



Reserves Policy

Obligated Fund Balances and Reserves Available to the General Fund

Introduction

The County of Orange General Fund Reserves Policy provides guidance in the creation, maintenance and use of reserves. The policy covers formal and informal reserves and includes provisions for reserves such as appropriations for contingencies, reserve-like appropriations, and reserve-like funds held by others such as the OCERS Investment Account. The policy also recognizes whether funds are legally required or discretionary or have special restrictions.

The importance of having and maintaining healthy reserve balances became evident during the Great Recession and more recently with the COVID-19 pandemic. Temporary utilization of fund balance or reserves aided departments in offsetting decreases in revenue growth, funding reductions from various sources, and accommodating increased costs of doing business.

The General Fund Reserves policy strategy is to provide flexibility to the County and offer:

- Resources to address unanticipated or cyclical economic conditions.
- Resources for emergencies and/or catastrophic events.
- Mitigation of the volatility of revenues and expenditures in managing temporary cash flow shortages.
- Capacity to cover unexpected large one-time expenses and opportunities.
- Capacity to fund capital investments.
- Capacity to minimize borrowing costs.
- Capacity to provide some level of protection against statutory changes to County revenues and impacts from Federal and State actions.

The County has a variety of reserve funds available to both the General Fund and Non-General Funds including:

- Fund Balance Assigned for Contingencies – This reserve was established through the Strategic Financial Plan process for the purpose and use of covering unanticipated and severe economic downturns, major emergencies, or catastrophes that cannot be covered with existing appropriations. The current target for this reserve is 15% of ongoing annual General Purpose Revenues.
- Fund Balance Assigned for Capital Projects – This reserve was established through the Strategic Financial Plan process for the purpose and use of funding future capital projects, including information technology projects. Funds are withdrawn from this



reserve and appropriated in the fiscal year in which the projects are expected to be encumbered or expended.

- **Fund Balance Assigned for Maintenance and Construction** – This reserve, established through the quarterly budget report process, is for the purpose and use of funding of future construction and maintenance projects. Appropriation of funds withdrawn from this reserve occurs in the fiscal year in which the projects are expected to be encumbered or expended.
- **Fund Balance Assigned for Teeter Loss Reserve** – On October 28, 2014, Board Resolution 14-096 established this reserve to maintain a balance not less than 25% of the total delinquent secured taxes and assessments for participating entities in the County as calculated by the Auditor-Controller at the end of each fiscal year. This reserve provides flexibility to cover losses that may occur if tax-defaulted property sells for less than the amount necessary to cover outstanding tax and assessment liens on that property. In addition, this reserve may be used to pay down note purchases or cash finance the Teeter plan in the future.
- **Fund Balance Assigned for Budget Stabilization** – This reserve, established through the quarterly budget report process, ensures prudent reserve levels that are maintained and replenished on a regular basis. The current year target, based on the Government Finance Officers Association’s (GFOA) best practice, is set at two months (approximately 17%) of General Fund operating revenues as budgeted in FY 2022-23.
- **Reserve-like Appropriations** – These are informal reserve amounts annually appropriated in the budget such as the Miscellaneous Contingency Reserve and Annual Leave Payouts.
- **Reserve-like Funds** – The reserve held by the Orange County Employees Retirement System (OCERS) on behalf of the County and established with the proceeds of the 1994 Pension Obligation Bonds is an example of a reserve-like fund. The purpose and use of this account includes the offset of County retirement expenses and reducing the County’s share of the retirement system unfunded liability. Use of this account to offset the County’s retirement expenses may free up existing or future General Fund resources for other purposes.
- **Department Type Reserves** – These are restricted reserves set aside in non-General Funds for specific purposes. Department type reserves are limited to the purpose and use for which the non-General Fund was established.



All the aforementioned reserves customarily are modified at the time of budget adoption (Government Code Section 29085) or at fiscal year-end (in accordance with GASB 54 requirements). Changes to reserve amounts at other times require a 4/5 vote of the Board of Supervisors in order to make such reserves available for appropriation to spend, if needed, during the fiscal year (Government Code Section 29130).

The County has provided for General Fund Obligated Fund Balances, developing specific targets for each reserve type based upon recommendations by GFOA and best practices based upon review of reserve policies implemented by other local governments. The County’s policy follows GFOA’s current recommendation, which states that, “at a minimum, general-purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of regular General Fund operating revenues or regular General Fund operating expenditures.”

