$ 33,906,360 | \$ 10,267,786 |

* Assumes 2,912 hours worked per year.
 ** Utilizes estimated hourly rates for top step within a classification.

Backfill /Overtime Historical Review

| Final Approved Fiscal Year Budget | 2008/09 | 2009/10 | 2010/11 | 2011/12* | 2012/13* |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Salaries (excluding Backfill / Overtime) | \$113,352,938 | \$112,566,785 | \$113,878,158 | \$122,191,222 | \$137,426,689 |
| Backfill / Overtime | \$29,697,983 | \$28,686,805 | \$29,502,168 | \$31,732,530 | \$34,893,229 |
| Employee Benefits | \$69,428,298 | \$72,303,089 | \$73,512,947 | \$83,099,775 | \$95,452,132 |
| Total Salaries & Employee Benefits (S&EB) | \$212,479,219 | \$213,556,679 | \$216,893,273 | \$237,023,527 | \$267,772,050 |
| Services and Supplies / Fixed Assets | \$24,331,253 | \$21,363,544 | \$20,174,283 | \$24,305,378 | \$24,448,510 |
| Total General Fund Budget | \$236,810,472 | \$234,920,223 | \$237,067,556 | \$261,328,905 | \$292,220,560 |
| S&EB as a Percentage of Total General Fund | 89.7% | 90.9% | 91.5% | 90.7% | 91.6% |
| Actual Backfill/Overtime Expenditures | \$31,957,554 | \$28,327,471 | \$29,651,858 | \$34,917,079 | \$38,157,263 |
| Actual Total S&EB Expenditures | \$208,674,813 | \$211,783,330 | \$215,354,060 | \$233,571,264 | \$265,194,626 |
| Backfill/Overtime as a % of Total Budget | 13.5% | 12.1% | 12.5% | 13.4% | 13.1% |

*Includes Santa Ana effective April 20, 2012.

Backfill/Overtime

| Categories of Backfill/Overtime | FY 2011/12 | | FY 2012/13 | | Change from | |
|--|-------------------|---------------|-------------------|---------------|------------------|-------------|
| | Expenditures** | % of Total | Expenditures** | % of Total | Prior Year | |
| <i>Non-Discretionary</i> | | | | | | |
| Backfill: | | | | | | |
| Vacation | 3,737,464 | 10.7% | 4,612,948 | 12.1% | 875,484 | |
| Sick Leave | 4,464,273 | 12.8% | 5,973,224 | 15.7% | 1,508,951 | |
| Workers' Comp. | 3,533,247 | 10.1% | 3,432,663 | 9.0% | (100,584) | |
| Open Positions | 14,761,183 | 42.3% | | | (19,706) | |
| Open Position-Pending Recruitments | | | 10,210,772 | 26.8% | | |
| Open Position-Side Agreement (Up to 15 FF, FAE, FC) | | | 4,530,705 | 11.9% | | |
| Other Leaves (Military, Bereavement, Jury Duty, etc.) | 678,461 | 1.9% | 803,877 | 2.1% | 125,416 | |
| Other Non-Discretionary (Holdover, Modified Duty, HC, etc.) | 308,071 | 0.9% | 286,848 | 0.8% | (21,223) | |
| Other Non-Discretionary (Emergency Communications) | 1,097,536 | 3.1% | 555,083 | 1.5% | (542,453) | |
| Other Non-Discretionary (FLSA adj.) | 1,123,833 | 3.2% | 1,398,163 | 3.7% | 274,330 | |
| <i>Subtotal of Non-Discretionary</i> | 29,704,068 | 85.1% | 31,804,283 | 83.4% | 2,100,215 | -1.7% |
| Overtime: | | | | | | |
| Emergency (primarily out of county incidents) | 1,614,769 | 4.6% * | 2,640,732 | 6.9% * | 1,025,963 | 2.3% |
| <i>Total Non-Discretionary</i> | 31,318,837 | 89.7% | 34,445,015 | 90.3% | 3,126,178 | 0.6% |
| <i>Training</i> | | | | | | |
| Academy-New Recruit/Promotional/Reserve | 738,897 | 2.1% | 783,919 | 2.1% | 45,022 | |
| Emergency Preparedness (ICS, US&R, WMD) | 743,177 | 2.1% | 913,614 | 2.4% | 170,437 | |
| Specialty Training (Paramedic, ARFF) | 584,723 | 1.7% | 627,559 | 1.6% | 42,836 | |
| Reserve Program (On-going) | 90,593 | 0.3% | 77,080 | 0.2% | (13,513) | |
| <i>Total Training</i> | 2,157,390 | 6.2% | 2,402,172 | 6.3% | 244,782 | 0.1% |
| <i>Discretionary</i> | | | | | | |
| Special Activity (Comm. events, Explorer Program, Project Teams, etc.) | 372,977 | 1.1% | 423,160 | 1.1% | 50,183 | |
| Other Discretionary (Comm. Services, Special Ops, Auto) | 1,007,139 | 2.9% | 800,331 | 2.1% | (206,808) | |
| Administrative | 60,737 | 0.2% | 86,585 | 0.2% | 25,848 | |
| <i>Total Discretionary</i> | 1,440,853 | 4.1% | 1,310,076 | 3.4% | (130,777) | -0.7% |
| Total | 34,917,080 | 100.0% | 38,157,263 | 100.0% | 3,240,183 | 0.0% |

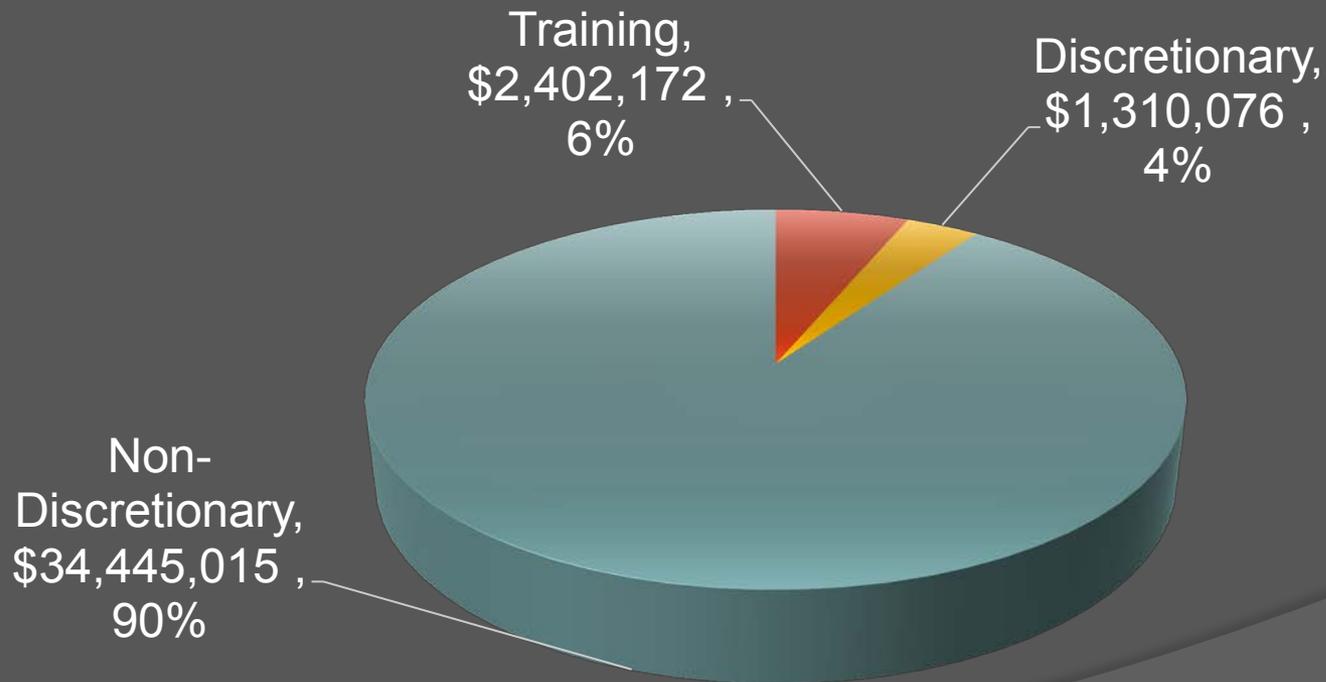
* Emergency overtime is generally 90%-100% reimbursable.

