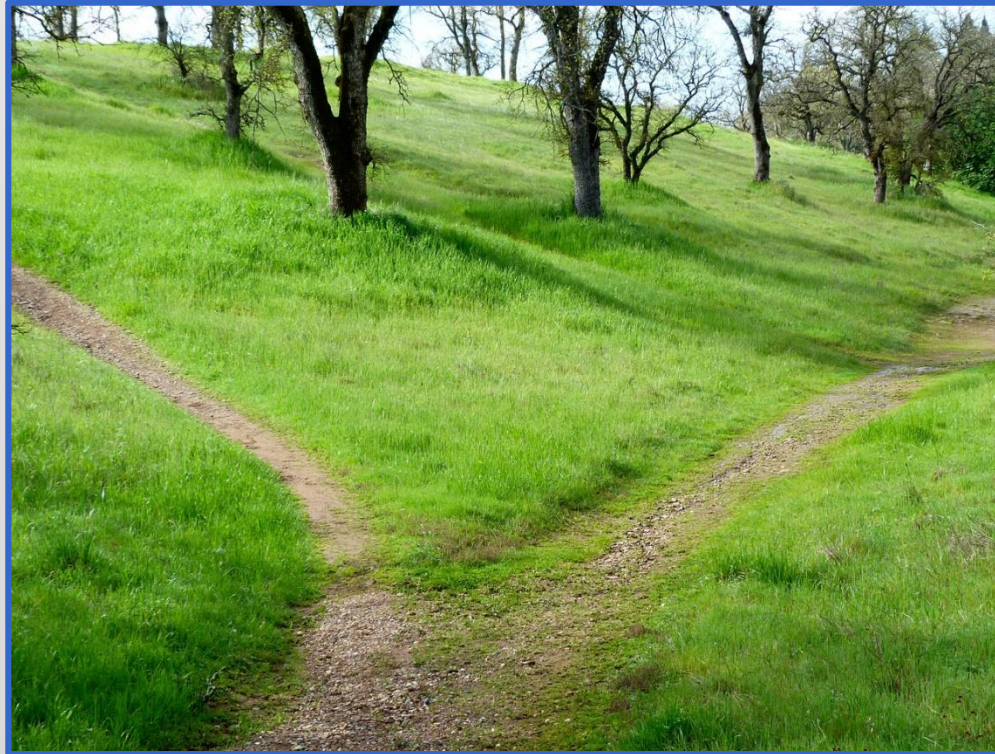




2016 Strategic Financial Plan

Special Meeting

December 6, 2016



Michelle Aguirre
Chief Financial Officer



Today's Agenda

- Michelle Aguirre, Chief Financial Officer
 - Strategic Direction
- Dr. Chris Thornberg, Founding Partner, Beacon Economics
 - Economic Conditions & Forecast
- David Brodsly, Managing Director, KNN Public Finance
 - Orange County's Financial Position
- Lisa Bohan-Johnston, County Budget Director
 - Strategic Financial Plan Overview
- Assistant Sheriff Steven Kea
 - Integrated Services Overview



Strategic Plan Priorities 2012 & 2015

- **Stabilize budget and prepare for contingencies**
- Develop a competent and cost-effective technology model
- Succession plan and invest in workforce development
- Simplify/increase flexibility of administrative policies and procedures
- **Address and fund agency infrastructure**



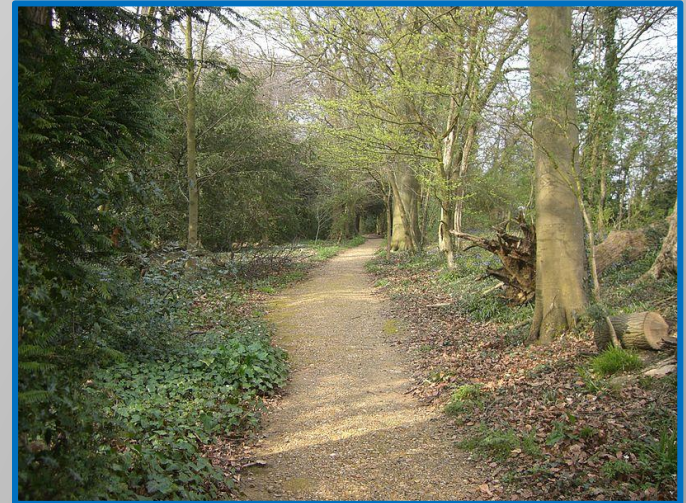
Path and Strategies

Path to the Present

- Reserves – Target, Contingency
- Credit Rating
- Public Safety Revenue
- VLFAA Payments

Road to the Future

- Debt Management Policy
- Position Policy
- IT Plan & Governance
- Conservative & Disciplined Path to the Future





Economic Conditions & Forecast

Dr. Chris Thornberg

Founding Partner





Orange County's Financial Position

David Brodsky

Managing Director





The Value of Financial Planning

David Brodsly
Managing Director
KNN Public Finance



Learning from the Rating Agencies

- Provide a long-term perspective on fiscal health
 - Compare similar credits in California and across nation
 - Calculate medians for key financial statistics
 - Observe practices of both strong and weak credits
 - Ratings are third-party indicators of fiscal health
- Longer-term interests of investors can align with longer-term interests of a community
 - Residents and local businesses make long-term investments, like a bond investor
 - Both value stability