As part of the 2010 Strategic Financial Plan, the Board granted the County Executive Office approval to implement GFOA best practice for funding reserves and to continue reviewing the management of those reserve funds. Regular monitoring of reserves ensures effective control and consolidation of resources, if appropriate, while maintaining proper designations and flexibility. There is no request to change the existing reserve policy with this Strategic Financial Plan.

Reserve Targets and Descriptions

Under GFOA recommended practice, the County establishes an overall reserve target, and allocates the calculated target among the classes of obligated fund balances as appropriate. The County may fund more or less to each reserve class, for a variety of reasons such as current financial conditions, the need to set aside for particular goals or directives, the need to bridge one-time gaps, etc. The goal is to ensure regular maintenance and replenishment of a prudent reserve balance.

In implementing the GFOA’s best practice, the County elected to establish a funding target based upon two months of General Fund operating revenues to lessen current and future risks such as revenue shortfalls and unexpected expenditures. As such, the current year target is set at two months (approximately 17%) of General Fund operating revenues as budgeted in FY 2022-23 as follows:

General Fund Budgeted Revenues FY 2022-23	\$ 4,799,682,237
Less: Non-Operating Items	(479,651,101)
Less: One-Time Items – COVID Relief	(587,596,555)
Net FY 2022-23 Operating Revenues	3,732,434,581
Target – 2 Months General Fund Operating Revenues	\$ 622,072,430



The following table summarizes the current reserves by classification. Due to strategic and prudent allocation of one-time funding and sources, the Budget Stabilization Reserve for FY 2022-23 met the GFOA recommended target of \$622,072,430. Going forward, as General Fund budgeted revenues are expected to increase over the five years of the SFP, the goal is to increase the Budget Stabilization and Contingencies Reserves in each year to maintain the GFOA recommended target amounts. Increases to maintain the targets could be achieved by allocation of General Purpose Revenue growth, allocation of one-time funding and sources, re-allocation of specific-use reserve balances, or any combination of the three. The 2022 SFP assumes use of General Purpose Revenue growth each year to meet the target amounts; however, the ability to achieve this will be determined during the annual budget development process.

	Balance at 6/30/2022	Changes		Projected Balance at 6/30/2023
		Actual	Projected	
Budget Stabilization Reserve				
Reserve for Budget Stabilization	\$ 581,822,679	\$ 40,249,751	\$ -	\$ 622,072,430
Budget Stabilization Reserve Target	\$ 574,287,074			\$ 622,072,430
Stabilization Reserve Over/(Under) Target	\$ 7,535,605			\$ (0)
Specific-Use Reserve Classification				
Assigned (9740)	\$ 40,249,751	\$ (40,249,751)	\$ -	\$ -
Catastrophic Event Contingencies [Goal = 15% of GPR = \$145M]	65,000,000		55,000,000	120,000,000
Reserve for Capital and IT Projects [Goal = \$50M]	47,643,909		2,536,420	50,180,329
Reserve for Maintenance & Construction	6,696,539		-	6,696,539
Teeter Loss Reserve	30,000,000		(30,000,000)	0
Subtotal - General Fund Specific-Use Reserves	\$ 189,590,199	\$ (40,249,751)	\$ 27,536,420	\$ 176,876,868
Grand Total - General Fund Total Reserves	\$ 771,412,878	\$ -	\$ 27,536,420	\$ 798,949,298

An alternate approach used by some credit rating agencies is to evaluate the County's available fund balance as a ratio of the General Fund's assigned and unassigned fund balances (from the County's Annual Comprehensive Financial Report [ACFR]) as a percentage of total expenditures. A threshold of 15% of expenditures or greater is considered strong. On a Generally Accepted Accounting Principles (GAAP) basis, the County's percentage in FY 2020-21 was 6% of expenditures and the preliminary percentage for FY 2021-22 is 14%. The County prepays its pension contribution and reports the prepaid amount as Non-Spendable Fund Balance rather than Unassigned Fund Balance in the ACFR as required by Governmental Accounting Standards Board (GASB) Statement Number 54. However, if the prepaid costs for General Fund short term Taxable Pension Obligation Bonds (POB) were to be considered as available, which they are, the percentages change to 19% and 27% for fiscal years 2020-21 and 2021-22 (preliminary), respectively. The following table demonstrates the available fund balance for FYs 2020-21 and 2021-22 (preliminary):