** Includes Santa Ana effective April 20, 2012.

Backfill/Overtime Overview Summary

Fiscal Year 2012/13 Overtime Summary by Type

Total = \$38,157,263

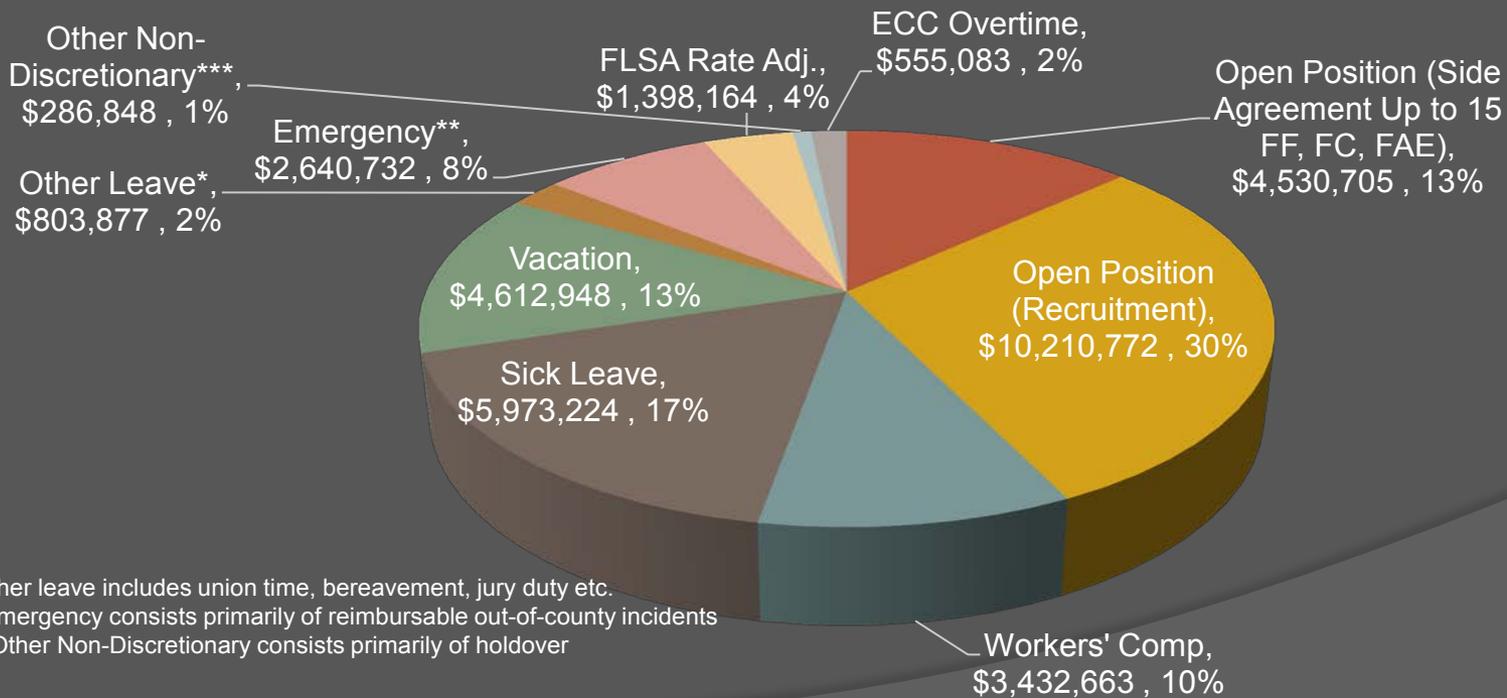


Backfill/Overtime Overview

Non-Discretionary

Fiscal Year 2012/13 Non-Discretionary Overtime by Category

Total Non-Discretionary = \$34,445,015

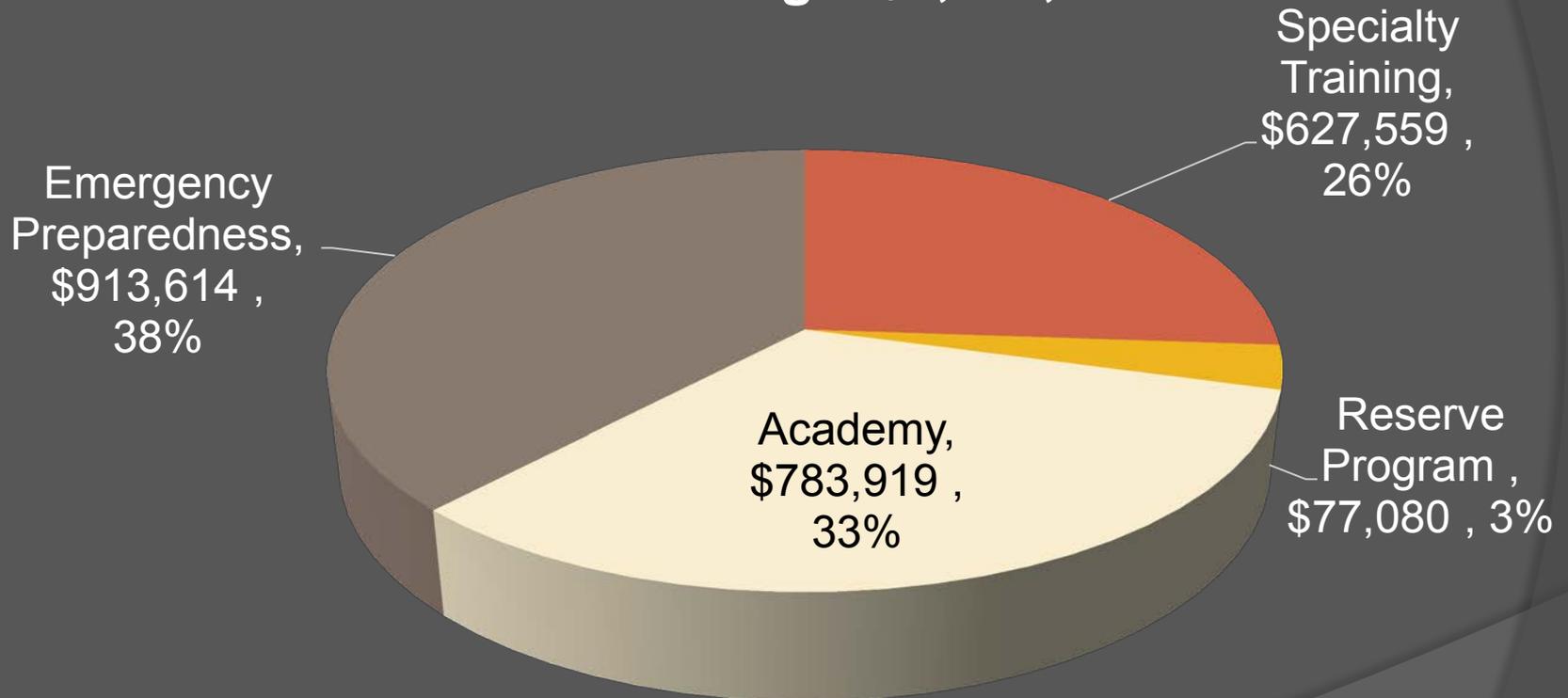


*Other leave includes union time, bereavement, jury duty etc.
 **Emergency consists primarily of reimbursable out-of-county incidents
 ***Other Non-Discretionary consists primarily of holdover