Beyond the Ratings

- County responsibilities more complex than simply debt repayment
 - Markets focus on numbers only
- Rating agencies are not prescriptive
- Case Study: Orange County
 - Ratings in 1994, prior to bankruptcy, were nearly the same as today



Overlapping Values

- Value of Financial Management
- Value of Planning
- Value of Policies
- Value of Reserves



Value of Financial Management

- County's 2016-17 Budget Message
 - Disciplined approach to fiscal management
 - Consistent with the Board's Strategic Plan goals
- Fitch's 12 Habits of Highly Successful Finance Officers
 - Management practices and policies can add stability
 - Discipline as part of long-range financial management improvements helps during tough times
- S&P's Financial Management Assessment
 - Rigor of a government's financial management practices is an important factor
 - Implementing timely and sound financial and operational decisions in response to economic and fiscal demands is a primary determinant of near-term changes in credit quality



Value of Planning

- Rating agencies value key components of County's Strategic Financial Plan
 - Operating Fund Forecast
 - Capital Improvement Plan
 - IT Project Plan
 - Strategic Priorities



Value of Policies

- Formal Statements of Policies and Goals Provide Path to Best Practices
 - Investment Policies
 - Positive legacy of the Orange County 1994 bankruptcy
 - Reserve Policies
 - Reviewed and formalized in 2010
 - Revisited annually in Strategic Financial Plan process
 - Debt Management Policy
 - New comprehensive policy for Board consideration in 2016 Strategic Financial Plan
 - Position Policy
 - New policy for Board consideration in 2016 Strategic Financial Plan



Value of Reserves

- Fund Balance and Other Reserves
 - Key indicators of financial health and resilience
 - The rating agencies' "idiot light" on the credit dashboard
 - Fitch: "Maintaining an operating reserve or rainy day fund is perhaps the most effective practice an issuer can use to enhance its credit rating."



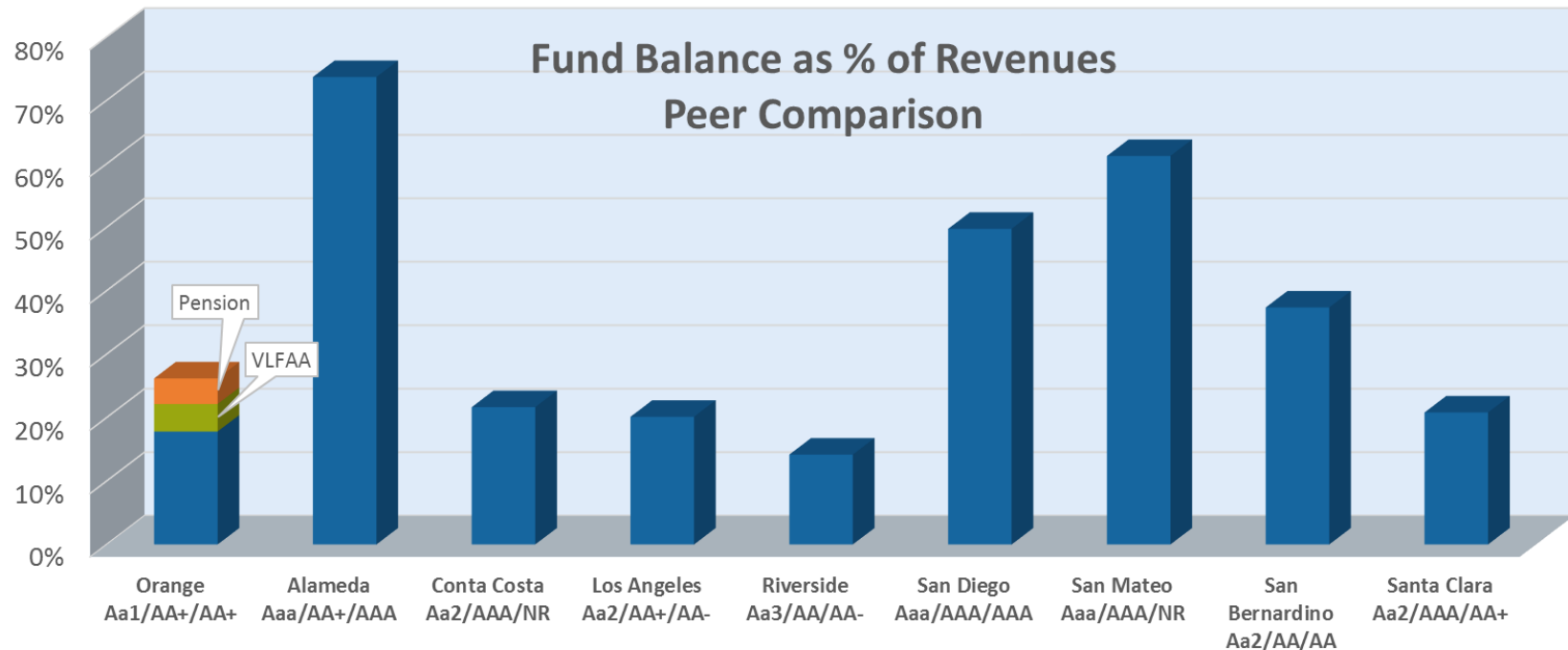
Reviewing Key Credit Metrics

- Subject to Management/Legislative Decisions
 - Policies and Planning
 - Fund Balance
 - Retirement Funding
 - Debt Burden



