



ORANGE COUNTY FIRE AUTHORITY

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Keith Richter, Fire Chief

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October 1, 2012

VIA CERTIFIED U.S. MAIL

The Honorable Thomas J. Borris
Presiding Judge
O.C. Grand Jury
700 Civic Center Drive West
Santa Ana, CA 92701

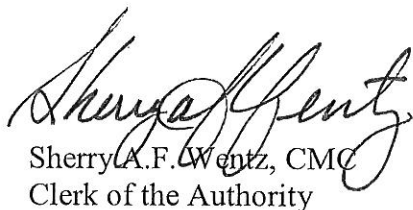
Dear Judge Borris,

Subject: OCFA Responses to Grand Jury Reports "Can the Consumer Price Index-Urban Keep Up with OCFA Wages?" and "Transparency Breaking Up Compensation Fog-But Why Hide Pension Costs?" 2011/12

At its September 27, 2012, meeting, the Orange County Fire Authority's Board of Directors approved and authorized the attached responses to the Findings/Conclusions and the Recommendations to the Grand Jury Reports entitled "Can the Consumer Price Index-Urban Keep Up with OCFA Wages?" and "Transparency Breaking Up Compensation Fog-But Why Hide Pension Costs?" as requested.

Please feel free to let me know if you have any questions or need additional information.

Sincerely,



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

c: Grand Jury Foreman Richard Garcia

Enclosure: OCFA Responses to the Grand Jury Reports "Can the Consumer Price Index-Urban Keep Up with OCFA Wages?" and "Transparency Breaking Up Compensation Fog-But Why Hide Pension Costs?" 2011/12

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RESIDENTIAL SPRINKLERS AND SMOKE ALARMS SAVE LIVES

Grand Jury Response: Compensation Cost Transparency

September 27, 2012

The Honorable Thomas J. Borris
Presiding Judge
Orange County Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

Honorable Thomas J. Borris,

The Orange County Fire Authority (OCFA) Board of Directors reviewed the 2011/12 Grand Jury report, "Transparency Breaking Up Compensation Fog—But Why Hide Pension Costs?", during its public meeting held on September 27, 2012. The Board has reviewed and authorized this formal response from our agency. We appreciate the time and effort the Grand Jury has dedicated to the citizens of Orange County in the pursuit of fair and transparent governance.

The OCFA continuously strives to improve the timeliness and quality of data reported regarding employee compensation costs. We understand the importance of making this data transparent to the public and the community we serve. OCFA's enhanced level of compensation cost transparency has evolved over the last few years and we intend to fully comply with the Grand Jury recommendations over the next three months. The enclosed response describes the OCFA's timeline and plans for compliance with the Grand Jury's recommendations.

If I may be of service in the clarification of this response, please feel free to contact me at KeithRichter@ocfa.org.

Sincerely,



Keith Richter
Fire Chief

Grand Jury Response: Compensation Cost Transparency

Reserved for Board Recommendation/Action

Background and History of Compensation Cost Transparency at OCFA

The Orange County Grand Jury released a report entitled, “Transparency Breaking Up Compensation Fog - But why Hide Pension Costs?” on June 14, 2012. The report evaluated websites for cities, the County, and special districts within Orange County for compensation cost transparency. Our responses to each of the findings and recommendations are outlined in this report, along with the following background information regarding actions previously taken by OCFA to enhance transparency.

The following points should be considered when evaluating this report:

- 1. There is currently one statewide compensation reporting model that was designed by the California State Controller’s Office to standardize and define how salaries, benefits, and pensions are reported.***

The Orange County Fire Authority is directed by the California State Controller’s Office (SCO) to comply with Government Code 53891 that requires cities, counties, and independent special districts to submit completed financial and compensation reports to the SCO once per year. The State Controller provides jurisdictions with a report template that identifies specific compensation pay elements which must be included in the report along with a required report format. Upon submittal of the required information by jurisdictions, the compensation reports are then made available for public access on the State Controller’s website.

The OCFA has complied with the State Controller’s reporting requirement since the Controller announced the requirements for all California jurisdictions. Furthermore, the OCFA responded to initial inquiries from the Grand Jury by placing a link on OCFA’s website entitled “Employee Compensation” for members of the public to easily view OCFA’s compensation data provided to the State. This access is now “a mere click-away”, as requested by the Grand Jury.

