



AGENDA

Finance and Administration Committee Meeting

Committee Members

Andrew Do, Chairman
Steve Jones, Vice Chairman
Michael Hennessey
Richard Murphy
Miguel Pulido
Todd Spitzer
Michelle Steel

Orange County Transportation Authority
Headquarters
550 South Main Street
Board Room – Conf. Room 07
Orange, California

Wednesday, November 8, 2017 at 10:30 a.m.

Any person with a disability who requires a modification or accommodation in order to participate in this meeting should contact the OCTA Clerk of the Board, telephone (714) 560-5676, no less than two (2) business days prior to this meeting to enable OCTA to make reasonable arrangements to assure accessibility to this meeting.

Agenda descriptions are intended to give members of the public a general summary of items of business to be transacted or discussed. The posting of the recommended actions does not indicate what action will be taken. The Committee may take any action which it deems to be appropriate on the agenda item and is not limited in any way by the notice of the recommended action.

All documents relative to the items referenced in this agenda are available for public inspection at www.octa.net or through the Clerk of the Board's office at the OCTA Headquarters, 600 South Main Street, Orange, California.

Call to Order

Pledge of Allegiance

Director Steel

1. Public Comments

Special Calendar

There are no Special Calendar matters.

Consent Calendar (Items 2 through 6)

All items on the Consent Calendar are to be approved in one motion unless a Committee Member or a member of the public requests separate action or discussion on a specific item.

2. Approval of Minutes

Approval of the minutes of the Finance and Administration Committee of October 25, 2017.



3. Employee Health Benefits, Internal Audit Report No. 17-506
Ricco Bonelli/Janet Sutter

Overview

The Internal Audit Department has completed an audit of employee health benefits. Based on the audit, controls in place to ensure proper enrollment, accounting, and compliance with laws, regulations, policies, and procedures are generally adequate; however, recommendations were made to develop and implement procedures for verification of Health Savings Account contribution payments and for collection of insurance premiums in arrears. Also, management should consider clarifications to the policy governing health plan participation.

Recommendation

Direct staff to implement three recommendations provided in Employee Health Benefits, Internal Audit Report No. 17-506.

4. Environmental Mitigation Program Endowment Fund Investment Report for September 30, 2017
Rodney Johnson/Andrew Oftelie

Overview

The Orange County Transportation Authority has developed a Natural Community Conservation Plan/Habitat Conservation Plan; acquired conservation properties; and funded habitat restoration projects to mitigate the impacts of Measure M2 freeways projects. California Community Foundation manages the non-wasting endowment required to pay for the long-term management of the conservation properties. Each quarter, the California Community Foundation publishes a comprehensive report detailing the composition of the pool and the performance. Attached is the quarterly investment report for the Endowment Pool for the period ending September 30, 2017. The report has been reviewed and is consistent with the pool objectives.

Recommendation

Receive and file as an information item.



5. Property Insurance Policy Renewal
Al Gorski/Maggie McJilton

Overview

The Orange County Transportation Authority holds a property insurance policy with Zurich Insurance Company. This policy is scheduled to expire on December 1, 2017.

Recommendation

Authorize the Chief Executive Officer to issue Purchase Order No. A38332, in the amount of \$550,000, to Marsh Risk and Insurance Services, Inc. to purchase property insurance on behalf of the Orange County Transportation Authority for the policy period of December 1, 2017 to December 1, 2018.

6. Orange County Employees Retirement System Early Payment for Fiscal Year 2018-19
Rodney Johnson/Andrew Oftelie

Overview

The Orange County Employees Retirement System has offered an early payment discount to member agencies of 4.5 percent if they elect to prepay their contributions for fiscal year 2019. Advance payments must be received before January 16, 2018. The Orange County Transportation Authority has estimated the savings over the next year and a half under this payment option will total approximately \$885,000.

Recommendation

Authorize the early payment of approximately \$23.3 million by January 16, 2018, to the Orange County Employees Retirement System, for member contributions for fiscal year 2018-19.



Regular Calendar

7. **Fiscal Year 2016-17 Comprehensive Annual Financial Report and 91 Express Lanes Fund Financial Statements**
Benjamin Torres/Andrew Oftelie

Overview

The Orange County Transportation Authority is required to obtain an independent auditor's opinion on various financial statements and schedules. Vavrinek, Trine, Day and Company, LLP, an independent accounting firm, has completed its annual audit of the Orange County Transportation Authority's Comprehensive Annual Financial Report and 91 Express Lanes Fund Financial Statements for fiscal year 2016-17.

Recommendation

Receive and file the fiscal year 2016-17 Comprehensive Annual Financial Report and 91 Express Lanes Fund Financial Statements.

Discussion Items

8. **Chief Executive Officer's Report**
9. **Committee Members' Reports**
10. **Closed Session**

There are no Closed Session items scheduled.

11. **Adjournment**

The **Wednesday, November 22, 2017** meeting of this Committee has been cancelled.

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, December 13, 2017**, at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.



Committee Members Present

Andrew Do, Chairman
Steve Jones, Vice Chairman
Michael Hennessey
Richard Murphy
Michelle Steel

Staff Present

Darrell Johnson, Chief Executive Officer
Ken Phipps, Deputy Chief Executive Officer
Laurena Weinert, Clerk of the Board
Gina Claridge, Deputy Clerk of the Board
James Donich, General Counsel
OCTA Staff and Members of the General Public

Committee Members Absent

Miguel Pulido
Todd Spitzer

Call to Order

The October 25, 2017 regular meeting of the Finance and Administration Committee was called to order by Committee Chairman Do at 10:32 a.m.

