OCERS BOARD OF RETIREMENT

2020 STRATEGIC PLANNING WORKSHOP

Wednesday, September 9, 2020

AGENDA

OCERS Zoom Video/Teleconference information	
Join Using Zoom App (Video & Audio) https://ocers.zoom.us/j/96047063145 **Meeting ID: 960 4706 3145** **Password: 931702** Go to https://www.zoom.us/download to download Zoom app before meeting Go to https://zoom.us to connect online using any browser.	**Join by Telephone (Audio Only)** Dial by your location +1 669 900 6833 US (San Jose) +1 346 248 7799 US (Houston) +1 253 215 8782 US +1 301 715 8592 US +1 312 626 6799 US (Chicago) +1 929 436 2866 US (New York) **Meeting ID: 960 4706 3145** **Password: 931702**
A Zoom Meeting Participant Guide is available on OCERS website Board & Committee meetings page	

WELCOME & INTRODUCTORY COMMENTS **9:00 – 9:10**
Roger Hilton, Chairman, OCERS and Steve Delaney, CEO, OCERS

HEARING FROM OUR STAKEHOLDERS **9:10 – 10:00**
Michelle Aguirre, Chief Financial Officer, County of Orange;
Charles Barfield, General Manager, OCEA; and
Paul Bartlett, Executive Director, AOCDS

For more than a decade we have started each workshop by hearing first from our stakeholders.

ANNUAL OCERS EMPLOYER REVIEW **10:00 – 10:30**
Suzanne Jenike, Assistant CEO of External Operations, OCERS and
Jeff Lamberson, Member Services Director, OCERS

SECOND LOOK AT AGE BASE RATES **10:30 – 11:00**
Suzanne Jenike, Assistant CEO of External Operations, OCERS and
Steve Delaney, CEO, OCERS

OCERS was nearly alone in continuing with Age Based member contribution rates when PEPRA was first introduced. That creates a number of complications. Staff would like to discuss what might be gained by joining our sister systems in using a flat rate instead.

BREAK **11:00 – 11:10**

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

PENSION ADMINISTRATION SYSTEM OUTLOOK **11:10 – 12:00**
Suzanne Jenike, Assistant CEO of External Operations, OCERS; Brenda Shott, Assistant CEO of Internal Operations, OCERS; and Jenny Sadoski, Director of Information Technology, OCERS

V3 is now five years old. While we are still years away from an update or replacement, we do need to begin thinking now about what the future holds for our most important technological tool.

OCERS BOARD OF RETIREMENT

2020 STRATEGIC PLANNING WORKSHOP

Thursday, September 10, 2020

AGENDA

OCERS Zoom Video/Teleconference information	
Join Using Zoom App (Video & Audio) https://ocers.zoom.us/j/92501764968 **Meeting ID: 925 0176 4968** **Password: 332226** Go to https://www.zoom.us/download to download Zoom app before meeting Go to https://zoom.us to connect online using any browser.	**Join by Telephone (Audio Only)** Dial by your location +1 669 900 6833 US (San Jose) +1 346 248 7799 US (Houston) +1 253 215 8782 US +1 301 715 8592 US +1 312 626 6799 US (Chicago) +1 929 436 2866 US (New York) **Meeting ID: 925 0176 4968** **Password: 332226**
A Zoom Meeting Participant Guide is available on OCERS website Board & Committee meetings page	

WELCOME **9:00 – 9:15**
Shawn Dewane, Vice-Chairman, OCERS and Molly Murphy, Chief Investment Officer, OCERS

INTRODUCTION TO PRIVATE EQUITY CO-INVESTMENTS **9:15 – 10:00**
Molly Murphy, Chief Investment Officer, OCERS and
David Fann, Vice Chairman, Aksia

INVESTMENT CONTRACT TERMS – NEGOTIATIONS AND BEST PRACTICES **10:00 – 10:45**
Reginald D. Tucker, Managing Director, OCERS; Yuliya Oryol, Partner, Nossaman, LLP; and Thomas A. Hickey, III, Partner, Foley & Lardner, LLP

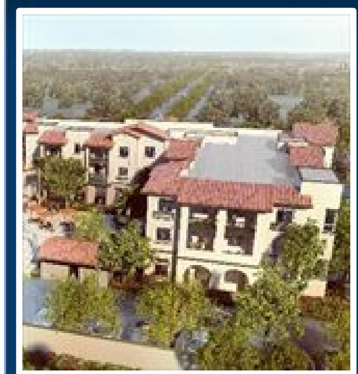
BREAK	**10:45 – 11:00**
THE STATE OF OCERS Steve Delaney, CEO, OCERS	**11:00 – 11:30**

An annual review of the challenges and opportunities facing our system.

2021-2023 STRATEGIC PLAN Steve Delaney, CEO, OCERS	**11:30 – 11:45**
2021 BUSINESS PLAN OCERS Executive Management Team	**11:45 – 12:15**
CLOSING Steve Delaney, CEO, OCERS	**12:15 – 12:30**







OCERS STRATEGIC PLANNING WORKSHOP

September 9, 2020

Michelle Aguirre

County of Orange

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Challenging Times

- Financially stable pre-COVID-19
- $30M draw from Catastrophic Event Reserve at end of FY 2019-20
- Board approved FY 2020-21 base budget on June 2, 2020
- September CEO Recommended Budget
  - Partial revenue loss backfill from State
  - No Federal revenue loss backfill
  - Commitment to Strategic Financial Plan and Board priorities including Integrated Services Strategy Vision 2025

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Budget Balancing Strategy

- Use of Ongoing & One-Time Funding Sources
- Priorities
  - Response to COVID-19
  - Continued Delivery of Core County Services
  - Funding for Filled Positions
  - Funding for ongoing capital and IT projects
- Does Not Include
  - Assumption of Federal Revenue Loss Backfill
  - Funding for Vacant Positions
  - VIP Savings
  - Voluntary Furlough Savings
- Mid-Year & Year-End Adjustments

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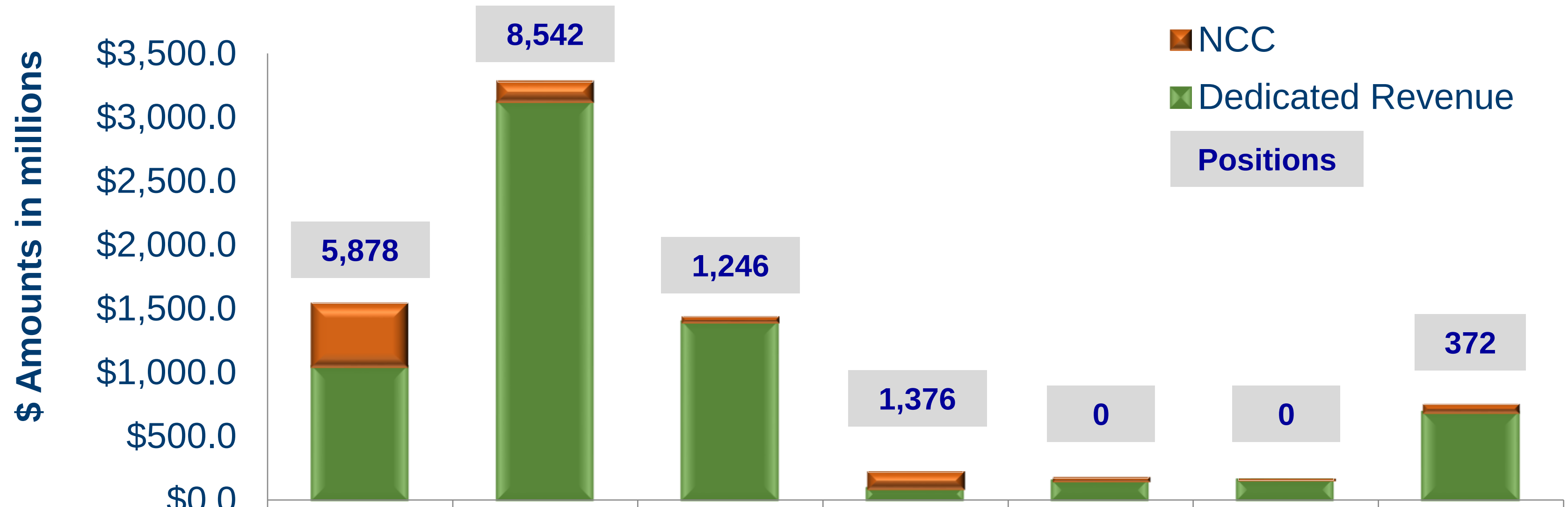
County Appropriations & Positions by Program

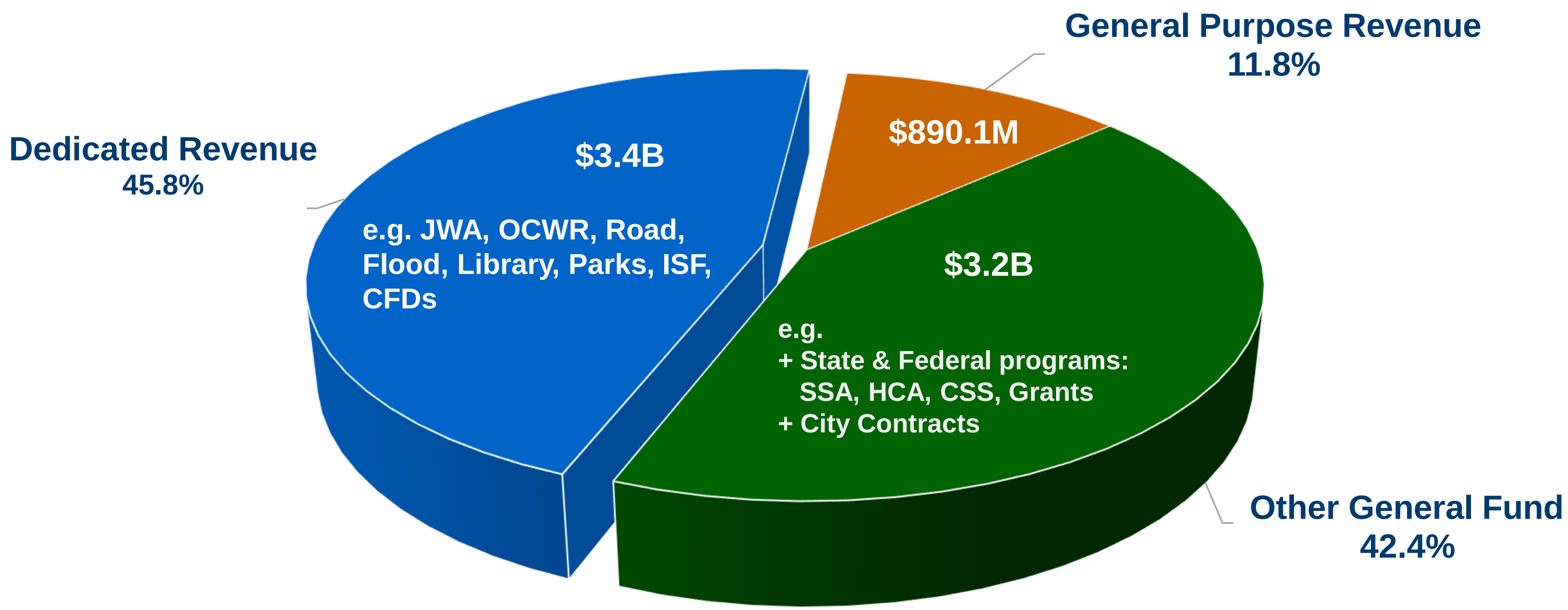
FY 2020-21 Recommended Budget Total = $7.5 Billion



	Public Protection	Community Services	Infrastructure & Env Res	General Govt	Capital Improve	Debt Service	Ins, Res & Misc
Dedicated Revenue	$ 1,051.1	$ 3,121.1	$ 1,399.3	$ 88.0	$ 147.8	$ 153.6	$ 688.0
NCC	490.5	154.2	35.9	127.7	22.0	0.1	59.7
Total Appropriations	**$ 1,541.6**	**$ 3,275.3**	**$ 1,435.2**	**$ 215.7**	**$ 169.8**	**$ 153.7**	**$ 747.7**

County Revenue Budget

FY 2020-21 Recommended Budget Total = $7.5 Billion



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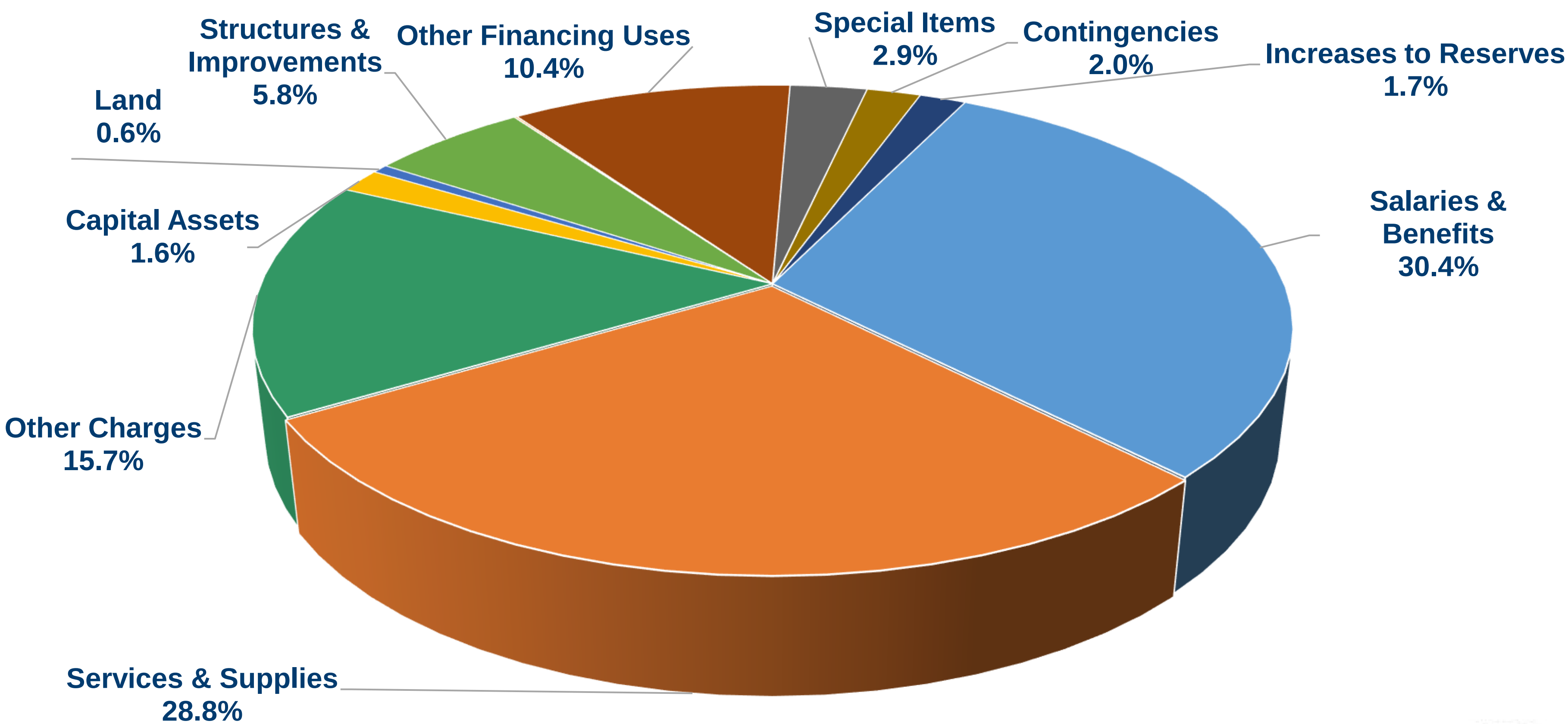
County Appropriations by Expenditure Category

FY 2020-21 Recommended Budget Total = $7.5 Billion



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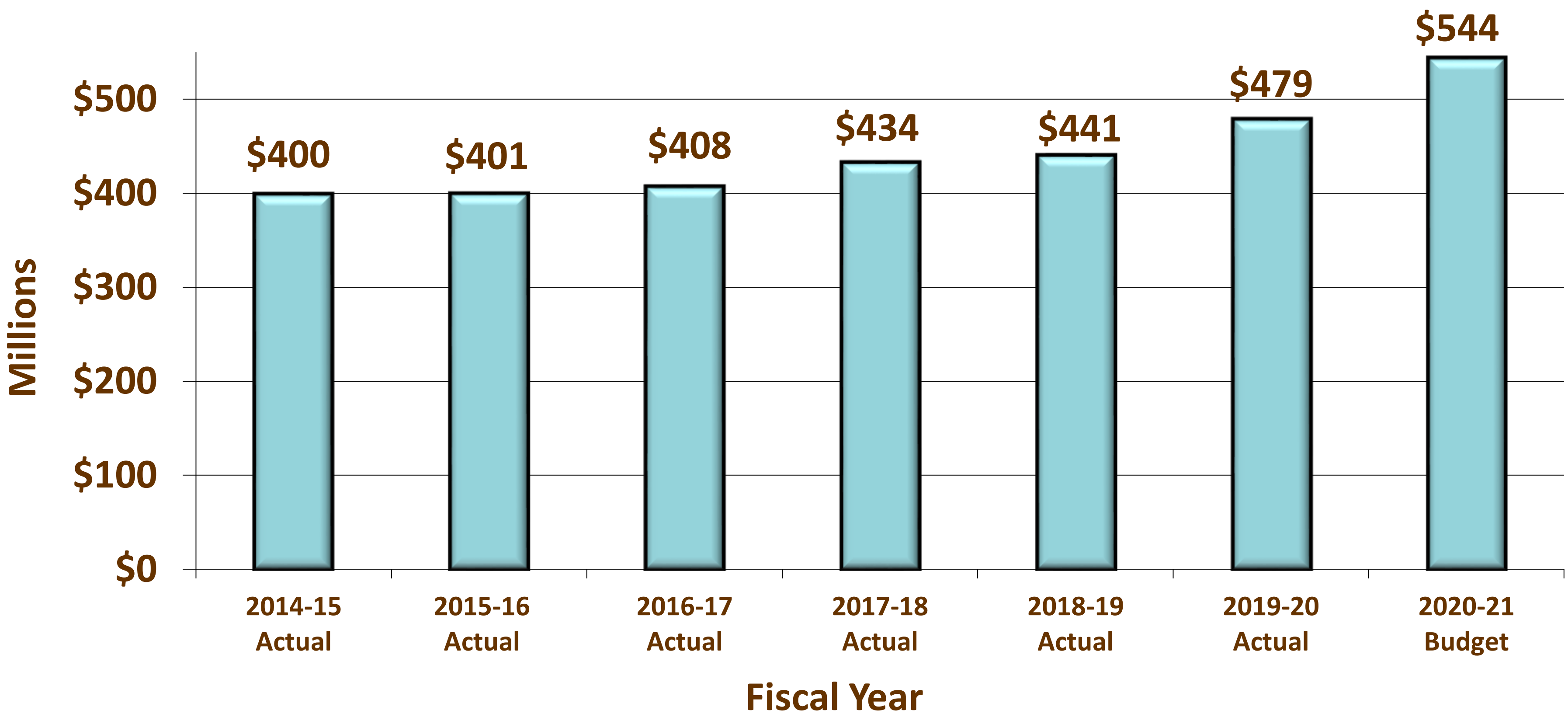
Growing Pension Cost



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Integrated Services Strategy Vision 2025

- Reduce the number of mentally ill in our jails and the number of individuals in the County's system of care overall by wrapping them in services until they achieve self-sufficiency

- Budget includes augmentations for:
  - HCA: 17 Positions/Contract Services for Correctional Health Services ($2.5M/$3.3M)
  - Sheriff: 12 Inmate Welfare Positions for Enhanced Program Services ($1M); IRC Facility Modifications ($6.5M)
  - CEO: Reentry Center ($4M)
  - OCCR: CID position for inmate link to job opportunities ($148K)

OCERS' 2020 Employer Annual Review

Report Date: September 9, 2020

Suzanne Jenike
Assistant CEO
External Operations

Table of Contents

Executive Summary

The Orange County Employees Retirement System (OCERS) is a public pension plan that partners with 13 active Employers (Employers) to provide a defined benefit life-time pension to many of Orange County's public servants. As of December 31, 2019, OCERS manages a $17.1 billion fund from which members received pension benefits payments totaling $888 million for the year ending December 31, 2019. The pension benefits our members receive are funded from three main sources; fund earnings (53%), member contributions (15%) and employer contributions (32%).

The OCERS' 2020 Annual Employer Review report (Employer report) provides the OCERS' Board of Retirement with a summary of key financial information on OCERS' Employers based upon information provided by their 2019 audited financial statements and 2019 budget and forecast documents.

- All of the audited financial statements obtained from the Employers contained an external auditor's unmodified ("clean") opinion. In addition, no external auditor disclosed any "Going Concern" issues in regards to the Employer's ability to continue as a governmental entity.

- None of OCERS' active Employers have missed required OCERS contribution payments since the prior year's Employer report.

- Also, a number of Employers have continued with additional payments towards their unfunded actuarial accrued liability (UAAL); payments totaling $25 million from the Orange County Fire Authority and $4 million from UC Irvine Medical Center & Campus have been received between January 2018 and June 2019. The Transportation Corridor Agencies paid off their UAAL balance of $12.8 million in July 2019.

- Upon review of the reported financial information from the Employers, no further action is planned from OCERS' Executive Management.

Although this report includes financial information on OCFA and the Orange County Sheriff's Department, it does not include financial information from the cities 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 Team to start creating this report of key financial information such as revenue sources and net position of OCERS Employers. OCERS Assistant CEO of External Operations assumed the assignment of overseeing the report this year from Internal Audit.

Background

Scope

This report includes financial information on OCERS' Employers for fiscal year ending June 30, 2019, if publicly available. There were 22,251 active members within OCERS' thirteen Employers as of December 31, 2019, plus 6,520 deferred members.

