Executive Summary

Introduction

The County of Orange is dedicated to long-term strategic financial planning to ensure its ability to respond to economic changes and unanticipated events in a way that allows the County to preserve the range and quality of services provided to the community. The year leading up to the 2022 Strategic Financial Plan process evidenced below trend economic growth driven by persistently high inflationary pressures partially caused by geopolitical events, employment rate increases less than forecasted, low housing affordability due to increasing mortgage rates and high home prices, tapering consumer spending, and continuous domestic migration out of California. Given the unprecedented nature of the impact from the COVID-19 pandemic on the economy and high inflation which resulted in federal funds rate increases, economists project an increase in the likelihood of an economic contraction. While revenue growth in recent years has allowed the County to fund one-time projects and enhance service levels, future growth will dictate the impacts on projects and levels of service. Nevertheless, the County is committed to maintaining essential services and aligning discretionary projects and service delivery levels within available funding.

A disciplined approach to fiscal management of the County's limited resources will ensure alignment with countywide strategic priorities and values. Commitment to the Board of Supervisors' priorities of budget stabilization, preparation for contingencies, and funding of agency infrastructure, accentuates the need for long-term strategic planning including building a reserve balance that best positions the County to weather future economic variations with minimal impact on the community it serves. This strategic planning process enabled the County to clear a significant financial milestone and reach its Target Reserve amount, as recommended by the Government Finance Officers Association (GFOA). It is important for the County to maintain its reserve position, even during a downturn in the economy.

Although costs of doing business continue to grow, the County is committed to implementing key initiatives and moving toward a future that will enrich the lives of Orange County residents and visitors including:

- **OC CARES:** OC CARES links five systems of care in the County of Orange (Behavioral Health, Healthcare, Community Corrections, Housing and Benefits and Support Services) to provide full care coordination and services for individuals to address immediate and underlying issues and work towards self-sufficiency.

- **Behavioral Health:** In April 2021, the County opened the doors to the first Be Well behavioral health campus at Anita Drive in Orange. This facility provides stabilization assistance to people experiencing substance use, trauma or other mental health crises. The second of three planned behavioral health campuses, Be Well Irvine campus, is in the pre-construction stage and included as a Strategic Priority in this document. Another proposed Strategic Priority is to establish CARE Court to provide supervision of severely impaired homeless or incarcerated individuals with untreated mental health and substance use disorders. In addition, Probation and the Sheriff-Coroner Department propose an Emerging Initiative to provide mental health and substance use services to juveniles and transitional age youth moving through the community corrections system.

- **Healthcare:** Two proposed health care Emerging Initiatives address streamlining care coordination efforts and coordinating case management for individuals identified as high-utilizers within the County's System of Care. The project to streamline care coordination would complement current efforts and create efficiencies using the County's System of Care Data Integration System. The program to coordinate case management would perform outreach to high-utilizers, ensure discharge plans are followed, provide referrals to encourage self-sufficiency and provide overall support to the individual.

- **Community Corrections:** The County continues to assess Strategic Priorities addressing specialty court expansion, inmate programming services and a comprehensive reentry system for individuals released from county jails or state prison. Continuing Strategic Priorities include expansion of the public safety behavioral health response team, establishment of a diversion program for individuals pending arraignment and creation of a comprehensive juvenile corrections campus.

- **Housing:** In June 2018, the Board of Supervisors filed the Housing Funding Strategy with the goal of developing 2,700 units of permanent supportive housing in all areas of the County. To date, 874 units have been built, 1,008 are under construction and funding is in progress for another 520 units. The Housing Funding Strategy is currently in the process of being updated to address current housing estimates. A continuing Strategic Priority focuses on combining affordable housing assistance with voluntary support services to address the needs of chronically homeless individuals. In addition, new Strategic Priorities would establish transitional and permanent supportive housing as well as placement services for youths experiencing challenges on the path to a successful adulthood and establish temporary and long-term housing for foster youth 13 years of age and who also may have a history or propensity for engaging in delinquent behaviors that put them at risk of involvement with the juvenile justice system.

- **Benefits and Support Services**: The continuing Strategic Priority for enhancement of the Data Sharing Platform for Care Coordination would include data relevant to OC CARES and ensure the most efficient, effective and appropriate care and case management from all involved in an individual's care plan. There is also consideration on an Emerging Initiative proposing to develop and implement new programs, resource centers and/or establish facilities geared toward providing services for youth under the age of 12 in order to divert them from engaging in alleged criminal activity, prevent involvement with the juvenile justice systems, and promote public safety

- **Capital and Infrastructure Improvements:** The County continues to improve agency infrastructure in various areas including the Civic Center Facilities Strategic Plan (CCFSP), an initiative addressing the County's long-term occupancy in the Orange County Civic Center. The goals are to improve delivery of services to the community, space usage and departmental adjacencies; address the aging portfolio of County facilities; better manage long-term occupancy; and provide sustainable infrastructure that minimizes energy and water consumption and maintenance costs. As part of the CCFSP Phase 1 and 2, the County Administration South and County Administration North buildings were successfully completed. In addition, the County is also actively investing in the future by exploring options for development projects that would use County assets to generate ongoing revenue streams. Furthermore, the County is seeking innovative and efficient emergency preparedness strategies that are essential for the community and a major part of the County's critical infrastructure.

- **OC Builds:** The County seeks to develop safer and stronger bridges, roads, and flood control channels that prioritize the safety of Orange County residents and facilitate transportation. In addition, the County continues to enhance its airport infrastructure to provide a world-class airport that is safe, facilitates efficient travel, and provides an enjoyable customer experience. The goal is to develop greener, more sustainable infrastructure that reduces greenhouse gas emissions, prioritizes the use of renewable energy, preserves natural landscapes and resources, and decreases food waste and consumer waste. Similarly, the County continues to build its cybersecurity infrastructure to adapt to an ever-evolving threat landscape, by working with state and federal partners to ensure that cybersecurity funding from the Federal Infrastructure Investment and Jobs Act is allocated to targeted County cybersecurity projects.

- **Reserves:** The importance of having and maintaining healthy reserve balances became evident during the COVID-19 pandemic. Temporary utilization of reserves during COVID-19 aided Departments in offsetting decreases in revenue growth, funding reductions from various sources, and accommodating increased costs of doing business. As the County recovers to pre-pandemic conditions, it will continue to prioritize funding its reserves through responsible fiscal management, strategic planning and prudent allocation of resources. The goal is to ensure overall prudent reserve balances, while maintaining proper reserve designations and flexibility.

The Process

The Strategic Financial Plan (SFP) is a financial component of the County's Strategic Plan providing short and long-term operational linkage between the County's Strategic Plan and the annual budget process. It offers a means to measure departments' needs and resources to ensure the County's financial position is sufficient to support ongoing services and long-term needs while ensuring actual sustainability within potential future economic restraints. The SFP provides policy makers with a tool for testing assumptions and evaluating the projected financial impact of policy decisions related to General Fund operations, capital requirements, strategic priorities and emerging initiatives.

The SFP provides the context for a five-year operating budget and prepares for development of the next fiscal year budget with the stipulation that assumptions used in developing the SFP may change over time. The SFP is developed with a goal of identifying any significant issues that must be addressed to achieve the County's mission, goals and long-term plan for financial stability. The County continues to focus on the following key fiscal goals:

- Budget stabilization and planning for contingencies
- Planning for and funding agency infrastructure

The primary focus of the SFP is the portion of the General Fund often referred to as discretionary funding or Net County Cost (NCC) which is funded by General Purpose Revenues. This is the funding source allocated to departments and approved by the Board of Supervisors for programs and activities not funded by specific revenue streams. The non-discretionary portion of the budget contains mandated activities such as benefit payments to clients, which the County provides on behalf of the State and Federal governments. Such activities are primarily funded with State and Federal revenues and include programs such as In-Home Supportive Services (IHSS), CalWORKs, CalFresh and Medi-Cal.