Pledge of Allegiance

Board Chairman Hennessey led in the Pledge of Allegiance.

1. Public Comments

Special Calendar

There were no Special Calendar matters.

Consent Calendar (Items 2 through 7)

2. Approval of Minutes

A motion was made by Board Chairman Hennessey, seconded by Director R. Murphy, and declared passed by those present, to approve the minutes of the Finance and Administration Committee of October 11, 2017.

3. Fiscal Year 2017-18 Internal Audit Plan, First Quarter Update

This item was pulled by Committee Chairman Do who referenced Attachment B of the Staff Report and the need for additional detail on the updates and reasons for the delays.

Janet Sutter, Executive Director of Internal Audit, explained the follow-up process to the original audit, could incorporate management comments, and add additional lines of detail to the update.

Committee Chairman Do noted that a percentage of compliance on each item would be ideal for the Committee in order to know the severity of issues.



3. (Continued)

Board Committee Chairman Hennessey inquired on a possible policy for reporting external agencies “aged” follow-up audit items to the Board of Directors (Board).

Ms. Sutter stated staff can return to the Finance and Administration Committee with a recommendation on how to address concerns with external agencies and aging items.

A motion was made by Committee Chairman Do, seconded by Director R. Murphy, and declared passed by those present, to:

- A. Approve the revised Fiscal Year 2017-18 Internal Audit Plan.
- B. Receive and file the first quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 Internal Audit Plan as an information item.

4. Limited-Scope Audit: Right-of-Way Acquisition Activities for Interstate 405 Improvement Project, Internal Audit Report No. 18-502

This item was pulled by and Board Chairman Hennessey who inquired on the minor errors.

Janet Sutter, Executive Director of Internal Audit, responded that the minor errors were in dates, amounts, and timing of the reporting of the administrative settlements.

Darrell Johnson, Chief Executive Officer (CEO), stated there is a Board adopted right-of-way policy which offers an incentive of 20 percent of the appraised value with a maximum of \$100,000. Staff was directed to provide monthly reporting of the settlements.

A motion was made by Board Chairman Hennessey, seconded by Committee Chairman Do, and declared passed by those present, to direct staff to implement the recommendation provided in Limited-Scope Audit: Right-of-Way Acquisition Activities for Interstate 405 Improvement Project, Internal Audit Report No. 18-502.



5. Local Agency Investment Fund - September 2017

This item was pulled by Committee Chairman Do who inquired on the purpose and continued need for this investment.

Rodney Johnson, Deputy Treasurer of Treasury and Toll Roads, explained that the Local Agency Investment Fund was established as a separate liquid asset tool to be used anytime the Orange County Transportation Authority (OCTA) needs to pay an upcoming payment.

A motion was made by Committee Chairman Do, seconded by Director R. Murphy, and declared passed by those present, to receive and file as an information item.

6. Orange County Transportation Authority Investment and Debt Programs Report - September 2017

A motion was made by Board Chairman Hennessey, seconded by Director R. Murphy, and declared passed by those present, to receive and file as an information item.

7. Orange County Treasurer's Management Report - September 2017

A motion was made by Board Chairman Hennessey, seconded by Director R. Murphy, and declared passed by those present, to receive and file as an information item.

Regular Calendar

8. Measure M2 Sales Tax Forecast

Sean Murdock, Director of Finance and Administration, provided an update from the August 2017 preliminary forecast. Mr. Murdock stated that the final Measure M2 (M2) true-up payment for Fiscal Year (FY) 2016 was received and the growth rate for FY 2016 is 2.6 percent. Based on the final sales tax payment, the total FY 2016 M2 sales tax receipts increased from the August estimate of \$308 million to the final amount of \$309 million.

Mr. Johnson, CEO, discussed the importance of going forward with the Long-Range Transportation Plan and Next 10:M2 plan. In November, he will be on a panel to discuss sales tax revenues as OCTA continues to raise awareness on legislation and the sales tax collection process.

Following the discussion, no action was taken on this receive and file information item.



Discussion Items

9. Chief Executive Officer's Report

Darrell Johnson, CEO, reported on the following:

- On October 24th, OCTA hosted a ribbon cutting ceremony for the State College Boulevard and Raymond Avenue crossings and the completion of the OC Bridges Program. OCTA had a great turnout and thanked Board Chairman Hennessey, and Directors Shaw and Tait for participating.
- On August 30th, OCTA released the Resource Management Plans for the Aliso Canyon and Hayashi Preserves for a 90-day public review period.
- Tonight, OCTA will host the third of three open houses at the Brea Civic Center at 5 p.m. to give the public an opportunity to view the Resource Management Plans and submit comments. Comments can also be submitted online at octa.net/RMP.
- On October 27th, Metrolink will host an event to celebrate their 25th anniversary at the Los Angeles Union Station Track 15 at 11:30 a.m. Special guest Los Angeles Mayor Eric Garcetti and Directors Nelson and Winterbottom are scheduled to attend.

10. Committee Members' Reports

There were no Committee Member's reports.

11. Closed Session

There were no Closed Session items scheduled.



12. Adjournment

The meeting adjourned at 11:01 a.m.

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, November 8, 2017**, at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.

ATTEST

Gina Claridge
Deputy Clerk of the Board

Andrew Do
Committee Chairman



November 8, 2017

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Employee Health Benefits, Internal Audit Report No. 17-506

Overview

The Internal Audit Department has completed an audit of employee health benefits. Based on the audit, controls in place to ensure proper enrollment, accounting, and compliance with laws, regulations, policies, and procedures are generally adequate; however, recommendations were made to develop and implement procedures for verification of Health Savings Account contribution payments and for collection of insurance premiums in arrears. Also, management should consider clarifications to the policy governing health plan participation.

