

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
BOARD OF RETIREMENT  
2223 E. WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CALIFORNIA

REGULAR MEETING  
Monday, March 19, 2018  
9:00 a.m.

AGENDA

The Orange County Board of Retirement welcomes you to this meeting. This agenda contains a brief general description of each item to be considered. The Board of Retirement may take action on any item included in the following agenda; however, except as otherwise provided by law, no action shall be taken on any item not appearing on the agenda. The Board of Retirement may consider matters included on the agenda in any order, and not necessarily in the order listed.

PLEDGE OF ALLEGIANCE

PUBLIC COMMENTS

At this time, members of the public may comment on (1) matters not included on the agenda, provided that the matter is within the subject matter jurisdiction of the Board; and (2) any matter appearing on the Consent Agenda.

When addressing the Board, please state your name for the record prior to providing your comments. Speakers will be limited to three (3) minutes.

*In addition, public comment on matters listed on this agenda will be taken at the time the item is addressed. Persons wishing to address items on the agenda should provide written notice to the Secretary of the Board prior to the Board's discussion on the item by signing in on the Public Comment Sign-In Sheet located at the back of the room.*

CONSENT AGENDA

All matters on the Consent Agenda are to be approved by one action unless a Board Member requests separate action on a specific item.

**BENEFITS**

**C-1 OPTION 4 RETIREMENT ELECTION**

**Recommendation:** Grant election of retirement benefit payment, Option 4, based on Segal Consulting's actuarial report.

(1) N/A

**ADMINISTRATION**

**C-2 BOARD MEETINGS AND COMMITTEE MEETINGS**

Audit Committee Minutes  
Regular Board Meeting Minutes

January 30, 2018  
February 13, 2018

**Recommendation:** Authorize meeting and approve minutes.

**C-3 AUDIT COMMITTEE OUTCOMES FROM JANUARY 30, 2018 MEETING**

**Recommendation:** The Audit Committee recommends that the Board of Retirement:

- (1) Receive and file the Actuarial Audit of OCERS' 2016 Actuarial Valuation.
- (2) Receive and file the Audit of OCERS' Investment Rebalancing Reporting.
- (3) Receive and file the Status of 2017 Internal Audit Plan.
- (4) Receive and file the Status of 2018 Internal Audit Plan.

**ACTION ITEMS**

**NOTE:** Public comment on matters listed in this agenda will be taken at the time the item is addressed, prior to the Board's discussion of the item. Persons wishing to address items on the agenda should provide written notice to the Secretary of the Board prior to the Board's discussion on the item by signing in on the Public Comment Sign-In Sheet located at the back of the room.

**A-1 INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA**

**A-2 2018 STAR COLA FINAL APPROVAL**

*Presentation by Suzanne Jenike, Assistant Chief Executive Officer, External Operations, OCERS*

**Recommendation:** Approve payment of STAR COLA for the period April 1, 2018 through March 31, 2019.

**INFORMATION ITEMS**

**I-1 MEMBER MATERIALS DISTRIBUTED**

Written Report

[Application Notices](#)

March 19, 2018

[Death Notices](#)

March 19, 2018

**I-2 CEO FUTURE AGENDAS AND 2018 OCERS BOARD WORK PLAN**

Written Report

**I-3 QUIET PERIOD – NON-INVESTMENT CONTRACTS**

Written Report

**I-4 FIRST QUARTER REVIEW OF 2018-2020 OCERS STRATEGIC PLAN**

Written Report

**I-5 LEGISLATIVE UPDATE**

Written Report

**I-6 TRAVEL REPORT – 2018 NAPO'S 30<sup>TH</sup> ANNUAL POLICE FIRE EMS AND MUNICIPAL EMPLOYEES PENSION AND BENEFITS SEMINAR**

Written Report

**I-7 BOARD ELECTION, SAFETY MEMBER AND ALTERNATE SAFETY MEMBER**

Written Report

**I-8 BOARD COMMUNICATION**

Written Report

**I-9 2018 STATE OF OCERS ANNUAL REPORT**

*Presentation by Steve Delaney, Chief Executive Officer, OCERS*

**I-10 OCERS' PLAN SPONSOR – AN ANNUAL REVIEW**

*Presentation by Mark Adviento, Internal Auditor, OCERS*

**I-11 OCERS FUNDING POLICY**

*Presentation by Paul Angelo, Segal Consulting*

**DISABILITY APPLICATIONS/MEMBER APPEALS AGENDA**

**11:00 A.M.**

**NOTE: WHEN CONSIDERING DISABILITY RETIREMENT APPLICATIONS OR MEMBER APPEALS OF BENEFIT OR DISABILITY RETIREMENT DETERMINATIONS, THE BOARD MAY ADJOURN TO CLOSED SESSION TO DISCUSS MATTERS RELATING TO THE MEMBER'S APPLICATION OR APPEAL, PURSUANT TO GOVERNMENT CODE SECTIONS 54957 OR 54956.9. IF THE MATTER IS A DISABILITY APPLICATION UNDER SECTION 54957, THE MEMBER MAY REQUEST THAT THE DISCUSSION BE IN PUBLIC.**

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**DISABILITY INDIVIDUAL AGENDA**

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**D-1: Thomas Hollins**

Utility Worker, John Wayne Airport

Date of employee filed application for service and non-service connected disability retirement:  
08/13/2015

**Recommendation: Refer the matter to a hearing officer for further analysis of the record regarding permanent incapacity and job causation. (General Member)**

**D-2: Brad Jarrell**

Fire Captain, Orange County Fire Authority

Date of employer filed application for service and non-service connected disability retirement:  
01/06/2017

Date of employee filed application for service and non-service connected disability retirement:  
02/18/2017

**Recommendation: Grant service connected disability retirement with an effective date of March 17, 2017. (Safety Member)**

**D-3: David Loaiza**

Deputy Sheriff II, Orange County Sheriff's Department

Date of employer filed application for service and non-service connected disability retirement:  
03/22/2017

Date of employee filed application for service and non-service connected disability retirement:  
04/04/2017

**Recommendation: Grant service connected disability retirement with an effective date of March 31, 2017. (Safety Member)**

**D-4: Jorge Menocal**

Senior Mechanic, Orange County Sanitation District

Date of employer filed application for service and non-service connected disability retirement:  
04/19/2017

Date of employee filed application for service and non-service connected disability retirement:  
05/23/2017

**Recommendation: Grant non-service connected disability with an effective date of April 19, 2017 and deny service connected disability retirement due to insufficient evidence of job causation . (General Member)**

**D-5: Giang Nguyen**

Facilities Mechanic, Orange County Sheriff's Department

Date of employer filed application for service and non-service connected disability retirement:  
05/25/2017

Date of employee filed application for service and non-service connected disability retirement:  
06/12/2017

**Recommendation Grant service connected disability retirement with an effective date of July 7, 2017. (General Member)**

**D-6: Aaron Richard**

Sergeant, Orange County Sheriff's Department

Date of employee filed application for service and non-service connected disability retirement:  
03/07/2017

**Recommendation Grant service connected disability retirement with an effective date of March 17, 2017. (Safety Member)**

**D-7: Robert Speigel**

Fire Captain, Orange County Fire Authority

Date of employee filed application for service connected disability retirement: 01/23/2017

**Recommendation Grant service connected disability retirement with an effective date of January 23, 2017. (Safety Member)**

**D-8: Amber White**

Deputy Probation Officer II, Orange County Probation Department

Date of employee filed application for service and non-service connected disability retirement: 01/13/2017

**Recommendation Grant service connected disability retirement with an effective date of August 4, 2017. (Safety Member)**

**D-9: Jacki Livingston**

Eligibility Technician, Orange County Social Services Agency

Date of employee filed application for service and non-service connected disability retirement: 10/28/2015

**Recommendation Deny service and non-service connected disability retirement due to insufficient evidence of permanent incapacity. (General Member)**

**D-10: Brian Petros**

Administrative Manager I, Orange County Health Care Agency

Date of employee filed application for service and non-service connected disability retirement: 07/26/2017

**Recommendation Deny service and non-service connected disability retirement due to insufficient evidence of permanent incapacity. (General Member)**

**D-11: Brian Quinones**

Deputy Juvenile Correctional Officer II, Orange County Probation Department

Date of employee filed application for service connected disability retirement: 06/02/2017

**Recommendation Deny service and non-service connected disability retirement due to insufficient evidence of permanent incapacity. (Safety Member)**

**D-12: Michelle Black**

Deputy Sheriff II, Orange County Sheriff's Department

Date of employee filed application for service connected disability retirement: 01/23/2014

**Recommendation: Adopt the findings and recommendations of the Hearing Officer and deny Applicant's application for service connected disability retirement. (Safety Member)**

**BOARD MEMBER COMMENTS**

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

**COUNSEL COMMENTS**

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**ADJOURNMENT: (IN MEMORY OF THE ACTIVE MEMBERS, RETIRED MEMBERS, AND SURVIVING SPOUSES WHO PASSED AWAY THIS PAST MONTH)**

**NOTICE OF NEXT MEETINGS**

**AUDIT COMMITTEE MEETING**

**March 27, 2018**

**10:30 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**GOVERNANCE COMMITTEE MEETING**

**March 28, 2018**

**9:00 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**INVESTMENT COMMITTEE MEETING**

**March 29, 2018**

**9:00 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**MANAGER MONITORING SUBCOMMITTEE MEETING**

**April 5, 2018**

**9:00 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**REGULAR BOARD MEETING**  
**April 18, 2018**  
**9:00 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**  
**2223 E. WELLINGTON AVENUE, SUITE 100**  
**SANTA ANA, CA 92701**

*All supporting documentation is available for public review in the retirement office during regular business hours, 8:00 a.m. – 5:00 p.m., Monday through Thursday and 8:00 a.m. – 4:30 p.m. on Friday.*

It is OCERS' intention to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or participant at this meeting, you will need any special assistance beyond that normally provided, OCERS will attempt to accommodate your needs in a reasonable manner. Please contact OCERS via email at [adminsupport@ocers.org](mailto:adminsupport@ocers.org) or call 714-558-6200 as soon as possible prior to the meeting to tell us about your needs and to determine if accommodation is feasible. We would appreciate at least 48 hours' notice, if possible. Please also advise us if you plan to attend meetings on a regular basis.

C-2



ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
BOARD OF RETIREMENT  
2223 WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CA 92701

AUDIT COMMITTEE MEETING  
January 30, 2018  
1:30pm

MINUTES

The Chair called the meeting to order at 1:33 p.m. and read the opening statement for the record. Attendance was as follows:

Present: Frank Eley, Chair; Charles Packard, Vice Chair; Russell Baldwin; Shari Freidenrich

Staff: Steve Delaney, CEO; Brenda Shott, Assistant CEO, Internal Operations; Suzanne Jenike, Assistant CEO, External Operations; Gina Ratto, Chief Legal Officer; Cynthia Hockless, Director of Administrative Services; Jenny Sadoski, Director of Information Technology; Jon Gossard, Security Operations Manager; Mark Adviento, Internal Auditor; Sonal Sharma, Recording Secretary; Anthony Beltran, Audio Visual Technician

OPEN SESSION

**A. ACTUARIAL AUDIT OF OCERS' 2016 ACTUARIAL VALUATION**

*Presentation by Graham Schmidt and Anne Harper of Cheiron*

**Recommendation:** Receive and file.

Cheiron presented the results of their actuarial audit of OCERS' 2016 actuarial valuation.

Following discussion, a **motion** was made by Mr. Packard, **seconded** by Ms. Freidenrich, to receive and file.

The **motion passed unanimously.**

**B. AUDIT OF OCERS' INVESTMENT REBALANCING REPORTING**

*Presentation by Mark Adviento, Internal Auditor*

**Recommendation:** Receive and file.

Mark Adviento, Internal Auditor, reported no findings as a result of the audit.

Following discussion, a **motion** was made by Mr. Packard, **seconded** by Mr. Baldwin, to receive and file.

The **motion passed unanimously.**

**C. STATUS OF 2017 INTERNAL AUDIT PLAN**

*Presentation by Mark Adviento, Internal Auditor*

**Recommendation:** Receive and file.

Mark Adviento, Internal Auditor, discussed the status of the last outstanding project from the 2017 Internal Audit Plan.

Following discussion, a **motion** was made by Mr. Packard, **seconded** by Mr. Baldwin, to receive and file.

The **motion passed unanimously.**

**D. STATUS OF 2018 INTERNAL AUDIT PLAN**

*Presentation by Mark Adviento, Internal Auditor*

**Recommendation:** Receive and file.

Mark Adviento, Internal Auditor, discussed the status of projects from the 2018 Internal Audit Plan.

Following discussion, a **motion** was made by Mr. Packard, **seconded** by Mr. Baldwin, to receive and file.

The **motion passed unanimously.**

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**CLOSED SESSION**

**E. THREAT TO PUBLIC SERVICES OR FACILITIES  
(GOVERNMENT CODE SECTION 54957)**

*Adjourn pursuant to Government Code section 54957 to consult with Steve Delaney, CEO, Brenda Shott, Asst. CEO; Jenny Sadoski, Director of Information Technology; Jon Gossard, Security Operations Manager; Cynthia Hockless, Director of Administrative Services, and Gina M. Ratto, Chief Legal Officer*

**Recommendation:** Take appropriate action.

*The Committee recessed into closed session at 2:30 p.m.*

*The Committee reconvened from closed session at 3:00 p.m.*

**Item E - The Committee took no reportable action.**

The Meeting was adjourned at 3:08 p.m.

\*\*\*\*\* END OF INDIVIDUAL ITEMS AGENDA \*\*\*\*\*

**PUBLIC COMMENTS:**

None.

**COMMITTEE MEMBERS COMMENTS:**

The Committee instructed the CEO to begin negotiations in regards to the hiring of Extra Help, or OCERS employee, or a Consultant for the position of Acting Director of Internal Audit.

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS:**

None.

**Submitted by:**

**Approved by:**

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Steve Delaney  
Secretary to the Committee

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Frank Eley  
Committee Chair

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
BOARD OF RETIREMENT  
2223 E. WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CALIFORNIA

REGULAR MEETING  
Tuesday, February 13, 2018  
9:00 a.m.

MINUTES

Vice-Chair Packard called the meeting to order at 9:03 a.m.

Attendance was as follows:

Present: Chris Prevatt, Chair; Chuck Packard, Vice-Chair; Eric Gilbert; David Ball; Wayne Lindholm; Shawn Dewane; Frank Eley; Russell Baldwin and Shari Freidenrich

Also Present: Steve Delaney, Chief Executive Officer; Brenda Shott, Assistant CEO, Finance and Internal Operations; Suzanne Jenike, Assistant CEO, External Operations; Molly Murphy, Chief Investment Officer; Jenny Sadoski, Director of Information Technology; Gina Ratto, General Counsel; Lee Fink, Deputy General Counsel; Anthony Beltran, Visual Technician; Megan Cortez; Disability Coordinator; Cammy Danciu, Recording Secretary.

Guests: Harvey Leiderman

Absent: Roger Hilton

*Mr. Dewane led the Pledge of Allegiance.*

CONSENT AGENDA

All matters on the Consent Agenda are to be approved by one action unless a Board Member or a member of the public requests separate action on a specific item.

Mr. Eley pulled item C-6 on behalf of Chair Prevatt.  
Ms. Freidenrich pulled items C-3, C-4, and C-5.

Following discussion, a **motion** was made by Mr. Ball **seconded** by Mr. Dewane to move the remainder of the consent agenda.

Motion passed **unanimously**.

BENEFITS
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**C-1 OPTION 4 RETIREMENT ELECTION**

**Recommendation:** Grant election of retirement benefit payment, Option 4, based on Segal Consulting's actuarial report.

- (1) Eric J. Gafner

<b>ADMINISTRATION</b>
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**C-2 BOARD MEETINGS AND COMMITTEE MEETINGS**

Regular Board Meeting Minutes	January 16, 2018
Governance Committee Minutes	January 25, 2018

**Recommendation:** Authorize meeting and approve minutes.

**C-3 GOVERNANCE COMMITTEE OUTCOMES FROM JANUARY 25, 2018 MEETING**

**Recommendation:** The Governance Committee recommends that the Board of Retirement:

- (1) Rescind the Board Performance Review Policy and revise the Board Chair Charter to delete the reference to the Board Performance Policy; and
- (2) Immediately implement for all future Board and committee meetings the new agenda format as approved by the Governance Committee.

**C-4 2018 STAR COLA COST POSTING**

**Recommendation:** In accordance with Government Code Section 7507, call a public meeting for March 19, 2018, to consider the STAR COLA ad hoc adjustment to applicable retirement allowances.

**C-5 2018 COST OF LIVING ADJUSTMENT**

**Recommendation:** Adjust all applicable benefit allowances, effective April 1, 2018, in accordance with Government Code Section 31870.1, resulting from the 2.79% change in CPI, by 3%.

**C-6 AUTHORIZATION FOR OCERS PAYMENTS**

**Recommendation:** Adopt Resolution 18-01 designating the Chief Executive Officer and Assistant Chief Executive Officer, Finance and Internal Operations, as authorized officials to approve checks and electronic transfers drawn on the OCERS retirement fund in accordance with California Government Code section 31590.

**ACTION ITEMS**

**A-1 INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA**

C-3 - Governance Committee Outcomes from January 25, 2018 Meeting.

Ms. Freidenrich commented on the new OCERS Agenda format and asked for clarification.

Ms. Ratto explained that over the past few months, staff has been exploring ways for improving the Board's agenda. The Governance Committee recommended that the agenda for future Board and committee meetings reflect the following changes:

1. A separate category of Consent Agenda items for matters that require Board action, but for which unanimous approval is anticipated to be by one motion for all matters.
2. A separate category of Action Items for matters that require Board action, for which discussion is expected, for which a separate motion is indicated, and for which unanimous approval is not necessarily anticipated.
3. A separate category of Information Items that follows after the Action Items for matters that do not require Board action. Each item specifies whether staff plans to make a presentation or only a written report is contemplated. (Staff will always be available to respond to questions about the written reports.)

The Governance Committee also recommended moving Public Comment for matters not appearing on the agenda but which are within the subject matter jurisdiction of the Board (acknowledging that no action may be taken by the Board) to the beginning of the agenda.

***Chris Prevatt arrived at 9:11 a.m.***

Ms. Freidenrich stated that she would like a more defined process when agenda items are placed in either the "consent" "action" or "individual" sections of the Board Agenda.

Following discussion, a **motion** was made by Ms. Freidenrich **seconded** by Mr. Lindholm to move item C-3.

Motion passed **unanimously**.

C-4 - 2018 STAR COLA Cost Posting

Ms. Freidenrich requested to have the code section added to the agenda back up material if the item is being referred to in the staff memorandum.

Following discussion, a **motion** was made by Ms. Freidenrich **seconded** by Mr. Ball to move item C-4.

Motion passed **unanimously**.

C-5 - 2018 Cost Of Living Adjustment

Ms. Freidenrich reiterated again to have the code section added to the agenda back up material.

Mr. Delaney explained the difference between COLA and STAR COLA.

Sara Ruckle-Harms, representing Retired Employees Association of Orange County (REAOC), member of the public, thanked staff for the dedication and commitment to excellence as the COLA is extremely important for retirees to their daily living.

Following discussion, a **motion** was made by Ms. Freidenrich **seconded** by Mr. Ball to move item C-5.

Motion passed **unanimously**.

C-6 - Authorization for OCERS payments

Mr. Prevatt asked Ms. Shott whether or not it would be feasible adding a third signer to the OCERS list of approved signers in the event that someone is out of the office.

Ms. Shott stated that OCERS can have a third signer added and recommended that the third person be the Director of Finance.

Ms. Freidenrich stated her disappointment in the audit process not identifying this situation. She expressed her concern that the "Authorization for OCERS Payments" agenda item should not have been a Consent Agenda item. She suggested that OCERS take a look at what happened in order to prevent mistakes going forward.

Mr. Packard asked to clarify how the recent changes to the CIO Charter impacted this item.

Ms. Shott and Ms. Murphy explained the process of adding a new investment to the portfolio as well as the process of getting actual dollars transferred into the investment account. They discussed the difference between placing money with an investment manager and payments that are an expenditure of trust funds. The processes of both funding investments and payments to members and third parties involve several people in the organization ensuring proper segregation of duties and internal controls. The CIO has the authority over funding of investments but is not an authorized signer for payments made to third party vendors or members.

Mr. Ball stated that this item should have gone through the Audit Committee first and then brought to the full Board.

Following discussion, a **motion** was made by Mr. Prevatt **seconded** by Mr. Dewane to adopt the resolution as amended to add the Director of Finance as the third authorized signer.

Motion passed **unanimously**.

***The Board recessed for break at 9:53 a.m.***

***The Board reconvened from break at 10:04 a.m.***

**A-2 SACRS BOARD OF DIRECTORS ELECTIONS 2018-2019**  
*Presentation by Gina Ratto, General Counsel, OCERS*

**Recommendation:** Identify one or more nominees for the SACRS Board of Directors election to be conducted on May 18, 2018; and direct staff to submit the nominations to the SACRS Nominating Committee on or before March 1, 2018.

Mr. Ratto presented the SACRS Board of Directors Elections 2018-2019.

A **motion** was made by Mr. Ball **seconded** by Mr. Packard to nominate Roger Hilton to the SACRS Board.

Motion passed **unanimously**.

### INFORMATION ITEMS

**I-1 MEMBER MATERIALS DISTRIBUTED**

*Written report only*

Application Notices  
Death Notices

February 13, 2018  
February 13, 2018

**I-2 CEO FUTURE AGENDAS AND 2018 OCERS BOARD WORK PLAN**

*Written report only*

**I-3 QUIET PERIOD – NON-INVESTMENT CONTRACTS**

*Written report only*

**I-4 BOARD ELECTION, SAFETY MEMBER AND ALTERNATE SAFETY MEMBER**

*Written report only*

**I-5 GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA) CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING**

*Written report only*

**I-6 TRAVEL REPORT – 2017 GARTNER DATA CENTER, INFRASTRUCTURE AND OPERATIONS MANAGEMENT CONFERENCE**

*Written report only*

Ms. Freidenrich spoke to item I-6 and asked staff to add the agenda associated with each conference as back-up material to future conference reports.

**I-7 TRAVEL REPORT – NOSSAMAN LLP'S PUBLIC PENSIONS AND INVESTMENTS 2017 FIDUCIARIES' FORUM**

*Written report only*

Ms. Freidenrich spoke to item I-7 and asked staff to add the agenda associated with each conference as back-up material to future conference reports.



**I-8 QUARTERLY BUSINESS CONTINUITY AND DISASTER RECOVERY PLAN UPDATE**

*Written report only*

Mr. Ball spoke to item I-8 and asked staff where OCERS stands in the process of the disaster recovery, security plan and moving systems to the Cloud.

Ms. Shott stated that OCERS' goal is to continue to look at all the systems used and consider cloud based option for the future keeping in mind that member data security is a top priority. She mentioned that both the Contracts Management System and the phone systems were recently moved to cloud based services.

Mr. Delaney asked Ms. Shott to update the Board on the current status of the Cyber Security position.

Ms. Shott stated that the Cyber Security position recruitment is the first position that the Extra Help HR Analyst will work on once that individual begins, which is expected to occur in March.

Ms. Freidenrich stated that she was unclear where OCERS stands with the remaining amounts expected to be spent on the project and how that relates to the project budget and the current year budgeted amounts.

Ms. Shott stated that OCERS is currently running under budget on the project in total and will update the Board if anything changes.

Ms. Shott also stated that staff will add a column of "estimated future expenses" to the memorandum as this item is brought before the board every two months.

**I-9 FOURTH QUARTER 2017 BUDGET VS. PRELIMINARY ACTUALS REPORT**

*Written report only*

Ms. Freidenrich spoke to item I-9 and stated that her philosophy is to estimate as best as possible project dollar amounts and not estimate a larger budget. If that budget needs to be adjusted, the Board can approve additional funds at a later time.

Chair Prevatt stated that staff tries to come as close as possible to an estimated budget for projects.

Mr. Ball asked if staff could have a trending year end budget section added to the quarterly memo reports.

Ms. Shott stated that can certainly be added to the staff quarterly reports.

Mr. Ball thanked staff for their hard work on this topic.

**I-10 FOURTH QUARTER UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017**

*Written report only*

**I-11 BOARD COMMUNICATIONS**

*Written report only*

**I-12 REVISED ILLUSTRATIONS OF RETIREMENT COSTS, UNFUNDED ACTUARIAL ACCRUED LIABILITY AND FUNDED RATIO UNDER ALTERNATIVE ECONOMIC SCENARIOS – UPDATED WITH NEWLY ADOPTED ASSUMPTIONS**

*Presentation by Andy Yeung, Segal Consulting*

Mr. Andy Yeung presented the Revised Illustrations of Retirement Costs, Unfunded Actuarial Accrued Liability and Funded Ratio under Alternative Economic Scenarios – Updated with Newly Adopted Assumptions.

**\*\*\*\*\* END OF INDIVIDUAL ITEMS AGENDA \*\*\*\*\***

**DISABILITY APPLICATIONS/MEMBER APPEALS AGENDA**

**10:00 A.M.**

**NOTE: WHEN CONSIDERING DISABILITY RETIREMENT APPLICATIONS OR MEMBER APPEALS OF BENEFIT OR DISABILITY RETIREMENT DETERMINATIONS, THE BOARD MAY ADJOURN TO CLOSED SESSION TO DISCUSS MATTERS RELATING TO THE MEMBER'S APPLICATION OR APPEAL, PURSUANT TO GOVERNMENT CODE SECTIONS 54957 OR 54956.9. IF THE MATTER IS A DISABILITY APPLICATION UNDER SECTION 54957, THE MEMBER MAY REQUEST THAT THE DISCUSSION BE IN PUBLIC.**

**DISABILITY CONSENT AGENDA**

Mr. Gilbert voted in place of Mr. Hilton for the entire Disability Agenda.

Megan Cortez, Disability Coordinator, presented the Disability Consent Agenda.

**D-1: Natalie Orozco**

Office Assistant, Orange County Sheriff's Department

Date of employer filed application for service and non-service connected disability retirement:  
10/20/2017

**Recommendation: Deny service connected disability retirement without prejudice due to the member's failure to cooperate. (General Member)**

**D-2: James Davis**

**Recommendation: Dismiss the appeal for the member's failure to participate pursuant to Rule 23. (Safety Member)**

A **motion** was made by Mr. Eley, **seconded** by Mr. Gilbert to adopt the Consent Agenda.

Motion passed unanimously.

**DISABILITY INDIVIDUAL AGENDA**

**D-3: INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA**

Megan Cortez, Disability Coordinator, presented item D-4.

**D-4: Steven Craven**

Facilities Mechanic, Orange County Social Services Agency

Date of employee filed application for service and non-service connected disability retirement:

04/26/2017

**Recommendation: Grant service connected disability retirement with an effective date of September 15, 2017, the day following the last day of regular compensation as a Facilities Mechanic.**

**Find the Applicant is capable of performing other duties in the service of the County of Orange pursuant to Government Code Section 31725.65.**

**Grant a supplemental disability retirement payment allowance in the amount of the salary difference between the higher and lower paying positions effective September 15, 2017, the date of the position change until the day Mr. Craven wishes to retire. (General Member)**

A **motion** was made by Mr. Eley, **seconded** by Mr. Gilbert to grant service connected disability retirement with an effective date of September 15, 2017, the day following the last day of regular compensation as a Facilities Mechanic. Find the Applicant is capable of performing other duties in the service of the County of Orange pursuant to Government Code Section 31725.65. Grant a supplemental disability retirement payment allowance in the amount of the salary difference between the higher and lower paying positions effective September 15, 2017, the date of the position change until the day Mr. Craven wishes to retire. (General Member). The motion carried **9-0** with voting as follows:

**AYES**

Chair Prevatt  
Ms. Freidenrich  
Mr. Dewane  
Mr. Lindholm  
Mr. Gilbert  
Mr. Ball  
Mr. Baldwin  
Mr. Packard  
Mr. Eley

**NAYS**

**ABSTAIN**

**ABSENT**

Mr. Hilton

Megan Cortez, Disability Coordinator, presented item D-5.

**D-5: Angelica Saldana**

Eligibility Technician, Orange County Social Services Agency

Date of employee filed application for service and non-service connected disability retirement:  
04/10/2014

**Recommendation: Grant service connected disability retirement with an effective date of April 14, 2017. (General Member)**

A **motion** was made by Mr. Packard, **seconded** by Mr. Eley to grant service connected disability retirement with an effective date of April 14, 2017. The motion carried **9-0** with voting as follows:

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTAIN</u></b>	<b><u>ABSENT</u></b>
Chair Prevatt			Mr. Hilton
Ms. Freidenrich			
Mr. Dewane			
Mr. Lindholm			
Mr. Gilbert			
Mr. Ball			
Mr. Baldwin			
Mr. Packard			
Mr. Eley			

Megan Cortez, Disability Coordinator, presented item D-6.

**D-6: Jeffrey Seper**

Deputy Sheriff I, Orange County Sheriff's Department

Date of employee filed application for service and non-service connected disability retirement:  
01/24/2017

**Recommendation: Grant service connected disability retirement with an effective date of July 7, 2017. (Safety Member)**

A **motion** was made by Mr. Gilbert, **seconded** by Mr. Dewane to grant service connected disability retirement with an effective date of July 7, 2017. The motion carried **9-0** with voting as follows:

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTAIN</u></b>	<b><u>ABSENT</u></b>
Chair Prevatt			Mr. Hilton
Ms. Freidenrich			
Mr. Dewane			
Mr. Lindholm			
Mr. Gilbert			
Mr. Ball			
Mr. Baldwin			
Mr. Packard			
Mr. Eley			

Megan Cortez, Disability Coordinator, presented item D-7.

**D-7: Linda Solorza**

Assistant Sheriff, Orange County Sheriff's Department

Date of employee filed application for service connected disability retirement: 2/22/2017

**Recommendation: Grant service connected disability retirement with an effective date of February 22, 2017. (Safety Member)**

A **motion** was made by Mr. Gilbert, **seconded** by Mr. Packard to grant service connected disability retirement with an effective date of February 22, 2017. The motion carried **9-0** with voting as follows:

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTAIN</u></b>	<b><u>ABSENT</u></b>
Chair Prevatt			Mr. Hilton
Ms. Freidenrich			
Mr. Dewane			
Mr. Lindholm			
Mr. Gilbert			
Mr. Ball			
Mr. Baldwin			
Mr. Packard			
Mr. Eley			

Megan Cortez, Disability Coordinator, presented item D-8.

**D-8: Ronald Stanford**

Coach Operator, Orange County Transportation Authority  
Date of employer filed application for service and non-service connected disability retirement:  
01/20/2017  
Date of employee filed application for service connected disability retirement: 02/22/2017

**Recommendation: Grant service connected disability retirement with an effective date to be determined administratively. (General Member)**

A **motion** was made by Mr. Baldwin, **seconded** by Mr. Dewane to grant service connected disability retirement with an effective date to be determined administratively. The motion carried **9-0** with voting as follows:

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTAIN</u></b>	<b><u>ABSENT</u></b>
Chair Prevatt			Mr. Hilton
Ms. Freidenrich			
Mr. Dewane			
Mr. Lindholm			
Mr. Gilbert			
Mr. Ball			
Mr. Baldwin			
Mr. Packard			
Mr. Eley			

Megan Cortez, Disability Coordinator, presented item D-9.

**D-9: Bryan Stevens**

Deputy Sheriff II, Orange County Sheriff's Department  
Date of employee filed application for service and non-service connected disability retirement:  
2/21/2017

**Recommendation Grant service connected disability retirement with an effective date of December 22, 2017. (Safety Member)**

A **motion** was made by Mr. Gilbert, **seconded** by Mr. Packard to grant service connected disability retirement with an effective date of December 22, 2017. The motion carried **9-0** with voting as follows:

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTAIN</u></b>	<b><u>ABSENT</u></b>
Chair Prevatt			Mr. Hilton
Ms. Freidenrich			
Mr. Dewane			
Mr. Lindholm			
Mr. Gilbert			
Mr. Ball			
Mr. Baldwin			
Mr. Packard			
Mr. Eley			

Megan Cortez, Disability Coordinator, presented item D-10.

**D-10: Ianeta Ueligitone**

Estate Administration Specialist II, Health Care Agency/Public Guardian

Date of employee filed application for service and non-service connected disability retirement:  
05/12/2017

**Recommendation Grant service connected disability retirement with an effective date of May 12, 2017. (General Member)**

A **motion** was made by Mr. Eley, **seconded** by Mr. Packard to grant service connected disability retirement with an effective date of May 12, 2017. The motion carried **9-0** with voting as follows:

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTAIN</u></b>	<b><u>ABSENT</u></b>
Chair Prevatt			Mr. Hilton
Ms. Freidenrich			
Mr. Dewane			
Mr. Lindholm			
Mr. Gilbert			
Mr. Ball			
Mr. Baldwin			
Mr. Packard			
Mr. Eley			

Megan Cortez, Disability Coordinator, presented item D-11.

**D-11: Rosa Vargas**

Employment and Eligibility Specialist, Orange County Social Services Agency

Date of employee filed application for service connected disability retirement: 12/14/2016

**Recommendation Grant service connected disability retirement with an effective date of December 28, 2016. (General Member)**

A **motion** was made by Mr. Baldwin, **seconded** by Mr. Eley to grant service connected disability retirement with an effective date of December 28, 2016. The motion carried **9-0** with voting as follows:

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTAIN</u></b>	<b><u>ABSENT</u></b>
Chair Prevatt Ms. Freidenrich Mr. Dewane Mr. Lindholm Mr. Gilbert Mr. Ball Mr. Baldwin Mr. Packard Mr. Eley			Mr. Hilton

**D-12: Jacki Livingston**

Eligibility Technician, Orange County Social Services Agency

Date of employee filed application for service and non-service connected disability retirement: 10/28/2015

**Recommendation Deny service and non-service connected disability retirement due to insufficient evidence of permanent incapacity. (General Member)**

**Item D-12 has been pulled.**

Megan Cortez, Disability Coordinator, presented item D-13.

**D-13: Joseph Luth**

Fire Apparatus Engineer, Orange County Fire Authority

Date of employee filed application for service connected disability retirement: 07/25/2016

**Recommendation Deny service connected disability retirement due to insufficient evidence of permanent incapacity. (Safety Member)**

A **motion** was made by Mr. Gilbert, **seconded** by Mr. Packard to deny service connected disability retirement due to insufficient evidence of permanent incapacity. The motion carried **9-0** with voting as follows:

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTAIN</u></b>	<b><u>ABSENT</u></b>
Chair Prevatt Ms. Freidenrich Mr. Dewane Mr. Lindholm Mr. Gilbert Mr. Ball Mr. Baldwin Mr. Packard			Mr. Hilton

Mr. Eley

Megan Cortez, Disability Coordinator, presented item D-14.

**D-14: Mary Maicki**

Administrative Manager I, Orange County Health Care Agency

Date of employee filed application for service and non-service connected disability retirement:  
08/16/2016

**Recommendation Deny service and non-service connected disability retirement due to insufficient evidence of permanent incapacity. (General Member)**

A **motion** was made by Mr. Lindholm, **seconded** by Mr. Packard to deny service connected disability retirement due to insufficient evidence of permanent incapacity. The motion carried **9-0** with voting as follows:

**AYES**

Chair Prevatt  
Ms. Freidenrich  
Mr. Dewane  
Mr. Lindholm  
Mr. Gilbert  
Mr. Ball  
Mr. Baldwin  
Mr. Packard  
Mr. Eley

**NAYS**

**ABSTAIN**

**ABSENT**

Mr. Hilton

Megan Cortez, Disability Coordinator, presented item D-15.

**D-15: Diem Vuong**

Office Assistant, Orange County Social Services Agency

Date of employee filed application for service connected disability retirement: 09/14/2016

**Recommendation: Deny service connected disability retirement due to insufficient evidence of job causation. (General Member)**

A **motion** was made by Mr. Gilbert, **seconded** by Mr. Lindholm to deny service connected disability retirement due to insufficient evidence of job causation. The motion carried **9-0** with voting as follows:

**AYES**

Chair Prevatt  
Ms. Freidenrich  
Mr. Dewane  
Mr. Lindholm  
Mr. Gilbert  
Mr. Ball  
Mr. Baldwin  
Mr. Packard

**NAYS**

**ABSTAIN**

**ABSENT**

Mr. Hilton



Mr. Eley

\*\*\*\*\*

**PUBLIC COMMENTS:** At this time members of the public may address the Board of Retirement regarding any items within the subject matter jurisdiction of the Board, provided that no action may be taken on non-agendized items unless authorized by law.

N/A

**BOARD MEMBER COMMENTS**

Mr. Prevatt stated that Board members are encouraged to pull any Agenda items they wish to address and discuss; however, the Chair and Vice-Chair, at their discretion, decide to place items either on “consent” “action” or “individual” sections of the agenda.

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

Mr. Delaney updated the Board on staffing at OCERS. In the two months since the Board approved an additional 12 new positions at OCERS, five positions have been filled.

Mr. Delaney also presented his “Learning to Speak Southland” PowerPoint Presentation in honor of his 10-year anniversary with OCERS.

**COUNSEL COMMENTS**

N/A

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**ADJOURNMENT: (IN MEMORY OF THE ACTIVE MEMBERS, RETIRED MEMBERS, AND SURVIVING SPOUSES WHO PASSED AWAY THIS PAST MONTH)**

**Active Members**

Blackburn, Colleen  
Dirden, Josephine  
Johnson, Lagene  
Sawyer, Thomas

**Retired Members**

Adams, Maggie  
Allen, Jimmie  
Benson, John  
Berger, Larry  
Brautigam, Robert

Bui, Luyen  
Burgin, William  
Buus, Larry  
Carlsten, Bettye  
Casper, Shirley  
Clark, Gerelyn  
Correa, Manuel  
Elo, James  
Felton, Donald  
Giger, James  
Gilbert, Fredrick  
Halleen, Blanche  
Hamlin, Helen  
Harlon, Sandra  
Hicks, Terry  
Hookum, Dennis  
Jones, Donald  
Keppner, Konrad  
Knight, Lary  
Lane, William  
Le, Leslie  
Lopez, Ruben  
Luna, Mary  
Magno, Valorie  
Nunez, Joe  
Parrish, Dennis  
Pham, Danh  
Pierce, William  
Raya, Josephina  
Reese, Shirley  
Reynoso, Mary  
Rhoades, Michelle  
Rosas, Henry  
Stocker, Suzanne  
Sundquist, Lillian  
Taisne, Jean  
Tapia, Trinidad  
Torres, Stephen  
Tracy, John  
Vaughan, Lawrence  
Wiley, Barbara  
Wolfe, John  
Wright, John  
Young, Ruth  
Zolezio, Sylvia  
Vodicka, Marie Therese  
Weiller, Herbert

**Surviving Spouses**

Cohen, Adrienne

Collins, Ruth  
Hurd, Joan  
Isefuku, Junko  
Janson, Janet  
Kaliher, Phyllis  
Kitagawa, Tom  
Landrum, Eileen  
Marquez, Ernest  
Picker, Franklin  
Reece, Margie  
Rodusky, Ethel  
Takeguma, Hideichi  
Wehe, Theodore

There being no further business to bring before the Board, the meeting adjourned at 11:07 a.m.

Submitted by:

Approved by:

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Steve Delaney  
Secretary to the Board

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Chris Prevatt  
Chairman

C-3



## Memorandum

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**DATE:** February 5, 2018  
**TO:** Members of the Board of Retirement  
**FROM:** Mark Adviento, CPA, Internal Auditor  
**SUBJECT:** **AUDIT COMMITTEE OUTCOMES FROM JANUARY 30, 2018 MEETING**

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### Recommendation

The Audit Committee recommends that the Board of Retirement:

- (1) Receive and file the Actuarial Audit of OCERS' 2016 Actuarial Valuation.
- (2) Receive and file the Audit of OCERS' Investment Rebalancing Reporting.
- (3) Receive and file the Status of 2017 Internal Audit Plan.
- (4) Receive and file the Status of 2018 Internal Audit Plan.

### Background/Discussion

#### **ACTUARIAL AUDIT OF OCER'S 2016 ACTUARIAL VALUATION**

Cheiron representatives presented the results of their actuarial audit of OCERS' 2016 actuarial valuation to the Audit Committee. Cheiron's audit report concludes that the liabilities and costs computed in the actuarial valuation as of December 31, 2016 are reasonably accurate and were computed in accordance with generally accepted actuarial principles.

Cheiron also discussed their recommendations regarding OCERS' actuarial assumptions related to retirement rates and mortality rates.

#### **AUDIT OF OCERS' INVESTMENT REBALANCING REPORTING**

Internal Audit presented the results of the audit to the Audit Committee. There were no findings as a result of the audit.

#### **STATUS OF 2017 INTERNAL AUDIT PLAN**

The status of the last open project from the 2017 Audit Plan was presented to the Audit Committee.

#### **STATUS OF 2018 INTERNAL AUDIT PLAN**

The status of upcoming plan sponsor payroll audits and the annual OCERS' plan sponsor review report was presented to the Audit Committee.



## Memorandum

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**Submitted by:**

M.A. - approved

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Mark Adviento, CPA  
Internal Auditor

A-2



# Memorandum

**DATE:** March 19, 2018  
**TO:** Members of the Board of Retirement  
**FROM:** Suzanne Jenike, Assistant CEO, External Operations  
**SUBJECT:** 2018 STAR COLA FINAL APPROVAL

## Recommendation

Approve payment of STAR COLA for the period April 1, 2018 through March 31, 2019.

## Background/Discussion

STAR COLA stands for Supplemental Targeted Adjustment for Retirees, Cost of Living Adjustment. Unlike the regular COLA the STAR COLA is discretionary and the Board of Retirement has the sole authority to grant or deny the benefit and considers it on an annual basis. The purpose of the STAR COLA is to restore purchasing power for retirees who have lost more than 20% of their purchasing power since retirement due to inflation. The STAR COLA brings those individuals back to 80% of purchasing power. It applies to those who have been retired the longest – currently, those members who retired on or before April 1, 1980.

The projected cost for the period April 1, 2018 through March 31, 2019 is \$525,485. The breakdown between plan sponsors with STAR COLA recipients is as follows:

County	\$519,954 (255 recipients)
UCI (closed to new participants)	\$ 3,018 (5 recipients)
Orange County Sanitation District	\$ <u>2,513</u> (3 recipients)
Total	\$525,485 (263 total)

The STAR COLA provides a much needed cushion to the oldest retirees, whose benefit has been most diminished by inflation. In accordance with California Government Code Section 7507, the Board has already disclosed the financial impact of continuing the STAR COLA at the February 13, 2018, Board meeting.

Staff will send letters to each affected plan sponsor after the Board takes action advising of the outcome, and if approved, of the cost to each sponsor.

Based on the significant impact discontinuation of STAR COLA would have on the individuals who receive it and the relatively small impact payment would have on contribution rates it is staff's recommendation to approve the STAR COLA for April 1, 2018 through March 31, 2019 in the amount of \$525,485.

## Submitted by:

SJ Approved \_\_\_\_\_  
 Suzanne Jenike  
 Assistant CEO, External Operations



VIA EMAIL and USPS

February 6, 2018

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

**Re: Orange County Employees Retirement System  
STAR COLA Payment Projections**

Dear Steve:

As requested by the System, we have projected the cost of continuing the STAR COLA benefit over the next ten years.

#### **BACKGROUND**

The Retirement Board grants a STAR COLA benefit to maintain a minimum of 80% of a retiree's or beneficiary's purchasing power. The STAR COLA benefit is calculated by first taking the balance in a member's COLA bank that is in excess of 20% and multiplying that times the member's benefit.

The 1937 Act allows the Board either to advance fund the STAR COLA benefit subject to the availability of excess earnings above 1% of OCERS' assets or to grant this benefit on an annual basis. We understand that the Board's current policy is to grant this benefit on an annual basis.

#### **RESULTS AND ANALYSIS**

On April 1, 2018, only those members who retired on or before April 1, 1980 have COLA banks in excess of 20% and hence are eligible to receive the STAR COLA.

The attached Exhibit A shows a ten-year projection of the STAR COLA benefits, expressed as a percentage of the benefit payable effective April 1 of the next ten years. In Exhibit B, we show the annual benefit payment based on who is eligible for the STAR COLA benefit as of April 1, 2018 (i.e., members who retired on or before April 1, 1980) and those who may

become eligible after April 1, 2018. In Exhibit C, we have included a schedule that provides the breakdown of the anticipated STAR COLA benefits from April 2018 to March 2019 based on members who retired from each employer.

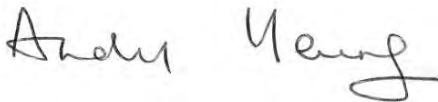
Our projections are based on the following assumptions provided below.

1. The existing 80% purchasing power cap will remain unchanged.
2. In adjusting the purchasing power banks after April 1, 2018, we have used the assumed annual inflation rate of 2.75% previously adopted by the Board for the upcoming December 31, 2017 valuation. As OCERS provides a maximum annual COLA of 3.0%, the COLA banks will decrease in the future under the 2.75% inflation assumption (see attached Exhibit A) and thus no other additional members will be expected to become eligible. We assume that future STAR COLA benefits, adjusted to reflect inflation for the prior calendar year, will be paid commencing April 1 of the subsequent year.
3. Our projections were based on the latest membership data used in the valuation as of December 31, 2016, but updated through January 26, 2018 to exclude those members who have passed away since the prior valuation. For conservatism, we assumed no deaths would have occurred among retirees and beneficiaries from January 26, 2018 to April 1, 2018. Effective April 1, 2018, we applied the life expectancies previously adopted by the Board for the upcoming December 31, 2017 valuation in projecting members who will be entitled to payments in the ten-year period.

I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please let us know if you have any questions.