Fund Balance

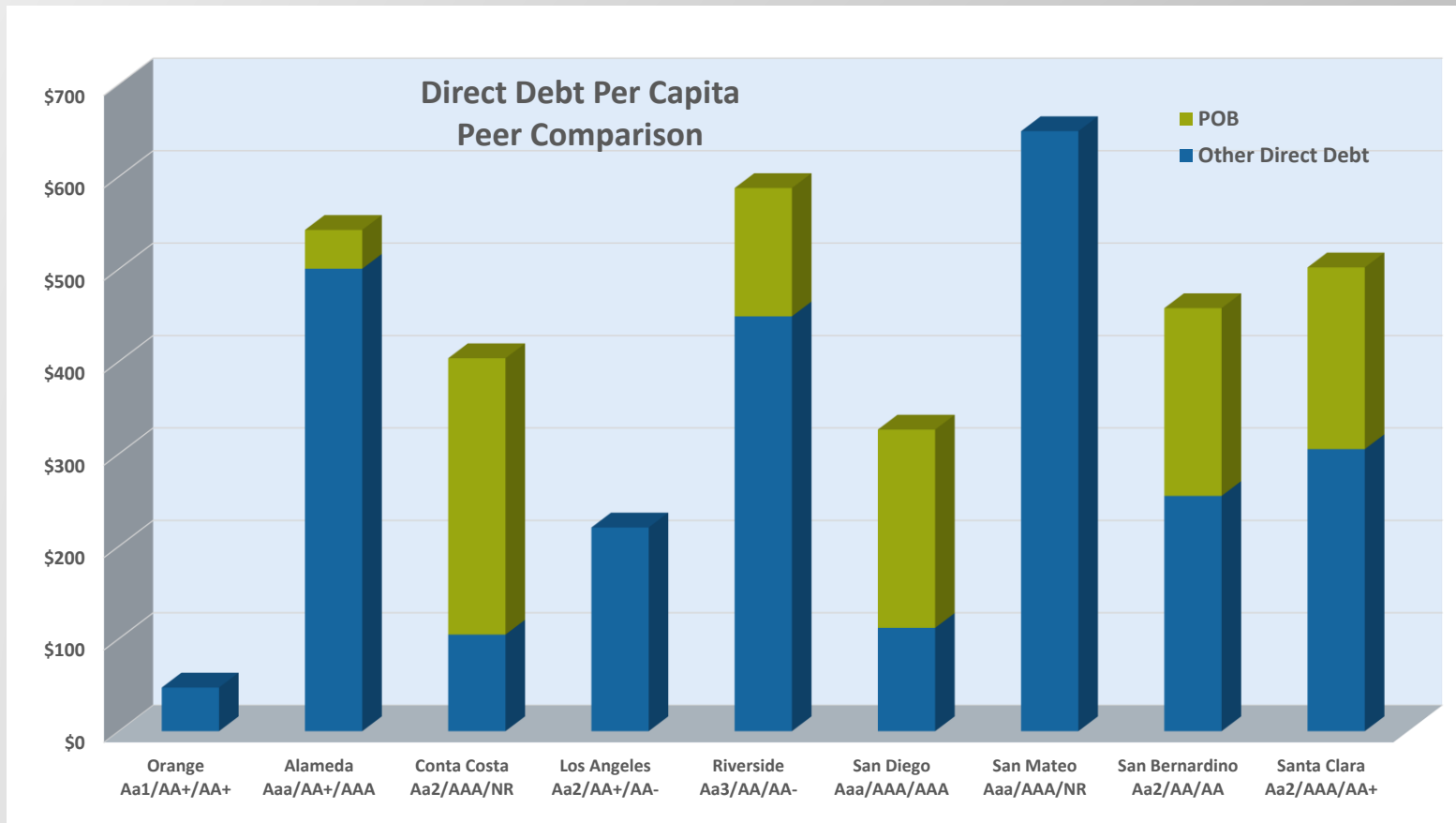
- Rating agencies look at “GAAP” fund balance
- County’s reserve policies, Strategic Plan and budget practices result in adequate fund balance