Non-discretionary revenues projected by General Fund departments over the five years of the SFP consist of the following in addition to the projected General Purpose Revenue:

(Amounts in Millions)

Revenue Type	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
State Revenue	$ 1,678.5	$ 1,689.5	$ 1,717.7	$ 1,746.3	$ 1,774.8
Federal Revenue	$ 586.9	$ 561.4	$ 557.1	$ 532.3	$ 538.4
Charges for Services	$ 576.8	$ 590.7	$ 591.0	$ 601.5	$ 604.2
Other Financing Sources	$ 414.4	$ 427.6	$ 429.2	$ 426.2	$ 432.0
Licenses, Permits & Franchises	$ 26.4	$ 26.6	$ 26.9	$ 27.2	$ 27.6
Miscellaneous Revenues	$ 16.6	$ 14.5	$ 15.5	$ 16.6	$ 17.9
Fines, Forfeitures & Penalties	$ 7.1	$ 7.1	$ 7.1	$ 7.1	$ 7.1
Use of Money & Property	$ 3.8	$ 3.9	$ 4.1	$ 4.1	$ 4.1
Other Governmental Agencies	$ 13.9	$ 14.1	$ 14.4	$ 14.7	$ 15.0
Subtotal	***$ 3,324.3***	***$ 3,335.5***	***$ 3,363.0***	***$ 3,376.1***	***$ 3,421.2***
General Purpose Revenue	1,049.9	1,083.5	1,117.8	1,150.8	1,187.5
Grand Total	**$ 4,374.3**	**$ 4,419.0**	**$ 4,480.8**	**$ 4,526.9**	**$ 4,608.7**

Note: General Purpose Revenue amounts include ongoing and one-time funding sources.

Particularly, state and federal revenue sources are reviewed and closely monitored to identify possible issues. Any concerns identified during the SFP process are reported to the County's Legislative Affairs unit, which then communicates with the County's State and Federal lobbyists as well as the California State Association of Counties (CSAC) and the National Association of Counties (NACo). In addition, County departments work closely with organizations such as the California Welfare Directors Association (CWDA), the County Health Executives Association of California (CHEAC), and the California State Sheriff's Association on any identified matters.

As in prior years, the SFP focuses on identifying General Fund fiscal gaps (comprised of departmental planned expenditures net of departmental revenues and NCC) and any imbalances to be addressed during the FY 2023-24 annual budget process. Summary analyses of capital and information technology (IT) project needs were also conducted. This year's SFP lays the groundwork for establishing budget priorities and funding solutions for FY 2023-24 prior to the usual timeframe of the annual budget process, thereby allowing more time for collaboration and thoughtful solutions.

The SFP also provides an opportunity to review the General Fund Reserves Policy, which is developed to provide governance over the maintenance and use of reserves and to reflect the County's continued commitment to sound fiscal policy. There are no recommended changes to the Reserve Policy.

Relevant economic data used in preparing the County's 2022 SFP includes:

- General Purpose Revenue forecast developed in conjunction with forecasts by the Auditor-Controller, the 2022-23 Local Assessment Roll of Values, and revenue receipt trends.
- Various projections for capital and operating inflationary factors, as developed by governmental or industry experts in the related field.
- Continued monitoring of economic forecasts published by Chapman University, University of California, Los Angeles, the State Legislative Analyst Office and other various sources.

Economic data compiled in August 2022 was included as part of the 2022 SFP instructions. As changes occur in the economy, projections will be updated during the FY 2023-24 annual budget development process.

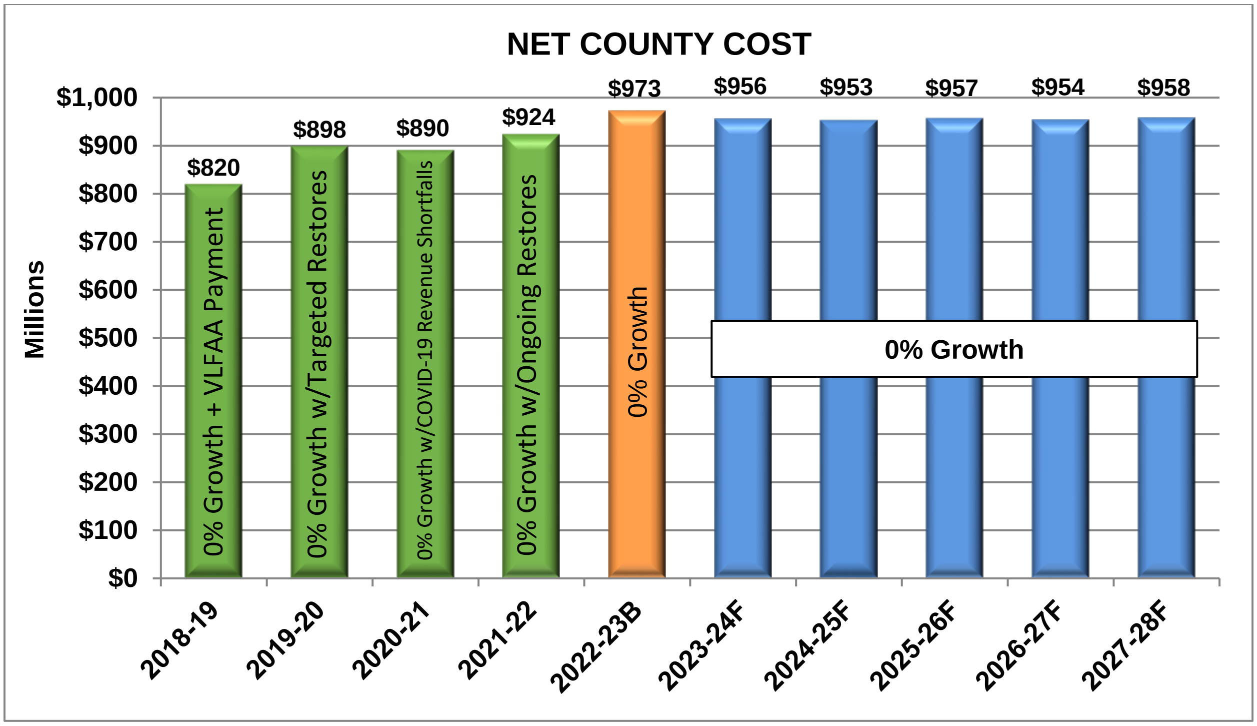
Key Assumptions:

- The total cost of salaries and benefits is expected to increase over the five-year SFP and includes the following assumptions:
  - Salary growth factors include general salary increases consistent with existing memorandum of understanding (MOU) terms. Assumptions for salary increases beyond the existing MOU terms include 0% growth for Years 1 through 5 of the SFP. In addition, salary projections include a merit increase assumption for incumbents that are not at the top step of the salary schedule. Salary projections are developed independently and not in consultation with Human Resource Services or the Board of Supervisors. The use of growth factors is for planning purposes only and does not represent a commitment for bargaining purposes.

Included in the assumptions for the 2022 SFP are the following economic and demographic assumption changes adopted by the Orange County Employees Retirement System (OCERS) Board on August 17, 2020:

- Reduced the assumed rate of price inflation from 2.75% to 2.50%, while the COLA for retirees assumption remained at 2.75%.
- Introduced the use of retirement rates structured as a function of age and years of service, which separated out retirement rates for legacy plans for years of service above and below 30 years. This resulted in higher assumed rates of retirement for legacy plan members with over 30 years of service. As such, retirement contribution rates for Non-Safety members increased.
- Adopted the use of public benefit-weighted mortality tables, which illustrated Safety mortalities were higher than previously projected using headcount-weighted mortality tables. This resulted in lower contribution rates of retirement for Safety members.