Sincerely,



Andy Yeung

MYM/bqb  
Enclosures

cc: Suzanne Jenike  
Brenda Shott

**EXHIBIT A – TEN-YEAR PROJECTION OF STAR COLA BENEFITS**

(Expressed as a Percent of the Benefit Payable Effective April 1 of the Year Indicated)

<b>Date of Retirement</b>	<b>April 1, 2018</b>	<b>April 1, 2019</b>	<b>April 1, 2020</b>	<b>April 1, 2021</b>	<b>April 1, 2022</b>	<b>April 1, 2023</b>	<b>April 1, 2024</b>	<b>April 1, 2025</b>	<b>April 1, 2026</b>	<b>April 1, 2027</b>
On or Before 04/01/1972	27.00%	26.75%	26.50%	26.25%	26.00%	25.75%	25.50%	25.25%	25.00%	24.75%
04/02/1972 to 04/01/1973	26.50%	26.25%	26.00%	25.75%	25.50%	25.25%	25.00%	24.75%	24.50%	24.25%
04/02/1973 to 04/01/1974	26.50%	26.25%	26.00%	25.75%	25.50%	25.25%	25.00%	24.75%	24.50%	24.25%
04/02/1974 to 04/01/1975	26.00%	25.75%	25.50%	25.25%	25.00%	24.75%	24.50%	24.25%	24.00%	23.75%
04/02/1975 to 04/01/1976	20.50%	20.25%	20.00%	19.75%	19.50%	19.25%	19.00%	18.75%	18.50%	18.25%
04/02/1976 to 04/01/1977	15.00%	14.75%	14.50%	14.25%	14.00%	13.75%	13.50%	13.25%	13.00%	12.75%
04/02/1977 to 04/01/1978	11.50%	11.25%	11.00%	10.75%	10.50%	10.25%	10.00%	9.75%	9.50%	9.25%
04/02/1978 to 04/01/1979	7.50%	7.25%	7.00%	6.75%	6.50%	6.25%	6.00%	5.75%	5.50%	5.25%
04/02/1979 to 04/01/1980	2.50%	2.25%	2.00%	1.75%	1.50%	1.25%	1.00%	0.75%	0.50%	0.25%

Based on the ten-year projection, members who retired after April 1, 1980 are not eligible for STAR COLA.

## EXHIBIT B – PROJECTED BENEFIT PAYMENTS

The expected benefit payments for the current and new STAR COLA recipients for the next ten years, commencing April 1, 2018, are provided in the following table:

	Benefit Payments		
	(1) Eligible for STAR COLA as of April 1, 2018	(2) Not Yet Eligible for STAR COLA as of April 1, 2018	(1) + (2)
1. April 1, 2018 – March 31, 2019	\$525,485	\$0	\$525,485
2. April 1, 2019 – March 31, 2020	483,922	0	483,922
3. April 1, 2020 – March 31, 2021	443,234	0	443,234
4. April 1, 2021 – March 31, 2022	403,998	0	403,998
5. April 1, 2022 – March 31, 2023	366,650	0	366,650
6. April 1, 2023 – March 31, 2024	331,495	0	331,495
7. April 1, 2024 – March 31, 2025	298,721	0	298,721
8. April 1, 2025 – March 31, 2026	268,410	0	268,410
9. April 1, 2026 – March 31, 2027	240,562	0	240,562
10. April 1, 2027 – March 31, 2028	<u>215,113</u>	<u>0</u>	<u>215,113</u>
Total Benefit Payments	<u>\$3,577,590</u>	<u>\$0</u>	<u>\$3,577,590</u>
Discounted Benefit Payments <sup>(1)</sup>	<u>\$2,738,121</u>	<u>\$0</u>	<u>\$2,738,121</u>

<sup>(1)</sup> At 7.00% annual investment return assumption.

**EXHIBIT C – PROJECTED BENEFIT PAYMENTS BY EMPLOYER**

The expected benefit payments for the current STAR COLA recipients from April 1, 2018 to March 31, 2019 broken down by employer, are provided in the following table:

	Orange County	U.C.I. (Bi-weekly)	Sanitation District	Total
April 1, 2018 - March 31, 2019	\$519,954	\$3,018	\$2,513	\$525,485

CALIFORNIA GOVERNMENT CODE

**§7507. Definitions; actuarial impact upon future annual costs prior to authorizing increases in benefits; public meetings; application**

(a) For the purpose of this section:

(1) "Actuary" means an actuary who is an associate or fellow of the Society of Actuaries.

(2) "Future annual costs" includes, but is not limited to, annual dollar changes, or the total dollar changes involved when available, as well as normal cost and any change in accrued liability.

(b) (1) Except as provided in paragraph (2), the Legislature and local legislative bodies, including community college district governing boards, when considering changes in retirement benefits or other postemployment benefits, shall secure the services of an actuary to provide a statement of the actuarial impact upon future annual costs, including normal cost and any additional accrued liability, before authorizing changes in public retirement plan benefits or other postemployment benefits.

(2) The requirements of this subdivision do not apply to:

(A) An annual increase in a premium that does not exceed 3 percent under a contract of insurance.

(B) A change in postemployment benefits, other than pension benefits, mandated by the state or federal government or made by an insurance carrier in connection with the renewal of a contract of insurance.

(c) (1) (A) With regard to local legislative bodies, including community college district governing boards, the future costs of changes in retirement benefits or other postemployment benefits, as determined by the actuary, shall be made public at a public meeting at least two weeks prior to the adoption of any changes in public retirement plan benefits or other postemployment benefits. If the future costs of the changes exceed one-half of 1 percent of the future annual costs, as defined in paragraph (2) of subdivision (a), of the existing benefits for the legislative body, an actuary shall be present to provide information as needed at the public meeting at which the adoption of a benefit change shall be considered. The adoption of any benefit to which this section applies shall not be placed on a consent calendar.

(B) The requirements of this paragraph do not apply to:

(i) An annual increase in a premium that does not exceed 3 percent under a contract of insurance.

(ii) A change in postemployment benefits, other than pension benefits, mandated by the state or federal government or made by an insurance carrier in connection with the renewal of a contract of insurance.

(2) With regard to the Legislature, the future costs as determined by the actuary shall be made public at the policy and fiscal committee hearings to consider the adoption of any changes in public retirement plan benefits or other postemployment benefits. The adoption of any benefit to which this section applies shall not be placed on a consent calendar.

(d) Upon the adoption of any benefit change to which this section applies, the person with the responsibilities of a chief executive officer in an entity providing the benefit, however that person is denominated, shall acknowledge in writing that he or she understands the current and future cost of the benefit as determined by the actuary. For the adoption of benefit changes by the state, this person shall be the Director of Human Resources.

(e) The requirements of this section do not apply to a school district or a county office of education, which shall instead comply with requirements regarding public notice of, and future cost determination for, benefit changes that have been enacted to regulate these entities. These requirements include, but are not limited to, those enacted by Chapter 1213 of the Statutes of 1991 and by Chapter 52 of the Statutes of 2004.

(Added by Stats. 2008, Ch. 371 (SB 1123), Sec. 3)

(Amended by Gov. Reorg. Plan No. 1 of 2011, Sec. 45, effective September 9, 2011, operative July 1, 2012)

(Amended by Stats. 2012, Ch. 665 (SB 1308), Sec. 41)

## STAR COLA STATUTE

§ 31874.3. Increased retirement allowances, optional death allowances, or annual death allowances when cost of living increases specified amount

(a) (1) Whenever the percentage of annual increase in the cost of living as of January 1 of each year as shown by the Bureau of Labor Statistics Consumer Price Index for All Urban Consumers exceeds the maximum benefit increase provided in Section 31870, 31870.1, 31870.2, or 31870.3, whichever is applicable, the board of retirement may provide that all or part of the excess percentage increase shall be applied to the retirement allowances, optional death allowances, or annual death allowances increased in Section 31870, 31870.1, 31870.2, or 31870.3. The board shall determine the amount of the excess to be applied, which amount shall not exceed an amount that can be paid from earnings of the retirement fund that are in excess of the total interest credited to contributions and reserves plus 1 percent of the total assets of the retirement fund.

(2) The supplemental increases in excess of the increases applied to the retirement allowances, optional death allowances, or annual death allowances pursuant to Section 31870, 31870.1, 31870.2, or 31870.3 shall not become a part of the retirement allowances, optional death allowances, or annual death allowances to be increased by subsequent increases under Section 31870, 31870.1, 31870.2, or 31870.3.

(3) This subdivision shall be operative in any county that has elected by a majority vote of the board of supervisors to make either Section 31870, 31870.1, 31870.2, or 31870.3 applicable in that county.

(b) (1) The board of retirement may, instead of taking action pursuant to subdivision (a), provide supplemental cost-of-living increases, effective on a date to be determined by the board, to the retirement allowances, optional death allowances, or annual death allowances increased in Section 31870, 31870.1, 31870.2, or 31870.3; provided however, that only those members shall be eligible for this increase whose accumulations established by Section 31870, 31870.1, 31870.2, or 31870.3 shall equal or exceed 20 percent as of January 1 of the year in which the board of retirement adopts an increase under this subdivision.

(2) The supplemental increases to the retirement allowances, optional death allowances or annual death allowances increased in Section 31870, 31870.1, 31870.2, or 31870.3 shall not become a part of the retirement allowances, optional death allowances or annual death allowances to be increased by subsequent increases under Section 31870, 31870.1, 31870.2, or 31870.3.

(3) This subdivision shall be operative in any county that has elected by a majority vote of the board of supervisors to make either Section 31870, 31870.1, 31870.2, or 31870.3 applicable in that county.

(c) (1) The board of retirement may, instead of taking action pursuant to subdivision (a) or (b), provide supplemental cost-of-living increases, on a prefunded basis and effective on a date to be determined by the board, to the retirement allowances, optional death allowances, or annual death allowances increased in Section 31870, 31870.1, 31870.2, or 31870.3; provided however, only those members shall



be eligible for this increase whose accumulations established by Section 31870, 31870.1, 31870.2, or 31870.3 equal or exceed 20 percent as of January 1 of the year in which the board of retirement takes action pursuant to this subdivision.

(2) The supplemental increases to the retirement allowances, optional death allowances, or annual death allowances increased in Section 31870, 31870.1, 31870.2, or 31870.3 shall become a part of the retirement allowances, optional death allowances, or annual death allowances and shall serve to reduce the accumulations established by Section 31870, 31870.1, 31870.2, or 31870.3, as applicable, by the same percentage as the payment that is made pursuant to this section.

(3) Before the board of retirement provides benefits pursuant to this subdivision, the costs of the benefits shall be determined by a qualified actuary and the board of retirement shall, with the advice of the actuary, provide for the full funding of the benefits utilizing funds in the reserve against deficiencies established pursuant to Section 31592.2, using surplus earnings that exceed 1 percent of the total assets of the retirement system.

(4) This subdivision shall be operative in any county that has elected by a majority vote of the board of supervisors to make either Section 31870, 31870.1, 31870.2, or 31870.3 applicable in that county.

(d) Upon adoption by any county providing benefits pursuant to this section, of Article 5.5 (commencing with Section 31610) of this chapter, the board of retirement shall, instead, pay those benefits from the Supplemental Retiree Benefit Reserve established pursuant to Section 31618.

*Orange County Employees Retirement System  
Retirement Board Meeting  
March 19, 2018  
Application Notices*

<i>Member Name</i>	<i>Agency/Employer</i>	<i>Retirement Date</i>
<b>Abel, John</b>	Fire Authority (OCFA)	1/5/2018
<b>Aldrich, Jim</b>	Fire Authority (OCFA)	11/15/2017
<b>Al-Sunna, Saeb</b>	Assessor	1/5/2018
<b>Anderson, Bernard</b>	Sheriff's Dept	12/31/2017
<b>Aquin, Wendy</b>	Social Services Agency	1/19/2018
<b>Armstrong, Sussan</b>	Social Services Agency	1/5/2018
<b>Avila, Colleen</b>	Treasurer-Tax Collector	1/19/2018
<b>Barnes, Donna</b>	OC Public Works	1/5/2018
<b>Barr, Matthew</b>	Sheriff's Dept	1/5/2018
<b>Bloss, Elisabeth</b>	Probation	12/29/2017
<b>Bolander, Sherry</b>	OCTA	1/6/2018
<b>Bramlette, Cliff</b>	Fire Authority (OCFA)	12/26/2017
<b>Brock, William</b>	Fire Authority (OCFA)	12/8/2017
<b>Brown, Kurt</b>	Social Services Agency	1/19/2018
<b>Bruner, Teresa</b>	Human Resources (CEO)	1/5/2018
<b>Chacon, Roland</b>	Sheriff's Dept	1/19/2018
<b>Chen, Margaret</b>	Superior Court	1/1/2018
<b>Collins, James</b>	Sheriff's Dept	1/5/2018
<b>Collins, Lynn</b>	County Executive Office (CEO)	1/5/2018
<b>Dickman, Jeffrey</b>	OC Public Works	1/5/2018
<b>Dominquez, Lupe</b>	Social Services Agency	12/29/2017
<b>Douveas, George</b>	Public Defender	12/29/2017
<b>Farhat, Majid</b>	OC Public Works	12/28/2017
<b>Fernandez, Nancy</b>	Health Care Agency	1/5/2018
<b>Figueroa, Rudy</b>	OC Community Resources	1/5/2018
<b>Fujimura, Kenneth</b>	OCTA	12/29/2017
<b>Gabalton, Sergio</b>	Treasurer-Tax Collector	1/19/2018
<b>Gafner, Eric</b>	Fire Authority (OCFA)	12/22/2017
<b>Garcia, Larry</b>	Fire Authority (OCFA)	12/26/2017
<b>Godinez, Javier</b>	District Attorney	1/20/2018
<b>Gomez, John</b>	Sheriff's Dept	1/5/2018
<b>Gomez, Mary Helen</b>	In Home Support Services	12/18/2017
<b>Goswami, Bondona</b>	Sheriff's Dept	1/5/2018
<b>Guerrero, Yolanda</b>	Social Services Agency	1/5/2018
<b>Halbur, Shirley</b>	Health Care Agency	1/19/2018
<b>Harness, Steven</b>	Assessor	1/19/2018
<b>Harper, Charles</b>	OCTA	12/26/2017
<b>Harrison, Edward</b>	Probation	1/19/2018
<b>Harsadi, Otto</b>	Sheriff's Dept	1/5/2018
<b>Holbrook, Rozanne</b>	OC Public Works	1/18/2018
<b>Iravani, Shokouh</b>	OC Community Resources	1/5/2018
<b>James, Lillian</b>	Child Support Services	9/29/2017
<b>Jindrich, Jennifer</b>	Social Services Agency	1/19/2018
<b>Kan, Francis</b>	Superior Court	1/19/2018
<b>Kimball, Deborah</b>	OC Vector Control District	12/29/2017
<b>Ko, Soling</b>	Superior Court	1/19/2018
<b>Laird, Sharon</b>	Social Services Agency	1/5/2018
<b>Laurent, Patricia</b>	Social Services Agency	1/5/2018
<b>Leverenz, William</b>	Fire Authority (OCFA)	12/31/2017

<i>Member Name</i>	<i>Agency/Employer</i>	<i>Retirement Date</i>
<b>Locati, Diedre</b>	Fire Authority (OCFA)	12/30/2017
<b>Manning, Jeffrey</b>	Sheriff's Dept	1/19/2018
<b>Marquez, Monica</b>	County Executive Office (CEO)	1/5/2018
<b>Mcdaniel, Karen</b>	Sheriff's Dept	1/18/2018
<b>Mclain, Jeffrey</b>	Sheriff's Dept	1/18/2018
<b>Ngo, Karen</b>	Social Services Agency	1/19/2018
<b>Nquyen, Ban</b>	Registrar Of Voters	1/5/2018
<b>Nweke, Debra</b>	County Clerk/Recorder	1/5/2018
<b>Padron, Maria</b>	Social Services Agency	1/19/2018
<b>Palacios, Patricia</b>	Health Care Agency	1/19/2018
<b>Palomo, Mary</b>	Public Defender	1/5/2018
<b>Pardi, Stephen</b>	Fire Authority (OCFA)	1/5/2018
<b>Parsel, Lori</b>	OCTA	1/6/2018
<b>Patarello, Denise</b>	Health Care Agency	1/19/2018
<b>Pereira, Albert</b>	OC Community Resources	1/10/2018
<b>Perry, Julie</b>	Auditor-Controller	1/5/2018
<b>Riddle, Mary</b>	Social Services Agency	1/3/2018
<b>Rincon, Claudio</b>	OC Vector Control District	12/29/2017
<b>Rivera, George</b>	Sanitation District	1/19/2018
<b>Roldan, Doreen</b>	District Attorney	1/5/2018
<b>Ruvalcaba, Ricardo</b>	OC Public Works	1/17/2018
<b>Sanders, Christine</b>	District Attorney	1/19/2018
<b>Scott, Bruce</b>	Health Care Agency	1/19/2018
<b>Soltis, Madonna</b>	OC Community Resources	1/5/2018
<b>Stein, Michael</b>	County Executive Office (CEO)	1/19/2018
<b>Swe, Carol</b>	Auditor-Controller	1/19/2018
<b>Taylor, Charles</b>	Health Care Agency	12/31/2017
<b>Taylor, Nancy</b>	Social Services Agency	12/30/2017
<b>Veach, Thomas</b>	Sheriff's Dept	1/16/2018
<b>Viafora, John</b>	OC Community Resources	1/19/2018
<b>Viriyasom, Chatchai</b>	OCTA	1/4/2018
<b>Vu, Chiu</b>	Health Care Agency	1/5/2018
<b>Yambao, Pedro</b>	Sheriff's Dept	1/5/2018
<b>Yan, Leonila</b>	Child Support Services	1/2/2018
<b>Yanez, Nelida</b>	Child Support Services	1/5/2018
<b>Zentgraf, Maureen</b>	OC Community Resources	1/5/2018

*Orange County Employees Retirement  
Retirement Board Meeting  
March 19, 2018  
Death Notices*

<i>Active Members</i>	<i>Agency/Employer</i>
<b>Beyl, Matthew</b>	John Wayne Airport
<b>Hitt, Maria Cristina</b>	Public Defender
<b>Miller, Douglas</b>	Probation

<i>Retired Members</i>	<i>Agency/Employer</i>
<b>Balcazar, Juan</b>	OC Community Resources
<b>Boyd, Ruth</b>	Sheriff's Dept
<b>Chow, Maurine</b>	Sheriff's Dept
<b>Cloutier, Marguerite</b>	Health Care Agency
<b>De Vries, Walter</b>	County Executive Office (CEO)
<b>Edwards, Alan</b>	Health Care Agency
<b>Foster, Albertina</b>	Superior Court
<b>McDonald, Joan</b>	Health Care Agency
<b>Mitchell, Judith</b>	Social Services Agency
<b>Mitzel, Ramona</b>	Cemetery District
<b>Nute, Constance</b>	UCI
<b>Pavlik, John</b>	OC Public Works
<b>Scott, Anne</b>	Superior Court
<b>Strachan, Gail</b>	Probation
<b>Sulatycki, Jane</b>	OC Community Resources
<b>Sundquist, Hazel</b>	Assessor
<b>Terry, Valerie</b>	Health Care Agency
<b>Vail, Carol</b>	Health Care Agency
<b>Wellman, John</b>	OC Public Works

<i>Surviving Spouses</i>	
<b>Gandall, Roselyne</b>	
<b>Nesbitt, Patricia Joan</b>	
<b>Wilkerson, Janice</b>	

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## Memorandum

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DATE: March 2, 2018  
TO: Members of the Board of Retirement  
FROM: Steve Delaney, Chief Executive Officer  
SUBJECT: **CEO FUTURE AGENDAS AND 2018 OCERS BOARD WORK PLAN**

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### Written Report

#### AGENDA TOPICS FOR THE OCERS BOARD OF RETIREMENT

##### APRIL

Annual Brown Act Training  
SACRS Board of Directors Election

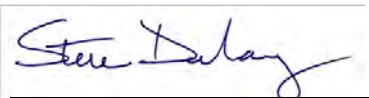
##### MAY

Preliminary December 31, 2017 Valuation  
Quarterly Securities Litigation Update

##### JUNE

Strategic Planning Workshop – Proposed Agenda  
December 31, 2017 Actuarial Valuation / Employee Contribution Rates for Fiscal Year 2019-2020  
OCERS 2018 Business Plan and 2018-2020 Strategic Plan: Mid-year Review  
2017 CAFR  
2017 Independent Financial Audit Report

### Submitted by:



Steve Delaney  
Chief Executive Officer

**OCERS RETIREMENT BOARD - 2018 Work Plan**

	Jan	Feb	Mar	Apr	Jun	Jul	Aug	Sep (Offsite)	Oct	Nov	Dec
<b>System Oversight</b>		STAR COLA Posting (I)	Approve 2018 STAR COLA (A)		Mid-Year Review of 2018 Business Plan Progress (I)	Approve Early Payment Rates for Fiscal Year 2018-19 (A)	Review 2nd Quarter Budget to Actuals Financial Report (I)	Strategic Planning Workshop (I)	Overview of 2019 Administrative Budget and Investment (Workshop) (I)	Review 3rd Quarter Budget to Actuals Financial Report (I)	CEO Compensation (A)
		Approve 2018 COLA (A)	Quarterly 2018-2020 Strategic Plan Review (A)		Approve December 31, 2017 Actuarial Valuation & Funded Status of OCERS (A)		Receive OCERS by the Numbers (I)		Approve 2019-2021 Strategic Plan (A)	Approve 2019 Administrative (Operating) Budget (A)	
					Approve 2017 CAFR (A)		Receive Evolution of the UAAL (I)		Approve 2019 Business Plan (A)	Annual CEO Performance Review (A)	
					Quarterly 2018-2020 Strategic Plan Review (A)						
<b>Board Governance</b>				Brown Act Training (I)						Adopt 2019 Board Meeting Calendar (A)	Adopt Annual Work Plan for 2019 (A)
				Conflict of Interest Training (I)							Vice-Chair Election (A)
<b>Regulation / Policies</b>											
<b>Compliance</b>			State of OCERS (A)	Form 700 and OCERS Annual Disclosure Due (A)	Receive Financial Audit (I)					Status of Board Education Hours for 2018 (I)	

(A) = Action (I) = Information

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## Memorandum

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**DATE:** March 5, 2018  
**TO:** Members of the Board of Retirement  
**FROM:** Steve Delaney, Chief Executive Officer  
**SUBJECT:** QUIET PERIOD – NON-INVESTMENT CONTRACTS

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### Written Report

#### Background/Discussion

##### 1. Quiet Period Policy Guidelines – Named Service Providers

The following guidelines established by the Quiet Period Policy, section 3.c, will govern a search process for Named Service Providers:

*“All Board and Investment Committee Members, and staff not directly involved in the search process, shall refrain from communicating with Service Provider candidates regarding any product or service related to the search offered by the candidate throughout the quiet period,...”*

##### 2. Quiet Period Guidelines – Non-Named Service Providers

There are no policy guidelines regarding a quiet period for non-Named Service Providers. However, the following language is included in all distributed RFP’s:

*“From the date of issuance of this RFP until the selection of one or more respondents is completed and announced, respondents are not permitted to communicate with any OCERS staff member or Board Members regarding this procurement, except through the Point of Contact named herein. Respondents violating the communications prohibition may be disqualified at OCERS’ discretion. Respondents having current business with OCERS must limit their communications to the subject of such business.”*

#### Distributed RFP’s

The RFP’s noted below are subject to the quiet period until such time as a contract(s) is finalized.

- II-Liquid Investment Advisor RFP was distributed October 2<sup>nd</sup>. Bids received October 31<sup>st</sup>. The finalists presented their proposals February 20<sup>th</sup>. Going forward with a contract with Townsend Group for Real Estate services and Torrey Cove for Private Equity Private Real Asset services.
- An RFP for Employment Counsel Services was distributed January 4<sup>th</sup>, 2018. Currently evaluating finalists.
- Distributed an RFP for Website redesign, development, implementation, and hosting services on January 16<sup>th</sup>. We received five proposals. The proposals are currently being evaluated.
- We are planning to distribute an RFP for Investment Counsel Services in March.



## Memorandum

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**Submitted by:**

A handwritten signature in blue ink that reads "Steve Delaney". The signature is written in a cursive style and is positioned above a solid horizontal line.

Steve Delaney  
Chief Executive Officer

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## Memorandum

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DATE: March 8, 2018  
TO: Members of the Board of Retirement  
FROM: Steve Delaney, Chief Executive Officer  
SUBJECT: **FIRST QUARTER REVIEW OF 2018-2020 OCERS STRATEGIC PLAN**

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### Written Report

### Background/Discussion

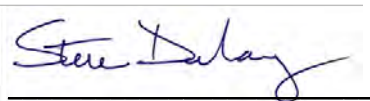
OCERS 2018-2020 Strategic Plan is reviewed by the Board and Trustees on a quarterly basis to provide for any necessary modifications.

Attached is OCERS 2018 Business Plan, providing details as to staff projects presently underway in support of the Strategic Plan goals.

Staff is not presently recommending any adjustments or modifications to either the Business Plan or Strategic Plan.

Per Board policy direction, I will provide a mid-year update detailing 2018 Business Plan activities in June 2018.

### Submitted by:



Steve Delaney  
Chief Executive Officer

Orange County Employees Retirement System  
2223 East Wellington Avenue | Santa Ana | 92701

# 2018-2020 STRATEGIC PLAN

# MISSION, VISION AND VALUES

## **MISSION STATEMENT:**

We provide secure retirement and disability benefits with the highest standards of excellence.

## **VISION STATEMENT:**

To be a trusted partner providing premier pension administration, distinguished by consistent, quality member experiences and prudent financial stewardship.

## **VALUES:**

- **O**pen and Transparent
- **C**ommitment to Superior Service
- **E**ngaged and Dedicated Workforce
- **R**eliable and Accurate
- **S**ecure and Sustainable

# 2018-2020 STRATEGIC GOALS

- Fund Sustainability
- Excellent Service and Support
- Risk Management
- Talent Management

# FUND SUSTAINABILITY

## STRENGTHEN THE LONG-TERM STABILITY OF THE PENSION FUND

**Objective:** Mitigate the Risk of Significant Investment Loss

**Objective:** Develop an Integrated View of Pension Assets and Liabilities

**Objective:** Employ a Governance Structure that Supports a Dynamic Investment Program

**Objective:** Prudent Use of Resources



# EXCELLENT SERVICE AND SUPPORT

**ACHIEVE EXCELLENCE IN THE SERVICE AND SUPPORT WE PROVIDE TO OUR MEMBERS AND PLAN SPONSORS**

**Objective:** Provide Accurate and Timely Benefits

**Objective:** Provide Education to our Members and Plan Sponsors

# RISK MANAGEMENT

## CULTIVATE A RISK-INTELLIGENT ORGANIZATION

**Objective:** Provide System and Data Security and a Robust Business Continuity Solution

**Objective:** Implement an Operational Risk Management Program

**Objective:** Ensure a Safe and Secure Workplace and Public Service Facility

# TALENT MANAGEMENT

## RECRUIT, RETAIN AND INSPIRE A HIGH-PERFORMING WORKFORCE

**Objective:** Recruit and Retain a High-Performing Workforce to Meet Organizational Priorities

**Objective:** Develop and Empower Every Member of the Team

**Objective:** Cultivate a Collaborative, Inclusive and Creative Culture

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
[www.ocers.org](http://www.ocers.org)

Orange County Employees Retirement System  
2223 East Wellington Avenue | Santa Ana | 92701

# 2018 BUSINESS PLAN



# MISSION, VISION AND VALUES

## **MISSION STATEMENT:**

We provide secure retirement and disability benefits with the highest standards of excellence.

## **VISION STATEMENT:**

To be a trusted partner providing premier pension administration, distinguished by consistent, quality member experiences and prudent financial stewardship.

## **VALUES:**

- **O**pen and Transparent
- **C**ommitment to Superior Service
- **E**ngaged and Dedicated Workforce
- **R**eliable and Accurate
- **S**ecure and Sustainable

# 2018-2020 STRATEGIC GOALS

- Fund Sustainability
- Excellent Service and Support
- Risk Management
- Talent Management

# FUND SUSTAINABILITY

## GOAL: STRENGTHEN THE LONG-TERM STABILITY OF THE PENSION FUND

### *Business Plan Initiatives*

Objective: Mitigate the Risk of Significant Investment Loss  
*Executive Lead – Molly Murphy*

1. Fund the Risk Mitigating asset class
2. Explore and evaluate investment/risk management systems

Objective: Develop an Integrated View of Pension Assets and Liabilities  
*Executive Leads – Molly Murphy; Gina Ratto*

1. Update the asset liability study
2. Develop procedure for new employers entering the system

Objective: Employ a Governance Structure that Supports a Dynamic Investment Program  
*Executive Lead – Molly Murphy*

1. Evaluate governance best practices (year one)

Objective: Prudent Use of Resources  
*Executive Leads – Molly Murphy; Brenda Shott*

1. Using CEM Benchmarking, evaluate the cost and efficiency of OCERS' plan administration
2. Increase transparency of investment management fees and investigate actionable items to reduce fees in the future
3. Study and enhance private equity capabilities and activities



# EXCELLENT SERVICE AND SUPPORT

**GOAL: ACHIEVE EXCELLENCE IN THE SERVICE AND SUPPORT WE PROVIDE TO OUR MEMBERS AND PLAN SPONSORS**

## *Business Plan Initiatives*

Objective: Provide Accurate and Timely Benefits  
*Executive Leads – Suzanne Jenike; Gina Ratto*

1. Develop and communicate OCERS Administrative Procedures
2. Streamline the disability determination and appeals processes
3. Streamline the benefit appeals process
4. Update and create desk manuals and procedures
5. Improve customer service standards
6. Perform a comprehensive review of all employer pay items to determine pensionable attributes

Objective: Provide Education to our Members and Plan Sponsors  
*Executive Lead – Suzanne Jenike*

1. Web site redesign (year two)
2. Circular letters to employers
3. Roll out updated Summary Plan Descriptions

# RISK MANAGEMENT

## **GOAL: CULTIVATE A RISK-INTELLIGENT ORGANIZATION**

### ***Business Plan Initiatives***

Objective: Provide System and Data Security and a Robust Business Continuity Solution  
*Executive Lead – Jenny Sadoski*

1. Implement tools to mitigate the risk of data or financial loss or information disclosure
2. Develop and implement formalized IT governance framework
3. Enhance crisis and security management program

Objective: Implement Operational Risk Management Program  
*Executive Lead – Brenda Shott*

1. Define the scope of the Operational Risk Management Program and implement an operational risk management process
2. Determine if a risk management system is needed

Objective: Ensure a Safe and Secure Workplace and Public Service Facility  
*Executive Lead – Brenda Shott*

1. Evaluate building security and access system and upgrade if necessary
2. Improve employee resources and training
3. Evaluate functionality of the agency's existing work space
4. Plan and implement facility upgrades and space management projects

# TALENT MANAGEMENT

## **GOAL: RECRUIT, RETAIN AND INSPIRE A HIGH-PERFORMING WORKFORCE**

### *Business Plan Initiatives*

Objective: Recruit and Retain a High-Performing Workforce to Meet Organizational Priorities

*Executive Lead – Cynthia Hockless*

1. Enhance onboarding and transitioning of new hires into the organization
2. Implement recommendations from workforce analysis
3. Develop a comprehensive and competitive compensation package

Objective: Develop and Empower Every Member of the Team

*Executive Lead – Steve Delaney*

1. Implement a comprehensive training program covering OCERS policies, processes and procedures
2. Recognize individual needs and career goals within OCERS
3. Create or update executive management charters
4. Create succession plans across the agency

Objective: Cultivate a Collaborative, Inclusive and Creative Culture

*Executive Lead – Steve Delaney*

1. Launch cultural celebration initiative

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
[www.ocers.org](http://www.ocers.org)

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## Memorandum

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**DATE:** March 19, 2018  
**TO:** Members of the Board of Retirement  
**FROM:** Gina M. Ratto, General Counsel  
**SUBJECT:** LEGISLATIVE UPDATE

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### Written Report

#### Background/Discussion

The California Legislature reconvened on January 3, 2018 to commence the second year of the 2017 - 2018 legislative session. The last day for bills to be introduced was February 16, 2018. The 2018 Legislative Calendar is attached for the Board's information.

A comprehensive list and description of the pending bills that staff is monitoring is attached. Below is a brief summary of the bills that may be of greater interest to the Board. **Bills introduced in the second year of the 2017 – 2018 session and updates to bills that were on the Governor's desk for signature as of the October 16, 2017 report to the Board are indicated in underlined text.**

#### SACRS Support Bills

- **AB 2085 (Cooley)** The County Employees Retirement Law of 1937 (CERL) authorizes counties and districts to establish retirement systems in order to provide pension benefits to their employees and beneficiaries. Existing law requires, after a member's death, any retirement allowance earned but not yet paid to the member to be paid to the member's designated beneficiary, and authorizes the surviving spouse of a member who did not designate a beneficiary prior to death to file an election with the board, to be deemed the beneficiary. This bill would define surviving spouse, for purposes of CERL, as a person legally married to the member, who is neither divorced nor legally separated at the time of the member's death and who meets other relevant requirements, as specified. (STATUS: Introduced February 7, 2018. In Committee.)

#### Bills That Would Amend the CERL or Other Laws That Apply to OCERS

- **AB 283 (Cooper)** would amend the CERL to require, for purposes of determining permanent incapacity of certain peace officers, that those members be evaluated by the existing procedure established by the retirement system to determine if they can perform all of the usual and customary duties of a peace officer. **(STATUS: In Committee.)**
- **AB 2076 (Rodriguez)** The CERL authorizes the Los Angeles County Employees Retirement Association (LACERA) to adjust retirement payments due to errors or omissions, as specified, permits a member

permanently incapacitated for duty to retire for disability only if specified criteria are met, and requires the LACERA board to determine the date of retirement in those cases, as specified. This bill would authorize LACERA to correct a prior board decision determining the date of retirement for a member permanently incapacitated for disability that was made between January 1, 2013, and December 31, 2015, and was based upon an error of law existing at the time of the decision, as specified. The bill would authorize a member seeking correction under these provisions to file an application with the board no later than one year from the date these provision, become operative. (STATUS: Introduced February 7, 2018. In Committee.)

- **SB 1031 (Moorlach)** Existing law, including the CERL, authorizes the application of cost-of-living adjustments to allowances paid to persons retired under, or survivors or beneficiaries of persons retired under, various public retirement systems. The California Public Employees' Pension Reform Act of 2013 (PEPRA), on and after January 1, 2013, requires a public retirement system, as defined, to modify its plan or plans to comply with the act and, for its purposes, defines pensionable compensation, establishes limits on benefits, and requires the sharing of normal costs between members and employers for the pension systems to which it applies.

This bill would prohibit a public retirement system, including OCERS, from making a cost-of-living adjustment to any allowance payable to, or on behalf of, a person retired under the system, or to any survivor or beneficiary of a member or person retired under the system, for any year beginning on or after January 1, 2019, in which the unfunded actuarial liability of that system is greater than 20%. This bill would require that the determination of unfunded actuarial liability be based on a specified financial report and would apply the prohibition on cost-of-living adjustments, if any, to the calendar year following the fiscal year upon which the report is based. (STATUS: Introduced February 8, 2018. In Committee.)

- **SB 1270 (Vidak)** The CERL authorizes the retirement boards of five specified counties to appoint assistant administrators and chief investment officers who, following appointment, are outside county charter, civil service, and merit system rules, except as specified. The CERL provides that these administrators and officers are employees of the county, as specified, while serving at the pleasure of the appointing boards, and that they may be dismissed without cause. This bill would apply these provisions to any county if the board of supervisors for that county, by resolution adopted by majority vote, makes those provisions applicable in the county. (STATUS: Introduced February 16, 2018. In Committee.)

#### Other Bills of Interest

- **AB 530 (Cooper)** would expand the jurisdiction of the Public Employment Relations Board to include resolving disputes and statutory duties and rights of persons who are peace officers, as defined. (STATUS: Vetoed by Governor.)

- **AB 1479 (Bonta)** would require state and local agencies to designate a person or office to act as the agency's custodian of records who is responsible for responding to any request made pursuant to the California Public Records Act (CPRA) and any inquiry from the public about a decision by the agency to deny a request for records. It would also authorize a court to assess a civil penalty against the agency in an amount not less than \$1,000, no more than \$5,000, for violations of the CPRA. **(STATUS: Vetoed by Governor.)**
- **AB 2571 (Fletcher)** The California Constitution grants the retirement board of a public employee retirement system plenary authority and fiduciary responsibility for investment of moneys and administration of the retirement fund and system. The California Constitution qualifies this grant of powers by reserving to the Legislature the authority to prohibit investments if it is in the public interest and the prohibition satisfies standards of fiduciary care and loyalty required of a retirement board.

This bill, if consistent with fiduciary responsibilities of a public investment fund as determined by its board, would restrict new, additional, or renewed investments by a public investment fund to an alternative investment vehicle where, if the investment vehicle is managed by an investment manager, the investment manager has adopted and committed to comply with a race and gender pay equity policy consistent with requirements established in the bill. The bill would require an investment manager, beginning September 1, 2019, to submit at least once annually to the public investment fund a certified report regarding compliance. Because a certified report would be required to be verified under penalty of perjury, this bill would expand the crime of perjury, thereby imposing a state-mandated local program. The bill would require each contractually enforceable instrument for additional or new investments or renewal of existing investments with an investment manager to require that the investment manager take prescribed actions consistent with the bill as a material term of the instrument. The bill would require a public investment fund to disclose pay equity reporting information provided to it pursuant to the bill at least once annually to the State Auditor and in a report presented at a meeting open to the public. The bill would define terms for its purposes. This bill contains other related provisions and other existing laws. (STATUS: **Introduced February 15, 2018.**)

- **AB 3084 (Levine)** Existing law requires all state and local public retirement systems to submit audited financial statements to the State Controller at the earliest practicable opportunity within 6 months of the close of each fiscal year. Existing law requires the Controller to review these reports and to publish an annual report on the financial condition of all state and local public retirement systems, as specified. This bill would require each state and local public retirement system to, in its annual audited financial statements submitted to the Controller, in a form prescribed by the Controller, show that the retirement system has met or if it has not met, detail why it has not met, and what the retirement system is doing to meet, specified parameters related to the provision of other postemployment benefits, including (a) Making targeted prefunding contributions on a timely basis; (b) Depositing contributions in an irrevocable qualified trust for the exclusive benefit of plan members; (c) Investing contributions in excess of any pay-as-you-go amounts in a diversified investment portfolio with a defined investment policy; and (d) Ensuring that the discounted rate used to develop the actuarial account liability and



normal cost recognizes the expected return of the entire portfolio. **(STATUS: Introduced February 16, 2018.)**

- **AB 3150 (Brough)** Existing law requires each state and local public pension or retirement system, on and after the 90th day following the completion of the annual audit of the system, to provide a concise annual report on the investments and earnings of the system, as specified, to any member who makes a request and pays a fee, if required, for the costs incurred in preparation and dissemination of that report. This bill would also require each state and local pension or retirement system to post a concise annual audit of the information described above on that system's Internet Web site no later than the 90th day following the audit's completion. By imposing new duties on local retirement systems, the bill would impose a state-mandated local program. **(STATUS: Introduced February 16, 2018.)**
- **SB 302 (Mendoza)** Existing law requires property tax revenues of the County of Orange that are allocated by that county to a joint powers authority formed for the purpose of providing fire protection to be used by that authority for fire protection purposes, as defined. Existing law authorizes a local agency to transfer any portion of its property tax revenues that is allocable to one or more tax rate areas within the local agency to one or more other local agencies that have the same tax rate areas, as specified, subject to specified conditions, including that the transfer will not impair the ability of the transferring agency to provide existing services. This bill would additionally require, with regard to transfers of structural fire fund property tax revenues allocated by the County of Orange to a joint powers agency and required by existing law to be used to provide fire protection, that the transfer be approved by the county, a majority of member cities, and the agency currently receiving the funds. **(STATUS: Signed by Governor.)**

#### **Bills that apply to CalPERS and/or CalSTRS Only:**

- **SB 1032 (Moorlach)** The Public Employees' Retirement Law (PERL) authorizes any public agency to participate in and make all or part of its employees members of CalPERS by contract, and authorizes a contracting agency to terminate its contract if the contract has been in effect for at least 5 years. Under existing law, the CalPERS board is required to hold the accumulated contributions from a terminated contract in a terminated agency pool, as specified, for the benefit of the members. Existing law requires the terminating contracting agency to contribute to the terminated agency pool the difference between the accumulated contributions and the board's pension liability for the contracting agency's members, as provided. This bill would authorize a contracting agency to terminate its contract with the CalPERS board at the agency's will and would not require the contracting agency to fully fund the pension liability upon termination of the contract. The bill would authorize the CalPERS board to reduce the member's benefits in the terminated agency pool by the percentage of liability unfunded. The bill would also authorize a contracting agency who terminates its contract with the CalPERS board to transfer the assets accumulated in the system to a pension provider designated by the contracting agency. **(STATUS: Introduced February 8, 2018. In Committee.)**

- SB 1033 (Moorlach)** The PERL authorizes retirement systems to enter into agreements to provide certain reciprocal benefits to employees that are employed by other agencies that are parties to the agreement if the employees meet specified requirements, a practice commonly referred to as reciprocity. Reciprocity provides for the application of the final compensation paid by a subsequent employer to service provided to a prior employer. The PERL provides that a public agency that has agreed to reciprocity with CalPERS also has reciprocity with all other agencies that have entered into those agreements with CalPERS, among others. The PERL requires the CalPERS Board to ensure that a contracting agency that creates a significant increase in actuarial liability as a result of increased compensation paid to a nonrepresented employee bears the associated liability, except as specified, including a portion that would otherwise be borne by another contracting agency. The PERL requires the system actuary to assess an increase in liability, in this regard, to the employer that created it at the time the increase is determined and to make adjustments to that employer's contribution rates to account for the increased liability. This bill would require that an agency participating in CalPERS that increases the compensation of a member who was previously employed by a different agency to bear all actuarial liability for the action, if it results in an increased actuarial liability beyond what would have been reasonably expected for the member. The bill would require, in this context, that the increased actuarial liability be in addition to reasonable compensation growth that is anticipated for a member who works for an employer or multiple employers over an extended time. The bill would require, if multiple employers cause increased liability, that the liability be apportioned equitably among them. The bill would apply to an increase in actuarial liability, as specified, due to increased compensation paid to an employee on and after January 1, 2019. (STATUS: Introduced February 8, 2018. In Committee.)
- SB 1149 (Glazer)** PEPRA generally requires a public retirement system, as defined, to modify its plan or plans to comply with the act, and authorizes a public employer to provide a contribution to a defined contribution plan for compensation in excess of certain federal compensation limits applicable to qualified pension trusts, if the plan and contribution meet the requirements set forth in federal law. PEPRA prohibits any of those employer contributions to an employee defined contribution plan from exceeding the employer's contribution rate, as a percentage of pay, required to fund the defined benefit plan. Existing law establishes an alternate retirement program and provides that certain state employees, as defined, who become new members of CalPERS during their first 24 months of employment, do not make contributions to CalPERS or receive service credit for their service. Under existing law, these members are instead required to contribute either 5% or 6% of their monthly compensation, as specified, to the alternate retirement program.

This bill would create a new optional defined contribution plan for new state employees who are eligible to become members of CalPERS and who choose not to make contributions into the defined benefit program under the PERL. The bill would require state employees who opt to participate in this alternate system to contribute the same percent of compensation as similarly situated employees who contribute to the defined pension program, subject to applicable limits of federal law. The bill would authorize an employee in the defined contribution program, after 5 years, to have the right to continue in the program or switch to the defined benefit plan, subject to certain terms and conditions. The bill would

require the Department of Human Resources to administer the defined contribution retirement program established by the bill. (STATUS: Introduced February 14, 2018. In Committee.)

#### **Divestment Proposals (CalPERS and CalSTRS Only)**

- **AB 20 (Kalra)** This bill would require the boards of administration of the Public Employees' Retirement System and the State Teachers' Retirement System to make a specified report, on or before April 1, 2018, to the Legislature and the Governor regarding investments in the Dakota Access Pipeline, as defined. The bill would declare the intent of the Legislature that the boards, on or before April 1, 2018, review and consider factors related to tribal sovereignty and indigenous tribal rights as part of the boards' investment policies related to environmental, social, and governance issues. The bill would provide that it does not require a board to take any action unless the board determines in good faith that the action is consistent with the board's fiduciary responsibilities established in the constitution. **(STATUS: Signed by Governor.)**
- **AB 1597 (Nazarian)** This bill would prohibit new investments and require liquidation of existing investments of CalPERS and CalSTRS in investment vehicles issued, owned, controlled or managed by the government of Turkey. **(STATUS: In Committee.)**

Attachments

#### **Submitted by:**



Gina M. Ratto  
General Counsel

**2018 TENTATIVE LEGISLATIVE CALENDAR**  
 COMPILED BY THE OFFICE OF THE SECRETARY OF THE SENATE  
 Revised 11/16/16

**DEADLINES**

JANUARY						
S	M	T	W	TH	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

- Jan. 1** Statutes take effect (Art. IV, Sec. 8(c)).
- Jan. 3** **Legislature Reconvenes** (J.R. 51(a)(4)).
- Jan. 10** Budget must be submitted by Governor (Art. IV, Sec. 12(a)).
- Jan. 12** Last day for **policy committees** to hear and report to **fiscal committees** fiscal bills introduced in their house in the **odd-numbered year** (J.R. 61(b)(1)).
- Jan. 15** Martin Luther King, Jr. Day.
- Jan. 19** Last day for any committee to hear and report to the **floor** bills introduced in that house in the odd-numbered year (J.R. 61(b)(2)). Last day to **submit bill requests** to the Office of Legislative Counsel.
- Jan. 31** Last day for each house to **pass bills introduced** in that house in the odd-numbered year (J.R. 61(b)(3), (Art. IV, Sec. 10(c)).

FEBRUARY						
S	M	T	W	TH	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28			

- Feb. 16** Last day for bills to be **introduced** (J.R. 61(b)(4), (J.R. 54(a)).
- Feb. 19** Presidents' Day.

MARCH						
S	M	T	W	TH	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

- Mar. 22** **Spring Recess** begins upon adjournment of this day's session (J.R. 51(b)(1)).
- Mar. 30** Cesar Chavez Day observed.

