



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. As a result of the Novel Coronavirus (COVID-19) pandemic, the year leading up to the 2020 Strategic Financial Plan process evidenced a recession with a decline in Gross Domestic Product (GDP), high unemployment rates coupled with a strong housing market, high online consumer spending and strong technology, moderate residential construction and significantly reduced tourism. Given the unprecedented nature of the impact of the pandemic on the economy, economists have differing projections. However, economists universally agree that growth will be significantly facilitated with the widespread inoculations of COVID-19 vaccines. While revenue growth in recent years has allowed the County to fund one-time projects and enhanced service levels, the level of future growth will dictate the impacts on projects and levels of service. The County is committed to maintaining essential services and will endeavor to align 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 outpace revenue growth, 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:

- **Building a System of Care:** The County continues to move forward with several key initiatives to improve the overall response to homelessness across the region, including:
 - **Regional Response to Homelessness and Emergency Shelter Developments:** The most recent adopted budget includes funding for the operation of the Yale Transitional Center facility. The Yale Transitional Center is



an emergency shelter and will serve up to 425 individuals experiencing homelessness in the Central Service Planning Area of Orange County. The County also remains committed to supporting city-led shelter programs through field-based outreach teams that integrate County behavioral health resources. The continuous partnerships between the County and each of the 34 cities in Orange County is essential to meet the needs of people, linking them from street outreach to shelter, as the System of Care continues to expand. Through these efforts and others, the County is working together with cities to respond to regional community needs. Also included in the budget is funding for bridge housing and housing navigation to assist homeless individuals in overcoming barriers as they transition from the street to permanent housing.

- **System Integration:** The County leverages available resources by integrating various County services within the emergency shelter, health care, behavioral health and community re-entry systems. Proposed initiatives address mental health and substance abuse treatment, providing linkages to services, recidivism reduction, and post-incarceration re-entry services to the community. To that end, the County purchased a centrally located building in the City of Orange to establish a behavioral health campus made possible through partnerships with community organizations. The campus will employ an integrated approach, co-locating mental health and substance abuse treatment and will provide the ability to leverage funding and establish more effective and efficient service delivery systems. Services offered will include crisis stabilization, recidivism reduction, and linkages to services for all community members. Construction of the Be Well OC Behavioral Health Services campus is anticipated to be completed in December 2020 with services fully implemented by June 2021.
- **Data Sharing Platform for Care Coordination:** A project is underway to develop a system platform that would integrate information and data across the County's System of Care, including health care, behavioral health, community corrections, housing, and benefits and support services, with the first phase completed in December 2020. Mental Health Services Act and Whole Person Care funds (\$3.8 million) were used to map processes across the involved departments and identify potential vendors to develop a system platform. In March 2020, the County contracted with IBM to develop the system platform. Implementation of an operationally proven, innovative, scalable and sustainable platform is a priority for the County. In addition, efforts will continue to identify funding for the next phases of the project.



- **Integrated Services Strategy:** The Integrated Services 2025 Vision Report, presented to the Board of Supervisors on October 22, 2019, lays the groundwork for implementation of the Integrated Services Strategy. This strategy prioritizes behavioral health prevention and reentry efforts, in-custody behavioral health treatment, in-custody vocational and educational programming and collaboration with courts as part of the larger effort to strengthen the County's System of Care.
- **Capital and Infrastructure Improvements:** The County continues on a path to improve agency infrastructure in various areas including the Civic Center Facilities Strategic Plan (CCFSP), an initiative that addresses 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; and better manage long-term occupancy and maintenance costs. The County is also actively exploring options for development projects that would use County assets to generate ongoing revenue streams.

The Process

The Strategic Financial Plan (the Plan or SFP) is a financial component of the County's Strategic Plan that provides short and long-term operational linkage between the County's Strategic Plan and the annual budget process. It offers a means to gauge Departments' needs and resources to ensure the County's financial position is sufficient to support ongoing services and long-term needs while ensuring genuine sustainability within potential future economic constraints. The Plan 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 Plan provides the context for a five-year operating budget and prepares for development of the next fiscal year budget with the condition that assumptions used in developing the plan may change over time. The Plan 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 which are 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 Plan consist of the following in addition to the projected General Purpose Revenue:

Revenue Type	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
State Revenue	\$ 1,336.5	\$ 1,378.1	\$ 1,405.6	\$ 1,432.8	\$ 1,459.4
Federal Revenue	479.4	465.1	469.4	474.6	480.5
Charges for Services	507.1	529.0	528.2	540.4	540.1
Other Financing Sources	392.9	397.8	384.1	375.7	381.1
Licenses, Permits & Franchises	24.9	25.8	26.0	26.1	26.3
Miscellaneous Revenues	11.2	11.6	12.3	13.3	14.4
Fines, Forfeitures & Penalties	8.3	8.0	8.1	8.1	8.1
Use of Money & Property	11.2	13.8	15.7	15.8	15.8
Other Governmental Agencies	14.0	14.4	14.8	15.2	15.6
Subtotal	\$ 2,785.5	\$ 2,843.7	\$ 2,864.2	\$ 2,901.9	\$ 2,941.2
General Purpose Revenue	949.2	968.2	998.9	1,030.4	1,062.9
Grand Total	\$ 3,734.7	\$ 3,811.9	\$ 3,863.1	\$ 3,932.3	\$ 4,004.1

State and Federal revenue sources, in particular, are reviewed and closely monitored to identify possible issues. Any issues identified during the SFP process are reported to the County’s Legislative Affairs unit, which then communicates the concerns to 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 issues.

As in prior years, the SFP focuses on General Fund gap analysis to highlight the continuing impact of projected declining General Fund revenue growth and the ongoing cost of doing business. The plan focuses on identification of General Fund fiscal gaps (comprised of Departmental planned expenditures net of Departmental revenues and NCC) and imbalances that will need to be addressed during the FY 2021-22 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 2021-22 prior to the usual timeframe of the annual budget process, thereby allowing more time for collaboration and creative 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 2020 SFP includes:

- General Purpose Revenue forecast developed in conjunction with forecasts by the Auditor-Controller, the 2020-21 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 2020 was included as part of the 2020 SFP instructions. As changes occur in the economy, projections will be updated during the FY 2021-22 annual budget development process.

Key Assumptions:

- The total cost of salaries and benefits is expected to increase over the five-year plan 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 plan. 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 2020 SFP are the following economic and demographic assumption changes adopted by the Orange County Employees Retirement System (OCERS) Board on October 16, 2017, which included a three-year phase-in of the cost impact to the contribution rates associated with the Unfunded Actuarially Accrued Liability (UAAL):

- Reduced the assumed investment rate of return from 7.25% to 7.00%
- Reduced the assumed rate of price inflation from 3.00% to 2.75%
- Adopted the use of generational tables, which have identified reduced rates of mortality for members



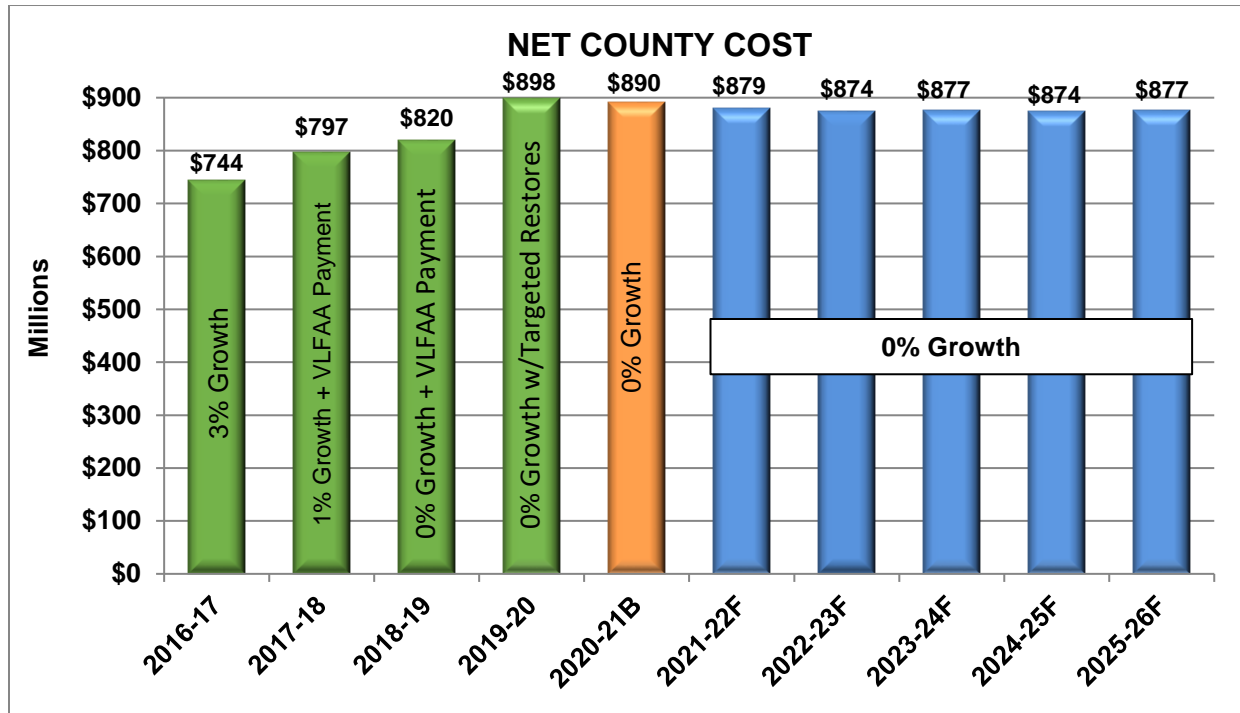
As a result of the cumulative effect of the three-year phase-in of the assumption changes to the UAAL and the unfavorable 2018 investment losses of 2.46%, contribution rates increased beginning in FY 2019-20 through FY 2021-22, the first year of the plan. After the three-year phase-in, contribution rates are projected to stabilize beginning in FY 2022-23, fluctuating slightly due to investment smoothing.