Low Debt Burden a Key OC Credit Strength

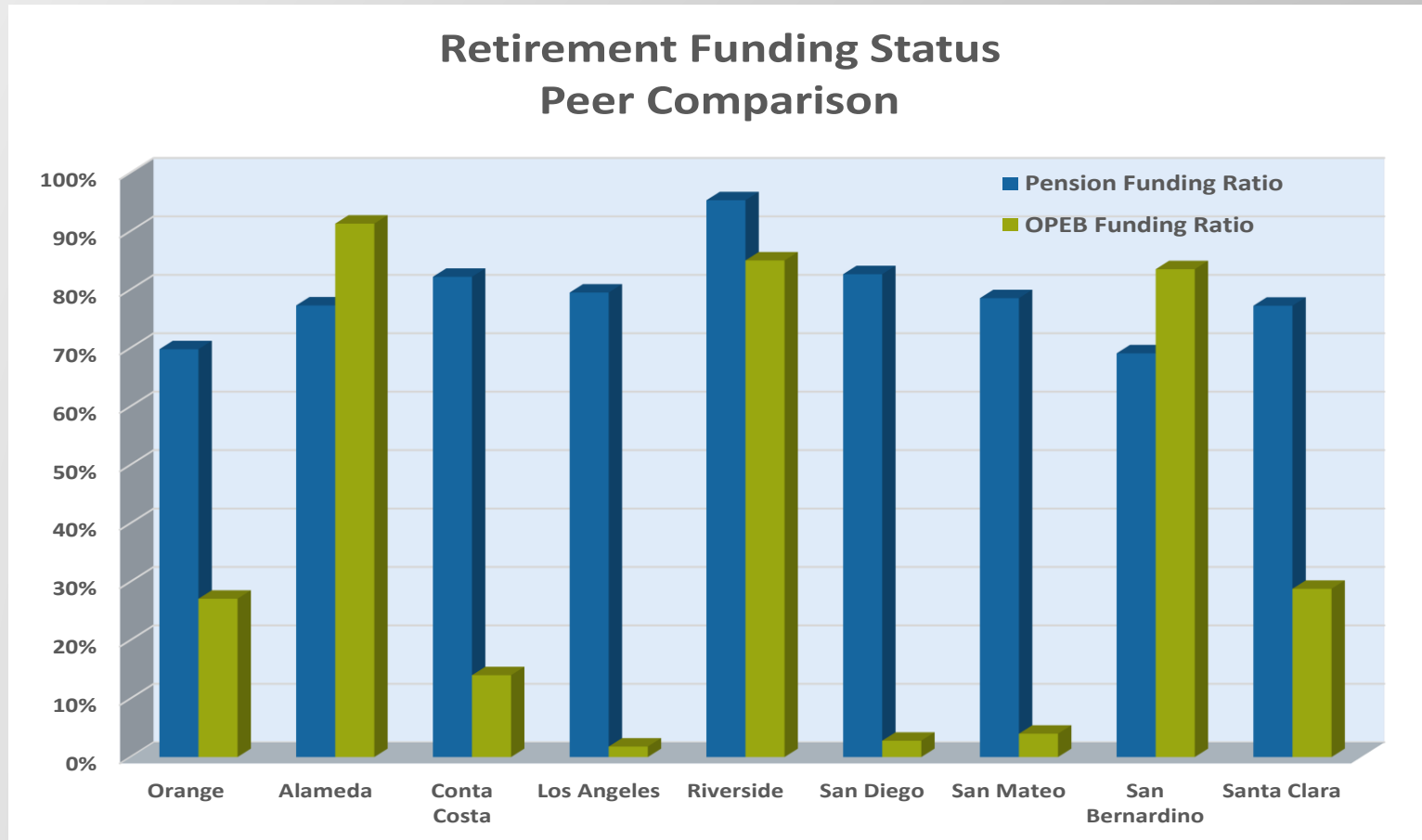
- General Fund – Bankruptcy Debt retired in 2015
- Non-General Fund – Bankruptcy Debt to be retired in 2017





Retirement Funding

- Increasing focus on these liabilities





Rating Agency Observations

Moody's—October 2016 Report (Surveillance)

- Strengths
 - Large and diverse economy
 - Conservative budgeting practices and policies
 - Modest debt burden
- Challenges
 - Improved but narrow reserve levels compared to other counties
 - Reliance on State/Federal funding
- Outlook
 - Stable outlook dependent on continued improvement in financial position
 - Modest issuance of debt
- Upgrade
 - Significant and sustained increase in reserves and liquidity levels
- Downgrade
 - Deterioration of reserve position
 - Failure to maintain balanced operations



Rating Agency Observations

Standard & Poor's – December 28, 2015 (Pension Note & Issuer Credit Rating)

- Very strong
 - Economy
 - Liquidity
- Strong
 - Management with good financial policies and practices
 - Budgetary performance
 - Budgetary flexibility
 - Debt and contingency liability profile



Rating Agency Observations

Fitch – December 28, 2015 (Pension Note)

- Key Rating Drivers
 - Wealthy and Diverse Economy
 - Healthy Financial Position
 - Bolstered by solid fund balance levels
 - Proactive efforts to control expenditure growth
 - Very Low Debt Levels
 - Substantial Unfunded Pension Liability
 - Despite recent pension reforms



Strategic Financial Plan



Lisa Bohan-Johnston

County Budget Director



2016-17 Budget Balancing

- **Reserves and One-Time Funding - \$13.0M**
 - Teeter Revenue - \$11.0M
 - General Fund Reserves - \$2.0M
 - Bankruptcy Debt Reserves - \$8.3M (these monies are not available in FY 2016-17 as was originally budgeted)
- **Stabilize the Budget – Ongoing Restorations - \$24.6M**
 - Sheriff - \$13.4M
 - District Attorney - \$7.5M
 - OC Public Works - \$1.0M
 - Assessor - \$1.1M
 - Auditor-Controller - \$0.8M