Background

Active Member Count for year ending December 31:				
Employer	**2016**	**2017**	**2018**	**2019**
Orange County	16,756	16,780	17,048	17,154
Superior Court	1,486	1,455	1,419	1,418
OCTA	1,372	1,313	1,279	1,350
OCFA	1,263	1,288	1,262	1,417
Sanitation District	578	592	616	608
OCERS	68	70	84	87
San Juan Capistrano	80	81	78	76
Toll Roads	68	64	62	61
In-Home Support Services	23	24	26	25
Cemetery District	22	25	25	24
Law Library	15	14	14	14
Children & Families Commission	9	10	11	12
LAFCO	6	5	5	5
Total:	**21,746**	**21,721**	**21,929**	**22,251**

Annual revenues for OCERS' Five Largest Employers:

Revenues, as of Year Ending June 30 (000's):				
Employer	**6/30/2016**	**6/30/2017**	**6/30/2018**	**6/30/2019**
Orange County	$ 4,008,000	$ 4,186,000	$ 4,404,000	$ 4,503,000
OCTA	$ 794,000	$ 892,000	$ 860,000	$ 954,000
OCFA	$ 357,000	$ 374,000	$ 422,000	$ 414,000
Sanitation District	$ 423,000	$ 432,000	$ 422,000	$ 477,000
Superior Court	$ 201,000	$ 193,000	$ 202,000	$ 202,000
Total	$ 5,783,000	$ 6,077,000	$ 6,310,000	$ 6,550,000

Primary Revenue Sources for OCERS' Five Largest Employers - Year Ending June 30, 2019:

Revenue Category	Orange County	OCFA	Superior Court	OCTA	OCSD
Monies from CA/Federal	52%	4%	99%	21%	6%
Property Tax/Other Tax	26%	65%	-	8%	28%
Sales Tax	-	-	-	59%	0%
Service Charges	21%	31%	-	11%	66%
% of Total Revenues	**100%**	**100%**	**99%**	**100%**	**100%**
Total Revenues:	$4.5 billion	$414 million	$202 million	$954 million	$477 million

Net Position **- Total assets less total liabilities, as of June 30th for OCERS' five largest Employers:**

Net Position, as of Year Ending June 30 (000's):				
Employer	**6/30/2016**	**6/30/2017**	**6/30/2018**	**6/30/2019**
Orange County*	$ 2,185,709	$ 2,505,151	$ 2,464,735	$ 2,527,108
OCTA	$ 1,417,477	$ 1,580,417	$ 1,611,223	$ 1,751,910
OCFA	$ (160,664)	$ (176,774)	$ (299,453)	$ (298,070)
Sanitation District	$ 1,918,572	$ 2,041,225	$ 2,194,789	$ 2,360,502
Superior Court**	-	-	-	-

*The Unrestricted Fund portion of County's Net Position actually has a deficit of $2.9 billion.

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

Employers' Bond Ratings, Purpose of Debt, and Form of Security (where applicable):

Orange County	OCTA	Sanitation District	Toll Roads	City of SJC
AA+/AA for $474 MM of Revenue Bonds. AA for $8 MM of Pension Obligation Bonds. County's Default Rating is AAA.	AA-/A1/A+ for $97.8 MM of Toll Road Revenue Bonds. AA+/AA2/AAT+ for $635.2 MM of M2 Tax Revenue Bonds.	AAA for $1 BB of Certificate of Participation Notes and Revenue Bonds.	A-/BBB+ for $4.7 BB of Toll Road Revenue bonds.	AAA for $28 MM in General Obligation Bonds. $25 MM in Certificates of Participation Notes/Water Refunding Bonds.
Debt issued to make pension prepayments, 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.

Pension Debt - Net Pension Liability (NPL) is the accounting-based equivalent of UAAL that Employers must report on their financial statements (GASB 68). The Employers' NPL for the fiscal years ending 2016 through 2019 calculated by OCERS actuary, Segal Consulting using an actuarial measuring date of December 31st (chart below). Total NPL decreased $1.1 billion between 2018 and 2019 primarily due to a 14.41% rate of return for 2019 (OCERS' targeted investment earnings rate is 7.0%).

GASB 68 Net Pension Liability (in '000s), per Segal Consulting:				
Employer	**12/31/16**	**12/31/17**	**12/31/18**	**12/31/19**
Orange County	4,043,856	3,983,695	4,918,576	4,124,212
OCFA	469,431	370,675	466,731	354,395
Superior Court	349,174	332,590	392,761	336,766
OCTA	230,260	212,117	269,789	224,285
Sanitation District	(10,385)	(39,571)	29,029	(49,447)
San Juan Capistrano	25,089	26,139	32,142	26,192
OCERS	21,886	21,427	28,845	26,824
Toll Roads	12,423	10,243	13,254	(1,753)
LAFCO	1,341	1,268	1,583	1,490
In-Home Support Services	783	706	1,097	719
Cemetery District	222	(174)	962	(228)
Children & Families	3,158	962	631	(646)
Law Library	1,770	(36)	573	(75)
UCI *	36,114	27,645	34,809	30,214
Dept of Education *	4,415	2,530	3,517	3,099
Vector Control *	1,670	1,167	2,493	(626)
Cypress Recreation and Parks*	-	718	409	262
Rancho Santa Margarita *	9	(2)	1	(2)
Net Pension Liability	**$ 5,191,216**	**$ 4,952,099**	**6,197,202**	**5,075,682**

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

* Denotes an Inactive Employer

Contributions - OCERS' five largest Employers paid 98% of employer and employee contributions received by OCERS for the year ending December 31, 2019. The County is OCERS' largest Employer and paid 71% of employer and employee contributions received by OCERS for the year ending December 31, 2019.

No actuarially required contribution payments have been missed by an active Employer. Following are contributions received by Employers over the past four years.

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 15 County departments, and elected department heads oversee six County departments.

The County is OCERS' largest Employer, with 17,154 active members or 77% of OCERS' total active members. The County and its employees contributed $674 million to OCERS for the year ended December 31, 2019 (representing 71% 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 $3 billion primarily due to the recognition of the net pension liability on its Balance Sheet.

As of County Fiscal Year Ending:

	6/30/16	6/30/17	6/30/18	6/30/19
Total Assets	$9.1 billion	$9.2 billion	$9.6 billion	10.3 billion
Total Liabilities	$6.9 billion	$6.7 billion	$7.1 billion	7.8 billion
Net Position	$2.2 billion	$2.5 billion	$2.5 billion	2.5 billion
Cash and Cash Equivalents	$2.8 billion	$2.9 billion	$3.0 billion	3.2 billion
Net Pension Liability	$4.4 billion	$4.0 billion	$4.0 billion	4.9 billion

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

	12/31/16	12/31/17	12/31/18	12/31/19
Employer Contribution Rate - Safety	48% / 63%*	52%/62%*	55%/65%	52%62%*
Avg. Member Contribution Rate - Safety	16%	17%	17%	17%
Employer Contribution Rate - General	34%	35%	37%	35%
Avg. Member Contribution Rate - General	11%	11%	11%	12%

*OC Probation Department / OC Sheriff's Department

Revenues

The County's total governmental activities and business-type activities revenues (which exclude draws from reserves and intra-governmental fund transfers) were $4.5 billion for the year ending June 30, 2019.

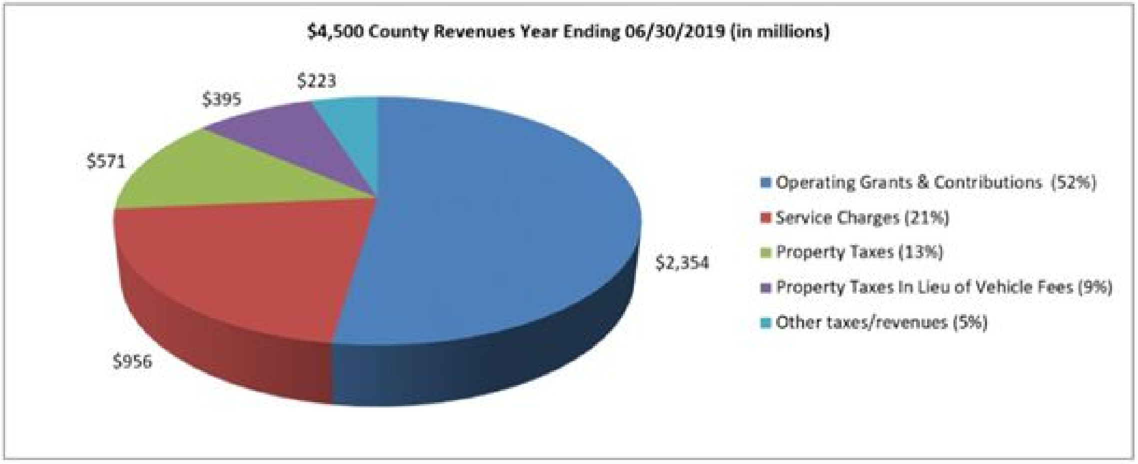
The County's governmental activities rely on several sources of revenue to finance ongoing operations. Operating/capital grants and contributions comprised the largest revenue source for the County at $2.3 billion, followed by charges for services at $956 million, property taxes at $571 million, property taxes (in lieu of motor vehicle license fees) at $395 million, and $223 million in other taxes/general revenue sources.

Operating Grants and Contributions ($2.3 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.

Charges for services ($957 million) are revenues 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 ($571million) are levied by the County. The 1% tax rate is the general levy for property tax based on assessed property values within the County.

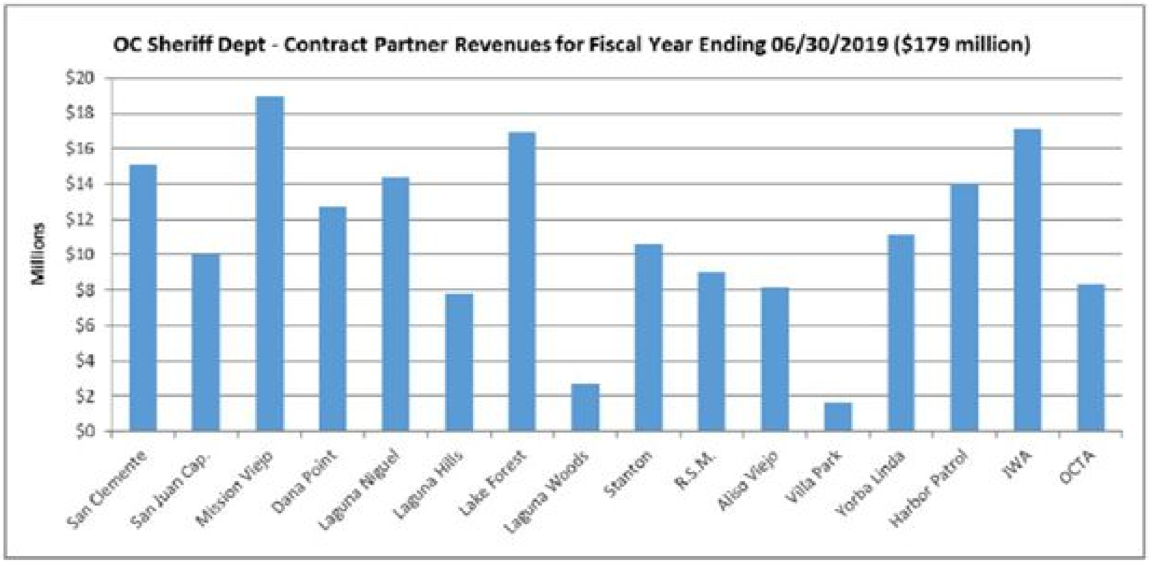
The County receives property taxes "In-Lieu of Motor Vehicle License Fees" ($396 million in 2019) as part of the California State Budget Act of 2004. The Legislature reduced the backfill to cities and counties for reductions in the Vehicle License Fee and in return gave cities and counties additional property tax revenue.



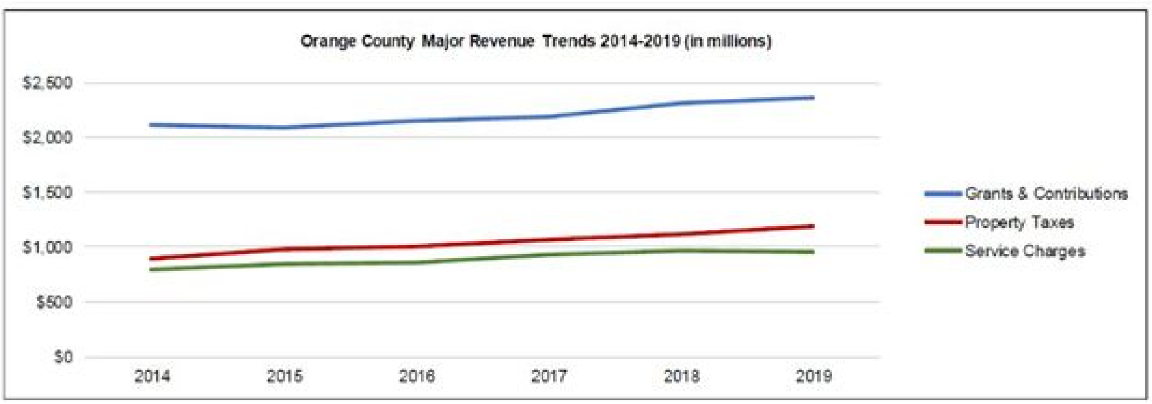
Sheriff's Department

Public safety is a large component of the services provided by the County of Orange through the Orange County Sheriff's Department (Department) on behalf of the 13 contract cities, unincorporated areas of the County, Orange County Transportation Authority, Harbor Patrol and John Wayne Airport. The Department has approximately 3,800 sworn and professional staff members in addition to over 800 reserve personnel. The Department receives financial support from the Proposition 172 Public Safety ½ Cent Sales Tax which provided approximately $271 million for fiscal 2018-2019. For fiscal year ending June 30, 2019, 13 contract cities also paid approximately $139 million to obtain the services of the Department. Service charges for law enforcement services provided to contract cities are budgeted to increase by an average of 5.4% for next fiscal year ending June 30, 2020.

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



County Revenue Trends



County's Long-Term Debt and Bond Ratings (Non-UAAL liability), as stated in its 2019CAFR:

The County has $608 million in long-term debt as of June 30, 2019. Most of this debt were lease revenue bonds of $450 million with AA ratings from Standard & Poor's..

LONG-TERM DEBT RATINGS
June 30, 2019

	Standard & Poor's	Moody's	Fitch
2016 Lease Revenue Bonds	AA	NR	NR
Teeter Plan Notes	NR	NR	NR
1997A Pension Obligation Bonds	NR	Aa1	AA+
Airport 2019A Revenue Refunding Bonds	AA-	NR	NR
Airport 2019B Revenue Refunding Bonds	AA-	NR	NR

Net Position as of June 30, 2019

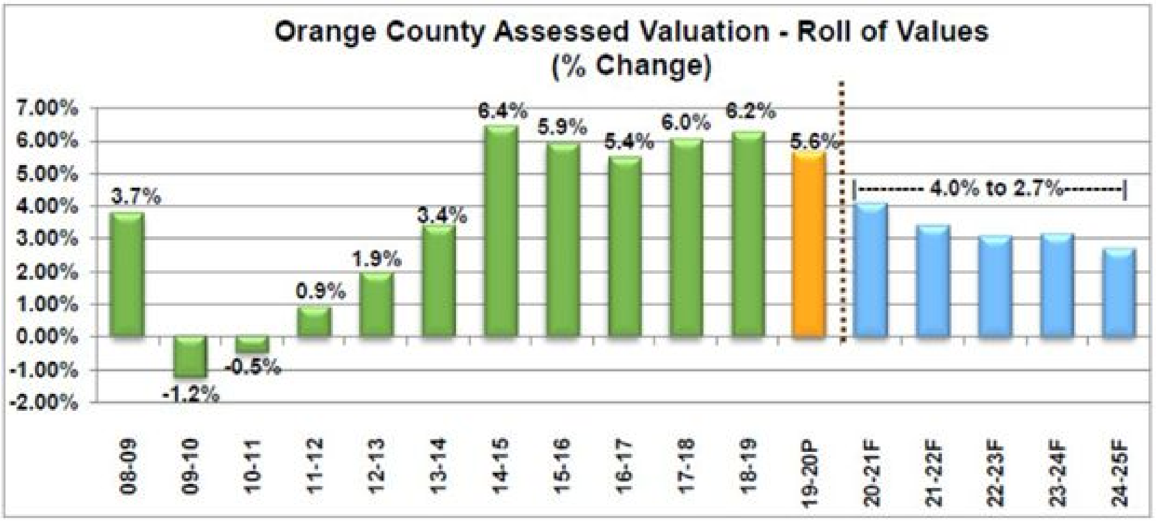
The total assets of the County exceeded total liabilities at June 30, 2019 by $2.5 billion. The County's Net Position was comprised of the following:

- **Net Investments in capital assets** of $4 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 $3.1 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, 2018, the budget for the fiscal year ending June 30th, 2019 was adopted by the Board of Supervisors. On December 17, 2019, the County Executive Office presented to the Board of Supervisors the 2019 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 $626 billion. The Roll of Values is up 5.6% or $33 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 "2019 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. The OCFA Board of Directors consists of elected officials appointed by the member cities.. This Board also includes 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 Employers. OCFA has 1,417 active employees, or 6% of OCERS' active membership. OCFA and its employees contributed $115 million to OCERS for the year ended December 31, 2019 (representing 12% of total contributions received by OCERS in that period).

OCFA's Net Position has a deficit of $298 million entity-wide; the unrestricted portion of the Net Position has a deficit of $521 million primarily due to the recognition of the net pension liability (GASB 68).

As of OCFA's Fiscal Year Ending:

	6/30/16	6/30/17	6/30/18	6/30/2019
Total Assets and Deferred Outflows of Resources	$562 million	$530 million	$541 million	595 million
Total Liabilities and Deferred Inflows of Resources	$723 million	$707 million	$840 million	893 million
Net Position	($161 million)	($177 million)	($299 million)	(298 million)
Cash and Investments	$178 million	$178 million	$176 million	180 million
Net Pension Liability	$518 million	$470 million	$371 million	467 million

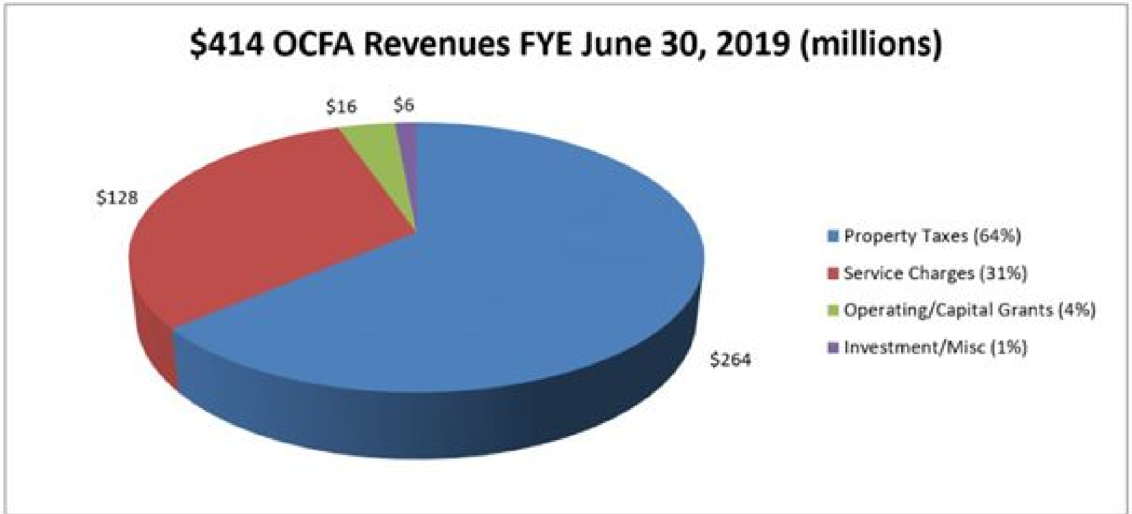
Pension Contribution Rates, per Segal's actuarial valuation dated:

	12/31/16	12/31/17	12/31/18	12/31/19
Employer Contribution Rate - Safety	47%	46%	49%	49%
Avg. Member Contribution Rate - Safety	16%	16%	16%	16%
Employer Contribution Rate - General	30%	29%	28%	27%
Avg. Member Contribution Rate - General	11%	12%	12%	12%

Revenues

OCFA's total revenues were $414 million for the year ending June 30, 2019.

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 $264 million in property taxes from the SFF, and $128 million in service charges paid by contract cities, the State of California and other revenue sources (i.e. John Wayne Airport Contract, ambulance transport, planning and development/inspection fees). OCFA also received $16 million in both operating grants and capital grants from other governmental agencies. There were $6 million in miscellaneous revenues and investment income.

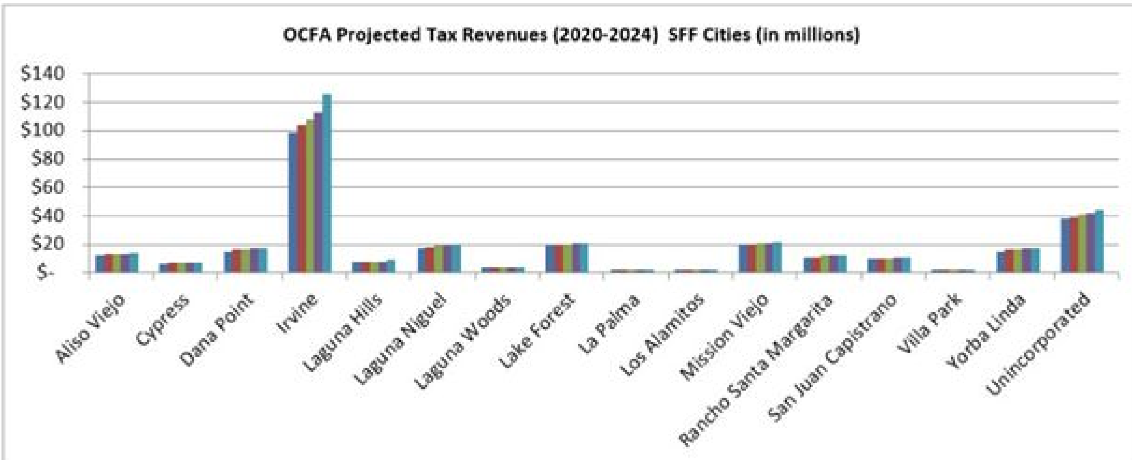


Structural Fire Fund (SFF)

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 ending June 30, 2019, the effective weighted rate of 11.52% of the county's 1% general levy tax was remitted to OCFA from SFF cities. (Rates by SFF city ranged from a low of 8.64% in the City of Cypress to 12.52% in the city of Irvine (Irvine alone provides 36% of total property tax revenue).)

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.

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 4.3% annual increase in property tax revenues through 2024.