APRIL						
S	M	T	W	TH	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

- Apr. 2** **Legislature Reconvenes** from Spring Recess (J.R. 51(b)(1)).
- Apr. 27** Last day for **policy committees** to hear and report to **fiscal committees** fiscal bills introduced in their house (J.R. 61(b)(5)).

MAY						
S	M	T	W	TH	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

- May 11** Last day for **policy committees** to hear and report to the floor **nonfiscal** bills introduced in their house (J.R. 61(b)(6)).
- May 18** Last day for **policy committees** to meet prior to June 4 (J.R. 61(b)(7)).
- May 25** Last day for **fiscal committees** to hear and report to the floor bills introduced in their house (J.R. 61(b)(8)). Last day for **fiscal committees** to meet prior to June 4 (J.R. 61(b)(9)).
- May 28** Memorial Day.
- May 29- June 1 Floor Session only.** No committees, other than conference or Rules committees, may meet for any purpose (J.R. 61 (b)(10)).

\*Holiday schedule subject to Senate Rules committee approval

**2018 TENTATIVE LEGISLATIVE CALENDAR**  
 COMPILED BY THE OFFICE OF THE SECRETARY OF THE SENATE  
 Revised 11/16/16

JUNE						
S	M	T	W	TH	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

- June 1** Last day for each **house to pass bills** introduced in that house (J.R. 61(b)(11)).
- June 4** Committee meetings may resume (J.R. 61(b)(12)).
- June 15** Budget Bill must be passed by **midnight** (Art. IV, Sec. 12(c)(3)).
- June 28** Last day for a legislative measure to qualify for the Nov. 6 General Election ballot (Elections code Sec. 9040).
- June 29** Last day for **policy committees** to hear and report **fiscal bills** to fiscal committees (J.R. 61(b)(13)).

JULY						
S	M	T	W	TH	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

- July 4** Independence Day.
- July 6** Last day for **policy committees** to meet and report bills (J.R. 61(b)(14)). **Summer Recess** begins upon adjournment provided Budget Bill has been passed (J.R. 51(b)(2)).

AUGUST						
S	M	T	W	TH	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

- Aug. 6** **Legislature Reconvenes** (J.R. 51(b)(2)).
- Aug. 17** Last day for **fiscal committees** to meet and report bills (J.R. 61(b)(15)).
- Aug. 20-31** **Floor Session only.** No committees, other than Conference and Rules Committees, may meet for any purpose (J.R. 61(b)(16)).
- Aug. 24** Last day to **amend** on the floor (J.R. 61(b)(17)).
- Aug. 31** Last day for **each house to pass bills**, except bills that take effect immediately or bills in Extraordinary Session (Art. IV, Sec. 10(c), (J.R. 61(b)(18)). **Final Recess** begins upon adjournment (J.R. 51(b)(3)).

\*Holiday schedule subject to Senate Rules committee approval

**IMPORTANT DATES OCCURRING DURING INTERIM STUDY RECESS**

**2018**

- Sept. 30 Last day for Governor to sign or veto bills passed by the Legislature before Sept. 1 and in the Governor's possession on or after Sept. 1 (Art. IV, Sec. 10(b)(2)).
- Nov. 6 General Election
- Nov. 30 Adjournment *Sine Die* at midnight (Art. IV, Sec. 3(a)).
- Dec. 3 12 Noon convening of the 2019-20 Regular Session (Art. IV, Sec. 3(a)).

**2019**

- Jan. 1 Statutes take effect (Art. IV, Sec. 8(c)).



**2017—2018 LEGISLATIVE SESSION BILLS OF INTEREST  
LEGISLATIVE UPDATE (March 19, 2018) – ATTACHMENT**

***Bills that were on the Governor's desk for signature as of the October 2017  
Legislative Update are included below, with the updated information in underlined text.***

***Bills that had been signed or had died in Committee as of the  
October 2017 Legislative Update have been deleted.***

**AB 20 (Kalra):** This bill would require the boards of administration of the Public Employees' Retirement System and the State Teachers' Retirement System to make a specified report, on or before April 1, 2018, to the Legislature and the Governor regarding investments in the Dakota Access Pipeline, as defined. The bill would declare the intent of the Legislature that the boards, on or before April 1, 2018, review and consider factors related to tribal sovereignty and indigenous tribal rights as part of the boards' investment policies related to environmental, social, and governance issues. The bill would provide that it does not require a board to take any action unless the board determines in good faith that the action is consistent with the board's fiduciary responsibilities established in the constitution. **(STATUS: Signed by Governor.)**

**AB 168 (Eggman):** Existing law imposes various restrictions on employers with respect to applicants for employment. A violation of those restrictions is a misdemeanor. This bill would prohibit an employer from seeking salary history information about an applicant for employment and would require an employer, upon reasonable request, to provide the pay scale for a position to an applicant for employment. The bill would apply to all employers, including state and local government employers and the Legislature. The bill would specify that a violation of its provisions would not be subject to the misdemeanor provision. **(STATUS: Signed by Governor.)**

**AB 283 (Cooper):** The CERL currently provides that a member who is permanently incapacitated shall be retired for disability despite age if, among other conditions, the member's incapacity is a result of injury or disease arising out of and in the course of the member's appointment, and that employment contributes substantially to that incapacity or the member has completed five years of service and not waived retirement in respect to the particular incapacity or aggravation thereof, as specified. The bill would amend the CERL to require, for purposes of determining permanent incapacity of certain peace officers, that those members be evaluated by the existing procedure established by the retirement system to determine if they can perform all of the usual and customary duties of a peace officer. **(STATUS: In Committee.)**

**AB 512 (Rodriguez):** Existing law, until January 1, 2018, provides a state safety member of CalPERS who retires for industrial disability a retirement benefit equal to the greatest amount resulting from three possible calculations. In this regard, the benefit amount is based on an actuarially reduced service retirement, a service retirement allowance, if the member is qualified, or 50% of his or her final compensation, plus an annuity

purchased with his or her accumulated contributions, if any. This bill would delete the repeal of these provisions and make them indefinite. **(STATUS: Signed by Governor.)**

**AB 526 (Cooper).** This bill would make the Sacramento County Employees Retirement System a district under the CERL. **(STATUS: In Committee.)**

**AB 530 (Cooper):** Current law requires the Public Employment Relations Board (PERB) to enforce and apply rules adopted by a public agency concerning unit determinations, representation, recognition, and elections. It also requires specified complaints to be processed as an unfair practice charge by the PERB. Current law does not apply these provisions to persons who are peace officers, as defined. AB 530 would expand the jurisdiction of the PERB to include resolving disputes and statutory duties and rights of persons who are peace officers, as defined. **(STATUS: Vetoed by Governor.)**

**AB 1479 (Bonta).** This bill would require state and local agencies to designate a person or office to act as the agency's custodian of records who is responsible for responding to any request made pursuant to the California Public Records Act and any inquiry from the public about a decision by the agency to deny a request for records. The bill would also authorize a court that finds that an agency or the custodian improperly withheld from the public, public records which were clearly subject to public disclosure, unreasonably delayed providing the contents of a record subject to disclosure in whole or in part, assessed an unreasonable or unauthorized fee upon a requester, or otherwise did not act in good faith to comply with these provisions, to assess a civil penalty against the agency in an amount not less than \$1,000, nor more than \$5,000. **(STATUS: Vetoed by Governor.)**

**AB 1597 (Nazarian).** This bill would prohibit CalPERS and CalSTRS from making additional or new investments, or renewing existing investments, in an investment vehicle in Turkey that is issued by the government of Turkey or that is owned, controlled, or managed by the government of Turkey. The bill would also require the boards to liquidate existing investments in Turkey in these types of investment vehicles within six months of the passage of a federal law imposing sanctions on Turkey. **(STATUS: In Committee.)**

**AB 2076 (Rodriguez)** The CERL authorizes a county retirement system in Los Angeles County to adjust retirement payments due to errors or omissions, as specified, and permits a member permanently incapacitated for duty to retire for disability only if specified criteria are met and requires the board to determine the date of retirement in those cases, as specified. This bill would authorize a county retirement system in Los Angeles County to correct a prior board decision determining the date of retirement for a member permanently incapacitated for disability that was made between January 1, 2013, and December 31, 2015, and was based upon an error of law existing at the time of the decision, as specified. The bill would authorize a member seeking correction under these provisions to file an application with the board no later than one year from the date these provision, become operative. **(STATUS: Introduced February 7, 2018. In Committee.)**

**AB 2085 (Cooley)** The CERL requires, after a member's death, any retirement allowance earned but not yet paid to the member to be paid to the member's designated beneficiary. Existing law authorizes the surviving spouse of a member who did not designate a beneficiary prior to death to file an election with the board, as specified, to be deemed the beneficiary. This bill would define surviving spouse, for purposes of CERL, as a person legally

married to the member, who is neither divorced nor legally separated at the time of the member's death and who meets other relevant requirements, as specified. **(STATUS: Introduced February 7, 2018. In Committee.)**

**AB 2196 (Cooper)** (1) Under the PERL, members may make certain elections, including elections to purchase service credit for various types of public service, upon payment of additional contributions. Existing law permits a member who retires before paying off the entire amount for service credit to pay the balance due or total amount if no payroll deductions had been made prior to retirement by deductions from his or her retirement allowance equal to those authorized as payroll deductions, as specified. This bill would permit the member, survivor, or beneficiary, as an alternative, to elect to receive an allowance that is reduced by the actuarial equivalent of any balance remaining unpaid by the member. The bill would also provide that all elections taking effect on or after January 1, 2019, including elections for normal contributions, arrears contributions, absences, or public service, would become due and payable at the time of member's retirement or preretirement death. The bill would additionally require the member, survivor, or beneficiary to have his or her allowance reduced by the actuarial equivalent of any balance remaining unpaid by the member, except as specified.

(2) Existing law permits a member of CalPERS who has elected to receive credit for service and who retires for disability, including a safety member who retires due to industrial disability, to elect to cancel the installments prospectively, in accordance with certain provisions. This bill would specify that for an election taking place on or after January 1, 2019, the amount of the election remaining for normal contributions, arrears, contributions, absences, or public service would become due and payable at the time of the member's retirement or preretirement death. The bill would provide that in these circumstances the member, survivor, or beneficiary would have his or her allowance reduced by the actuarial equivalent of any balance remaining unpaid by the member.

(3) Existing law specifies that an election by a member to receive credit for service under the PERL is effective only if accompanied by a lump-sum payment or an authorization for payments, in accordance with regulations of the CalPERS board; authorizes a member paying for credit for service in after-tax installments to suspend these payments for a period not to exceed 12 months, with payments automatically resuming at the end of the period or earlier, if requested by the member; and permits a member who retires during the suspension period to make, prior to retirement, a lump-sum payment for the recalculated balance due or cancel installment payments. This bill would permit a member, as an alternative to these two options, to reduce his or her allowance by the actuarial equivalent of the recalculated balance remaining unpaid by the member.

(4) Under the provisions of the PERL governing the payment of additional service credit, a member's failure to elect to make a lump-sum payment of the election to cancel installment payments results in the resumption of installment payments as of the member's retirement date. This bill would revise that provision to instead provide that, effective on or after January 1, 2019, a member's failure to elect to make a lump-sum payment or cancel his or her installment payments would result in the member's allowance being reduced by the actuarial equivalent of the recalculated balance remaining unpaid.

(5) The PERL establishes retirement formulas, known as the Second Tier, modified First Tier, and First Tier, which are applicable to specified members of the retirement system, and a member who elects to be subject to



Second Tier benefits is paid his or her accumulated contributions plus interest, subject to specified conditions. Effective January 1, 2000, a member who received service credit subject to Second Tier benefits may elect to become subject to First Tier benefits and contribution rates. That law requires a member who elects to become subject to First Tier benefits to deposit accumulated contributions the member withdrew while he or she was subject to Second Tier benefits, plus interest, as specified, and this deposit requirement may be satisfied by an actuarial equivalent reduction in the member's retirement allowance.

This bill would instead specify that this deposit requirement may be satisfied by an election to reduce the member's allowance by the actuarial equivalent of any balance remaining unpaid by the member at the time of the member's retirement or preretirement death. The bill would also specify that, for a member who elects to receive First Tier Credit on or after January 1, 2019, any unpaid balance of that member would become due and payable at the time of the member's retirement or preretirement death, with the member, survivor, or beneficiary's allowance reduced by the actuarial equivalent of any balance remaining unpaid by the member. **(STATUS: Introduced February 12, 2018. In Committee.)**

**AB 2571 (Fletcher)** The California Constitution grants the retirement board of a public employee retirement system plenary authority and fiduciary responsibility for investment of moneys and administration of the retirement fund and system. The California Constitution qualifies this grant of powers by reserving to the Legislature the authority to prohibit investments if it is in the public interest and the prohibition satisfies standards of fiduciary care and loyalty required of a retirement board.

This bill, if consistent with fiduciary responsibilities of a public investment fund as determined by its board, would restrict new, additional, or renewed investments by a public investment fund to an alternative investment vehicle where, if the investment vehicle is managed by an investment manager, the investment manager has adopted and committed to comply with a race and gender pay equity policy consistent with requirements established in the bill. The bill would require an investment manager, beginning September 1, 2019, to submit at least once annually to the public investment fund a certified report regarding compliance. Because a certified report would be required to be verified under penalty of perjury, this bill would expand the crime of perjury, thereby imposing a state-mandated local program. The bill would require each contractually enforceable instrument for additional or new investments or renewal of existing investments with an investment manager to require that the investment manager take prescribed actions consistent with the bill as a material term of the instrument. The bill would require a public investment fund to disclose pay equity reporting information provided to it pursuant to the bill at least once annually to the State Auditor and in a report presented at a meeting open to the public. The bill would define terms for its purposes. This bill contains other related provisions and other existing laws. **(STATUS: Introduced February 15, 2018.)**

**AB 3084 (Levine)** Existing law requires all state and local public retirement systems to submit audited financial statements to the State Controller at the earliest practicable opportunity within 6 months of the close of each fiscal year. Existing law requires the Controller to review these reports and to publish an annual report on the financial condition of all state and local public retirement systems, as specified. This bill would require each state and local public retirement system to, in its annual audited financial statements submitted to the Controller, in a form prescribed by the Controller, show that the retirement system has met or if it has not met, detail why it has

not met and what the retirement system is doing to meet, specified parameters related to the provision of other postemployment benefits. **(STATUS: Introduced February 16, 2018.)**

**AB 3150 (Brough)** Existing law requires each state and local public pension or retirement system, on and after the 90th day following the completion of the annual audit of the system, to provide a concise annual report on the investments and earnings of the system, as specified, to any member who makes a request and pays a fee, if required, for the costs incurred in preparation and dissemination of that report. This bill would also require each state and local pension or retirement system to post a concise annual audit of the information described above on that system's Internet Web site no later than the 90th day following the audit's completion. By imposing new duties on local retirement systems, the bill would impose a state-mandated local program. This bill contains other related provisions and other existing laws. **(STATUS: Introduced February 16, 2018.)**

**AB 3245 (Rodriguez, Cooley, Cooper, and O'Donnell)**

(1) The California Public Employees' Pension Reform Act of 2013 (PEPRA) generally requires a public retirement system, as defined, to modify its plan or plans to comply with the act. PEPRA describes pensionable compensation for new members of a public retirement system who become members of that system on or after January 1, 2013, as consisting of the normal monthly rate of pay or base pay of the member to similarly situated members of the same group or class of employment for services rendered, subject to specified limitations.

The PERL permits a member to retire concurrently from PERS and other specified public retirement systems and defines final compensation for these purposes. Under the PERL, the highest annual average compensation during any consecutive 12- or 36- month period of employment as a member of a retirement system maintained by the University of California or by a county retirement system is considered compensation earnable for purposes of computing the member's final compensation. PERL also prescribes that the compensation earnable during any period of service as a member of the Judges' Retirement System, the Judges' Retirement System II, the Legislators' Retirement System, or the Defined Benefit Program of the State Teachers' Retirement Plan is considered compensation earnable for purposes of computing final compensation for the member, if he or she retires concurrently under both retirement systems. This bill would revise the above provisions of PERL relating to retirement under concurrent systems to specify that the compensation earnable or pensionable compensation as a member of PERS is subject to the restrictions on compensation earnable under PERS and the restrictions on pensionable compensation under PEPRA.

(2) The PERL authorizes the board to correct errors or omissions of active or retired members or their beneficiaries, subject to certain conditions and the existence of specified facts, and requires corrections of errors or omissions to be accomplished so that the status, rights, and obligations of the parties are adjusted to be the same that they would have been if the act that would have been taken, but for the error or omission, was taken at the proper time. This bill would require that an overpayment made to or on behalf of any member, former member, or beneficiary, including, but not limited to, contributions, interest, benefits of any kind, federal or state tax, or insurance premiums be deducted from any subsequent benefit that may be payable.

(3) For purposes of PERL, a “group or class of employment” means a number of employees considered together because they share similarities in job duties, work location, collective bargaining unit, or other logical work-related grouping. Under PERL, increases in compensation earnable granted to an employee who is not in a group or class are limited during the final compensation period applicable to the employee, as well as the 2 years immediately preceding that final compensation period, to the average increase in compensation earnable during the same period reported by the employer for all employees who are in the same membership classification, except as otherwise determined by the board. This bill, with respect to an employee who is not in a group or class, would specify that increases in compensation during that final compensation period are limited to the average increase in compensation earnable during the same period reported by the employer for all similarly situated employees who are in the closest related group or class within the same membership classification. The bill, with respect to an employee who is in a group or class would limit increases in compensation earnable during the final compensation period, as well as the 2 years immediately preceding that period, to the average increase in compensation earnable during the same period reported by the employer for all employees who are in the same group or class of employment within the same membership classification, as prescribed.

(4) The PERL defines “compensation earnable” for school members of the system to mean the payrate and special compensation of the member, as specified, and defines “payrate” as the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours. This bill would revise the definition of “payrate” above to specify that it applies for services rendered on a full-time basis during normal workhours pursuant to publicly available pay schedules.

(5) The PERL prescribes disability retirement benefits for state members and certain local safety members of PERS, and provides that if a medical examination and other available information show to the satisfaction of the board of PERS that a member in state service is incapacitated physically or mentally for the performance of his or her duties and is eligible to retire for disability, the board shall immediately retire him or her for disability. This bill would provide that a member is ineligible to retire for disability if the member separates from employment for any reason, including termination, voluntary resignation, resignation with disciplinary action pending, rejection on probation, or mutual agreement. Despite that limitation, the bill would specify that a member may be eligible to retire for disability under PERS if the member’s separation from employment was the ultimate result of a disabling medical condition or preemptive of an otherwise valid claim for disability retirement.

(6) The PERL authorizes the governing body of a contracting agency to delegate any authority or duty conferred or imposed with respect to disability retirement provisions under PERS to a subordinate officer of the contracting agency, subject to conditions it may impose. This bill would instead require a governing body of a contracting agency to delegate this authority to a subordinate officer by adopting a resolution to that effect and filing that resolution with the board of PERS. The bill would permit a governing body of a contracting agency to also delegate its authority for other specified actions related to disability retirement to the board of PERS by

adopting a resolution and filing it with the board and would require the contracting agency to pay a fee to PERS for those delegated services.

(7) Under the PERL, the board of PERS or, with respect to a local safety member, the governing body of the employer from whose employment the person was retired, may require a recipient of a disability retirement allowance who is under the minimum age for voluntary retirement for service to undergo medical examination. This bill would require the board or the governing board of the employer, as applicable, to also cause a medical examination to be made upon application for reinstatement of a recipient of a disability retirement allowance, if the recipient is at least 6 months less than the age of compulsory retirement for service, as specified. The bill would modify other terms and conditions for medical examinations under these circumstances.

(8) The PERL permits retired members of PERS and their beneficiaries to authorize deductions to be made from their retirement allowance payments and benefits, in accordance with regulations or procedures established by the board, for payment of group insurance premiums and other premiums, credit union payments or shares, dues and other services, and charitable contributions, as specified. This bill would revise and recast those provisions. The bill, among other things, would specify that payments for shares or obligations to any regularly chartered credit union and for charitable contributions apply with respect to those approved by the board as of December 31, 2018.

(9) The PERL prescribes certain postretirement death benefits for beneficiaries and survivors of PERS members. Under PERL, in lieu of a \$500 death benefit generally applicable to all contracting agencies, a contracting agency may elect instead to be subject to an alternative provision entitling a member's beneficiary to a \$600 death benefit, subject to certain conditions. This bill would authorize this benefit by a contracting agency employer if it is designated by the employer in its contract prior to January 1, 2019.

(10) The PERL provides an optional increased retirement death benefit for certain local members of the system, upon election by a contracting agency and amendment of its contract, in amounts of \$2,000, \$3,000, \$4,000, or \$5,000, if designated by the employer in its contract. With respect to school members, PERL also authorizes an optional increased retirement death benefit in amounts of \$3,000, \$4,000, or \$5,000, if designated by the employer in its contract. This bill would recast these provisions for the optional death benefit amounts of \$3,000 or \$4,000 to authorize these sums if that amount is designated by the employer in its contract prior to January 1, 2019. The bill would also make various conforming and nonsubstantive changes to PERL, the Judges' Retirement Law, and the Judges' Retirement System II Law. **(STATUS: Introduced February 22, 2018.)**

**SB 24 (Portantino).** The Political Reform Act of 1974 requires persons holding specified public offices to file disclosures of economic interests, including investments, real property interests, and income within specified periods of assuming or leaving office and annually while holding office. The act requires the disclosures to include a statement indicating, within a specified value range, the fair market value of investments or interests in real property and the aggregate value of income received from each reportable source. This bill would revise the dollar amounts associated with these ranges to provide for eight total ranges of fair market value of investments and real property interests and ten total ranges of aggregate value of income. **(STATUS: Inactive.)**

**SB 302 (Mendoza):** This bill would clarify existing law to specifically require all property tax revenues of Orange County attributable to a rate imposed for fire protection purposes prior to June 6, 1978 (the effective date of Proposition 13) to be allocated by Orange County to the Orange County Fire Authority (as the agency formed for the purpose of providing fire protection in Orange County). These funds are also known as structural fire fund property taxes, and the bill would appear to codify the holding of the court in *Orange County Fire Authority v. County of Orange*, which stated that any use of structural fire funds for any purpose other than fire protection is prohibited. The bill is supported by the Orange County Professional Firefighters Association, Local 3631. **(STATUS: Signed by Governor.)**

**SB 1022 (Pan)** The PERL provides that data filed by a member or beneficiary with the CalPERS board is confidential, subject to certain exceptions, and is to be used only for carrying the PERL into effect. This bill would specify that the confidentiality provisions, described above, apply to the Public Employees Medical and Hospital Care Act, which the board also administers, and would make conforming changes to account for this and to account for school district and university employer categories currently in effect. The bill would authorize the confidentiality of provisions of records connected to the beneficiary of a member or retired member who is or was employed by the entity. The bill also would authorize data to be used in connection with related reporting and notice obligations. **(STATUS: Introduced February 7, 2018. In Committee.)**

**SB 1031 (Moorlach)** Existing law, including the CERL, authorizes the application of cost-of-living adjustments to allowances paid to persons retired under, or survivors or beneficiaries of persons retired under, various public retirement systems. PEPRRA, on and after January 1, 2013, requires a public retirement system, as defined, to modify its plan or plans to comply with the act and, for its purposes, defines pensionable compensation, establishes limits on benefits, and requires the sharing of normal costs between members and employers for the pension systems to which it applies. This bill would prohibit a public retirement system, including OCERS, from making a cost-of-living adjustment to any allowance payable to, or on behalf of, a person retired under the system, or to any survivor or beneficiary of a member or person retired under the system, for any year beginning on or after January 1, 2019, in which the unfunded actuarial liability of that system is greater than 20%. The bill would require that the determination of unfunded actuarial liability be based on a specified financial report and would apply the prohibition on cost-of-living adjustments, if any, to the calendar year following the fiscal year upon which the report is based. **(STATUS: Introduced February 8, 2018. In Committee)**

**SB 1032 (Moorlach)** The PERL authorizes any public agency to participate in and make all or part of its employees members of PERS by contract, as provided, and authorizes a contracting agency to terminate its contract if the contract has been in effect for at least 5 years. Under existing law, the board is required to hold the accumulated contributions from a terminated contract in a terminated agency pool, as specified, for the benefit of the members. Existing law requires the terminating contracting agency to contribute to the terminated agency pool the difference between the accumulated contributions and the board's pension liability for the contracting agency's members, as provided. This bill would authorize a contracting agency to terminate its contract with the board at the agency's will and would not require the contracting agency to fully fund the board's pension liability upon termination of the contract. The bill would authorize the board to reduce the member's benefits in the terminated agency pool by the percentage of liability unfunded. The bill would also

authorize a contracting agency who terminates its contract with the board to transfer the assets accumulated in the system to a pension provider designated by the contracting agency. **(STATUS: Introduced February 8, 2018. In Committee.)**

**SB 1033 (Moorlach)** The PERL authorizes retirement systems to enter into agreements to provide certain reciprocal benefits to employees that are employed by other agencies that are parties to the agreement if the employees meet specified requirements, a practice commonly referred to as reciprocity. Reciprocity provides for the application of the final compensation paid by a subsequent employer to service provided to a prior employer. The PERL provides that a public agency that has agreed to reciprocity with CalPERS also has reciprocity with all other agencies that have entered into those agreements with CalPERS, among others. The PERL requires the CalPERS Board to ensure that a contracting agency that creates a significant increase in actuarial liability as a result of increased compensation paid to a nonrepresented employee bears the associated liability, except as specified, including a portion that would otherwise be borne by another contracting agency. The PERL requires the system actuary to assess an increase in liability, in this regard, to the employer that created it at the time the increase is determined and to make adjustments to that employer's contribution rates to account for the increased liability. This bill would require that an agency participating in CalPERS that increases the compensation of a member who was previously employed by a different agency to bear all actuarial liability for the action, if it results in an increased actuarial liability beyond what would have been reasonably expected for the member. The bill would require, in this context, that the increased actuarial liability be in addition to reasonable compensation growth that is anticipated for a member who works for an employer or multiple employers over an extended time. The bill would require, if multiple employers cause increased liability, that the liability be apportioned equitably among them. The bill would apply to an increase in actuarial liability, as specified, due to increased compensation paid to an employee on and after January 1, 2019. **(STATUS: Introduced February 8, 2018. In Committee.)**

**SB 1060, 1061, 1062 (Mendoza)** The PERL requires certain public employers to contribute moneys to CalPERS. Existing law prohibits the state, school employers, and contracting agencies, as defined, from refusing to pay the employers' contribution as required by the PERL. SB 1060 would require a contracting agency that fails to make a required contribution to CalPERS to notify members of the delinquency within 30 days, as specified. The State Teachers' Retirement Law establishes the Defined Benefit Program of the CalSTRS. The law requires certain employers, as defined, to contribute moneys to the CalSTRS). SB 1061 would require an employer that fails to make a required contribution to CalSTRS to notify members of the delinquency within 30 days, as specified. SB 1062 would require certain employers that fail to make a required employer contribution to CalSTRS or CalPERS to notify members of the delinquency within 30 days, as specified. **(STATUS: Introduced February 12, 2018. In Committee.)**

**SB 1149 (Glazer)** PEPRA generally requires a public retirement system, as defined, to modify its plan or plans to comply with the act, and authorizes a public employer to provide a contribution to a defined contribution plan for compensation in excess of certain federal compensation limits applicable to qualified pension trusts, if the plan and contribution meet the requirements set forth in federal law. PEPRA prohibits any of those employer contributions to an employee defined contribution plan from exceeding the employer's contribution rate, as a

percentage of pay, required to fund the defined benefit plan. Existing law establishes an alternate retirement program and provides that certain state employees, as defined, who become new members of CalPERS during their first 24 months of employment, do not make contributions to CalPERS or receive service credit for their service. Under existing law, these members are instead required to contribute either 5% or 6% of their monthly compensation, as specified, to the alternate retirement program. This bill would create a new optional defined contribution plan for new state employees who are eligible to become members of CalPERS and who choose not to make contributions into the defined benefit program under the PERL. The bill would require state employees who opt to participate in this alternate system to contribute the same percent of compensation as similarly situated employees who contribute to the defined pension program, subject to applicable limits of federal law. The bill would authorize an employee in the defined contribution program, after 5 years, to have the right to continue in the program or switch to the defined benefit plan, subject to certain terms and conditions. The bill would require the Department of Human Resources to administer the defined contribution retirement program established by the bill. **(STATUS: Introduced February 14, 2018. In Committee.)**

**SB 1270 (Vidak)** The CERL authorizes the retirement boards of five specified counties to appoint assistant administrators and chief investment officers who, following appointment, are outside county charter, civil service, and merit system rules, except as specified. The CERL provides that these administrators and officers are employees of the county, as specified, while serving at the pleasure of the appointing boards, and that they may be dismissed without cause. This bill would apply these provisions to any county if the board of supervisors for that county, by resolution adopted by majority vote, makes those provisions applicable in the county. **(STATUS: Introduced February 16, 2018. In Committee.)**

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## Memorandum

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**DATE:** March 7, 2018  
**TO:** Members of the Board of Retirement  
**FROM:** Steve Delaney, Chief Executive Officer  
**SUBJECT:** TRAVEL REPORT – 2018 NAPO’S 30TH ANNUAL POLICE FIRE EMS AND MUNICIPAL EMPLOYEES PENSION AND BENEFITS SEMINAR

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### Written Report

#### Background/Discussion

Mr. Roger Hilton, OCERS Trustee, and Mr. Steve Delaney, OCERS CEO, attended the 30<sup>th</sup> Annual Pension and Benefits Seminar hosted by the National Association of Police Organizations held in Las Vegas, Nevada from January 28 – 30, 2018.

The total cost for both individuals’ attendance is included in the following:

Conference Fee	Hotel	Transportation	Meals	Total
\$1190	\$460	\$275	\$175	\$2,100

As it is not presently pre-approved, OCERS’ Travel Policy, Section 19, states:

“Board Members and staff who travel to conferences or seminars that are not automatically authorized in paragraphs 8, 9, 10 and 12 shall file with the Chief Executive Officer a report that briefly summarizes the information and knowledge gained that may be relevant to other Board members, provides an evaluation of the conference or seminar, and provides a recommendation concerning future participation. Reports by a Board Member or staff will be made on the Conference / Seminar Report form shown in the appendix. The Chief Executive Officer shall cause a copy of the report to be distributed to each Board Member and to the Chief Investment Officer.”

The conference agenda as well as the required Trustee/Staff report are attached.

#### Submitted by:

A handwritten signature in blue ink that reads "Steve Delaney".

Steve Delaney  
Chief Executive Officer



# Report of Attendance at Conference or Seminar

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Name of Attendees: Roger Hilton, Trustee, and Steve Delaney, CEO

Name of Conference/Seminar: National Association of Police Organizations (NAPO) 30<sup>th</sup> Annual Pension and Benefit Seminar

Location of Conference/Seminar: Las Vegas, Nevada

Conference/Seminar Sponsor: NAPO

Dates of Attendance: January 28 – 30, 2018

Total Cost of Attendance: \$2,100 (approximately \$1,050 per OCERS attendee)

## Brief Summary of Information and Knowledge Gained:

The opening presentation *Communicating the Value of Community Service* by Mr. Bob Wilson of the Missouri Local Government Employees Retirement System entitled was an intriguing presentation on the importance of refocusing the whole issue of defined benefit and defined contribution pensions from one of cost to one of the services being provided, and why a defined benefit is a better way to reach public service goals. Defined benefits build greater employee longevity, provide for a dignified retirement and remain a steady source of income to the local community in times of financial distress.

A late morning presentation on January 29 included Mr. Delaney on a panel of several system representatives discussing *Pension Reforms & Threats Around the Country*. Mr. Delaney was asked to provide attendees with background information on the series of legal challenges then taking place in the San Francisco state appellate district as to how the “California Rule” is to be applied to the pension reforms made by the California legislature in 2013.

Further topics highlighted over the course of the conference dealt with governance best practices, investment opportunities, especially in Private Equity, an area OCERS is giving special consideration and detailed discussions of the issues that matter greatly to our safety members, especially with regard to disability and death benefit protection.

## Evaluation of the Conference or Seminar as it relates to OCERS’ mission:

The presentation by the Mr. Wilson of MoLAGERS was an excellent refocus on the OCERS mission by recognizing first and foremost the iatrical part our plan member’s community service plays in improving the communities they working, which is the basis for the benefits that have they have earned. Mr. Delaney met with his management team upon return, and reviewed how helpful that approach can be in crafting our future Comprehensive Annual Financial Report (CAFR). In the coming years we will highlight as a CAFR theme different public services provided by all of our plan sponsors. That will assist in better focusing the Orange County public when turning to the OCERS CAFR for financial information on how certain of their tax dollars are being spent in support of important public services which ensure the livability of our local communities.



## Report of Attendance at Conference or Seminar

### Recommendation Concerning Future Attendance:

Well organized and pension issues specific conference that is growing in size and scope. Safety members have unique issues that arise in preparing for retirement, due to unique work related stressors, plan formulas and disability requirements, it is helpful to attend informational conferences such as this that focus on that the safety members experience. It should be noted that the National Conference of Public Employee Retirement Systems (NCPERS) has offered an annual alternative safety member specific conference for many years. Larger and more fully attended than NAPO, we would recommend that conference first due to the depth of conference management experience and resources available, but when conflicts prevent attendance at a NCPERS safety event, which was the case this year for both Mr. Hilton and me, and then we would alternatively recommend NAPO.

A handwritten signature in blue ink that reads "Steve Delaney".

Submitted by: \_\_\_\_\_

Steve Delaney, OCERS CEO

# AGENDA

## Sunday, January 28

3:00 p.m. – 5:00 p.m.

**Exhibitor Registration and Exhibitor Setup**

5:00 p.m. – 6:00 p.m.

**Attendee Registration**

5:30 p.m. – 7:00 p.m.

**Welcome Reception**

*Hosted by: Lincoln Financial, MassMutual Financial Group, Humana  
Nationwide Retirement Solutions, J.P. Morgan Asset Management*

## Monday, January 29

8:00 a.m. – 9:00 a.m.

**Continental Breakfast, Registration & Exhibit Hall Open**

9:00 a.m. – 12:30 p.m.

**General Session**

9:00 a.m. – 9:15 a.m.

Opening Remarks & Presentation of Colors

*Sergeant Michael McHale, President, NAPO*

9:15 a.m. – 10:00 a.m.

Communicating the Value of Community Service

*Robert L. Wilson, Executive Director, Missouri Local Government Employee Retirement System*

10:00 a.m. – 10:40 a.m.

Defending Defined Benefit Plans

*Steve Mendelsohn, National Practice Leader, MassMutual*

10:40 a.m. – 11:00 a.m.

**Coffee Break**

11:00 a.m. – 11:30 a.m.

Driving Participant Retirement Savings

*Sharon Scanlon, Senior V.P. & Head of Cust. Service, Orange County Employees Retirement System*

11:30 a.m. – 12:30 p.m.

Pension Reforms & Threats Around the Country

**Moderator:** *Richard A. White, Former Safety Trustee, Orange County Employees Retirement System*

**Panel:** *James M. McNamee, President, Illinois Public Pension Fund Association*

*Sean Smoot, Director & Chief Legal Counsel, Police Benevolent & Protective Association of Illinois*

*Steve Delaney, Chief Executive Officer, Orange County Employees Retirement System*

*Larry P. Totten, President, Kentucky Public Retirees*

12:30 p.m. – 1:30 p.m.

**Hosted Lunch**

1:30 p.m. – 5:30 p.m.

**General Session**

1:30 p.m. – 2:15 p.m.

A Guide to the Markets: Investing in a World of Uncertainty

*David Lebowitz, Vice President, Global Market Strategist, J. P. Morgan Funds*

2:15 p.m. – 2:45 p.m.

Presentation Hosted by Spectrum Advisory Group

2:45 p.m. – 3:30 p.m.

Governance and Fiduciary Responsibility

**Moderator:** *Javier Obando, Vice President, Lincoln Financial Group*

**Panel:** *Jennifer Pafiti, Partner, Pomerantz, LLP*

*Daniel A. Notto, J.D. ERISA Strategist, J. P. Morgan Asset Management*

*Rick Van Houten, Vice Chair, Fort Worth Employees Retirement Fund*

*Richard Reimer, General Counsel, Illinois Public Pension Fund Association*

3:30 p.m. – 3:45 p.m.

**Coffee Break**

3:45 p.m. – 4:15 p.m.

The Equifax Breach: How it Happened and Efforts to Hold Equifax Accountable in Court

*Joshua Ruthizer, Partner, Wolf Popper, LLP*

*Chet Waldman, Partner, Wolf Popper, LLP*

4:15 p.m. – 5:00 p.m.

Private Market Opportunities and the Role They Play in Pension Portfolios

**Moderator:** *Kevin Campbell, Managing Director, DuPont Capital Management*

**Panel:** *Mark Eisner, Chairman, Daytona Beach Police & Fire Pension Fund*

*Eric Wilcomes, Director, DuPont Capital Management*

5:00 p.m. – 5:30 p.m.

Trends in Medical Plan Designs

*Kevin Lyons, Health Benefits Coordinator, New Jersey State PBA*

5:30 p.m. – 7:00 p.m.

**Networking Reception**



# AGENDA

## Tuesday, January 30

- 8:00 a.m. – 9:00 a.m.**      **Continental Breakfast** *Hosted by: Humana*
- 9:00 a.m. – 12:30 p.m.**      **General Session**
- 9:00 a.m. – 9:50 a.m.      How The Cycle Ends – We Are Not There Yet!  
*Brian Levitt, Senior Investment, Oppenheimer Funds*
- 9:50 a.m. – 10:30 a.m.      Cyber Security: Protecting Your Organization  
from Data Breaches  
*Tina Fletcher, President, Ullico Casualty Group*  
*Sally Corbin, CEO, Union Services Agency*  
*Marc Zinsmeister, Vice President/Information Technology, Ullico*
- 10:30 a.m. – 10:45 a.m.**      **Coffee Break** *Hosted by: Robbins Arroyo, LLP*
- 10:45 a.m. – 11:30 a.m.      Medicare And Your Options  
*Tim Snyder, Segment Vice President Group Medicare, Humana*
- 11:30 a.m. – 12:15 p.m.      Pension and Public Safety Workplace  
Delivering Value to Our Customers  
*Diane Oakley, Executive Director, National Institute of Retirement Security*
- 12:15 p.m. – 12:30 p.m.      Presentation  
*Brian Robbins, Managing Partner, Robbins Arroyo, LLP*
- 12:30 p.m. – 1:30 p.m.**      **Hosted Lunch**
- 1:30 p.m. – 5:00 p.m.**      **General Session**
- 1:30 p.m. – 2:15 p.m.      Investment Strategies in the World of VUCA –  
Volatility, Uncertainty, Complexity & Ambiguity  
*Wasif Latif, Head of Global Multi-Assets, USAA Investment Management Company*
- 2:15 p.m. – 3:00 p.m.      The Value of Transparency in  
Pharmacy Benefit Programs  
*Susan Hayes, Principal, Pharmacy Outcomes Specialist*  
*Maria R. McAfee, Business Development Executive, Smith RX*
- 3:00 p.m. – 3:15 p.m.**      **Coffee Break**
- 3:15 p.m. – 3:45 p.m.      Real Estate Investing: Why Do It?  
*Jani Venter, Exec. Director Assoc. Portfolio Manager, J.P. Morgan Asset Management*
- 3:45 p.m. – 4:30 p.m.      Plan Funding & Design  
**Moderator:** *Joe Alejandro, Treasurer, Patrolmen's Benevolent Association, City of New York*  
**Panel:** *Brad Ramirez, Vice President, Segal Consulting*  
*Robert L. Wilson, Executive Director, Missouri Local Govt' Employee Retirement System*  
*Mark Eisner, Chairman, Daytona Beach Police & Fire Pension Fund*
- 4:30 p.m. – 5:00 p.m.      Washington Report and Capitol Hill Update  
*William J. Johnson, Executive Director & General Counsel*  
*National Association of Police Organizations*

## Wednesday, January 31

- 8:30 a.m. – 9:15 a.m.**      **NAPO's Finance Committee Meeting**
- 9:30 a.m. – 11:30 a.m.**      **NAPO's Executive Board Meeting**

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## Memorandum

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**DATE:** March 08, 2018  
**TO:** Members of the Board of Retirement  
**FROM:** Cynthia Hockless, Director of Administrative Services  
**SUBJECT:** **BOARD ELECTION, SAFETY MEMBER AND ALTERNATE SAFETY MEMBER**

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### Written Report

#### Background/Discussion:

On January 5, 2018, Administrative Services contacted the Registrar of Voters requesting them to conduct an election for the Safety Member and Alternate Safety Member whose terms expire on June 30, 2018. We received a response informing us that the election will be held on May 15, 2018. The Registrar of Voters has provided the attached timeline.

As per the attached timeline, we mailed a notification to the home address of all eligible Safety Members notifying them of the upcoming election.

At the time of this memo, we are currently in the nomination period which started on February 26, 2018 and is scheduled to close at 5:00 p.m. on March 16, 2018.

We are currently on schedule and will continue to provide updates as we progress through the process.

#### Attachment:

OCERS Election Calendar

#### Submitted by:



\_\_\_\_\_  
C.H. – APPROVED

Cynthia Hockless  
Director of Administrative Services

# ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM ELECTION CALENDAR

May 15, 2018

## 1 SAFETY MEMBER AND 1 ALTERNATE MEMBER

February 9 and February 23 (E-95 and E-81)	The Orange County Retirement office shall notify the Safety Members of the Retirement System that an election will be conducted on May 15, 2018. The notice shall include the filing period, qualifications and requirements to be a candidate for Safety Member and Alternate Member of the Orange County Retirement Board of Directors and shall be provided with the payrolls on February 9, 2018 and February 23, 2018.
February 14 (E-90)	The Retirement Office shall provide the number of eligible Safety Members to the Registrar of Voters' Office.
February 20 (E-84)	The Retirement Office shall provide the Registrar of Voters' Office with Willingness to Serve forms and a list of eligible Safety Members for use in establishing the eligibility of candidates.
February 26 (E-78)	Nomination period begins. A Safety Member requires 75 nomination signatures.
March 16 (E-60)	Deadline to file a biographical statement with the Retirement Office.
March 16 (E-60)	Nomination period ends at 5:00 p.m. on this date.
March 19 (E- 57)	Retirement Office shall provide print-ready copies of biographical statements to the Registrar of Voters' Office to be printed by March 28.
March 20 (E-56)	Random draw will be held to determine the candidate placement on the ballot.
March 23 (E-53)	Retirement Office shall provide the Registrar of Voters with names and addresses of eligible Safety Members in an electronic format.
April 6 (E-39)	Mailing of ballots begins.
April 6 (E-39)	Retirement Office shall provide updated list of eligible Safety Members for voter verification.
May 15 (E-0)	Tally voted ballots at the Registrar of Voters' Office.
May 22 (E+7)	Certificate of Election on Board of Supervisors' agenda.
July 1 (E+47)	Term begins for Safety Member and Alternate Member. Term expires on June 30, 2021.



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## Memorandum

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**DATE:** March 19, 2018  
**TO:** Members of the Board of Retirement  
**FROM:** Steve Delaney, Chief Executive Officer  
**SUBJECT: BOARD COMMUNICATION**

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### Written Report

#### Background/Discussion

To ensure that the public has free and open access to those items that could have bearing on the decisions of the Trustees of the Board of Retirement, the OCERS Board has directed that all written communications to the entire Board during the interim between regular Board meetings be included in a monthly communications summary.

#### News Links

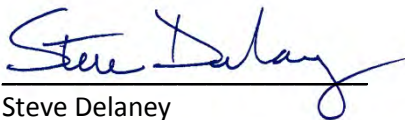
The various news and informational articles that have been shared with the full Board are being provided to you here by web link address. By providing the links in this publicly available report, we comply with both the Brown Act public meeting requirements, as well as avoid any copyright issues.

The following news and informational links were received by OCERS staff for distribution to the entire Board:

#### Other Items: (See Attached)

1. Monthly summary of OCERS staff activity, starting with an overview of key customer service as well as highlights and updates for the month of January 2018.

#### Submitted by:



Steve Delaney  
Chief Executive Officer

## Memorandum

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**DATE:** February 24, 2018  
**TO:** Members of the Board of Retirement  
**FROM:** Steve Delaney, Chief Executive Officer  
**SUBJECT: OCERS ACTIVITIES AND UPDATES – JANUARY 2018**

The following is my regular monthly summary of OCERS staff activity, starting with an overview of key customer service statistics as well as activity highlights followed by updates for the month of JANUARY 2018.

### **CUSTOMER SERVICE**

The top three questions in the month of January as received by OCERS' counseling staff:

**What is the COLA Rate going to be? (A repeat)**

Although the Board won't formally adopted COLA granting until the February Board meeting, many payees and even more importantly, employees considering retirement, want to know about the Cost of Living adjustment to make their important life decision. Until the Board formally adopts the COLA as calculated by our actuary, we are advising members we have estimated the regional CPI at approximately 2.8%.

**Is vacation/annual leave cashout, added to Final Average Salary?**

Annual leave can be used in the calculation of the member's final average salary and is determined by Memorandum of Understanding (MOU). Each bargaining unit has an MOU that states the amount of earnable and cashable annual leave each fiscal year. When members either cash out annual leave or have balances within the measuring period, OCERS will include the value in the calculation. Most compensation (comp) time is not includable as it is mostly true overtime. Holiday comp paid can be included when it occurs within the measuring period and OCERS receives pay stubs from the member reflecting holiday comp payment. Many bargaining units have discontinued using annual leave and created

**MEMBER SERVICE STATS FOR  
JANUARY 2018**

**Member Approval 96%**

**Unplanned Recalcs 2**

**Retirement Apps Received**

<i>Jan 2018</i>	<b>204</b>
<i>Dec 2017</i>	<b>58</b>
<i>Nov 2017</i>	<b>75</b>
<i>Oct 2017</i>	<b>47</b>
<i>Sept 2017</i>	<b>42</b>
<i>Aug 2017</i>	<b>69</b>
<i>July 2017</i>	<b>48</b>
<i>June 2017</i>	<b>65</b>
<i>May 2017</i>	<b>60</b>
<i>April 2017</i>	<b>47</b>
<i>Mar 2017</i>	<b>79</b>
<i>Feb 2017</i>	<b>107</b>
<i>Jan 2017</i>	<b>151</b>
<i>Dec 2016</i>	<b>62</b>

vacation and sick time categories. Most will deplete the annual leave hours prior to allowing cash out of vacation hours. In all cases, Member Services staff rely on the MOU for direction, especially verbiage stating what balances are earnable and cashable.