- Retirement Rate Assumptions (Tier II) utilize the assumed investment rate of return of 7.00% for all years, which resulted in the following retirement rates over the five-year plan:
 - Safety Rate ranges from 72.5%% to 75.2% (3@50; excludes retiree medical)
 - Non-Safety Rate ranges of 35.6% to 36.9% (2.7@55; excludes retiree medical)
 - Retiree Medical for Safety ranges from 1.4% to 1.6% (3.1% to 3.3% for Law Enforcement Management)
 - Retiree Medical for Non-Safety ranges from 3.3% to 3.4%

- Health Benefit Cost Assumptions
 - 5-Year Growth from \$217 million to \$289 million, a 33% increase

- Consumer Price Index (CPI) Assumptions for Services & Supplies: 3.7% to 3.8%

- Departmental NCC limits were set for ongoing baseline operations (current levels of service). FY 2021-22 NCC limits were projected using the adopted FY 2020-21 limits (\$890 million) as a starting point, with amendments for technical adjustments and removal of one-time items resulting in proposed baseline limits for FY 2021-22 of \$879 million. Departments have identified \$203 million in appropriation reductions that would be required to meet the FY 2021-22 NCC limits. After factoring in NCC limit growth of 0% in FY 2021-22 through year five of the Plan and removing any one-time items, Departments identified a 5-year cumulative budget gap of \$586 million. The following table summarizes historical budgeted and forecasted NCC.



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

Program	16-17	17-18	18-19	19-20	20-21B	21-22F	22-23F	23-24F	24-25F	25-26F
Public Protection	\$413.37	\$454.05	\$441.67	\$506.60	\$601.08	\$500.08	\$498.15	\$498.15	\$498.15	\$498.15
Community Services	127.23	128.77	129.43	152.32	178.05	178.13	178.13	178.13	178.13	178.13
Infrastructure	22.33	22.27	37.10	35.71	36.41	35.85	35.85	35.85	35.85	35.85
General Government	121.27	123.84	116.25	140.98	130.18	131.16	127.54	131.07	127.54	131.07
Capital Improvements	20.31	15.74	22.93	53.81	28.96	21.99	22.98	22.98	22.98	22.98
Debt Service	0.87	0.87	0.24	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Insurance, Reserves & Misc.	38.87	51.36	72.38	9.00	(84.64)	12.00	10.86	10.86	10.86	10.86
GRAND TOTAL NCC	\$744.25	\$796.90	\$820.00	\$898.47	\$890.09	\$879.26	\$873.56	\$877.09	\$873.56	\$877.09

Note: FY 20-21B NCC is the adopted budget. SFP years are forecasted (F).

Outlook and Opportunities

In general, key economic indicators reflect a return to previous growth trends with the widespread availability of a vaccine and a relatively strong economic performance by the second or third year of the plan. 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 declining 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.