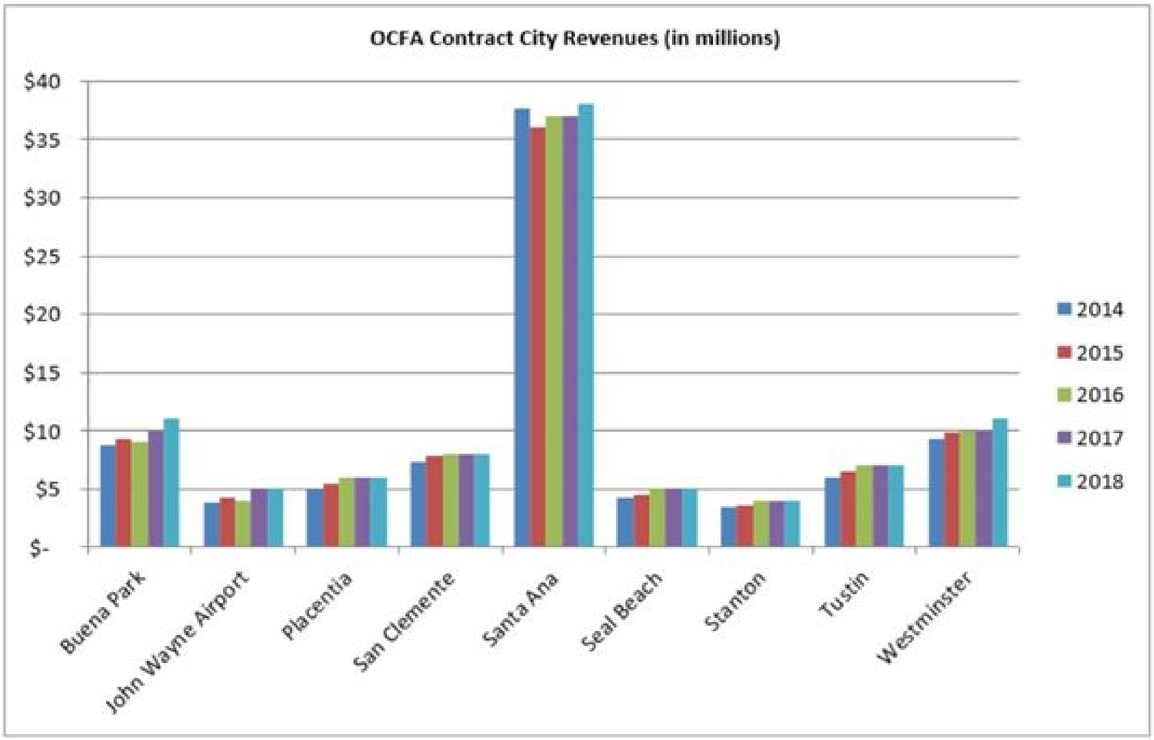


Contract Cities

Contract cities pay the OCFA for fire services out of their general funds. Contract cities currently include Buena Park, 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.

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.

Periodically, OCFA compares actual operational costs for the fiscal year against the annual service charge of each contract city. Depending on the size of the variance, the contract city may potentially end up paying to OCFA the entire difference in the current year or amortizing payment over a specified length of time.



OCFA's Long-Term Liabilities

OCFA's long-term liabilities as of June 30, 2019 were $791 million composed of the following: $466 million in net pension liability, $87 million in accrued workers' compensation claims, $219 million in other post-employment benefits (OPEB), and $18 million in compensated balances for vacation and sick pay. Although OCFA has a $87 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 FYE June 30, 2019, OCFA's governmental funds reported combined ending fund balances of $214 million. Approximately $33 million or 15.3% constitutes unassigned fund balance, which is available for spending for any purpose. The remaining $181 million or 84.7% of fund balance 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 $5.5 million
- FY 14/15 $21.3 million
- FY 15/16 $15.4 million
- FY 16/17 $13.5 million
- FY 17/18 $19.9 million
- FY 18/19 $19.9 million
- **Total of $94.8 million in additional payments towards its UAAL.**

Segal Consulting reports that OCFA has saved $24.6 million in interest by making the above additional payments towards its UAAL and will achieve 85% funding by December 31, 2022 and 100% funding by December 31, 2026, assuming all other actuarial assumptions are held constant and if OCFA continues to make additional payments.

Net Position as of June 30, 2019

The total liabilities of OCFA exceeded its total assets at June 30, 2019 by $298 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; and the GASB 75 requirement to include the liability for other postemployment benefits (OPEB) in the Statement of Net Position, implemented in 2018.

The Unrestricted Fund portion of the Net Position has a deficit of $521 million.

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 (SFFs), and the County, explicitly mentions any requirement for a member city to pay a portion of OCFA's unfunded actuarial accrued liability to OCERS upon the member city's withdrawal from OCFA. However, the March 2012 "Fire Services and Medical Services Agreement" between the City of Santa Ana and OCFA (executed 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 powers agreement, both SFF and contract cities are members of OCFA for a twenty-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 have been given by June 30th, 2018 to withdraw by July 1, 2020.

Impact on OCERS from Withdrawal or Termination of Members from 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. Although the OCFA joint powers agreement expressly disclaims members' liability for debts incurred by OCFA, Government Code section 6508.1 was amended effective January 1, 2019 to state that the JPA agreement cannot "specify otherwise" with respect to the retirement liabilities of the JPA. As a result of the amendment, JPA agreements can no longer relieve the members of the JPA from the retirement liabilities of the JPA.

As stated above, 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 before 2030. Additionally, each participating city may be terminated by OCFA for non-payment of its annual obligations to OCFA. In the event of a member withdrawal or termination, OCFA remains liable to OCERS for the full amount of OCFA's UAAL. Cities remain liable to OCFA for their share of those liabilities generated during the period of their membership in OCFA.

The withdrawal or termination by OCFA of a SFF city would not alter the County's obligation to pay into 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., 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.

Assembly Bill 1912 (2017-2018) amended the Joint Exercise of Powers Act to add a provision (Government Code section 6508.2) to require, prior to a decision by the governing body of a JPA to dissolve or to cease operations, the member agencies of the JPA to mutually agree to the apportionment of the JPA's retirement obligations, provided that the agreement equals 100 percent of retirement liability of the JPA. If the member agencies are unable to mutually agree, the board of the retirement system shall apportion the retirement liability of the JPA to each member agency based on the share of service received from the JPA or the population of each member agency, such that the apportionment equals 100 percent of the retirement liability of the JPA. The mutual agreement among the member agencies or the determination by the board of the retirement system as to the apportionment of the JPA's retirement liability may include apportionment of the liability to a former member of the JPA. The decision of the JPA to dissolve or cease to operate does not become effective until the determination as to apportionment of the retirement liability is final.

Accordingly, if OCFA were to cease operations, new section 6508.2 of the Government Code provides OCERS with the authority to force an apportionment of the UAAL ($435 million as of December 31, 2019) among the current and former members of OCFA before OCFA could cease operations. OCERS would then be entitled to proceed directly against any SFF or contract city for its apportioned share of the pension obligations generated during the term of that city's membership in OCFA.

OCFA Member Cities Update

City of Irvine Agreement with OCFA

As per OCFA: On June 27, 2018, the City of Irvine provided OCFA with a Notice of Withdrawal seeking the initiation of good faith negotiations relative to its future membership with OCFA. Staff representatives from both the City of Irvine and OCFA engaged in discussions to formulate a negotiated agreement. Discussions progressed in a very collaborative manner, with both parties focused on enhancing regional services beneficial to the City of Irvine and all members of OCFA.

As a result of the above discussions, OCFA and the City of Irvine entered into an agreement dated March 29, 2019 which rescinded the City of Irvine's Notice of Withdrawal. Among other items, the agreement included a requirement for OCFA to pay $2 million per year into a trust dedicated solely for future application to OCFA's pension liability. The City of Irvine will have another opportunity to submit a Notice of Withdrawal in 2028 to leave OCFA in 2030.

City of Placentia Notice of Withdrawal from OCFA

In June 2018, the City of Placentia, a contract city with OCFA, served OCFA with a written Notice of Withdrawal from OCFA. The notice stipulates that the City of Placentia's current service agreement will remain in effect until June 30, 2020, at which point the agreement will terminate. In June 2019, the City's RFP process awarded the winner a contract to provide fire and emergency services beginning July 1, 2020.

The City of Placentia has paid an average of $6.1 million annually to OCFA for its services over the past three fiscal years, representing approximately 6% of annual contract city revenues to OCFA. The $6.1 million is also 1% of OCFA's total revenues for the FYE June 30, 2018.

City of Garden Grove to join OCFA

On April 9, 2019, the City of Garden Grove approved an agreement with OCFA to receive fire and emergency medical services effective August 16, 2019. OCFA's total annual cost to the City of Garden Grove for FYE June 30, 2020 is $23 million. With the above effective date of August 16, 2019, the prorated cost is $20 million. Furthermore, the City of Garden Grove is required to pay OCFA $0.1 million annually for the next 10 years for one-time start-up costs.

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 144 authorized judicial positions). The Orange County Superior Court was mostly funded by the County of Orange until January 1998 when it transitioned to being funded by the State of California. In 2004, the Court became an Employer in OCERS.

Orange County Superior Court is one of OCERS' five largest Employers. Orange County Superior Court has 1,418 active employees, or 6% of OCERS' active membership. The Court and its employees contributed $49 million to OCERS for the year ended December 31, 2019 (representing 5% of total contributions received by OCERS in that period).

Orange County Superior Court does not issue stand-alone audited financial statements. Instead, Internal Audit used information provided by the Court's adopted budget for FYE June 30, 2020.

As Noted for Superior Court Fiscal Year Ending:

	12/31/16	12/31/17	12/31/18	12/30/19
Net pension liability	$349 million	$333 million	$393 million	337 million

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

	12/31/16	12/31/17	12/31/18	12/31/19
Employer Contribution Rate	31%	35%	37%	35%
Avg. Member Contribution Rate	11%	11%	11%	12%

Trial courts in California are predominantly state-funded entities, whose funding appropriations are included in the State of California Budget under the Judicial Branch State Trial Court Funding. Consequently, the trial courts are 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 funding need is updated annually and can change depending on actual filing trends, workload costs, and other various adjustments. WAFM also established a method for allocating new funding and reallocating pre-WAFM historical funding from less underfunded courts like Orange County Superior Court to more severely underfunded courts.

During the five-year period when WAFM was in effect, Orange County Superior Court lost about $13 million or 7% of its ongoing base funding. In FY 2018-19, WAFM ended and was replaced by the Workload Formula. While the Workload Formula keeps the funding need calculation established by WAFM, it eliminates the drastic reallocation of historical funding that affected the Court greatly. The Workload Formula will instead use the Court's funding level percentage relative to its funding need. This percentage will then be compared to the statewide average funding ratio to determine each court's funding share given various funding scenarios. For FYE June 30, 2020, the Orange County Superior Court received 82.5% of its calculated funding need. The statewide average funding ratio was 82.3%.

Due to these funding limitations and a 3% cap on unrestricted ending fund balance Orange County Superior Court does not participate in OCERS' prepayment plan for discounted employer contributions.

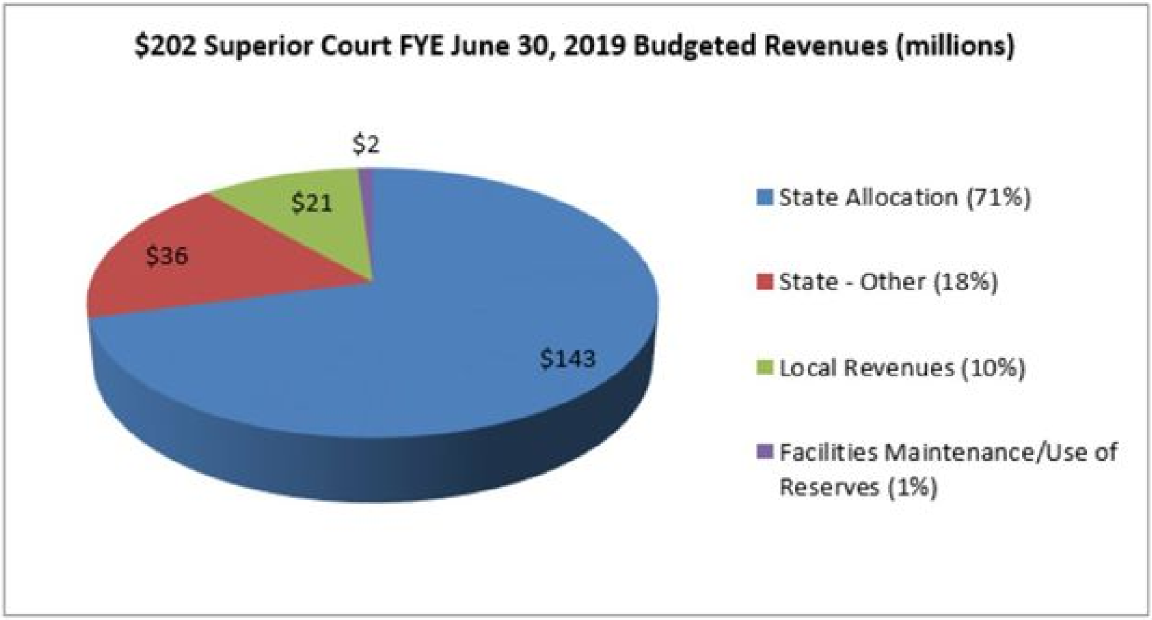
Revenues

Orange County Superior Court's total revenues were budgeted for $207 million for the fiscal year ending June 30, 2020. $146 million of the total budget (71%) was from California's state base allocation of revenues to the Court.

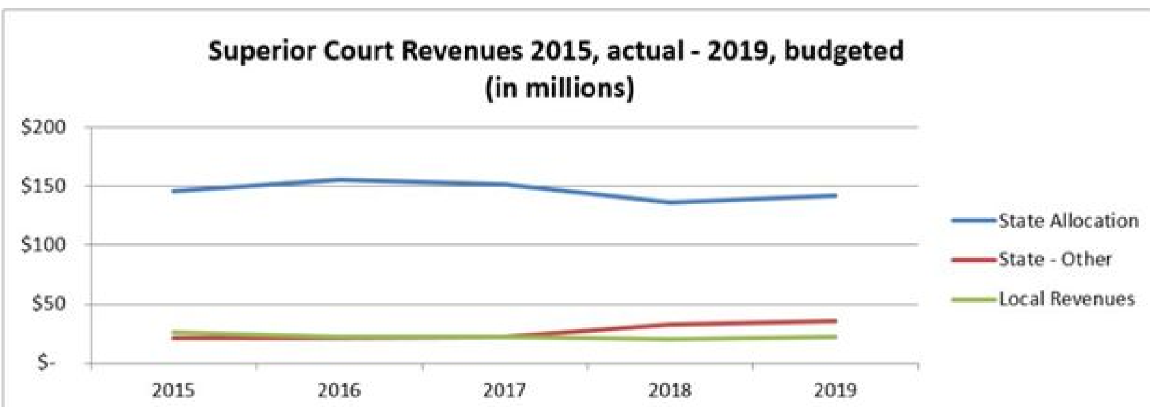
"Other State Revenue" was budgeted at $37 million. This includes state grants and dollar for dollar reimbursements of expenditures for language interpreters, jury pay expenditures, and self-help programs.

Local Revenues were budgeted for $22 million and includes donations, reimbursements for services provided to the County, cost recovery for the Enhanced Collections program, and local fees, such as 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 were budgeted at $2 million; this is a program in which the Court is reimbursed for facility maintenance and modifications, also a dollar in – dollar out reimbursement.



Superior Court's Past Revenue Trend



Orange County Transportation Authority (OCTA)

OCTA was established by state law on June 20, 1991. OCTA is governed by an 18-member Board of Directors 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 Employers. OCTA has 1,350 active employees, or 6% of OCERS' active membership. OCTA and its employees contributed $36 million to OCERS for the year ended December 31, 2019 (representing 4% of total contributions received by OCERS in that period).

As of OCTA's Fiscal Year Ending:

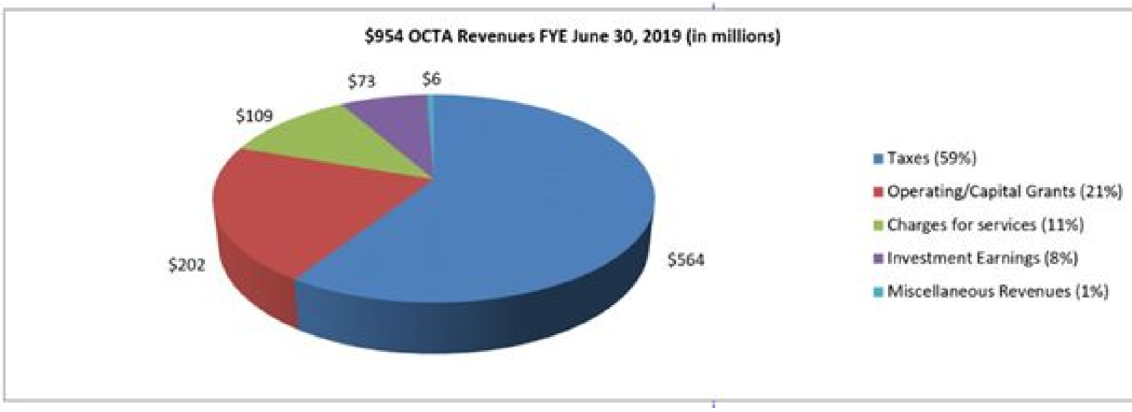
	6/30/16	6/30/17	6/30/18	6/30/19
Total Assets	$2.3 billion	$2.5 billion	$2.6billion	3.3 billion
Total Liabilities	$0.9 billion	$0.9 billion	$1.0 billion	1.6 billion
Net Position	$1.4 billion	$1.6 billion	$1.6 billion	1.87 billion
Cash and Investments	$1.3 billion	$1.4 billion	$1.5 billion	2.1 billion
Net Pension Liability	$250 million	$230 million	$213 million	272 million

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

	12/31/16	12/31/17	12/31/18	12/30/19
Employer Contribution Rate	25%	28%	31%	31%
Avg. Member Contribution Rate	9%	10%	10%	10%

2019 Revenues

OCTA's total revenues were $954 million. Most revenues were tax revenues, totaling $564 million for the year ended June 30, 2019. Other revenues included $202 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 $73 million in investment earnings and received $6 million in miscellaneous revenues.



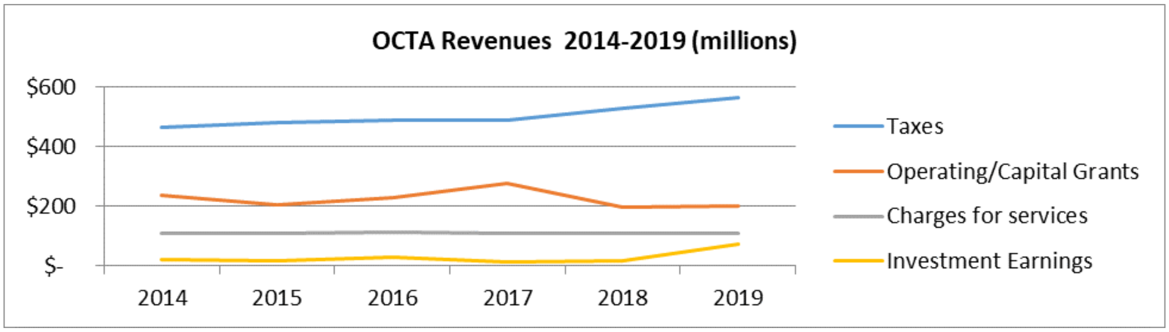
Tax revenues noted above were comprised of Orange County's Measure M2, California's Transportation Development Act, and State Transit Assistance programs:

- 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. The decrease in capital grants and contributions is due to federal capital assistance grants received in the prior year for the purchase of transit vehicles.

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

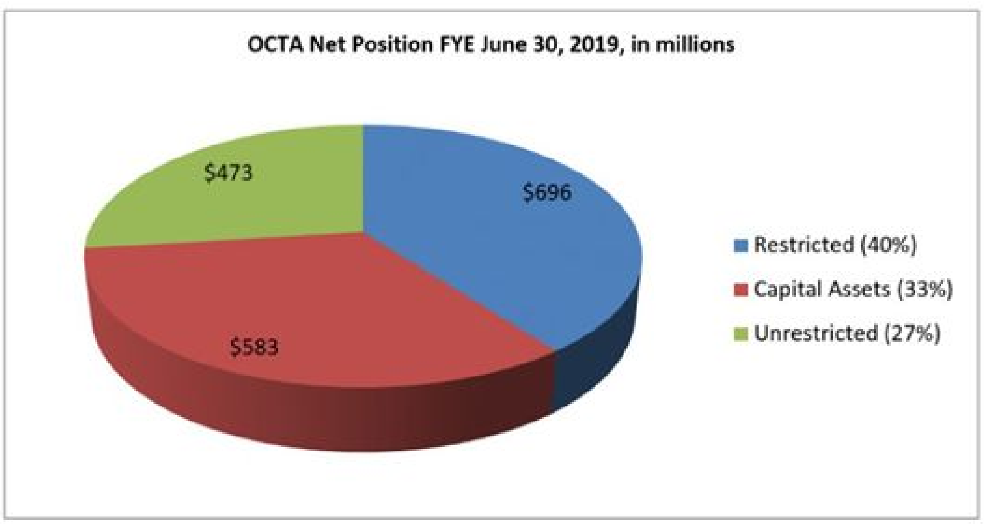


Net Position as of June 30, 2019

The total assets of OCTA exceeded its total liabilities at June 30, 2019 by $1.8 billion. Of this amount, $473 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 $583 million includes buildings and improvements, machinery, equipment, furniture, transit vehicles, and transponders.
- **Restricted** was $696million, 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 $540 million of net assets restricted by Measure M2 legislation.
- **Unrestricted** was $473 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 economic assumptions and forecasting methodology anticipates that total taxable sales available for the M2 Program will be $11.6 billion over the same 30-year period. Also, according to OCTA's tax forecasting methodology, the forecasted average annual growth rate of taxable sales from 2020 through 2041 is estimated at 2.72%. This rate is a blended rate based on forecasts from Chapman University, California State University, Fullerton, and University of California, Los Angeles, plus an outside consultant (MuniServices).