- Retirement Rate Assumptions (Tier II) utilize the assumed investment rate of return of 0.00% for 2022 and 7.00% for all other years, which resulted in the following retirement contribution rates over the five-year SFP:
  - Safety Rate ranges from 60.6% to 67.2% (3@50; excludes retiree medical)
  - Non-Safety Rate ranges from 33.2% to 36.2% (2.7@55; excludes retiree medical)
  - Retiree Medical for Safety ranges from 0.9% to 1.2% (1.9% to 2.5% for Law Enforcement Management)
  - Retiree Medical for Non-Safety ranges from 2.7% to 3.2%
- Health Benefit Cost Assumptions
  - 5-Year Growth from $240 million to $320 million, a 33.6% increase
- Departmental NCC limits were set for ongoing baseline operations (current levels of service). FY 2023-24 NCC limits were projected using the adopted FY 2022-23 limits ($973 million) as a starting point, with amendments for technical adjustments and removal of one-time items resulting in proposed baseline limits for FY 2023-24 of $956 million. Departments have identified $31 million in appropriation reductions that would be required to meet the FY 2023-24 NCC limits. After factoring in NCC limit growth of 0% in FY 2023-24 through year five of the SFP, removal of any one-time items, and use of one-time funding sources to supplement General Purpose Revenue, funding sources are projected to be sufficient to cover department base budgets and forecasted restore augmentation requests; however, projected funding sources are insufficient to grant all department expand augmentation and strategic priority requests. The following table summarizes historical budgeted and forecasted NCC.



The following table summarizes prior and current year Adopted Budget and SFP year projected NCC by program:

Program	18-19	19-20	20-21	21-22	22-23B	23-24F	24-25F	25-26F	26-27F	27-28F
Public Protection	$441.67	$506.60	$601.08	$550.16	$577.88	$557.93	$557.93	$557.93	$557.93	$557.93
Community Services	129.43	152.32	178.05	182.92	173.13	172.45	172.45	172.45	172.45	172.45
Infrastructure	37.10	35.71	36.41	36.31	36.80	36.80	36.47	36.47	36.47	36.47
General Government	116.25	140.98	130.18	136.59	158.84	162.11	159.92	164.02	160.71	164.68
Capital Improvements	22.93	53.81	28.96	21.99	16.13	16.13	16.13	16.13	16.13	16.13
Debt Service	0.24	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Insurance, Reserves & Misc.	72.38	9.00	(84.64)	(3.93)	9.98	10.11	10.19	10.36	10.44	10.53
GRAND TOTAL NCC	**$820.00**	**$898.47**	**$890.09**	**$924.09**	**$972.81**	**$955.60**	**$953.15**	**$957.42**	**$954.19**	**$958.26**

Note: FY 2022-23B NCC is the adopted budget. SFP years are forecasted (F).

Outlook and Opportunities

In general, key economic indicators reflect below trend growth as consumers adapt to persistently high inflationary pressures. The County will continue to monitor the State budget due to its projected $25 billion deficit in FY 2023-24, and prepare contingency plans to address any possible adverse funding impacts, if needed. Continued rising costs of salaries and benefits and other costs of doing business may exert pressure on the

County's ability to fund current and future service levels. Please see further discussion of economic impacts in the *Economic Forecast* section of this document.

Development of this SFP takes into account modest General Purpose Revenue growth consistent with current and projected economic conditions. The County should continue to follow fiscal policies that will maintain department budget stability, prepare for contingencies, and address and fund agency infrastructure.

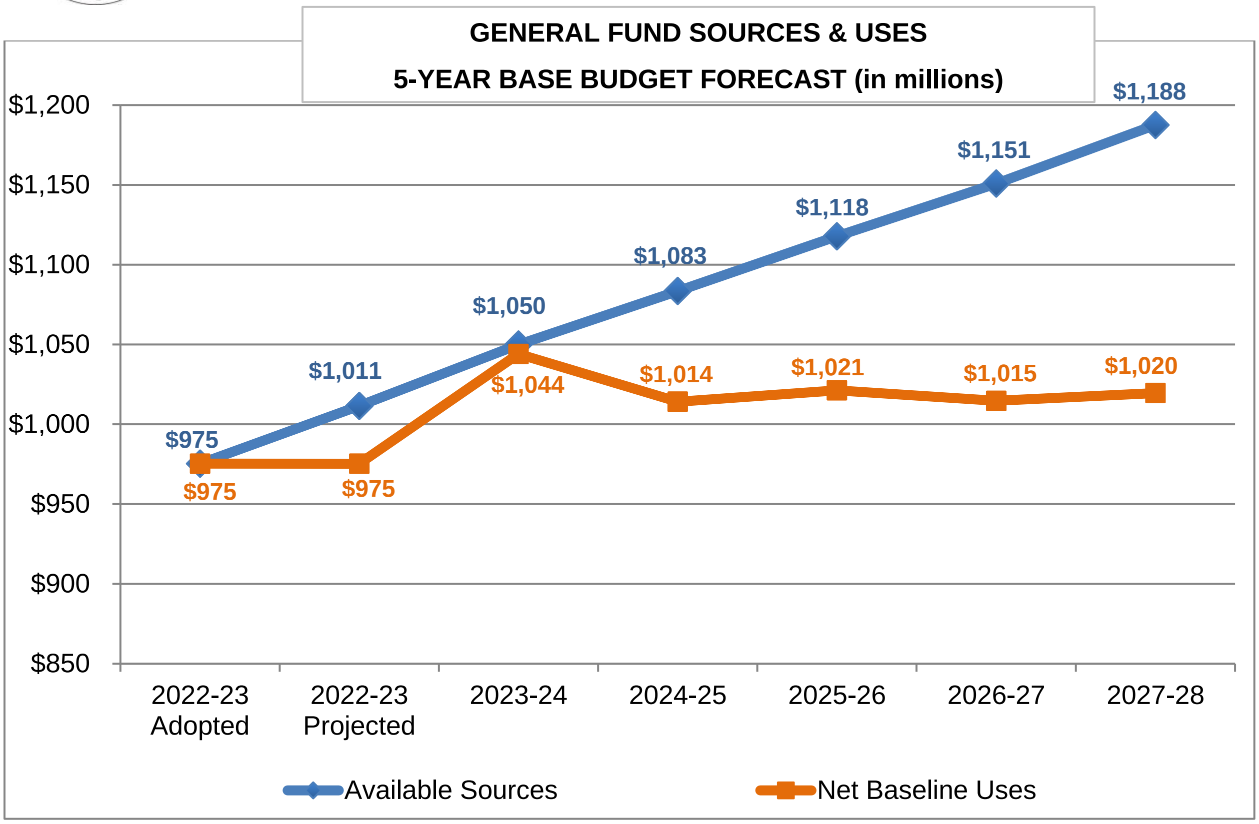
Expenditures

Key Issues include:

- The cost of doing business continues to grow.
- Competing needs exist for General Funds, including the need to fund new and deferred capital and information technology projects, ongoing strategic priority requests, and reserve position.

The following chart illustrates the projected General Fund Sources and Uses. The Net Baseline Uses encompasses department NCC requests including restore augmentations and Budget Stabilization and other reserve increases.

The gap between sources and uses begins at a positive $6 million in the first year of the SFP and continues to grow in a positive trend; however, these positive variances only consider maintaining existing levels of service and do not include department expand augmentation and strategic priority requests for additional resources. In addition, the positive variances do not include any salary and benefit assumption increases over the five year SFP as a result of upcoming negotiations with all the County's labor groups, as all MOUs expire in June 2023. The projected cumulative surplus inverts to a projected cumulative deficit of $125 million for the five years if all expand and strategic priority requests were granted.