**Can I set up a retirement counseling appointment?**

Most members start the retirement process with a phone call to the retirement specialist that handles their agency. The OCERS website has a list of agencies and the associated retirement specialist assigned to assist them in the retirement process. Comprehensive retirement counseling is conducted over the phone and continues with an appointment where we provide final average salary (FAS) information. Members are encouraged to submit their retirement applications online. During the retirement appointment, members provide original birth and marriage certificates, and the application and additional forms of tax withholding and direct deposit are reviewed. The benefit options are explained thoroughly to ensure complete understanding. With the high volume of retirements in 2018, Member Services will be conducting group retirement sessions in February and March - this is mostly for document submission as the counseling occurs via telephone prior to the meeting.

**PHONE STATS**

<b>DATE/S</b>	<b>QUEUE</b>	<b>DIRECT TO EXTENSION</b>	<b>TOTAL CALLS TO MS (Queue + Direct)</b>
January 2018	1126	3041	3153
January 2017	1438	3583	4929
January 2016	1377	2863	4240

**ACTIVITIES**

**REMINDING OCERS STAFF OF THE VALUE OF THEIR BENEFITS**

Some years ago, at Ms. Freidenrich’s suggestion, the OCERS Board recommended that we every year take a moment to remind OCERS staff that they are not just receiving a salary for their OCERS efforts, but in fact are receiving a very valuable additional benefit in the form of a pension.

In accordance with that directive, on January 8, 2018, I and the OCERS executive team shared the following message with all staff:

“Good morning,

When most of us hear the term “compensation” we typically only think of the money we receive in our paycheck each payday. However, “Total Compensation” goes beyond salary, it is the complete pay package for employees. Your Total Compensation includes all forms of remuneration including the costs paid by OCERS for your retirement and health insurance benefits among others.

As a current employee, you may not be aware of the amount of money contributed toward the cost of benefits, and/or the value of the various components of the compensation package beyond your base salary. To this end,

we ask that you log in to the payroll portal to view your Total Compensation for 2017. The instructions below will provide you with how to view your Total Compensation based on your salary and benefits selections.

If you have any questions regarding your Total Compensation, please feel free to contact me directly or one of the HR staff members.”

### **JANUARY INVESTMENT TEAM ACTIVITY**

Mr. David Beeson reports the portfolio finished calendar year 2017 up 14.5% net of fees. As of December 31, 2017, the fund value now stands at \$15.3 billion. At the January 24<sup>th</sup> Investment Committee meeting, Molly Murphy, OCERS’ CIO, presented an update on the Illiquid Investments Advisory Services RFP and that finalists were on schedule to present at the February Investment Committee meeting. Mirih P. Worah, CIO Asset Allocation and Real Return at PIMCO, presented a 2018 economic outlook to the Investment Committee. Mr. Worah discussed the risks to the economy in 2018 as well as investment opportunities in the current environment. Ms. Murphy and Laura Wirick from Meketa, OCERS’ general consultant, led a discussion on currency hedging. Ms. Wirick and Ms. Murphy recommended that OCERS’ portfolio be neither strategically nor tactically hedged at this time but will revisit the topic should a beneficial tactical hedge opportunity arise in the future. Ms. Murphy presented staff’s review of the OCERS Investment Charters and Policies. The Investment Committee approved the recommended amendments to the policies including the delegation of authority from the Committee to the CIO over manager surveillance and action procedure, with the agreement of the investment consultant, pursuant to the approved asset allocation targets, ranges, and risk profile.

## **UPDATES**

### **SECOVA and MEMBER HEALTH INSURANCE**

Ms. Catherine Fairly reports that the testing OCERS performed in December had positive results as the January file submitted by Secova was accurate. The call volume was typical for January, unlike the debacle we saw in 2017. The telephone calls were routine and manageable. The overall call statistics showed a reduction in 2018 compared to 2017, the primary reason being accurate data from Secova.

### **LEAN PROCESS IMPROVEMENT**

During last year’s budget workshop, we indicated to the Board that OCERS staff would begin implementing a “lite” version of the LEAN process improvement, seeking to be more efficient with the resources we have been given to complete the OCERS’ mission.

Ms. Suzanne Jenike is taking the lead in this project, and will be reporting monthly in future monthly summaries on the progress we are making. On January 17 Ms. Jenike, Ms. Shott and I visited the Mesa Water District offices, carrying an introduction from Mr. Dewane, and had an excellent conversation regarding the process improvement projects they have successfully undertaken. That same day we held a conference call meeting with CalPERS representatives of their own LEAN process improvement team, to see what we could apply at OCERS. A conference call meeting was later held with San Diego County Retirement representatives, where a successful LEAN process engagement is presently underway. All these contacts have proven very helpful in focusing our efforts on best practices as we undertake this project.



As a reminder you will see this memo included with the BOARD COMMUNICATIONS document as part of the informational agenda for the March 19 meeting of the OCERS Board of Retirement.

I-9

## Memorandum

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**DATE:** March 8, 2018  
**TO:** Members of the Board of Retirement  
**FROM:** Steve Delaney, Chief Executive Officer  
**SUBJECT:** 2018 STATE OF OCERS ANNUAL REPORT

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### Presentation

### Background/Discussion

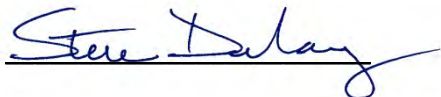
There are a number of reporting and overview requirements outlined in OCERS Board Policies, or through Board directives. Required reporting includes annually updating the Plan Sponsor Review report, considering the quality of member services, and receiving updates on succession planning, among other similar charges and directives.

The attached State of OCERS report provides much of the information requested.

The Plan Sponsor Review report will immediately follow.

The Board last year requested they not be inundated in a single session with all required reports, so in the coming months you will also receive updates on the status of Board Policy compliance (April), mid-year status of the 2018 Business Plan (June), and the quality of member services (August).

### Submitted by:



Steve Delaney  
Chief Executive Officer



# The Current State of OCERS – An Annual Report



March 19, 2018

# The Current State of OCERS

## AGENDA

- Introduction – The third annual report
- Stats, stats and more stats
- The Promise
- The Investment Department
- OCERS Staff – Direct and County
- Succession Planning
- Required Reports
  - Quality of Member Services
  - Board Policy Compliance
  - Plan Sponsor Review
- Challenges in 2018 and Beyond....



# The Current State of OCERS

**This is the third annual report to the Board.**



# The Current State of OCERS



***With more than \$13 billion in assets as of Dec. 2016, OCERS is/was ranked 135 (P&I)***

# The Current State of OCERS

*Some numbers.....*

# The Current State of OCERS

## Total Membership (as of Dec. 2016)

43,485

2015	42,427
2014	41,418
2013	40,486
2012	39,618

PEPRA membership = 5,218

LEGACY membership = 38,267

# The Current State of OCERS

## Retirees (as of Dec. 2016)

16,369

<b>2015</b>	<b>15,810</b>
<b>2014</b>	<b>15,169</b>
<b>2013</b>	<b>14,505</b>
<b>2012</b>	<b>13,947</b>

# The Current State of OCERS

## Benefit Payroll for Calendar Year 2016

**717,976,000**

<b>2015</b>	<b>\$675, 963, 000</b>
<b>2014</b>	<b>\$630, 678, 000</b>
<b>2013</b>	<b>\$586, 284, 000</b>
<b>2012</b>	<b>\$541, 154, 000</b>



# The Current State of OCERS

## Total Contributions (as of Dec. 2016)

Member Contributions: \$258,297,000

Employer Contributions: \$567,196,000

**\$852,493,000**

# The Current State of OCERS

## Contribution History

(Amounts in Thousands)

Year End	Actuarially Determined Employer Contributions	Actual Employer Contributions	Member Contributions
2012	406,521	406,521	191,215
2013	426,020	427,095	209,301
2014	476,320	625,520	232,656
2015	502,886	571,298	249,271
2016	521,447	567,1963	258,297

3/19/2018

114/254

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# The Current State of OCERS

## Cash Flow - POSITIVE

(Amounts in Thousands)

Year End	Total Employer and Employee REQUIRED Contributions	Total Benefit Payroll	Amount of Positive Cash Flow
2012	597,736	541,154	56,582
2013	635,321	586,284	49,037
2014	708,976	630,678	78,298
2015	752,157	675,963	76,194
2016	779,744 115/254	717,976	61,768

3/19/2018

# The Current State of OCERS

## The Promise (as of Dec. 2016)

**\$17,933,000,000**

<b>2015</b>	<b>\$17,050,000,000</b>
<b>2014</b>	<b>\$16,413,000,000</b>
<b>2013</b>	<b>\$15,785,000,000</b>
<b>2012</b>	<b>\$15,144,000,000</b>

# The Current State of OCERS

## THE PROMISE

Actuarial Valuation Date December 31	Valuation Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Projected Covered Payroll (c)	UAAL as a Percentage of Projected Covered Payroll [(b) - (a)] / (c)
2007	\$7,288,900,000	\$9,838,686,000	\$2,549,786,000	74.08%	\$1,457,159,000	174.98%
2008	7,748,380,000	10,860,715,000	3,112,335,000	71.34%	1,569,764,000	198.27%
2009	8,154,687,000	11,858,578,000	3,703,891,000	68.77%	1,618,491,000	228.85%
2010	8,672,592,000	12,425,873,000	3,753,281,000	69.79%	1,579,239,000	237.66%
2011	9,064,355,000	13,522,978,000	4,458,623,000	67.03%	1,619,474,000	275.31%
2012	9,469,208,000	15,144,888,000	5,675,680,000	62.52%	1,609,600,000	352.55%
2013	10,417,125,000	15,785,042,000	5,367,917,000	65.99%	1,604,496,000	334.55%
2014	11,449,911,000	16,413,124,000	4,963,213,000	69.76%	1,648,160,000	301.14%
2015	12,228,009,000	17,050,357,000	4,822,348,000	71.72%	1,633,112,000	295.29%
2016	13,102,978,000	17,933,461,000	4,830,483,000	73.06%	1,759,831,000	274.49%

# The Current State of OCERS

## Fund Assets (as of Dec. 2016)

**\$13,102,978,000**

<b>2015</b>	<b>\$12,228,009,000</b>
<b>2014</b>	<b>\$11,450,911,000</b>
<b>2013</b>	<b>\$10,417,125,000</b>
<b>2012</b>	<b>\$9,469,208,000</b>

# The Current State of OCERS

## Unfunded Actuarially Accrued Liability (as of Dec. 2016)

**\$4,830,483,000**

<b>2015</b>	<b>\$4,822,000,000</b>
<b>2014</b>	<b>\$4,963,000,000</b>
<b>2013</b>	<b>\$5,367,000,000</b>
<b>2012</b>	<b>\$5,675,000,000</b>

# The Current State of OCERS

## Long Term Plan - **OCERS NET ASSET GROWTH**

Growth of System Net Investments at Fair Value  
(Dollars in Millions)





# The Current State of OCERS

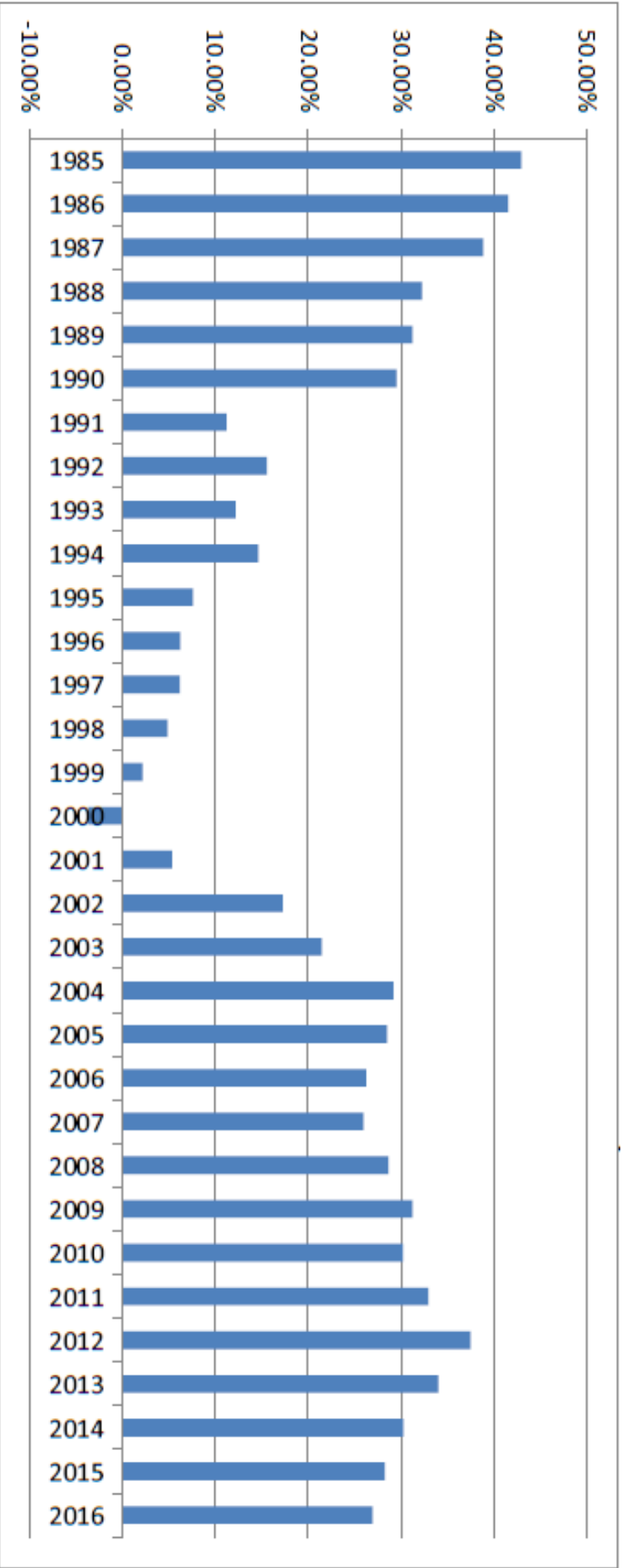
## The Unfunded Actuarial Accrued Liability (UAAL)

(Dollars in Millions)



# The Current State of OCERS

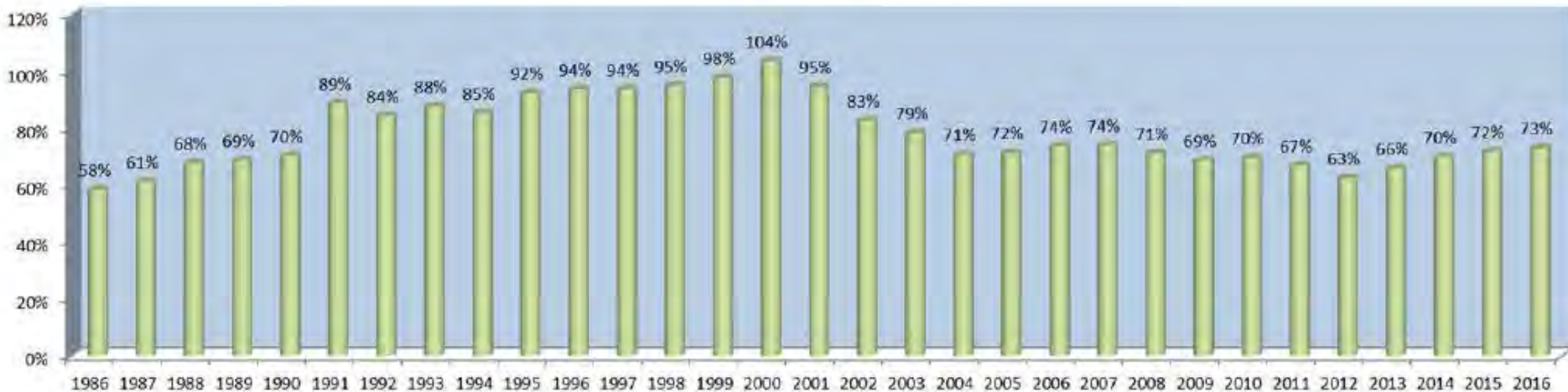
## UAAL as a % of Total Accrued Liability



# The Current State of OCERS

## The Funded Ratio

Funded Ratio by Calendar Years  
(Rounded)



(Valuation value)

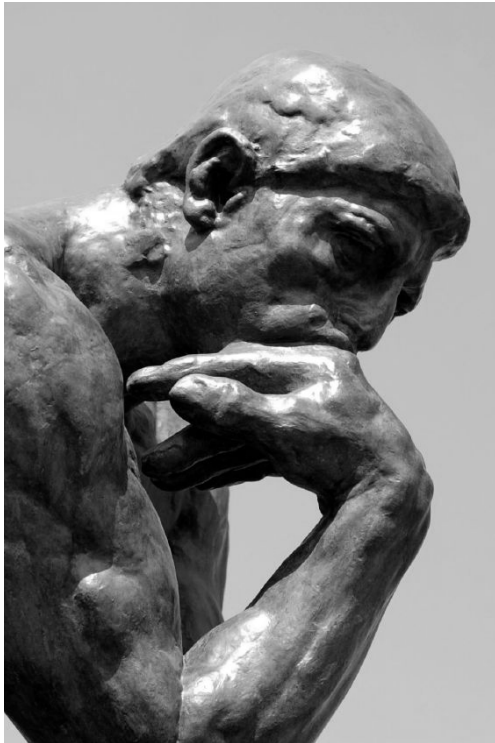
# The Current State of OCERS

## THE PROMISE

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2016	13,102,978,000	17,933,461,000	4,830,483,000	73.06%	1,759,831,000	274.49%

# The Current State of OCERS

## THE OCERS INVESTMENT PROGRAM

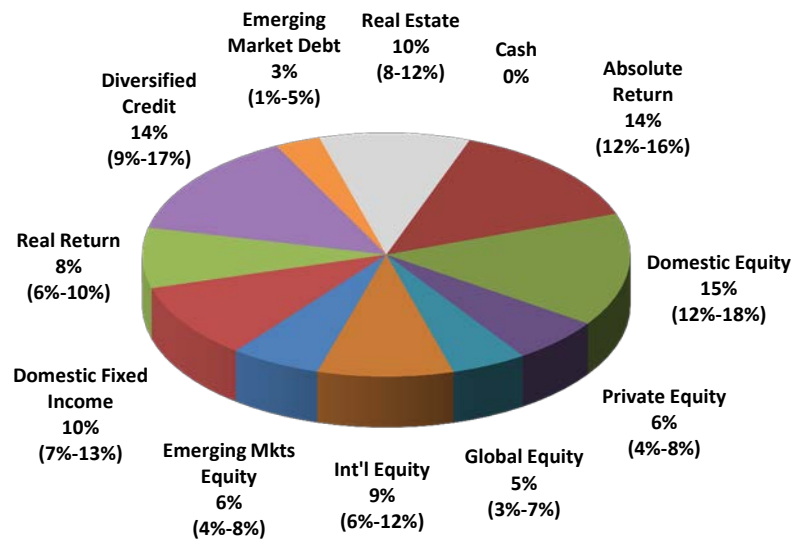


Some thoughts on the  
OCERS Investment  
Portfolio through  
calendar year 2017

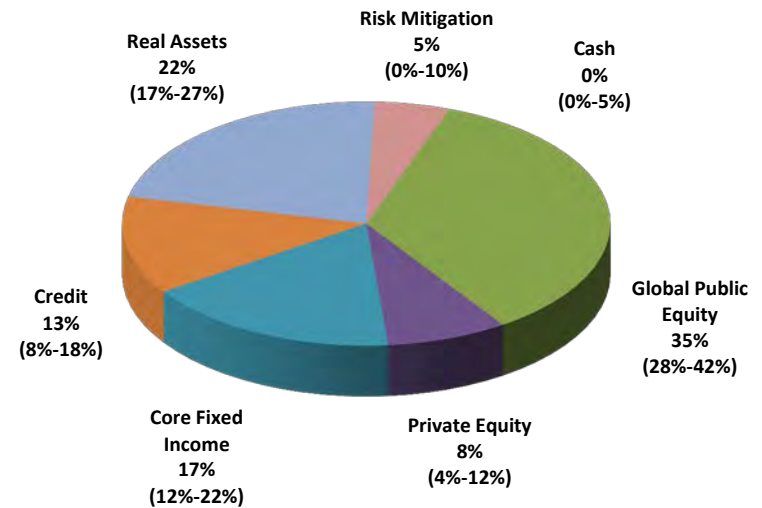
# The Current State of OCERS

## THE OCERS INVESTMENT PROGRAM

### Prior Allocation



### New Allocation



# The Current State of OCERS

## What Worked in 2017

- 2017 net of fee return of 14.5% was in excess of actuarial assumed rate of return and outperformed the policy benchmark return of 13.7% with all asset classes experiencing positive returns
- OCERS' global public equity gained 26.0% net of fees vs. 24.6% for the MSCI ACWI Index thanks to strong active returns in emerging markets equity, international equity, and small cap growth equity
- OCERS' core fixed income earned 5.1% net of fees vs. 3.5% for the Barclays Aggregate Bond Index due to strong active returns in the core plus space

# The Current State of OCERS

## What Didn't Work in 2017

- OCERS experienced very strong absolute returns in 2017 but lagged its peer group due to lower public equity allocations. OCERS' portfolio ranked in the 78<sup>th</sup> percentile for the year versus the public funds universe, and the policy benchmark ranked in the 90<sup>th</sup> percentile



# The Current State of OCERS

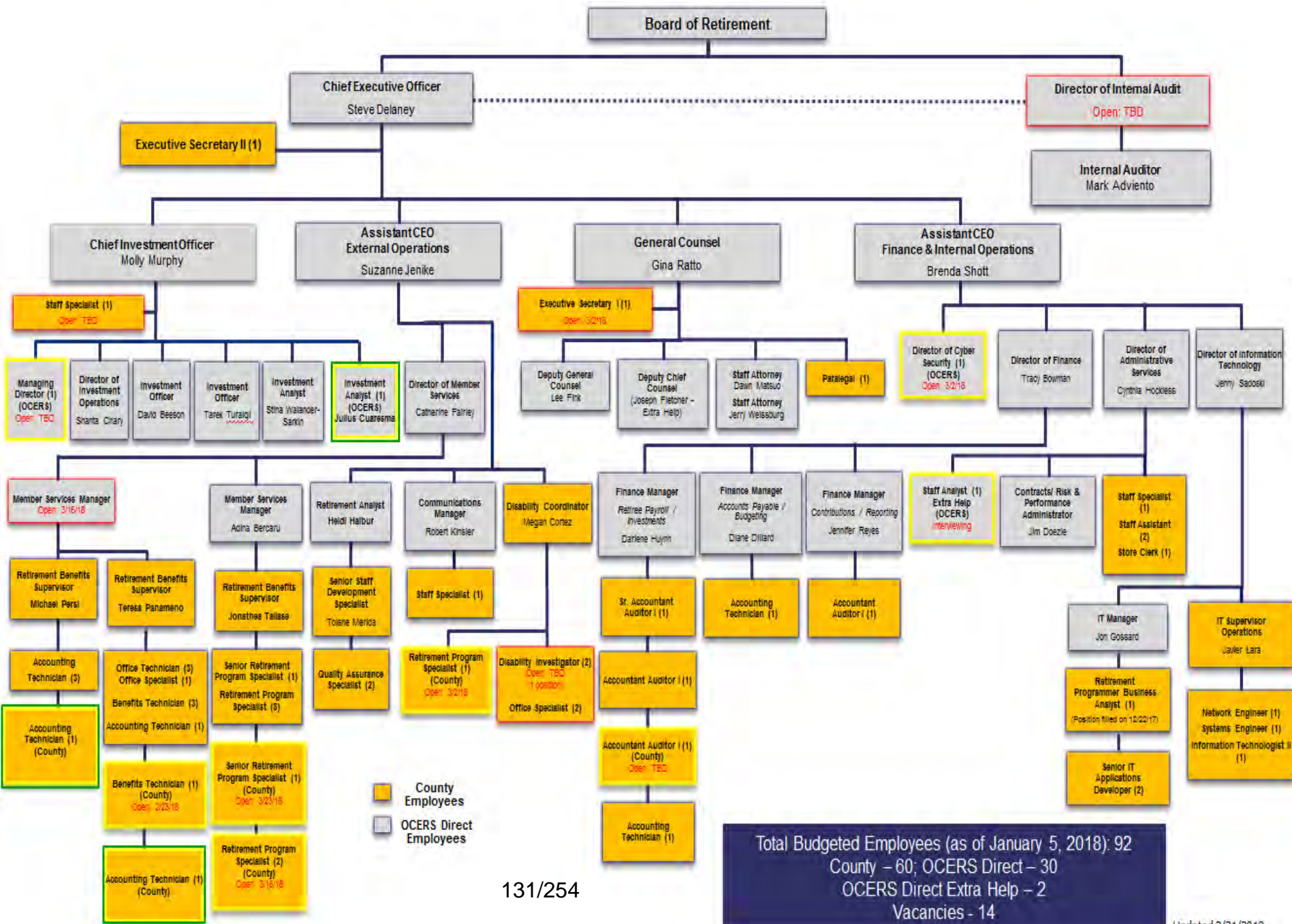
## Looking forward – in 2018

- Work with OCERS' new private equity consultant TorreyCove to begin implementing a direct private equity program which will save the second layer of fund-of-funds fees for OCERS
- Work with OCERS' new real estate consultant Townsend on a strategic plan for the real estate portfolio
- OCERS' staff and Meketa implemented the new asset allocation in 2017. Staff and Meketa will continue to provide reviews with the Investment Committee on the structure of each sub-asset class
- OCERS funded a new risk mitigation asset class in 2017. Staff and Meketa will continue to build out the risk mitigation asset class and evaluate additional uncorrelated strategies such as systematic trend following and alternative risk premia

# The Current State of OCERS

## OCERS STAFF – Direct and County





# Staffing Summary as of December 31, 2017

Budgeted Positions	80
Employees on Staff	72
Vacancies	8
Recruitments Conducted	19
New Hires (New as OCERS direct or County)	Total: 14 OCERS Direct: 3 County: 11
Employees Transferred In (County Employees)	3
Third Party Employees:	16
V3 Contractors (Linea/ViTech)	4
Independent Contractors (Contract with OCERS)	4
Temporary (Staffing Agency)	8
Employees Promoted (within Agency)	9



# Staffing Summary as of December 31, 2017

<b>Employee Separations</b>		<b>8</b>
Voluntary	7	
Terminations	0	
Probationary Release	1	
<b>Employees Transferred Out (County Employees)</b>		<b>1</b>
<b>Employee Turnover</b>		<b>11.11%</b>
	$8/72 \times 100$	
	Separations/Employees on Staff x 100	

# The Current State of OCERS

## SUCCESSION PLANNING

*“The Board of Retirement will from time to time as determined to be in the best interests of OCERS: Ensure that appropriate succession plans are in place to provide continuity in the OCERS management”*

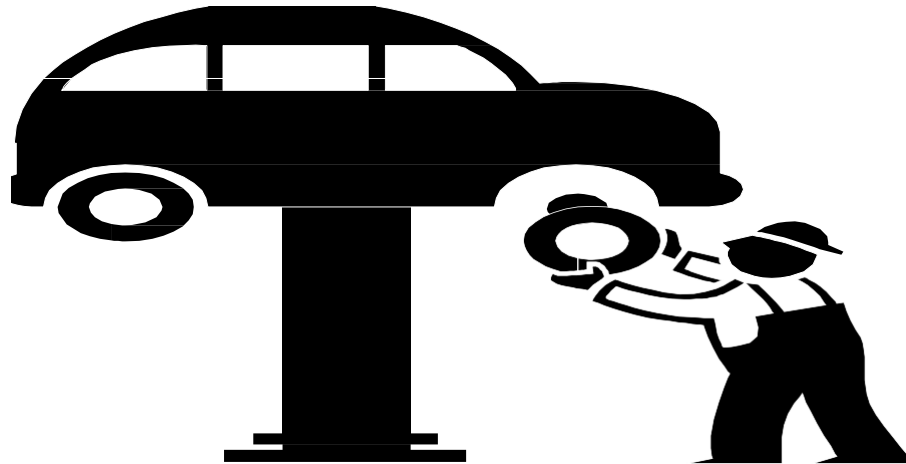
- Section 15(b) OCERS Board of Retirement Charter

# The Current State of OCERS

## SUCCESSION PLANNING

– It's not just about replacing people

Replacement planning is part of a Disaster Recovery approach...



...and it is an important first step in providing the foundation for succession planning as well.

# The Current State of OCERS

## SUCCESSION PLANNING

– It's about growing people

- Succession planning is the long term development of staff and skill sets that will serve the agency





# The Current State of OCERS

## SUCCESSION PLANNING

### – Laying the Foundation

#### First steps:

- Determine critical positions
- Identify expected vacancies
- Identify competencies, skills needed for each of those positions
- Assess where current staff stands in meeting those long-term needs



# The Current State of OCERS



## Class of 2017

3/19/2018

138/254

34

# The Current State of OCERS

*“The Board of Retirement will annually – Review the quality of services delivered to OCERS members.”*

- Section 20(e) OCERS Board of Retirement Charter



= August 2017

= August 2018

# The Current State of OCERS

## OCERS BOARD POLICY COMPLIANCE

A review of current policy compliance will be before the Board in April 2018.





# The Current State of OCERS

## OCERS PLAN SPONSORS – An annual review



Presentation by Mark Adviento, OCERS' Internal Auditor  
(immediately following)

# The Current State of OCERS

## Challenges in 2018 and Beyond...

### ► FUNDING LEVEL

**73.06%**  
**(December 31, 2016)**



# The Current State of OCERS

## Challenges in 2018 and Beyond...

### Improving Mortality and its impact on Liabilities

Age Range	Payee Count
Less than 50	208
50-59	2493
60-69	5932
70-79	5428
80-89	2269
90-99	505
100+	9



# The Current State of OCERS

## Challenges in 2018 and Beyond...

### Benefit Accuracy in a Complex System

- **Final Average Salary Component document**
- **LEAN Process Improvement**





# The Current State of OCERS

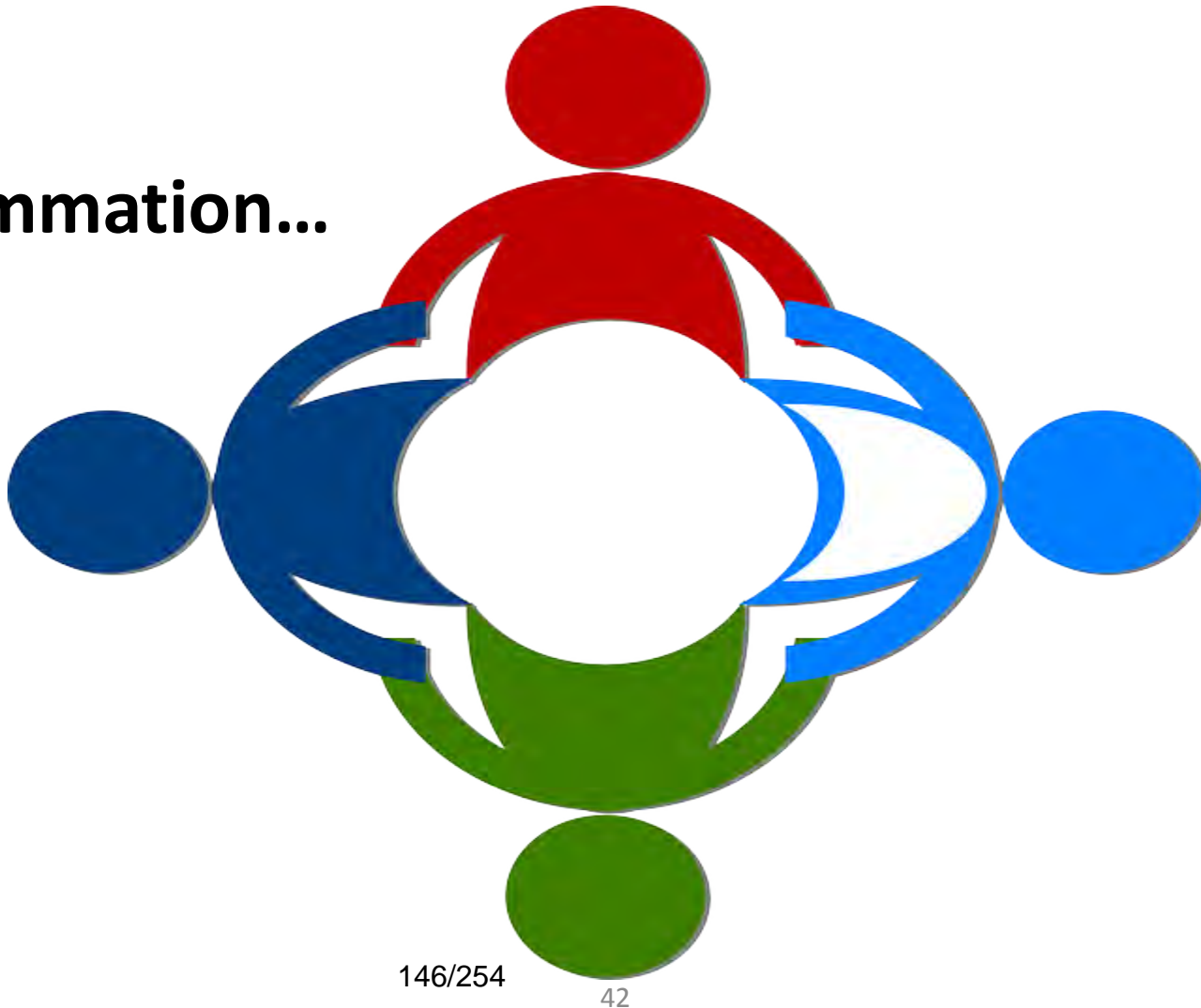
## Challenges in 2018 and Beyond...

### ➤ CYBER SECURITY



# The Current State of OCERS

**In summation...**



**1-10**



## Memorandum

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**DATE:** March 1, 2018  
**TO:** Members of the Board of Retirement  
**FROM:** Mark Adviento, Internal Auditor  
**SUBJECT:** **OCERS' PLAN SPONSORS – ANNUAL REVIEW**

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### Presentation

#### Background/Discussion

At the request of the Board, Internal Audit has prepared its fourth annual plan sponsor review and presentation. The purpose of the report is to provide the Board with information regarding plan sponsors' financial position to ascertain their capacity to meet their financial obligations to OCERS. This report update uses 2017 financial information obtained from plan sponsors, if available.

#### Submitted by:

M.A. approved

---

Mark Adviento, CPA  
Internal Auditor

# Plan Sponsors Review



**Internal Audit Presentation to the Board**  
**March 19, 2018**

## OCERS' 2018 Plan Sponsor Review report

- The report provides OCERS' Board with a summary of key financial information on OCERS' plan sponsors taken from:
  - 2017 audited financial statements and 2017 budget/forecast documents
- Internal Audit did not note anything of significance that would impair the plan sponsors' ability to continue paying their financial obligations to OCERS in the near term.
- All of the audited financial statements had an external auditor's unmodified ("clean") opinion. No external auditor disclosed any "Going Concern" issues in regards to the plan sponsor's ability to continue as a governmental entity.

## OCERS' 2018 Plan Sponsor Review report

- None of OCERS' active plan sponsors have missed required contribution payments within the prior year.
- Some plan sponsors have continued with additional payments towards their UAAL balances (totaling \$300 million in recent years).
- The report excludes the financial state of the 19 cities contracting with OCFA and/or the Orange County Sheriff's Department.
  - Contract cities are not plan sponsors of OCERS.
  - If the Board so chooses, Internal Audit can provide a similar report focused on contract cities.

Primary Revenue Sources for OCERS' Five Largest Plan Sponsors – FYE June 30, 2017:

Revenue Category	Orange County	OCFA	Superior Court	OCTA	Sanitation District
Monies from CA/Federal	52%	-	98%	31%	-
Property Tax/Other Tax	25%	62%	-	-	20%
Sales Tax	-	-	-	55%	-
Service Charges	23%	33%	-	12%	72%
<b>% of Total Revenues</b>	<b>100%</b>	<b>95%</b>	<b>98%</b>	<b>98%</b>	<b>92%</b>
Total Revenues:	\$4.2 billion	\$374 million	\$193 million	\$892 million	\$432 million

**Net Position** - Total assets less total liabilities, as of June 30, 2017 for OCERS' Five Largest Plan Sponsors:

<b>Net Position, as of Year Ending June 30 (000's):</b>			
Plan Sponsor	6/30/2015	6/30/2016	6/30/2017
Orange County	\$ 2,007,750	\$ 2,185,709	\$ 2,505,151
OCFA	\$ (169,124)	\$ (160,663)	\$ (176,774)
OCTA	\$ 1,260,358	\$ 1,417,477	\$ 1,580,417
Sanitation District	\$ 1,761,844	\$ 1,918,572	\$ 2,041,225
Superior Court	n/a	n/a	n/a

The Unrestricted Fund portion of County's Net Position actually has a deficit of \$2.6 billion.

Superior Court's financial statements are blended within those of the State of California.



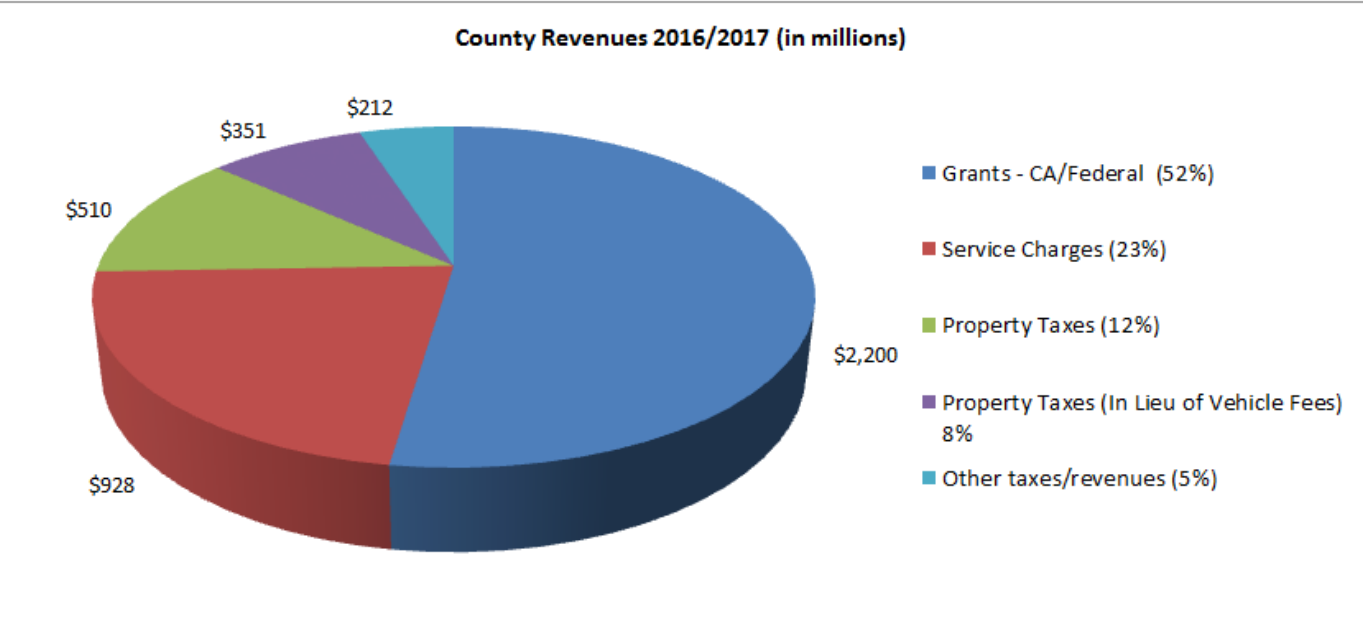


# County of Orange

County's **total primary governmental revenues** were \$4.2 billion for FYE June 2017.

### Key Revenue Sources

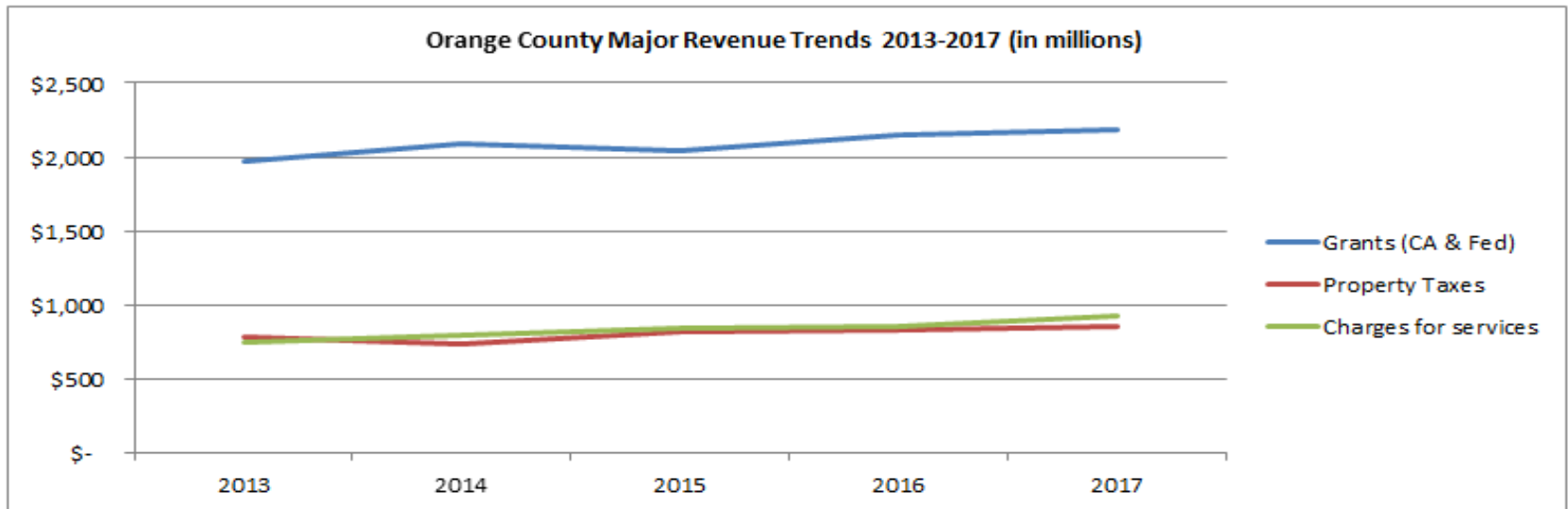
- The County's governmental activities rely on several sources of revenue:
- Operating/capital grants at \$2.2 billion
- Charges for services at \$928 million
- Property taxes at \$510 million; property taxes (in lieu of motor vehicle license fees) at \$351 million, and \$212 million in other taxes/revenue sources.





# County of Orange

- The County's 2017 Strategic Financial Plan forecast expects property tax revenue growth to decline annually from 4.5% to 3.0% between now and 2022-2023.
- In early 2017, a California state budget proposal called for reduced state support of In-Home Supportive Services which will require additional general fund contributions.
- The County maintained its Issuer Credit Rating of Aa1 from Moody's Investors Service, AA+ from Standard & Poor's Global Ratings, and AA+ Issuer Default Rating from Fitch Ratings.

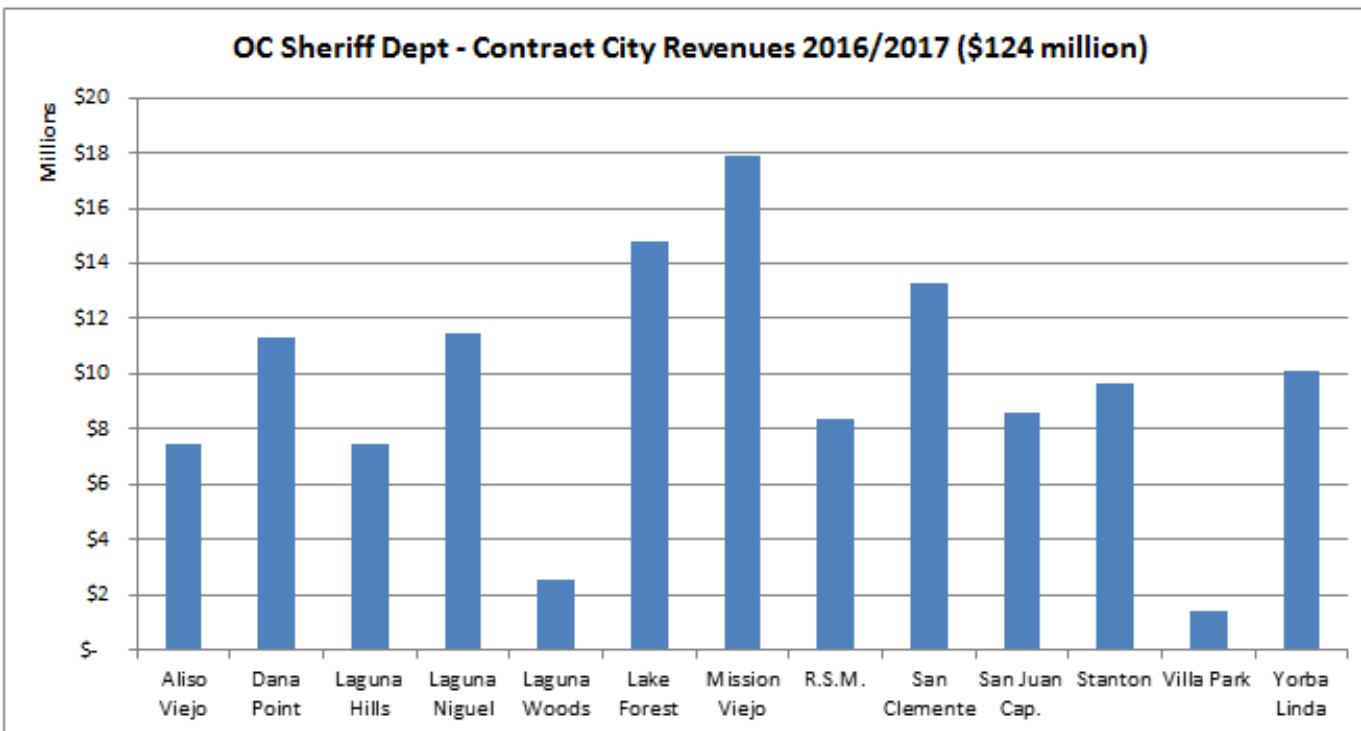




# County of Orange

## Orange County Sheriff's Department

- Received \$249 million from the Proposition 172 Public Safety ½ Cent Sales Tax in 2016-17.
- Provides public safety to 13 contract cities, unincorporated areas of the County, Orange County Transportation Authority, Harbor Patrol, and John Wayne Airport.
- The Sheriff's Department has annual and multi-year contracts with Cities.