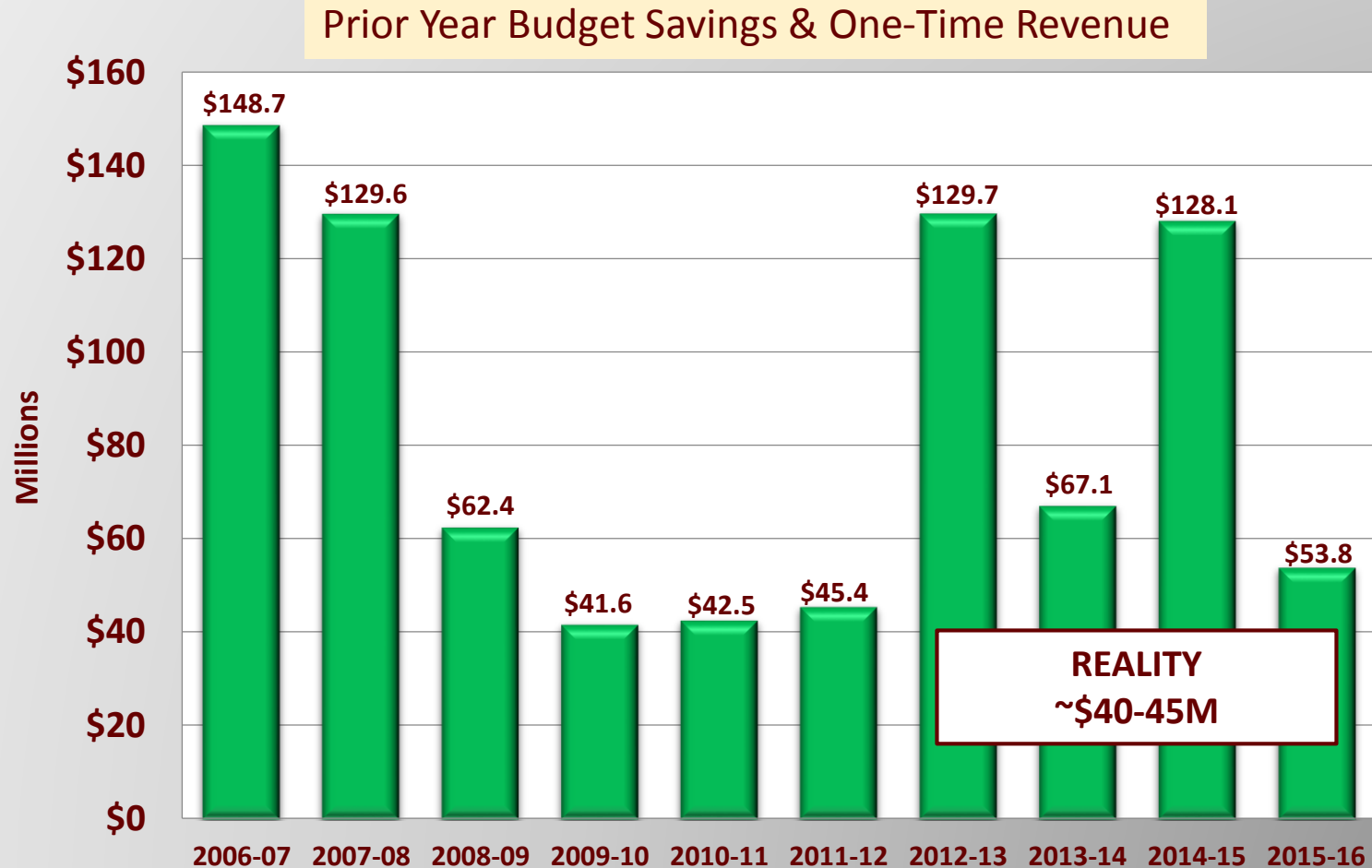


Three Years of Budget Balancing

- **\$64.6M** Over Three Years to Stabilize Budgets
- Ongoing Restorations
 - ❑ Sheriff - \$10.1M + 12.2M + 13.4M = \$35.7M
 - ❑ District Attorney - \$1.8M + 5.6M + 7.5M = \$14.9M
 - ❑ Public Administrator - \$0.6M + 0.4M = \$1.0M
 - ❑ Probation - \$1.9M
 - ❑ Public Defender - \$1.9M + 1.6M = \$3.5M
 - ❑ OC Public Works - \$0.9M
 - ❑ Assessor - \$2.4M + 1.1M = \$3.5M
 - ❑ Auditor-Controller - \$0.3M + 0.8M = \$1.1M
 - ❑ CEO - \$0.7M and HRS \$0.4M
 - ❑ Treasurer-Tax Collector - \$0.6M + .4M = \$1.0M