Notes:
[1] Available Sources is General Purpose Revenue and may include use of one-time revenue sources
[2] Net Baseline Uses is NCC limits plus restore augmentations and Budget Stabilization and other reserve increases

It is important to note that unexpected shifts in economic conditions could cause the gaps between available sources and net baseline uses to narrow or invert. In addition, changes to the following assumptions could cause variations in the gaps shown above:

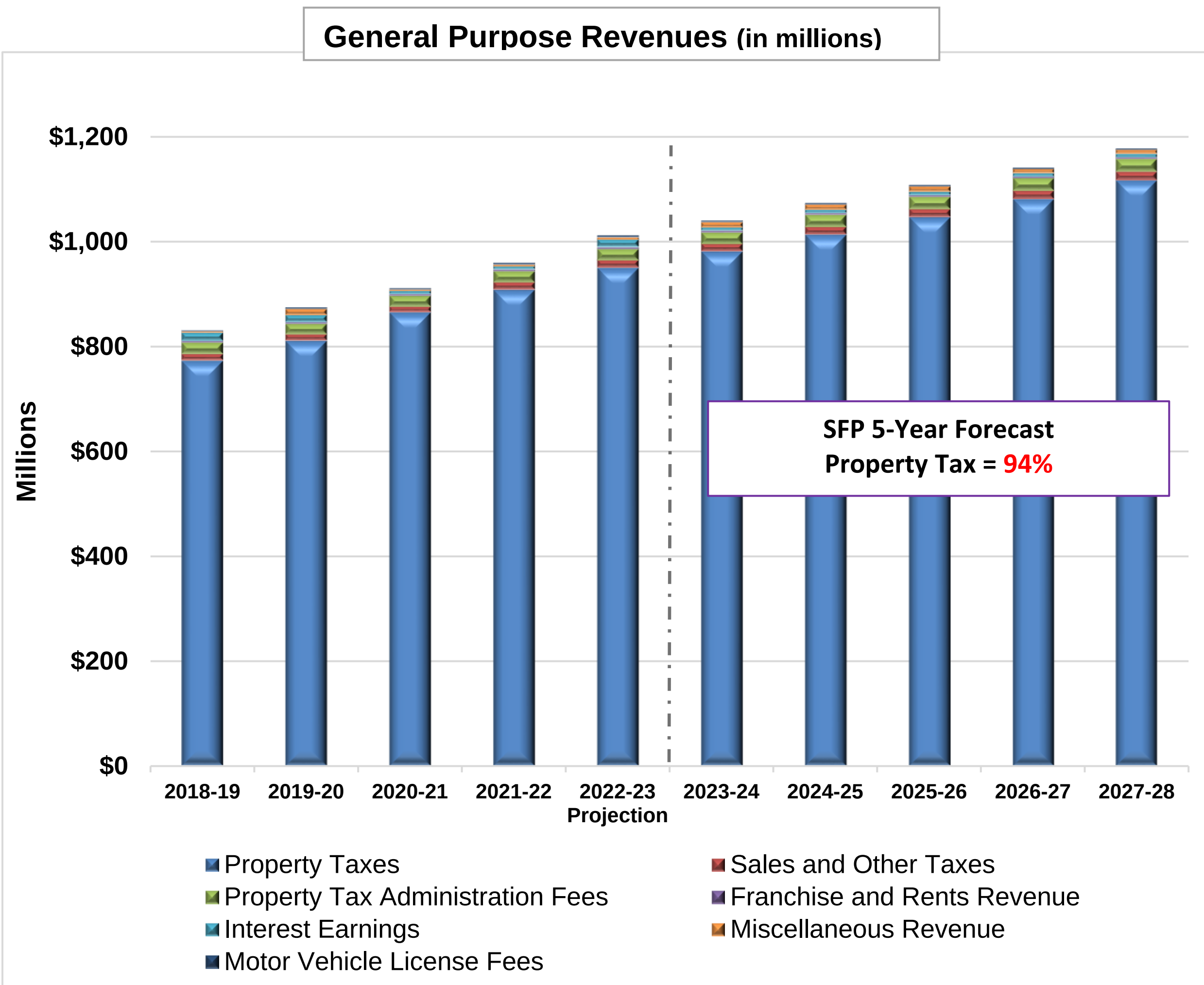
- The FY 2022-23 projection assumes that departments remain within budgeted Net Baseline Uses.
- The Net Baseline Uses assumes 0% growth for Years 1 (FY 2023-24) through 5 (FY 2027-28) of the SFP for salary increases beyond the existing MOU terms.

Over the five years of the SFP, departments requested a total of $11 million in expand augmentation requests primarily to fund increased staffing and equipment needs. In addition, departments requested a total of $590 million in strategic priority requests including $57 million related to OC CARES programs with the remaining $533 million related to department-specific requests.

Revenues

As previously illustrated, departmental base revenues (sources) are projected to grow slowly, slightly above departmental base expenditures (uses).

The SFP forecasts moderate increases in General Purpose Revenue (GPR) consistent with current economic trends. The following chart summarizes historical and forecasted growth in GPR. Detailed analysis of each component of GPR and Fund Balance Unassigned is provided in the *General Purpose Revenue Forecast* section of this document.



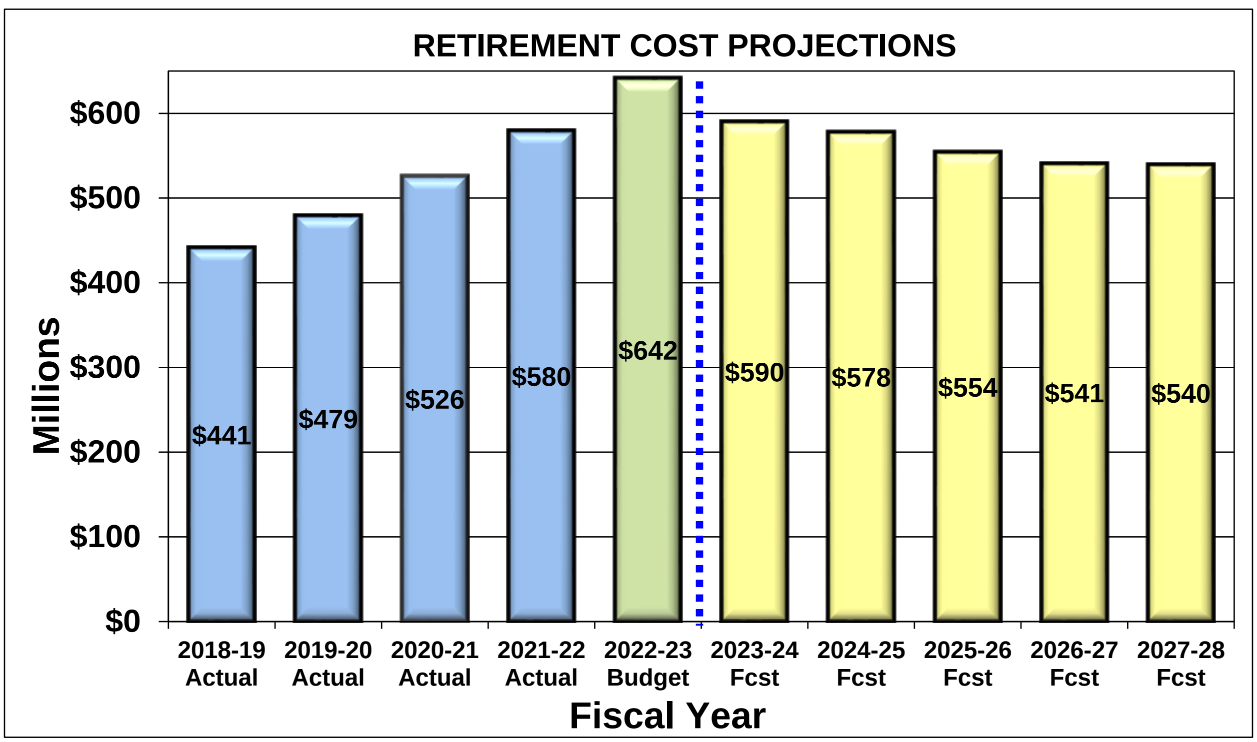
Note: Miscellaneous Revenue includes transfers in from other funds.