# County of Orange

## Recent Developments

- In October 2017, the City of Mission Viejo and the other 12 contract cities jointly issued a public Request for Proposal (RFP) to perform a “cost and efficiency study project” in regards to the cost of contracting with the Orange County Sheriff’s Department for law enforcement services.

The RFP’s objective states:

- “All thirteen cities contracting with OCSD for law enforcement services desire to gain a more detailed understanding of the trends and issues resulting in annual increases in the cost of service, which continue to exceed 5% on an ongoing basis. The County leadership, including our Sheriff and County of Orange Executive Staff, also support the completion of this exercise. “
- In November 2017, the RFP was awarded to a consultant experienced in such law enforcement cost studies; it is expected to take several months to complete.

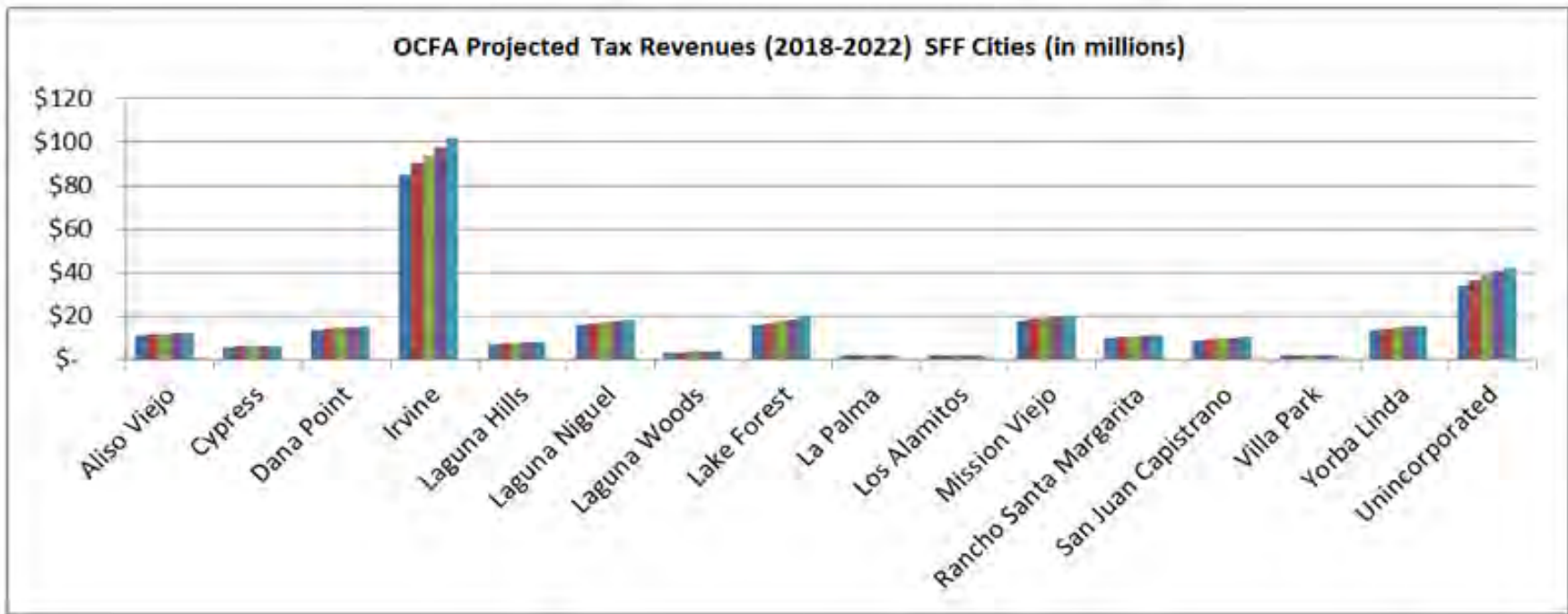


# OC Fire Authority

Total revenues were \$374 million for FYE June 2017

Structural Fire Fund Revenue (SFF) - \$233 million (62% of total revenues).

- SFF revenue is derived from 11.49% of property taxes collected by the County from SFF cities and remitted to OCFA.
- OCFA expects an average 4.5% annual increase in property tax revenues through 2022.





# OC Fire Authority

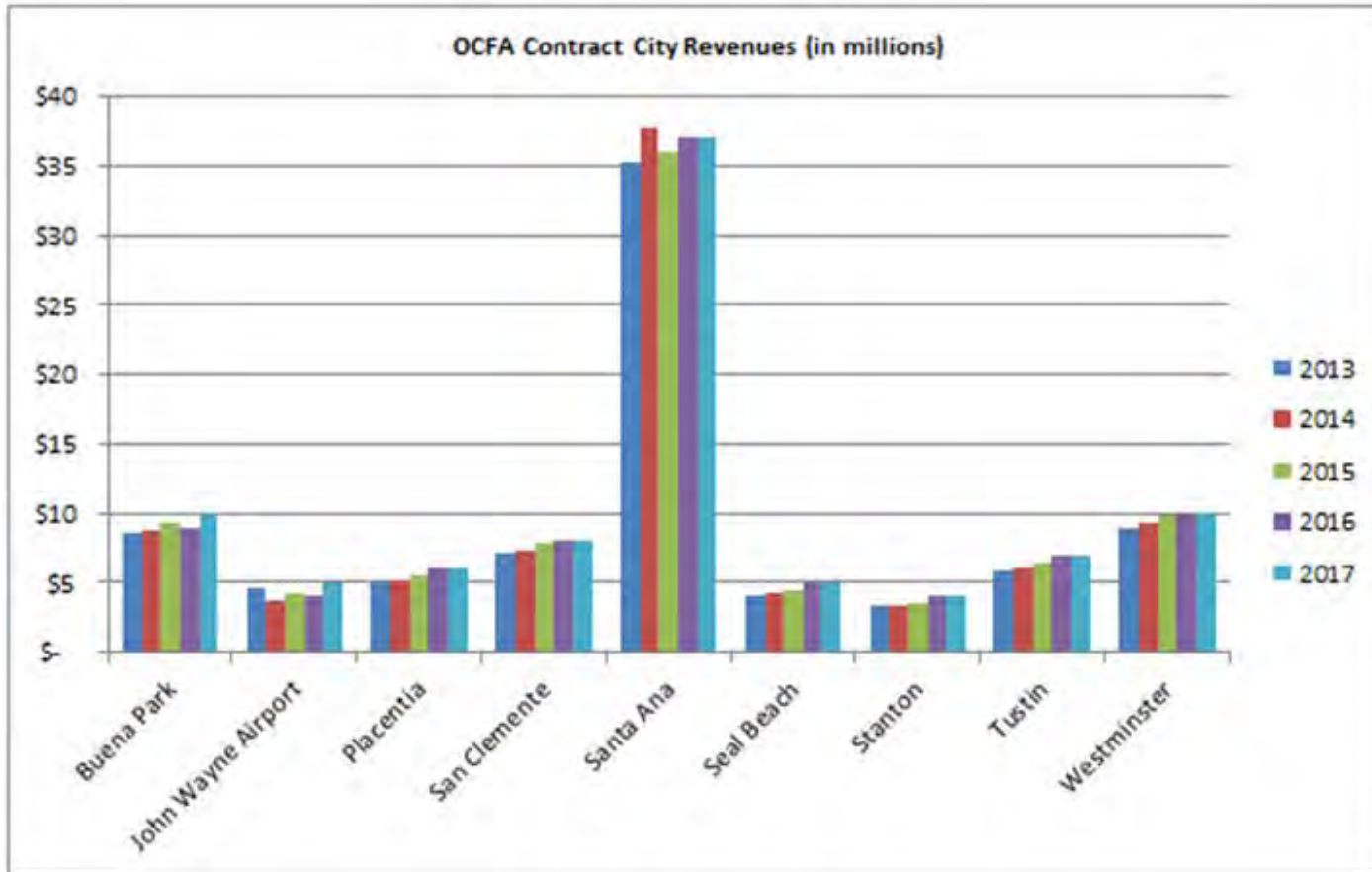
## Recent Developments

- On October 24<sup>th</sup>, 2017, Senate Bill 302 was signed into California state law.
  - Provides additional protections for Structural Fire Fund (SFF) property tax revenues.
  - Transferring SFF property tax revenues now requires approval of the County Board of Supervisors, the city councils of a majority of member cities, and the agency currently receiving SFF funds for fire protection services (i.e., the OCFA).



# OC Fire Authority

Contract City Revenue was \$122 million for FYE 2017 (33% of total revenues).





# OC Fire Authority

## Expedited Pension UAAL Payment Plan

- Continues its “Expedited Pension UAAL Payment Plan” with estimated payment of UAAL balance by 2027.

Additional payments towards its UAAL:

- FYE 2014 \$5.2 million
- FYE 2015 \$21.3 million
- FYE 2016 \$15.4 million
- FYE 2017 \$16.6 million
- FYE 2018 \$21.0 million (YTD)
- **Total of \$79.5 million in additional payments towards its UAAL.**



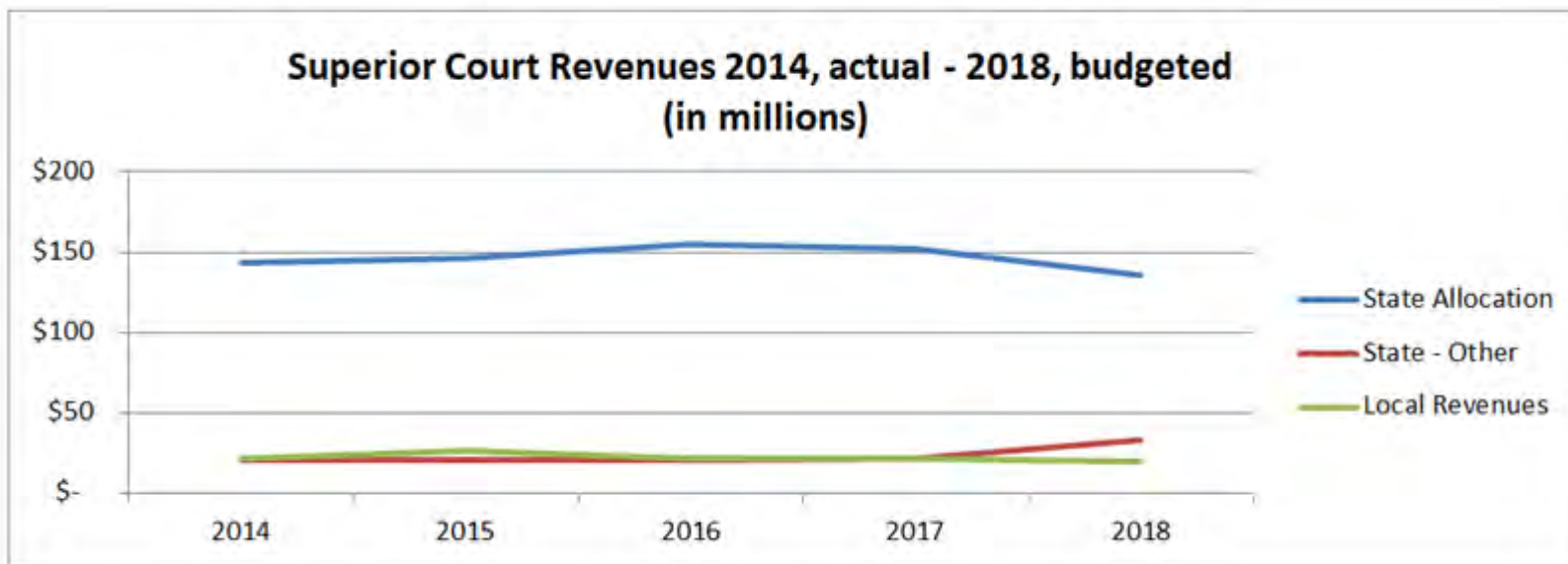


# Orange County Superior Court

Total revenues were \$193 million for FYE 2017.

## Key Revenue Sources:

- 98% of Orange County Superior Court’s funding is negotiated between the Governor and California State Legislature.
- A new state funding methodology (in 2013) has reduced the court’s base funding by \$14 million in aggregate since then.





# Orange County Transportation Authority

OCTA's total revenues were \$892 million for FYE June 2017.

## Key Revenue Sources:

- **Taxes** of \$491 million (55% of total revenues) is comprised of Orange County's Measure M2, California's Transportation Development Act , and State Transit Assistance programs.
- **Federal and State Grants** of \$275 million (31% of total revenues) is comprised of Federal Operating Assistance Grants, Federal Capital Assistance Grants, and other federal or state grants. (12% of total revenues)
- **Service Charges** of \$109 million (12% of total revenues) is comprised of toll revenues from the 91 Freeway Express Lanes and revenues from operating bus routes and Metrolink railway routes.



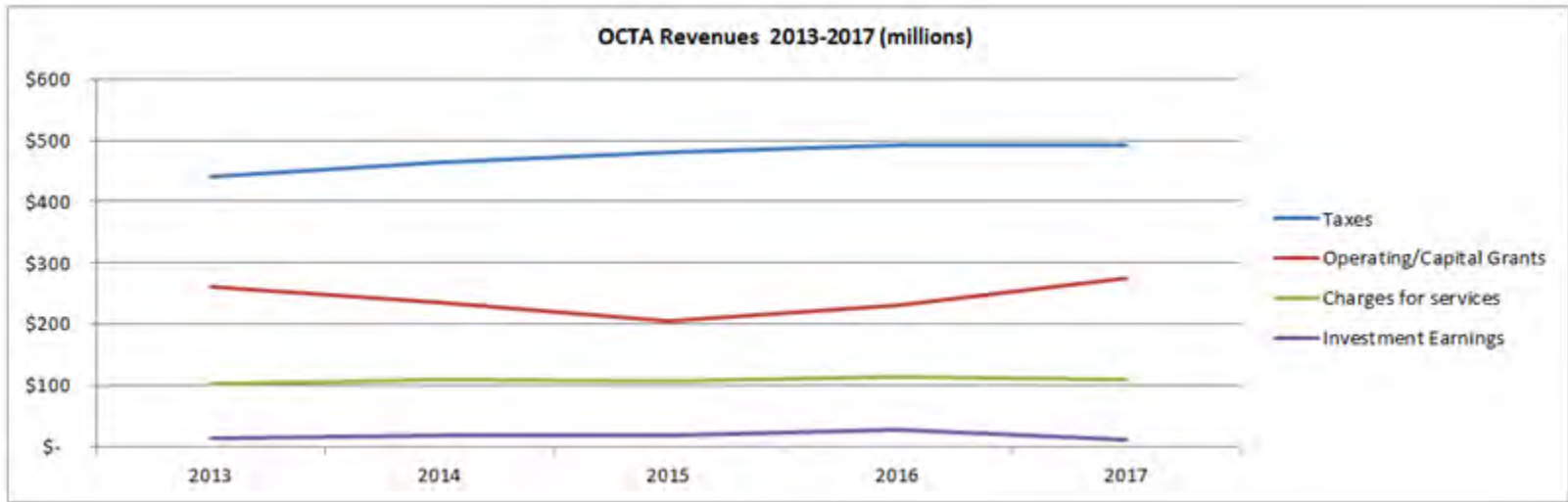
# Orange County Transportation Authority

## Agency Ratings:

- “AA+” rating from both Standard & Poor’s and Fitch for sales tax revenue bonds (\$352 million).
- “A1” by Moody’s, “A” from Fitch and “AA-” by Standard & Poor’s for the 91 Express Lanes toll road revenue bonds (\$124 million).



# Orange County Transportation Authority



- OCTA projects that their bus program will receive \$1 billion less in California’s Transportation Development Act (TDA) ¼ cent state sales tax revenue over the next 20 years (from \$5.4 billion to \$4.4 billion over 20 years).
- OCTA estimates by 2028-2029 that the bus system will be cash flow negative.
- OCTA is working on a long-term plan (e.g. reduced number of buses/routes, cancelling capital improvement projects, eliminating employer pickups of employee pension contributions, and outsourcing transportation services) to adequately address this shortfall.

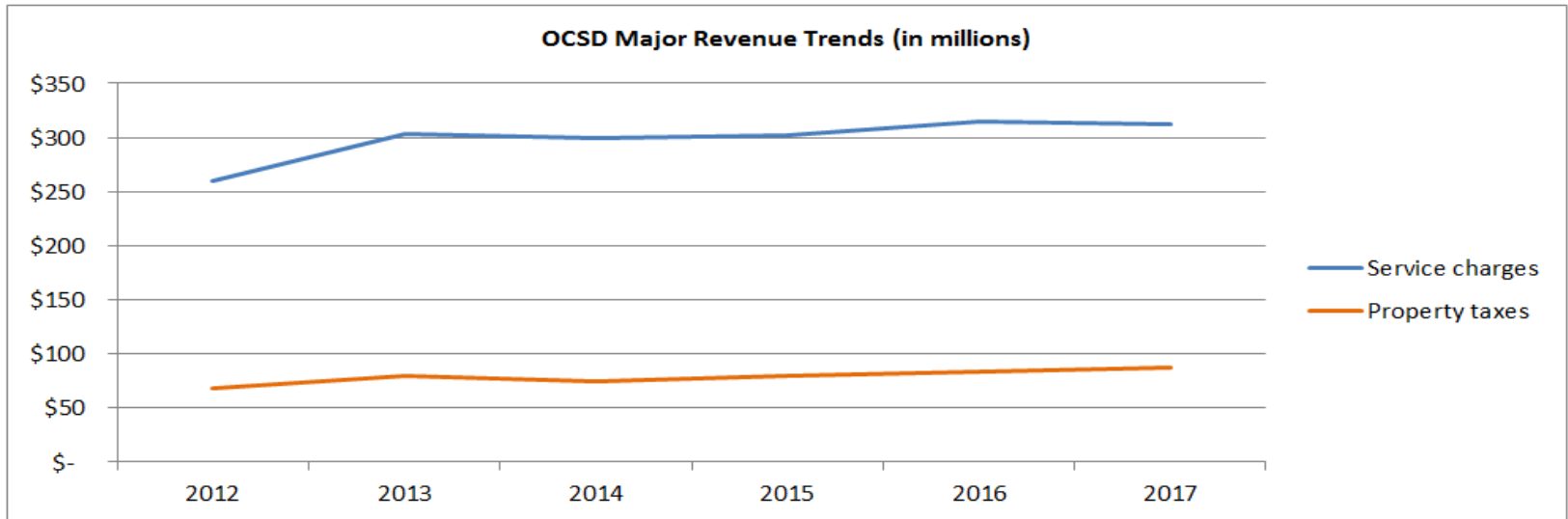


# Orange County Sanitation District

Total revenues were \$432 million for FYE June 2017.

## Key Revenue Sources

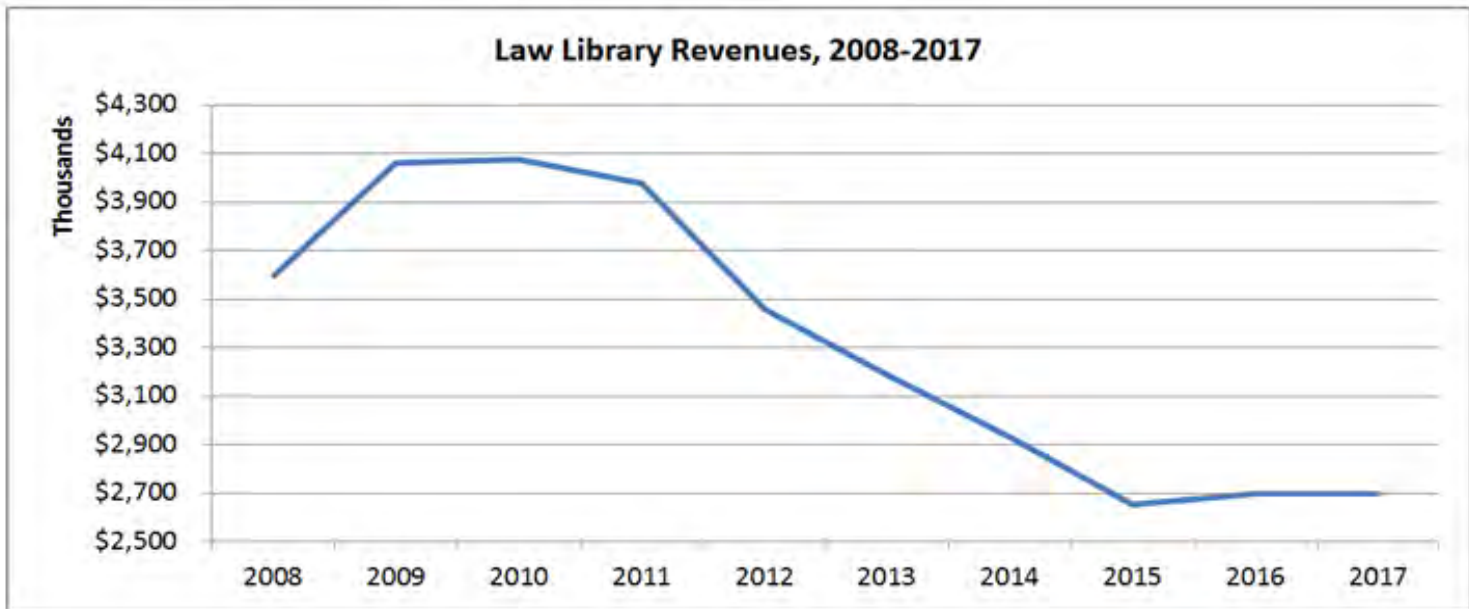
- Service Charges were \$312 million (72% of total revenues): user fees are ongoing by customers connected to the sewer system.
- Property taxes were \$88 million (20% of total revenues): dedicated for the payment of debt service.
- Has no UAAL for the OCERS' plan as of FYE June 2017, \$214 million in payments over prior three years.
- "AAA" rated by both Standard and Poor's and Fitch ratings agencies.





# Orange County Public Law Library

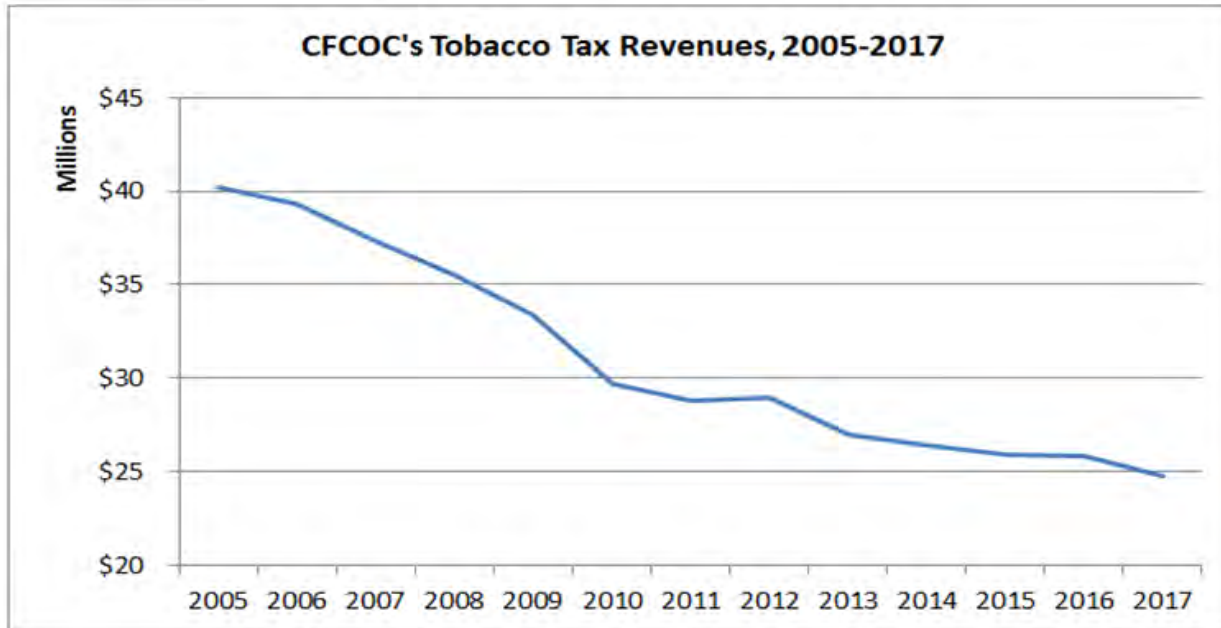
- **Court Filing Fees** of \$2.8 million for FYE 2017 (98% of revenues).
- The number of civil cases filed has declined – a 6% annual average decline since the statutory limit to qualify as a small claims court lawsuit increased from \$7,500 to \$10,000 in 2012, plus fee waivers granted by the Courts negatively effect revenues.
- Court Filing Fee Revenues have declined since 2010 from \$4 million annually, but revenues in recent years have leveled off.
- Paid an additional \$3 million towards its UAAL in the last two years to eliminate its UAAL.





# Children & Families Commission

- **Tobacco Tax revenues** of \$24.8 million for FYE 2017 (93% of revenues).
  - CFCOC' long-term assumption for Tobacco Tax revenues is a 3% annual decline, with projected revenues of \$18 million by the 2025/2026 fiscal year. As a result, the CFCOC began developing three year business plans that step down/modify the services it provides to the public.
  - As revenues continue to decline in the long-term, this agency may become subject to OCERS' Declining Payroll Policy. It is unclear if and when this would occur.
  - Paid an additional \$1.7 million towards its UAAL in 2017.





# Questions?





# **OCERS' 2018 Plan Sponsor Review**

**Report Date: March 7, 2018**

**Internal Audit Division**

**Internal Auditor: Mark Adviento, CPA**

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## **Executive Summary**

The OCERS' 2018 Plan Sponsor Review report (Plan Sponsor report) provides OCERS' Board of Retirement with a summary of key financial information on OCERS' plan sponsors based upon information provided by their 2017 audited financial statements and 2017 budget and forecast documents.

- Internal Audit did not note anything that could significantly impact the plan sponsors' ability to continue paying their financial obligations to OCERS in the near term.
- All of the audited financial statements obtained from the plan sponsors contained an external auditor's unmodified ("clean") opinion. In addition, no external auditor disclosed any "Going Concern" issues in regards to the plan sponsor's ability to continue as a governmental entity.
- None of OCERS' active plan sponsors have missed required contribution payments required of the OCERS' plan since the prior year's Plan Sponsor report.
- Also since the prior year's Plan Sponsor report, some plan sponsors have continued with additional payments towards their unfunded actuarial accrued liability (UAAL); payments totaling \$298 million in recent years from the Orange County Sanitation District, the Orange County Fire Authority, The Children and Families Commission of Orange County, the Orange County Public Law Library, UC Irvine Medical Center & Campus, and the Orange County Department of Education.

Although this report includes financial information on OCFA and the Orange County Sheriff's Department, it does not include financial information of the entities that contract with OCFA and/or the Orange County Sheriff's Department. A financial summary of the 19 contract cities that contract with OCFA and/or the Orange County Sheriff's Department would require a separate report.

## **Introduction**

At its May 19, 2014 Regular Meeting, the OCERS Board of Retirement (Board) directed the OCERS Internal Audit Department to prepare an annual report on key financial information on OCERS' plan sponsors. This report is the fourth annual compilation of key financial information, such as revenue sources and net positions.

The Board can change its funding policy or revise its unfunded actuarial accrued liability (UAAL) amortization schedule in consultation with its actuary and as described in OCERS' *Declining Employer Payroll Policy*. However, the current financial states of OCERS' plan sponsors do not appear to indicate a need for such Board actions to ensure that plan sponsors meet their financial obligations to OCERS.

## Background

### Scope

This report includes financial information on OCERS' plan sponsors for fiscal year ending June 30, 2017, if publicly available. There were 21,964 active members within OCERS' thirteen plan sponsors as of December 31, 2017.

### Background

Primary Revenue Sources for OCERS' Five Largest Plan Sponsors - Year Ending June 30, 2017:

Revenue Category	Orange County	OCFA	Superior Court	OCTA	Sanitation District
Monies from CA/Federal	52%	-	98%	31%	-
Property Tax/Other Tax	25%	62%	-	-	20%
Sales Tax	-	-	-	55%	-
Service Charges	23%	33%	-	12%	72%
<b>% of Total Revenues</b>	<b>100%</b>	<b>95%</b>	<b>98%</b>	<b>98%</b>	<b>92%</b>
Total Revenues:	\$4.2 billion	\$374 million	\$193 million	\$892 million	\$432 million

### Plan Sponsors' Rating Agency Bond Ratings, Purpose of Debt, and Form of Security:

Orange County	OCTA	Sanitation District	Toll Roads	City of SJC
AA-/AA for \$264 MM of Revenue Bonds.	AA- for \$124 MM of Toll Road Revenue Bonds.	AAA for \$1 BB of Certificate of Participation Notes and Revenue Bonds.	BB+/BBB for \$4.7 BB of Toll Road Revenue bonds.	AAA for \$30 MM in General Obligation Bonds.
AA for \$11 MM of Pension Obligation Bonds.	AA+ for \$318 MM of M2 Tax Revenue Bonds.			\$27 MM in Certificates of Participation Notes/Water Refunding Bonds.
Debt issued to pay pension payments, construction of facilities, and to finance the Teeter Plan.	Debt issued to pay for Measure M2 projects and acquisition of 91 Express Toll Roads.	Debt issued to pay for treatment plant upgrades and water recycling facilities.	Debt issued to construct the 73, 241, & 261 toll roads.	Debts issued to acquire, preserve, and improve land; and to construct a ground water recovery plant.
Secured by lease payments from the County, general purpose revenues, airport revenues, and waste management revenues.	Secured by M2 sales tax revenues and 91 Express Lanes toll fees.	Secured by sewer usage fees.	Secured by toll road revenues.	Secured by property tax revenues and water usage fees.

**Net Position** - Total assets less total liabilities, as of June 30, 2017 for OCERS' Five Largest Plan Sponsors:

<b>Net Position, as of Year Ending June 30 (000's):</b>			
<b>Plan Sponsor</b>	<b>6/30/2015</b>	<b>6/30/2016</b>	<b>6/30/2017</b>
Orange County	\$ 2,007,750	\$ 2,185,709	\$ 2,505,151
OCFA	\$ (169,124)	\$ (160,663)	\$ (176,774)
OCTA	\$ 1,260,358	\$ 1,417,477	\$ 1,580,417
Sanitation District	\$ 1,761,844	\$ 1,918,572	\$ 2,041,225
Superior Court	n/a	n/a	n/a

The Unrestricted Fund portion of County's Net Position actually has a deficit of \$2.6 billion.

Superior Court's financial statements are blended within those of the State of California.

**Pension Debt** - Net Pension Liability (NPL) is the accounting-based equivalent of UAAL that plan sponsors must report on their financial statements (GASB 68). See the chart below for plan sponsors' NPL for the fiscal years ending 2015 through 2017 calculated by OCERS actuary, Segal Consulting (Segal) using an actuarial measuring date of December 31<sup>st</sup>. Total NPL decreased \$525 million between 2016 and 2017 primarily due to an 8.71% 2016 rate of return exceeding OCERS' targeted investment earnings rate of 7.0%.

<b>GASB 68 Net Pension Liability (in '000s), per Segal Consulting:</b>			
<b>Plan Sponsor</b>	<b>6/30/2015</b>	<b>6/30/2016</b>	<b>6/30/2017</b>
Orange County	3,897,233	4,391,071	4,043,856
OCFA	466,968	517,670	469,431
Superior Court	355,886	395,957	349,174
OCTA	203,593	250,193	230,260
Sanitation District	57,419	42,440	(10,385)
San Juan Capistrano	27,866	29,249	25,089
OCERS	20,656	24,747	21,886
Toll Roads	10,683	12,713	12,423
Children & Families	3,957	4,066	3,158
Law Library	3,222	3,472	1,770
LAFCO	1,303	1,157	1,341
In-Home Support Services	672	896	752
Cemetery District	(95)	534	222
UCI *	26,578	36,184	36,114
Dept of Education *	3,638	4,307	4,416
Vector Control *	2,900	1,942	1,670
Rancho Santa Margarita *	2	7	9
<b>Net Pension Liability</b>	<b>\$ 5,082,481</b>	<b>\$ 5,716,605</b>	<b>\$ 5,191,186</b>

Gray-shaded plan sponsors represent 98% of the total pension liability.

\* Denotes an Inactive Plan Sponsor

**Contributions** - OCERS' five largest plan sponsors paid 98% of employer and employee contributions received by OCERS for the year ending December 31, 2017. The County is OCERS' largest plan sponsor and paid 73% of employer and employee contributions received by OCERS for the year ending December 31, 2017. The four next largest plan sponsors (OCFA, Orange County Superior Court, the Orange County Transportation Authority, and the Orange County Sanitation District) taken together paid 25% of employer and employee contributions received by OCERS for the year ending December 31, 2017.

No actuarially required contribution payments have been missed by an active plan sponsor. Following are contributions received by plan sponsors over the past three years.

<b>Employer/Employee Contributions (in 000's) for year ending December 31:</b>			
<b>Plan Sponsor</b>	<b>2015</b>	<b>2016</b>	<b>2017 (prelim)</b>
Orange County	\$ 585,487	\$ 611,140	\$ 626,850
OCFA	\$ 99,495	\$ 88,470	\$ 119,584
Superior Court	\$ 48,038	\$ 47,455	\$ 45,722
OCTA	\$ 34,211	\$ 33,653	\$ 33,236
Sanitation District	\$ 70,361	\$ 56,208	\$ 15,121
San Juan Capistrano	\$ 3,136	\$ 3,073	\$ 3,193
OCERS	\$ 2,918	\$ 2,870	\$ 2,861
Toll Roads	\$ 2,139	\$ 2,523	\$ 2,431
Children & Families Commission	\$ 491	\$ 412	\$ 2,101
Law Library	\$ 524	\$ 1,984	\$ 1,964
In-Home Support Services	\$ 263	\$ 289	\$ 316
Cemetery District	\$ 270	\$ 282	\$ 301
LAFCO	\$ 136	\$ 172	\$ 162
UCI *	\$ 78	\$ 1,316	\$ 2,948
Department of Education *	\$ -	\$ -	\$ 524
Vector Control *	\$ 326	\$ -	\$ 4
<b>Total:</b>	<b>\$ 847,873</b>	<b>\$ 849,847</b>	<b>\$ 857,318</b>

\* Denotes an Inactive Plan Sponsor, payments mostly represent UAAL payments from the employer or service credit purchases from retiring members.

## County of Orange

The County of Orange (the County) is governed by a five-member Board of Supervisors, who each serve four-year terms, and annually elect a Chair and Vice-Chair. A County Executive Officer, who reports to the Board of Supervisors, oversees nineteen County departments, and elected department heads oversee seven County departments.

The County is OCERS' largest plan sponsor, with 16,953 active members or 77% of OCERS' total active members. The County and its employees contributed \$627 million (preliminary) to OCERS for the year ended December 31, 2017 (representing 73% of total contributions received by OCERS in that period).

Although the County's Net Position is a positive \$2.5 billion entity wide, the Unrestricted Fund portion of the Net Position has a deficit of \$2.6 billion primarily due to the recognition of the net pension liability on its Balance Sheet.

### **As of County Fiscal Year Ending:**

	6/30/15	6/30/16	6/30/17
Total Assets	\$8.3 billion	\$9.1 billion	\$9.2 billion
Total Liabilities	\$6.3 billion	\$6.9 billion	\$6.7 billion
Net Position	\$2.0 billion	\$2.2 billion	\$2.5 billion
Cash and Cash Equivalents	\$2.6 billion	\$2.8 billion	\$2.9 billion
Net Pension Liability	\$3.9 billion	\$4.4 billion	\$4.0 billion

### **Pension Contribution Rates, per Segal's actuarial valuation dated:**

	12/31/14	12/31/15	12/31/16
Employer Contribution Rate - Safety	43% / 58%*	45% / 62%*	48% / 63%*
Avg. Member Contribution Rate - Safety	16%	16%	16%
Employer Contribution Rate - General	34%	34%	34%
Avg. Member Contribution Rate - General	11%	11%	11%

\*OC Probation Department / OC Sheriff's Department

## **Revenues**

The County's total primary governmental revenues (which exclude draws from reserves and intra-governmental fund transfers) were \$4.2 billion for the year ending June 30, 2017.

The County's governmental activities rely on several sources of revenue to finance ongoing operations. Operating/capital grants and contributions comprised the largest revenue source for



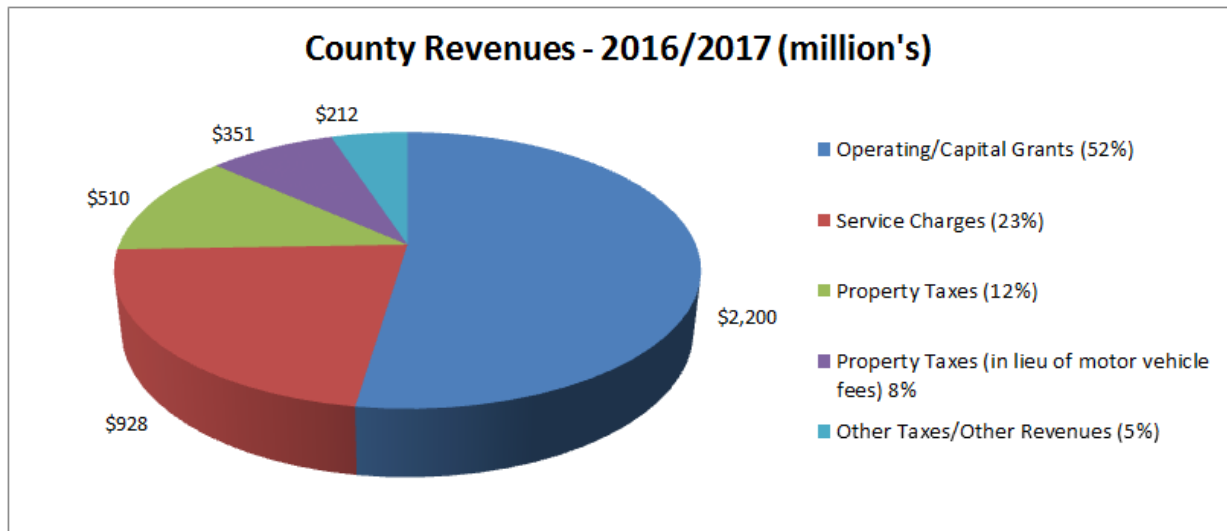
the County at \$2.2 billion, followed by charges for services at \$928 million, property taxes at \$510 million, property taxes (in lieu of motor vehicle license fees) at \$351 million, and \$212 million in other taxes/general revenue sources.

Operating/Capital grants and contributions (\$2.2 billion) are monies received from parties outside the County and are generally restricted to one or more specific programs such as State and Federal revenues for public assistance programs and for health care programs. In early 2017, a California state budget proposal called for reduced state support of county elderly assistance programs. The County of Orange had estimated that this would add nearly \$465 million in costs to the County over the next six years. However, a revised state budget walked back these cuts temporarily for the next two to four years.

Charges for services are revenues (\$928 million) that arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Examples of the types of services that fall under this category include engineering services provided to cities under contract, park and recreation fees, and law enforcement services provided to cities under contract.

Property taxes (\$510 million) are levied by the County. The 1% tax rate is the general levy for property tax based on assessed property values within the County.

The County receives property taxes “In-Lieu of Motor Vehicle License Fees” (\$351 million in 2017) as part of the California State Budget Act of 2004. The Legislature reduced the backfill to cities and counties for reductions in the Vehicle License Fee and in return gave cities and counties additional property tax revenue.



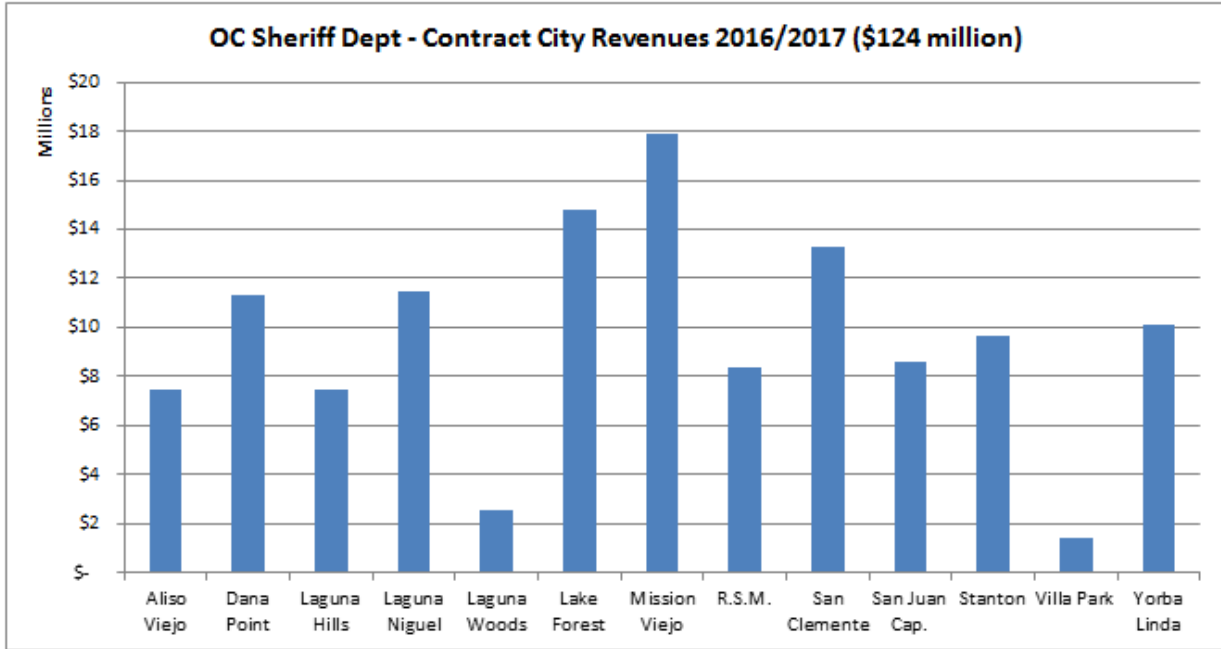
## **Sheriff's Department**

A large component of service charges for government services was public safety services provided by the Orange County Sheriff's Department (Department) to 13 contract cities, unincorporated areas of the County, Orange County Transportation Authority, Harbor Patrol and John Wayne Airport. The Department has approximately 3,500 sworn and professional staff members in addition to reserve personnel. The Department receives financial support from the Proposition 172 Public Safety ½ Cent Sales Tax which provided approximately \$249 million for fiscal 2016-2017. For fiscal 2016-17, 13 contract cities also paid approximately \$124 million to obtain the services of the Department. In addition to the contract cities above, OCTA paid \$7 million, John Wayne Airport paid \$16 million, and the Harbor Patrol paid \$13 million for the services of the Sheriff's Department for fiscal year 2016/2017. Service charges for law enforcement services provided to contract cities are budgeted to increase by an average of 6.97% for next fiscal year 2017-2018.

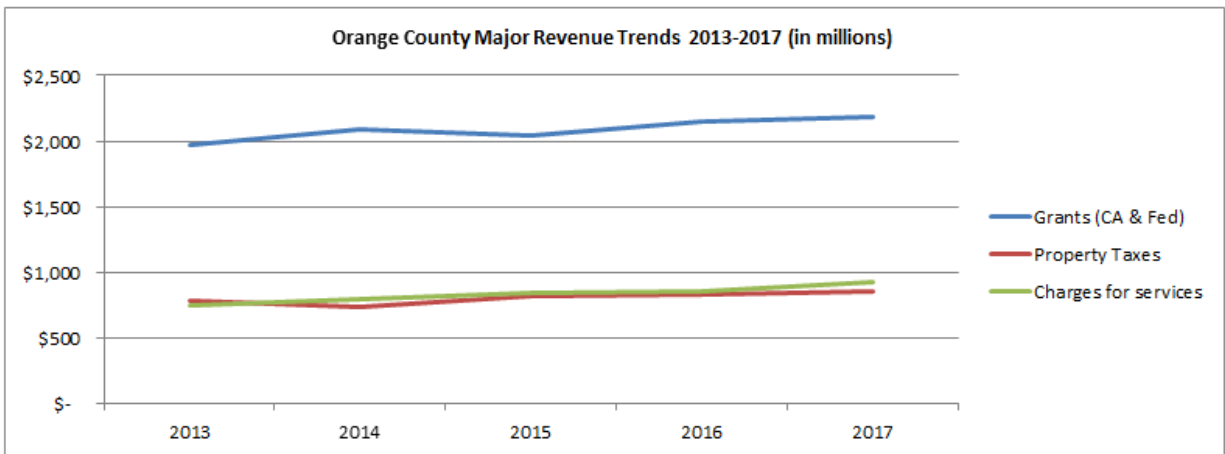
The Sheriff's Department has annual and multi-year contracts with Cities, and either party can terminate the agreement with 180 days written notice.

In November 2017, the above contract cities hired a consultant to perform a "cost and efficiency study project" in regards to the cost of contracting with the Orange County Sheriff's Department for law enforcement services. The study is expected to take several months to complete.