Despite the forecasted decrease in M2 sales tax revenue, OCTA anticipates being able to deliver on all projects in the M2 Program. Currently construction is underway on the I-405 Freeway Improvement Project, which is a $1.9 billion-dollar project to improve traffic on the nation's busiest freeway. In addition, construction is underway on OC Streetcar, which is being built in Santa Ana and Garden Grove and will be the first streetcar in Orange County.

Furthermore, the 91 Express Lanes grew and exceeded expectations with traffic volumes and toll revenue reaching all-time highs in fiscal year 2018-19. In fiscal year 2019-20, traffic volume decreased by 14.6%, from 17.5 million to 15 million, due to economic impacts associated with the coronavirus (COVID-19) pandemic. Fiscal year 2020-21 traffic volume is anticipated to reach 10.9 million.

The Orange County Transportation Authority has been awarded a $160.4 million grant from the Federal Transit Administration to help continue providing safe and reliable public transit services during the COVID-19 pandemic. OCTA applied for the funds from the U.S. Department of Transportation as part of the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, signed into law in March 2020. OCTA signed the grant agreement on July 6, 2020. OCTA will utilize the funding to help sustain bus operations and to comply with state and federal requirements for public health and safety. The CARES Act funding will make up for a sharp decline in revenue that corresponded to plummeting bus ridership when OC Bus service was temporarily reduced in March 2020 to protect the health and safety of the public and coach operators and to coincide with stay-at-home orders issued by the state.

OCTA responded quickly to the COVID-19 crisis and has continued to adapt operations, as necessary. On March 23, 2020, OCTA temporarily reduced OC Bus service to Sunday service levels – about 40 percent of regular service – on all days of the week. That temporary reduction in service was implemented to provide necessary public transit for essential workers and those who relied on public transportation for essential trips. In June 2020, as Orange County started to gradually reopen under the state's guidance, ridership also showed corresponding increases, and OCTA added some service back, operating on a modified Saturday schedule – or about 60 percent of regular service.

The OCTA board approved funding for the 2020-21 fiscal year, which began July 1, 2020, with pre-COVID-19 levels of bus service, made possible with the federal CARES Act grant funding. Service will be added back based on ridership demand and with public health and safety as the guiding principle. In addition, OCTA continues to maintain the capital replacement fund for the bus program, which funds all bus related capital expenditures without the use of debt financing. OCTA continues to maintain no use of debt for the bus program.

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

As of FYE June 30, 2019, OCTA has $98 million in outstanding sales tax revenue bonds. M2 sales tax revenues is the revenue source assigned to pay down this debt. OCTA maintains an "AA+" rating from Standard & Poor's, an "AA+" rating from Fitch and an "Aa2" rating from Moody's for its sales tax revenue bonds.

As of FYE June 30, 2018, OCTA has $104 million in outstanding revenue refunding bonds. The 91 Express Lane toll revenue is the revenue source assigned to pay down this debt. OCTA has ratings of "A1" by Moody's, "A+" from Fitch, and "AA-" by Standard & Poor's for its revenue refunding bonds.

As of FYE June 30, 2019, OCTA has drawn $287 million on the TIFIA Loan ($628.9 million). OCTA has ratings of Baa2 by Moody's.

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 2.6 million people in the northern and central portion of the County – 183 million gallons of daily wastewater.

OCSD is one of OCERS' five largest Employers. OCSD has 608 active employees, or 3% of OCERS' active membership. OCSD and its employees contributed $54 million to OCERS for the year ended December 31, 2019 (representing 6% of total contributions received by OCERS in that period).

As of OCSD Fiscal Year Ending:

	6/30/16	6/30/17	6/30/18	6/30/19
Total Assets	$3.2 billion	$3.3 billion	$3.5 billion	3 billion
Total Liabilities	$1.3 billion	$1.3 billion	$1.3 billion	1.2 billion
Net Position	$1.9 billion	$2.0 billion	$2.2 billion	2.4 billion
Cash and Cash Equivalents	$58 million	$126 million	$136 million	76 million
Net Pension Liability	$42 million	$(10) million	($40) million	(49) million

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

	12/31/16	12/31/17	12/31/18	12/31/19
Employer Contribution Rate - General	12%	12%	13%	12%
Avg. Member Contribution Rate - General	12%	12%	12%	12%

Revenues

OCSD's revenues were $477 million for the year ending June 30, 2019.

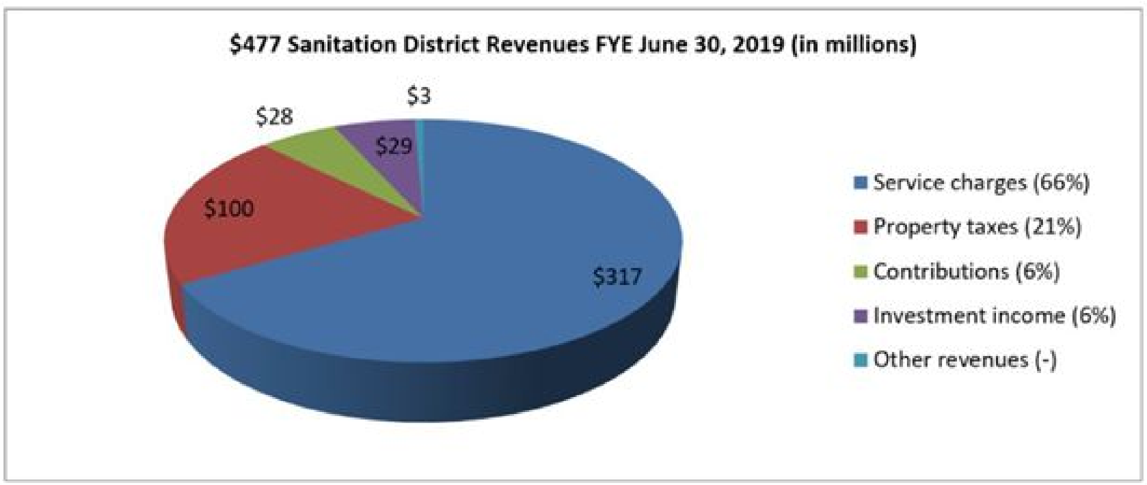
Service charges were $317 million. Service charges are ongoing fees for service paid by customers connected to the sewer system. A property owner, or user, does not pay user fees until connected to the sewer system. Once connected, a user is responsible for his or her share of the system's costs in proportion to demand on the system. These fees are for both single family residences and multiple family residences. The 2017-18 single family residential rate, the underlying basis for all sewer rates, is $335. Rates for commercial and residential use are modified upward for the additional water flow that comes from these types of structures.

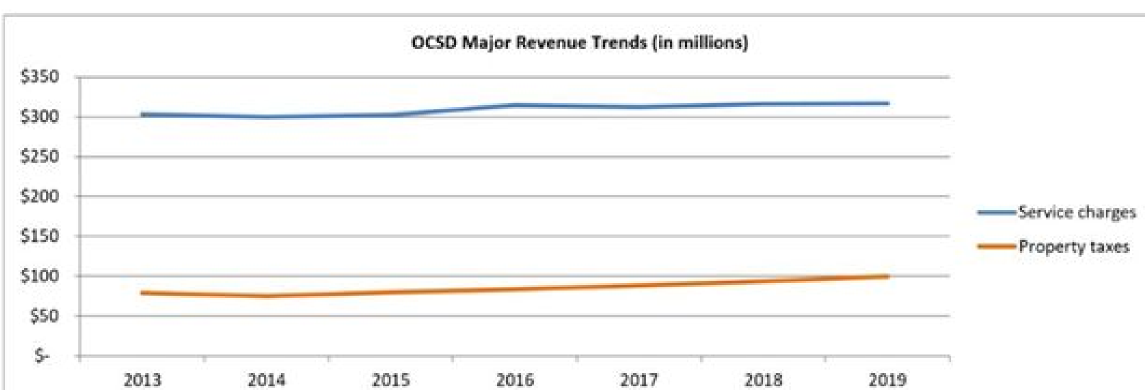
Property taxes were $100 million. The County is permitted by State law (Proposition 13) to levy taxes at one percent of full market value and can increase the assessed value no more than two percent per year. OCSD receives a share of the basic levy proportionate to what was received from 1976 to 1978. OCSD's share of this revenue is dedicated for the payment of debt service.

Contributions from other government were $28 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 $2 million. Large industrial and commercial properties that discharge high volumes or high strength wastewater are required to obtain a discharge permit and pay extra fees. These fees are for the owner's share of the system's costs, both fixed and variable, in proportion to the demand placed on the system.

Investment interest was $29 million in 2019, with other income of $3 million.



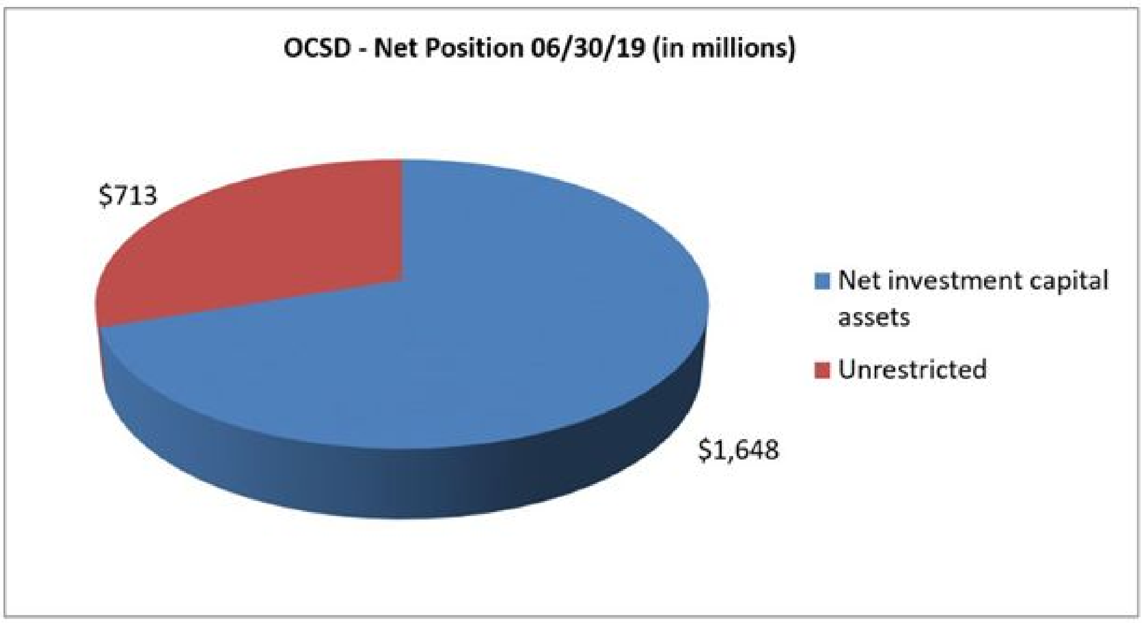


Net Position as of June 30, 2019

The total assets of OCSD exceeded its total liabilities at June 30, 2019 by $2.4 billion. Of this amount, $713 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: $1.6 billion:
  - Collection system/land: $523 million
  - Treatment and disposal system/land: $2.1 billion
  - (Less: debt of $1billion)
- Unrestricted: $713 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 billion as of June 30, 2019) 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, 2019, the coverage ratio for senior lien debt was 4.08.

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 $3.3 million to OCERS for the year ended December 31, 2019. The City has 76 active members. The City's net pension liability was $26 million as of June 2019.

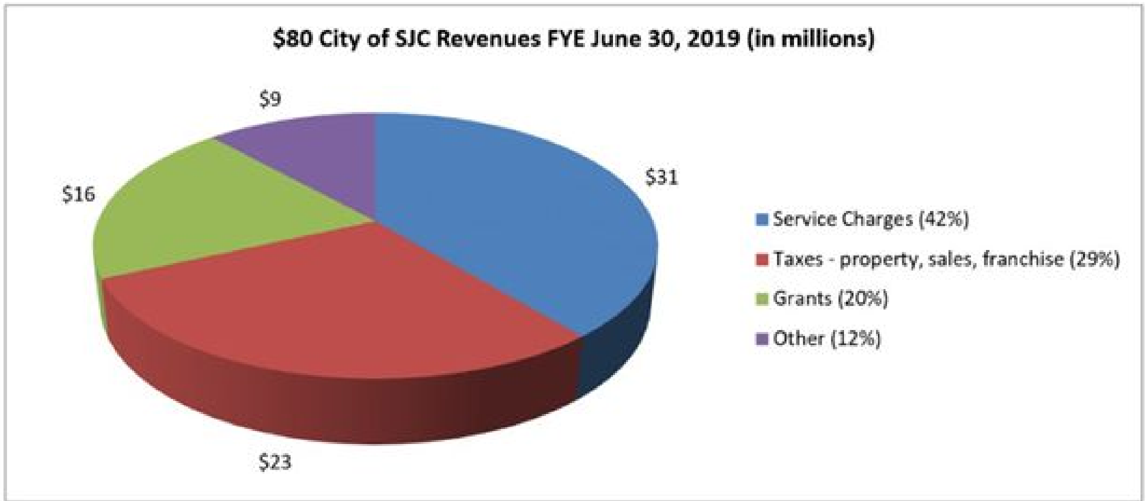
The City has grown from a community of 10,000 persons in 1974 to a developed city of 36,760 in 2019. The City is governed by a City Council of five members elected to four-year overlapping terms.

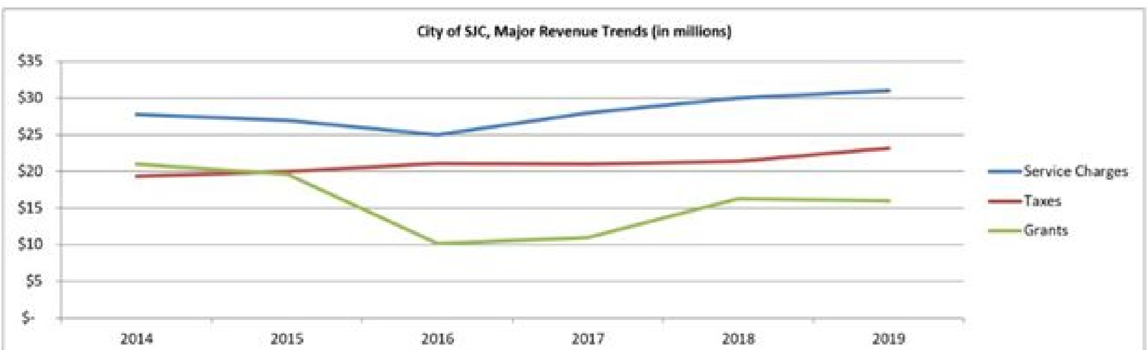
The City of San Juan Capistrano is considering transferring ownership and operation of the City's water and sewer utility system (including 16 employees who are active members of OCERS) to a water special district. OCERS' Board of Retirement discussed the implications of this scenario at their June 2019 Regular Board Meeting. If so executed, total City revenues will decline by $27.1 million and total City expenditures (including capital expenditures) will decline by $25.8 million. Any excess of utility revenues over utility expenditures is restricted by state law to be used solely for utility operating and capital expenditures. Accordingly, as per the City, separation of the water and sewer utility from the City will have no adverse financial impact on the general financial health of the City or that of the City's chief operating fund, the General Fund, which pays for 67% of the City's nonutility operating expenditures. Transfer of the utility system will strengthen the financial condition of the City by reducing operational and legal risks associated with ownership of the utility system, as per feedback from the City.

As of the date of this report the transition has not taken place.

Revenues

The City's total revenues were $80 million for the year ending June 30, 2019 and are broken down as follows:



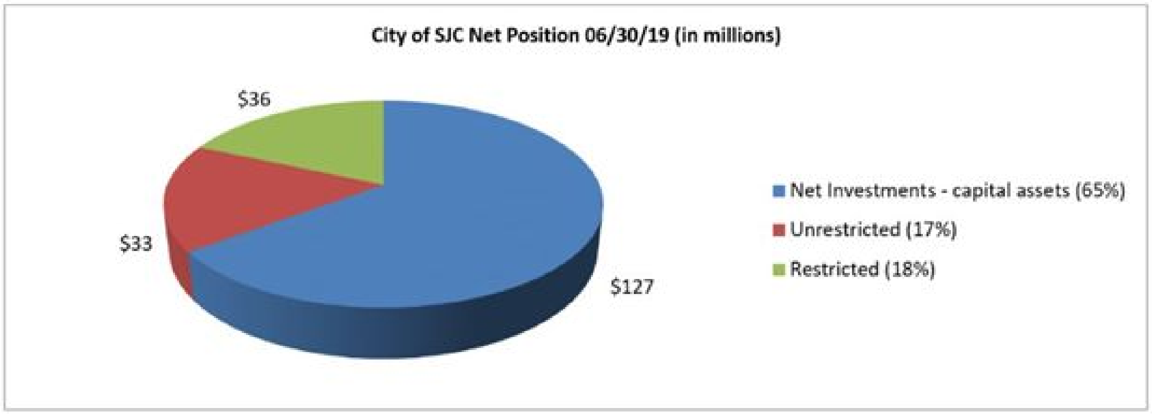


Net Position as of June 30, 2019

The total assets of the City exceeded its total liabilities at June 30, 2019 by $196 million. Of this amount, $33 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 $127 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 $33 million. These are available for any purpose approved by the City Council.



Orange County Employees Retirement System (OCERS)

OCERS is an Employer and its employees contributed $3.6 million to the OCERS pension fund for the year ended December 31, 2019. OCERS has 87 active members. Its net pension liability as an Employer was $27 million as of December 2019.

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' 2019 CAFR, administrative expenses of $18 million were approximately $28 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 $15 million to OCERS for the year ended December 31, 2019. It has 61 active members. TCA's net pension liability was (1.7) million as of June 30, 2019.

In July 2019, TCA paid off their unfunded pension liability ($12.8M) with the Orange County Employees Retirement System (OCERS).

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.

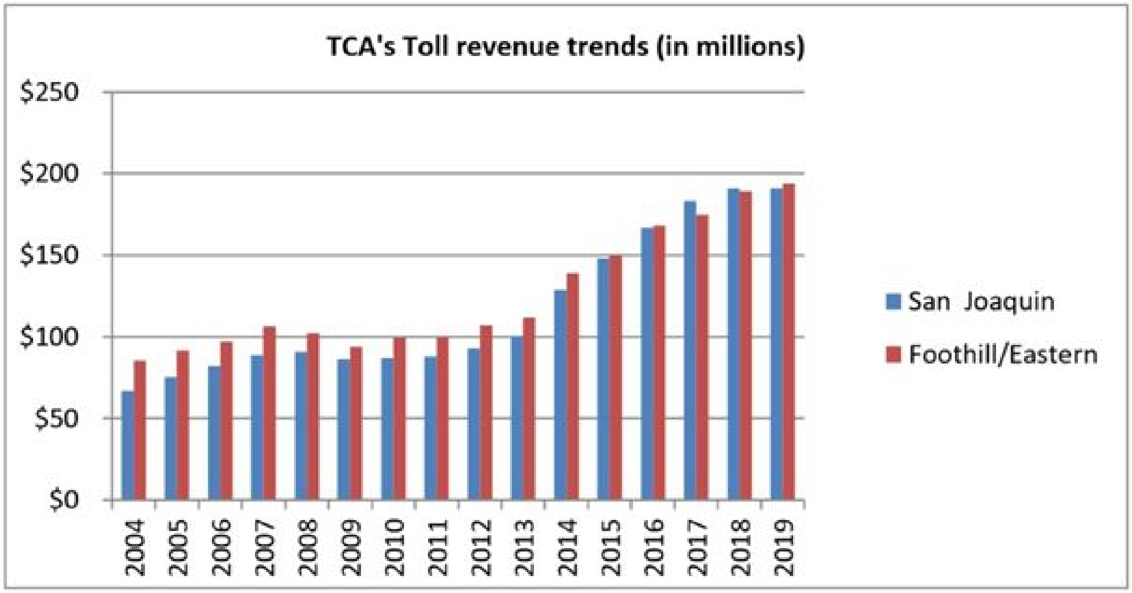
The San Joaquin Hills Transportation Corridor, commonly known as the 73 Toll Road, opened to traffic in 1996. For the year ending June 30, 2019, approximately 32 million transactions were recorded on the 73 Toll Road.

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, 2019, approximately 69 million transactions were recorded.

Revenues

TCA's total operating revenues (SJHTCA and FETCA combined) were $408 million for the year ending June 30, 2019.

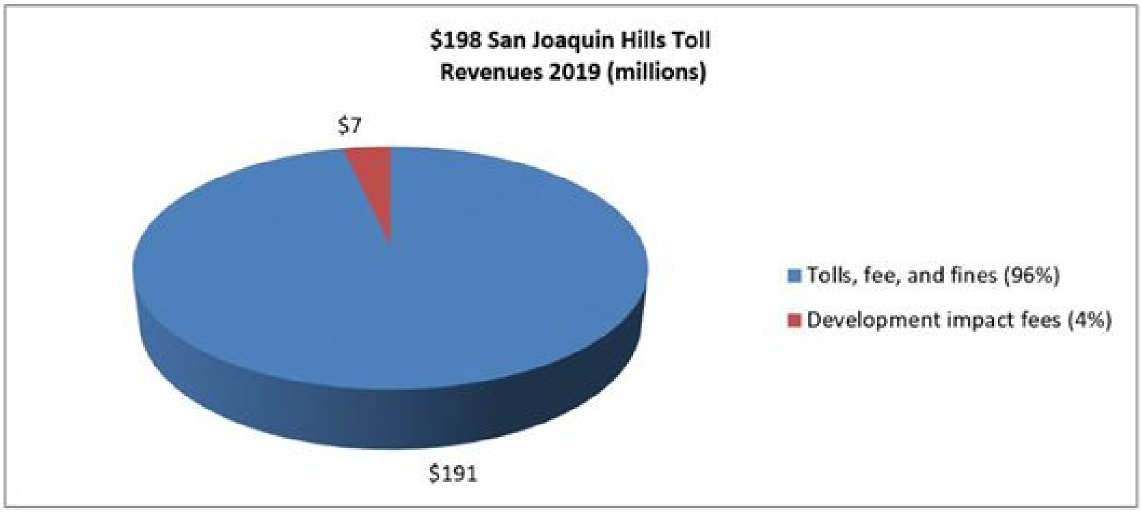
SJHTCA earned $191 million in tolls, fees, and fines during the year ended June 30, 2019. FETCA earned $194 million in tolls, fees, and fines during the year ended June 30, 2019.