Fund Balance Unassigned





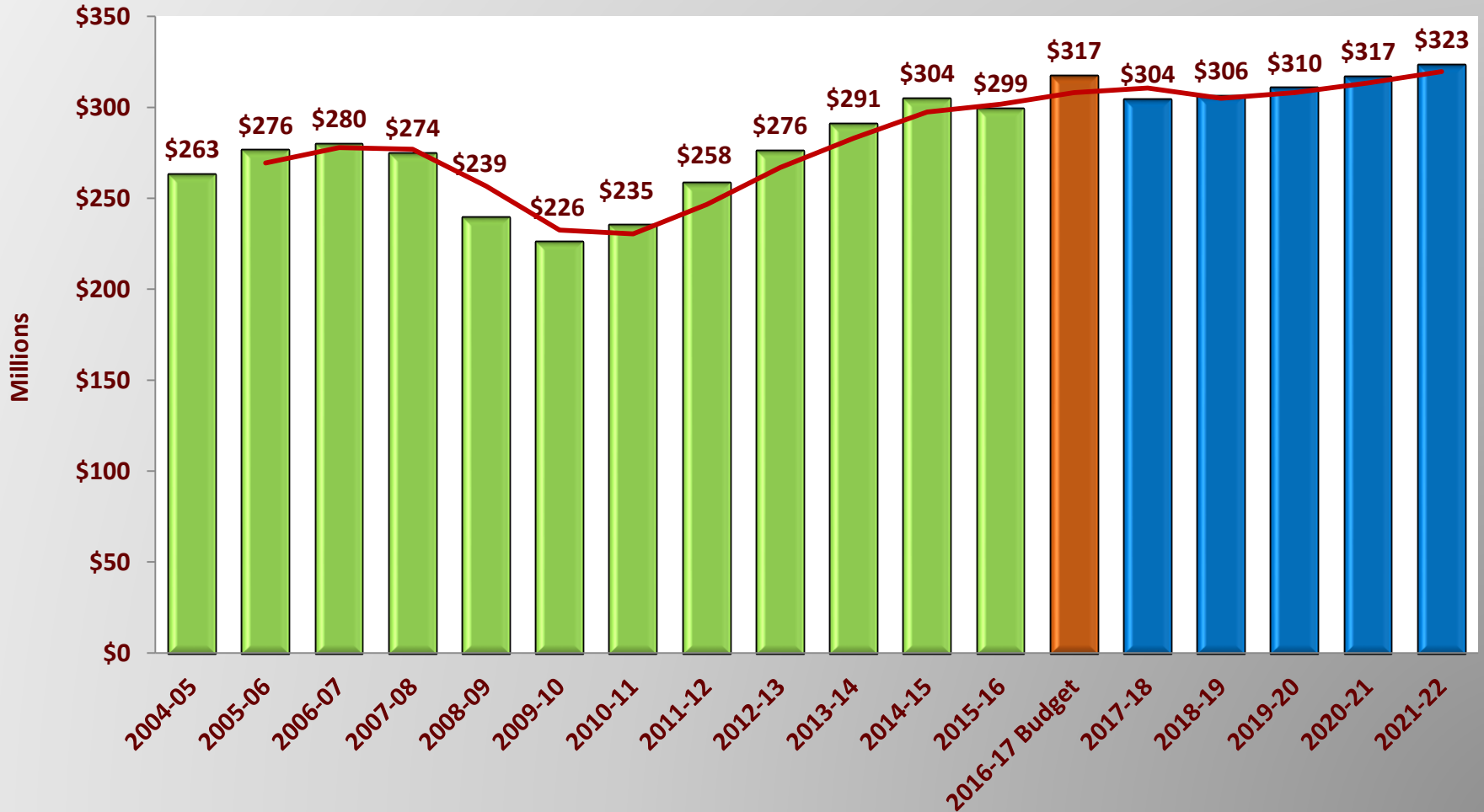
2016-17 First Quarter Budget Report

Prepare for Contingencies & Fund Agency Infrastructure

Description	Amount Committed
Target Reserve Replenish	\$ 20,909,957
Contingency Reserve Increase	1,000,000
ROV Elections System Upgrade/Replacement	5,000,000
Closed Circuit TV (CCTV)/Sheriff	1,187,750
Sheriff Helicopter	4,800,000
800 MHz Project	12,445,091
Criminal Justice Facilities	2,200,000
Miscellaneous Contingency Increase (QBAR Funding)	5,000,000
IT Security Assessment Costs	1,267,037
Total Fund Balance Commitments	\$ 53,809,835