Backfill/Overtime Overview

Fiscal Year 2012/13 Training Overtime

Total Training = \$2,402,172

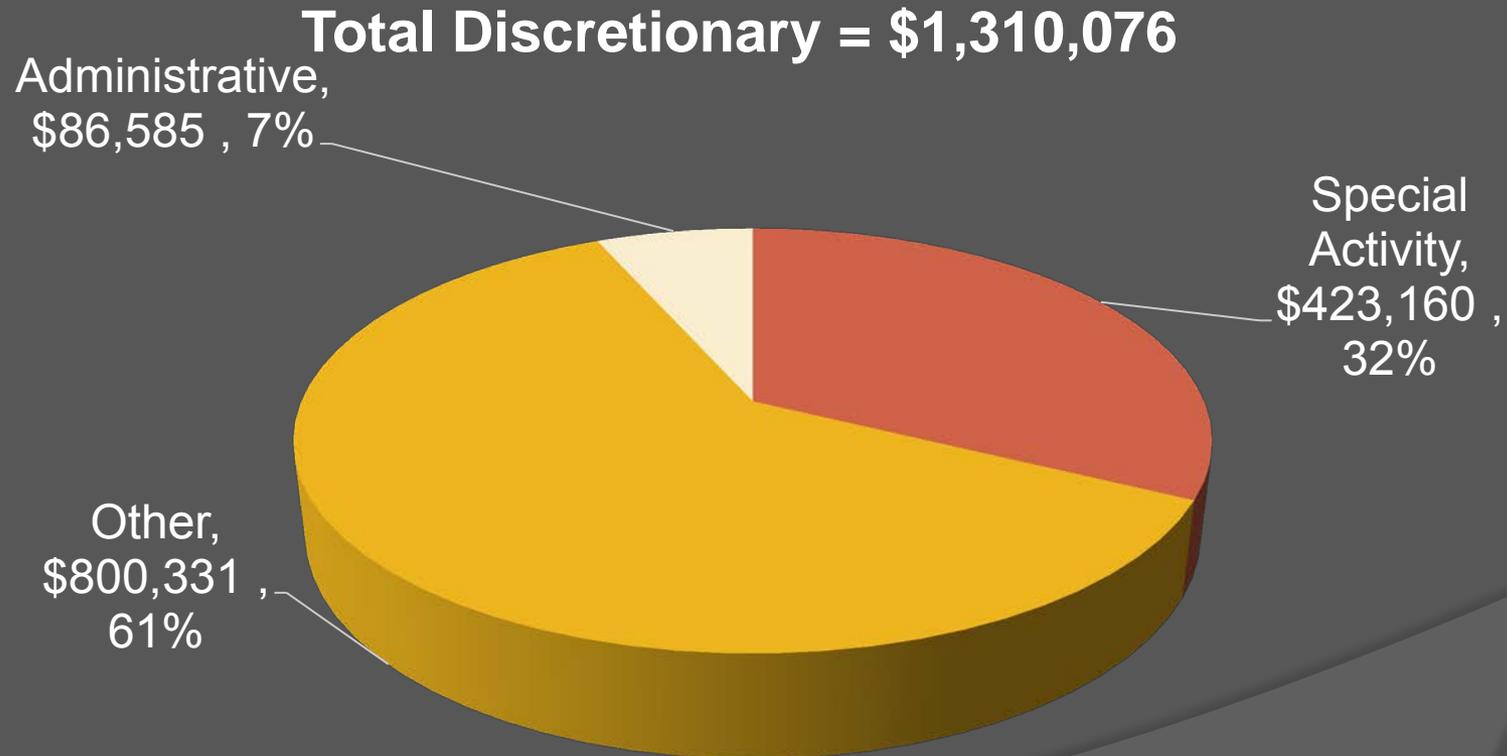


*Specialty Training includes: Hazmat, Air Operations, Training Activities Group, Wildland, Paramedic, ARFF, Swift Water, Investigator, and Other

**Emergency Training includes: Dispatch, Urban Search & Rescue, Incident Command, National Fire Academy, Weapons of Mass Destruction

Backfill/Overtime Historical Review Discretionary

Fiscal Year 2012/13 Discretionary Overtime by Category



*Other: Comm. Services, Special Operations, Auto

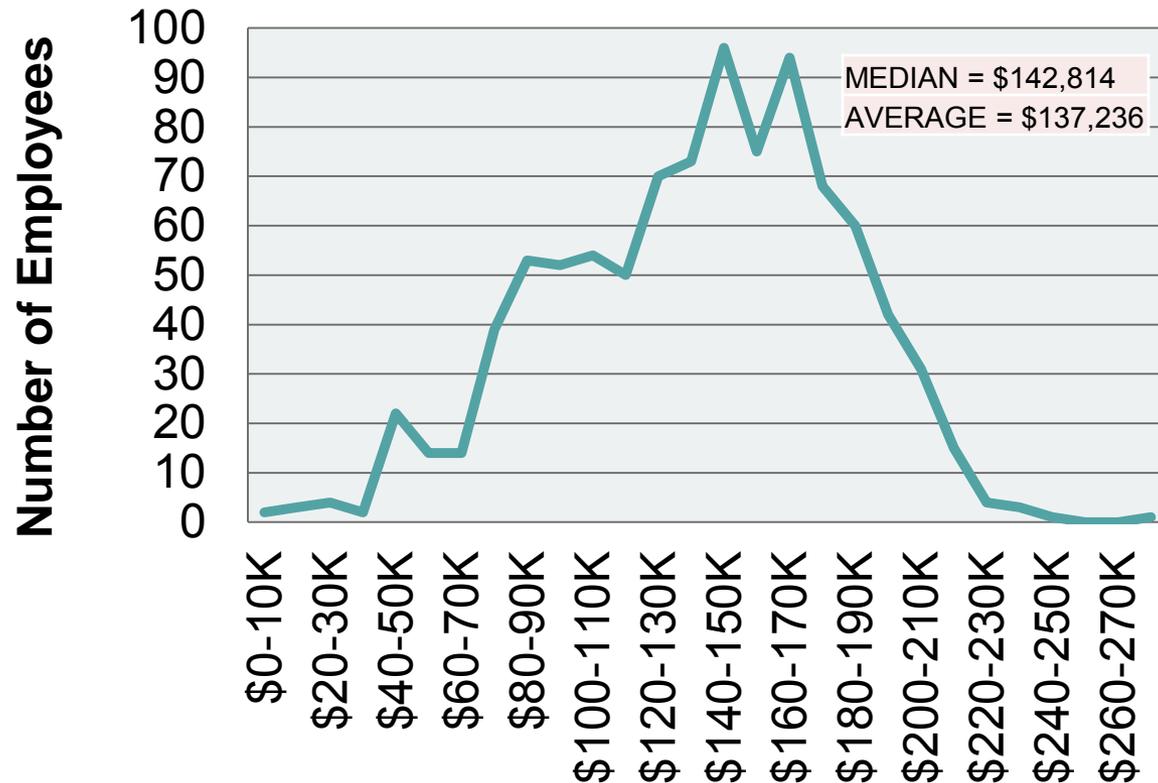
Firefighter Earnings Analysis

The following is an analysis of all firefighter earnings for Calendar Year 2012 (employee names excluded).

Firefighter Earnings Analysis

| \$10,000 Increments | # of Employees |
|---------------------|----------------|
| \$0-10K | 2 |
| \$10-20K | 3 |
| \$20-30K | 4 |
| \$30-40K | 2 |
| \$40-50K | 22 |
| \$50-60K | 14 |
| \$60-70K | 14 |
| \$70-80K | 39 |
| \$80-90K | 53 |
| \$90-100K | 52 |
| \$100-110K | 54 |
| \$110-120K | 50 |
| \$120-130K | 70 |
| \$130-140K | 73 |
| \$140-150K | 96 |
| \$150-160K | 75 |
| \$160-170K | 94 |
| \$170-180K | 68 |
| \$180-190K | 60 |
| \$190-200K | 42 |
| \$200-210K | 31 |
| \$210-220K | 15 |
| \$220-230K | 4 |
| \$230-240K | 3 |
| \$240-250K | 1 |
| \$250-260K | 0 |
| \$260-270K | 0 |
| \$270-280K | 1 |
| Total | 942 |

Calendar Year 2012 Firefighter Earnings Summary



Median=50% of earnings fall below this amount and 50% of earnings fall above this amount.

Firefighter Earnings Analysis

Summary by Calendar Year

| Calendar Year | # of Employees | Average Total Earnings | Annual Average Hours Worked | Weekly Average Hours Worked | Average Hourly Rate | Annual Hourly Rate Increase |
|---------------|----------------|------------------------|-----------------------------|-----------------------------|---------------------|-----------------------------|
| 2003 | 766 | \$ 102,386.02 | 3,408 | 65.5 | \$ 30.04 | N/a |
| 2004 | 761 | \$ 110,792.42 | 3,530 | 67.8 | \$ 31.38 | 4.46% |
| 2005 | 797 | \$ 109,957.67 | 3,347 | 64.3 | \$ 32.85 | 4.68% |
| 2006 | 812 | \$ 113,424.38 | 3,299 | 63.4 | \$ 34.85 | 6.09% |
| 2007 | 825 | \$ 121,409.67 | 3,372 | 64.8 | \$ 36.01 | 3.33% |
| 2008 | 814 | \$ 129,675.89 | 3,516 | 67.6 | \$ 36.88 | 2.42% |
| 2009 | 806 | \$ 131,537.84 | 3,467 | 66.7 | \$ 37.94 | 2.79% |
| 2010 | 797 | \$ 132,363.40 | 3,340 | 64.0 | \$ 40.54 | 6.41% |
| 2011 | 782 | \$ 142,952.77 | 3,458 | 66.3 | \$ 41.34 | 1.94% |
| 2012 | 942 | \$ 137,236.03 | 3,299 | 63.4 | \$ 41.60 | 0.64% |

Note:

Firefighters assigned to a suppression position work 2,912 base hours a year (56 hours per week).

Firefighters assigned to a staff position work 2,080 base hours a year (40 hours per week).

Employees may work a combination of staff and suppression hours during a year.

2012 Firefighter Earnings Analysis

Summary by Classification

| Classification | # of Employees (1) | Standard Work Week (2) | Average Base Earnings (3) | Average Total Earnings | Average Hourly Rate (4) | Annual Average Hours Worked (5) | Weekly Average Hours Worked |
|-------------------------|-----------------------|------------------------|------------------------------|------------------------|----------------------------|------------------------------------|-----------------------------|
| Fire Captain | 254 | 56 | \$99,179 | \$164,212.41 | \$49.41 | 3,323 | 63.92 |
| Fire Apparatus Engineer | 233 | 56 | \$85,112 | \$139,382.98 | \$41.34 | 3,371 | 64.83 |
| Firefighter | 431 | 56 | \$75,591 | \$125,558.24 | \$37.94 | 3,309 | 63.64 |
| Hand Crew Firefighter | 24 | 40 | \$32,359 | \$40,606.48 | \$18.86 | 2,153 | 41.41 |
| Total | 942 | | | | | | |

Notes:

- (1) Represents total Fire Captain, Engineer, Firefighter, & Hand Crew Firefighter paid during Calendar Year 2012.
- (2a) Firefighters assigned to a suppression position work 2,912 base hours a year (56 hours per week).
- (2b) Firefighters assigned to a staff position work 2,080 base hours a year (40 hours per week).
- (2c) Firefighters that transferred over from Santa Ana worked the standard 56 hour work week for the 8 months employed by OCFA
- (3) Base Earnings Includes: Regular, Sick, Vacation Hours, Workers Compensation and Leaves.
- (4) Average rate is calculated by dividing total earnings by hours worked.
- (5) Employees may work a combination of staff and suppression hours during a year.