Recommendation

Direct staff to implement three recommendations provided in Employee Health Benefits, Internal Audit Report No. 17-506.

Background

The Benefits Section (Benefits) within the Human Resources Department is responsible for administration of all employee benefit and retirement programs. With regard to health insurance, Benefits is responsible for the annual open enrollment process, changes throughout the year due to qualifying events, and reconciliation and authorization of monthly invoices. Benefits also directs contributions to Health Savings Accounts (HSA) for participants enrolled in a high-deductible health plan, such as the Anthem Consumer Driven Health Plan (CDHP). For Anthem CDHP enrollees, the Orange County Transportation Authority (OCTA) contributed \$1,300 for single participants and \$2,600 for family plan participants in 2016. The contributions are made in the beginning of the year for participants who enroll during the open enrollment period. For new hires

or mid-year enrollees to the Anthem CDHP, the contribution amount is pro-rated based on the participant's effective date of insurance.

Discussion

Two employees, hired mid-year, did not receive their OCTA-paid HSA contributions in accordance with the employee benefit plan documents. For mid-year enrollees, Benefits staff sends an e-mail to Payroll Section staff to direct the pro-rated HSA amount to be deposited. In these instances, there was no evidence that communications were made. There is also no secondary review process to verify payments. The Internal Audit Department (Internal Audit) recommended management develop and implement a verification process to ensure HSA contributions are made as required. Management responded that deposits for these two employees have been made and procedures will be developed and implemented.

Also during 2016, health benefit premiums for eight participants fell into arrears. Six of the participants ultimately cleared the arrears; however, it took between one and six months. One of the participants terminated in March 2016, and has a balance owing of \$124.89. Another participant owed \$1,336.40 as of December 2016, related to premiums from calendar years 2015 and 2016. Internal Audit recommended management develop written policy and procedures for collection of premiums in arrears. Management responded that \$1,336.40 has been collected from the participant, and a written policy and procedure will be developed.

Under current policy, members of the Board of Directors (Board) may receive the same OCTA-subsidized health benefits as full-time employees, provided they do not also receive health benefits from the public entity they serve. The policy, as currently written, does not preclude members of the Board who receive cash in-lieu of health benefits from the public entity they serve from also receiving OCTA-subsidized health benefits. Internal Audit recommended management seek Board input and clarify the policy, as applicable. Management agreed and responded that clarifications to the policy will be considered with the next update to the Personnel and Salary Resolution.


Summary

Internal Audit completed the audit and offered three recommendations.

Attachment

A. Employee Health Benefits, Internal Audit Report No. 17-506

Prepared by:


Ricco Bonelli
Principal Internal Auditor
714-560-5384

Approved by:


Janet Sutter
Executive Director, Internal Audit
714-560-5591

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Employee Health Benefits

Internal Audit Report No. 17-506

October 19, 2017



Performed by: Ricco Bonelli, CIA, Principal Internal Auditor
Janet Sutter, CIA, Executive Director

Distributed to: Maggie McJilton, Executive Director, Human Resources and Organizational Development
Karen DeCrescenzo, Bea Maselli

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Employee Health Benefits
October 19, 2017**

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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Employee Health Benefits
October 19, 2017**

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of employee health benefits. Based on the audit, controls in place to ensure proper enrollment, accounting, and compliance with laws, regulations, policies, and procedures are generally adequate; however, Internal Audit made recommendations to develop and implement procedures for verification of Health Savings Account (HSA) contribution payments and for collection of insurance premiums in arrears. Also, management should consider clarifications to the policy governing health plan participation.

Background

The Benefits Section (Benefits) within the Human Resources Department is responsible for administration of all employee benefit and retirement programs. Benefits is comprised of a section manager and two senior benefits analysts. Benefit programs include medical, dental, vision, HSA, Flexible Spending Accounts, life insurance, accidental death and dismemberment, short and long-term disability insurance, voluntary benefits, deferred compensation plans, and Orange County Employees Retirement System pension plan.

In 2016, the Orange County Transportation Authority (OCTA) began participating in the California State Association of Counties - Excess Insurance Authority (CSAC-EIA) pool for medical, dental, vision, life, accidental death and dismemberment, short and long-term disability, and voluntary life insurance coverage. CSAC - EIA is a risk sharing pool dedicated to finding cost effective insurance solutions.

Benefits is responsible for annual open enrollment, processing mid-year changes due to qualifying events, and reconciliation and authorization of monthly invoices. A qualifying event is a life change that affects benefit coverage — such as, getting married, having a baby, or losing health coverage — which allows an employee to enroll and/or change health insurance coverage outside the annual open enrollment period. To qualify for a special enrollment period, employees must request the change within 30 days of the date of the event and must provide documentation of the life event.

Benefits also directs contributions to HSA, as outlined in the benefit plan packet provided to participants. An HSA is a tax-advantaged health savings account available to participants enrolled in a high-deductible health plan, such as the Anthem Consumer Driven Health Plan (CDHP) offered by OCTA. HSA funds may be used to pay for qualified medical expenses at any time without federal tax liability or penalty. For Anthem CDHP enrollees, OCTA contributed \$1,300 for single participants and \$2,600 for family plan participants in 2016. The contributions are made in the beginning of the year for participants who enroll during the open enrollment period. For new hires or mid-year enrollees to the Anthem CDHP, the contribution amount is pro-rated based on the participant's effective date of insurance.

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Employee Health Benefits
October 19, 2017

Objectives, Scope, and Methodology

The objectives were to assess the adequacy of controls in place over enrollment, accounting, and payment for health benefits and to determine compliance with applicable laws, regulations, policies, and procedures.