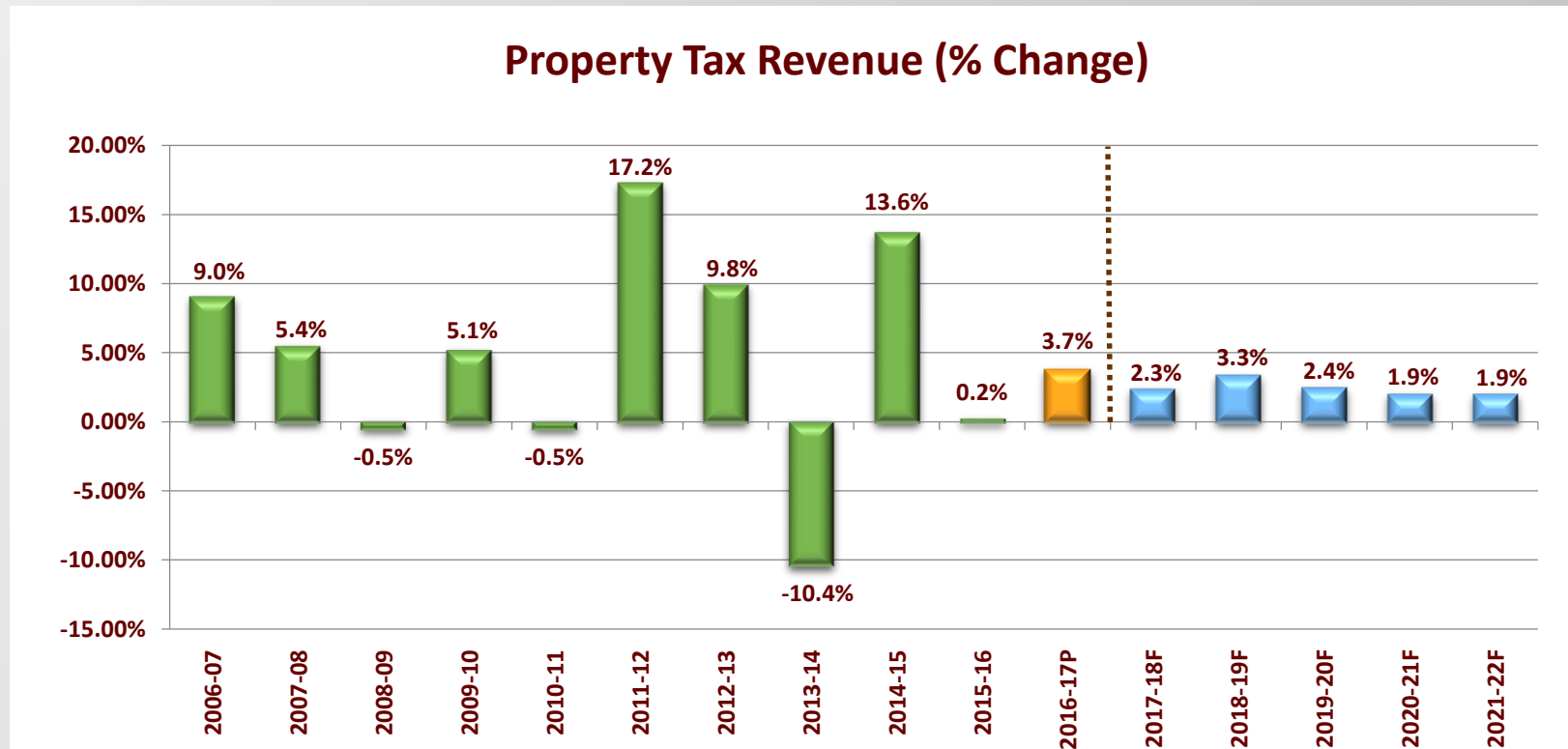


Proposition 172 Revenues



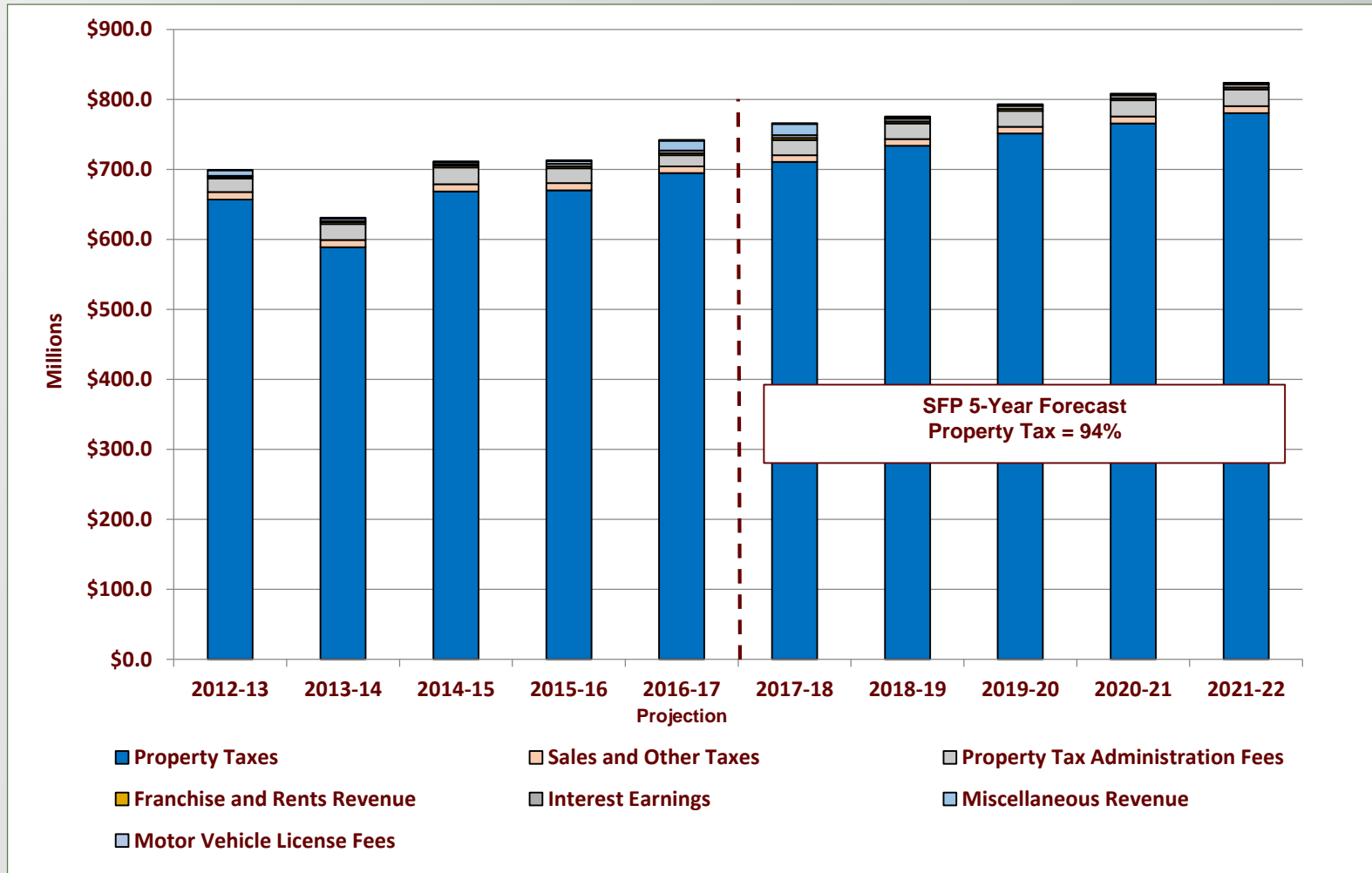