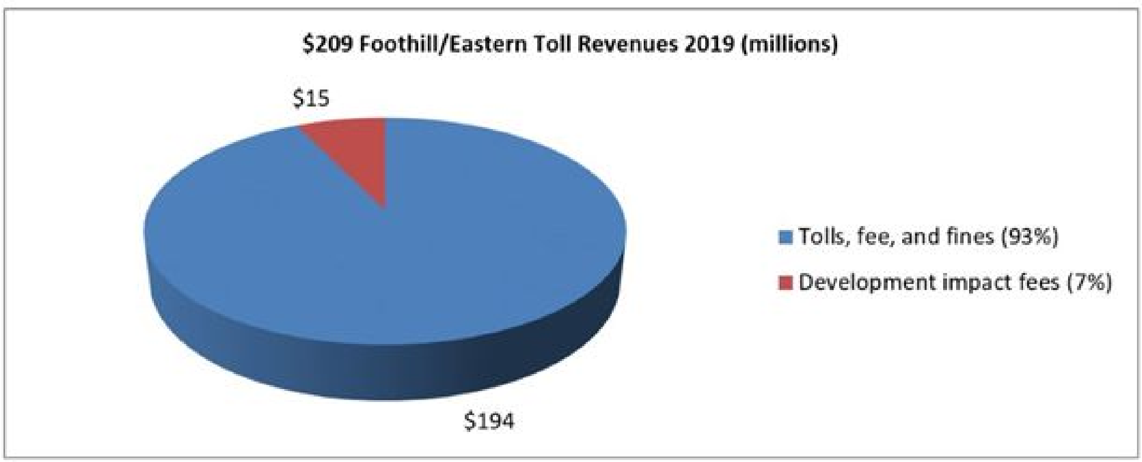


Development impact fees during the year ended June 30, 2019:

- SJHTCA earned $7 million in development impact fees during the year ended June 30, 2019.
- FETCA earned $15 million in development impact fees during the year ended June 30, 2019.

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 $32 million development impact fees noted above, the City of Irvine was the city with the largest amount of fees remitted, or $23 million during the year ending June 30, 2019.





Long-Term Debt

SJHTCA's long-term debt of $2.3 billion as of June 30, 2019 has maturities extending up to 2050. FETCA's $2.5 billion in long-term debt as of June 30, 2019 has maturities extending up to 2053. 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.

In 2018, S&P Global upgraded the SJHTCA's senior-lien toll road refunding revenue bonds and junior-lien toll refunding revenue bonds to A- and BBB+. In 2018, S&P Global Ratings upgraded the FETCA's senior-lien and junior-lien bonds to A- and BBB+ respectively, with outlook stable.

Recent news articles have opined that TCA will reach its "sunset" in 2050.

Net Position as of June 30, 2019

- **Restricted** – $414 million and $262 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** – $103 million and $532 million, respectively, for SJHTCA and FETCA. These amounts are available for any purpose approved by the Board of Directors.

- **Net Investment in Capital Assets** – Negative $2.2 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 had 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

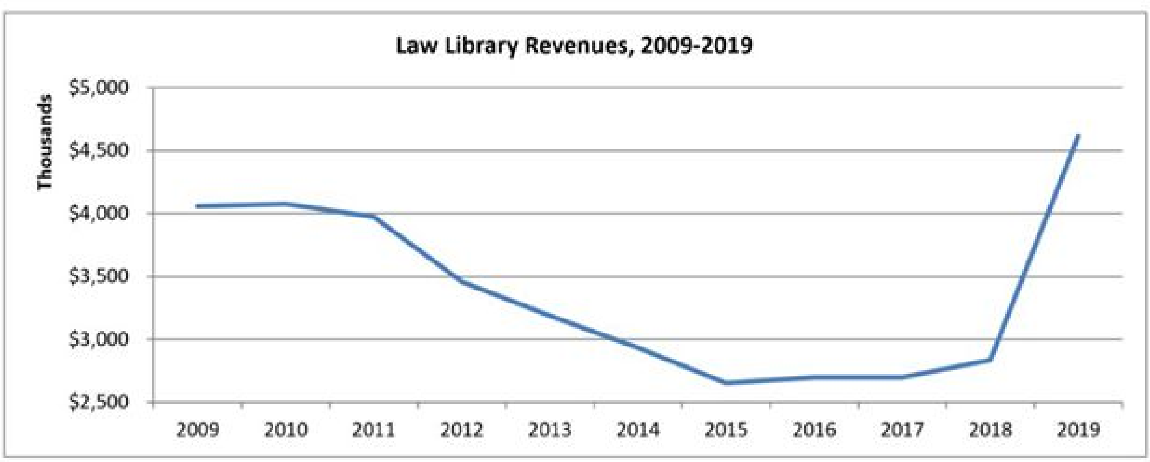
The Orange County Public Law Library (Law Library) and its employees contributed approximately $0.2 million to OCERS for the year ended December 31, 2019. It has 14 active members. The Law Library's net pension liability was (75) as of June 30, 2019.

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 $4.6 million for the year ending June 30, 2019.

Filing Fees received by the Law Library accounted for 65% of total revenues for the FY 2018-2019.. 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 31% since FY 2009-2010, 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. FY 2018-19, the Law Library received $1.5 million in supplemental funding from the state that year to backfill the decline in filing fee revenue experienced in prior years. The interest earnings from the state Local Agency Investment Fund was 65%, compared to the normal 95%-99% collected in prior years.



The Law Library's financial statements are audited every two years. The audit was completed for the financial statements ending FYE 2017-2018 and FYE 2018-2019 last August. As per the audited FYE June 30, 2019 financial statements, the Law Library's assets exceed its liabilities by $5.7million.

Children and Families Commission of Orange County

The Children and Families Commission of Orange County (CFCOC) and its employees contributed approximately $0.3 million to OCERS for the year ended December 31, 2019. The CFCOC has 12 active members. Its net pension liability was $0.6 million as of June 30, 2019.

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.

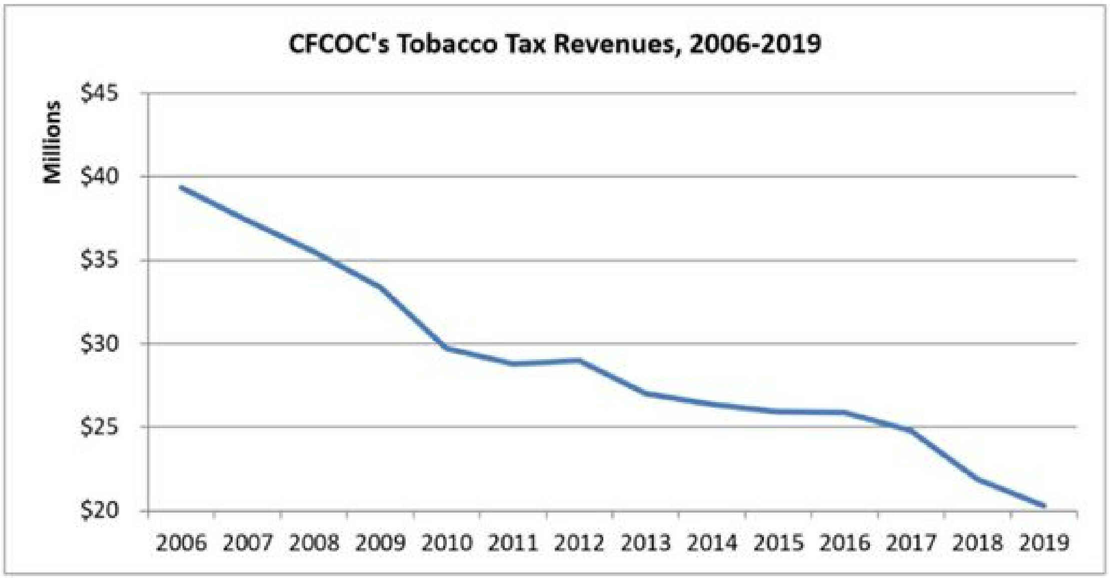
Revenues

The CFCOC's total revenues were $30.3 million for the year ending June 30, 2019

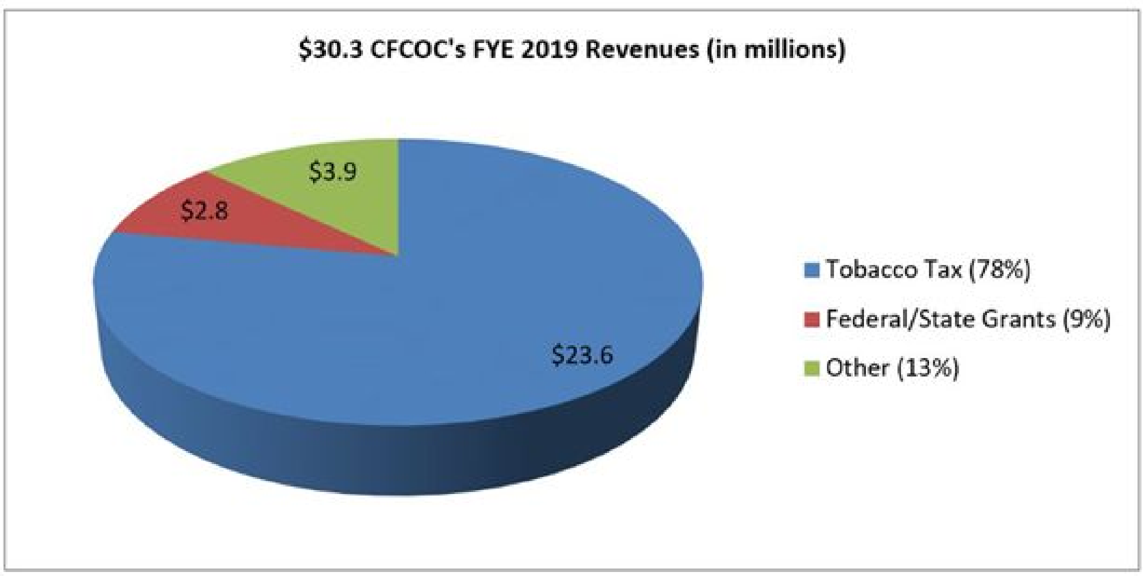
Tobacco Tax revenues received by the commission in 2019 amounted to $23.6 million (78% of total revenues). The CFCOC continues to anticipate annual decreases in tobacco tax revenues (i.e. Proposition 10). Since its peak in 2000 (with $50 million in tobacco tax revenues), the CFCOC has had an overall reduction of over 45% 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's long term financial plan includes planned reductions in annual program funding to account for declining revenues. The plan also assumes the usage of fund balance in future years to account for the difference between needed services and projected revenue.

Revenues of $2.8 million were from various state and federal grants for children programs such as the state-wide IMPACT and Hubs program and the federal AmeriCorps VISTA and Medical Administrative Activities (MAA). The remaining revenues of $3.9 million included investment income and other revenues.



CFCOC forecasts that Tobacco Tax revenues will have dropped to less than $20 million by the 2023/2024 fiscal year.



Net Position as of June 30, 2019

The total assets of the CFCOC exceeded its total liabilities at June 30, 2019 by $42 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 $0.3 million to OCERS for the year ended December 31, 2019. OCCD has 24 active members. OCCD's net pension liability was $1 million as of June 2019.

The OCCD is an independent special district governed by an appointed five-member Board of Trustees who serve staggered 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 active cemeteries located in Anaheim, Lake Forest and Santa Ana. OCCD was recently given 283.3 acres of land by the County of Orange for the purposes of developing a fourth public cemetery and to set aside land for a State Veterans Cemetery. The additional land will help address inventory shortages experienced at the Anaheim and Santa Ana Cemetary. OCCD typically averages between 950 to 1,050 interment space 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 $10.4 million for future land development.

In July of 2019, 100 acres at the Orange County Great Park in Irvine has been set aside to build a cemetery for County veterans.

Revenues

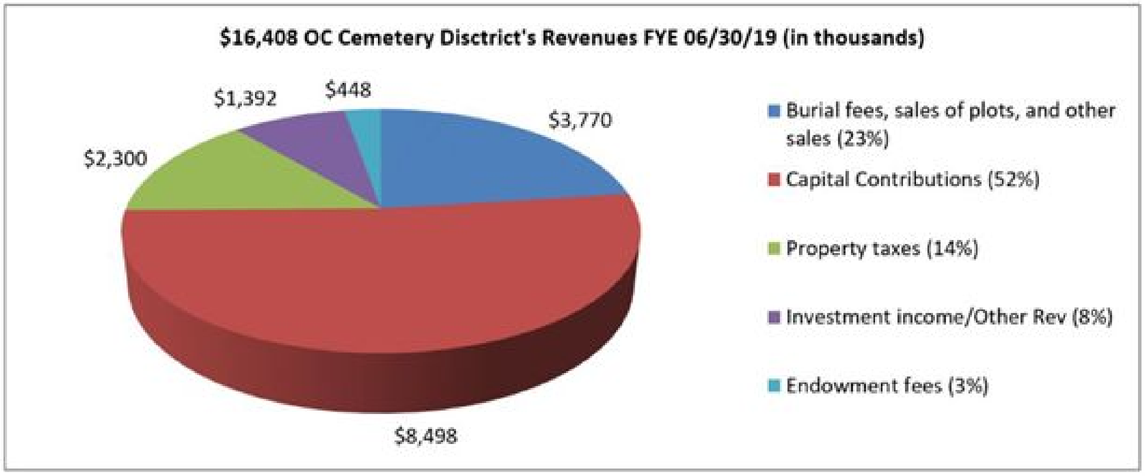
OCCD's total revenues were $16 million for the year ending June 30, 2019. This included the one-time $8.5 million capital contribution of property transferred from the County of Orange for a fourth public cemetery.

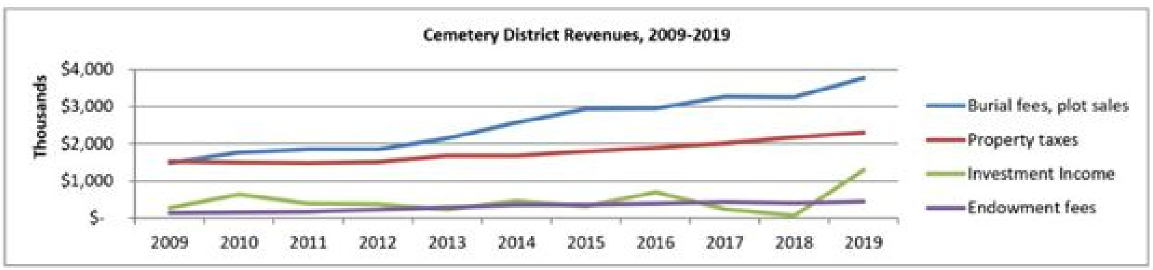
Interment fees, interment space sales , and other sales were $3.7 million, which represents 53% of revenues received by OCCD in 2019. Since OCCD is a government agency, general interment fees are meant to help recover costs, keeping in line with inflation and OCCD's expected share of property tax revenues.

Property taxes were $2.3 million, or 14% of revenues, and were allocated to OCCD in 2019 from their share of County property tax revenues.

Investment Income and Other Revenues were $1.4million.

Endowment fees were $0.5 million. Endowment fees of $400-$500 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.



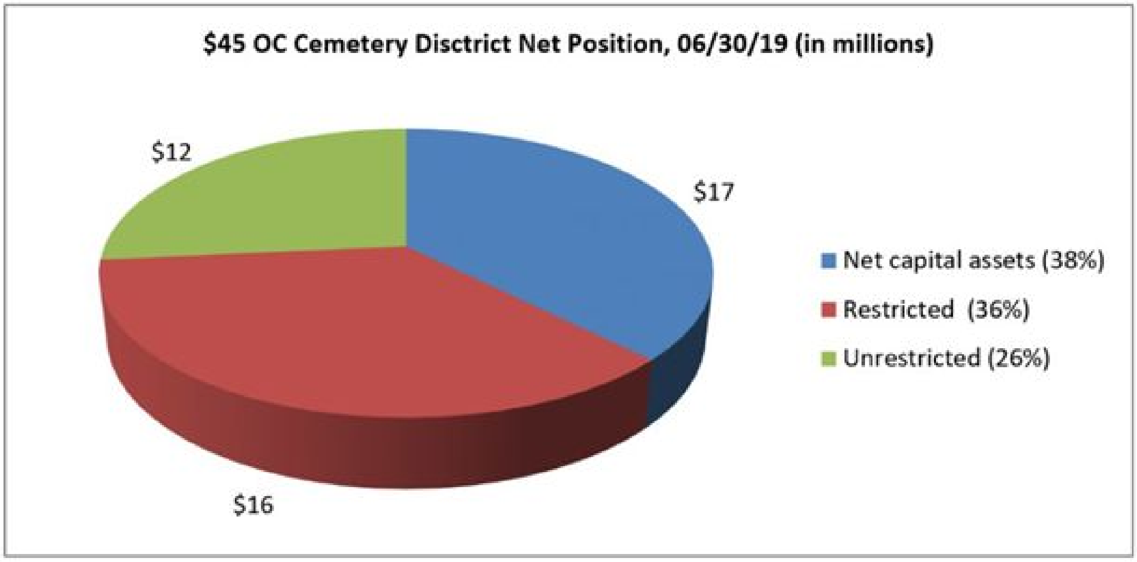


Net Position as of June 30, 2019

The total assets of OCCD exceeded its total liabilities at June 30, 2019 by $45 million. Of this amount, $12 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 $17 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 $16.3 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 $12million. These are available for any purpose approved by the Board of Trustees.


$45 OC Cemetery Disctrict Net Position, 06/30/19 (in millions)
$12
$17
$16
Net capital assets (38%)
Restricted (36%)
Unrestricted (26%)

OC In-Home Supportive Services Public Authority

The Orange County (IHSS) Public Authority and its employees contributed approximately $0.3 million to OCERS for the year ended December 31, 2019. There are 25 active members. The Public Authority net pension liability was $719 thousand as of June 2019.

The financial statements of the Public Authority are blended with other government fund units in the County of Orange's 2019 CAFR.

Orange County Local Agency Formation Commission (LAFCO)

The Orange County Local Agency Formation Commission (LAFCO) and its employees contributed approximately $0.2 million to OCERS for the year ended December 31, 2019. LAFCO has five active members. LAFCO's net pension liability was $1.5 million as of June 2019.

In 1963, the California state legislature formed a Local Agency Formation Commission for each of the 58 counties in the state. These commissions are primary 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.

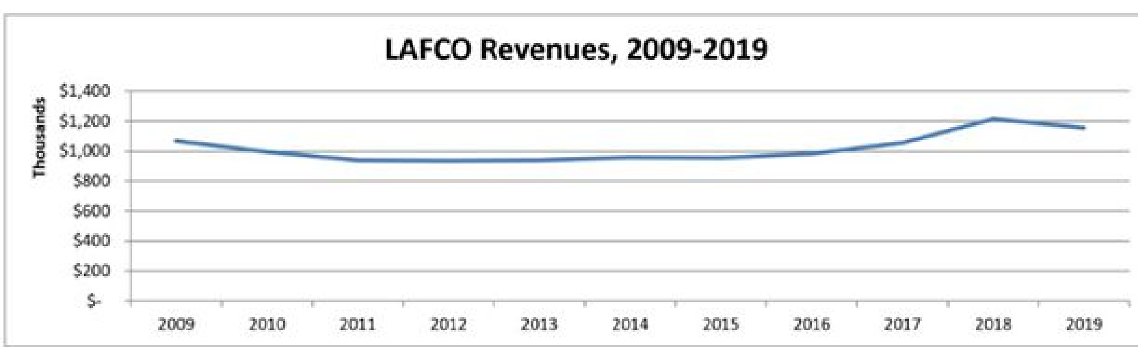
The appointed Board of Commissioners of LAFCO consists of two commissioners representing the County, two commissioners representing cities, two represent special districts, and one commissioner representing the public. An alternate also exists for each of these positions.

2019 Revenues

LAFCO's total revenues were $1.2 million for the year ending June 30, 2019.

Total assessments and service charges received by LAFCO in 2019 amounted to 94% 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, 2019

The total liabilities of LAFCO exceeded its total assets at June 30, 2019 by $0.070 million, primarily due to the GASB 75 recognition of an OPEB (other postemployment benefits) liability on its financial statements.

UC Irvine – Medical Center & Campus (Inactive Employer)

The UC Irvine Medical Center & Campus (UCI) has no active participants. UCI's net pension liability was $30.2 million as of June 2019 for its remaining retirees. UCI contributed $2.8 million to OCERS for the year ended December 31, 2019.

UCI Irvine – Medical Center & Campus is reported within the University of California's audited 2019 financial statements:

- $39 billion in total 2019 revenues (variety of revenue sources, but mostly tuition, state support, and medical center revenues).
- $3.3 billion Net Position (none are Unrestricted).

Orange County Department of Education (Inactive Employer)

The Orange County Department of Education has no active participants. The Department of Education contributed $0.3 million to OCERS for the year ended December 31, 2019. The Department of Education's net pension liability was $229 million as of June 2019 for its remaining retirees. From its 2019 CAFR:

- $357 million in total 2019 revenues (32% - revenues from property taxes, 23% - operating/capital grants, 19% - Federal/State aid, 16% - other revenues, 11% - service charges).
- $175 million Net Position ($31 million is Unrestricted).

The Orange County Vector Control District (Inactive Employer)

Vector Control has no active participants. Vector Control's net pension liability was $(626)2 million as of June 2019 for its remaining retirees. From its 2019 CAFR:

- $16 million in total 2019 revenues (95% - property taxes and assessments, 5% - other revenues).
- $23 million Net Position ($18 million is Unrestricted).

The City of Rancho Santa Margarita (Inactive Employer)

The City of Rancho Santa Margarita has no active participants. Rancho Santa Margarita did nothave a net pension liability as of June 2019 for its remaining retirees. From its 2019 CAFR:

- $22 million in total 2019 revenues (70% - property/sales tax, 18% - grants, 6% - service charges, 6% - other).
- $129 million Net Position ($19 million is Unrestricted).

Cypress Recreation and Parks District (Inactive Employer)

Cypress Recreation and Parks District (District) has no active participants and its net pension liability will be paid by the City of Cypress. The District's net pension liability was $0.7 million as of June 2019 for its remaining retirees. The City of Cypress contributed $0.7 million to OCERS for the year ended December 31, 2019

From the City of Cypress 2019 CAFR:

- $51 million in total 2019 revenues (58 % - property/sales tax, 12% - other taxes, 12% - service charges, 10% - grants, 8% - other revenues).
- $307 million Net Position ($83 million is Unrestricted).