Retirement

For the 2022 SFP, the County's projected cost of retirement shows an average 5.8% decrease over the 2021 SFP forecast primarily due to the following:

- There were favorable investment returns after smoothing. The 2018 market losses of 2.46% are offset by the recognition of investment gains from 2017 (14.79%), 2019 (14.79%), 2020 (12.01%) and 2021 (17.71%).
- Actual 2021 salary increases were less than the expected salary increase of 3.0%.
- Offsetting the above decreases was the 2022 COLA increase of 3.0% provided to retirees, which was greater than the assumed COLA of 2.75%. In addition, as a result of the 4.0% CPI calculation, retirees have an additional 1.0% in their COLA banks

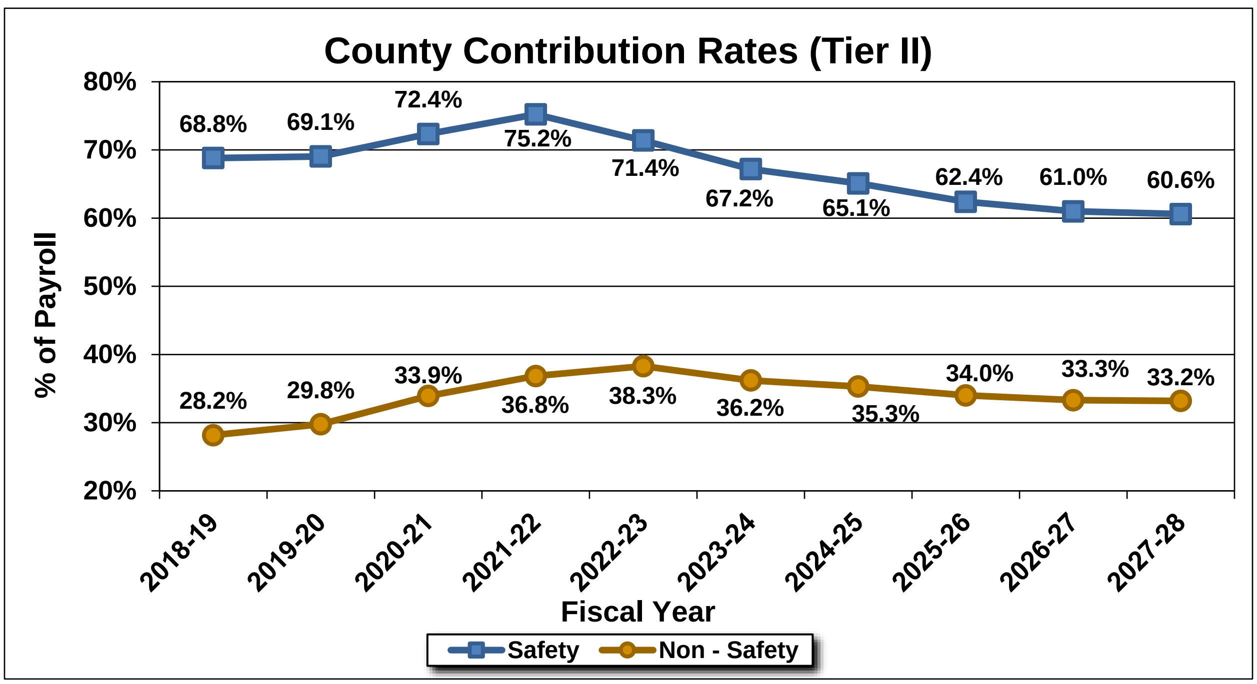
Due to these impacts and a 0% salary growth assumption beyond existing MOU terms, as illustrated in the table below, the 2022 SFP forecast for retirement annual costs reflects a decrease of 15.9% from $642 million in FY 2022-23 to $540 million in FY 2027-28. Retirement costs are a percentage of salaries, therefore any salary increases beyond the 0% COLA assumption included in this SFP will result in increased retirement costs.



Note: All years exclude Pension Prepayment and Retiree Medical.

The following chart of actual and projected County Contribution Rates for Tier II employees reflects an actual decrease in FY 2023-24 retirement rates for Non-Safety and Safety. Over the plan, assuming all actuarial assumptions are met in the future and there are no future changes in any of the actuarial assumptions, retirement rates are expected to decline as the Unfunded Actuarially Accrued Liability (UAAL) is paid down over the 20-year amortization period.

In addition, a long-term positive impact on the County's cost of retirement is expected due to the reduced retirement benefits established under the California Public Employees' Pension Reform Act of 2013 (PEPRA). New County employees hired on or after January 1, 2013, who are considered "New Members" within the meaning of PEPRA, are enrolled in lower cost PEPRA retirement plans. As of September 2022, the County had 7,506 (approximately 47%) employees enrolled in PEPRA retirement plans, an increase from 6,726 (approximately 42%) employees as of September 2021.



Notes: All years exclude Retiree Medical.

Pension Unfunded Actuarial Accrued Liability (UAAL) – Funding Progress

The County participates in the Orange County Employees' Retirement System (OCERS), a cost sharing multiple-employer, defined benefit pension plan. The County's funding policy is to make annual contributions to OCERS in amounts such that, when combined with employee contributions and investment income, fully provide for member benefits by the time they retire. At the end of each calendar year, OCERS conducts an actuarial valuation which establishes the employer and employee retirement contribution rates. The total employer retirement contribution rate includes two components: the Normal Cost Component; and the current year's cost for the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost Component is the cost to pay for the current year's value of retirement benefits as earned. The UAAL Component is the accrued liability for past services which were not funded by prior contributions and investments. Ideally, all benefits are funded through the Normal Cost Component only. However, a UAAL can arise due to the following factors:

- Benefit enhancements are retroactively applied
- Actuarial losses due to actual growth in factors such as the number of retirees, improved mortality rates, salaries or investment return losses
- Changes in actuarial assumptions for factors such as the assumed rate of return, member mortality rates, rate of salary increases, rates of retirement or age at retirement

Large long-term unfunded pension liabilities can impact the financial position of a County, such as:

- Potential negative impact on a County's credit rating, which could lead to higher costs of borrowing.
- Unfunded pension liabilities mean a larger portion of retirement costs are funded by the taxpayer instead of investment returns.
- Increased financial resources being paid towards annual retirement costs instead of the provision of services. In FY 2021-22, the County's total annual retirement cost was approximately $579.8 million, with an estimated UAAL cost of $394.8 million or approximately 68.1% of total retirement costs.

Accelerated Funding Plan Analysis – During the 2017 SFP process, the County evaluated the concept of accelerating payments toward the UAAL to improve its financial position. The following challenges were identified which determined accelerated funding payments towards the UAAL was not feasible for the County:

- General Fund discretionary funding is limited, and the funding priority is for County mandates.

- Applicable guidelines for many program funding sources do not allow for the advance payment of unfunded pension liabilities.
- Numerous County programs have limited program funding which is currently being fully utilized to cover existing expenditures and service levels.
- Additional sources of funding, such as program user fees, would have to be increased to cover the cost of additional payments toward the unfunded pension liability.
- Charges to contract partners would have to be increased to cover the cost of additional payments toward the unfunded pension liability.

However, as a result of the following steps taken by the County and the OCERS Board of Retirement to ensure adequate funding of the retirement system, it is projected that the County will achieve 100% funding of the UAAL by 2033:

- In 2013, the OCERS Board adopted a funding policy to reduce the amortization period of the UAAL from 30 years to 20 years, which was a sound financial decision to ensure a timelier payment of the UAAL, eliminating an additional ten years of interest payments.
- OCERS has adopted realistic assumptions to ensure contributions are sufficient to fully fund the retirement system's obligations. Each year the actual experience of the retirement system is compared to the assumptions used in determining contributions rates to assess whether changes in annual contribution requirements are necessary. In addition, triennially, OCERS conducts an experience study to decide whether or not to adjust the underlying assumptions used in determining contributions rates. Based on these experience studies, the OCERS Board has adopted the following past significant changes in assumptions:
  - **Investment Rate of Return** – On December 5, 2012, the OCERS Board voted to reduce the assumed investment rate of return from 7.75% to 7.25%. The reduction was phased in over a two-year period beginning July 2014 at 7.5% and reducing to 7.25% effective July 2015. On October 16, 2017, the OCERS Board adopted a reduction in the assumed investment rate of return to 7.00% effective July 2019. The assumed rate of return reduction had the impact of increasing contribution rates of members and plan sponsors.
  - **Rate of Inflation** – On September 23, 2014, The OCERS Board adopted a decrease in the inflation assumption from 3.25% to 3.00% per annum. On October 16, 2017, the OCERS Board adopted a further decrease in the inflation assumption to 2.75%. On August 17, 2020, the OCERS Board adopted another decrease in the inflation rate assumption to 2.50%, while maintaining the post-retirement COLA at 2.75%. The reduction in the assumed inflate rate had the impact of reducing contribution rates of members and plan sponsors.