The methodology consisted of identifying key functions and/or processes administered by Benefits, and assessing the adequacy of controls and testing for compliance with applicable policies and regulations. Internal Audit reviewed health benefit payments made by OCTA including testing of controls over the invoice review process and determining whether payments were properly supported and in compliance with applicable agreements. Internal Audit reviewed HSA contributions to assess compliance with policy and applicable Internal Revenue Service regulations. Missed employee health benefit contributions were reviewed to determine whether OCTA was being properly credited in a timely manner. Internal Audit also reviewed benefit enrollment changes made outside of the open enrollment period to assess compliance with policy. Finally, Internal Audit compared total payments made to medical plan providers to the total amount of employee and employer contributions and reviewed variances for reasonableness.

The scope was limited to health benefits for administrative employees, participating members of the Board of Directors (Board member), and employees represented by the Transportation Communications International Union. For invoice review and payment authorization testing, Internal Audit focused on medical benefits since it represented the largest portion of total health benefit premiums. For HSA testing, the scope was limited to recipients of employer provided HSA contributions and/or participants of the Anthem CDHP plan. Sampling was not utilized for tests performed; instead, Internal Audit tested 100 percent of the population, with the exception of the qualifying event test, which excluded events that did not result in a change in premium. The review period covered calendar year 2016.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Employee Health Benefits
October 19, 2017**

Audit Comments, Recommendations, and Management Responses

Verification of Health Savings Account Contributions

Two of nine employees that enrolled in the CDHP plan as mid-year new hires did not receive their OCTA-paid HSA contribution, as required. While the missed contributions only amounted to \$325, the error exposes OCTA to the possibility of penalties for lack of payment.

Under the current practice, Benefits staff sends an e-mail to Payroll Section staff directing that HSA contributions be made. In these two cases, there is no evidence that the communications were made. There is also no secondary review process to ensure that required payments have been made.

Recommendation 1:

Management should develop and implement written procedures to ensure that all qualified HSA enrollees receive their employer-paid contribution. Further, OCTA should make the required HSA contributions, plus reasonable interest, to the employees identified in the audit.

Management Response:

The contributions have been remediated and processed to the two employee Health Savings Accounts. Reasonable interest will be calculated and deposited. As these transactions are processed as payroll earnings, benefits will work with payroll to establish written procedures.

Collection of Medical Premiums in Arrears

OCTA lacks a policy to ensure that participant premiums are collected in a timely manner when compensation amounts are insufficient to cover premium payments.

During 2016, health benefit premiums for eight participants fell into arrears. Six of the participants ultimately cleared the arrears; however, it took between one and six months. One of the participants terminated in March 2016, and has a balance owing of \$124.89. Another participant owed \$1,336.40 as of December 2016, related to premiums from calendar years 2015 and 2016. This participant continues to accrue arrears in 2017.

Recommendation 2:

Management should develop a written policy and procedures for collection of premiums in arrears.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Employee Health Benefits
October 19, 2017**

Management Response:

The participant that owed \$1,336.40 as of December 2016, has paid this amount to OCTA. Management will work on a written policy and procedure to collect unpaid medical premiums.

Policy on Board Member Benefit Eligibility

OCTA policy allows Board members to receive the same OCTA-subsidized health benefits as full-time employees, provided they do not also receive health benefits from the public entity they serve. For Board members that receive health benefits from the public entity they serve, OCTA will offer health benefits provided the Board member pays 100 percent of the OCTA premium, without subsidy.

The OCTA policy, as currently written, does not preclude Board members who receive cash in-lieu of health benefits from the public entity they serve from also receiving OCTA-subsidized health benefits.

Recommendation 3:

Management should seek Board member input and clarify the policy to address benefits eligibility for Board members that receive cash payments in-lieu of health benefits from the public entity they serve.

Management Response:

Management will consider revisions to the Fiscal Year 2018-2019 (FY19) Personnel and Salary Resolution (P&SR) to clarify the policy. The FY19 P&SR will be presented for Board of Directors approval in June 2018, along with the annual budget.



November 8, 2017

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Subject: Environmental Mitigation Program Endowment Fund Investment Report For September 30, 2017

Overview

The Orange County Transportation Authority has developed a Natural Community Conservation Plan/Habitat Conservation Plan; acquired conservation properties; and funded habitat restoration projects to mitigate the impacts of Measure M2 freeway projects. California Community Foundation manages the non-wasting endowment required to pay for the long-term management of the conservation properties. Each quarter, the California Community Foundation publishes a comprehensive report detailing the composition of the pool and the performance. Attached is the quarterly investment report for the Endowment Pool for the period ending September 30, 2017. The report has been reviewed and is consistent with the pool objectives.

Recommendation

Receive and file as an information item.

Background

On September 26, 2016, the Board of Directors approved the selection of the California Community Foundation (CCF) as an endowment fund manager for the Measure M2 Freeway Environmental Mitigation Program (EMP). Approximately \$2.9 million will be deposited on an annual basis in the endowment. On March 1, 2017, the Orange County Transportation Authority wired \$2,877,000 to CCF to be deposited in the Endowment Pool for fiscal year (FY) 2017. These annual deposits are expected to continue for ten to 12 years or until the fund totals approximately \$46.2 million.

Discussion

The second scheduled deposit for the program was made on August 31, 2017 for FY 2018. As of September 30, 2017, total pool assets in the CCF Endowment Pool were \$978.5 million. Performance for the Endowment Pool was 1.5 percent for the month, while the benchmark was 1.0 percent for the month; 3.5 percent for the quarter, matching the customized benchmark. The one year return was 12.6 percent, exceeding the benchmark by 3.1 percent.