ORANGE COUNTY

OCERS

EMPLOYEES RETIREMENT SYSTEM

Pension Administration System Outlook

Presented on September 9, 2020

by

Brenda Shott, Suzanne Jenike and Jenny Sadoski

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

AGENDA

- Background
- V3 – Post Go-Live Updates
- Current System Considerations
- Planning for Future Pension Administration System

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Background

Pension Administration System

Member Accounts

Contributions

Retiree Payroll

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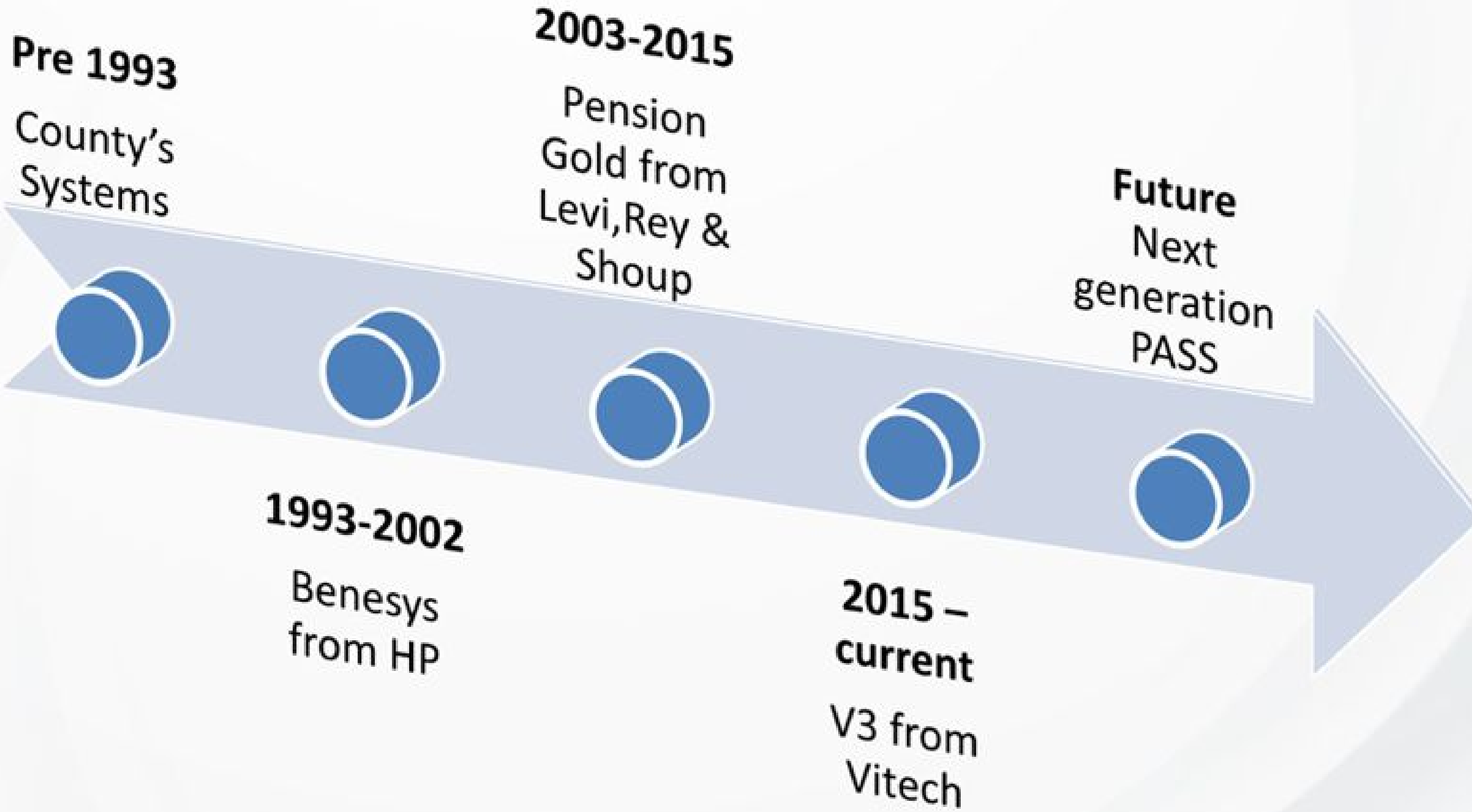
OCERS
EMPLOYEES RETIREMENT SYSTEM

TIMELINE OF OCERS PAST SYSTEMS



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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

V-3 Annual Cost

Annual Cost	Description
$396,000	V3 License & 750 hours of support
$65,000	Database and other 3rd Party Software License & Support (annual average)
$461,000	Total annual license & support costs

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

V-3 Post Go-Live Updates

Year	# of Builds	Add'l Hours	Add'l Costs	Notable Items Included In Builds
2016	12	872	$191,143	Redesign Final Average Salary (FAS) and 415(b) calculations. Actuarial Extract enhancements and year one design changes
2017	6	2000	$410,000	myOCERS portal security enhancements, design changes for new member enrollment related process, benefit estimates, Service Credit Purchases and
2018	4	1250	$272,837	Updates and design changes to Service Credit Purchase (SCP) and overpayment modules
2019	3	434	$111,305	Design changes required for Wells Fargo Payment Manager
2020	4	*1302 est.*	*$346,670 est.*	Updates to myOCERS portal to enhance self-service functionality, actuarial extract enhancements, design change for check printing
2021		*1250 est.*	*$315,000 est*	Potential updates include workflow enhancements, online Disability application, retirement intent file updates

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Current System Risks

- Imaging Module
  - V3 requires integration of a 3rd party product which is no longer supported
  - Options to address risk:
    - Accept risk and continue use with "work arounds" as issues arise
    - Migrate to an imaging system outside of V3
    - Upgrade V3 to version V10

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Current System Risks

- Web Browser Updates
  - Security Patching
  - Upgrade Browser Versions
  - V3 bugs/issues arise with new browser releases
- System Security
  - Two/Multi factor authentication

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Current System Opportunities

- Automated Letters
  - Improve efficiencies with effective & timely communication to members
    - Create new letters
    - Change/update existing
  - V3 functionality relies on 3rd party product
    - Cumbersome
    - Inefficiencies for OCERS team members

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OCERS
EMPLOYEES RETIREMENT SYSTEM

Current System Opportunities

- Mobile App
  - Expand Member Experience with Mobile Devices
  - Create Member Services Efficiencies

- Improved Member Portal
  - Streamline Member Log-in Process
  - Enhance Member Experience

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Implementing New Systems

- Pre-project planning
  - Needs assessment/user requirement
  - Business Process Documentation
- Procurement
  - RFP with System Requirements
  - Demonstrations and Reference Checking
  - Contract Negotiations
- Implementation
  - Design/Configuration
  - Data Conversion
  - Document
  - Testing
- Go-Live
  - Training
  - Operate & Maintain

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Options for Future Pension System

Extend V3 Life add 3rd Party Product Enhancements

Upgrade to Vitech's V10 or V3locity

Competitively Procure Next Generation System

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Estimated Timeline to Extend V3 Life

2021
- 3rd Party Products Implementation

2024
- Procurement
- Contracting
- Backfill positions

2025
- Business Process Documentation
- Requirements Gathering

2026-2028
- Design System
- Test System
- Go-live

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Estimated Timeline to Upgrade to V10 or V3locity

2022

- Contracting
- Backfill positions
- Project Planning

2023-2025

- Design System
- Test System
- Go-live

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Estimated Timeline For Next Generation

2021**

- Business Process Documentation
- Requirements Gathering

2022

- Procurement
- Contracting
- Backfill positions

2023-2025

- Design System
- Test System
- Go-live

** Consider cost benefit for implementing 3rd Party Products (mobile app, portal & imaging) even without extending service life of V3

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Conclusion

Discussion and Q& A

Aksia LLC

Co-Investment Educational Discussion
September 2020

www.aksia.com

Aksia

What Makes Co-investments Attractive?

Compared with fund investments, co-investments can offer greater returns with an improved ability to manage exposure. This may lead to better risk-adjusted returns.

WHY DO LIMITED PARTNERS PURSUE CO-INVESTMENTS?

There are a number of perceived benefits to LPs:

- Typically low or no management fee and no carried interest, allowing LPs to average down overall program costs.
- Greater control over the pace of investment. Total control over investment vintage year.
- Greater control over geographical, industry, and capital structure exposure, assuming adequate deal flow across the spectrum.
- Quicker capital deployment with limited or no j-curve effect; reduces the j-curve of the broader portfolio.
- Potential return enhancement through proper deal selection.

Together with fund investments, co-investments offer a number of other benefits:

- Co-investing alongside a private equity firm can provide insight into the firm's processes, investment insights and execution.
- May increase value and appeal as a limited partner which can help with fund access.
- Potential ability to increase exposure to capital constrained managers with ability to scale relationships.
- Along with Advisory Board seats at the fund level, co-investments can create a second level of governance over a private equity firm.

Aksia

What Makes Co-investments Challenging?

Compared with fund investments, co-investments can be challenging to execute for sophisticated investors given the need to source deals, make rapid investment decisions and close quickly.

WHY ARE SOME LIMITED PARTNERS NOT ABLE TO PURSUE CO-INVESTMENTS?

There are a number of perceived issues to LPs:

- The need to move quickly (often a 2 – 4 week window)
  - Constrained resources
    - Limited investment staff
    - Lack of co-investment experience
  - Governance – approval and legal processes
- Increased manager and deal concentration
- Potential for adverse selection, large cap bias
- Potential for greater headline risk given a more direct investment
- Potential conflicts of interest – GP motivation for offering co-investments
- Can subject the LP to other fees, such as broken deal costs, legal and transaction expenses, advisory fees, among others
- Co-investments are not governed by the fund limited partnership agreement, requiring separate legal documentation

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Co-investment Program Models

A Variety of Co-investment Models Exist, Ranging from Active to Passive

More Passive…

Model	Description	Attributes	Issues
Commingled Co-Investment Fund	- Third-party managed fund that co -invests with sponsors from GP relationships	- Few LP resource requirements - Potentially wider deal funnel - Able to evaluate track record - Can commit set amount of capital	- Additional layer of fees - Limited ability to tailor exposures - Risk of adverse selection - Competitive deal environment - Lose direct benefits such as scale and visibility into GPs process
Side-car vehicle	- Vehicle that invests passively alongside the fund of a single sponsor (either pro-rata or overage)	- Reduced fees - Few LP resource requirements - Ability to scale relationship with particular sponsor	- Increased concentration - No ability to tailor exposures - Not offered by many GPs
Hybrid Structure	- Combines staff and non-discretionary or discretionary advisor to pro-actively co-invest with select managers within the portfolio	- Control over process - Cost effective - Maintain direct relationship benefits	- Resource requirements - Governance and legal requirements - Reliant on external partners for evaluation/recommendation
Opportunistic	- Reactionary approach based on in-bound deal-flow, with review by staff or staff & advisor	- Control over process and decisions - Cost effective	- Resource requirements - Governance and legal requirements - Random exposures
In-house	- Develop internal program with dedicated staff resources to source and evaluate co-investments	- Control over process and decisions - Dedicated staff - May attract and incentivize staff	- Added expense of dedicated team - Governance challenges may remain - Fiduciary risk - Compensation requirements

More Active….

4

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What Makes Co-investments Attractive?

Assuming no external fees, co-investments can enhance overall program economics.

THE FINANCIAL BENEFITS OF CO-INVESTMENTS

Simple Illustrative Private Equity Example[1]

	FUND INVESTMENT	CO-INVESTMENT
Committed Capital (fund)/Invested Capital (co-investments)	$ 100.0	$ 100.0
Management Fees: 1.5% per year for five years	(7.5)	0.0
Capital for Investment	**$ 92.5**	**$ 100.0**
Gross Return: 2.0x invested capital	$ 185.0	$ 200.0
Carried interest (20% of profits)	(17.0)	0.0
Cash returned from investment	**$ 168.0**	**$ 200.0**

[1] The above example is provided for illustrative purposes only and assumes a co-investment without manager fees/carry and a fund without fund level leverage. This example should not be relied upon and is not necessarily indicative of the results which may be achieved by actual trading.

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OCERS Considerations

Approach	Description	Key Benefits	Issues to Consider
Third Party Approach	• Can pursue either commingled funds or Separately Managed Accounts ("SMA") • Deal flow largely driven by the Third Party, with limited Staff involvement • Third Party evaluates each opportunity and largely has discretion	• Once engaged, a third party approach can be implemented relatively quickly • Typically generates a wider funnel of deal flow than other approaches • Typically no management fee or carried interest on primary PE fund investments • Results in diversified portfolio of co-investments • Third Party interests are aligned	• Third Party typically receives a combination of reduced management fee and / or reduced carry • Limited control over investments once capital has been committed
Harvest From Core Relationships Approach *Potentially Best Fit for OCERS*	• Consultant and Staff identify pre-established investment parameters • Deal flow driven by OCERS' primary commitments only • Deals that meet specified parameters are executed	• Typically focuses on a core group of OCERS' high conviction managers that have been re-underwritten within last few years • Effectively gains additional exposure to deals already in OCERS' portfolio, at the lowest price point • Typically no management fee or carried interest on PE investments	• Relying primarily on the initial fund-level diligence • No guarantee that deal flow will ultimately emerge • Less diversification than a commingled vehicle
In-House Approach	• 100% internal program, typically with a dedicated pool of capital • Dedicated staff resources (typically 2+ professionals) required to source, evaluate, and execute investments • Deal flow driven by Staff using OCERS' primary commitments as well as other GP's	• Staff evaluates each opportunity independently and has complete control • Typically no management fee or carried interest on PE investments • Dedicated staff adds depth to the investment team	• Change in OCERS' PE Policy likely required • Significant resources required to develop internal processes, policies, and controls • Added expense of a dedicated team • Less diversification than a commingled vehicle

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Investment Contract Terms – Negotiations and Best Practices

September 10, 2020

Presented

by

Reginald D. Tucker, OCERS
Yuliya A. Oryol, Nossaman LLP
Thomas A. Hickey, III, Foley & Lardner LLP

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Table of Contents

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

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Definitions

- ***Business Terms*** – Contract terms typically related to the governance and investment limitations of the partnership and negotiated by Investment Team members.

- ***Fiduciary Terms*** - Fund managers owe a fiduciary duty to limited partners. This is generally defined as a combination of a duty of care related to the amount of time and attention spent on managing the fund; and a duty of loyalty that governs actions such as allocation of investments, cross-fund investing and unequal treatment of LPs.

  - *Duty of Care* – Generally includes duties to perform adequate due diligence on fund investments, manage the investments in the best interest of the fund and carefully monitor investments throughout the term of the fund. Managers must adhere to stated fund objectives and follow the investment strategy as outlined in fund documents.

  - *Duty of Loyalty* - Requires fund managers to serve the best interest of the fund and not subordinate fund interests to the manager or its affiliates. The manager must make full and fair disclosure all material facts relating to conflicts of interest. The manager must also attempt to eliminate, to the extent possible, any conflicts that may arise.

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Definitions

- ***ILPA*** - The Institutional Limited Partners Association is a trade association for institutional limited partners in the private equity asset class. The organization provides research and insight on industry best practices and trends.

- ***ILPA Reporting Template*** – Template for reporting fees, expenses, and carried interest. The aim of the template is to encourage uniformity in these disclosures, both to provide LPs with an improved baseline of information to streamline analysis and drive decision making, and to reduce the compliance burden on general partners being asked to report against a range of disparate formats from LPs.

- ***OCERS' Preferred Terms*** – Key investment terms deemed of heightened importance to the OCERS Investment Team and embody the Plan's investment principles and statutory requirements.

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Background

Why is it important?

- Continue to expand ownership of the investment process, outcomes, and management of the portfolio
- Align with desired ILPA standards
- Identify and track trends to negotiate better outcomes
- Embody a culture of continuous improvement and transparency

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Objectives

- Enhance OCERS Investment Process before, during, and after contract negotiations
- Enable Investment Team to perform a historical analysis of OCERS fund contract terms and identify and track trends
- Determine 6 – 8 key terms to serve as the basis for "OCERS Preferred Terms"
- Create a searchable database of negotiated private equity terms
- Overall enhance LP-GP alignment with OCERS investment management partners

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Methodology

Key Business Terms Analyzed

- Distribution waterfall
- Clawbacks
- Management Fees
- Co-Investments
- GP Removal
- Key Persons Provisions
- Investment Limitation
- Organizational Expenses

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Methodology

- Negotiated outcomes scored from 1 to 5, enabling search and analysis of terms across various metrics including: funds, general partners, sub-strategy, vintage year and geography

Outcome Scoring

- (1) Best
- (2) Market
- (3) Acceptable
- (4) Exception
- (5) Unacceptable

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Database Integration

BACKSTOP

Search by entity | All | + Add New | Upload

Reports | Emails | Values as of: 7/31/2020

Qualitative
- Fund Profile
- All Activity
- Notes
- Documents
- Meetings/Calls
- Activity Search

Email

Quantitative
- Performance
- Risk
- Exposure

Tasks

Contract Due Diligence Checklist

Initial Due Diligence

ODD

Fund Audit

Preferred Terms

Preferred Terms (beta)

Distribution Waterfall

Best: European Waterfall: Return of all invested capital and all capital used for fees and expenses, plus preferred return, before carried interest is distributed

2nd Best or Market: Hybrid or Enhanced American: Return of all capital attributable to both the investment generating distribution proceeds, all prior un-returned and realized investments and write-offs, and capital attributable to fees and expenses incurred with respect to such investments, plus preferred return, before carried interest is distributed

Acceptable or Exception: American or Deal by Deal Waterfall: Deal-by-deal distribution waterfall without a required return of capital attributable to prior un-returned and realized investments and write-offs

Waterfall style:

Terms:

(i) first, 100% to each LP until it has received an amount equal to its contributions;
(ii) second, to each LP until it has received an amount equal to an 8% annual return on its contributions;
(iii) third, 100% to the GP until it has received an amount equal to 20% of the distributions made to the LPs; and
(iv) thereafter, 80% to the LP and 20% to the GP. (LPA §3.3)

Best: > 8% | 2nd Best or Market: 8% | Acceptable: <8%

LP Preferred Return: 2nd Best or Market

Terms:

Best: < 20% | 2nd Best or Market: 20% | Acceptable: Above 20% (except for select VC Funds)

GP Carried Interest Percent: 20%

Terms:

Best: 50/50 with one catch-up, or higher ratio but with multiple catch-up steps in distribution waterfall | 2nd Best or Market: 80/20 | Acceptable: 100%

GP Catch-up Percent: 100

Terms:

Clawback Provisions

Best: GP Clawback Included

Acceptable: No GP Clawback

GP Clawback Terms Included: Yes

Terms: Following the termination of the Fund, the GP will be subject to a final clawback. The GP will be required to make a clawback contribution to the extent that its Carried Interest Distributions exceed the Carried Interest it would have been paid if all of the distributions were made simultaneously.

Best: Two or more interim clawbacks (e.g., Year 6, Year 8, Year 10) | 2nd Best: One interim clawback (e.g., Year 8) | Acceptable: No interim clawbacks

Interm Clawback Frequency: Acceptable or Exception

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Key Findings

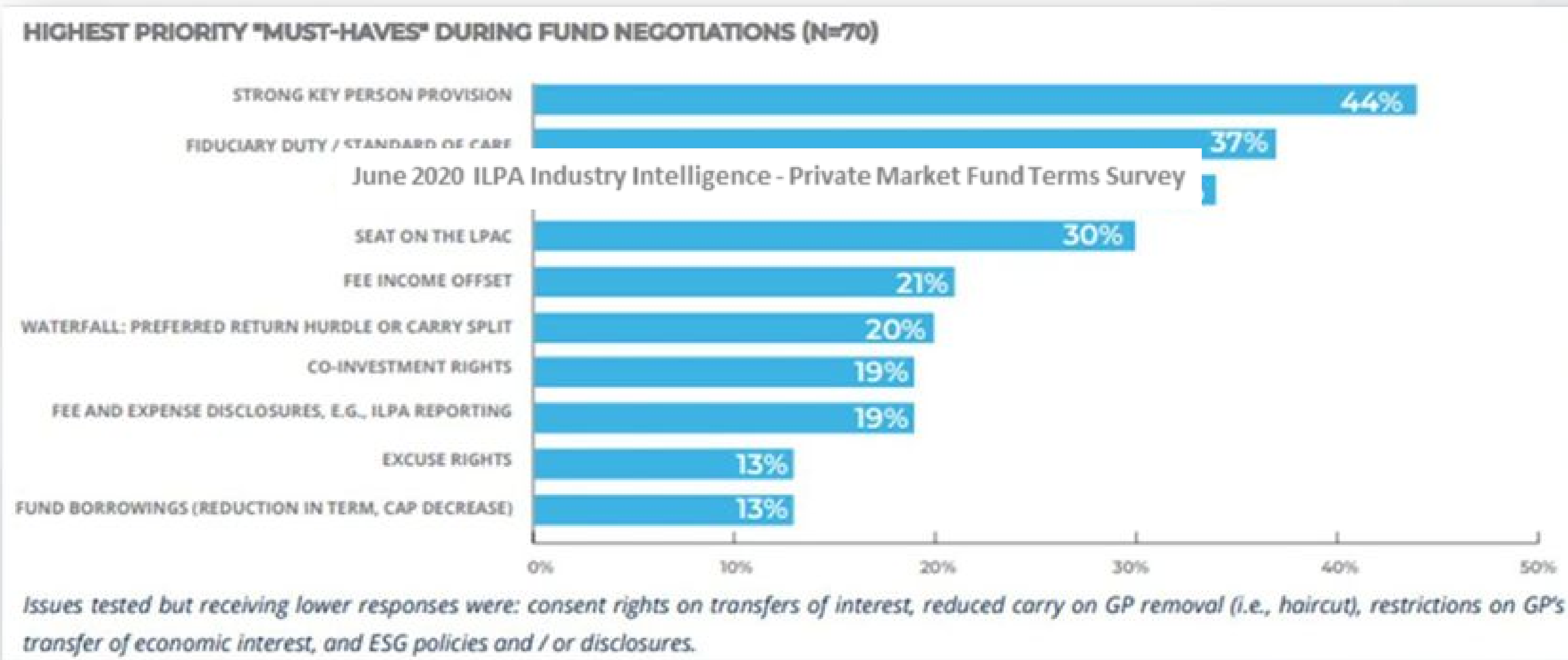
- Many of the initially analyzed contract terms align with new ILPA 3.0 Principles that include expanded, clarifying guidance on:
  - **Fund Economics***
  - **Key Person Provisions***
  - LPAC Responsibilities
  - **Fiduciary Duty***
- Third edition of ILPA addresses new and emerging issues related to terms. Several of these were addressed in the initial analysis including:
  - **Fee and Expense Reporting***
  - LPA Compliance and Assurance
  - **Subscription Lines of Credit***
  - **Co-Investments***
  - Non-Financial Disclosures: Incident Reporting, Regulatory Compliance
  - ESG Integration
  - GP Ownership and Succession Issues
  - GP-led Secondaries Transactions
  - Conflicts of Interest Arising from Parallel Vehicles and Cross-Fund Investments