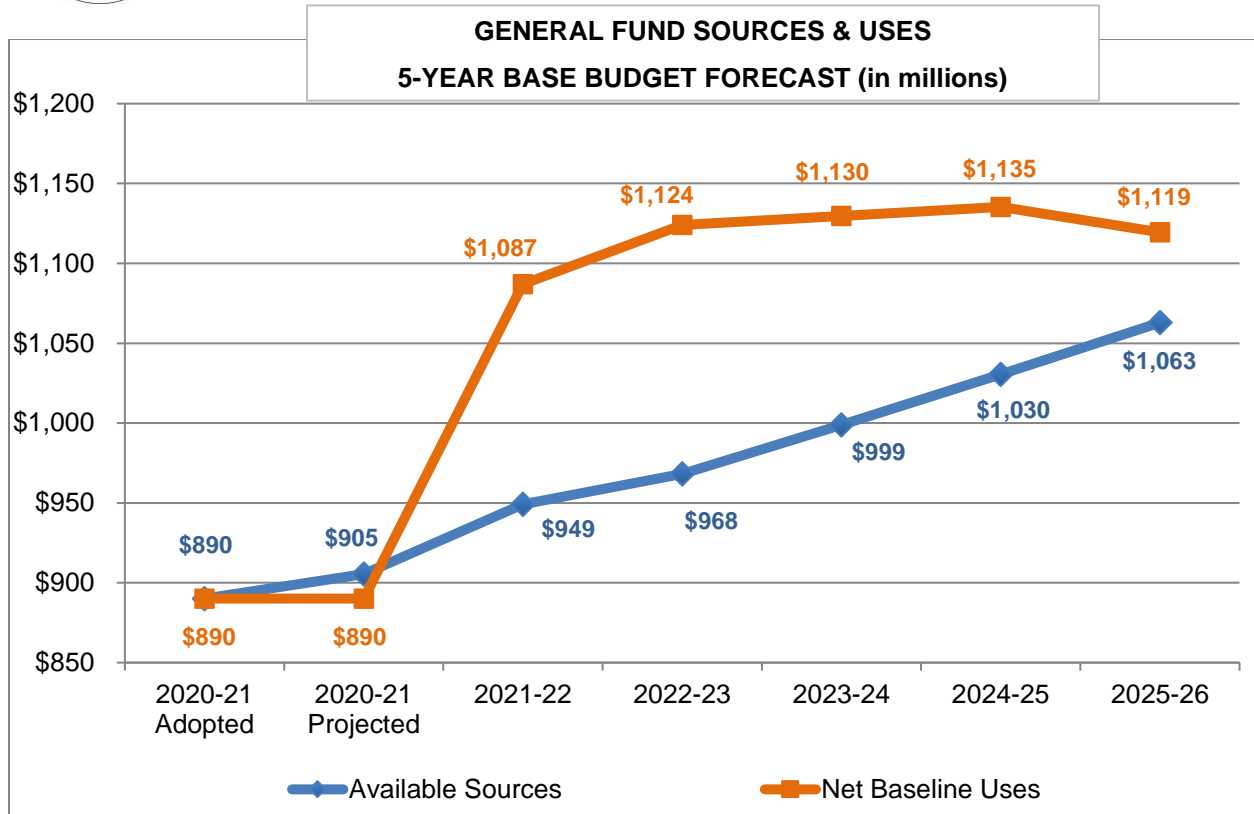
Expenditures

Key Issues –

- The cost of doing business continues to grow faster than the growth in revenue.
- 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.

The gap between sources and uses begins at a negative \$138 million in the first year of the Plan; grows to \$156 million and \$131 million in years two and three, respectively; and then decreases to \$56 million by year five. The projected cumulative deficit for the five years is \$586 million if all restore 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. For example, FY 2020-21 actual Prop 172 Excess Public Safety Sales Tax revenue receipts are coming in higher than budget, which could reset the base revenue amount for FY 2021-22 during the budget development process, resulting in a gap lower than the current \$138 million estimate. However, increasing costs in Community Services, such as in IHSS, General Relief and homelessness initiatives could constrain the ability to fund operations in other areas.