The balance as of September 30, 2017 is \$5,985,257. The number exceeds the projected balance of \$5,934,232 due to higher than projected investment earnings and lower than projected fees. The projected annualized cost for endowment services was 0.75 percent based on indications received during the due diligence process. The program is currently paying 0.35 percent fee on a sliding scale. That fee will continue to be reduced as assets grow.

Summary

The Orange County Transportation Authority is submitting a copy of the California Community Foundation Investment Report to the Board of Directors. The report is for the quarter ending September 30, 2017.

Attachments

- A. California Community Foundation Fund Statement - September 30, 2017
- B. California Community Foundation Endowment Pool Investments – September 30, 2017

Prepared by:



Rodney Johnson
Deputy Treasurer
Treasury/Toll Roads
(714) 560-5675

Approved by:



Andrew Oftelie
Executive Director, Finance and
Administration
(714) 560-5649

**ATTACHMENT A**

Fund Name	OCTA - Measure M2 Environmental Mitigation Program Fund
Fund Start Date	2/28/2017
Investment Pool(s)	Endowment Pool

FUND STATEMENT**OCTA - Measure M2 Environmental Mitigation Program Fund (V398)**

7/1/2017 - 9/30/2017

Fund Summary

	Report Period 7/1/2017 - 9/30/2017	Calendar YTD 1/1/2017 - 9/30/2017
Opening Fund Balance	\$2,964,823.19	\$0.00
Contributions (see attached detail)	2,877,000.00	5,754,000.00
Investment Activity, net	143,434.06	231,257.25
Net Changes to Fund	3,020,434.06	5,985,257.25
Ending Balance	\$5,985,257.25	\$5,985,257.25

Investment Pool Performance as of 9/30/2017

	This Qtr.	1-Year	3-Years	5-Years	10-Years
Endowment Pool	3.5%	12.6%	4.6%	7.1%	4.3%
Social Impact Endowment Pool	2.9%	9.3%	5.8%	7.6%	4.6%
Conservative Balanced Pool	1.6%	5.7%	4.3%	n/a	n/a
Short Duration Bond Pool	0.4%	0.4%	1.5%	n/a	n/a
Capital Preservation Pool	0.3%	0.7%	0.4%	0.3%	0.8%

Endowment Pool - invested for long-term growth and appreciation while providing a relatively predictable stream of distributions that keeps pace with inflation over time. The target asset allocation is 50% equities, 14% hedge funds, 22% fixed income and 14% real assets. Investment management fees are 85 basis points.

Social Impact Endowment Pool - invested in a diversified pool aiming for capital growth for long-term grantmaking; underlying instruments undergo rigorous environmental and social analysis, with an asset allocation of approximately 60%-75% equities and 25%-40% fixed income. Investment management fees are 70 basis points.

Conservative Balanced Pool - designed to aim for moderate growth and to offer diversified exposure to the U.S. equity market and to investment grade fixed income with maturities from one to five years and an asset allocation of 70% fixed income and 30% equities investments. Investment management fees are 9 basis points.

Short Duration Bond Pool - invested to offer diversified exposure to investment grade fixed income with maturities from one to five years for the purposes of grants over a near-term one to four year horizon. Investment management fees are 10 basis points.

Capital Preservation Pool - designed to preserve principal and provide liquidity for present grantmaking needs through investment in short-term fixed income and cash instruments. Investment management fees are 10 basis points.

Contribution Details

Date	Donor Name	Amount
08/31/2017	Orange County Transportation Authority	2,877,000.00
		\$2,877,000.00

The Endowment Pool returned 1.5% for the month of September 2017, 50 basis points ahead of its benchmark. For the trailing year, the pool returned 12.6%, 310 basis points ahead of its benchmark.

Total Pool Assets

\$978.47 million (Endowment Pool), \$1.72 billion (total foundation assets) as of September 30, 2017.

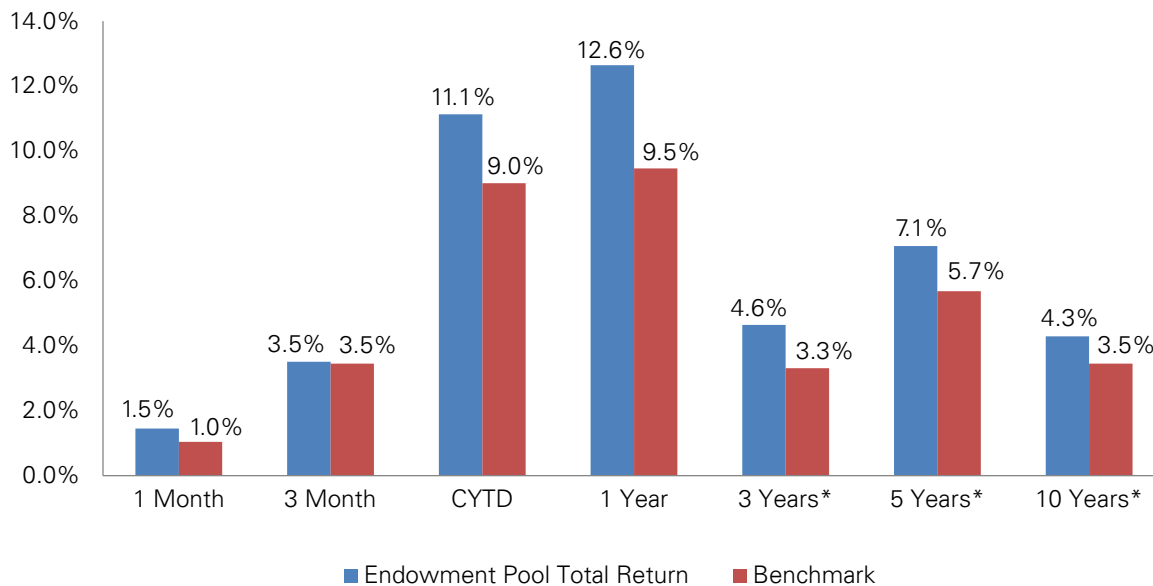
Pool Objective

Preserve the real (i.e., inflation-adjusted) purchasing power of the investment pool net of annual distributions for grants and expenses. An additional objective is to provide a relatively predictable, stable stream of distributions for grants and expenses that keep pace with inflation over time.