- **Mortality Rates** – On October 16, 2017, the OCERS Board adopted the application of generational tables to project mortality rates, which demonstrated projected life expectancy increases with each new generation. This change in assumption had the impact of significantly increasing contribution rates of members and plan sponsors. On August 17, 2020, the OCERS Board adopted the use of public benefit-weighted mortality tables projected generationally, which indicate benefit (or salary for employees) is a significant predictor of mortality difference. In addition, the new tables are based exclusively on public sector experience, unlike the prior tables. These new tables indicated that public Safety member rates of mortality are higher, which led to a reduction in contribution rates for members and plan sponsors for Safety.

- To control and reduce the growth of the UAAL, the County implemented a hybrid retirement plan (1.62% @ 65) prior to implementation of PEPRA, which reduces the cost of retirement benefits.

Funding Progress – Based on the OCERS December 31, 2021 actuarial valuation, the funding ratio for the retirement system is 81.15%, which is an increase from 76.51% in 2020. OCERS' UAAL decreased from $5.38 billion ($4.48 billion attributable to the County) to $4.53 billion ($3.88 billion attributable to the County). The decrease in the UAAL was primarily attributable to favorable investment returns (after smoothing) and actual salary increases less than the expected salary increases of 3.0%, offset slightly by the 2022 COLA increases for retirees greater than the expected COLA increases of 2.75%. The following table summarizes the County's UAAL and current funding ratio by the County's four Rate Groups:

County of Orange
Unfunded Actuarial Accrued Liability (UAAL) and Funding Level by Rate Group
Based on OCERS Actuarial Valuations Prepared by Segal Consulting

Rate Group	Rate Group Members	Retirement Formula (1)	December 31, 2021 Valuation UAAL (2)	December 31, 2021 Valuation Funding Ratio (2)	December 31, 2020 Valuation UAAL (2)	December 31, 2020 Valuation Funding Ratio (2)
1	American Federation of State, County and Municipal Employees (AFSCME) & Sheriff Deputy Trainees	1.67% @ 57	$ 24,895,000	93.70%	$ 42,142,000	88.90%
2	General Employees	2.7% @ 55	2,759,863,000	76.90%	3,125,094,000	72.50%
6	Probation	3.0% @ 50	161,071,000	83.90%	207,237,000	78.22%
7	Law Enforcement	3.0% @ 50	934,471,000	80.20%	1,105,871,000	75.26%
County Total			**$ 3,880,300,000**	**78.52%**	**$ 4,480,344,000**	**73.90%**
Portion Funded by General Fund General Purpose Revenues (3)			**$ 915,416,315**		**$ 1,056,974,975**	

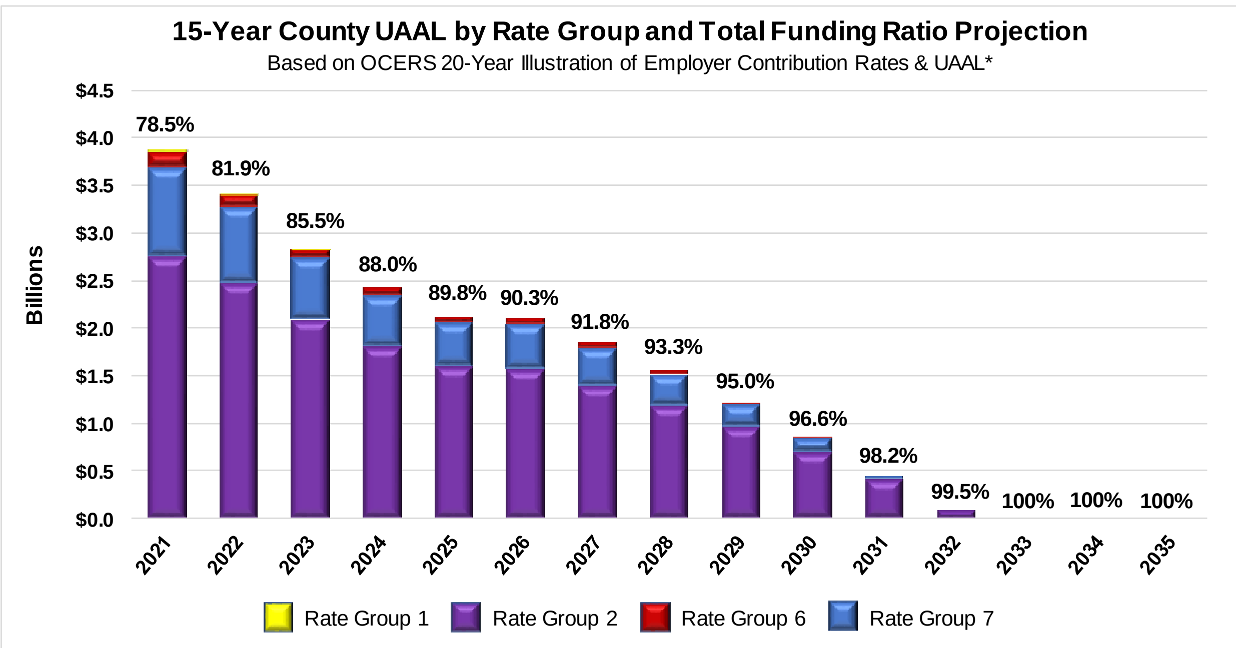
(1) For informational purposes, the retirement plan formulas shown represent the largest employee group for each rate group.

(2) UAAL and current funding ratio data provided by OCERS.

(3) Based on FY 2022-23 Budget, an estimated 23.6% of the UAAL is funded by General Fund General Purpose Revnenues.

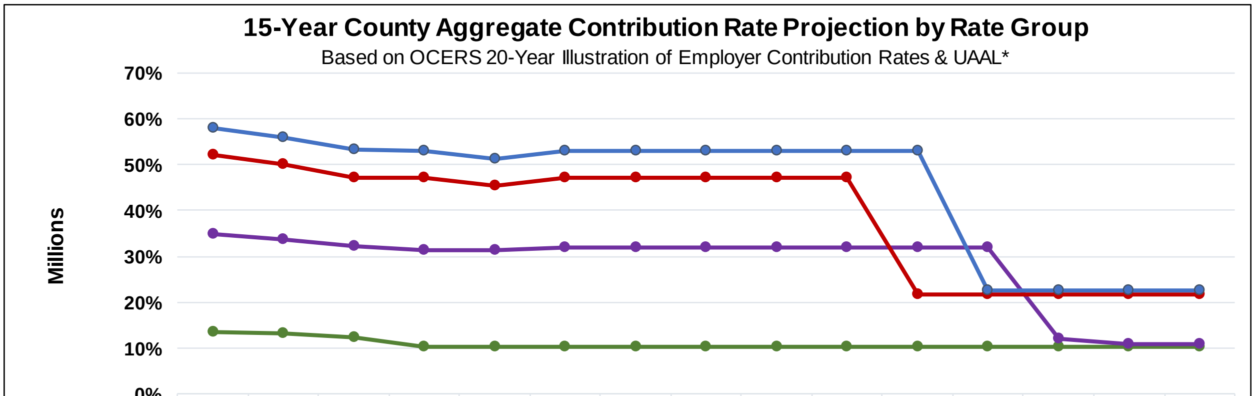
Annually, OCERS' actuary, Segal Consulting, prepares a 20-year projection of employer contribution rates and UAAL based on the latest actuarial valuation. Utilizing the information provided in the analysis with the following major assumptions, the table below illustrates the County's projected annual UAAL and funding ratio:

- Investment rate of return: 0% for 2022 and 7% for all years thereafter
- Inflation rate: 2.50%
- COLA for Retirees: 2.75%
- Salary Increases: 3.00% is assumed for all years where negotiated salary increases are not included in existing MOU terms. This assumption varies from the 2022 SFP which includes salary increases consistent with existing MOU terms and 0% growth for Years 1 through 5 of the SFP, where applicable.



*Results prepared by OCERS' actuary, Segal Consulting, based on the OCERS December 31, 2021 Actuarial Valuation.