* **Project specific analysis**

ORANGE COUNTY
OCERS
EMPLOYEES RETIREMENT SYSTEM

2020 ILPA Survey Highlights

- 2020 ILPA Survey highlights shifts observed in fund terms for partnerships in which LPs had invested over the last 12 months



Source: June 2020 ILPA Industry Intelligence - Private Market Fund Terms Survey

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

2020 ILPA Survey Highlights

- Stronger internal alignment delivers better results
  - LPs who indicated a higher degree of internal coordination — legal and business teams conferring in advance or having a pre-agreed set of preferred terms — reported greater success in securing fiduciary duties and ILPA standardized reporting
- Organizational expenses remain steadily high
  - 69% of LPs reporting typical organizational expense caps from 0.5% to above 1.5% of capital raised
- The death of the Preferred Return hurdle has been greatly exaggerated
  - Nearly 90% of respondents indicated that hurdle rates had not moved over the last 12 months
- Co-Investments Still A Path to Lower Net Fees
  - For the vast majority, 73% of respondents, co-investments have continued to be granted on a no-fee, no-carry basis over the last 12 months more than 75% of the time

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

2020 ILPA Survey Highlights

- No Fault Removal viewed as critical for LP protection
  - No-fault provisions are viewed as more straightforward than Cause removal provisions and serve as a guaranteed forcing mechanism in cases of mismanagement
- Key Person provisions have emerged as an area of growing scrutiny
  - Broadening provision making the bar to trigger investment period suspensions deemed unattainable by LPs
- Fiduciary Duties are being eroded across the industry
  - Often defined by sole discretion clauses and indemnification/exculpation provisions rather than affirmatively articulated, many LPs are concerned about awarding an unacceptable degree of discretion to managers
  - 71% of all respondents—across a range of fund strategies—reported that fiduciary duties had been contractually modified or eliminated in at least half of funds they invested in over the last year

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Discussion of Fiduciary Terms

LPs fear an 'erosion' of fiduciary duty in fund contracts: ILPA survey

Increased disclosure has made limited partners more aware of the nuances of fund contracts, which are being perceived as a weakening of fiduciary duties, critics said

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Conclusions

- LPs need to also be realistic on what terms they can drive and with what managers are that are likely to have success

- ILPA is a guide and not a checklist and each set of terms needs to be considered specifically and holistically

  "ILPA does not seek the commitment of any LP or GP to any specific terms, nor should the Principles be applied as a checklist, as each partnership should be considered separately and holistically. A single set of preferred terms and practices cannot provide for the broad variability of products, strategies and investor preferences across the market at any given time, nor account for every individual circumstance"

- Negotiated terms are sometimes improved in subsequent closings and issued in Amended and Restated LPAs

- Terms can also be improved after final closing through MFN elections

- A Term's outcome can evolve over-time. A Best or Acceptable can become Market over time

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Next Steps

Expand Terms analysis to all private market asset classes, including Private Credit, Real Assets, and Real Estate

Ensure side letters are used to help secure the best contract terms

Follow-up terms and negotiations trainings with OCERS internal and external legal partners

Specific Business Terms, like co-investment rights, may become more important as co-investment focus increases

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

The Current State of OCERS An Annual Report

September 10, 2020

Steve Delaney, CEO

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

The Current State of OCERS

- **AGENDA**

- Introduction
- Stats, stats and more stats
- The Investment Department
- OCERS Staff – Direct and County
- Challenges in 2021 and beyond
- Opportunities in 2021 and beyond

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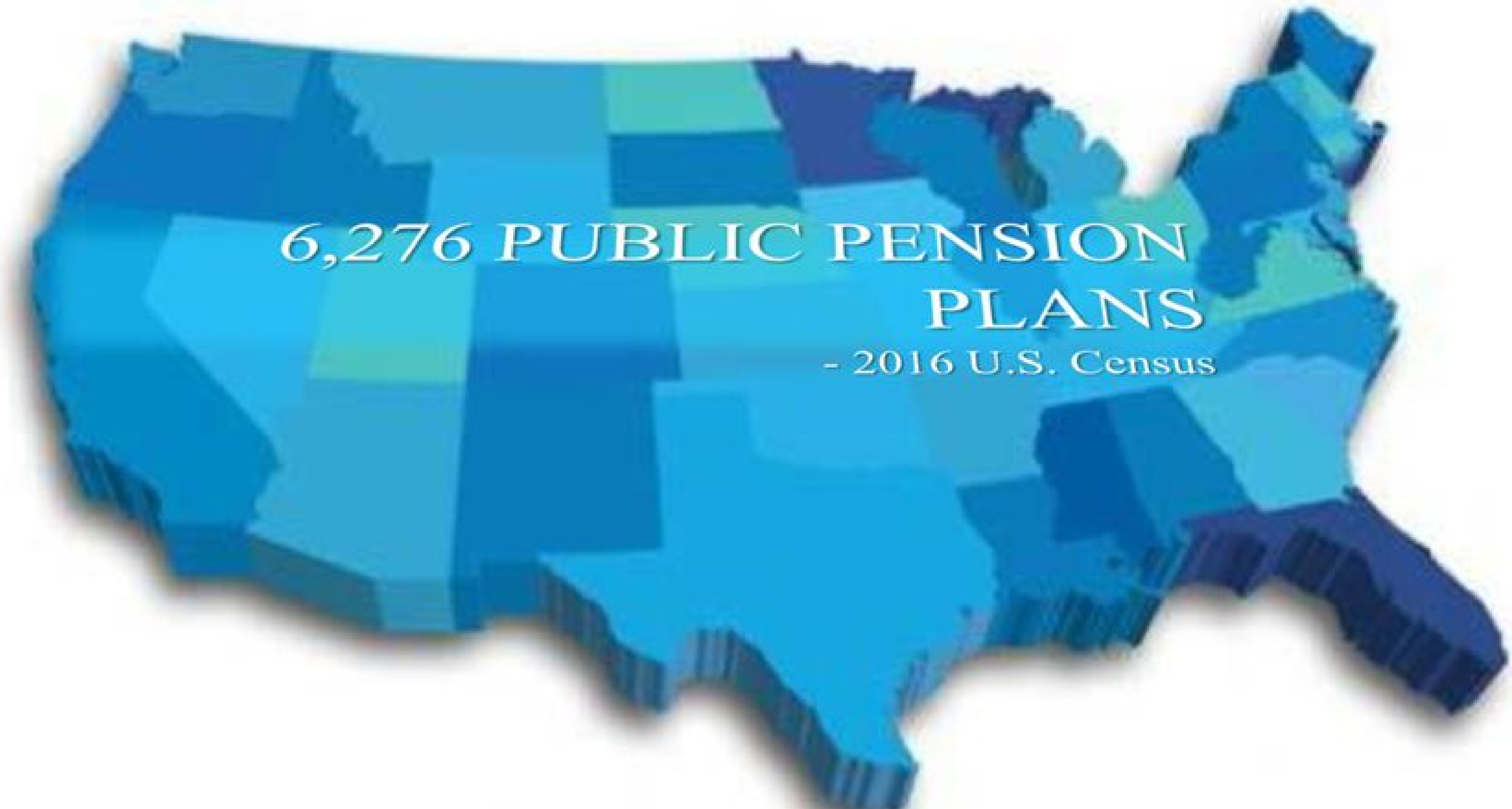
The Current State of OCERS



With more than $16 billion in assets as of January 2020, OCERS is ranked 130 (P&I)

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

The Current State of OCERS

Total Membership (as of Dec. 2019)

47,197

2018	45,629	2.6%
2017	44,471	2.6%
2016	43,485	2.3%
2015	42,427	2.4%
2014	41,418	2.3%
2013	40,486	2.2%
2012	39,618	

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The Current State of OCERS

Active Membership (as of Dec. 2019)

22,257

2018	21,929	1.0%
2017	21,721	0.0%
2016	21,746	1.0%
2015	21,525	0.5%
2014	21,460	0.5%
2013	21,368	0.5%
2012	21,289	-0.1%
2011	21,421	-0.1%
2010	21,742	-0.4%
2009	22,538	-0.5%
2008	23,778	

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

The Current State of OCERS

Retirees (as of Dec. 2019)

18,420

2018	17,674
2017	16,947
2016	16,369
2015	15,810
2014	15,169
2013	14,505
2012	13,947

1.21 active members to retired members

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The Current State of OCERS

The Promise (as of Dec. 2019)

$21,916,730,000

2018	$20,703,349,000
2017	$19,635,427,000
2016	$17,933,000,000
2015	$17,050,000,000
2014	$16,413,000,000
2013	$15,785,000,000
2012	$15,144,000,000

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The Current State of OCERS

Fund Assets (as of Dec. 2019)

$16,036,953,000

2018	$14,997,420,000
2017	$14,197,125,000
2016	$13,102,978,000
2015	$12,228,009,000
2014	$11,450,911,000
2013	$10,417,125,000
2012	$9,469,208,000

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The Current State of OCERS

Unfunded Actuarially Accrued Liability UAAL (as of Dec. 2019)

$5,879,861,000

2018	$5,708,929,000
2017	$5,438,302,000
2016	$4,830,483,000
2015	$4,822,000,000
2014	$4,963,000,000
2013	$5,367,000,000
2012	$5,675,000,000

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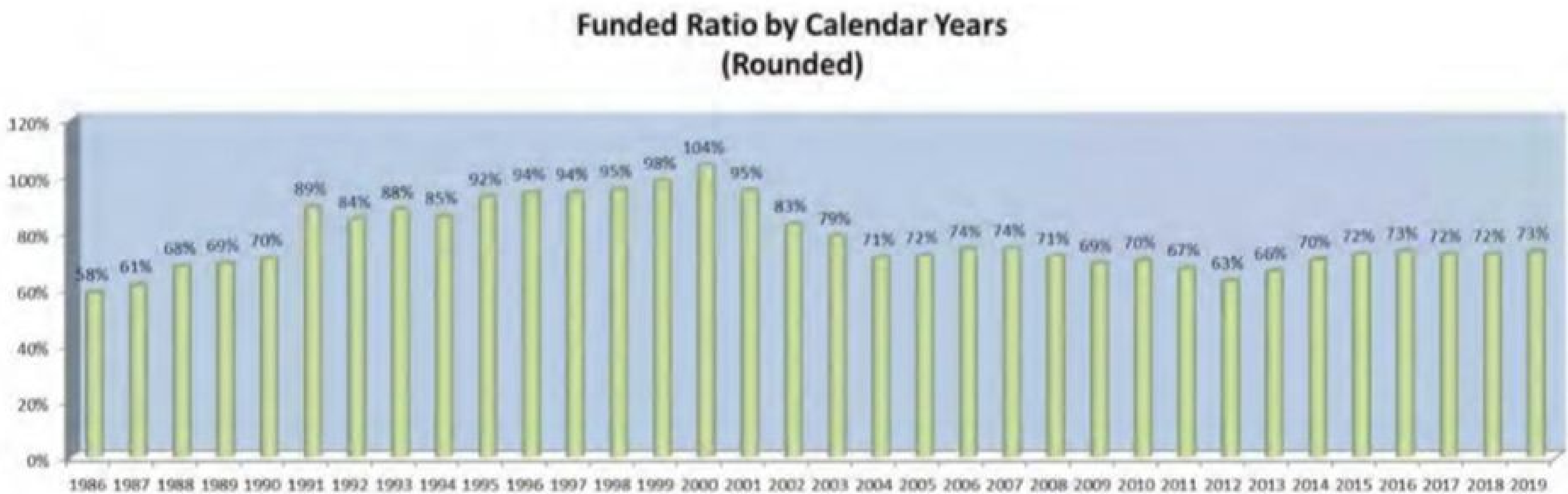
The Current State of OCERS

The Funded Ratio



(Valuation value) 73.06%

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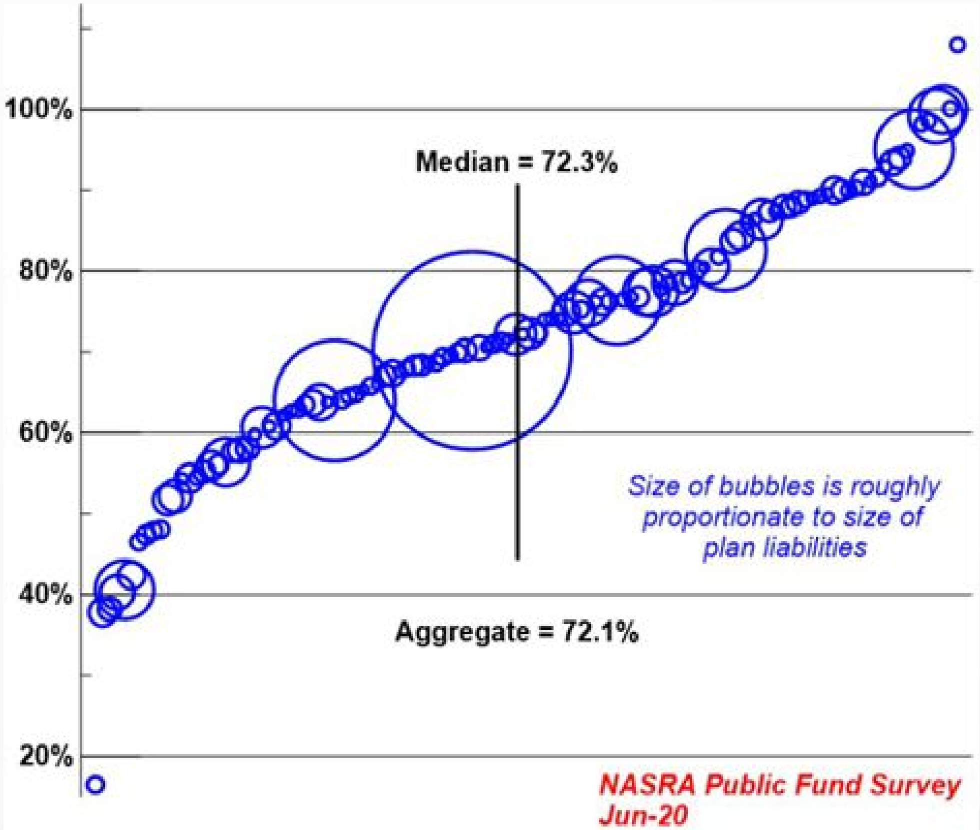
The Current State of OCERS

Funding Level in Context



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The Current State of OCERS

Total Contributions (as of Dec. 2019)

Member Contributions: $279,373,000

Employer Contributions: $653,793,000

$933,166,000

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The Current State of OCERS

Benefit Payroll for Calendar Year 2019

$900,902,000

2018	$828,278,000
2017	$764,344,000
2016	$717,976,000
2015	$675,963,000
2014	$630,678,000
2013	$586,284,000
2012	$541,154,000

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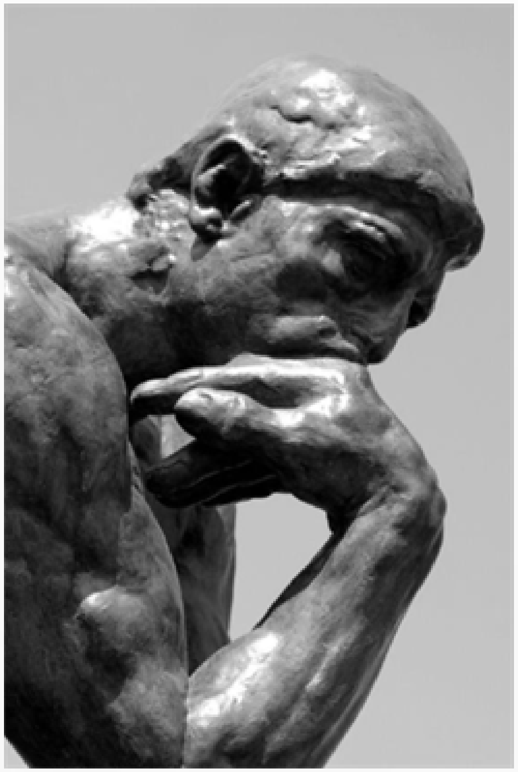
THE OCERS INVESTMENT PROGRAM



Some thoughts on the OCERS Investment Portfolio through calendar year 2019

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2019 Performance

- OCERS' portfolio returned 14.4% net of fees in 2019, more than doubling its actuarial assumed rate of return of 7.0%.
- Most risk-oriented assets enjoyed a strong 2019 with OCERS' U.S. public equity portfolio leading the way with a 30.0% net return.
- As the 10-year Treasury declined throughout 2019, OCERS' fixed income portfolio produced an 8.8% net return.
- OCERS did lag its peers on a relative return basis as its lower exposure to equities tends to lead to underperformance versus peers when equity markets are on a tear.

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Looking Forward

- The OCERS Investment Team will implement the new asset allocation (adopted in April 2020) over an 18-month period including an increase to public equity by 12% and private equity by 3%, and reductions in fixed income by 6%, credit by 4%, and real assets by 5%.
- OCERS' Investment Team will work to implement its new risk management system Caissa.
- OCERS is scheduled to issue RFPs for its general consultant, real estate consultant, and private equity/private real assets consultant in 2021.

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OCERS STAFF

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OCERS 2019 Staffing Summary

Staffing Summary	Total
Budgeted Positions	93
Employees on Staff	87
Vacancies	6
Total New Hires & County Employees Transferred in	14
New Hires (OCERS Direct – 5 / County - 6)	11
New Employees Transferred In (County Employees)	3
Third Party Employees:	5
Temporary (Staffing Agency)	5
Employees Promoted (within Agency)	5

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OCERS 2019 Turnover Summary

Turnover Summary		Total
Total Employee Separations		12
Promotion with County	4	
Retired	3	
Other Employment	5	
Employee Turnover 12/87 x100 Separations/Employees on Staff x 100		13.79%

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OCERS Volunteer Program

- Program Purpose
  - Connect the vision & strategy with talent that can support OCERS NOW and execute later!
- OCERS Volunteer
  - John Nguyen – 11/19/2019 – 3/12/2020
    - Applied for the volunteer opportunity with the hopes of gaining a better understanding of his career path.
    - Completed a total of 193 hours.
    - August 2020- hired as an Office Specialist – Extra Help with the OC Clerk Recorder
- Volunteer Testimony
  - ***I want to sincerely thank everyone for letting me become a volunteer at OCERS. I have been blessed to volunteer for such an amazing, professional organization. Everyone has been so kind and willing to help me grow professionally. I would say I had an astonishing positive experience as a volunteer. I was given the chance to grow and develop as a person thanks to all the amazing individuals at the organization.***

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

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

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SUCCESSION PLANNING

Skills / needs assessed

Training

- OCERS leadership academy
- County program
- CALAPRS overview classes

Annual One-on-One with CEO

- NASRA News Clips
- Ted Talks
- "I've got a better idea"

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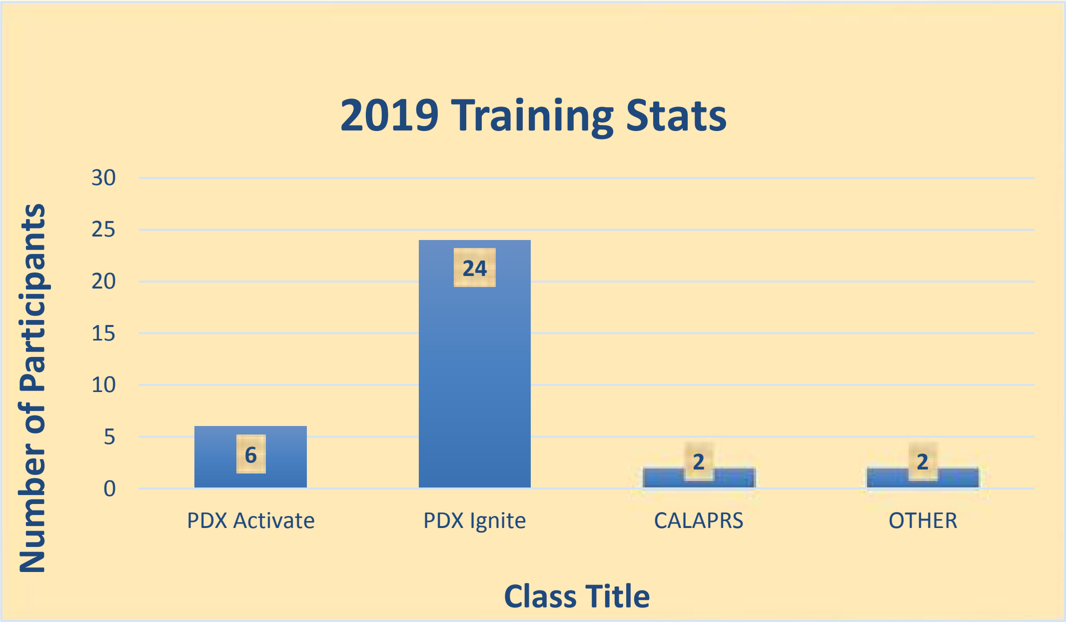
ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

OCERS 2019 Leadership Training Stats

Class Title	Number of Participants
PDX Activate	6
PDX Ignite	24
CALAPRS	2
American Management Association	1
Southern California Leadership Program	1
Total Participants	**34**



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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

System Challenges in 2021 and beyond

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Challenges in 2021

COVID-19

ALAMEDA

Early retirement rush

Employers solvency

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Challenges in 2021 and beyond

Funding Level

73.06 %
(December 31, 2019)

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Challenges in 2021 and beyond

Improving Mortality And Its Impact On Liabilities

Payee Age Range	Payee Age as of 01/01/2020
39 and under	36
40-49	162
50-59	2840
60-69	6267
70-79	6107
80-89	2446
90-99	576
100 and over	8

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Challenges in 2021 and beyond

Benefit Accuracy In A Complex System

- Master Final Average Salary document completed
- OCERS Admin Procedures continues
- LEAN Process Improvement
- "I have a better idea"

  Continuous Improvement as a culture

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Challenges in 2021 and beyond

Cyber Security

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Opportunities in 2021 and beyond

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Cost Savings – PEPRA

PEPRA (Public Employees Pension Reform Act) - January 2013

Legacy and PEPRA Membership as of December 2019

Active Members		
	Legacy	14,294
	PEPRA	7,963
	Total	22,257
Deferred Members		
	Legacy	4,626
	PEPRA	1,894
	Total	6,520
	Grand Total	28,777

- Between 4% and 5% of Legacy member payroll has been replaced by PEPRA member payroll each year.
- Assuming the trend continues, employer normal costs will decrease by about 0.2% annually until there are no more active Legacy members.