- 2. The Orange County Grand Jury has developed their own Compensation Cost Transparency (CCT) model that they recommend be replicated by all Orange County local governments.***

While the Orange County Grand Jury desires more information than the SCO, OCFA believes a statewide standard provides the best, most comparable information to the public. If each County develops and implements a different standard, it will be difficult for the public (the intended audience of the report) to make accurate comparisons across the State.

The OCFA has consistently complied with the State reporting requirements on employee compensation. The definition of compensation described in the Grand Jury report is different than the SCO’s. This may potentially give the impression that the reports are incorrect. One example of a different reporting requirement which may cause confusion is employer-paid retirement. The Grand Jury is recommending that OCFA report the total retirement cost (a good disclosure element), while the State Controller requires jurisdictions to report only that portion paid by the employer which is associated with the employee’s share (a less complete disclosure). The difference in reporting content for this single, but significant, compensation component will result in substantial differences in total employee compensation.

Grand Jury Response: Compensation Cost Transparency

OCFA is not asserting that one method is better or worse than the other, instead, we are asserting that the reporting standards are different and may cause viewers to draw incorrect conclusions when comparing the data against other State jurisdictions outside of Orange County. We strongly encourage the Grand Jury to continue to work with the SCO to include the information the Grand Jury found to be missing from the current report format rather than creating a new reporting requirement, in addition to the State Controller's. Successful implementation of this concept statewide could ultimately result in consistent, timely and accurate information on all state and local jurisdiction websites.

Nonetheless, the OCFA will comply with *both* the State Controller requirements, and the Orange County Grand Jury recommendations, during the interim in which the two standards differ.

Summary

Since becoming a Joint Powers Authority in 1995, the Orange County Fire Authority has evolved from a start-up organization to one that has continually received awards for excellence in financial reporting. A key to the current success and recognition has been the involvement and oversight by our Board of Directors in fiscal responsibility and strategic planning.

Some of the key documents that contain employee compensation information, and which are made available annually to our Board of Directors and the public include:

- Average annual firefighter earnings presented every November since 2008 including:
 - Annual overtime costs
 - Top earners and reasons for overtime
 - This information has also been provided to the Orange County Register from 2007-2010
- Annual Budget Adoption (occurs annually each May or June)
 - OCFA conducts a public hearing with each proposed budget adoption
 - Retirement and benefit costs are included in the budget documents
 - Future salary increases per labor agreements, if any, are disclosed within the budget documents
 - Five-year financial forecasts are provided in the budget documents, including a narrative which describes the detailed assumptions used within the forecast pertaining to salary and benefit costs
- The Orange County Retirement System (OCERS) posts retirement rate information on their website

Furthermore, in July 2012, OCFA staff presented a comprehensive Liability Study to its Budget and Finance Committee specifically highlighting long term liabilities facing the OCFA. This Study is scheduled for review by the Board of Directors at its September 2012, meeting. The Liability Study not only includes pension liabilities, but also includes retiree medical liabilities, workers compensation liabilities, and compensated absences. This report exceeds current GASB reporting requirements and is intended to keep the Board of Directors and members of the public aware of significant financial challenges facing OCFA so that appropriate plans can be developed for addressing these liabilities.

Grand Jury Response: Compensation Cost Transparency

Response to Findings and Recommendations

F1: Accessibility Ratings for Cities, Special Districts and JPAs

The OCFA disagrees partially with this finding. While OCFA was rated good, OCFA concurs that there is room for improvement. Early in 2012, OCFA made the current State Controller's report available online via the OCFA website at www.ocfa.org. When the enhanced compensation report, as defined by the Grand Jury, is finished being compiled by OCFA, it will also be posted and available on the OCFA website, by clicking on the button labeled "Employee Compensation" from the home page. OCFA intends to have this objective completed within the next three months, by November 2012.

OCFA's partial disagreement with this finding is as described previously in the Background of this response. Compliance with the suggested Grand Jury format, while also complying with the SCO requirements, will result in two different compensation reports available to the public with different compensation totals for the same set of employees. The new report will add key compensation components that are missing from the State Controller's report such as all employer paid retirement costs, health benefits, and employer paid automobile allowance. The intent for transparency is good; however, it may lead to greater confusion by the public when two different compensation reports are generated for the same period of time and same employees. OCFA believes the public would be best served with one report format that is used statewide.