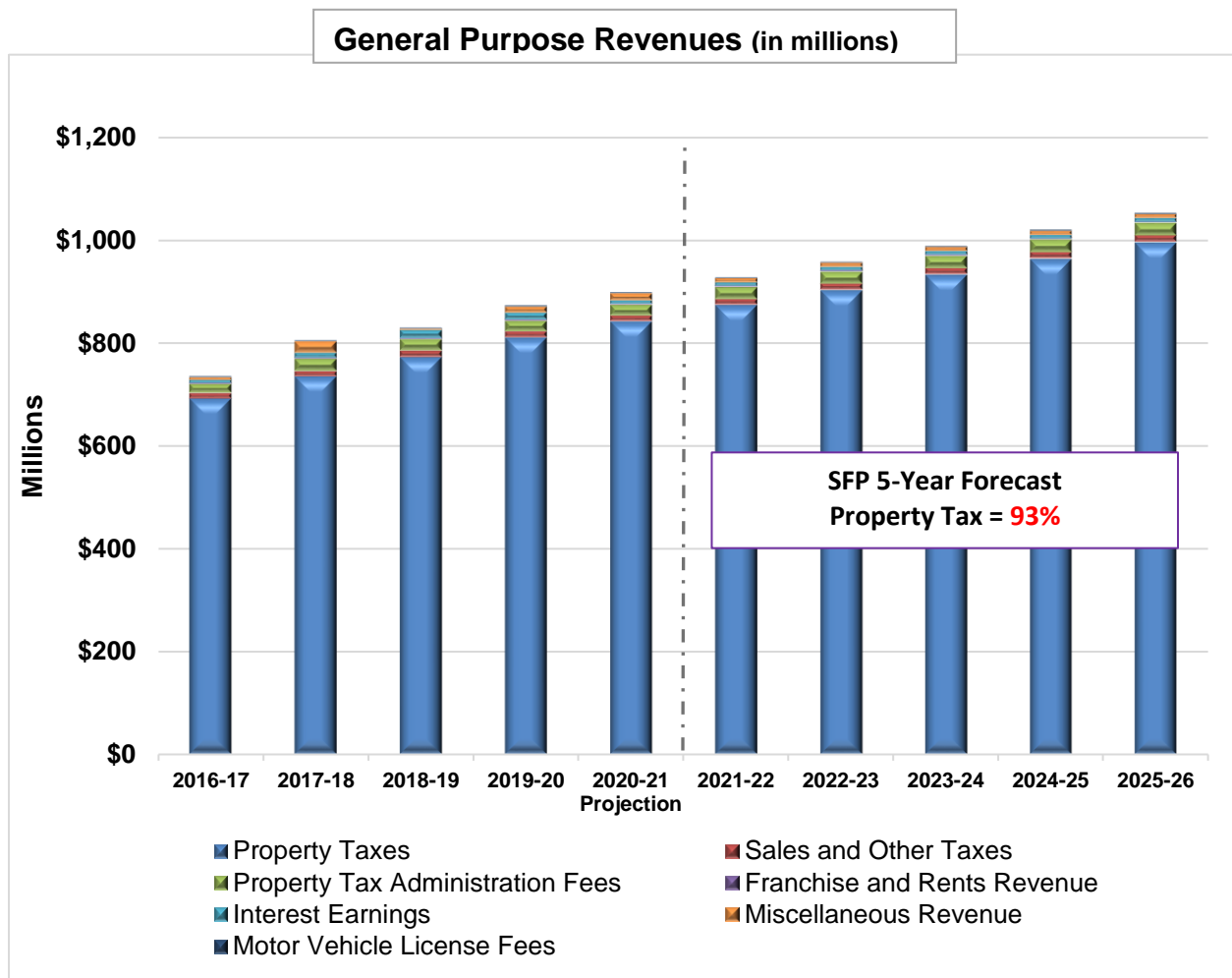
Over the five years of the Plan, departments requested a total of \$130 million in expand augmentation requests primarily to fund the James A. Musick expansion, increased staffing and equipment needs. In addition, departments requested a total of \$435 million in strategic priority requests including \$60 million related to Integrated Services programs with the remaining \$375 million related to department-specific requests.



Revenues

As previously illustrated, Departmental base revenues (sources) are projected to grow slowly, and not to the extent of Departmental base expenditures (uses).

The Plan 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.