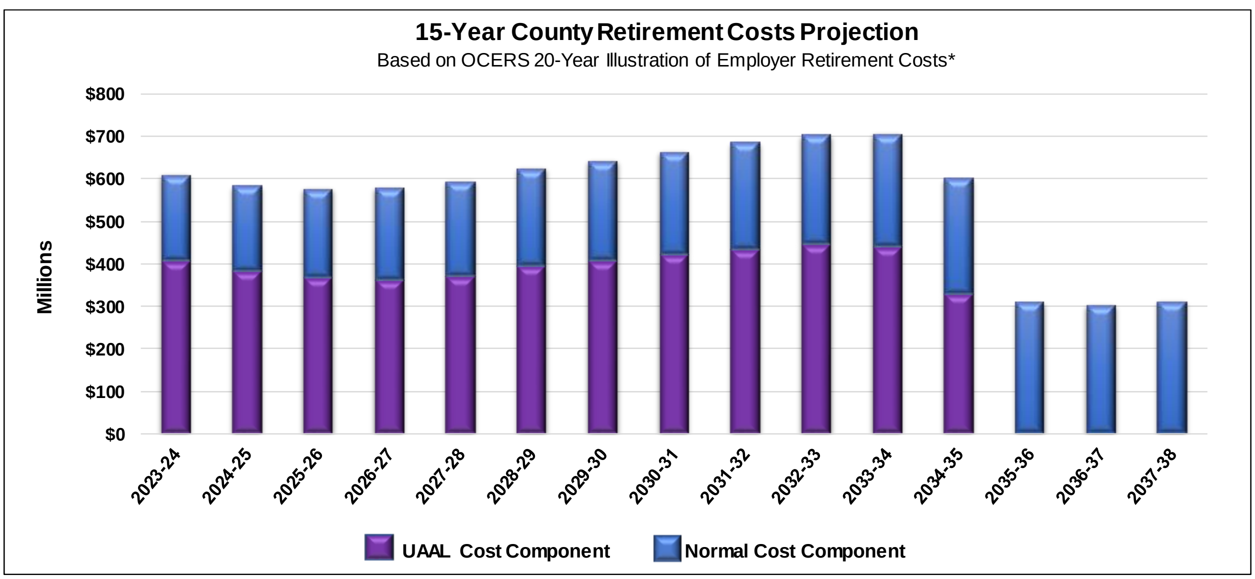
Demonstrated in the table above, the County will achieve a pension funding level above 80% in 2022 and 100% in 2033. The table below provides the 15-year illustration for the County's projected aggregate contribution rates for retirement for each of its four Rate Groups:



	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	2036-37	2037-38
Rate Group 1	13.52%	13.06%	12.26%	10.20%	10.27%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%
Rate Group 2	34.77%	33.69%	32.20%	31.46%	31.23%	32.03%	32.03%	32.03%	32.03%	32.03%	31.98%	31.81%	11.92%	10.93%	10.93%
Rate Group 6	52.29%	50.17%	47.27%	47.06%	45.36%	47.14%	47.14%	47.06%	47.06%	47.06%	21.74%	21.74%	21.74%	21.74%	21.74%
Rate Group 7	58.02%	55.98%	53.20%	52.97%	51.36%	52.97%	52.97%	52.97%	52.97%	52.97%	52.97%	22.42%	22.41%	22.41%	22.41%

*Results prepared by OCERS' actuary, Segal Consulting, based on the OCERS December 31, 2021 Actuarial Valuation.

As shown in the table above, retirement contribution rates as a percentage of payroll are expected to decline as a result of the favorable investment returns after smoothing, as discussed in the Retirement section above. After that period, rates are expected to stabilize until the UAAL is fully funded. After the UAAL is fully funded, which varies by the Rate Group, retirement contribution rates will only include the Normal Cost Component. The table below presents the 15-year projected total cost of retirement, including a breakdown of retirement costs between the Normal and UAAL Cost Components:



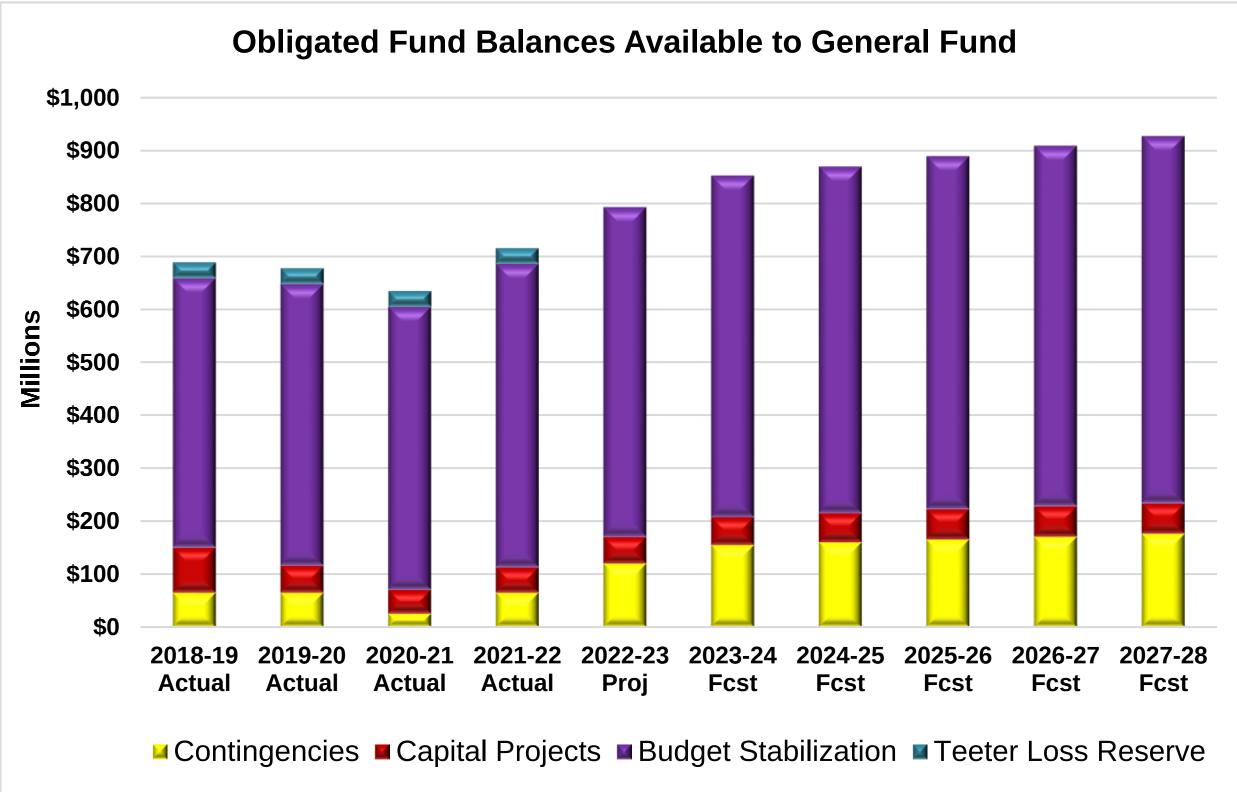
*Results prepared by OCERS' actuary, Segal Consulting, based on the OCERS December 31, 2021 Actuarial Valuation.

As demonstrated in the table above, costs are expected to decline from FY 2023-24 through FY 2026-27 due to the smoothing of the investment returns. From FY 2027-28 through FY 2033-34, retirement costs are projected to increase due to the 3% salary increase assumption and the projected stable retirement rates over that period. After that period, retirement costs are expected to decrease dramatically due to the projected payoff of the UAAL, where the County will only be contributing the normal cost of retirement.

Due to the steps taken by OCERS and the County, the County is well on its way to achieving a significant level of funding for its pension obligations by 2023 and full funding by 2033 with no need to pursue an accelerated funding plan. The County will continue to focus on evaluating and pursuing other opportunities to build upon and improve the County's financial position by reducing long-term liabilities in other areas.

Obligated Fund Balances and Cash

The County maintains an established Reserves Policy (please see the *Reserves Policy* portion of this document) to mitigate cash flow impacts, maintain best debt ratings and positive borrowing position, and to provide liquidity in the event of a catastrophic event.