F2: Content & Clarity Ratings for EXECUTIVE Compensation Cost

The OCFA disagrees partially with this finding. Compensation for OCFA's board members and executive staff earning over \$100,000 in base salary has historically been provided to the SCO and posted on their website. OCFA recently provided a link to the State Controller's website from OCFA's website to allow members of the public to look up compensation information by employee title. However, in response to the 2011/12 Grand Jury report, OCFA will improve the transparency for content and clarity of executive compensation by posting all executive salary and benefit information on our website in the format requested.

F3: Content & Clarity for EMPLOYEE Compensation Cost Ratings

The OCFA disagrees partially with this finding. Employee compensation information has historically been provided to the SCO and posted on their website. OCFA recently provided a link to the State Controller's website to allow members of the public to look up compensation information by employee title. However, in response to the 2011/12 Grand Jury report, OCFA will improve the transparency for content and clarity of employee compensation by posting all employee salary and benefit information on our website in the format requested.

F4: Transparency of Employer Pension Contribution Rates

The OCFA disagrees partially with this finding. The OCFA has historically provided employee and employer retirement rates within our Annual Adopted Budget documents and our Comprehensive Annual Financial Reports, both of which are available on our website. However, in response to the 2011/12 Grand Jury report, OCFA will improve the transparency of employer pension contribution rates by posting this information on our website in the format requested.

Grand Jury Response: Compensation Cost Transparency

F5: Inclusion of Overtime and On-Call Pay in Employee Compensation Costs

The OCFA disagrees partially with this finding. The State Controller's compensation format currently requires Overtime and On-Call pay to be included in the total wages reported for each employee. OCFA is in full compliance with the State Controller's requirement to include Overtime and On-Call pay in employee compensation amounts reported to the SCO; however, OCFA recognizes that these components have not previously been identified as individual pay categories in the SCO report. In response to the 2011/12 Grand Jury report, OCFA will improve the transparency of overtime and on-call pay by posting this information on our website in the format requested.

Recommendation 1. Access for Compensation Costs Transparency

The recommendation has been implemented. The Grand Jury's recommended action to upgrade access to compensation costs was implemented by OCFA in early 2012. OCFA responded to initial inquiries from the Grand Jury by placing a link on the home page of OCFA's website entitled "Employee Compensation" for members of the public to easily view OCFA's compensation data provided to the State. This access is now "a mere click-away", as requested by the Grand Jury.

While access to existing compensation costs has already been upgraded, OCFA will ensure that the content and clarity of compensation costs is improved for better transparency to the public.

Recommendation 2. Content & Clarity of EXECUTIVE Compensation Costs

The recommendation has not yet been implemented, but will be implemented in the future. OCFA will upgrade the content and clarity of executive compensation by posting all executive salary and benefit information on our website in the format requested by November 2012.

Recommendation 3. Content & Clarity of EMPLOYEE Compensation Costs

The recommendation has not yet been implemented, but will be implemented in the future. OCFA will upgrade the content and clarity of employee compensation by posting all employee salary and benefit information on our website in the format requested by November 2012.

Recommendation 4. Transparency of Employer Pension Contribution Rates

The recommendation has been implemented. The OCFA has historically provided employee and employer retirement rates within our Annual Adopted Budget documents and our Comprehensive Annual Financial Reports, both of which are available on our website. However, in response to the 2011/12 Grand Jury report, OCFA will improve the transparency of employer pension contribution rates by posting this information on our website in the format requested by November 2012.

Grand Jury Response: Compensation Cost Transparency

Recommendation 5. Transparency of Overtime Pay and On-Call Pay in Employee Compensation Cost Reporting

The recommendation has been implemented. OCFA is already in full compliance with the State Controller's requirement to include Overtime and On-Call pay in employee compensation amounts reported to the SCO; however, OCFA recognizes that these components have not previously been identified as individual pay categories in the SCO report. In response to the 2011/12 Grand Jury report, OCFA will improve the transparency of overtime and on-call pay by posting this information on our website in the format requested by November 2012.