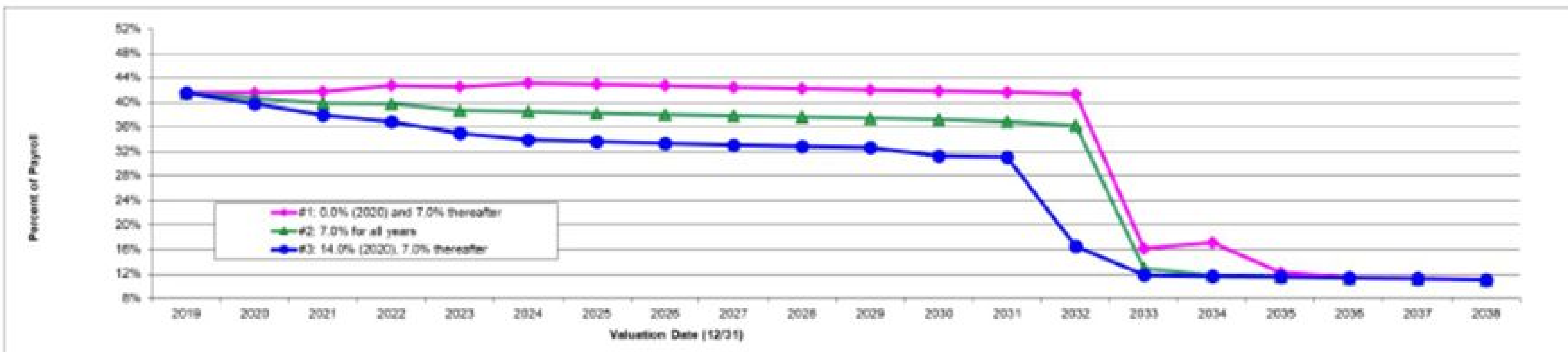
ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Opportunities in 2021 and beyond

Cost Savings – a key year

2033

Projected Employer Rates
Aggregate Plan



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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Opportunities in 2021 and beyond

Cash Flow – POSITIVE

2023 – soft flip
2034 – hard flip

Segal Letter
July 29, 2019

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Opportunities in 2021 and beyond

Additional Positives

- An oversight Board concerned with volatility
- Conservative assumptions
- 20 year amortization plan
- Employers efforts to accelerate the payment of the UAAL:
  - OC Sanitation District
  - OCFA
  - OC Public Law Library
  - Cemetery District
  - Children and Families Commission

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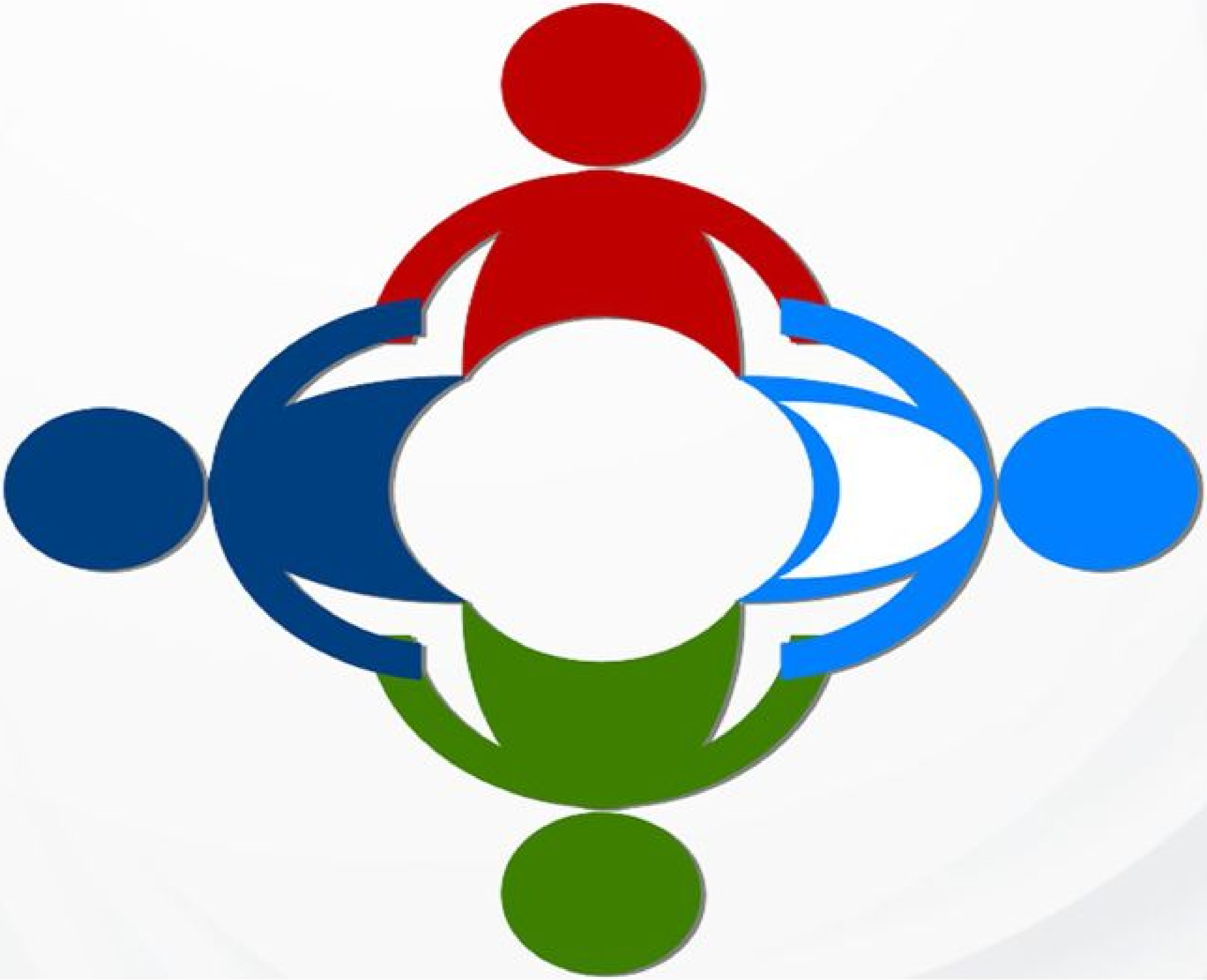
ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

In summation



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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

The Current State of OCERS

Appendix

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

THE PROMISE

Actuarial Valuation Date as of December 31	Valuation Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (%) (a) / (b)	Projected Covered Payroll (c)	UAAL as a Percentage of Projected Covered Payroll (%) [(b) - (a)] / (c)
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%
2017	14,197,125,000	19,635,427,000	5,438,302,000	72.30%	1,811,877,000	300.15%
2018	14,994,420,000	20,703,349,000	5,708,929,000	72.43%	1,875,370,000	304.42%
2019	16,036,869,000	21,916,730,000	5,879,861,000	73.17%	1,952,534,000	301.14%

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

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	567,196	258,297
2017	536,726	572,107	262,294
2018	556,728	580,905	270,070
2019	583,057	653,793	279,373

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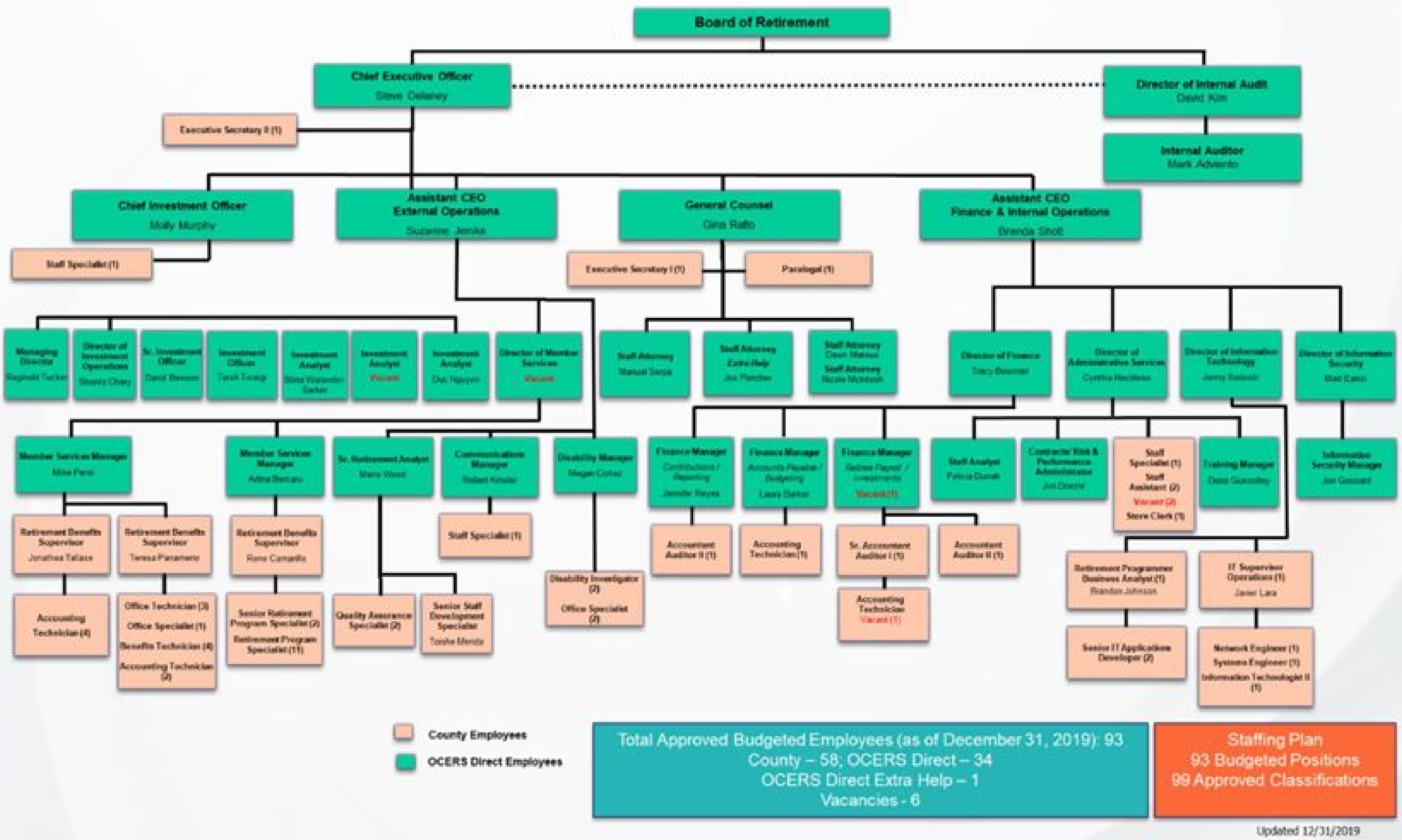

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2021-2023 STRATEGIC PLAN

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

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

STRATEGIC PLAN

2021-2023 STRATEGIC GOALS

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

FUND SUSTAINABILITY

STRENGTHEN THE LONG-TERM STABILITY OF THE PENSION FUND

Objective A: Mitigate the risk of significant investment loss

Objective B: Prudent Use and Security of Resources

EXCELLENT SERVICE AND SUPPORT

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

Objective A: Provide accurate and timely benefits

Objective B: Provide education to our members and plan sponsors

Objective C: Continuously improve business processes and procedures to be efficient and effective

RISK MANAGEMENT

CULTIVATE A RISK-INTELLIGENT ORGANIZATION

Objective A: Provide system and data security and a robust business continuity solution

Objective B: Ensure a safe and secure workplace and public service facility

TALENT MANAGEMENT

RECRUIT, RETAIN AND INSPIRE A HIGH-PERFORMING WORKFORCE

Objective A: Recruit and retain a high-performing workforce to meet organizational priorities

Objective B: Develop and empower every member of the team

Objective C: Cultivate a collaborative, inclusive and creative culture

EFFECTIVE GOVERNANCE

IMPROVE THE EFFECTIVENESS AND EFFICIENCY OF THE BOARD AND STAFF BY CLARIFYING ROLES AND RESPONSIBILITIES, IMPROVING OVERSIGHT, CLARIFYING ACCOUNTABILITY AND IMPROVING DECISION MAKING

Objective A: Employ a governance structure that supports a dynamic System

Objective B: Improve the governance and management of OCERS' records

LOOKING AHEAD 5-10 YEARS

Objective A: Investment best practices as fund approaches $35 billion.

Address by developing investment technology and team resources needed to manage the anticipated Portfolio

Objective B: End of V3 useful life

Address by determining if current pension administrative system is to be upgraded or if new technology will be required.

Objective C: Investigate implementation of artificial intelligence (AI) driven Member Self-Service technologies

Objective D: Investigate OCERS management/oversight of member medical coverage upon retirement

Objective E: Short Term (Next 5 Years) – Multi-Factor Authentication for Member and Employer Accounts

Objective F: Long Term (Next 15 Years) – Use of Artificial Intelligence and Machine Learning to Detect Fraudulent Activity and Transactions

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

2021 BUSINESS PLAN

Presented on Thursday, September 10, 2020

by

Steve Delaney & OCERS Management Team

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Agenda

- Mission, Vision, Values
- Business Plan Initiatives
- Next Steps

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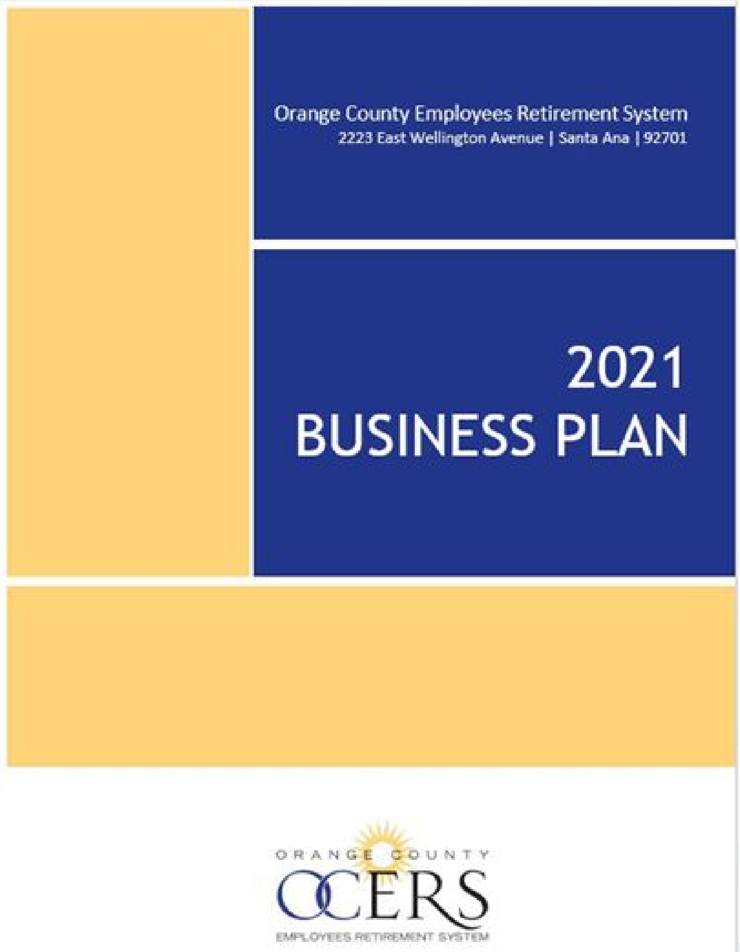
ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

2021 Business Plan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2021
BUSINESS PLAN

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

Mission, Vision & 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:

Open and Transparent
Commitment to Superior Service
Engaged and Dedicated Workforce
Reliable and Accurate
Secure and Sustainable

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

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

FUND SUSTAINABILITY

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

Business Plan Initiatives

Objective A: Mitigate the Risk of Significant Investment Loss

Executive Lead – Molly Murphy

1. Investment Consultant Contract Reviews
2. Complete implementation of an investment/risk management system (year two)

Objective B: Prudent Use and Security of Resources

Executive Lead – Molly Murphy

1. Investigate Custodial Bank Services options

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

EXCELLENT SERVICE AND SUPPORT

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

Business Plan Initiatives

Objective A: Provide Accurate and Timely Benefits
Executive Lead – Suzanne Jenike

1. Streamline the retirement process by implementing:
   a. LEAN action items
   b. Review and improve paper forms
   c. Investigate options to initiate Disability applications online
2. Improve customer service standards by enhancing V3 workflows, monitoring and reporting (multi-year)
3. Investigate phone system options to improve service and reporting
4. Investigate options on developing a Mobile App/Enhanced Self Service Portal $300,000

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

EXCELLENT SERVICE AND SUPPORT

Objective B: Provide Education to our Members and Employers

Executive Lead – Suzanne Jenike

1. Update annual employer workshop to virtual format
2. Create videos and other online educational resources to enhance education to members and stakeholders about OCERS benefits, administrative operations and investments (multi-year) $50,000

Objective C: Continuously Improve Business Processes and Procedures to be Efficient and Effective

Executive Leads – Brenda Shott and Suzanne Jenike

1. Explore the process of obtaining LEAN certifications $10,000
2. Identify additional business process to implement LEAN principles $25,000
3. Implement new Enterprise Resource Planning (ERP) system $150,000
4. Migrate to Microsoft 365 infrastructure $180,000

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

RISK MANAGEMENT

GOAL: CULTIVATE A RISK-INTELLIGENT ORGANIZATION

Business Plan Initiatives

Objective A: Enhance Governance of Technology Risks
Executive Leads – Brenda Shott, Matt Eakin & Jenny Sadoski

1. Continue implementation plan for security and operational best practice controls (multi-year)
2. Develop and enhance information security policies $20,000
3. Implement project management tools and best practices for use throughout the organization $15,000

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

RISK MANAGEMENT

Objective B: Continuously Assess Technology Environment and Address Risks

Executive Leads – Brenda Shott, Matt Eakin & Jenny Sadoski

1. Implement best practice security controls for Microsoft 365 $20,000
2. Implement network access control to allow only authorized devices on the internal network $10,000
3. Implement network traffic analysis to observe internal network traffic and detect potential intrusions $20,000
4. Implement network/server/service monitoring to detect and alert on operational status of systems $5,000
5. Implement DNS security solution to protect computer endpoints $20,000
6. Evaluate alternative methods of exchanging member identification protocols

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

RISK MANAGEMENT

Objective C: Ensure Compliance with Industry Frameworks and Best Practices
Executive Leads – Brenda Shott, Matt Eakin & Jenny Sadoski

1. Conduct a data classification study $100,000 - $150,000
2. Implement automated inventories for tracking technology assets $75,000 - $100,000

Objective D: Provide a Robust Business Continuity Solution
Executive Leads – Brenda Shott, Matt Eakin & Jenny Sadoski

1. Implement new enterprise backup solutions to enhance recovery of on premise and cloud systems $250,000
2. Implement infrastructure to allow employees to work a hybrid in office and remote environment $25,000
3. Adopt policies to support a hybrid work environment

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

RISK MANAGEMENT

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

Executive Lead – Brenda Shott

1. Investigate and evaluate long term options for OCERS headquarters
2. Implement COVID-19 protocols and worksite plan
3. Upgrade the Board Room audio/visual equipment. $300,000 - $400,000

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

TALENT MANAGEMENT

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

Business Plan Initiatives

Objective A: Recruit and Retain a Diverse High-Performing Workforce to Meet Organizational Priorities
Executive Leads – Steve Delaney and Cynthia Hockless

1. Review and implement necessary changes onboarding and transitioning of new hires into the organization during remote work conditions
2. Expand advertising and outreach sources in order to continue to encourage diversity in recruitments (multi-year)
3. Complete compensation study and implement recommendations as appropriate $30,000

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

TALENT MANAGEMENT

Objective B: Develop and empower every member of the team
Executive Lead – Steve Delaney

1. Design and develop a comprehensive training program based on individual needs and career goals that embeds a talent management mindset and creates succession plans across the agency $100,000
2. Develop a comprehensive standardized library of process and procedure manuals across the organization $150,000

Objective C: Cultivate a Collaborative, Inclusive and Creative Culture
Executive Lead – Steve Delaney

1. Continue to implement strategies that promote an inclusive workplace

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

EFFECTIVE GOVERNANCE

GOAL: IMPROVE THE EFFECTIVENESS AND EFFICIENCY OF THE BOARD AND STAFF BY CLARIFYING ROLES AND RESPONSIBILITIES, IMPROVING OVERSIGHT, CLARIFYING ACCOUNTABILITY AND IMPROVING DECISION MAKING

Business Plan Initiatives

Objective A: Employ a Governance Structure that Supports a Dynamic System
Executive Lead – Steve Delaney

1. Explore methods of focusing Board and staff time and effort on activities that support or advance OCERS' Strategic Goals

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ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

EFFECTIVE GOVERNANCE

Objective B: Improve the Governance and Management of OCERS' Records (multi-year)

Executive Lead – Gina Ratto

1. Identify "best practices" in record retention
2. Develop and implement a records retention program that reflects best practices and identifies appropriate retention periods for each category of records
3. Establish storage protocols and automate destruction schedules for electronic mail
4. Establish an alternative "work space" and/or storage place for emails
5. Systematically bring each department within OCERS into compliance with the records retention program
6. Establish procedures to maintain and audit compliance with the record retention program

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QUESTIONS?

ORANGE COUNTY
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2021 BUSINESS PLAN

ORANGE COUNTY OCERS EMPLOYEES RETIREMENT SYSTEM

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Executive Leads – Brenda Shott, Matt Eakin & Jenny Sadoski

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