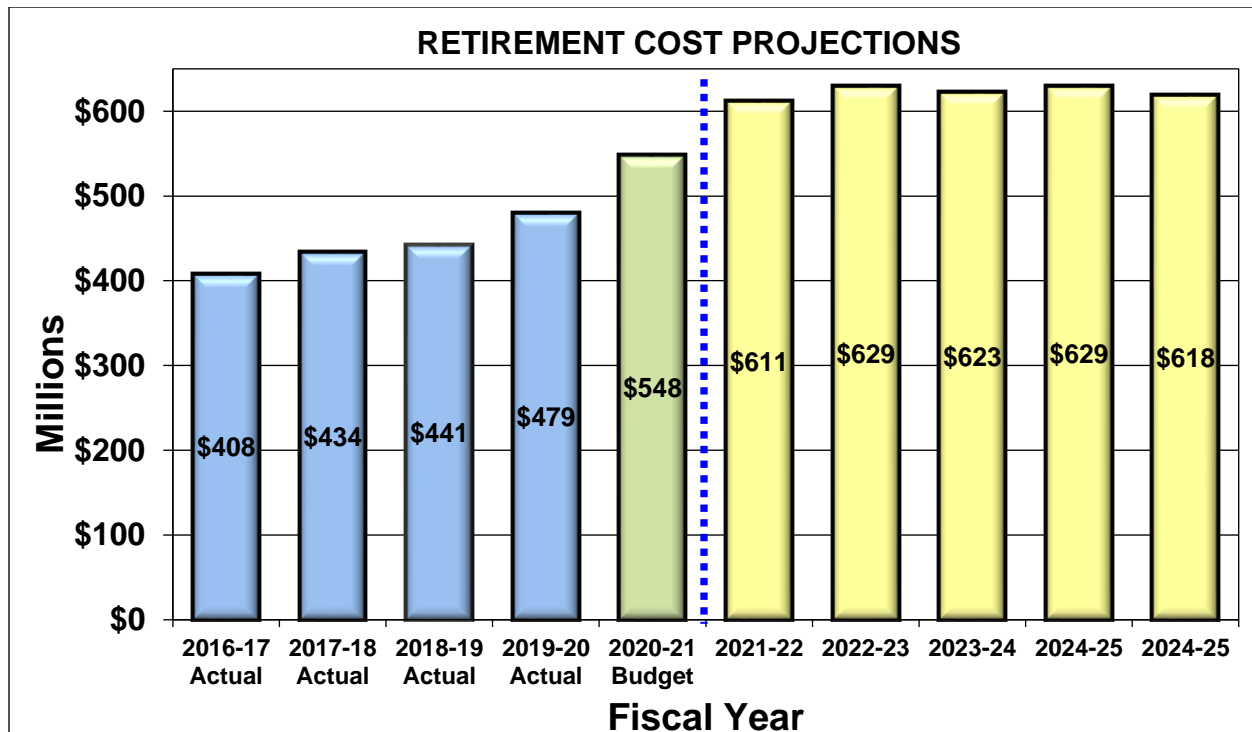
Retirement

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 required contributions to OCERS that, when combined with employee contributions and investment income, fully provide for member benefits by the time they retire.

For the 2020 SFP, the County's projected cost of retirement shows a significant increase over the 2019 SFP forecast primarily due to the following:

- Negotiated contract salary increases, as well as reduction in the reverse pickup, approved by the Board of Supervisors during FY 2019-20 for FY 2019-20 through FY 2022-23.
- The final year of the three-year phase-in of the unfunded actuarial accrued liability (UAAL) cost impact due to actuarial assumption changes adopted by the OCERS Board on October 16, 2017, which includes:
 - A reduction in the assumed rate of return from 7.25% to 7.00%
 - A reduction in price inflation from 3.00% to 2.75%
 - The application of generational tables presenting reduced rates of mortality
- The 2019 Cost of Living Adjustment (COLA) increase for retirees was larger than expected. The inflation assumption is 2.75%; however, in 2019, a 3.0% COLA increase was provided to retirees. Therefore, there was an additional 0.25% over the expected COLA.
- Investment losses after smoothing. Even though 2019 returns were 14.79%, only one fifth of the 14.79% gains are recognized. Two fifths of the 2018 market losses of 2.46% are also being recognized.

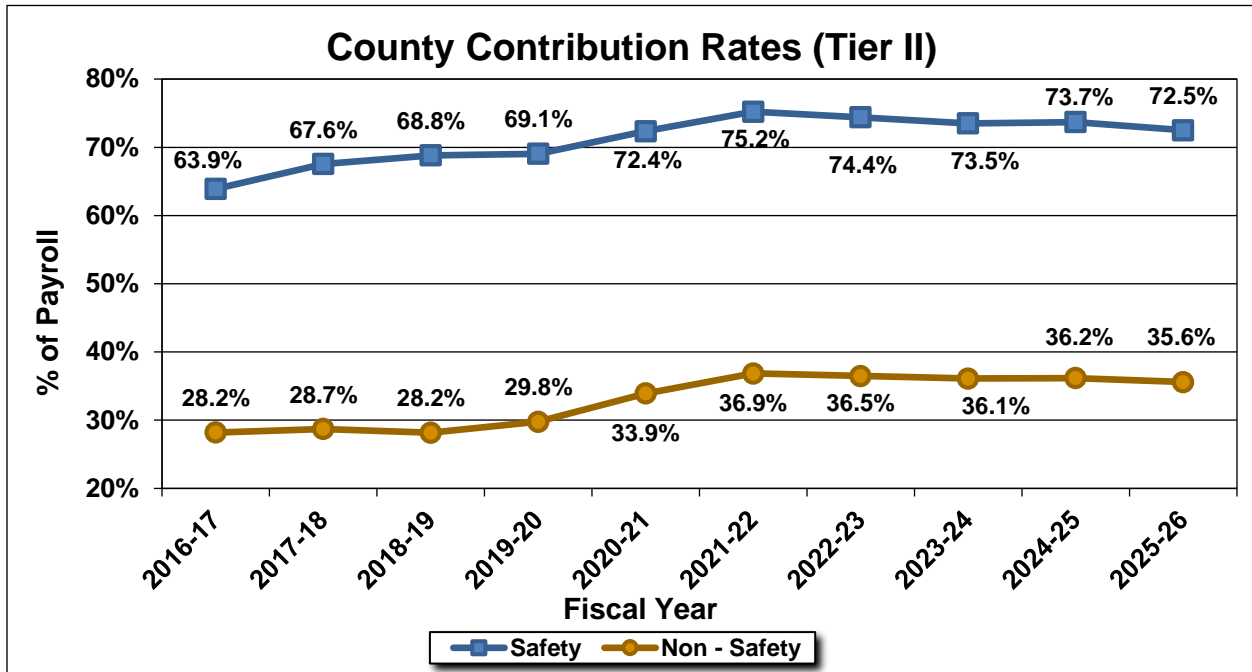
Due to these impacts and as illustrated in the table below, forecasts for retirement reflect annual costs increasing significantly to \$629 million in FY 2022-23 and FY 2024-25. Due to investment smoothing, retirement costs fluctuate through FY 2024-25, before declining in FY 2025-26. The average annual change in retirement rates over the plan is 2.58%.