Top 10 2012 Firefighter Earnings Analysis

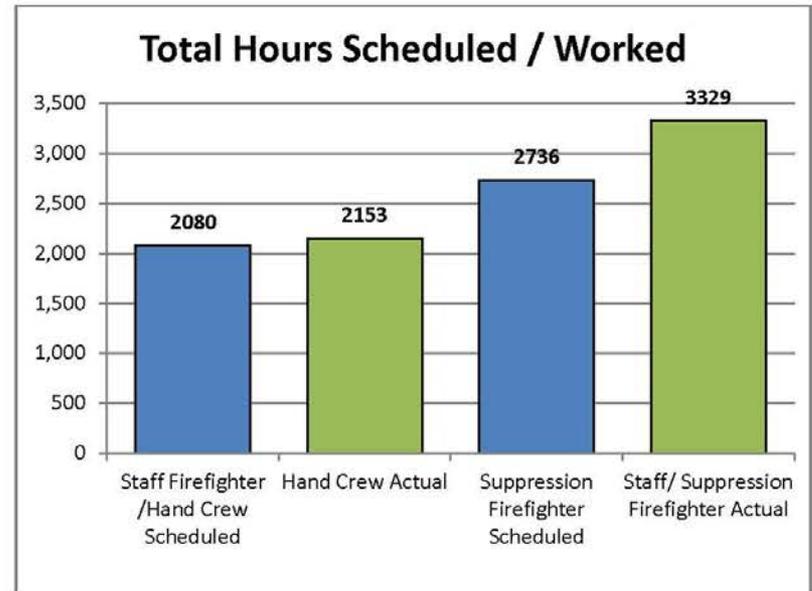
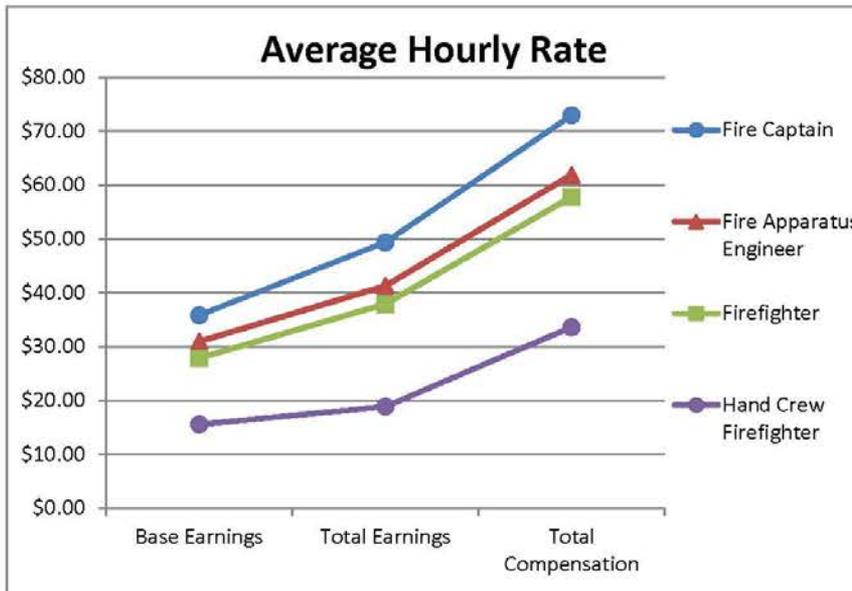
| Title/ Assignment | Base Earnings | Total Earnings | Base Hours | Other Hours | Total Hours | Average Hourly Rate |
|----------------------|------------------|-------------------|---------------|----------------|----------------|------------------------|
| 1. Fire Captain | \$117,710 | \$273,261 | 2,912 | 2,349 | 5,073 | \$53.87 |
| 2. Fire Captain | \$111,512 | \$244,210 | 2,912 | 1,944 | 4,856 | \$50.29 |
| 3. Fire Captain | \$111,594 | \$236,758 | 2,912 | 1,482 | 4,394 | \$53.88 |
| 4. Fire Captain | \$111,612 | \$231,306 | 2,912 | 1,377 | 4,289 | \$53.93 |
| 5. Fire Captain | \$111,299 | \$230,304 | 2,912 | 1,698 | 4,610 | \$49.96 |
| 6. Fire Captain | \$108,304 | \$226,241 | 2,080 | 1,388 | 3,468 | \$65.24 |
| 7. Fire Captain | \$111,357 | \$224,956 | 2,912 | 1,255 | 4,167 | \$53.99 |
| 8. Fire Captain | \$112,178 | \$223,984 | 2,922 | 1,208 | 4,130 | \$54.23 |
| 9. Fire Captain | \$108,304 | \$220,599 | 2,080 | 1,048 | 3,128 | \$70.52 |
| 10. Fire Captain | \$111,627 | \$219,763 | 2,912 | 1,150 | 4,062 | \$54.10 |

Firefighter/Employee Total Compensation

Firefighter Total Compensation

Calendar Year 2012 Firefighter Hourly Rate Breakdown

| Classification | BASE EARNINGS | | | TOTAL EARNINGS | | | TOTAL COMPENSATION | | |
|-------------------------|-----------------------|----------------------------|---------------------|------------------------|-----------------------------|---------------------|----------------------------|-----------------------------|---------------------|
| | Average Base Earnings | Regularly Scheduled Hours* | Average Hourly Rate | Average Total Earnings | Average Actual Hours Worked | Average Hourly Rate | Average Total Compensation | Average Actual Hours Worked | Average Hourly Rate |
| Fire Captain | \$99,179 | 2766 | \$35.86 | \$164,212 | 3323 | \$49.41 | \$242,605 | 3323 | \$72.99 |
| Fire Apparatus Engineer | \$85,112 | 2748 | \$30.97 | \$139,383 | 3371 | \$41.34 | \$208,706 | 3371 | \$61.91 |
| Firefighter | \$75,591 | 2713 | \$27.86 | \$125,558 | 3309 | \$37.94 | \$191,393 | 3309 | \$57.84 |
| Hand Crew Firefighter | \$32,359 | 2080 | \$15.56 | \$40,606 | 2153 | \$18.86 | \$72,489 | 2153 | \$33.66 |

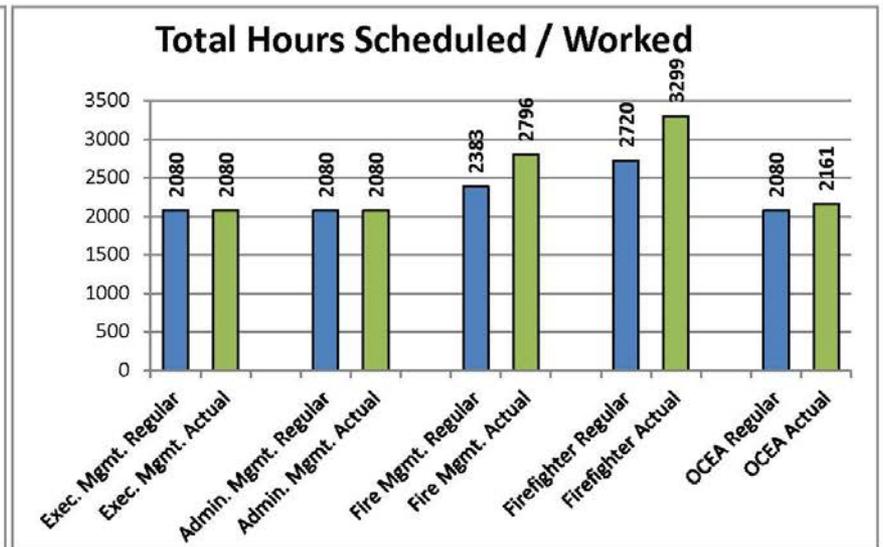
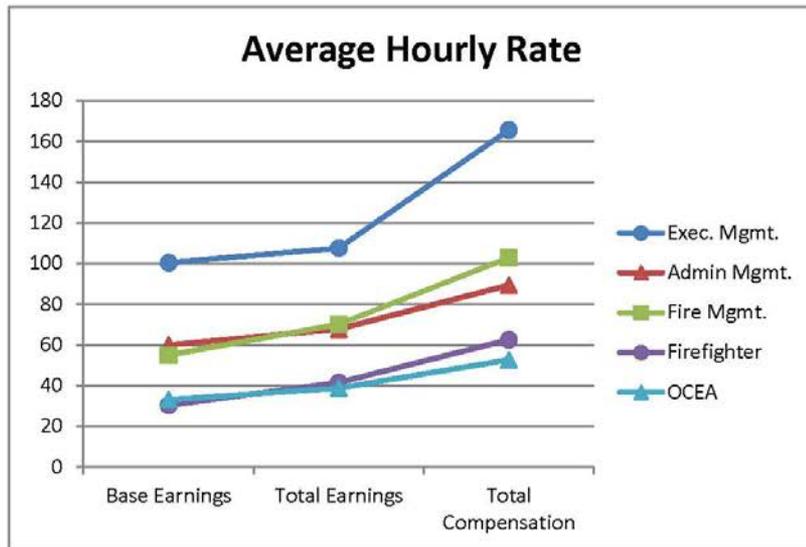


*Note: CY 2012 we used a blended rate to incorporate 8 months of Santa Ana transitioning employees when compared to the normal schedule of 2912 hours.