The project's objective states, "All thirteen cities contracting with OCSD for law enforcement services desire to gain a more detailed understanding of the trends and issues resulting in annual increases in the cost of service, which continue to exceed 5% on an ongoing basis. The County leadership, including our Sheriff and County of Orange Executive Staff, also support the completion of this exercise. "



## County Revenue Trends



**County’s Long-Term Debt and Bond Ratings (Non-UAAL liability), as stated in its 2017 CAFR:**

<b>Outstanding Long Term Debt, as of 06/30/17</b>	<b>Type of Bonds</b>	<b>Fitch Ratings</b>
\$264 million	Revenue Bonds	AA- to AA
\$11 million	Pension Obligation Bonds	AA
\$28 million	Teeter Plan Notes	Not Rated
\$11 million	Total Bond Premium	n/a
\$47 million	Total Interest Accretion	n/a
\$1 million	Certificates of Participation	n/a
<b>\$362 million, total</b>		

The County maintains an Issuer Credit Rating of Aa1 from Moody’s Investors Service, AA+ from Standard & Poor’s Global Ratings, and AA+ Issuer Default Rating from Fitch Ratings.

**Net Position as of June 30, 2017**

The total assets of the County exceeded total liabilities at June 30, 2017 by \$2.5 billion. The County’s Net Position was comprised of the following:

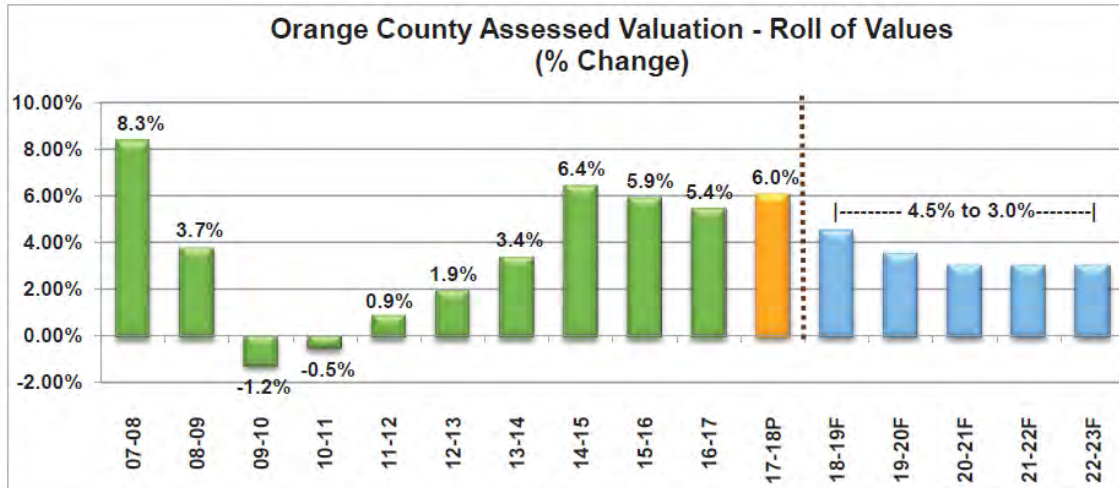
- **Net Investments in capital assets** of \$3.5 billion includes buildings, equipment, land, construction in progress, structures, equipment, software, and infrastructure.
- **Restricted** was \$1.6 billion, which combined amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation and was primarily for social services/welfare grants, pension obligation bonds, future capital projects, and the County’s debt service.
- **Unrestricted** has a deficit of \$2.6 billion. The unrestricted fund balance is to be made available for any purpose approved by the Board of Supervisors, but is negative due to the recognition of the net pension liability (GASB 68).

**Budgeting and Forecasting by the County**

On June 26<sup>th</sup>, 2018, the Board of Supervisors adopted the fiscal year 2017-18 Budget prepared by the County Executive Office. On December 12<sup>th</sup>, 2017, the County Executive Office presented to the Board of Supervisors the 2017 Strategic Financial Plan, which included its forecast and key indicators utilized to prepare the plan. The Strategic Financial Plan is influenced by several economic factors, measuring the County against the nation and other counties and against its own past performance.

According to the Orange County Assessor’s Office, the County’s most recent total net taxable value on the Roll (listing of all taxable county property) is \$558 billion. The Roll of Values is up 6.02% or \$32 billion more than last year. Each of the County’s 34 cities and the unincorporated

areas had a year-to-year increase in net taxable value. Within the County’s “2017 Strategic Plan”, the following chart illustrates the history of the percent change in Orange County’s Secured Assessment Roll of Value and the County’s forecast for upcoming years:



**Orange County Fire Authority (OCFA)**

OCFA was formed on March 1, 1995, transitioning from the Orange County Fire Department to a Joint Powers Authority (JPA). The OCFA is an independent special district that services twenty-three member cities and the unincorporated areas of Orange County. A twenty-five member Board of Directors governs the OCFA. This board includes an elected official from each of the twenty-three member cities and two representatives from the County Board of Supervisors. The OCFA is managed by an appointed Fire Chief who reports to the Board of Directors. Emergency response services are provided to 1.8 million residents in a 576 square mile area of Orange County.

OCFA is one of OCERS’ five largest plan sponsors. OCFA has 1,308 active employees, or 6% of OCERS’ active membership. OCFA and its employees contributed \$120 million (preliminary) to OCERS for the year ended December 31, 2017 (representing 14% of total contributions received by OCERS in that period).

OCFA’s Net Position has a deficit of \$177 million entity-wide; the Unrestricted portion of the Net Position has a deficit of \$373 million primarily due to the recognition of the net pension liability (GASB 68).

**As of OCFA’s Fiscal Year Ending:**

	6/30/15	6/30/16	6/30/17
Total Assets	\$494 million	\$562 million	\$530 million
Total Liabilities	\$663 million	\$723 million	\$707 million
Net Position	-\$169 million	-\$161 million	-\$177 million
Cash and Investments	\$165 million	\$178 million	\$178 million
Net Pension Liability	\$467 million	\$518 million	\$469 million

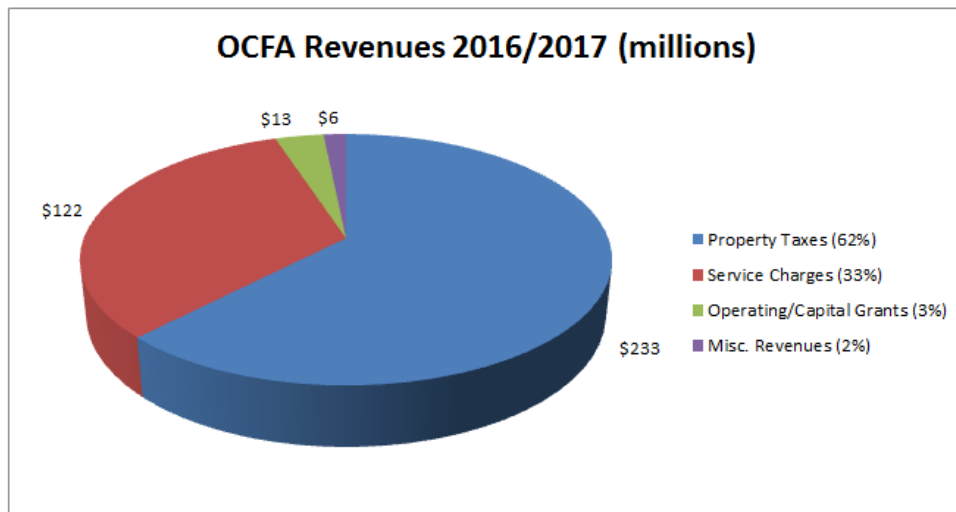
**During OCFA’s Fiscal Year Ending:**

	6/30/15	6/30/16	6/30/17
Required Contributions to OCERS	\$61.3 million	\$63.3 million	\$66.3 million
As a % of Covered Payroll	48%	48%	46%
Actual Contributions to OCERS (Note 1)	\$87.5 million	\$82.7 million	\$84.6 million
As a % of Covered Payroll	68%	63%	59%
As a % of Total Revenues	26%	23%	23%
Note 1 – Actual contributions to OCERS exclude any contributions paid by OCFA employees			

## Revenues

OCFA's total revenues were \$374 million for the year ending June 30, 2017.

Two primary sources of OCFA revenue are the Structural Fire Fund (SFF) and contract cities as outlined in the Joint Powers Agreement for the OCFA. The majority of revenues came from \$233 million in property taxes from the SFF, and \$122 million in service charges paid by contract cities and the State of California. SFF property tax is 63% of their budgeted revenues. OCFA also received \$13 million in operating grants and capital grants from other governmental agencies. There were \$6 million in miscellaneous revenues and investment income.

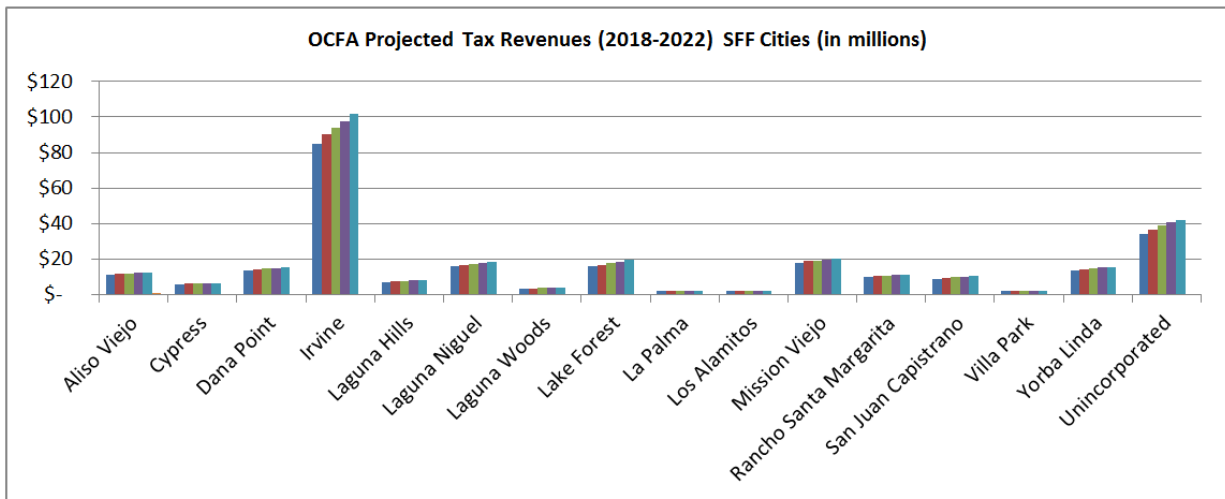


## Structural Fire Funds (SFF)

The County of Orange remits a portion of property taxes collected from SFF cities to OCFA in accordance with the County's tax apportionment procedures and schedules. In fiscal year 2016-2017, the effective weighted rate of 11.49% of the county's 1% general levy tax was remitted to OCFA from SFF cities. (Rates by SFF city ranged from a low of 8.66% in the City of Cypress to 12.50% in the city of Irvine.)

SFF members currently include Aliso Viejo, Cypress, Dana Point, Irvine, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, La Palma, Los Alamitos, Mission Viejo, Rancho Santa Margarita, San Juan Capistrano, Villa Park, Yorba Linda, and unincorporated areas of the County. Approximately 48% of property tax revenues allocated to OCFA from SFF cities are generated from the City of Irvine (34%) and the County's unincorporated territory (14%).

Below is OCFA's multi-year projection of forecasted property tax revenues for each of the SFF cities, according to OCFA's consultant for property tax forecasting, RSG Inc. RSG expects an average 4.5% annual increase in property tax revenues through 2022.



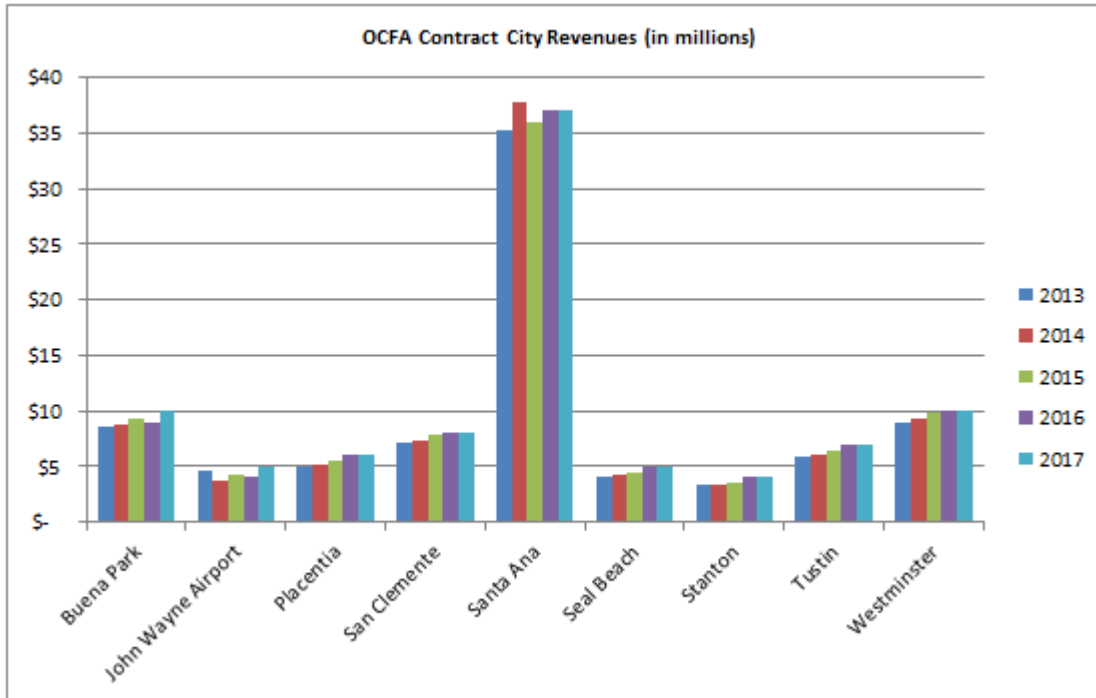
### Contract Cities

Contract cities pay the OCFA for fire services out of their general funds. Contract cities currently include Buena Park, Placentia, San Clemente, Santa Ana, Seal Beach, Stanton, Tustin, and Westminster. There is also a contract with the State Department of Forestry (CAL FIRE) that renews every three years and a contract with John Wayne Airport that has renewed in varying intervals ranging from one-year intervals to five-year intervals. Contract cities are members of the OCFA for a current 20-year term that began on July 1, 2010 with the option of withdrawal after 10 years, only if notice is provided two years prior to the 10<sup>th</sup> year (i.e., notice must be provided by June 30, 2018 in order to withdraw effectively July 1, 2020).

Annually, OCFA calculates the total fire service charges for each contract city. The charge includes a base service charge, vehicle replacement costs, and station maintenance costs. The base service charge is the sum of the prior year total service charge plus cost increases capped at no more than 4.5%. Generally, salary and benefits historically account for more than 90% of the base service charge. Thus, increases in salary and benefits have been the general drivers of the annual increase in base service charges.

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





### OCFA’s Long-Term Liabilities

OCFA’s long-term liabilities as of June 30, 2017 were \$638 million composed of the following: \$469 million in net pension liability, \$66 million in accrued workers’ compensation claims, \$82 million in other post-employment benefits (OPEB), \$17 million in compensated balances for vacation and sick pay, and \$4 million in capital lease obligations for helicopters. Although OCFA has a \$66 million liability for accrued workers’ compensation claims, it has fully funded the liability with cash reserves that have been set aside for this dedicated purpose.

### OCFA’s Fund Balances

At the end of Fiscal Year 2016/17, OCFA’s governmental funds reported combined ending fund balances of \$213 million. Approximately \$31 million or 14.7% constitutes unassigned fund balance, which is available for spending for any purpose. The remaining \$182 million or 85.3% of fund balance is not available for spending on any new purpose, because it has already been restricted, committed, or assigned for specific purposes, or it is in a non-spendable form.

### OCFA’s “Expedited Pension UAAL Payment Plan”

In September 2013, the OCFA Board of Directors approved an “Expedited Pension UAAL Payment Plan” with an expected payment of the entire UAAL balance over 13 years by 2026-2027.

OCFA has made the following additional payments towards its UAAL:

- FY 13/14 \$5.2 million
- FY 14/15 \$21.3 million
- FY 15/16 \$15.4 million
- FY 16/17 \$16.6 million
- FY 17/18 \$21.0 million YTD
- **Total of \$79.5 million in additional payments towards its UAAL.**

Segal Consulting reported to OCFA that OCFA has saved \$11.5 million in interest by making the above additional payments towards its UAAL and will achieve 85% funding by December 31, 2020 and 100% funding by December 31, 2027, assuming all other actuarial assumptions are held constant and if OCFA continues to make additional payments.

### **Net Position as of June 30, 2017**

The total liabilities of OCFA exceeded its total assets at June 30, 2017 by \$177 million. The negative net position is in part due to the GASB 68 requirement to include long-term unfunded pension liabilities in the Statement of Net Position, implemented in 2015.

The Unrestricted Fund portion of the Net Position has a deficit of \$373 million primarily due to the recognition of the net pension liability on its Statement of Net Position (GASB 68).

### **Contract Cities Agreements and UAAL**

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

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

## **Withdrawing from the JPA**

Under the OCFA joint power agreement, both SFF and contract cities shall be members of OCFA for a 20-year term commencing July 1, 2010. Twenty-year membership terms automatically renew in 2030. However, a city may give written notice of withdrawal prior to July 1 of the second to last year of every ten-year interval of a twenty-year term. So for the first ten-year interval, notice must be given by July 1, 2018 to withdraw by June 30, 2020.

## **Impact on OCERS from Withdrawal or Termination of Members or Dissolution of the OCFA JPA**

Under joint powers authority law, the “debts, liabilities, and obligations of the agency shall be debts, liabilities, and obligations of the parties to the agreement, unless the agreement specifies otherwise.” Govt. Code sec. 6508.1. In OCFA’s case, the joint powers agreement expressly disclaims members’ liability for debts incurred by OCFA. While members are contractually obligated to OCFA to contribute their share towards OCFA’s operating expenses and bonded indebtedness, OCFA’s employer contribution obligations to OCERS are the obligations of OCFA alone.

SFF cities, contract cities and the County all have a contractual right to withdraw from OCFA at certain specified dates. The County may not withdraw until at least 2030. Alternatively, each participating city may be terminated for non-payment of its annual obligations to OCFA. In the event of a member withdrawal or termination, OCFA remains liable to OCERS for its full portion of OCERS’ UAAL. Cities would remain liable to OCFA for their share of those liabilities generated during the period of their membership in OCFA.

The withdrawal or termination of a SFF city would not alter the County’s obligation to pay into the OCFA that city’s share of annual property taxes collected by the County, subject to applicable law such as SB 302, which was passed in 2017. Senate Bill 302 (2017-2018) amended the California Revenue and Taxation Code to provide additional protections for SFF property tax revenues by conditioning transfers of SFF property tax revenues on approval of the County Board of Supervisors, the city councils of a majority of member cities, and the agency currently receiving those funds for fire protection services (i.e., the OCFA). In this manner, a continuous flow of new cash would come into OCFA, likely sufficient to meet OCFA’s anticipated UAAL payments to OCERS into the future. Further, OCFA has the authority to impose new special taxes or assessments in order to make up any funding shortage. Finally, under the County Employees Retirement Law (CERL), the California Constitution and OCERS’ policies, OCERS has the right to accelerate the amortization of OCFA’s UAAL so that it could become immediately due and payable in the event of a threatened dissolution of OCFA.

Ultimately, however, if OCFA were to cease operations, OCERS' ability to recover the \$400 million in UAAL (as of December 31, 2016) for which the OCFA is liable could be compromised. Among other available remedies, OCERS may be entitled to subrogate to the rights of OCFA in order to proceed directly against any SFF or contract city for its share of the pension obligations generated during the term of that city's membership in OCFA.

## Orange County Superior Court

The State of California has 58 superior courts—one in each of the state’s 58 counties. Based on the number of authorized judicial officers, the Superior Court of Orange County is the third largest of the 58 courts (with 124 authorized judicial positions). The Orange County Superior Court was part of the County of Orange until 2004 when it transitioned to the State of California and became a plan sponsor in OCERS.

Orange County Superior Court is one of OCERS’ five largest plan sponsors. Orange County Superior Court has 1,481 active employees, or 7% of OCERS’ active membership. The court and its employees contributed \$46 million (preliminary) to OCERS for the year ended December 31, 2017 (representing 5% of total contributions received by OCERS in that period).

Orange County Superior Court does not issue stand-alone financial statements.

### **As of Superior Court Fiscal Year Ending:**

	6/30/15	6/30/16	6/30/17
Net pension liability	\$356 million	\$396 million	\$349 million

### **Pension Contribution Rates, per Segal’s actuarial valuation dated:**

	12/31/14	12/31/15	12/31/16
Employer Contribution Rate	33%	33%	31%
Avg. Member Contribution Rate	12%	11%	11%

Trial courts in California are predominantly state-funded entities, whose funding appropriations are included in the State of California Budget under the Trial Court Trust Fund. Thus, the Judicial Branch is subject to the level of funding that is negotiated between the Governor and the state Legislature. Since the recession of 2008, funding for the entire state’s Judicial Branch has decreased by \$1 billion.

### **Revenue Allocation from the State**

In 2012, the Governor and Legislature tasked the Judicial Branch with developing a new funding methodology to more equitably distribute funding to the 58 trial courts. In 2013, the new methodology named the Workload-Based Allocation and Funding Methodology (WAFM) established a baseline funding formula for each court using data such as total court filings, filing-driven costs, and U.S. Bureau of Labor Statistics labor cost data. The WAFM result for each

court is updated annually and varies annually depending on actual filing trends, workload costs, and other various adjustments.

However, since the adoption of WAFM budget methodology, Orange County Superior Court consistently finds itself as one of several county court systems receiving less funding compared to historical pre-WAFM funding levels prior to 2013. Since the 2013 adoption of WAFM, Orange County Superior Court has lost \$14 million in total base funding.

Due to these funding reductions, Orange County Superior Court does not participate in OCERS' prepayment plan for discounted employer contributions.

## **Revenues**

Orange County Superior Court's total revenues are budgeted for \$193 million for the next fiscal year ending June 30, 2018.

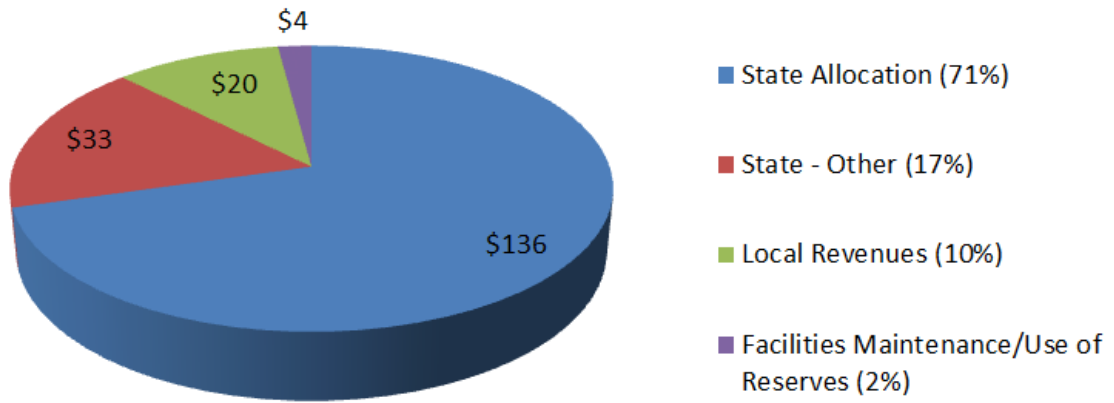
California's allocation of revenues to the Court is budgeted for \$136 million for fiscal year ended June 30, 2018.

"State Other Revenue" is also budgeted at \$33 million. This includes state grants and dollar for dollar reimbursements of expenditures for language interpreters, jury pay expenditures, complex case programs, and self-help programs.

Local Revenues are budgeted for \$20 million and includes donations, reimbursements for services provided to the County, and cost recovery for the Enhanced Collections program and local fees, for example for copies of documents. Typically, local revenues remain consistent and fluctuate little from year to year. These are dollar in – dollar out reimbursement of expenses.

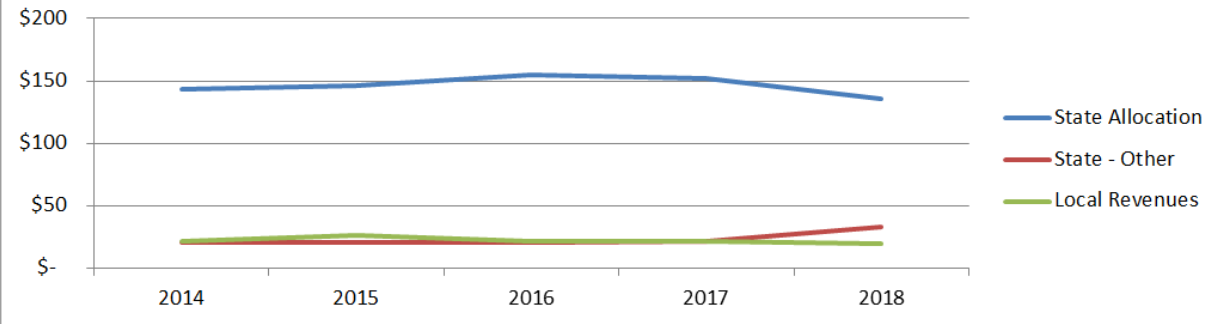
Facilities Maintenance revenues (plus use of Reserves) are budgeted at \$4 million; this is a three-year pilot program in which the court gets reimbursed for facility maintenance and modifications, also a dollar in – dollar out reimbursement.

**Superior Court 2017/2018 Budgeted Revenues (in millions)**



**Superior Court's Past Revenue Trend**

**Superior Court Revenues 2014, actual - 2018, budgeted (in millions)**



**Orange County Transportation Authority (OCTA)**

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

OCTA is one of OCERS’ five largest plan sponsors. OCTA has 1,333 active employees, or 6% of OCERS’ active membership. OCTA and its employees contributed \$33 million (preliminary) to OCERS for the year ended December 31, 2017 (representing 4% of total contributions received by OCERS in that period).

**As of OCTA’s Fiscal Year Ending:**

	6/30/15	6/30/16	6/30/17
Total Assets	\$2.2 billion	\$2.3 billion	\$2.5 billion
Total Liabilities	\$0.9 billion	\$0.9 billion	\$0.9 billion
Net Position	\$1.3 billion	\$1.4 billion	\$1.6 billion
Cash and Investments	\$1.3 billion	\$1.3 billion	\$1.4 billion
Net Pension Liability	\$204 million	\$250 million	\$230 million

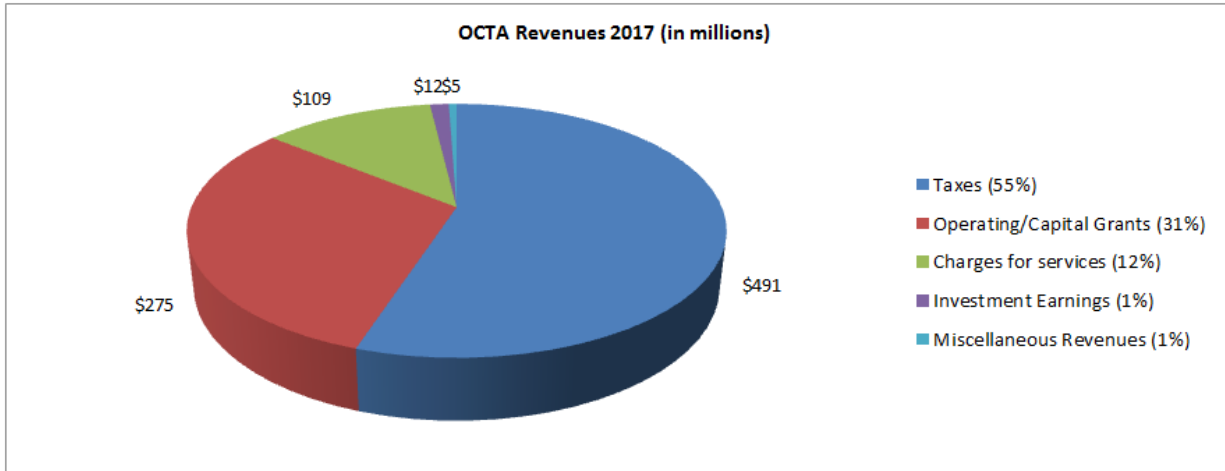
**Pension Contribution Rates, per Segal’s actuarial valuation dated:**

	12/31/14	12/31/15	12/31/16
Employer Contribution Rate	25%	26%	25%
Avg. Member Contribution Rate	9%	9%	9%

**2017 Revenues**

OCTA’s total revenues were \$892 million. Most revenues were tax revenues, totaling \$491 million for the year ended June 30, 2017. Other revenues included \$275 million in operating and capital grants from the State of California and the Federal Government and \$109 million in charges for services. Finally, OCTA earned \$12 million in investment earnings and received \$5 million in miscellaneous revenues.





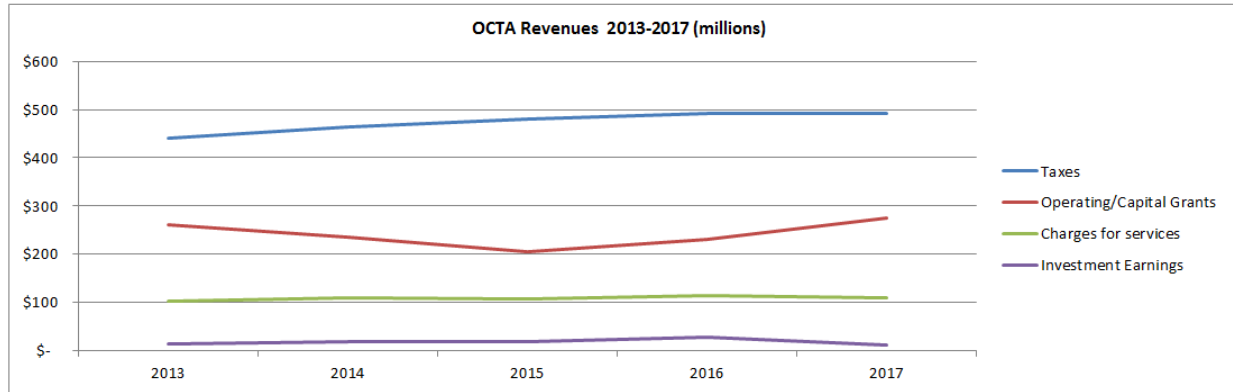
**Tax revenues** noted above were comprised of Orange County’s Measure M2, California’s Transportation Development Act, and State Transit Assistance programs:

- Measure M ½ cent local sales tax - In 2006, Orange County voters renewed the M2 ½-cent sales tax for an additional 30 years (2011-2041). Allocation of M2 funds remains the same as the original M1 program with 43% slated for freeway improvements, 32% for streets and roads, and 25% for transit projects and programs.
- California’s Transportation Development Act (TDA) ¼ cent state sales tax - TDA provides funding for public transportation via the Local Transportation Fund (LTF). This fund exists for the development and support of public transportation needs that exist in California and are allocated to areas of each county based on population, taxable sales, and transit performance.
- State Transit Assistance (STA) revenue is generated by the state sales tax on diesel fuel as specified under the gas tax swap enacted in March 2010. STA revenues are then distributed based on several demographic factors.

**Operating and capital grants** noted above include Federal Operating Assistance Grants, Federal Capital Assistance Grants, and other federal or state grants. These funds are available for para-transit operating assistance, preventive maintenance, capital cost of contracting, demonstration projects, transportation planning, and acquisition and construction of facilities, transit vehicles and related support equipment. Federal grant funds are allocated on a formula and competitive basis for capital projects.

**Charges for services** noted above include toll revenues from the 91 Freeway Express Lanes and revenues from operating bus routes and Metrolink railway routes.

## OCTA'S Past Revenue Trends

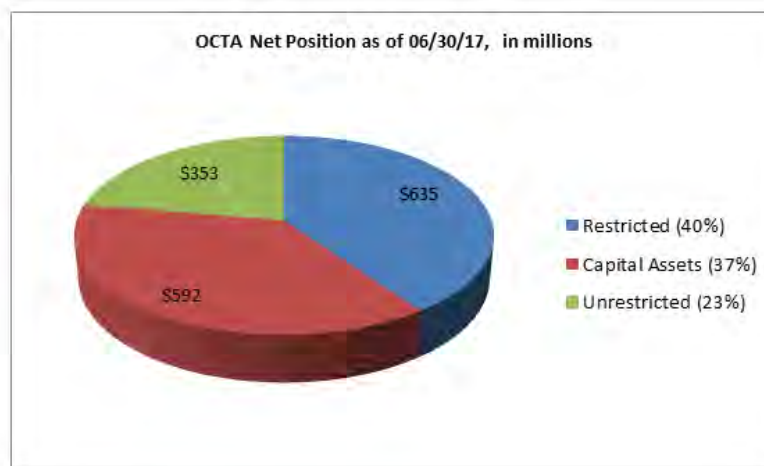


## Net Position as of June 30, 2017

The total assets of OCTA exceeded its total liabilities at June 30, 2017 by \$1.6 billion. Of this amount, \$353 million is unrestricted and may be used to meet OCTA's ongoing obligations to citizens and creditors.

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

- **Net Investments in capital assets** of \$592 million includes buildings and improvements, machinery, equipment, furniture, transit vehicles, and transponders.
- **Restricted** was \$635 million, represents net position that is not accessible for general use because their use is subject to restrictions enforceable by third parties. This is mostly comprised of \$604 million of net assets restricted by Measure M2 legislation for transportation programs and motorist services.
- **Unrestricted** was \$353 million. These are available for any purpose approved by the Board of Directors.



## **Budgeting and Forecasting by OCTA**

In 2011, when M2 was initiated, the revenue forecast at that time assumed M2 would generate \$24.3 billion during the 30 year program. However, OCTA's current forecasting methodology anticipates that total taxable sales available for the M2 Program will be \$13.5 billion over the same 30 year period. Also, according to OCTA's tax forecasting methodology, the forecasted taxable sales growth rate from 2017 through 2041 is estimated at 3.98%. This rate is a blended rates based on forecasts from Chapman University, California State University, Fullerton, and University of California, Los Angeles, plus an outside consultant.

Also based OCTA's forecasting methodology, it is projected that OCTA's bus program will receive \$1 billion less in California's Transportation Development Act (TDA) ¼ cent state sales tax revenue over the next 20 years (a decrease from \$5.4 billion to \$4.4 billion over 20 years, which represents an 18 percent decrease in sales tax revenue available to support bus operations). According to OCTA, by the 2028-2029 fiscal year, the bus system will be cash flow negative; OCTA is working on a long-term plan (e.g. reduced number of bus routes, reduced bus fleet, cancelling capital improvement projects, and outsourcing transportation services) to adequately address this shortfall.

## **Long-Term Obligations and Bond Ratings (Non-Pension Related)**

In 2010, OCTA issued \$293 million in par value of bonds. The outstanding amount as of June 30, 2017 was also \$293 million. M2 sales tax revenues are the revenue source assigned to pay down this debt. Currently, bond rating agencies have assigned Aa2 and AA+ ratings for these bonds. These bonds mature in 2041.

Also in 2010, OCTA issued \$59 million in par value of bonds. The outstanding amount as of June 30, 2017 was \$25 million. M2 sales tax revenues are the revenue source assigned to pay down this debt. Currently, bond rating agencies have assigned Aa2 and AA+ ratings for these bonds. These bonds mature in 2020.

In 2013, OCTA issued \$124 million in par value worth of bonds to help finance OCTA's purchase of the 91 Express Toll lanes. The outstanding amount as of June 30, 2017 was \$109 million. 91 Express Lane toll revenue is the revenue source assigned to pay down this debt. Currently, bond rating agencies have assigned A1, AA-, and A ratings for these bonds. These bonds mature in 2030.

## Orange County Sanitation District

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

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

OCSD is one of OCERS' five largest plan sponsors. OCSD has 592 active employees, or 3% of OCERS' active membership. OCSD and its employees contributed \$15 million (preliminary) to OCERS for the year ended December 31, 2017 (representing 2% of total contributions received by OCERS in that period).

- The Orange County Sanitation District has eliminated its UAAL balance with a total of \$214 million in additional contributions over the past three years.

### **As of OCSD Fiscal Year Ending:**

	6/30/15	6/30/16	6/30/17
Total Assets	\$3.2 billion	\$3.2 billion	\$3.3 billion
Total Liabilities	\$1.4 billion	\$1.3 billion	\$1.3 billion
Net Position	\$1.8 billion	\$1.9 billion	\$2.0 billion
Cash and Cash Equivalents	\$58 million	\$126 million	\$89 million
Net Pension Liability	\$57 million	\$42 million	(\$10) million

### **Pension Contribution Rates, per Segal's actuarial valuation dated:**

	12/31/14	12/31/15	12/31/16
Employer Contribution Rate - General	19%	14%	12%
Avg. Member Contribution Rate - General	12%	12%	12%

## **Revenues**

OCSD's revenues were \$432 million for the year ending June 30, 2017.

Service charges were \$312 million. Service charges are ongoing fees for service paid by customers connected to the sewer system. A property owner, or user, does not pay user fees until

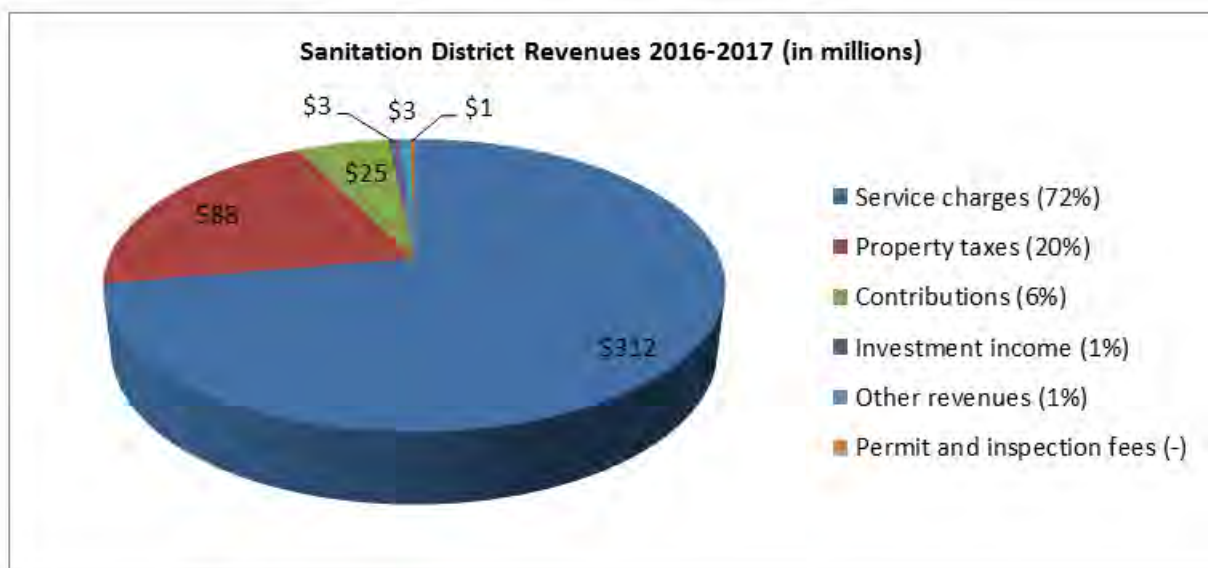
connected to the sewer system. Once connected, a user is responsible for his or her share of the system's costs in proportion to demand on the system. These fees are for both single family residences and multiple family residences. The 2016-17 single family residential rate, the underlying basis for all sewer rates, is \$331. Rates for commercial and residential use are modified upward for the additional water flow that comes from these types of structures.

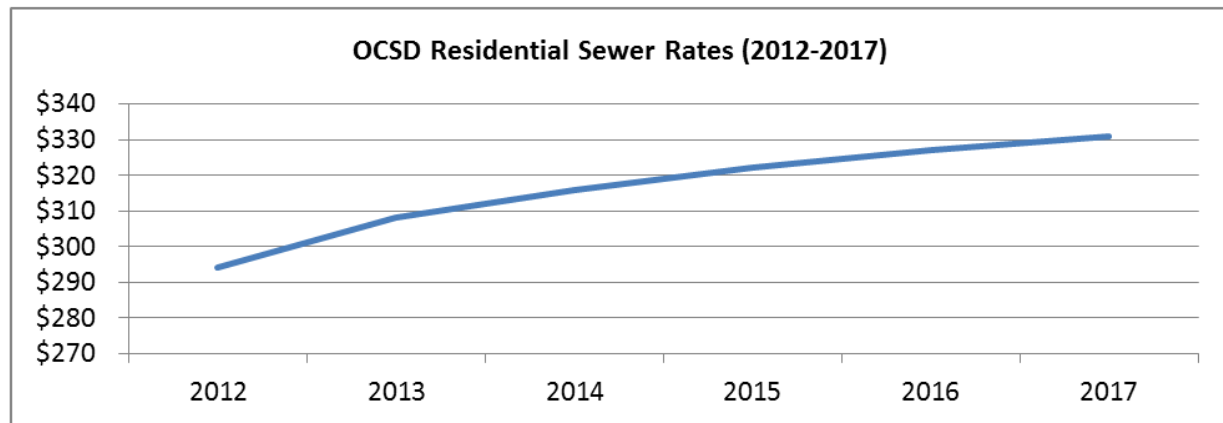
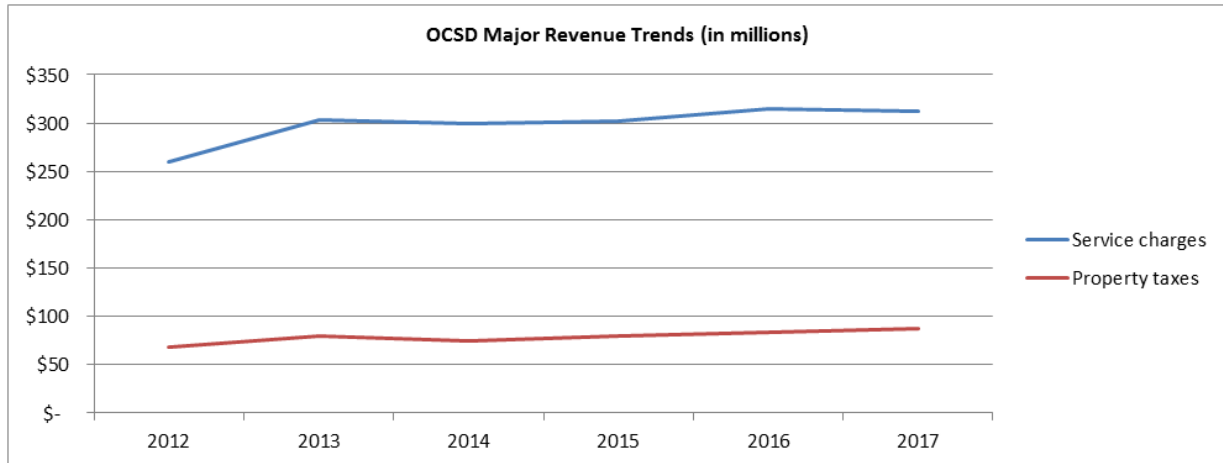
Property taxes were \$88 million. The County is permitted by State law (Proposition 13) to levy taxes at one percent of full market value and can increase the assessed value no more than two percent per year. OCSD receives a share of the basic levy proportionate to what was received from 1976 to 1978. OCSD's share of this revenue is dedicated for the payment of debt service.

Contributions from other government were \$25 million. This represents service charges to the Irvine Ranch Water District for its use of OCSD's collection, treatment, and disposal system.

Permit and inspection fees were \$1 million. Large industrial and commercial properties that discharge high volumes or high strength wastewater are required to obtain a discharge permit and pay extra fees. These fees are for the owner's share of the system's costs, both fixed and variable, in proportion to the demand placed on the system.

Investment interest was \$3 million in 2017, with other income of \$3 million.



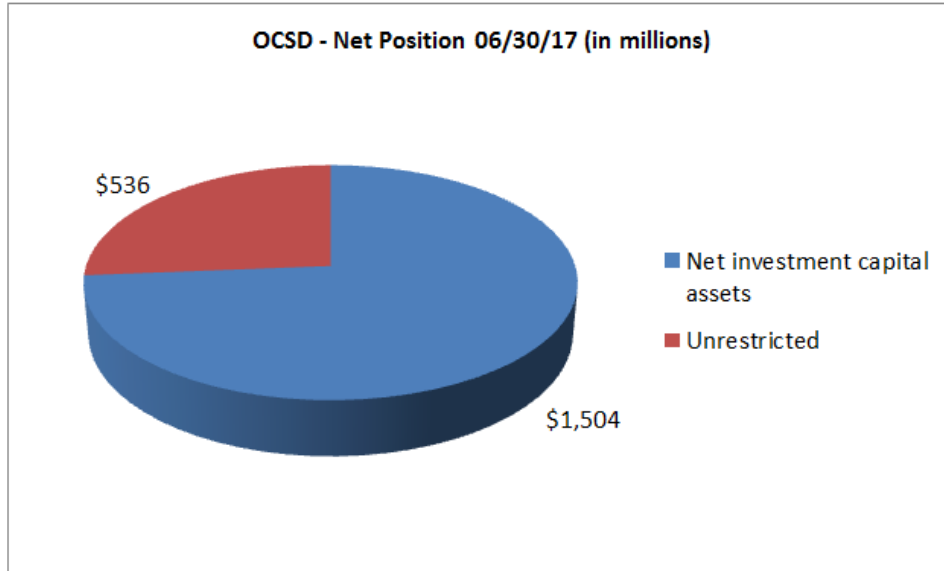


**Net Position as of June 30, 2017**

The total assets of OCSD exceeded its total liabilities at June 30, 2017 by \$2.0 billion. Of this amount, \$536 million is unrestricted and may be used to meet OCSD’s ongoing obligations to citizens and creditors.

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

- Net investment in capital assets: \$1.5 billion:
  - Collection system: \$546 million
  - Treatment and disposal system/land: \$2.1 billion
  - (Less: debt of \$1.1 billion)
- Unrestricted: \$536 million: These are available for any purpose approved by the Board of Directors.