Note: All years exclude Pension Prepayment and Retiree Medical.

The following chart of estimated County Contribution Rates for Tier II employees reflects increased retirement rates for Non-Safety and Safety employees beginning in FY 2019-20 related to the three-year phase-in of the assumption changes to the UAAL, as well as the impact of the 2018 investment losses. After the three-year phase-in, contribution rates are projected to stabilize beginning in FY 2022-23, fluctuating slightly due to investment smoothing. Assuming all actuarial assumptions are met in the future and there are no future changes in any of the actuarial assumptions, retirement rates should begin to decline as the 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 October 2020, the County had 6,304 (approximately 39%) County employees enrolled in PEPRA retirement plans, an increase from 5,731 (approximately 35%) County employees as of September 2019.

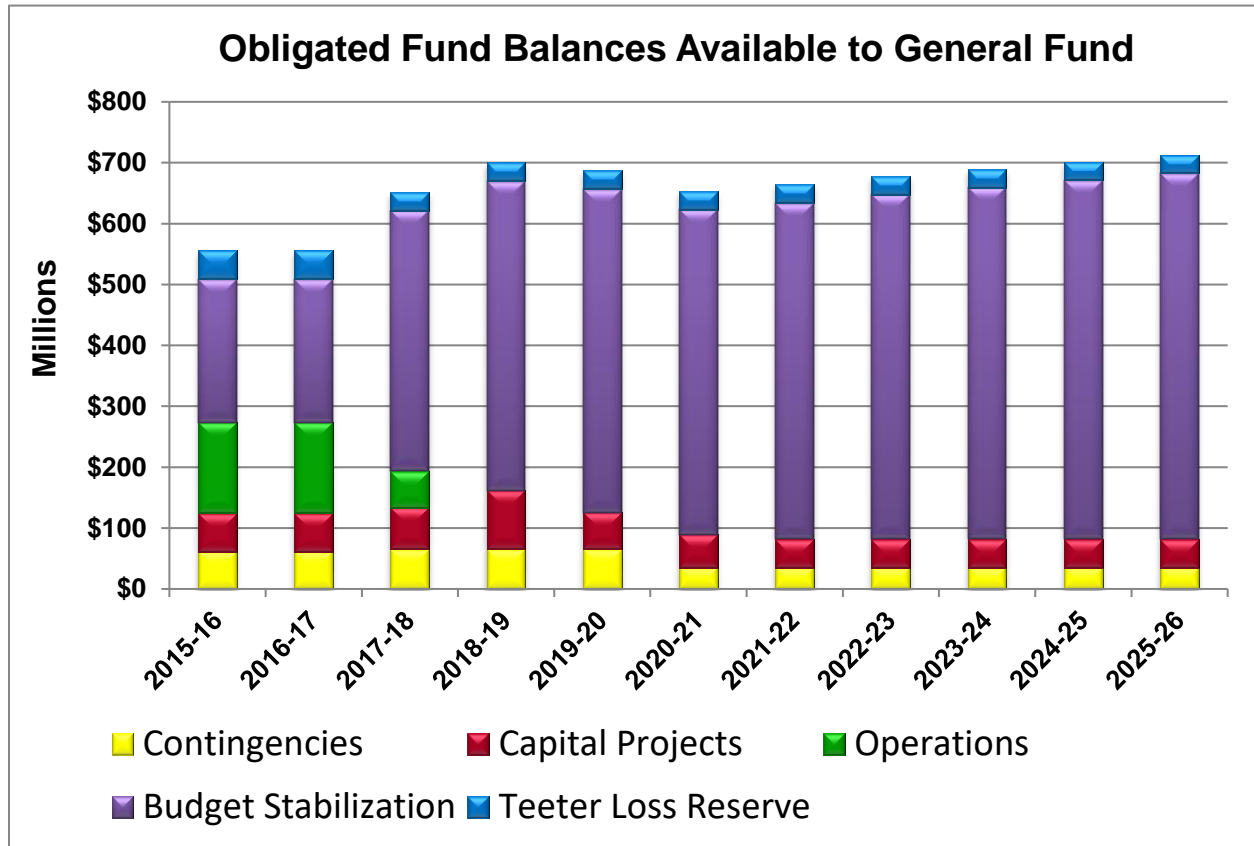


Notes: All years exclude Retiree Medical.