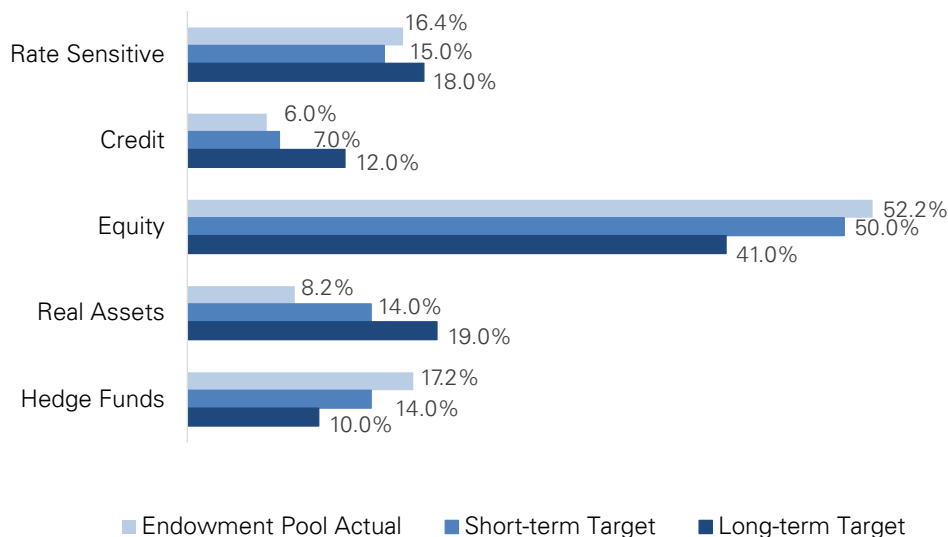
Investment Consultant

Meketa Investment Group

Performance History



Asset Allocation



*Represents annualized returns.

1) Annual investment management fees range from 0.77% - 0.81%, excluding manager incentive fees.

2) Investment performance is presented net of investment management fees, including manager incentive fees.

3) Total Fund Benchmark is a combination of: 50% MSCI ACWI / 14% HFR FOF / 14% S&P Real Assets Indx / 15% Barc Agg. / 7% Barc High Yield

4) Short-term target allocation is over 2-5 years, long-term target allocation is over 5-10 years.



November 8, 2017

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Subject: Property Insurance Policy Renewal

Overview

The Orange County Transportation Authority holds a property insurance policy with Zurich Insurance Company. This policy is scheduled to expire on December 1, 2017.

Recommendation

Authorize the Chief Executive Officer to issue Purchase Order No. A38332, in the amount of \$550,000, to Marsh Risk and Insurance Services, Inc., to purchase property insurance on behalf of the Orange County Transportation Authority for the policy period of December 1, 2017 to December 1, 2018.

Discussion

The Orange County Transportation Authority (OCTA) purchases insurance to protect OCTA property, including buildings, contents, and buses from accidental loss. OCTA is currently insured with Zurich Insurance Company for an annual net of commission premium of \$435,678.85, which is based on property values of \$537,290,386. The 91 Express Lanes property is insured under a separate insurance policy.

Insurance companies determine property insurance quotes based upon current insurance market conditions affecting rates per \$100 in property values. The current policy runs December 1, 2016 to December 1, 2017. The renewal of this policy will be based on updated property values of \$544,913,653, which includes real and business personal property, information system equipment, and directly-operated revenue and non-revenue vehicles. Due to the large number of insured buses included in this policy, there is a special insurance condition that OCTA buses are only insured while parked at the bus base. Revenue vehicles are self-insured for property damage while in operation. However, OCTA's paratransit vehicles are not included in OCTA's

insurable values since these vehicles are insured by MV Transportation, Inc., as required in Agreement No. C-2-1865, approved by the Board of Directors (Board) on March 25, 2013. In addition, fixed-route buses operated and insured by First Transit, Inc., approved by the Board on March 23, 2015, as required in Agreement No. C-4-1737, are also not included in OCTA's insurable values.

The property insurance policy limit is currently at \$230,000,000, which provides catastrophic protection equivalent to a total loss just above the current insurable values at OCTA's single largest property value location, the Santa Ana bus base. The insurance provides protection for real and business personal property, improvements and betterments, rolling stock, and extra expense incurred after a loss. Other coverage includes fire, flood, terrorism, civil authority, ingress/egress, leaks to fire sprinkler pipes caused by earthquakes, valuable papers, and boiler and machinery. Policy deductibles for this policy vary by category of coverage. The policy has a \$50,000 deductible that applies to all losses except:

- \$100,000 deductible for flood, except Flood Zone A, and
- \$500,000 deductible for flood in Flood Zone A.