**Long-Term Obligations and Bond Ratings (Excluding Net Pension Liability)**

All of the outstanding debt of OCSD (\$1.1 billion as of June 30, 2017) has rate covenants that require a minimum coverage ratio of 1.25. The minimum coverage ratio is the ratio of net annual revenues available for debt service requirements to total annual debt service requirements. As of June 30, 2017, the coverage ratio for senior lien debt was 3.41.

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

### City of San Juan Capistrano

The City of San Juan Capistrano (City) and its employees contributed \$3.1 million (preliminary) to OCERS for the year ended December 31, 2017. The City has 81 active members. The City's net pension liability was \$25.1 million as of June 2017.

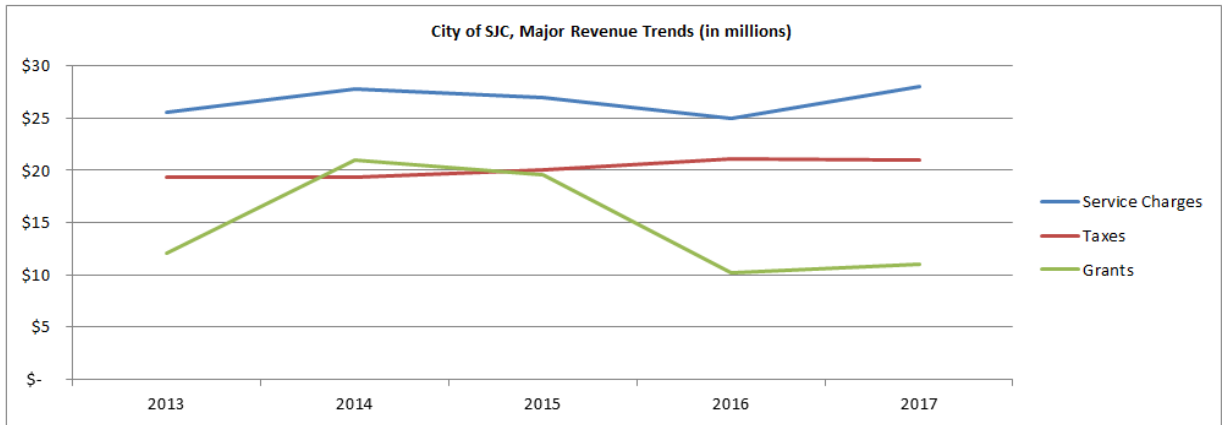
The City has grown from a community of 10,000 persons in 1974 to a developed city of 34,593 in 2016. The City is governed by a City Council of five members elected to four-year overlapping terms.

### **Revenues**

The City's total revenues were \$62 million for the year ending June 30, 2017 and are broken down as follows:







### Net Position as of June 30, 2017

The total assets of the City exceeded its total liabilities at June 30, 2017 by \$173 million. Of this amount, \$19 million is unrestricted and may be used to meet the City’s ongoing obligations to citizens and creditors. The City’s Net Position was assigned or restricted to the funds listed below:

- **Net Investments in capital assets** of \$118 million includes buildings, equipment, and land and also included construction-in-progress, structures, equipment, software, and infrastructure.
- **Restricted** was \$36 million, which combined amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government) through constitutional provisions or by enabling legislation. These funds are restricted to various public and development works projects and for the water rate stabilization project.
- **Unrestricted** was \$19 million. These are available for any purpose approved by the City Council.



### **Orange County Employees Retirement System (OCERS)**

OCERS is a plan sponsor and its employees contributed \$2.8 million (preliminary) to the OCERS pension fund for the year ended December 31, 2017. OCERS has 71 active members. Its net pension liability as a plan sponsor was \$21.8 million as of June 2017.

As permitted by Government Code section 31580.2, administrative expenses, which include contributions to the OCERS' retirement plan, are charged directly against the earnings of the OCERS' pension trust fund.

According to OCERS' 2016 CAFR (most recent CAFR), administrative expenses of \$16 million were approximately \$22 million less than the allowable limit under the CERL (Gov. Code §31580.2.).

### **Transportation Corridor Agencies**

The Transportation Corridor Agencies (TCA), or the Toll Roads, and its employees contributed approximately \$2.4 million (preliminary) to OCERS for the year ended December 31, 2017. It has 65 active members. TCA's net pension liability was \$12.4 million as of June 30, 2017.

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

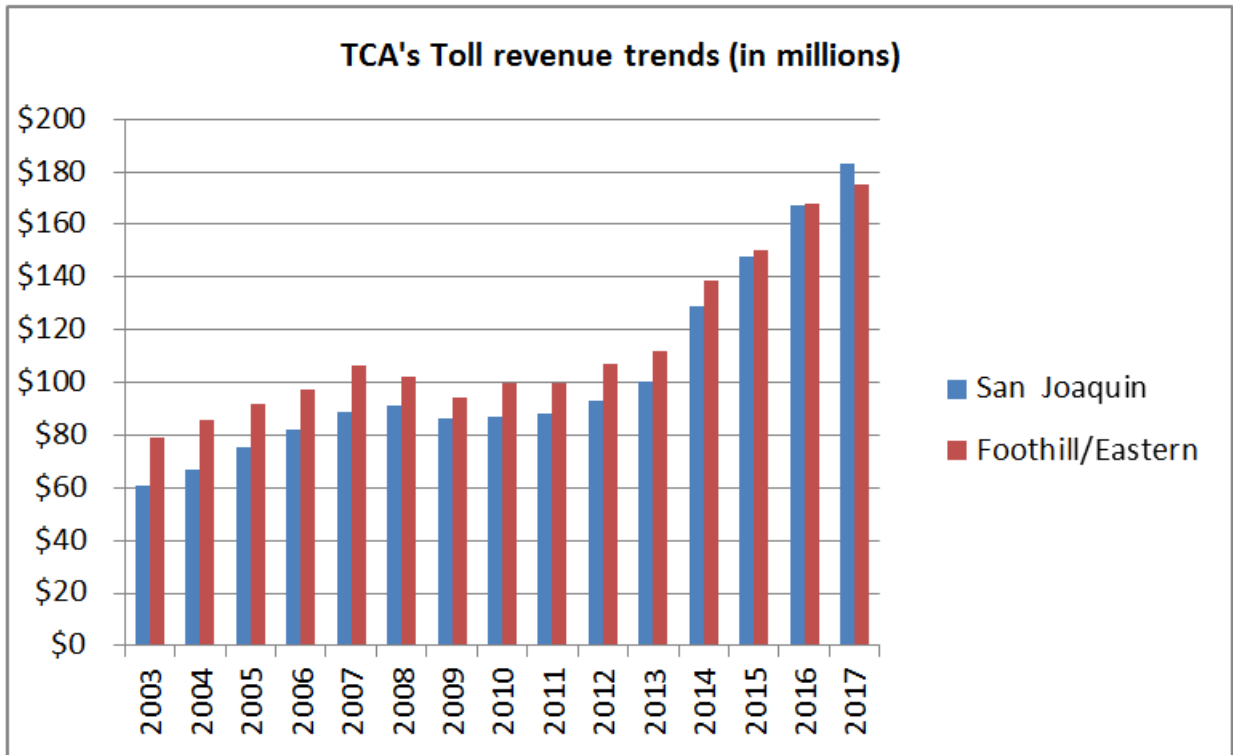
The San Joaquin Hills Transportation Corridor, commonly known as the 73 Toll Road, opened to traffic in 1996. For the year ending June 30, 2017, approximately 32 million transactions were recorded on the 73 Toll Road.

The Foothill/Eastern Transportation Corridor consists of the 241, 261, and 133 Toll Roads and first opened to traffic in 1993. For the year ending June 30, 2017, approximately 67 million transactions were recorded.

### **Revenues**

TCA's total operating revenues (SJHTCA and FETCA combined) were \$384 million for the year ending June 30, 2017.

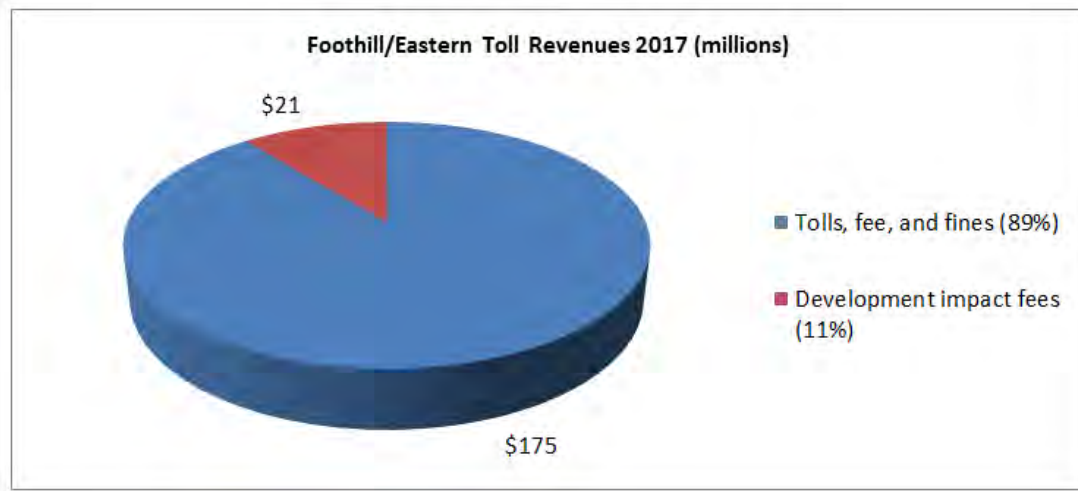
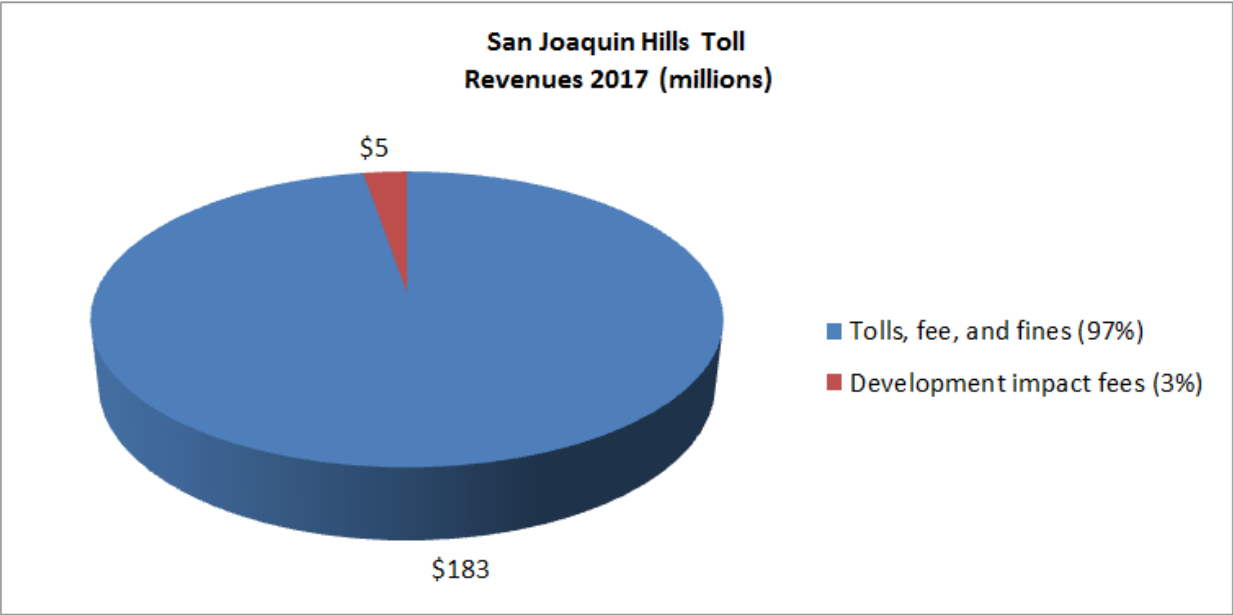
SJHTCA earned \$183 million in tolls, fees, and fines during the year ended June 30, 2017. FETCA earned \$175 million in tolls, fees, and fines during the year ended June 30, 2017.



Development impact fees during the year ended June 30, 2017:

- SJHTCA earned \$5 million in development impact fees during the year ended June 30, 2017.
- FETCA earned \$21 million in development impact fees during the year ended June 30, 2017.

Development impact fees are fees charged for new residential units and new commercial square footage developed in certain cities that surround and benefit from the Toll Roads. The cities collect these fees from property developers and remit them directly to the Toll Roads. Of the \$26 million development impact fees noted above, the City of Irvine was the city with the largest amount of fees remitted, or \$18 million during the year ending June 30, 2017.



**Long-Term Debt**

SJHTCA’s long-term debt of \$2.4 billion as of June 30, 2017 has maturities extending up to 2049. FETCA’s \$2.3 billion in long-term debt as of June 30, 2017 has maturities extending up to 2036. According to the TCA joint powers agreement, SJHTCA’s and FETCA’s existence as independent agencies collecting tolls will “sunset,” or cease, upon the payment in full of their respective debts. However, as has been done in the past, refinancing of debt can potentially push back the “sunset” provision beyond current maturity dates respectively.

During 2017, S&P, Fitch, and Moody’s upgraded the ratings of various SJHTCA and FETCA bonds to Baa3, BB+, and BBB (investment grade) categories with stable outlooks.

## Net Position as of June 30, 2017

- **Restricted** – \$334 million and \$298 million, respectively, for SJHTCA and FETCA. This portion of Net Position is subject to externally imposed conditions that can be fulfilled by the actions of the agency or by the passage of time, and is related primarily to restricted bond proceeds and certain revenues collected.
- **Unrestricted** – Negative \$25 million and positive \$378 million, respectively, for SJHTCA and FETCA. These amounts are available for any purpose approved by the Board of Directors.
- **Capital Assets** – Negative \$2.1 billion and negative \$2.3 billion, respectively, for SJHTCA and FETCA. The portion of Net Position related to investment in capital assets is a negative balance because ownership of the toll roads and related rights-of-way has been transferred to the State of California’s Department of Transportation, and these assets are not presented within each agency’s financial statements. Thus, the balances presented include only certain other capital assets, offset by the debt that financed construction of the toll roads.

### Orange County Public Law Library

The Orange County Public Law Library (Law Library) and its employees contributed approximately \$1.9 million (preliminary) to OCERS for the year ended December 31, 2017. It has 15 active members. The Law Library's net pension liability was \$1.8 million as of June 30, 2017.

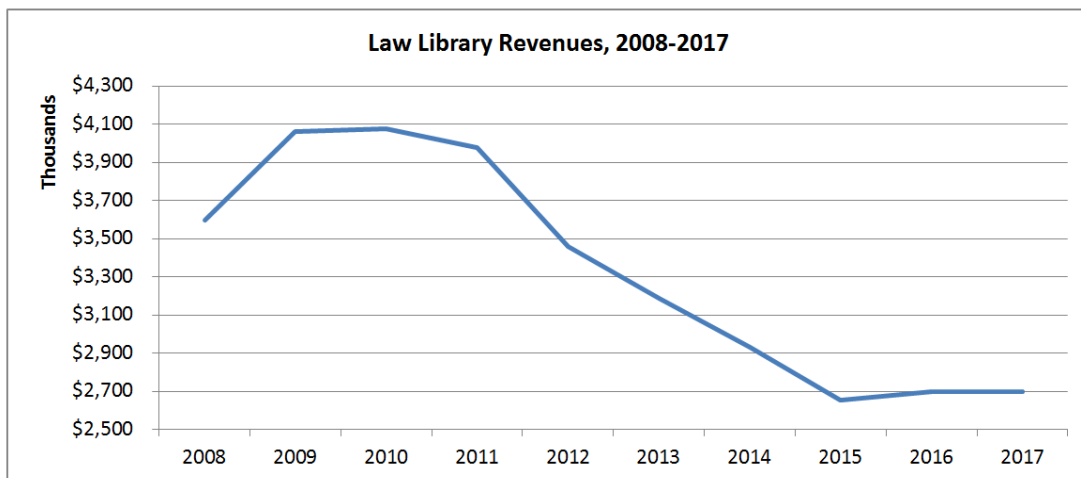
- The Law Library has paid an additional \$3 million over the past two years toward its UAAL balance.

The Law Library's Board of Trustees is composed of five judges chosen by the Orange County Superior Court and two attorneys chosen by the County Board of Supervisors.

#### **Revenues**

The Law Library's total revenues were \$2.8 million for the year ending June 30, 2017.

Filing Fees received by the Law Library accounted for 98% of total revenues for the year. The Law Library's court filing fees are derived from a filing fee paid for every civil action filed in Orange County Superior Court. The filing fee is set statutorily by the State of California and this rate has been stable for several years. The number of civil cases filed in court had declined significantly between 2009 and 2014, but revenues have leveled off since then through the current year (see chart below). Fee waivers granted by the Court for civil cases also have a negative impact on revenues. Accordingly, the Law Library has no control over the number of civil filings nor the filing fee rate set by the State of California.



The Law Library's audited financial statements are prepared on the modified basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). As stated in their audited financials, the Law Library's assets exceed its liabilities by \$4.6 million, but the liabilities do not include the Law Library's Net Pension Liability of \$1.8 million as of June 30, 2017.



## **Children and Families Commission of Orange County**

The Children and Families Commission of Orange County (CFCOC) and its employees contributed approximately \$2.1 million (preliminary) to OCERS for the year ended December 31, 2017. The CFCOC has 10 active members. Its net pension liability was \$3.2 million as of June 30, 2017.

- The Children and Families Commission of Orange County has paid an additional \$1.7 million in 2017 toward its UAAL balance.

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

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

### **Revenues**

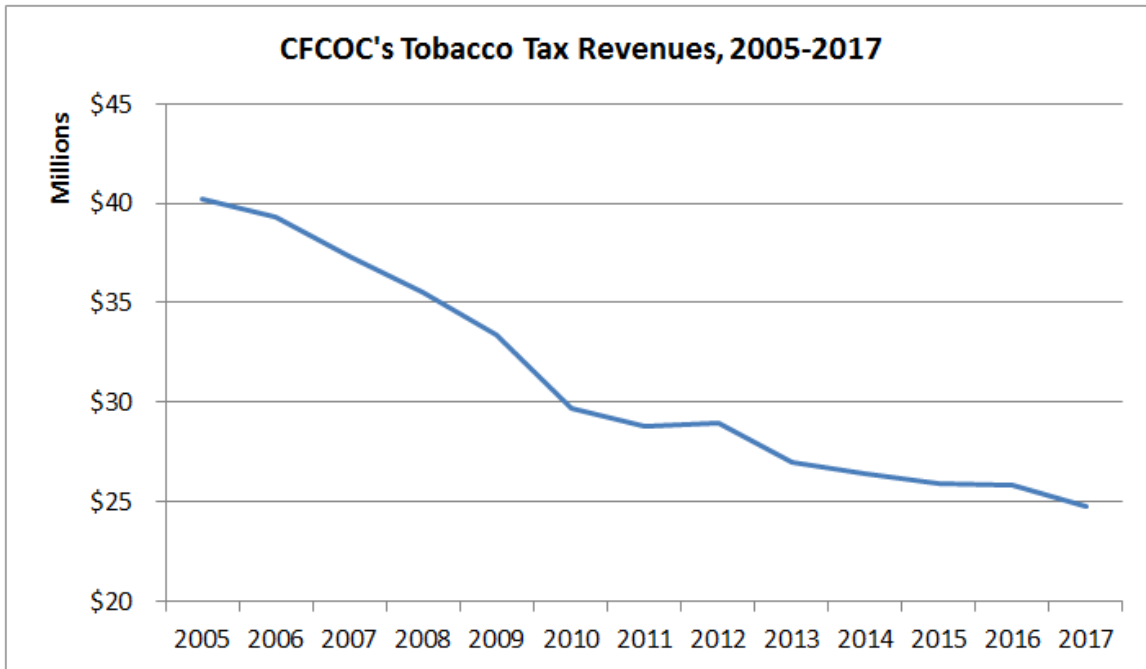
The CFCOC's total revenues were \$26.8 million for the year ending June 30, 2017.

Tobacco Tax revenues received by the commission in 2017 amounted to \$24.8 million (93% of total revenues). The CFCOC continues to anticipate annual decreases in tobacco tax revenues (i.e. Proposition 10). Since its peak in 2000 (with \$50 million in tobacco tax revenues), the CFCOC has had an overall reduction of over 50% (or an annual 4% decline) in tobacco tax revenue, and projects that tobacco tax revenue will continue declining at an annual rate of 3.5% going forward.

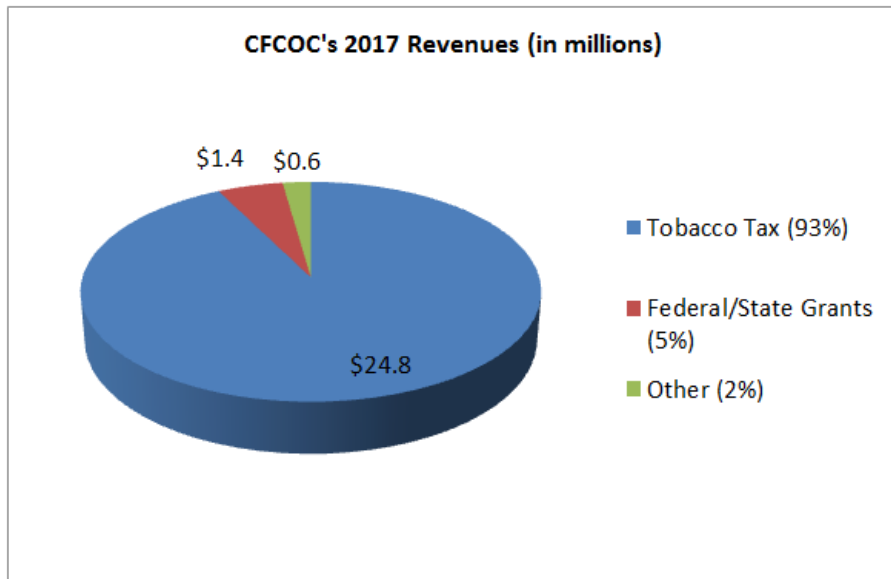
To address the above inherent decrease in revenues, the CFCOC develops three year business plans that step down or modify the nature of the services it provides given reduced revenues; the plan also seeks other possible sources of funding.

Revenues of \$1.4 million were for from various state and federal grants for children programs such as the state's Child Signature Program and the federal American Recovery and

Reinvestment Act (ARRA) Health Research grant. The remaining revenues of \$574,000 included investment income and other revenues.



CFCOC forecasts that Tobacco Tax revenues will have dropped to \$18 million in the 2025/2026 fiscal year.



**Net Position as of June 30, 2017**

The total assets of the CFCOC exceeded its total liabilities at June 30, 2017 by \$44 million. The entire amount is unrestricted and may be used to meet the CFCOC’s ongoing obligations to citizens and creditors as directed by its Board of Commissioners.

## **Orange County Cemetery District**

The Orange County Cemetery District (OCCD) and its employees contributed approximately \$301,000 (preliminary) to OCERS for the year ended December 31, 2017. OCCD has 25 active members. OCCD's net pension liability was \$0.2 million as of June 2017.

The OCCD is an independent special district governed by an appointed Board of Trustees who serve four-year terms. Although privately owned in the beginning, the cemeteries were formed into separate independent districts in 1926. In 1985 the districts were consolidated under one governing board to create the OCCD. OCCD has three cemetery located in Anaheim, Lake Forest and Santa Ana. OCCD typically averages between 900 to 1,000 burial lot sales per year.

Restricted funds have been set aside to fund the perpetual maintenance and care of cemeteries in accordance with the provisions of the Health and Safety Code, which will require continued staffing. The OCCD has also committed funds of \$7.2 million for future land acquisitions.

### **Revenues**

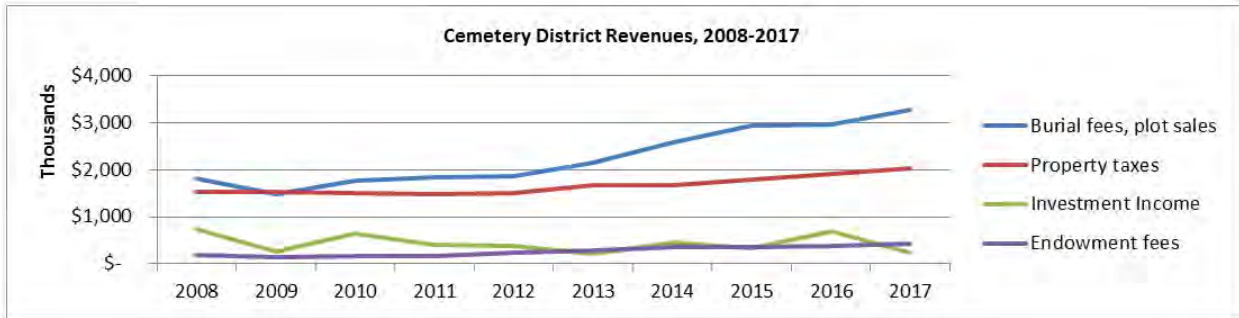
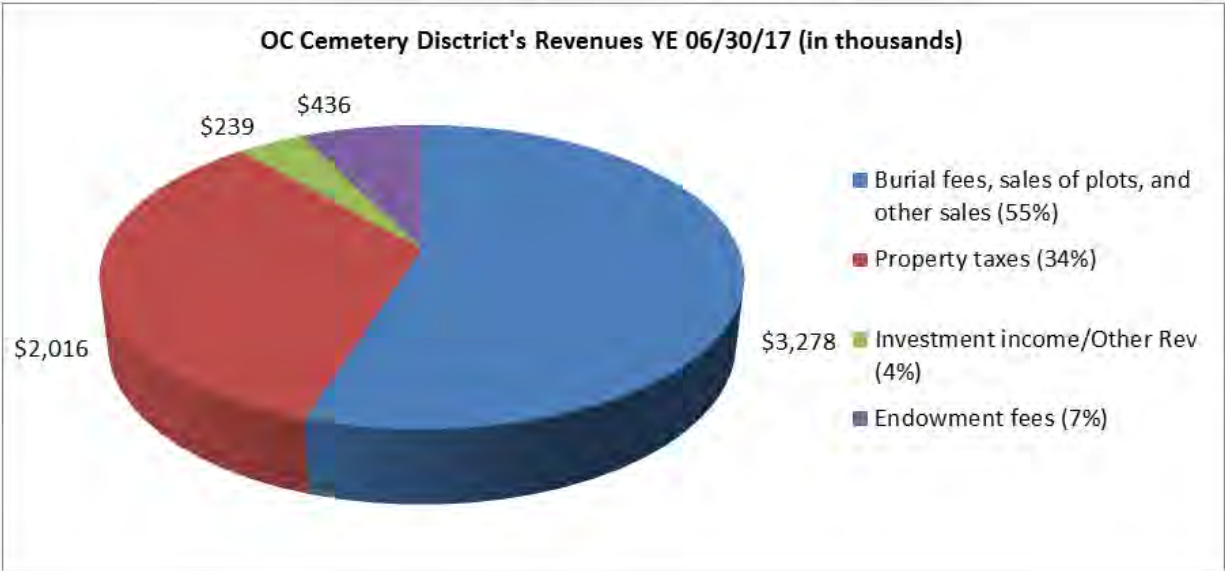
OCCD's total revenues were \$6 million for the year ending June 30, 2017.

Burial fees, sales of plots, and other sales were \$3.2 million, which represents 53% of revenues received by OCCD in 2017. Since OCCD is a government agency, general burial and cremation costs are meant to help recover costs, keeping in line with inflation and OCCD's expected share of property tax revenues.

Property taxes were \$2.0 million, or 33% of revenues, and were allocated to OCCD in 2017 from their share of County property tax revenues.

Investment Income and Other Revenues were \$239 thousand.

Endowment fees were \$436 thousand. Endowment fees of \$350-\$450 per regular burial/cremation are collected and placed into an endowment principal fund established to provide for the maintenance and care of all three cemeteries in accordance with the provisions of the County's Health and Safety Code.



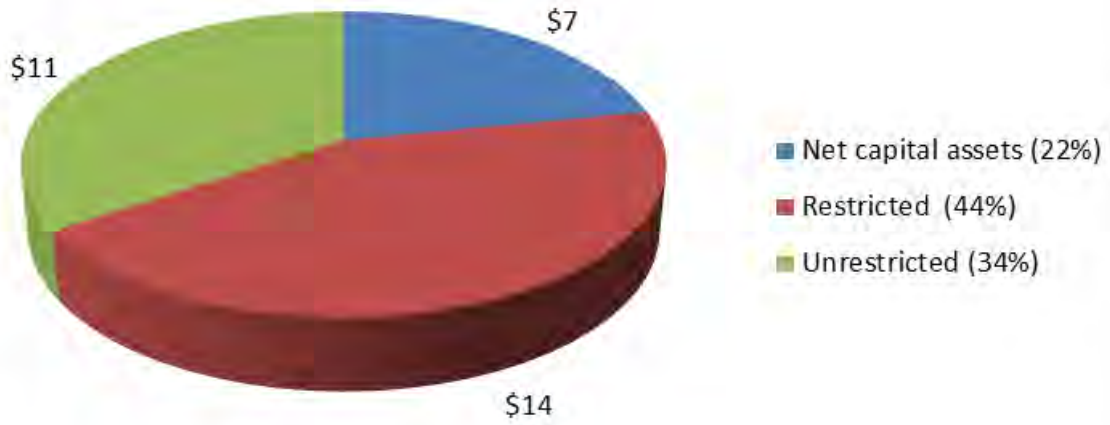
**Net Position as of June 30, 2017**

The total assets of OCCD exceeded its total liabilities at June 30, 2017 by \$32 million. Of this amount, \$11 million is unrestricted and may be used to meet the OCCD’s ongoing obligations to citizens and creditors.

OCCD’s Net Position was assigned or restricted to the funds listed below:

- **Net Investments in capital assets** was \$7 million, invested in capital assets (e.g., land, structures and improvements, and furniture and equipment) that are used to provide services to citizens.
- **Restricted** was \$14 million, restricted for the perpetual care of the cemetery grounds. These funds are invested and will continue to earn interest income which will eventually be used for the maintenance and operation of OCCD’s cemeteries.
- **Unrestricted** was \$11 million. These are available for any purpose approved by the Board of Trustees.

OC Cemetery District Net Position, 06/30/17 (in millions)



**OC In-Home Supportive Services Public Authority**

The Orange County In-Home Supportive Services Public Authority (IHSS) and its employees contributed approximately \$316,000 (preliminary) to OCERS for the year ended December 31, 2017. It has 25 active members. IHSS's net pension liability was \$0.8 million as of June 2017.

The financial statements of IHSS are blended with other government fund units in the County's 2017 CAFR.

## **Orange County Local Agency Formation Commission (LAFCO)**

The Orange County Local Agency Formation Commission (LAFCO) and its employees contributed approximately \$162,000 (preliminary) to OCERS for the year ended December 31, 2017. LAFCO has five active members. LAFCO's net pension liability was \$1.3 million as of June 2017.

In 1963, the California state legislature formed a Local Agency Formation Commission for each of the 58 counties in the state. These commissions are primarily responsible for monitoring the boundaries of cities and special districts with the goal of ensuring municipal services are allocated efficiently and cost-effectively. This process includes the review and approval of incorporating cities within the county, annexing unincorporated areas to cities and special districts, and forming special districts among other actions.

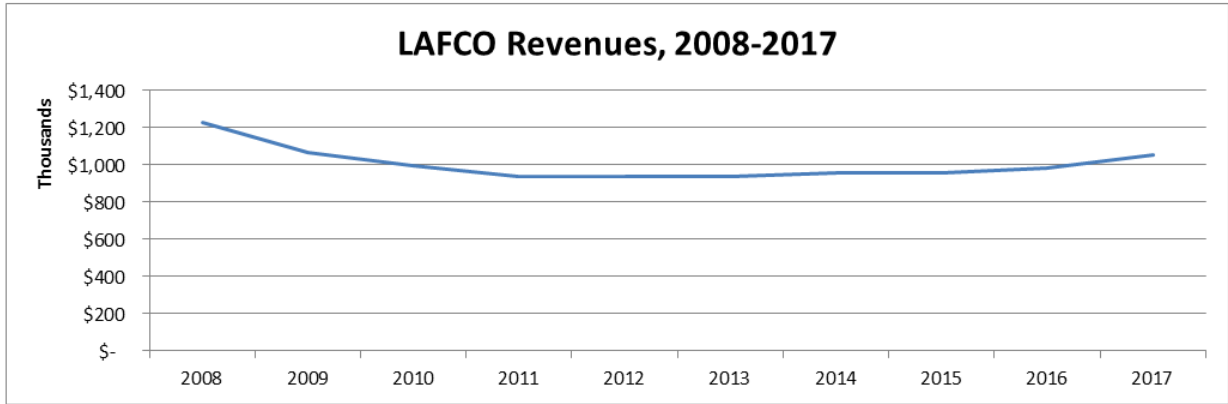
The appointed Board of Commissioners of LAFCO consists of two commissioners representing the County, two commissioners representing cities, two represent special districts, and one commissioner representing the public. An alternate also exists for each of these positions.

### **2017 Revenues**

LAFCO's total revenues were \$1.0 million for the year ending June 30, 2017.

Total assessments and service charges received by LAFCO in 2017 amounted to 99% of total revenues for the year.

LAFCO's revenue is comprised of apportionments allocated among the commission's funding agencies. One-third is paid by the County. One-third is paid collectively by the 34 cities within the County. The final one-third is paid by special districts, such as the Orange County Water District, that operate in the County. Revenues are set annually by the commissioners to fully recover the costs of operating LAFCO.



### Net Position as of June 30, 2017

The total liabilities of LAFCO exceeded its total assets at June 30, 2017 by \$20,000, primarily due to the GASB 68 recognition of a net pension liability on its financial statements.



### **UC Irvine – Medical Center & Campus (Inactive Plan Sponsor)**

The UC Irvine Medical Center & Campus (UCI) has no active participants. UCI's net pension liability was \$36.1 million as of June 2017 for its remaining retirees.

- UC and the County of Orange have evenly split payments totaling \$4.2 over the past two years toward UCI's UAAL balance.

UCI Irvine – Medical Center & Campus is reported within the University of California's audited 2017 financial statements:

- \$33 billion in total 2017 revenues (wide variety of revenue sources).
- \$2.4 billion Net Position (none are Unrestricted).

### **Orange County Department of Education (Inactive Plan Sponsor)**

The Orange County Department of Education has no active participants. In 2017, the Department of Education paid \$524,000 towards its UAAL balance for the year ending December 31, 2017. The Department of Education's net pension liability was \$4.4 million as of June 2017 for its remaining retirees. From its 2017 CAFR:

- \$305 million in total 2017 revenues (62% - revenues from property taxes, Federal/State aid, 26% - operating grants, 12% - service charges).
- \$163 million Net Position (\$18 million is Unrestricted).

### **The Orange County Vector Control District (Inactive Plan Sponsor)**

Vector Control has no active participants. One deferred member paid \$4,000 to OCERS in order to purchase additional service credit prior to retiring in 2017. Vector Control's net pension liability was \$1.7 million as of June 2017 for its remaining retirees. From its 2017 CAFR:

- \$14 million in total 2017 revenues (93% - property taxes and assessments, 7% - other revenues).
- \$20 million Net Position (\$15 million is Unrestricted).

### **The City of Rancho Santa Margarita (Inactive Plan Sponsor)**

The City of Rancho Santa Margarita has no active participants. Rancho Santa Margarita's net pension liability was \$9,000 as of June 2017 for its remaining retirees. From its 2017 CAFR:

- \$20 million in total 2017 revenues (68% - property/sales tax, 16% - grants, 7% - service charges, 9% - other).
- \$129 million Net Position (\$14 million is Unrestricted).

### **Cypress Recreation and Parks District (Inactive Plan Sponsor)**

Cypress Recreation and Parks District (District) has no active participants. Segal Consulting recently calculated the District's UAAL to be \$653,000 as of December 31, 2016. OCERS staff is working with the City of Cypress to develop a funding agreement for the City to pay the District's UAAL. The agreement will be presented to the OCERS Board for approval.

From the City of Cypress 2017 CAFR:

- \$45 million in total 2017 revenues (58% - property/sales tax, 14% - other taxes, 13% - grants, 13% - service charges, 2% - other revenues).
- \$299 million Net Position (\$90 million is Unrestricted).

**1-11**

## Memorandum

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DATE: March 9, 2018  
TO: Members of the Board of Retirement  
FROM: Steve Delaney, Chief Executive Officer  
SUBJECT: **OCERS FUNDING POLICY**

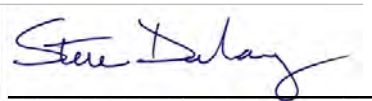
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### Written Report

### Discussion

The Board adopted the Actuarial Funding Policy in January, 2014 and approved amendments to the Policy in December 2014 (attached). The Board has since adopted new actuarial assumptions that need to be incorporated into the policy. The policy is also due for its regularly scheduled triennial review. Paul Angelo will be present at the March 19, 2018 Board of Retirement meeting to discuss actuarial funding policy components and objectives. His presentation materials are attached. No action by the Board is anticipated at the March meeting.

### Submitted by:



Steve Delaney  
Chief Executive Officer

## Purpose and Background

The Orange County Employees Retirement System (OCERS) is charged with administering defined benefit plans for its members. Administering the system includes establishing systematic funding of current and future benefit payments for members of OCERS. In doing so, the Board of Retirement engages the services of an actuary to assist in establishing contributions that will fully fund the System's liabilities, and that, as a percentage of payroll, will remain as level as possible for each generation of active members. In order for the actuary to perform the requested services, the Board must approve specific funding objectives, methods, and assumptions to be used in the actuarial valuation for the purpose of funding member benefits.

## Policy Objectives

- Achieve long-term full funding of the cost of benefits provided by OCERS;
- Seek reasonable and equitable allocation of the cost of benefits over time;
- Minimize volatility of the plan sponsor's contribution to the extent reasonably possible, consistent with other policy goals; and,
- Support the general public policy goals of accountability and transparency by being clear as to both intent and effect, allowing for an assessment of how and when plan sponsors will meet the funding requirements of the plan.

## Definitions

1. **Actuarial Accrued Liability (AAL)** – The portion of the present value of projected benefits that is attributed to past service by the actuarial funding method.
2. **Actuarial Funding Method** – A process used to allocate present value of projected benefits among past and future periods of service.
3. **Actuarial Gains and Losses** – changes in unfunded actuarial accrued liability or surplus due to actual experience different from what is assumed in the actuarial valuation. For example, if during a given year the assets earn more than the investment return assumption, the amount of earnings above the assumption will cause an unexpected reduction in unfunded actuarial accrued liability, or "actuarial gain" as of the next valuation.
4. **Actuarial Surplus** – the positive difference, if any, between the Valuation Value of Assets and the Actuarial Accrued Liability
5. **Actuarial Value of Assets (AVA)** – The market value of assets less the deferred investment gains or losses not yet recognized by the asset smoothing method.

## OCERS Board Policy

# Actuarial Funding Policy

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6. **Entry Age Method** - An actuarial cost method designed to fund a member's total plan benefit over the course of his or her career. This method is designed to produce stable employer and employee contributions in amounts that increase at the same rate as the members' payroll (i.e., level % of payroll).
7. **Market Value of Assets (MVA)** – the fair value of assets of the plan as reported under generally accepted accounting principles.
8. **Normal Cost** – The portion of the present value of projected benefits that is attributed to current service by the actuarial funding method.
9. **Unfunded Actuarial Accrued Liability (UAAL)** – the portion of the Actuarial Accrued Liability that is not currently covered by plan assets. It is calculated by subtracting the Valuation Value of Assets from the Actuarial Accrued Liability.
10. **Valuation Value of Assets (VVA)** –the value of assets used in the actuarial valuation to determine contribution rate requirements. It is equal to the Actuarial Value of Assets reduced by the value of any non-valuation reserves.
11. **Valuation Period** – The year for which the actuarial valuation is being performed, which is the calendar year preceding the December 31 actuarial valuation date.

## Policy Guidelines

OCERS annual funding requirement is comprised of a payment of the Normal Cost and a payment on the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amount of payment on UAAL are determined by the following three components of this funding policy

- a. Actuarial Cost Method: the process used to allocate the total present value of future benefits to each year (Normal Cost), and all past years (Actuarial Accrued Liability);
- b. Asset Smoothing Method: the process used that spreads the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and
- c. Amortization Policy: the decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets (after adjustment for non-valuation reserves) in a systematic manner.

## Actuarial Cost Method

The Entry Age cost method with Normal Cost developed as a level percentage of pay of shall be applied to each member's retirement benefit in determining the Normal Cost and the Actuarial Accrued Liability.

### ***Asset Smoothing Method***

The investment gains or losses of each Valuation Period, as a result of comparing the actual return on the Market Value of Assets at the end of the period with what the expected return on the Market Value of Assets would have been if the assumed rate of return on assets was realized during the period, shall be recognized in a level amount over a fixed five (5) years in calculating the Actuarial Value of Assets.

### ***Amortization Policy***

- a. The Unfunded Actuarial Accrued Liability, the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets (after again adjustment for non-valuation reserves), shall be amortized over various periods of time, depending on how the unfunded liability arose;
- b. The total Unfunded Actuarial Accrued Liability as of December 31, 2013 (which consists of the outstanding balance of the UAAL from the December 31, 2012 valuation and any new actuarial gains or losses from calendar year 2013) shall be amortized over twenty (20) years;
- c. Actuarial Gains or Losses incurred in a single year shall be amortized over twenty (20) years;
- d. Changes in actuarial assumptions and cost methods shall be amortized over twenty (20) years;
- e. Plan amendments other than Early Retirement Incentives shall be amortized over fifteen (15) years;
- f. Early Retirement Incentives shall be amortized over a period not to exceed five (5) years;
- g. Unfunded Actuarial Accrued Liabilities shall be amortized in multiple layers by source over “closed” amortization periods;
- h. Unfunded Actuarial Accrued Liabilities shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase;
- i. If an overfunding or “surplus” exists (i.e., the adjusted Actuarial Value of Assets is greater than the Actuarial Accrued Liability) and the amount of such surplus is in excess of 20% of the AAL per Section 7522.52 of California Public Employee Pension Reform Act, such actuarial surplus in excess of 20% of the AAL and any subsequent surpluses will be amortized over an “open” amortization period of 30 years. Any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized as the first of a new series of amortization layers, using the above amortization periods.

***Other Policy Considerations***

- a. The Unfunded Actuarial Accrued Liability, the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets (after again adjustment for non-valuation reserves), shall be amortized over various periods of time, depending on how the unfunded liability arose;
- b. The total Unfunded Actuarial Accrued Liability as of December 31, 2013 (which consists of the outstanding balance of the UAAL from the December 31, 2012 valuation and any new actuarial gains or losses from calendar year 2013) shall be amortized over twenty (20) years;
- c. Actuarial Gains or Losses incurred in a single year shall be amortized over twenty (20) years;
- d. Changes in actuarial assumptions and cost methods shall be amortized over twenty (20) years;
- e. Plan amendments other than Early Retirement Incentives shall be amortized over fifteen (15) years;
- f. Early Retirement Incentives shall be amortized over a period not to exceed five (5) years;
- g. Unfunded Actuarial Accrued Liabilities shall be amortized in multiple layers by source over “closed” amortization periods;
- h. Unfunded Actuarial Accrued Liabilities shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase;
- i. If an overfunding or “surplus” exists (i.e., the adjusted Actuarial Value of Assets is greater than the Actuarial Accrued Liability) and the amount of such surplus is in excess of 20% of the AAL per Section 7522.52 of California Public Employee Pension Reform Act, such actuarial surplus in excess of 20% of the AAL and any subsequent surpluses will be amortized over an “open” amortization period of 30 years. Any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized as the first of a new series of amortization layers, using the above amortization periods.

***Other Policy Considerations***

- a. In order to allow Plan Sponsors to more accurately budget for pension contributions and other practical considerations, the contribution rates determined in each actuarial valuation (as of December 31) will generally apply to the fiscal year beginning eighteen months after the Actuarial Valuation date. The UAAL contribution rates in the current actuarial valuation are adjusted to account for any shortfall or excess contributions as a result of the implementation lag;
- b. Any change in contribution rate requirement that results from a plan amendment is generally implemented as of the effective date of the plan amendment or as soon as administratively feasible;
- c. When calculating a retirement benefit amount under allowable optional benefit allowances per Government Code sections 31761-31764 (known as Options 2,3 and 4), the actuary shall include a cost of living assumption;



## OCERS Board Policy

# Actuarial Funding Policy

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- d. When calculating both employer and member contribution rates (basic and COLA portions) for Legacy members, the actuary shall include an assumption for the additional cash out of accumulated annual leave, sick leave or compensatory leave both earned and permitted to be cashed out during the final average measuring period, applied on a pooled basis (General, Safety-Probation, Safety-Law and Safety-Fire).
- e. The actuarial assumptions adopted by the Board for use in the actuarial valuation affect only the timing of contributions; the ultimate contribution level is determined by the benefits and the expense actually paid offset by actual investment returns. To the extent that actual experience deviates from the assumptions, experience gains and losses will occur. These gains (or losses) then serve to reduce (or increase) the future contribution requirements.

Actuarial assumptions are generally grouped into two major categories:

- Demographic assumptions – including rates of withdrawal, service retirement, disability retirement, mortality etc.
- Economic assumptions – including price inflation, wage inflation, investment return, salary increase, etc.

The actuarial assumptions represent the Board’s best estimate of anticipated experience under OCERS and are intended to be long term in nature. Therefore, in developing the actuarial assumptions, the Board considers not only past experience but also trends, external forces and future expectations. The Board will review all assumptions triennially. The current assumptions used by the actuary are listed in Appendix A.

## Policy Review

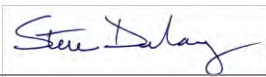
The Board of Retirement will review this policy every three years or more frequently if recommended by the actuary to ensure that it remains relevant and appropriate.