Total Employee Compensation

Calendar Year 2012 OCFA Hourly Rate Breakdown

| Bargaining Group | BASE EARNINGS | | | TOTAL EARNINGS | | | TOTAL COMPENSATION | | |
|---------------------------------|-----------------------|----------------------------|---------------------|------------------------|-----------------------------|---------------------|----------------------------|-----------------------------|---------------------|
| | Average Base Earnings | Regularly Scheduled Hours* | Average Hourly Rate | Average Total Earnings | Average Actual Hours Worked | Average Hourly Rate | Average Total Compensation | Average Actual Hours Worked | Average Hourly Rate |
| Executive Management | \$208,816 | 2080 | \$100.39 | \$223,783 | 2080 | \$107.59 | \$344,652 | 2080 | \$165.70 |
| Administrative Management | \$124,857 | 2080 | \$60.03 | \$141,024 | 2080 | \$67.80 | \$185,910 | 2080 | \$89.38 |
| Fire Management | \$131,194 | 2383 | \$55.05 | \$196,159 | 2796 | \$70.16 | \$287,722 | 2796 | \$102.91 |
| Firefighter | \$83,205 | 2720 | \$30.59 | \$137,236 | 3299 | \$41.60 | \$206,455 | 3299 | \$62.58 |
| Orange County Employee's Assoc. | \$68,961 | 2080 | \$33.15 | \$83,847 | 2161 | \$38.81 | \$113,886 | 2161 | \$52.71 |



*Note: CY 2012 for the Firefighter bargaining group, we used a blended rate to incorporate 8 months of Santa Ana transitioning employees when compared to the normal schedule of 2912 hours

QUESTIONS?

DISCUSSION CALENDAR - AGENDA ITEM NO. 9
BUDGET AND FINANCE COMMITTEE
November 6, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **2013 Update – Fiscal Health Plan & Financial Stability Budget Policy**

Summary:

This agenda item is submitted to the Committee for review and approval of a comprehensive update of the former *Fiscal Health Contingency Plan* and the *Financial Stability Budget Policy*.

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors adopt the submitted policies.

Background:

Fiscal Health Contingency Plan

In May of 2002, the Board of Directors approved a Fiscal Health Contingency Plan as a framework for responding to adverse fiscal circumstances. The Plan also included requirements for OCFA's general fund contingency reserve, described key fiscal policies/guiding principles, and established reporting processes for monitoring OCFA's fiscal health.

The Fiscal Health Contingency Plan was amended in March of 2005 to reduce the general fund contingency requirement from 15% to 10% of expenditures (net of grant funded expenditures). The Plan has remained in place and unchanged since March of 2005.

Since 2005, we have increased financial reporting to cover many additional areas and improve transparency. We have also expanded use of the five-year financial forecasting, and we now rely on the prospective forecasting tool instead of the historical financial indicators, for measuring future financial stability, strength, or weakness. Furthermore, we have established a routine cycle for performance of internal control reviews by an external auditor, and added Audit Oversight responsibilities to the existing Budget and Finance Committee.

Considering the variety of enhancements that we've made to our fiscal monitoring and reporting, we found it appropriate to update the Fiscal Health Contingency Plan to reflect the improvements. In addition, we have deleted the word "Contingency" from the title of the Plan to more accurately reflect the broader purpose of the Plan, which encompasses much more than contingency planning provisions.

Financial Stability Budget Policy

Also in May of 2002, the Financial Stability Budget Policy was approved to formally document contingency fund levels for the General Fund and establish annual funding targets for the CIP funds. In addition, the Financial Stability Budget Policy was designed to guide OCFA in making annual budget decisions that focus on 1) both short and long-term financial priorities and 2) the fiscal health of OCFA as an organization rather than focusing on a “fund-by-fund” basis.

This Policy has been updated to conform to changes proposed for the Fiscal Health Plan.

Best Practices in Financial Reporting

Both of the policies discussed above are designed to provide OCFA the opportunity to be proactive in addressing potential future negative financial conditions or operational deficits through ongoing analysis of financial condition. The policies are consistent with the Government Finance Officers’ Association’s best practices in financial reporting.

Impact to Cities/County:

A strong Fiscal Health Plan for OCFA is intended to assist in ensuring that services are appropriately sustained for the communities we serve.

Fiscal Impact:

Adoption of these policies has no fiscal impact; however, the actions taken as a result of having these policies in place should assist OCFA’s fiscal health for the long-term.

Staff Contact for Further Information:

Lori Zeller, Assistant Chief

Lorizeller@ocfa.org

(714) 573-6020

Attachments:

1. Fiscal Health Plan – November 2013
2. Financial Stability Budget Policy – November 2013

Orange County Fire Authority

Fiscal Health Plan

Business Services Department
November 2013

ORANGE COUNTY FIRE AUTHORITY

FISCAL HEALTH PLAN

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ORANGE COUNTY FIRE AUTHORITY

Fiscal Health Plan

Introduction

Purpose of Plan

Consistent with the Government Finance Officers' Association's best practices in financial reporting, the purpose of this Plan is to establish a framework for ensuring an ongoing focus on fiscal health and a general process to assure timely and appropriate response to adverse fiscal circumstances. One of OCFA's major strengths is its depth of financial oversight and multiple tiers of financial review. OCFA's finances are overseen by the Board of Directors, the Executive Committee, Budget and Finance Committee, City Managers Technical Advisory Committee, City Managers Budget and Finance Committee, OCFA's Executive Management team, and OCFA's Business Services staff. Each has an essential role to play in maintaining OCFA's fiscal health.

Background

The Orange County Fire Authority (OCFA) was formed in March 1995 in the wake of the Orange County bankruptcy, the largest municipal bankruptcy in history. At that time, property taxes, OCFA's primary revenue source, had shown little or no growth in recent years but there were signs of economic recovery. OCFA's first operating budget was approved with a \$4.1 million deficit. The Board of Directors directed staff to balance the operating budget by FY 1998/99 with the ultimate goal to generate a revenue stream to fund OCFA's capital needs. This financial goal was fully realized with the adoption of the FY 2000/01 budget.

Between FY 1996/97 – FY 2000/01, the Budget and Finance Committee and the Board of Directors established a set of strong fiscal policies and implemented strategies to re-build OCFA's fiscal health. OCFA's first multi-year Capital Improvement Program (CIP) was approved in FY 1998/99. The following year, OCFA implemented its first two-year budget to improve financial planning efforts and to streamline the budget process. Between FY 2000/01 and 2012/13, OCFA staff and the Budget and Finance Committee developed many key policies for approval by the Board of Directors, including policy areas of budgeting, capital and contingency reserves, cost recovery, grant administration, and short-term debt.

Today, OCFA routinely makes use of inter-fund borrowing, Tax & Revenue Anticipation Notes (TRANS) and Master Lease financing, where feasible, to maximize cash flow. A robust model is in place for multi-year financial forecasting. We receive awards from the Government Finance Officers Association for meeting professional standards of excellence on our annual budget and our comprehensive annual financial report. The Association of Public Treasurers of the United States and Canada has certified our investment policy, and our Purchasing Section has been awarded the Achievement in Excellence in Procurement Award from the National Procurement Institute. OCFA went to market for the first time in August 2001 to issue bonds for the financing of our Regional Fire Operations and Training Center (RFOTC). Standard & Poor's rated the bonds AA and Moody's rated them A-1. This was a remarkable achievement for a first-time issuer. Both rating agencies indicated that the primary factors for assigning positive ratings were

strong financial management, a solid record of fiscal discipline, and the high quality of information provided by OCFA staff. OCFA has since paid the bonds in full, and did so in advance of the required payment timeline to achieve savings in interest payments.

With the strides we have made since formation of the OCFA, it is critical that we maintain our strong fiscal health. This Fiscal Health Plan serves as a central tool for guiding our financial planning, monitoring, and actions during both strong and weak economic times.

Cornerstones and Scope of Plan

The cornerstones of this plan are a set of strong fiscal policies and a comprehensive system for monitoring OCFA's fiscal performance. The plan is focused on OCFA's General Fund – Fund 121, but also will impact planning for the CIP. All departments of OCFA will fully participate in this plan.

Triggers

Specified actions within the Fiscal Health Plan will be triggered by adverse fiscal circumstances, as determined by the Fire Chief, that have the potential to significantly impact OCFA's fiscal health, such as:

- “ Natural or human-made disasters
- “ State or judicial property tax takeaways
- “ Large, unexpected costs
- “ Economic downturns

Specified contingency actions will also be triggered whenever there are two consecutive quarters of adverse fiscal results in OCFA's top revenue sources, property taxes and charges for services, or when other financial / economic indicators point to significant weakness.