Flood protection is also provided in the current property insurance policy. In the policy, flood is defined as "surface water, underground water, waves, tides, tidal waves, tsunamis, overflow of any body of water, or their spray, all whether driven by wind or not." As with many properties in Orange County, OCTA has buildings that are in areas susceptible to flooding. Flood zones are identified by the Army Corps of Engineers and classified as a special flood hazard area if the area is within a 100-year flood boundary. A "100-year flood" does not refer to a flood that occurs once every 100 years, but refers to a flood level with a one percent or less chance of being equaled or exceeded in any given year. Currently, OCTA has flood protection included in the existing policy with a limit of \$10,000,000. Flood Zone A is an area of increased risk of flooding and carries a \$500,000 deductible. Currently, OCTA's Garden Grove Maintenance, Operations, General Services Warehouse, and annex buildings are in Flood Zone A. Each of OCTA's other locations have been identified in Flood Zone X, which is defined as a moderate flood area.

Earthquake coverage is also provided in the current property insurance policy. The policy provides a \$15,000,000 limit, subject to a five percent deductible of the insurable value per location, with a minimum of \$250,000. In the policy, earthquake is defined as "the shaking or trembling of the earth's crust, caused by underground volcanic or tectonic forces, or by breaking or shifting of rock beneath the surface of the ground from natural causes, considering all events within a 168-hour period as one single event."

OCTA's Broker of Record, Marsh Risk and Insurance Services, Inc. (Marsh), will provide marketing and will purchase the property insurance coverage on behalf of OCTA for this renewal. Marsh is paid an annual flat fee of \$100,000 for marketing and placing all property and casualty insurance, approved by the Board on May 22, 2017, per Agreement No. C-7-1585. This flat fee paid to Marsh is not part of the \$550,000 Board-approved budget for the renewal of this policy. By agreement, Marsh does not earn any additional compensation or commission for its services. The contract further requires that any commissions offered by insurers will offset OCTA's premiums.

Marsh has been directed to approach all possible markets to obtain the best coverage and premium options for this renewal. In addition, Marsh has been instructed not to disclose broker compensation to prospective insurers to avoid having them net the broker's commission against their quoted premiums.

OCTA will pursue five goals for renewing this policy as outlined below.

1. Explore options for over-the-road physical damage coverage for the new hydrogen buses. Consider optional deductibles to ensure OCTA is achieving the best balance between risk assumption and risk transfer.
2. Maintain the broad terms of the current program.
3. Obtain quotes for optional earthquake and flood limits beyond the current levels of coverage.
4. Maintain terrorism coverage.

The carriers that will be approached for proposals, which have an AM Best financial rating of A-7 or better, are listed below in alphabetical order:

- Affiliated FM Insurance Company
- AIG (Lexington Insurance Company)
- Allianz Insurance Group
- Axis Insurance Company
- Chubb Insurance Company
- Liberty Mutual Insurance Company
- Travelers Property Casualty Company of America
- XL Insurance Company
- Zurich Insurance Company

Fiscal Impact

This expenditure was approved in OCTA's fiscal year 2017-18 budget, Human Resources and Organizational Development Division, Risk Management Department, Account 0040-7563-A0017-DTS, and is funded through the Internal Service Fund.

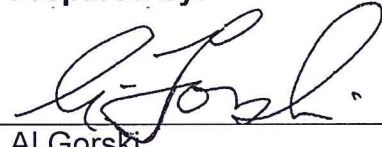
Summary

Based on the information provided, staff recommends the Board authorize the Chief Executive Officer to issue Purchase Order No. A38332, in the amount of \$550,000, to Marsh to purchase property insurance on behalf of OCTA for the policy period of December 1, 2017 to December 1, 2018.

Attachment

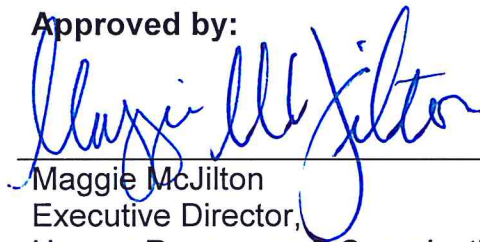
None.

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November 8, 2017

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Subject: Orange County Employees Retirement System Early Payment for Fiscal Year 2018-19

Overview

The Orange County Employees Retirement System has offered an early payment discount to member agencies of 4.5 percent if they elect to prepay their contributions for fiscal year 2019. Advance payments must be received before January 16, 2018. The Orange County Transportation Authority has estimated the savings over the next year and a half under this payment option will total approximately \$885,000.

Recommendation

Authorize the early payment of approximately \$23.3 million by January 16, 2018, to the Orange County Employees Retirement System, for member contributions for fiscal year 2018-19.

Background

The Orange County Employees Retirement System (OCERS) provides retirement benefits to Orange County Transportation Authority (OCTA) employees. The majority of OCTA employees and retirees are covered by the OCERS plan. OCERS is a defined benefit plan with benefits determined by a formula based on years of service, age at retirement, and highest average salary. OCERS is administered by a ten-member retirement board. The OCERS Board of Retirement serves as fiduciary and administrative authority over investments and benefits. The plan has over \$14.7 billion in assets. OCERS operates under the state statutory requirements of the County Employees Retirement Act of 1937, a section of the California Government Code.

Employer contributions to OCERS are calculated each pay period by OCTA and paid electronically every two weeks. During fiscal year (FY) 2017-18, based on data from the working budget, OCTA will contribute approximately \$26.9 million

to OCERS, based upon wages of approximately \$96.2 million. OCTA's employer rate during this time period is 26.18 percent.

Discussion

On August 21, 2017, the OCERS Retirement Board voted to offer an early payment discount on employer contribution payments made before January 16, 2018, for the succeeding FY. OCERS is offering to discount the contributions for FY 2018-19 by 4.5 percent. If the early payment option is exercised, OCERS will reconcile the projected payroll wages for the FY and collect appropriate additions or provide credits against the next pre-payment from OCTA for FY 2020.