Amounts in thousands

	2020-21 ACFR [1]	2020-21 ACFR [2]	2021-22 Prelim ACFR [1]	2021-22 Prelim ACFR [2]
Fund Balance				
Non-Spendable	\$ 515,879	\$ 1,428	\$ 517,721	\$ 2,153
Non-Spendable-POB		514,451		515,568
Restricted	97,998	97,998	164,954	164,954
Assigned	108,268	108,268	316,809	316,809
Unassigned	13,582	13,582	115,651	115,651
Total Fund Balances	\$ 735,727	\$ 735,727	\$ 1,115,135	\$ 1,115,135
General Fund Expenditures	\$ 3,970,479	\$ 3,970,479	\$ 4,155,053	\$ 4,155,053
Calculated %	6%	19%	14%	27%

[1] Fund balance amounts in ACFR are calculated by Auditor-Controller based on Generally Accepted Accounting Principles (GAAP)

[2] Calculated % assumes that the non-spendable fund balance associated with the County's short-term Taxable Pension Obligation Bonds (POB) is available, which it is, to the General Fund.

It is important to note that the 2020-21 ACFR numbers were atypical in two particular ways:

1. Unassigned Fund Balance was much lower than in FY 2019-20 due to reserve draws of approximately \$80 million necessitated by COVID-19 pandemic relief spending not yet offset by pending Federal Emergency Management Agency (FEMA) revenues. Regardless, since then and prior to FY 2021-22 year-end close, through responsible fiscal management, strategic planning and prudent allocation of resources the County was able to replenish its reserve draws.
2. General Fund Expenditures were substantially higher than in the prior year due to one-time Coronavirus Aid, Relief, and Economic Security Act (CARES) and American Rescue Plan Act of 2021 (ARPA) expenditures totaling approximately \$480 million (not adjusted for GAAP).

If the FY 2020-21 ACFR numbers were adjusted for the differences in Fund Balance Unassigned (from \$735,727 to \$815,353) and General Fund Expenditures (from \$3,970,478 to \$3,490,264) the calculated percentages would be 9% and 23% respectively.



General Fund Obligated Fund Balances

Obligated Fund Balances are formal reserves and currently include Fund Balance Assigned for Contingencies, Fund Balance Assigned for Operations, Fund Balance Assigned for Capital and IT Projects, Fund Balance Assigned for Maintenance and Construction, Fund Balance Assigned for Teeter Loss Reserve and Fund Balance Assigned for Budget Stabilization. The reserves defined in the following pages are General Fund Obligated Fund Balances that are neither restricted nor committed as defined by GASB Fund Balance Reporting policy.

Contingencies

Target	15% of ongoing annual General Purpose Revenues (excluding FBA, transfers & other one-time revenue) or, currently, \$145,020,041
Projected Balance @ June 30, 2023	\$120,000,000 (12.4% of ongoing General Purpose Revenues)
Variance from target	\$25,020,041 below target

This compares to GFOA guidelines for funding contingencies at 15% or higher. A review of surrounding counties found contingency targets are based on varying percentages and criteria. The targets are set from 17% to 25% of either a percentage of annual expenses, estimated discretionary revenue or locally funded appropriations.

The County anticipates an increase of \$55,000,000 (\$30,000,000 transferred from the Teeter Loss reserve and \$25,000,000 transferred from Teeter Debt Service Fund 15Y) to the Contingencies reserve with no draws anticipated in the current fiscal year.



Please see the following table for specific details of the contingency reserve:

Reserve for Contingencies	
Fund Number	100
Authority	Government Code Section 29085
When established	Budget Adoption
Budgeted	Schedule 3 of the County Budget
Board approval required	4/5 vote to change amount during the year or to appropriate and make available for use during the year (Government Code Section 29130)
Expiration Date	Ongoing
Interest Earnings	Credited to General Fund
Plan for reducing the variance	This Strategic Financial Plan proposes to increase this reserve by \$55M. Additional contributions to the reserve will be recommended from General Purpose Revenue growth or fund balance and will be allocated through the Annual Budget adoption process and/or the Mid-Year Budget Report.



Assigned for Capital Projects

Target	\$50,000,000
Projected Balance @ June 30, 2023	\$50,180,329
Variance from target	\$180,329 above target

Budgeted additions to the Capital Project reserve total \$2,536,420 with no draws anticipated in the current fiscal year.

The following table provides specific details of the capital projects reserve:

Reserve for Capital Projects	
Fund Number	100
Authority	Adopted Strategic Financial Plan (SFP)
When established	June 20, 2004
Budgeted	Schedule 4 of the County Budget
Board approval required	4/5 vote to change amount during the year or to appropriate and make available for use during the year
Expiration Date	Upon completion of designated projects
Interest Earnings	Credited to the General Fund
Plan for reducing the variance	This Strategic Financial Plan recommends no change to this reserve.