Financial indicators will be monitored through frequent updates of the OCFA's five-year financial forecast to evaluate the stability, strength, or weakness of OCFA's finances. The forecast will measure the areas of revenues, expenditures, debt, committed and uncommitted fund balances. Annual measurement of unfunded liabilities will also help assess financial stability, strength, or weakness. These measurement factors will be refined and adjusted periodically as appropriate. The outcome of the financial forecast analysis will be reported annually with the mid-year budget review, or more frequently if significant events occur impacting OCFA's finances. The annual measurement of unfunded liabilities will occur each fall.

SIX KEY ELEMENTS OF THE PLAN

One: Maintaining Minimum Fund Balance at Policy Levels

By Board of Directors policy, OCFA maintains an operating fund contingency set at 10% of operating expenditures. For purposes of this policy, operating expenditures are defined to include salaries, employee benefits, services, and supplies. Operating expenditures exclude grant-funded expenditures, annual equity payments, and operating transfers out to the Capital Improvement Program (CIP).

Fund balances are also maintained for CIP funds and for the Workers' Compensation Self-Insurance Program. In accordance with the Financial Stability Budget Policy, the OCFA strives to achieve CIP fund balance equal to five-years of projected capital projects, less anticipated revenue sources. For Workers' Compensation, Board-adopted policy mandates funding to be set aside for past incurred cases at the 50% confidence level.

OCFA's fund balances are its first line of defense in adverse circumstances. The fund balances allow OCFA to continue operations and projects in responding to short-term fiscal problems. The fund balances also provide a bridge or "breathing" room in addressing longer-term problems while comprehensive plans are developed for response and recovery.

Two: Other Key Fiscal Policies

OCFA's guiding principle is to prevent fiscal problems before they begin and to keep problems from getting bigger when they do occur. This is accomplished by adherence to the following policies:

- " Balanced budget
- " Ongoing operating expenditures funded with ongoing revenues
- " Adherence to adopted procurement policies and procedures
- " Conservative investment practices with monthly oversight by the Budget and Finance Committee
- " Budget authority vested with the Board of Directors, oversight by the Budget and Finance Committee, City Managers Budget and Finance Committee, and delegation of budget management authority to the Fire Chief
- " User fee cost recovery, with cyclical fee studies performed every two years
- " Proactive work with developers to ensure that new development pays its own way
- " Limited use of debt financing
- " Ongoing equipment and vehicle replacement plans
- " Use of contracting for services where more efficient and cost effective
- " Ongoing pursuit of productivity improvements
- " Performance of internal control reviews and annual financial audits by independent auditors, with oversight by the Budget and Finance/Audit Oversight Committee

Three: Monitoring of Fiscal Health

The OCFA maintains ongoing systems for the timely reporting of fiscal conditions and trends. Staying on top of OCFA's fiscal condition on an ongoing basis is an essential part of our overall strategy for preserving our fiscal health. We disclose our fiscal condition on an ongoing basis – whether good or bad – to our Board of Directors, city managers, senior managers, and to the organization-at-large. Core principles, financial forecasting, and descriptions of fiscal health monitoring reports are included in the Appendix.

Four: Assessment: Short or Long-Term Fiscal Problem?

Different strategies apply to different types of problems. Short and long-term strategies are as follows:

Assessment of Short-Term Problem: A short-term problem is a one-time event or downturn that is not likely to continue indefinitely. “One-time” fixes are the appropriate response to one-time only problems. The goal is not just short-term savings, but preserving future options if the problem turns out to be ongoing.

- “ Hiring Chill: Action may be taken to fill positions required to meet front-line service needs that cannot be met through overtime or temporary staffing. Fire Chief (or Deputy Fire Chief) approval is required to fill all other vacant positions.
- “ Travel and Training Chill: Maintain existing approval procedures but limit travel and training. Though the tendency is to curtail all travel and training, OCFA believes this is short-sighted. Training is critical to maintain essential skills. The ability to stay abreast of current best practices is enhanced through conferences and professional meetings, which is essential to help protect OCFA’s interests. This is even more important in adverse times.
- “ CIP Project Deferrals: OCFA staff and the CIP Ad Hoc Committee will identify candidate projects for possible deferral.
- “ One-Time Operating Cost Review: Treasury and Financial Planning staff will identify and present one-time only projects to OCFA Executive Management to consider for possible deferral.
- “ Fund Balance: Consider use of contingency fund balance below the Board’s 10% of operating expenditure policy level. Parameters that will be used to guide staff in recommending use of contingency fund balance to the Board shall include the following:
 - ü Use of contingency fund balance may be recommended when a solution has been identified to eliminate future budget deficits, and a bridge of time is needed to implement the solution
 - ü If use of fund balance is to be recommended, it should not exceed 25% of the contingency fund balance in any one fiscal year
 - ü Use of fund balance will not be recommended for more than two consecutive years
 - ü ***Ultimately, the recommended use of fund balance can only be achieved with Board approval***
- “ Other Short-Term Curtailments: Identify and implement any other short-term curtailments, as appropriate.

Assessment of Long-Term Problem: A long-term problem is reflected in a downturn in revenues or increases in costs that are systemic. One-time fixes will not work for a long-term structural imbalance. Long-term fixes require new ongoing revenues (which are extremely unlikely for OCFA given our property tax base) or ongoing expenditure reductions. If the problem can be seen in advance, OCFA’s philosophy is that it is far better to take action early before it becomes unmanageable and thus avoid future pain to OCFA.

Four Basic Steps to Take in the Assessment

1. Implement short-term actions until completion of action plan.

2. Prepare a long-term financial forecast (Five-Year Model) to define the problem.
3. Prepare revenue enhancement and expenditure reduction options tailored to the problem as defined by the financial forecast. Consider that it will likely take six or more months to prepare the plans and another 12 to 18 months to implement them.
4. Finalize and begin implementing the plan.

Five: Identifying Options

In addressing long-term fiscal problems, there are only two basic options – increase revenues and/or reduce expenditures.

Increase Revenues

Since OCFA is property tax based, the ability to increase revenues is extremely limited. However, benefit assessments or other voter-approved measures should not be overruled, depending on the magnitude and severity of the problem. The action plan must consider the lead-time essential for such an action. Voter approval will require time for the effective preparation before a measure is placed on the ballot. The ***critical success factor*** will be an effective community and labor association-based group that will work hard to pass the measure. Any actions in pursuit of such a measure would require Board approval.

Reduce Expenditures (and related service levels)

In the short-term, use of fund balance is an option, but it is not a viable long-term solution. The exception to this is the strategic use of fund balance that reduces future year operating costs or increases ongoing revenues. The hard reality is that meaningful expenditure reductions require reductions in regular staff costs, including front-line personnel. To put this in perspective, over 90% of OCFA's operating costs are for salaries and employee benefits.

General Expenditure Reduction Strategies

The Assistant Chiefs of each of OCFA's four departments and the Deputy Chief are responsible for developing expenditure reduction options that are real, doable and:

- “ Reflect the least service impacts to the community. There is to be no “game-playing” or proposal of least-likely reductions.
- “ Are ongoing.
- “ Describe service impacts in factual, objective, and credible terms.
- “ Are within OCFA's ability to do independently – no speculative reductions contingent on actions of others.
- “ Can be implemented within three months of adoption by the Board of Directors.
- “ Are net of any related revenues from fees or grants.
- “ Maintain essential facilities and equipment at reasonable levels – we will **not** defer essential station or equipment maintenance, as this is not a genuine cost reduction.
- “ Reflect participation from throughout their departments – we do **not** want any of our staff to be surprised.

Expenditure Reduction Principles and Targets

Any service reductions will be balanced, and ensure that OCFA's highest priority services are retained. The focus will be on retaining front-line core services and reducing services with the least impact to OCFA's service communities.

Though expenditure reductions are not likely to be the sole budget-balancers, the identification of service impacts is critical to attracting support for any new revenues or other mitigation strategies.

CIP Projects

Staff will ask the Chair of the Board of Directors to convene an Ad Hoc Committee to assist in the identification and prioritization of short-term as well as ongoing CIP project reduction opportunities. Projects to maintain existing facilities would generally have higher priority over “new” facilities. OCFA’s Strategic Planning Services team will assist in providing data and recommendations related to service needs for new fire stations in developing areas.

Projects likely to be exempted from reductions include those that have:

- “ Direct adverse impacts to public health and safety
- “ Outstanding contractual or bond/lease financing commitments
- “ Significant outside resources or related one-time revenues

Legislative Advocacy

Legislative advocacy may play a role in the plan, depending on the reason for the adverse fiscal circumstances. If state or federal legislative actions drive the reason, OCFA will work closely with its legislative advocates, board members, labor associations, and other stakeholders to influence the mitigation of service reductions.