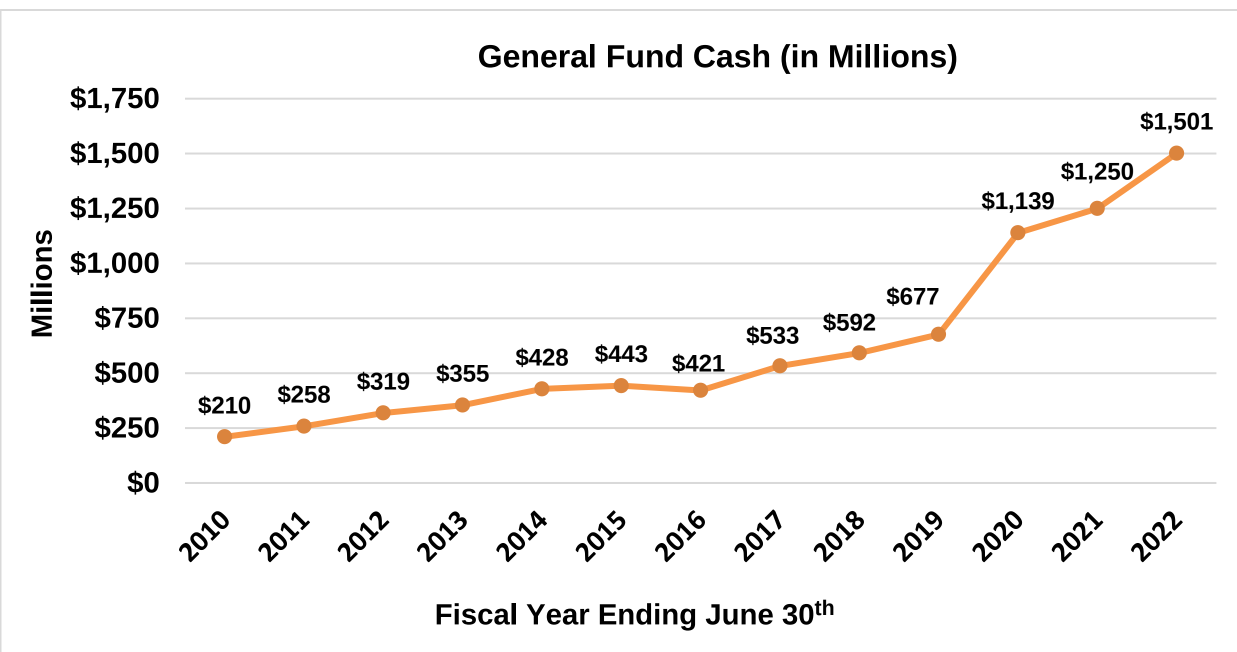


(Note: Balances exclude accounts held by other authorities/agencies such as balances held by the Orange County Employees Retirement System [OCERS].)

During economic downturns, reserves have been used to reduce the severity of impacts to clients and departments. The County has been committed to building reserves back to a level that provides flexibility to maintain service levels and protects the County's cash position in order to meet its obligations. The COVID-19 pandemic had a financial impact, resulting in the County Fund Balance Unassigned (FBU) ending FY 2020-21 with a deficit and necessitating draws from contingency and budget stabilization reserves to balance the General Fund. However, through responsible fiscal management, strategic planning and prudent allocation of resources, the County was able to replenish its reserves to pre-pandemic levels and met the GFOA recommended target for FY 2022-23 Budget Stabilization Reserve. The current and projected obligated fund balances available to the General Fund reflect a healthier reserve position.

Over the five years of the SFP, increases primarily to the contingency and budget stabilization reserves are forecasted in order to meet and/or maintain the GFOA recommended target reserve in each of the SFP years. In accordance with Board of Supervisors Resolution 10-136, any excess Fund Balance Unassigned recorded at fiscal year-end is transferred to reserves by the Auditor-Controller during the year-end closing process.

The County is diligent in maintaining an adequate balance of General Fund cash to address timing variances that occur throughout the year between expense and revenue transactions. Based on the current cash management plan, it is anticipated that cash balances will remain stable throughout the financial planning period. The following chart reflects historical cash balances through June 30, 2022. Cash balances dipped between 2015 and 2016 due to timing of Health Care Agency Behavioral Health programs cash receipts. In the following year, the cash increase from 2016 to 2017 was due to the release of a yield-restricted investment to general fund cash. The increase to cash from 2018 to 2019 is primarily due to increase in property tax revenues, realignment and public safety tax revenues and one-time SB90 revenue and interest payments from the State. Finally, the increase to cash from 2019 to 2022 is due to the receipt of one-time Coronavirus Aid, Relief, and Economic Security (CARES) Act and American Rescue Plan Act (ARPA) revenues.



Note: Cash balances are as of June 30 of each year as reported in the Annual Comprehensive Financial Report (ACFR). Cash balance for 2022 is preliminary as of November 14, 2022.

Infrastructure & Capital Expenditures

Economic conditions and competing priorities for General Funds influence how the County addresses capital spending. The County continues to use a portion of the modest growth in revenues to fund previously deferred critical projects such as the James A. Musick facility construction, the Sheriff's jail electronic security control system, Emergency Operations Center audio-visual and security system upgrades, renovations and American with Disabilities Act upgrades to various facilities. In addition, one-time revenues are being utilized to fund a new Emergency Medical Services Operating Facility, a second Be Well Campus and a new Juvenile Corrections Campus. Furthermore, the County is exploring options for use of existing facility space to establish an alternate Emergency Operations Center supporting future countywide emergency preparedness needs.

Strategies

It is essential that departments continue to review programs and operations to determine the best practices when sizing programs for future economic conditions and to ensure services to the community are maintained and performance goals are met within the boundaries of available resources. Departments and the County Executive Office are currently planning for the FY 2023-24 budget process with a goal of preserving the capacity to provide quality services to the community. Seeking opportunities for additional funding to maintain ongoing operations is essential to the process including efforts undertaken in development of the County's Legislative Platform.

Sustainability

The County is pursuing various efforts aimed towards environmental sustainability and green technologies. As a governmental entity, the human, social, and economic aspects of sustainability continue to be the core functions of the County. As part of these efforts, the County is focusing on reducing its carbon footprint by replacing older vehicles with low to zero-emission vehicles, and building electric vehicles (EV) charging infrastructure and EV stations to comply with California's Air Resource Board's initiative for EVs. In addition, the County is upgrading its countywide facilities with best practices for efficiencies by retrofitting building-wide lighting systems with LED lighting, replacing lighting control systems with more effectively managed motion-based occupancy detection, installing solar panels and mechanical systems that regulate utility resources. The County is continuing the use of telecommuting, virtual meetings, working towards becoming paperless, accepting and submitting digital invoices with electronic signatures and payments via Electronic Fund Transfer (EFT), recycling, minimizing waste and natural resources conservation.

Furthermore, the County is developing a Green Infrastructure Plan that focuses on ongoing development of green infrastructure specifications and long-term operation and maintenance plans, which complies with various regulatory requirements and future drought and climate action needs. Environmental sustainability is the next phase to be incorporated into the County's core functions and daily operations. This movement aligns with state and federal priorities and fundings opportunities.

Conclusion

The County's long-term commitment to a balanced budget and early action has proven successful in maintaining core services with minimum impact to service recipients. Through their commitment to fiscal prudence, the Board of Supervisors developed a vision for the County to address critical community, capital, and organizational needs while also allowing for accommodation of new fiscal challenges and opportunities as they arise.

An ongoing commitment to fiscal prudence will be required as the County attempts to balance the funding of identified needs and priorities and strives to provide high quality services and advance major initiatives. The combined efforts of the Board of Supervisors and County employees toward careful and responsible fiscal management will position the County to overcome new challenges as they arise, while continuing to fulfill the County's mission.

The Board of Supervisors will be apprised of the County's fiscal status on an ongoing basis via the annual and mid-year budget reporting processes and other methods, as appropriate. Carrying out vital services and assurance of responsible management requires that:

- Impacts continue to be evaluated and communicated timely;
- The County maintains disciplined financial management;
- Structural balance focused on values and core services continues to be a priority;
- The County remains committed to seeking creative alternatives and partnerships.

Coordinated efforts of the Board of Supervisors and the County employees make it possible to practice fiscal stewardship and to maintain government core services and priorities.