Assigned for Maintenance and Construction

Projected Balance @ June 30, 2023	\$6,696,539
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The following table provides specific details of the maintenance and construction projects reserve:

Reserve for Maintenance and Construction	
Fund Number	100
Authority	Approved Quarterly Budget Report
When established	November 17, 2015
Budgeted	Schedule 4 of the County Budget
Board approval required	4/5 vote to change amount during the year or to appropriate and make available for use during the year
Expiration Date	Upon completion of designated projects
Interest Earnings	Credited to the General Fund
Plan for reducing the variance	N/A



Assigned for Teeter Loss Reserve

Target	Varies with fluctuations in delinquent secured taxes and assessments, but use could include the following: possible transfer back to Fund 656 in the event of an economic downturn; pay down notes; future cash financing of Teeter plan
Projected Balance @ June 30, 2023	\$0

The County anticipates transferring \$30,000,000 to the Contingencies reserve in the current fiscal year. In the event of an economic downturn funds from the Contingencies reserve will be used for this purpose.

The following table provides specific details of the Teeter Loss reserve:

Reserve for Teeter Loss	
Fund Number	100
Authority	Board Resolution No. 14-096 in accordance with R&T Code 4703.2
When established	October 28, 2014
Budgeted	Schedule 4 of the County Budget
Board approval required	4/5 vote to change amount during the year or to appropriate and make available for use during the year
Expiration Date	N/A
Interest Earnings	Credited to the General Fund



Assigned for Budget Stabilization Reserve

Target	\$622,072,430
Projected Balance @ June 30, 2023	\$622,072,430
Variance from target	At target

Please see the following table for specific details of the Target reserve:

Reserve for Budget Stabilization	
Fund Number	100
Authority	Approved Quarterly Budget Report
When established	November 17, 2015
Budgeted	Schedule 4 of the County Budget
Board approval required	4/5 vote to change amount during the year or to appropriate and make available for use during the year
Expiration Date	N/A
Interest Earnings	Credited to the General Fund
Plan for reducing the variance	This Strategic Financial Plan recommends no change to this reserve; however, additional contributions to the reserve will be recommended from General Purpose Revenue growth or fund balance and will be allocated through the Annual Budget adoption process and/or the Mid-Year Budget Report.



Appropriated Reserve-type Funds

Miscellaneous Contingency Reserve & Annual Leave Payouts

These appropriations are maintained in the Miscellaneous Fund, Budget Control 004, within the County General Fund. The purpose and use of the appropriations is to provide additional appropriations to General Fund Departments through the end of the fiscal year for budgetary shortfalls, unanticipated one-time expenditures, emergencies, and opportunities. The appropriations are typically distributed during the mid-year budget report process and require a 4/5 Board of Supervisors vote for transfers of these funds per Government Code Section 29125(a)(2).

The FY 2022-23 beginning balance is \$32,423,799 with an additional \$1,000,000 earmarked by the Board on November 23, 2010 to establish funding for unanticipated annual leave payouts impacting small departments (approximately 100 employees or less). Five to ten million dollars is typically budgeted each year. The FY 2022-23 amount is higher than usual to provide flexibility during this unprecedented time, but is expected to return to the Target amount in future fiscal years. Future Strategic Financial Plans may recommend changes to the current balance as funds are needed or become available.

Please see the following specific details of the Miscellaneous contingency and Annual Leave Payouts appropriations:

Miscellaneous Contingency Reserve & Annual Leave Payouts	
Fund/Budget Control Number	100-004
Authority	Board adoption of the Final Budget
Budgeted	Yes
Board approval required	4/5 Board of Supervisors vote to transfer funds
Target	\$10,000,000
Expiration Date	Re-budgeted annually
Interest Earnings	Credited to the General Fund



Reserve Type Funds – OCERS Retirement Investment Account

The balance of this account at June 30, 2022 was \$135,745,141. The assets held in the Investment Account are invested with the OCERS portfolio. As such, the balance in the account will change based on the performance of the investment assets and any draws from the account.

Reserves in this account are projected to fall by the end of the current fiscal year due to a planned reserve draw of \$10,000,000 for the FY 2023-24 OCERS annual required contribution and due to projected net investment losses of \$4,597,688.

Projected Balance @ June 30, 2023	\$121,147,453 including projected net investment earnings/<losses> and draws
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Please see the following table for specific details of the OCERS Investment Account:

Retirement Investment Account	
Fund Number	Held by OCERS
Authority	Board agreement with OCERS
When established	1994
Interest Earnings	Credited to this account