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.

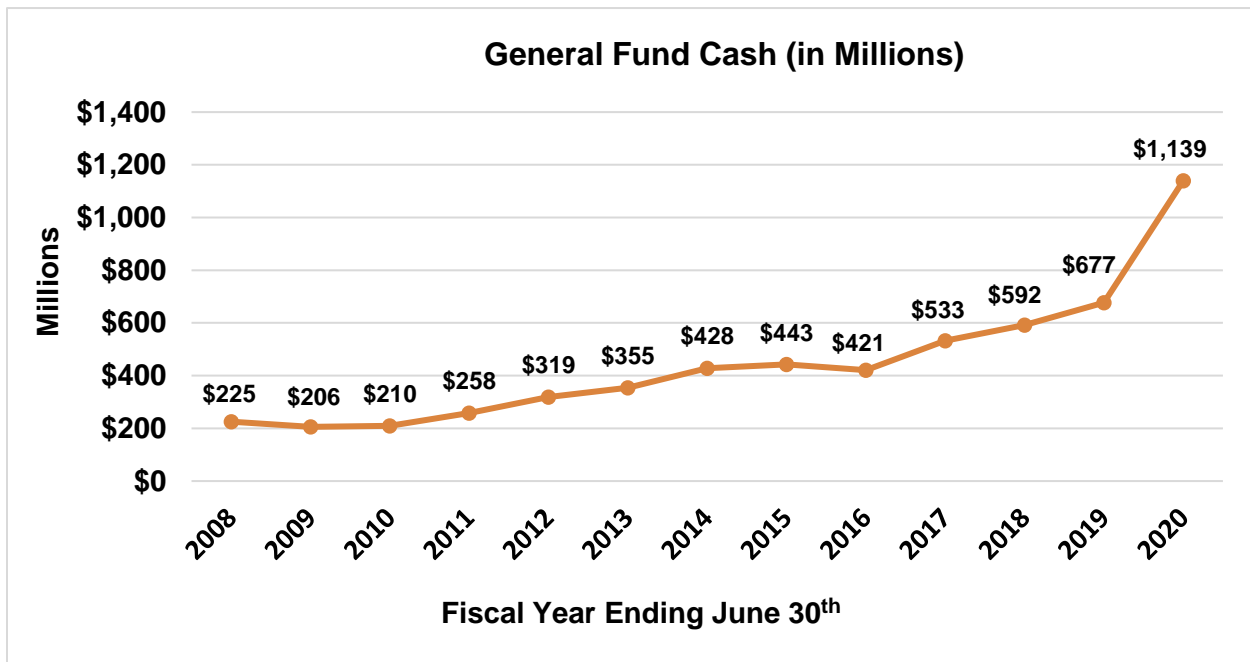


(Note: Balances exclude accounts held by other authorities/agencies such as balances held by the Orange County Employees Retirement System [OCERS].)

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 current and projected obligated fund balances available to the General Fund reflect a healthier reserve position. Only increases to the Budget Stabilization reserve are forecasted in order to maintain the GFOA recommended target reserve in each of the Plan 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, 2020. 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 2020 is due to the receipt of one-time Coronavirus Aid, Relief, and Economic Security (CARES) Act revenue.



Note: Cash balances are as of June 30 of each year as reported in the Comprehensive Annual Financial Report (CAFR). Cash balance for 2020 is preliminary as of November 19, 2020.



Infrastructure & Capital Expenditures

Economic conditions and competing priorities for General Funds influence how the County addresses capital spending. Beginning in FY 2007-08, like other peer counties, Orange County deferred necessary investments in capital assets and equipment to balance strained budgets and lessen potential cuts to ongoing operations and programs. Since that time, the County has used a portion of the modest growth in revenues to fund previously deferred critical projects such as the Sheriff's CCTV (closed circuit television) jail video system, jail electronic security and electrical upgrades, jail hardening, Sheriff vehicle replacement, and renovation and upgrade to the Katella Training Facility. In addition, one-time revenues are being utilized to fund the James A. Musick facility expansion and upgrades to the County Property Tax System.

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 2021-22 budget process with a goal of preserving the capacity to provide quality services to stakeholders, including external clients and employees. 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. In addition, projected budgetary impacts as a result of the COVID-19 pandemic mean that re-evaluation of Department budgets and reprioritization of projects will be required during the budget process.

Summary

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. The County continues to make significant progress with key initiatives including construction of the two new Civic Center Buildings, expansion of the James A. Musick facility, completion of the Be Well OC Behavioral Health Services campus, and completion of the new Yale Transitional Center.

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 continues to apply discipline to financial management;
- Structural balance focused on values and core services continues to be a priority;
- The County continues to seek creative alternatives and partnerships.

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