## Policy History

The Board adopted this policy on January 21, 2014. This policy was revised on December 15, 2014.

## Secretary’s Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this Policy.



Steve Delaney  
Secretary of the Board

12/15/14

Date

The following are current assumptions used by the actuary when producing the annual actuarial valuation for OCERS.

## **Economic Assumptions**

### ***INFLATION***

3.00% per annum, retiree cost of living adjustments are subject to a 3.0% maximum change per year.

### ***INVESTMENT RETURN***

7.25% per annum net of investment and administrative expenses.

### ***INDIVIDUAL SALARY INCREASES:***

- ▶ Inflationary Increases: 3.00%
- ▶ Real “across the board” increases: 0.50%
- ▶ Merit and promotion increases:

<b><u>YEARS OF SERVICE</u></b>	<b><u>GENERAL</u></b>	<b><u>SAFETY</u></b>
Less than 1	10.00%	14.00%
1	7.25	10.00
2	6.00	8.50
3	4.75	6.75
4	4.00	5.25
5	3.25	4.50
6	2.25	3.50
7	2.00	3.25
8	1.50	2.25
9	1.25	2.25
10	1.25	1.75
11	1.25	1.75
12	1.25	1.75
13	1.25	1.75
14	1.25	1.75
15	1.25	1.75
16	0.75	1.50

<b>YEARS OF SERVICE</b>	<b>GENERAL</b>	<b>SAFETY</b>
17	0.75	1.50
18	0.75	1.50
19	0.75	1.50
20 & over	0.75	1.50

***ACTIVE MEMBER PAYROLL INCREASES***

3.50% per annum

**Non-Economic Assumptions**

Post-Retirement Mortality Rates:

***HEALTHY***

- ▶ For General Members and all Beneficiaries: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020.
- ▶ For Safety Members: RP-2000 Combined Healthy Mortality projected with Scale BB to 2020 with ages set back two years.

***DISABLED***

- ▶ For General Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020 with ages set forward six years for males and set forward three years for females.
- ▶ For Safety Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020.

***BENEFICIARIES***

- ▶ Beneficiaries are assumed to have the same mortality as a General Member of the opposite sex who is receiving a service (non-disability) retirement.

***EMPLOYEE CONTRIBUTION RATES***

- ▶ For General Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, weighted 40% male and 60% female.
- ▶ For Safety Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020 with ages set back two years, weighted 80% male and 20% female.

**Termination Rates Before Retirement**

Age	RATE (%) MORTALITY <sup>1</sup>			
	General		Safety	
	Male	Female	Male	Female
25	0.04	0.02	0.04	0.02
30	0.04	0.02	0.04	0.02
35	0.07	0.04	0.06	0.04
40	0.10	0.07	0.09	0.06
45	0.14	0.11	0.12	0.09
50	0.20	0.16	0.18	0.14
55	0.34	0.25	0.27	0.21
60	0.59	0.41	0.48	0.33
65	1.00	0.76	0.82	0.60

All General pre-retirement deaths are assumed to be non-service connected. For Safety, 90% of pre-retirement deaths are assumed to be non-service connected. The other 10% are assumed to be service connected.

Age	RATE (%)DISABILITY			
	General All Other(1)	General OCTA(2)	Safety-Law & Fire (3)	Safety-Probation (3)
20	0.00	0.00	0.00	0.00
25	0.00	0.00	0.01	0.03
30	0.01	0.03	0.04	0.08
35	0.03	0.20	0.14	0.10
40	0.08	0.36	0.26	0.10
45	0.11	0.43	0.42	0.16
50	0.14	0.48	0.92	0.20
55	0.18	0.74	1.98	0.23
60	0.29	1.41	5.20	0.10

- (1) 55% of General All Other disabilities are assumed to be service connected disabilities. The other 45% are assumed to be non-service connected.
- (2) 65% of General – OCTA disabilities are assumed to be service connected disabilities. The other 35% are assumed to be non-service connected.
- (3) 100% of Safety – Law Enforcement, Fire and Probation disabilities are assumed to be service connected disabilities.

Years of Service	RATE (%) TERMINATION			
	General All Other (1)	General OCTA (1)	Safety- Law & Fire (2)	Safety – Probation (2)
0	11.0	17.50	4.00	16.00
1	8.0	13.50	3.00	13.00
2	7.0	10.50	2.00	10.00
3	5.0	10.00	1.00	6.00
4	4.0	9.00	1.00	4.00
5	3.75	7.00	1.00	3.50
6	3.50	5.00	0.95	3.00
7	3.00	5.00	0.90	2.50
8	2.75	4.00	0.85	2.25
9	2.50	3.50	0.80	2.00
10	2.25	3.50	0.75	1.75
11	2.00	3.50	0.65	1.75
12	2.00	3.00	0.60	1.50
13	1.75	3.00	0.50	1.25
14	1.75	3.00	0.50	1.00
15	1.75	3.00	0.50	1.00
16	1.50	3.00	0.50	1.00
17	1.50	2.75	0.50	0.50
18	1.50	2.75	0.50	0.50
19	1.50	2.75	0.50	0.50
20 or more	1.25	1.75	0.25	0.50

- (1) 40% of all terminated members with less than 5 years of service and 25% of all terminated members with 5 or more years of service will choose a refund of contributions.
- (2) 45% of all terminated members with less than 5 years of service and 35% of all terminated members with 5 or more years of service will choose a refund of contributions.
- (3) 20% of all terminated members with less than 5 years of service and 20% of all terminated members with 5 or more years of service will choose a refund of contributions.
- (4) 40% of all terminated members with less than 5 years of service and 30% of all terminated members with 5 or more years of service will choose a refund of contributions.

**Retirement Rates**

Age	RATE (%)							
	General Enhanced	General-Non-Enhanced (1)	General SJC (31676.12)	Safety – Law (31664.1) (2)	Safety – Law (31664.2) (2)	Safety – Fire (31664.1) (2)	Safety – Fire (31664.2) (2)	Safety – Probation (2)
Under 50	0.0	0.0	0.0	10.0	0.0	0.0	0.0	0.0
50	2.5	2.5	3.0	16.0	11.5	6.0	8.0	3.0
51	2.0	2.5	3.0	16.0	12.0	8.0	10.0	3.0
52	2.0	2.5	3.0	16.0	12.7	9.0	11.0	4.0
53	2.0	2.5	3.0	16.0	17.9	10.0	12.0	4.0
54	5.0	2.5	3.0	22.0	18.8	16.0	14.0	6.0
55	15.0	3.0	4.0	22.0	30.7	19.0	24.0	11.0
56	10	3.5	5.0	20.0	20.0	20.0	23.0	11.0
57	10.0	5.0	6.0	20.0	20.0	23.0	27.0	17.0
58	10.0	5.0	7.0	20.0	25.0	30.0	27.0	20.0
59	11.0	7.0	9.0	26.0	30.0	30.0	36.0	20.0
60	12.0	9.0	11.0	45.0	100.0	45.0	100.0	20.0
61	12.0	10.0	13.0	45.0	100.0	45.0	100.0	20.0
62	15.0	16.0	15.0	45.0	100.0	45.0	100.0	25.0
63	16.0	16.0	15.0	45.0	100.0	45.0	100.0	50.0
64	16.0	18.0	20.0	45.0	100.0	45.0	100.0	50.0
65	21.0	21.0	20.0	100.0	100.0	100.0	100.0	100.0
66	22.0	26.0	24.0	100.0	100.0	100.0	100.0	100.0
67	23.0	21.0	24.0	100.0	100.0	100.0	100.0	100.0
68	23.0	21.0	24.0	100.0	100.0	100.0	100.0	100.0
69	23.0	21.0	24.0	100.0	100.0	100.0	100.0	100.0
70	40.0	30.0	100.0	100.0	100.0	100.0	100.0	100.0
71	40.0	30.0	100.0	100.0	100.0	100.0	100.0	100.0
72	40.0	30.0	100.0	100.0	100.0	100.0	100.0	100.0

	RATE (%)							
73	40.0	30.0	100.0	100.0	100.0	100.0	100.0	100.0
74	40.0	30.0	100.0	100.0	100.0	100.0	100.0	100.0
75	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

- (1) These assumptions are also used for the CalPEPRA 1.62% @ 65 formula (Plan T).
- (2) Retirement rate is 100% after a member accrues a benefit of 100% of final average earnings.

	RATE (%)			
Age	CalPEPRA 2.5% @ 67 General Formula	CalPEPRA Safety – Probation Formula (1)	CalPEPRA Safety – Law Formula (1)	CalPEPRA Safety – Fire Formula (1)
50	0.0	2.5	11.0	6.5
51	0.0	2.5	11.5	8.0
52	4.0	3.0	12.0	9.0
53	1.5	3.0	16.0	10.0
54	1.5	5.5	17.0	12.0
55	2.5	10.0	28.0	21.0
56	3.5	10.0	18.0	20.0
57	5.5	15.0	17.5	22.0
58	7.5	20.0	22.0	25.0
59	7.5	20.0	26.0	31.5
60	7.5	100.0	100.0	100.0
61	7.5	100.0	100.0	100.0
62	14.0	100.0	100.0	100.0
63	14.0	100.0	100.0	100.0
64	14.0	100.0	100.0	100.0
65	18.0	100.0	100.0	100.0
66	22.0	100.0	100.0	100.0
67	23.0	100.0	100.0	100.0
68	23.0	100.0	100.0	100.0



	RATE (%)			
69	23.0	100.0	100.0	100.0
70	30.0	100.0	100.0	100.0
71	30.0	100.0	100.0	100.0
72	30.0	100.0	100.0	100.0
73	30.0	100.0	100.0	100.0
74	30.0	100.0	100.0	100.0
75	100.0	100.0	100.0	100.0

(1) Retirement rate is 100% after a member accrues a benefit of 100% of final average earnings.

Retirement Age and Benefit for  
 Deferred Vested Members:

For deferred vested members, the following  
 assumptions are made:

General Retirement Age: 58

Safety Retirement Age: 53

Assume that 20% of future General and 30% of future  
 Safety deferred vested members are reciprocal. For  
 reciprocals, assume 4.25% compensation increases for  
 General and 5.00% for Safety per annum.

Liability Calculation for Current  
 Deferred Vested Members:

Liability for a current deferred vested member is  
 calculated based on salary, service, and eligibility for  
 reciprocal benefit as provided by the Retirement System.  
 For those members without salary information that have  
 3 or more years of service, use an average salary. For  
 those members without salary information that have  
 less than 3 years of service or for those members  
 without service information, assume a refund of account  
 balance.

Future Benefit Accruals:

1.0 year of service per year of employment. There is no  
 assumption to anticipate conversion of unused sick leave  
 at retirement.

Unknown Data for Members:

Same as those exhibited by members with similar known

characteristics. If not specified, members are assumed to be male.

Percent married: 75% of male members and 50% of female members are assumed to be married at retirement or time of pre-retirement death.

Age of Spouse: Female (or male) three years younger (or older) than spouse.

Employee Contribution Crediting Rate: 5.00%, compounded semi-annually.

<p>Non-CalPEPRA Formulas</p>	<p>Additional compensation amounts are expected to be received during a member's final average earnings period. The percentages used in this valuation are:</p> <table border="1" data-bbox="706 1129 1383 1564"> <thead> <tr> <th></th> <th>Final One Year Salary</th> <th>Final Three Year Salary</th> </tr> </thead> <tbody> <tr> <td>General Members</td> <td>3.50%</td> <td>2.80%</td> </tr> <tr> <td>Safety – Probation</td> <td>3.80%</td> <td>2.80%</td> </tr> <tr> <td>Safety – Law</td> <td>5.20%</td> <td>4.70%</td> </tr> <tr> <td>Safety – Fire</td> <td>2.00%</td> <td>2.00%</td> </tr> </tbody> </table> <p>The annual payoffs assumptions are the same for service and disability retirements.</p>		Final One Year Salary	Final Three Year Salary	General Members	3.50%	2.80%	Safety – Probation	3.80%	2.80%	Safety – Law	5.20%	4.70%	Safety – Fire	2.00%	2.00%
	Final One Year Salary	Final Three Year Salary														
General Members	3.50%	2.80%														
Safety – Probation	3.80%	2.80%														
Safety – Law	5.20%	4.70%														
Safety – Fire	2.00%	2.00%														
<p>CalPEPRA Formulas</p>	<p>None</p>															

# Orange County Employees Retirement System

## Review of Elements in Current UAAL Amortization Policy

**March 19, 2018**

*Paul Angelo, FSA*

*Segal Consulting*

*San Francisco*

5528912v3

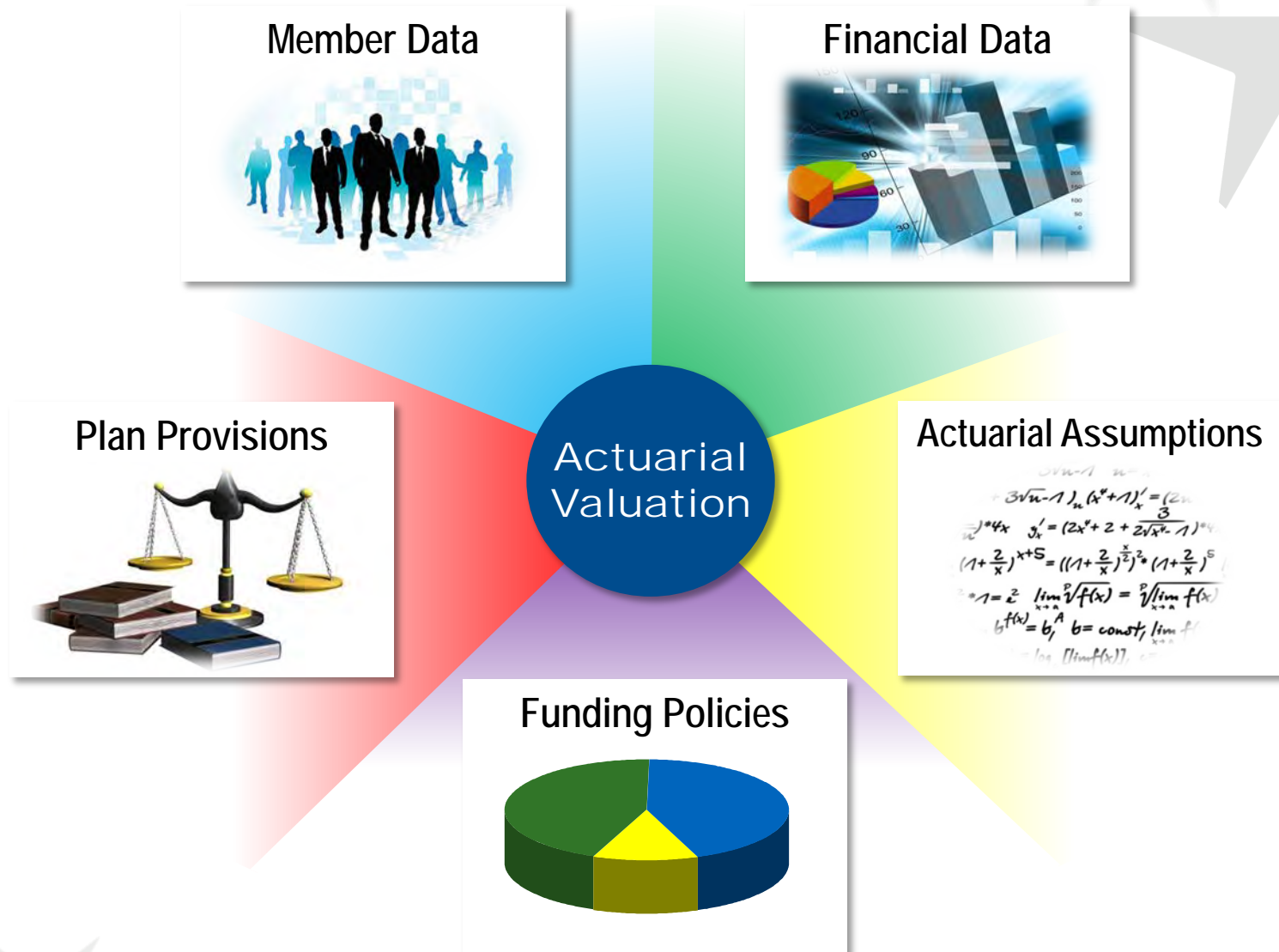
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# Agenda

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- Review of funding policy components and cost elements
- Review of OCERS funding policy objectives and parameters
- Review of OCERS UAAL amortization policy
  - Reviewed and approved by the Board in 2013 and 2014
  - Effective with December 31, 2013 Valuation
- Illustration of UAAL amortization periods and methods
- OCERS December 31, 2016 UAAL Amortization Schedule
- Recent changes made to CalPERS UAAL amortization policy

# What goes into an Actuarial Valuation?



$$\begin{aligned}
 & \frac{d}{dx} (x^2+1)^3 = 3(x^2+1)^2 \cdot 2x = 6x(x^2+1)^2 \\
 & \frac{d}{dx} (2x^3 + 2 + 2\sqrt{x^2-1})^4 = 4(2x^3 + 2 + 2\sqrt{x^2-1})^3 \cdot (6x^2 + 0 + \frac{2x}{\sqrt{x^2-1}}) \\
 & (1 + \frac{2}{x})^{x+5} = ((1 + \frac{2}{x})^{\frac{x}{2}})^2 \cdot (1 + \frac{2}{x})^5 \\
 & \lim_{x \rightarrow \infty} \sqrt[n]{f(x)} = \sqrt[n]{\lim_{x \rightarrow \infty} f(x)} \\
 & f(x) = b \cdot a^x, \quad b = \text{const}, \quad \lim_{x \rightarrow \infty} f(x) = \infty \\
 & \lim_{x \rightarrow \infty} \log(f(x)) = \infty
 \end{aligned}$$

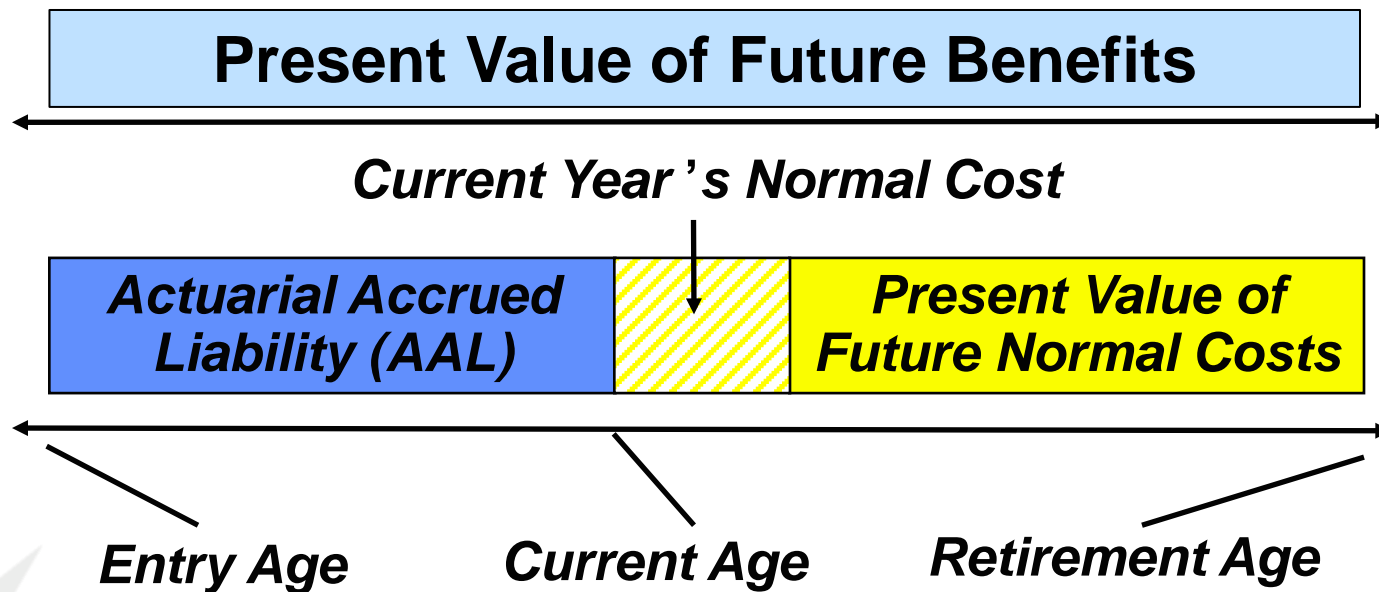
# Funding Policy Components

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- **Actuarial Cost (or Funding) Method** – allocates present value of member's projected benefits to years of service: past, current and future
  - Defines Normal Cost and Actuarial Accrued Liability (AAL)
- **Asset Smoothing Method** – determines an Actuarial Value of Assets that recognizes investment gains or losses over a period of time
  - Manages short term volatility while tracking market value
  - Defines the Unfunded Actuarial Accrued Liability (UAAL)
- **UAAL Amortization Policy** – sets contributions to systematically reduce any UAAL
  - Includes structure, periods and pattern of payments

# Funding Policy – Cost Elements

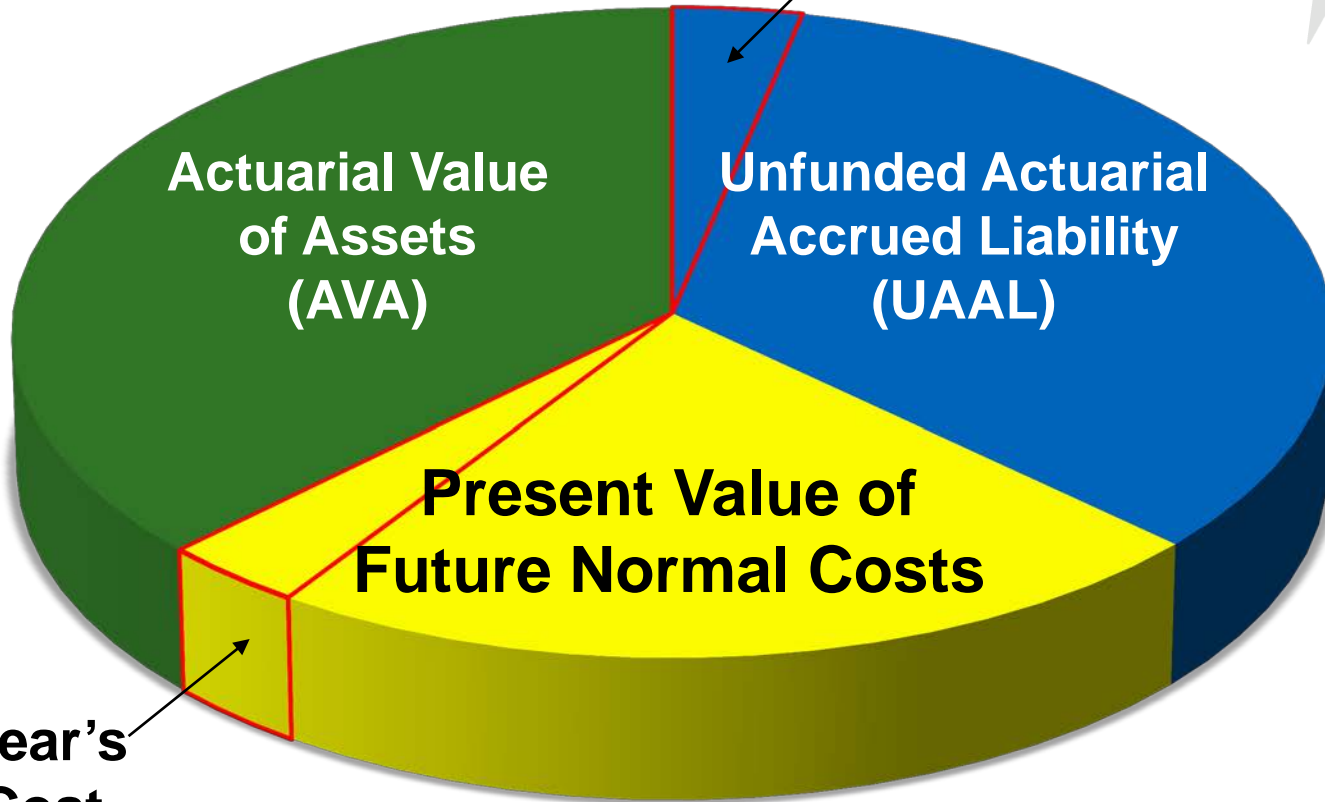
- **The Normal Cost** is the portion of the value of projected benefits for active members that is allocated to each plan year.
  - Normal Cost is shared between employees and employers
- **The Actuarial Accrued Liability (AAL) measures the Normal Costs from past years**—for retired members, the AAL is the entire value of their benefit.
  - Any unfunded AAL (UAAL) is funded by the employers



# Funding Policy – Cost Elements

**Present Value of Future Benefits**

**Current Year's  
Amortization of UAAL**





# Policy Objectives of Actuarial Funding Policy

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1. Achieve long-term full funding of the cost of benefits provided by OCERS
  - Future contributions plus current assets sufficient to fund all benefits for current members
  - Current Contribution = Normal Cost + full UAAL payment
2. Seek a reasonable and equitable allocation of the cost of benefits over time
  - Both expected costs and variations from expected costs
3. Minimize volatility of the plan sponsor's contribution
  - To the extent reasonably possible, consistent with other policy objectives
4. Support public policy goals of accountability and transparency
  - Allow for an assessment of how and when plan sponsors will meet the funding requirements of the plan

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# Relationship among Policy Objectives

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- Policy Objectives 2 and 3 reflect two aspects of the general policy objective of “interperiod equity”
- Policy Objective #2 promotes “demographic matching”
  - Current taxpayers incur cost of benefits for current public employees serving those taxpayers
- Policy Objective #3 promotes “volatility management”
  - Current taxpayers’ cost compares equitably with costs just before and after
- These objectives tend to move funding policy in opposite directions.
  - Policy objectives 2 and 3 combined seek to balance demographic matching vs. volatility management

# 2013 and 2014 Review of Actuarial Funding Policy

## ➤ Funding policy elements approved

- Continuation of Entry Age actuarial cost method
- Continuation of 5-year asset smoothing method
- UAAL amortization policy starting with 12/31/2013 valuation
  - Continuation of level percent of payroll amortization
  - 12/31/2012 UAAL layers combined and reamortized over 20 years
  - Amortization policy for changes in UAAL after 12/31/2012

Source		
Actuarial gains or losses		20
Assumption or method changes		20
Plan amendments		15
Early Retirement Incentives		Up to 5
Actuarial surplus		30

# Level Percent of Payroll UAAL Amortization

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- UAAL payments structured to increase with total payroll
  - Payroll assumed to increase with inflation and real wage growth
    - Assumptions approved for December 31, 2017 valuation
    - 2.75% (inflation) + 0.50% (real wage growth) = 3.25% (total)
    - Assumes constant active head count
  - Shortfall in UAAL contributions if actual payroll increase is less than assumed
    - Mitigated by actuarial gains from individual salaries increases less than expected

# Illustration of UAAL Amortization Periods and Methods

➤ \$1,000,000 initial UAAL, 7.00% investment return

assumption

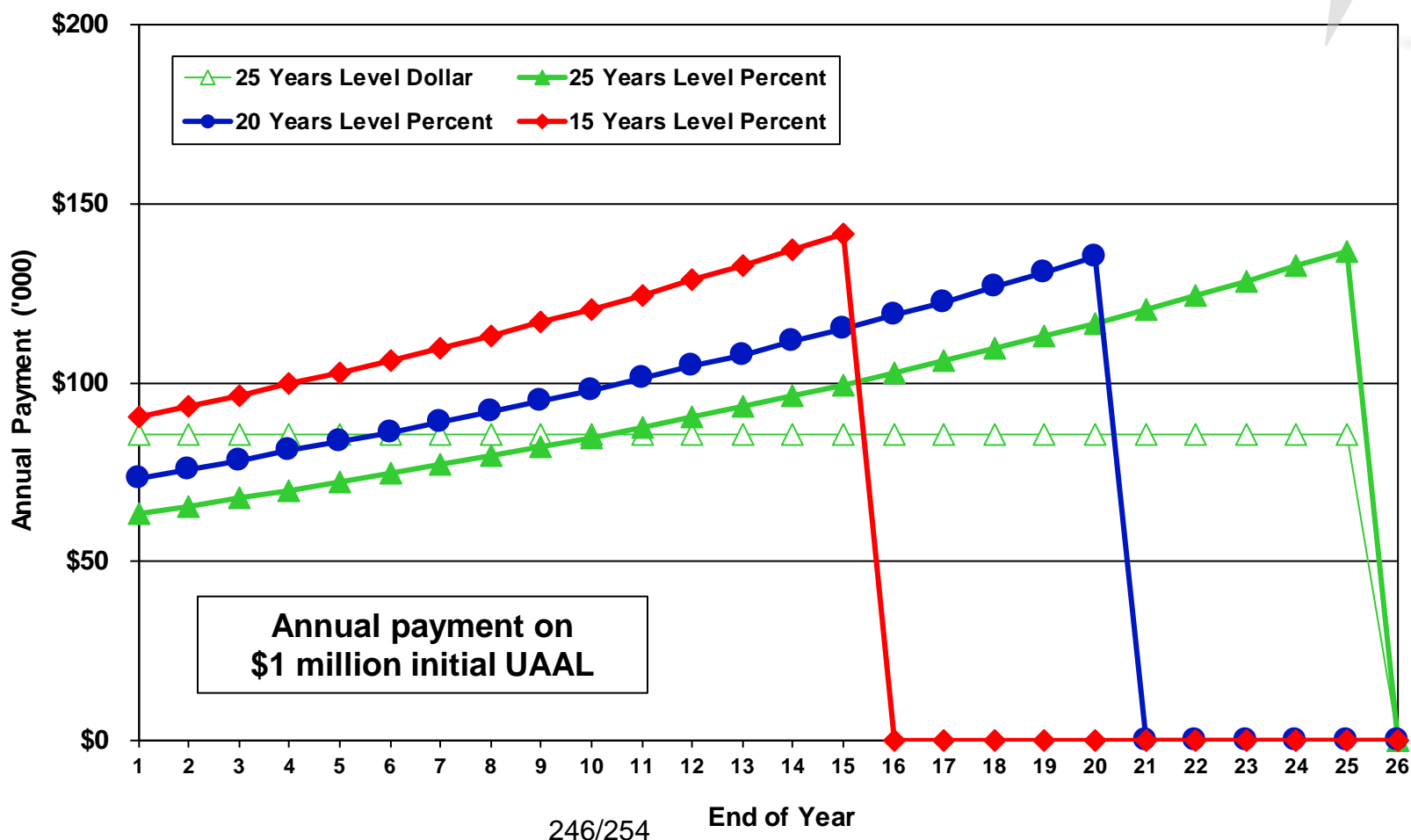
7.00% interest

3.25% payroll growth

	25 years Level dollar	25 years % of pay	20 years % of pay	15 years % of pay
Increase in AAL	1,000,000	1,000,000	1,000,000	1,000,000
Amortization factor (first year)	11.6536 0.085811	15.7365 0.063546	13.6021 0.073518	11.0509 0.090490
Amortization amount				
Year 1	\$ 85,811	\$ 63,546	\$ 73,518	\$ 90,490
Year 15	\$ 85,811	\$ 99,438	\$ 115,041	\$ 141,600
Year 20	\$ 85,811	\$ 116,682	\$ 134,991	\$ 0
Year 25	\$ 85,811	\$ 136,916	\$ 0	\$ 0
Total amount paid				
Principal	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Interest	1,145,263	1,394,425	1,026,467	714,202
Total	\$ 2,145,263	\$ 2,394,425	\$ 2,026,467	\$ 1,714,202

# Illustration of UAAL Amortization Periods and Methods

- Annual payment amounts for \$1,000,000 initial UAAL
  - Payments increase 3.25% per year



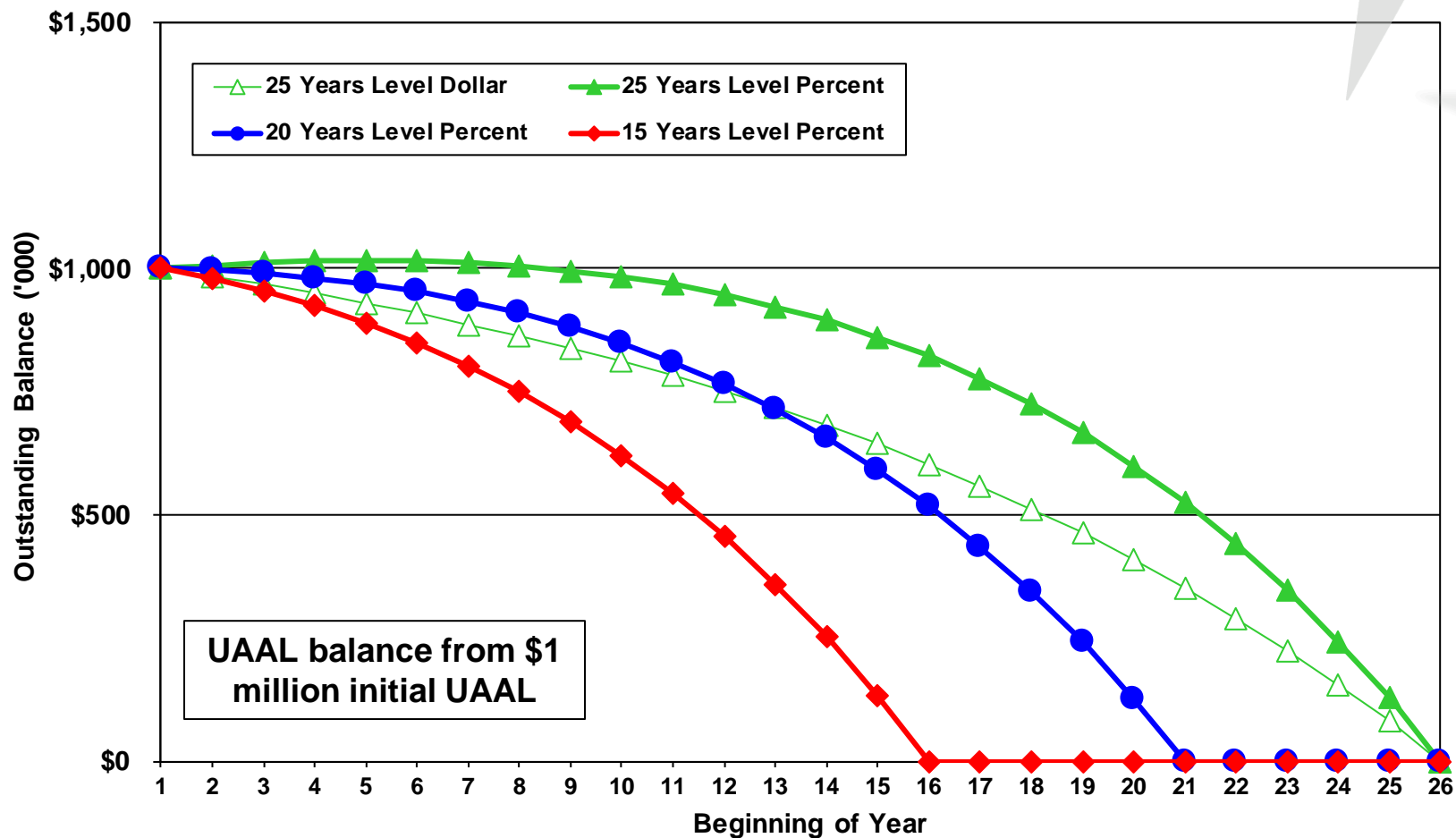
# Negative Amortization

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- \$1,000,000 liability, 7.00% interest
- First year interest only is \$70,000
- With level dollar payments, payments are always greater than interest
- With level percentage payments, early payments can be less than interest
  - UAAL increases (but not as a percentage of payroll!)
  - Eventually larger payments cover interest plus increased UAAL
- For OCERS, 20 year amortization means no negative amortization even in first year of new layer

# Illustration of UAAL Amortization Periods and Methods

➤ Outstanding UAAL balance for \$1,000,000 initial UAAL





# OCERS December 31, 2016 Amortization Schedule

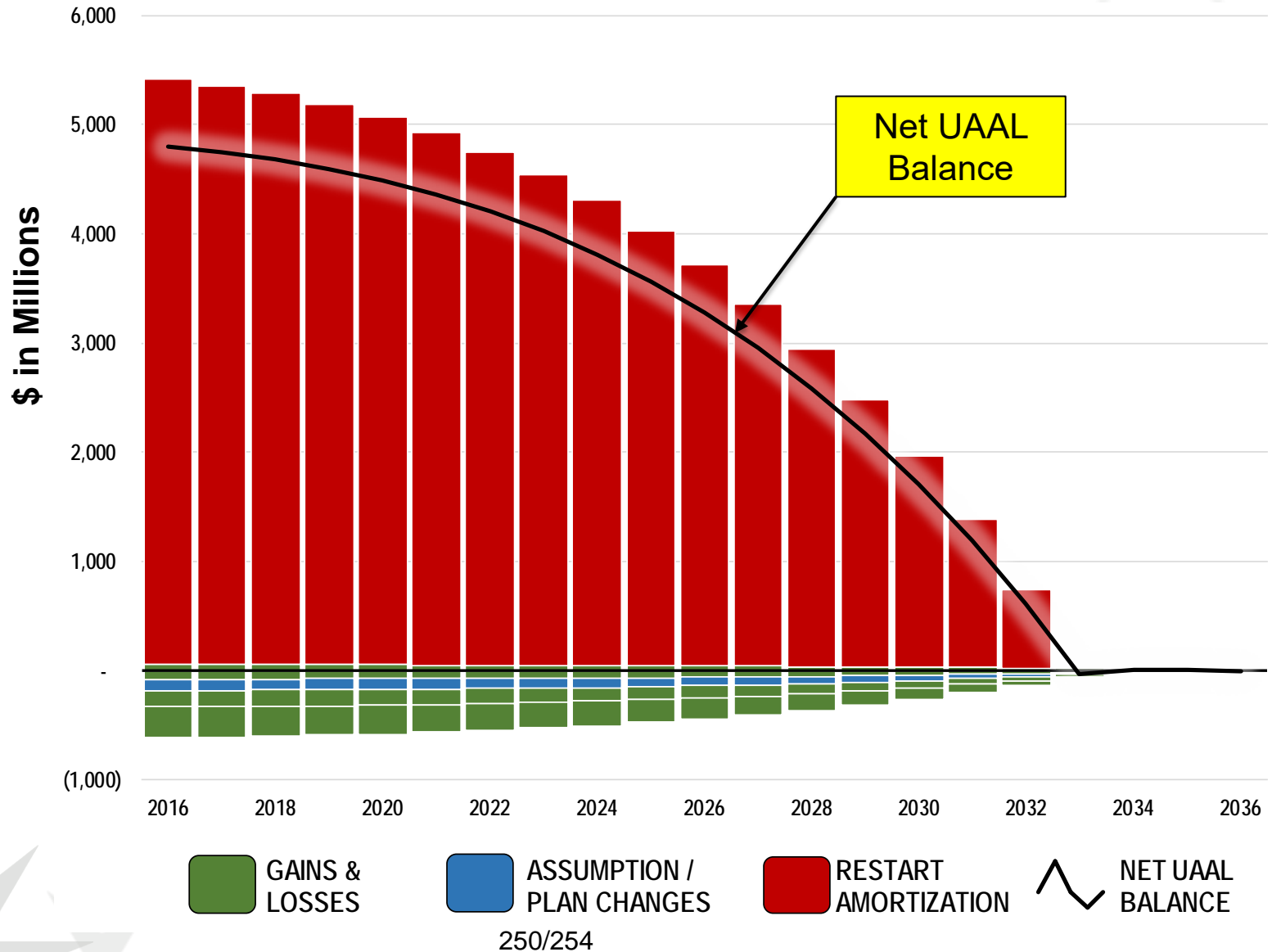
## SECTION 4: Reporting Information for the Orange County Employees Retirement System

### Appendix A (Continued)

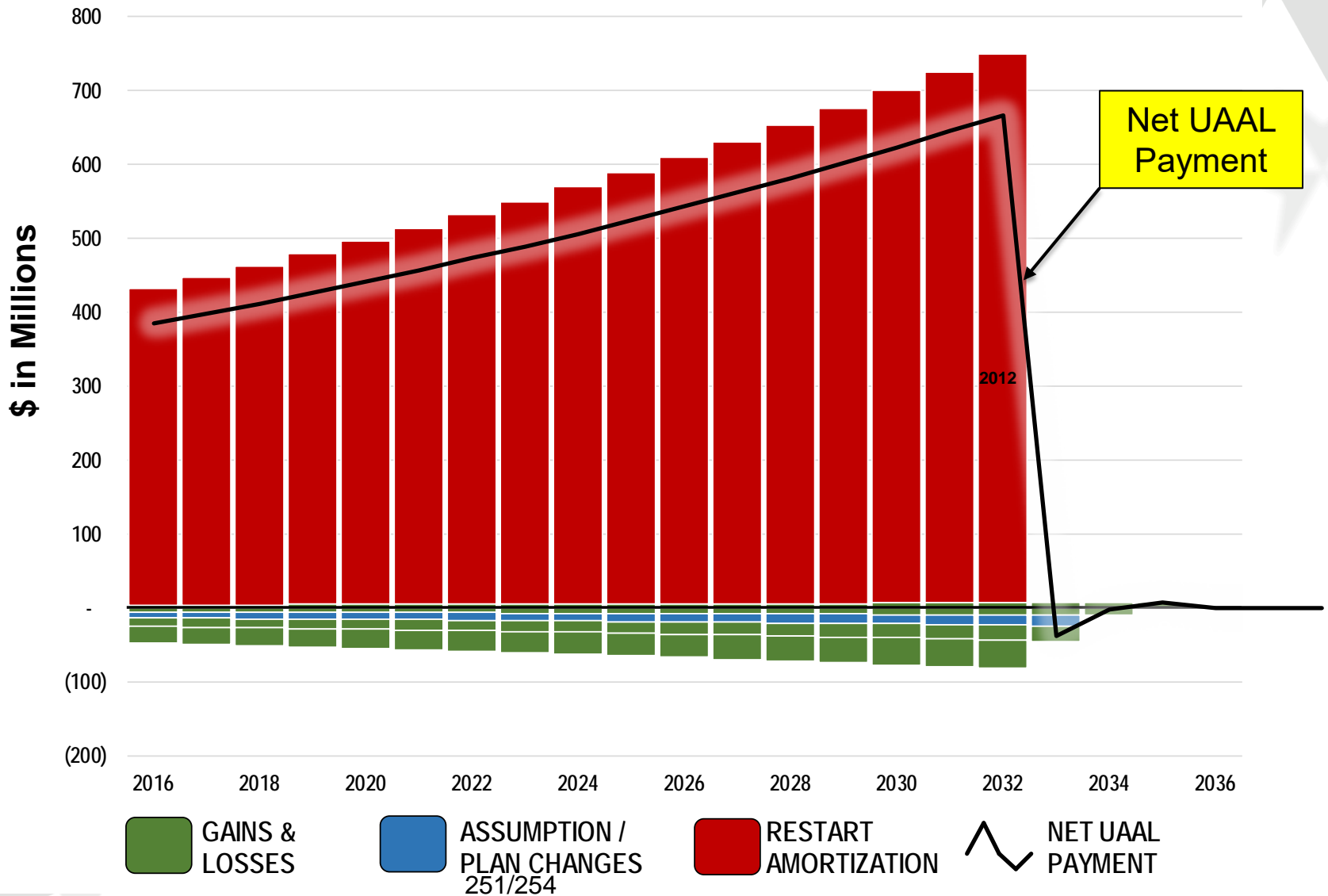
#### UAAL Amortization Schedule as of December 31, 2016

Rate Groups	Date Established	Source	Initial Base	Years Remaining	Remaining Base	Amortization Amount
All Rate Groups Combined Excluding OCSD, Cemetery, DOE, U.C.I. and Vector Control						
	12/31/2012	Restart amortization	\$5,408,524.000	17	\$5,353,246.000	\$428,237,000
	12/31/2013	Actuarial (gain) or loss	(282,292.000)	17	(279,408.000)	(22,353.000)
	12/31/2014	Actuarial (gain) or loss	(152,244.000)	18	(151,491.000)	(11,629.000)
	12/31/2014	Assumption changes	(104,333.000)	18	(103,818.000)	(7,970.000)
	12/31/2015	Actuarial (gain) or loss	(75,510.000)	19	(75,425.000)	(5,574.000)
	12/31/2015	Law Library restart amortization	1,543.000	17	1,533.000	123.000
	12/31/2016	Actuarial (gain) or loss	56,161.000	20	<u>56,161.000</u>	<u>4,006.000</u>
Subtotal Total					\$4,800,798.000	\$384,840,000
Rate Group #3 (OCSD)					\$ (2,522.000)	
Rate Group #11 (Cemetery)					\$ (289.000)	
Vector Control					\$1,115.000	
DOE					\$2,848.000	
U.C.I.					\$28,533.000	
Grand Total					\$4,830,483.000	

# OCERS Layered UAAL Amortization Balances as of December 31, 2016



# OCERS Layered UAAL Amortization Payments as of December 31, 2016



# Recent changes to CalPERS Amortization Policy

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- Unlike most systems, CalPERS does not use asset smoothing
  - In April 2013 CalPERS adopted “5 year direct rate smoothing”
  - Mimics asset smoothing without using a smoothed asset value
    - Five year “ramp up / ramp down” of contribution rate impact built into amortization payments
  - Extended smoothing / phase-in to all actuarial experience and assumption changes
- CalPERS 2013 layered amortization periods
  - Actuarial gains or losses: 30 years
    - Similar to 26 year amortization with 5 year smoothing
  - Assumption or method changes: 20 years
    - Similar to 16 year amortization with 5 year phase-in / phase out

# Recent changes to CalPERS Amortization Policy

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- CalPERS amortization policy revised in February 2018
  - Effective with 6/30/2019 valuation
- For investment gains and losses
  - 20 year UAAL amortization with 5 year ramp up (not down!)
- For non-investment gains and losses
  - 20 year UAAL amortization with no ramp up/down
- For assumption changes
  - 20 year UAAL amortization with no ramp up/down
- New layers will use level dollar amortization



# Questions and Discussion