The discount rate was reduced from 5.8 to 4.5 percent. The lowering of the rate is viewed as a risk mitigation strategy for the OCERS Fund. OCERS's view is that a lower discount rate is advisable when the economy has begun a mature business cycle.

The OCTA's Board of Directors approved a similar action in previous years where the early payment option was exercised. By using available cash now, OCTA will reduce the overall cost of future budgeted expenditures.

For FY 2018-19, OCERS decreased the OCTA's employer rates to 25.52 percent from the FY 2017-18 rate of 26.18 percent. The Public Employees' Pension Reform Act (PEPRA) contribution rate is 25.01 percent for FY 2018-19. The OCTA's estimated wages for FY 2018-19 are \$102.8 million. Applying the 25.52 percent and 25.01 percent PEPRA employer's rates to the estimated wages for the year translates into an approximate contribution value of \$26.2 million for FY 2018-19. Further, there is a balance from the prepayment contribution for FY 2017-18 of \$1.7 million, which is required to be applied as a credit for this year's prepayment.

Under the early payment option, OCTA has the choice of paying OCERS \$23.3 million (\$26.2 million discounted by 4.5 percent less the credit) by January 16, 2018, or OCTA would make the regular bi-weekly payments of approximately \$1,006,501 for the employer contribution, (for a total of \$26.2 million) during FY 2018-19. Fixed-income yields remain at historic lows, with current securities yielding 1.25 percent to 1.4 percent. Given these assumptions, OCTA has calculated the savings to equal approximately \$885,000 under this early payment option.

Based upon this analysis, it is financially advantageous for OCTA to exercise this early payment option. If this option were to be exercised, these funds would

be deposited into OCERS on behalf of the OCTA and be credited to OCTA's account. The funds will be paid from the General Fund (34.9 percent), Orange County Transit District Fund (64.8 percent), and the Orange County Taxi Administration Program (0.3 percent). The funding sources represent the current payroll allocation.

Summary

The Orange County Employees Retirement System has offered an early payment of contributions to member agencies for the upcoming fiscal year. Under this early payment option, a discount of 4.5 percent will be applied to the amounts due for employer contributions. The Orange County Transportation Authority has calculated the savings to equal approximately \$885,000. Staff recommends exercising this early payment option.

Attachment

None.

Prepared by:



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Approved by:



Andrew Oftelie
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November 8, 2017

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Subject: Fiscal Year 2016-17 Comprehensive Annual Financial Report and 91 Express Lanes Fund Financial Statements

Overview

The Orange County Transportation Authority is required to obtain an independent auditor's opinion on various financial statements and schedules. Vavrinek, Trine, Day and Company, LLP, an independent accounting firm, has completed its annual audit of the Orange County Transportation Authority's Comprehensive Annual Financial Report and 91 Express Lanes Fund Financial Statements for fiscal year 2016-17.

Recommendation

Receive and file the fiscal year 2016-17 Comprehensive Annual Financial Report and 91 Express Lanes Fund Financial Statements.

Background

Pursuant to Section 40078 of the Public Utilities Code, the Orange County Transportation Authority (OCTA) prepares an annual set of financial statements presenting results of operations during the preceding fiscal year (FY) and OCTA's financial position at year-end. These financial statements are included in OCTA's Comprehensive Annual Financial Report (CAFR).

OCTA staff also prepares financial statements for the 91 Express Lanes Fund.

Discussion

Vavrinek, Trine, Day and Company, LLP, has completed its annual audit of OCTA's financial records and systems, and has issued its opinion on OCTA's financial statements for the FY ended June 30, 2017. The auditors have issued an unmodified opinion on the financial statements, indicating that the statements present fairly, in all material respects, the financial position of OCTA at

June 30, 2017, and the results of its operations and cash flows of the proprietary funds for the FY then ended (Attachment A).

Fund financial statements for the 91 Express Lanes were also prepared and an unmodified opinion was issued (Attachment B).

The CAFR will be submitted to the Government Finance Officers Association (GFOA) for consideration of the Certificate for Excellence in Financial Reporting for FY 2016-17. The GFOA awards certificates only to those governments whose annual financial reports are deemed in conformance with the highest standards of public financial reporting. OCTA has been awarded the GFOA certificate for each year of its existence, commencing with the FY ended June 30, 1992. Such recognition has a positive effect on OCTA's ability to borrow at favorable interest rates. The CAFR is a useful tool in business dealings with outside organizations.

The 91 Express Lanes Fund financial statements will be forwarded to rating agencies, investors, and insurance companies.

Summary

Staff has prepared the Orange County Transportation Authority's Comprehensive Annual Financial Report and 91 Express Lanes Fund Financial Statements for the fiscal year ended June 30, 2017. Vavrinek, Trine, Day and Company, LLP, has audited these financial statements and schedules, and has issued unmodified opinions as to the fairness of the financial statement and schedule presentations.

Attachments

- A. Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017
- B. 91 Express Lanes Fund Financial Statements for the Fiscal Year Ended June 30, 2017

Prepared by:



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Approved by:



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**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
IS AVAILABLE ON THE OCTA WEBSITE AT
(<https://octa.legistar.com/calendar.aspx>)
AND UPON REQUEST
FROM THE CLERK OF THE BOARD'S OFFICE**

**91 EXPRESS LANES FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED JUNE 30, 2017
IS AVAILABLE ON THE OCTA WEBSITE AT
(<https://octa.legistar.com/calendar.aspx>)
AND UPON REQUEST
FROM THE CLERK OF THE BOARD'S OFFICE**