Involvement and Participation

The Fire Chief will encourage employee and labor association participation and involvement throughout OCFA in preparing any expenditure reduction options and will openly communicate any resulting action plans well in advance of the implementation date. The Fire Chief will also involve impacted communities and community interest groups in preparing the plan.

Six: Finalize and Implement Fiscal Health Action Plan

The Fire Chief (with advice from OCFA’s Executive Management team, the City Manager Technical Advisory Committee, and the Budget and Finance Committee) is responsible for preparing his recommended Fiscal Health Action Plan for Board of Directors consideration. Board of Directors approval is required for implementation.

Communications

Whenever the Fiscal Health Action Plan is placed in effect, the OCFA will strive to effectively communicate with the communities we serve regarding any service impacts. Additionally, communications to OCFA employees will have the highest priority.

Monitoring and Reporting of Outcomes

Treasury and Financial Planning staff will closely monitor results of the action plan in achieving its goal and will report any significant deviations (as well as positive results) to the Fire Chief who in turn will report to the Board of Directors.

ORANGE COUNTY FIRE AUTHORITY

Monitoring OCFA's Fiscal Performance

OVERVIEW

Staying on top of the OCFA's fiscal condition on an ongoing basis – on both the revenue and expenditure side of the equation – is an essential part of our overall strategy for preserving our fiscal health. The following summarizes how we monitor and report on fiscal health at the Board of Directors and staff level.

Core Principles

There are four core principles underlying our fiscal monitoring and reporting efforts:

- 1. Strong Systems.** We need to have an underlying financial management and internal control system that captures and produces *timely, credible and reliable* information.
- 2. Meaningful Reports.** To be useful for policy makers and managers, this raw data then needs to be analyzed and summarized to answer the key question: *what does it mean?* Setting specific, periodic reporting goals and standards is one of the best ways of ensuring that this kind of analysis is in fact taking place. The resulting information must be interpreted the same way by everyone who uses the system.
- 3. Timely, Open Reporting.** Full, open, honest and straightforward disclosure of our fiscal condition on an ongoing basis – whether good or bad – to the Board of Directors, OCFA city managers, senior managers, the organization at-large, and the community is a fundamental precept for effective and responsible stewardship of the public resources that have been entrusted to us. Though we may not always like the results – if we are doing our job, our reports should never be a surprise.
- 4. Organizational Responsibility.** On the revenue side, Business Services plays the lead role in managing OCFA's fiscal condition; on the expenditure side, Assistant Chiefs and the Deputy Chief have the principal responsibility for ensuring that OCFA's resources are used wisely and in accordance with adopted plans, policies, service levels and the resources allocated by the Board of Directors.

FISCAL HEALTH MONITORING

Monitoring Financial Indicators

To assist with the ongoing evaluation of OCFA's fiscal health, staff will monitor financial indicators through frequent updates of the OCFA's financial forecast measuring revenues, expenditures, debt, committed and uncommitted fund balance. These measurement aspects will be forecast to provide indicators of fiscal stability, strength, or weakness.

In addition, an annual trend report will be used to look backwards and track changes from forecasted financial data to actual financial results. This data will be reviewed to assess the accuracy of forecasted revenues and expenditures against actual activity, taking into account budget adjustments, grants and reimbursements. Outcomes from the trend analysis will be used to assess whether adjustments should be built into the forecasting methodology. As a general guideline, the forecasting tool should allow for variances no more than +/- 5% per line item in Year 1 of the forecast, and no more than +/- 10% per line item in the outer years of the forecast.

The above method of monitoring financial indicators will be refined and adjusted periodically as appropriate. The outcome and any resulting recommended actions will be reported to the Fire Chief and the Board of Directors annually with the mid-year budget review process.

Monitoring Long-Term Liabilities

To further assist with the ongoing evaluation of OCFA's fiscal health, staff will measure long-term liabilities annually, trending the data to assess drivers behind increases (if applicable) and to measure effectiveness of strategies that are put in place to either reduce or fund the liabilities. Categories to be measured will include the pension plan, Retiree Medical Plan, lease financing obligations, workers' compensation, and accrued compensated absences. These categories will be refined and adjusted periodically, as appropriate. The annual Long Term Liability Study will be provided to the Budget and Finance Committee and Board of Directors each fall.

Review of Fee-Funded Programs

Several layers of review will be applied to OCFA's fee-funded programs. Reviews will include a routine cycle for performing Fee Studies every two years, as well as annual reconciliations following each year-end to ensure that fees do not exceed the cost of performing the services, and to ensure that cost recovery goals are met. OCFA will continue to contract with a professional fee consultant who will validate the fee study process and results. In addition to routinely performing fee studies every two years, fee studies may be prompted at earlier intervals when driven by the following factors:

- Material changes are made to the organization of Fire Prevention staff amongst various fee funded programs.

- Material changes are made to the manner in which tasks are performed to carry out the various fee funded activities, impacting the time it takes to perform the task or impacting the level of employee required to perform the task.
- Year-end reconciliations of fee revenue and volume of fee funded activity vs. cost to perform fee funded services indicates a surplus or deficit in excess of 10%.

The outcome and any resulting recommended actions from the year-end reconciliation will be reported to the Fire Chief and the Board of Directors annually with the mid-year budget review process.

Board of Directors Focused Reports

The following reports are provided to the Board of Directors and Budget and Finance Committee on an ongoing basis, and, except as noted, typically cover both revenues and expenditures. In all cases, these same reports are widely distributed within the organization; and several of these that have broad interest are distributed externally to others and will be posted on our web site and intranet.

- “ **Annual Budget.** This is the benchmark against which we measure our fiscal performance for revenues, departmental operating expenditures and CIP projects. While this document primarily looks forward to the next year, it also includes detailed information about our fiscal performance for both revenues and expenditures for the prior two years.
- “ **Five-Year Financial Forecasting Model.** This forecasting model is a budget tool that is updated annually, in conjunction with the budget, for projected revenues and expenditures for the following five years. The forecast, based on the annual operating budget and the five-year CIP, combines all OCFA budgetary funds into one financial summary to provide a picture of OCFA’s overall fiscal health. The forecast can also be presented with multiple scenarios to demonstrate the impact of various pending fiscal issues. The forecast is updated whenever a significant financial event occurs or is anticipated to occur mid-year in order to assess the severity of the impact. The forecast is also evaluated before undertaking any significant financial commitment to ensure that OCFA’s fiscal health is maintained.
- “ **Mid-Year Budget Review.** Prepared six months into each fiscal year, this is another opportunity to take a formal look at OCFA’s fiscal performance, and take corrective action as needed. A comprehensive mid-year review is provided each January and recommended mid-year budget adjustments are presented to the Budget and Finance Committee and the Board of Directors annually each March.
- “ **Quarterly Financial Newsletters.** In staying focused on the “big picture,” we issue a Quarterly Newsletter that focuses on key fiscal performance indicators in the General and CIP Funds. This includes year-to-date revenues, expenditures, key General Fund revenues (which account for about 95% of the total) and budget versus actual expenditures for each of the departments. This Newsletter is distributed electronically to all employees.

- “ **Comprehensive Annual Financial Report.** This includes audited financial statements for all of OCFA’s funds, including budget versus actual revenues and expenditures. More importantly, it includes a transmittal memorandum from the Assistant Chief of Business Services that concisely analyzes key fiscal results for the year.
- “ **Monthly Investment Report.** This report shows OCFA’s cash and investment position for all funds held by the OCFA. The Budget and Finance Committee and the Executive Committee review this report monthly.
- “ **Monthly OCERS Updates.** This report assists in providing ongoing updates of activities occurring at the Orange County Employees’ Retirement System (OCERS) relating to financial policies, practices, and actuarial changes which impact retirement contribution rates and funding of pension benefits.
- “ **Quarterly Workers’ Compensation Updates.** These quarterly reports are provided to share information regarding workers compensation claims, illness and injury trends, and safety or wellness initiatives underway which are designed to reduce illness and injuries.
- “ **Annual Investment Report.** This report provides an overview of OCFA’s cash and investment position for the fiscal year and demonstrates compliance with the Investment Policy approved by the Board of Directors. It analyzes the composition of the investment portfolio, discusses different types of investment risks, identifies GASB 31 impacts, and reviews trends and performance of the portfolio compared to market benchmarks.
- “ **Annual Backfill/Overtime and Total Compensation Report.** This report analyzes backfill and overtime activity for the prior fiscal year and summarizes base earnings, total earnings, and total compensation for each employee/labor group. In addition, total annual employee compensation is posted to the OCFA website to improve transparency for the public.
- “ **Annual Liability Report.** This report measures OCFA’s long-term liabilities and is used as a tool to assist management and the Board of Directors in developing appropriate strategies to reduce and/or fund each category of liability.
- “ **Annual Grant Priorities.** This report is prepared each January to establish priorities for the types of grants that may be available and/or pursued each year.
- “ **Staff Agenda Reports.** In every staff agenda report, we assess the fiscal impact of the recommended action, including budget impact, impact on member agencies, and any budget shortfalls if applicable.
- “ **Special Notices and other Ad Hoc Reports.** As key information comes to us with significant revenue or expenditure impacts, we immediately let the Budget and Finance Committee and/or Board of Directors know through special notices or other “ad hoc” reports.

Staff Focused Reports

- “ **Budget Detail – Policy and Guidelines.** After adoption of the budget, we produce and distribute this document at the beginning of each fiscal year to help our managers monitor their budget and purchasing activities. The document includes line item budget detail, budget responsibilities and guidelines, a user’s guide for completing purchase requisitions, a chart of accounts describing OCFA’s various accounts, a list of current ORG numbers (used for tracking expenditures), and a user’s guide for interpretation of monthly reports provided for monitoring expenditures.
- “ **Quarterly Financial Reports.** We produce and distribute detailed quarterly financial reports to section managers and Assistant Chiefs to ensure that records are accurate and up-to-date.
- “ **Quarterly On-Call Pay and Backfill/Overtime Reports.** We produce and distribute detailed reports summarizing on-call pay and backfill/overtime activity to section managers and Assistant Chiefs to facilitate appropriate monitoring and oversight of applicable programs.
- “ **Quarterly CIP Expenditure Status Reports.** An internal CIP Review Committee meets quarterly to review the status of CIP projects. An important part of their role is to identify any problem areas with upcoming projects (and resolve problems with corrective action plans); and to ensure smooth coordination of complex projects. Detailed reports on the “project-to-date” budget and expenditure status of all CIP projects will then be presented to the Fire Chief and Executive Management.
- “ **Quarterly Expenditure Reviews with the Fire Chief.** The Budget Team (Budget Manager and Budget Analysts) meet with their assigned departments each quarter to review in detail the status of departmental operating expenditures. The Budget Team then presents its draft report to the Assistant Chief of Business Services, the Treasurer and the Finance Manager. The final report is presented each quarter to the Fire Chief and Executive Management.
- “ **Daily Cash Balance Reports.** Treasury staff produces daily cash balance reports to ensure that cash liquidity is sufficient to cover anticipated disbursements and to determine if, and for how long, surplus cash should be invested.
- “ **Weekly Cash Balance Reports by Fund.** This report, which identifies the breakdown of cash and investments by Fund, is used to confirm that each fund has sufficient cash balance to cover planned expenditures. For example, Fund 121 has a cyclical cash balance which drops very low prior to receipt of property taxes in November and rises dramatically from December through April.
- “ **Quarterly Cost Savings Reports.** This report will identify savings achieved from the efforts of Purchasing staff through bidding, additional vendor competition, and negotiated savings.

SUMMARY

There are two key aspects to our approach in monitoring our fiscal condition - we are committed to an ongoing program of collecting meaningful information and then ensuring that this information is reported and acted upon in a timely manner.

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| <p style="text-align: center;">FINANCIAL STABILITY BUDGET POLICY</p> |
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1. PURPOSE

- 1.1. To guide OCFA budget actions toward maintaining long-term financial stability and to establish contingency fund levels and annual funding targets for the Authority's General Fund and Capital Improvement Program (CIP) Funds.
- 1.2. To establish CIP fund balances that accumulate and deplete in harmony with the needs and timing of capital projects identified in the five-year CIP.

2. ADOPTION AND REVIEW

- 2.1. This policy was originally adopted by the Board of Directors on May 23, 2002 and was implemented with the Fiscal Year 2002/03 Budget Update.
- 2.2. This policy shall be reviewed periodically for recommended revisions in order to maintain the policy in a manner that reflects the ongoing financial goals of the Authority.
- 2.3. Policy revisions shall be reviewed by the Budget and Finance Committee and approved by the Board of Directors.

3. POLICY

- 3.1. The Five-Year Financial Forecast shall be used as a budget tool that's updated annually in conjunction with the budget for projected revenues and expenditures. The Five-Year Forecast will include all OCFA budgetary funds to provide a picture of the Authority's overall fiscal health.
 - 3.1.1 The Five-Year Forecast will also be updated whenever a significant financial event occurs or is anticipated to occur mid-year in order to assess the severity of the impact.
 - 3.1.2 The Five-Year Forecast shall also be evaluated before undertaking any significant financial commitment to ensure the Authority's fiscal health is maintained.

- 3.1.3 It should be noted that data included in the first two years of the forecast is the most predictable and reliable.
- 3.1.4 Data contained in the outer years of the forecast is less reliable due to uncertainties regarding items such as future property tax growth, benefit costs, and capital needs. Although less reliable, the information is a useful indicator of trends and the potential need for early corrective intervention.
- 3.2. The proposed operating budget (General Fund) submitted by Authority staff shall be a balanced budget.
- 3.3. The Authority shall also strive to achieve a projected operating budget that's balanced for all years included in the Five-Year Financial Forecast.
- 3.4. The Authority shall maintain a contingency reserve in the General Fund set at 10% of operating expenditures for unplanned emergencies.
- 3.4.1 Operating expenditures exclude grant-funded expenditures, annual equity payments, and operating transfers out to the CIP.
- 3.5. Funds available for transfer out of the General Fund after funding annual operating expenses (net general fund revenue) shall be allocated first to the 10% General Fund contingency reserve, and then to the CIP.
- 3.6. The Authority shall review reserve fund levels annually for the CIP funds and establish annual funding targets as follows:
- 3.6.1 CIP funds will include:
- Fund 122 – Facilities Maintenance & Improvement
 - Fund 123 – Capital Projects
 - Fund 124 – Communications & Information System Replacements
 - Fund 133 – Vehicle Replacement
- 3.7.2 The amount of revenue available for transfer from the General Fund to the CIP shall be allocated based on the existing reserve balance in each CIP fund and based on the future needs identified in the five-year CIP.

Priority #1: Each CIP fund shall be allocated sufficient funds to meet planned expenditures included in the upcoming fiscal year. Sufficient funds can be a combination of existing fund balance plus new revenues and operating transfers in from the General Fund.

Priority #2: After meeting the needs for the upcoming fiscal year in each CIP fund, any additional funding shall be allocated based on planned expenditures included in the second fiscal year of the five-year CIP. This process shall be repeated for future years to the extent that funding is available.

Ultimate Funding Target: Although this status may or may not be achieved, a fully funded five-year CIP would be our ultimate goal and would allow OCFA to rest assured that all projects identified within our planning horizon have funds earmarked for those projects.

- 3.7. The Authority will analyze the feasibility of paying its annual retirement contributions to the Orange County Employees Retirement System (OCERS) early each year, to take advantage of the discount offered by OCERS.
 - 3.7.1 OCERS has taken the approach to use the assumed rate of return for the system (7.25%) as the discount. The employer is given a 7.25% discount if payment is made in January, a full year in advance, and a 3.625% discount if payment is made six months in advance in July.

DISCUSSION CALENDAR - AGENDA ITEM NO. 10
BUDGET AND FINANCE COMMITTEE MEETING
November 6, 2013

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **Refunds for Unverified Hazardous Materials Disclosure Inspections – Follow-up Actions**

Summary:

This item is submitted to provide an update regarding the refunds for unverified hazardous materials disclosure inspections that were authorized by the Board of Directors at the meeting of June 27, 2013, and to discuss additional follow-up actions.

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with recommendations to be developed by staff through discussion with the Budget and Finance Committee.

Background:

At the June 27, 2013, meeting of the OCFA Board of Directors, staff was directed to issue refunds to businesses that were billed for hazardous materials disclosure inspections for FY 2005/06 through 2011/12, the performance of which could not be verified during the audit of inspection records. In addition, staff was directed to circulate notice to the affected businesses of the availability of a refund to enable those businesses to claim their refunds.

On Monday, July 8, 2013, letters were mailed to 2,259 affected business owners noticing them of the availability of refunds. Vouchers were included with the letters, along with return-stamped envelopes to facilitate the business owners in claiming their refunds. In addition to mailing letters, the list of the 2,259 affected businesses was posted on the OCFA website on July 15, 2013. As a result, activities to date are as follows:

| Date | Quantity of Claims | Dollar Amount |
|---------------------------------|---------------------------|----------------------|
| Month of July, 2013 | 711 | \$566,709.80 |
| Month of August, 2013 | 212 | \$170,602.40 |
| Month of September, 2013 | 161 | \$175,908.00 |
| Month of October, 2013 | 18 | \$8,358.00 |
| Cumulative Total-To-Date | 1,102 | \$921,578.20 |

Staff has begun developing plans for a second mailing to businesses, and recommendations for final disposition of any unclaimed funds after an appropriate amount of time for submittal of claims. Prior to submitting any recommendations to the Board of Directors, staff would like to discuss the options with the Budget and Finance Committee.

Impact to Cities/County:

Not Applicable.

Fiscal Impact

The proposed value of refunds, based on the audit of physical inspection records for FY 2005/06 through 2011/12 is \$1,751,044. Because some of the businesses will have moved or closed or for some other reason may not seek the refund, staff does not anticipate that it will receive refund requests for the entire amount. It is difficult to estimate what percentage of the businesses will seek refunds.

Staff Contact for Further Information:

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Attachments:

None