Property Tax Revenue Growth



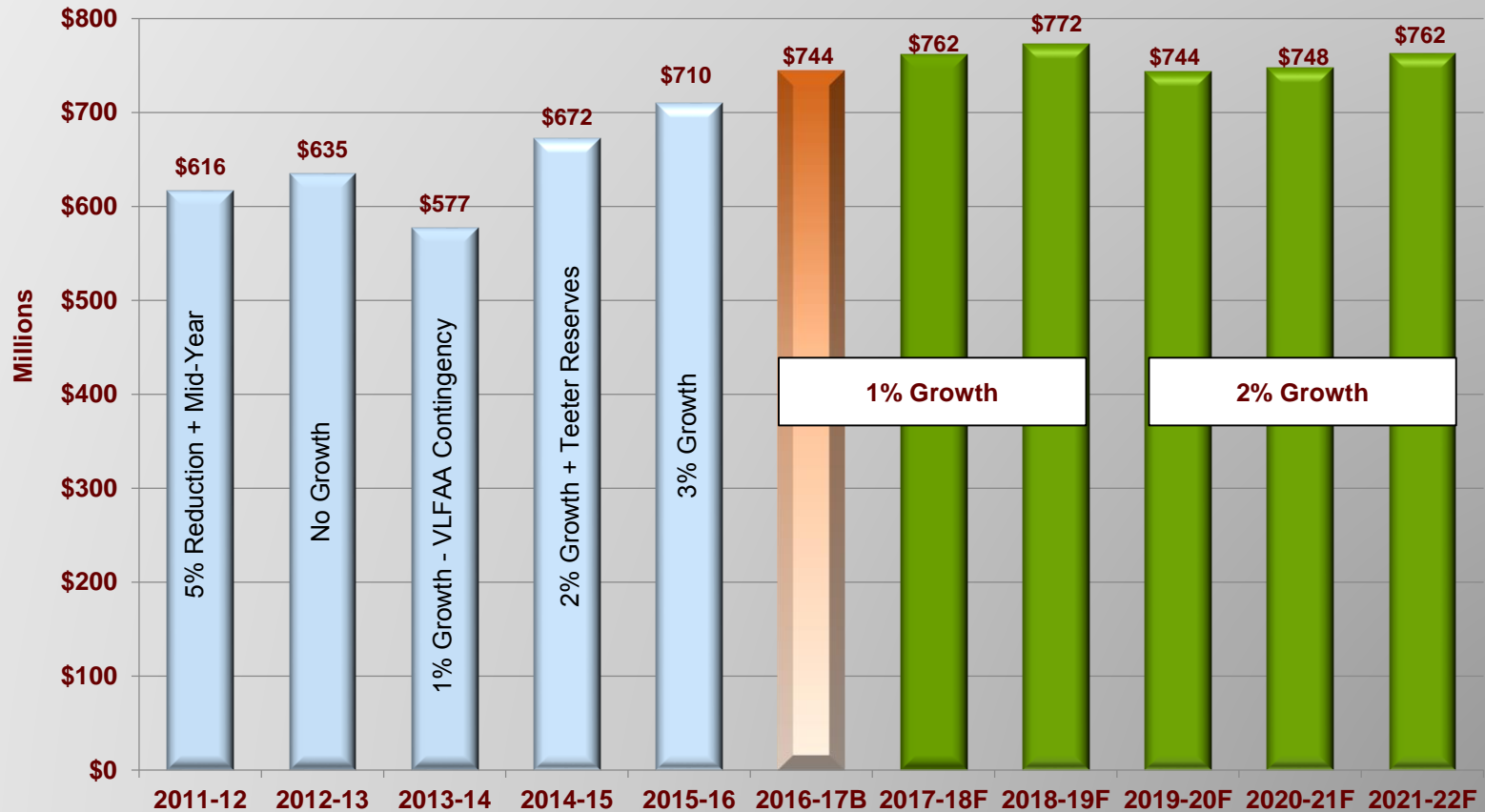


General Purpose Revenue



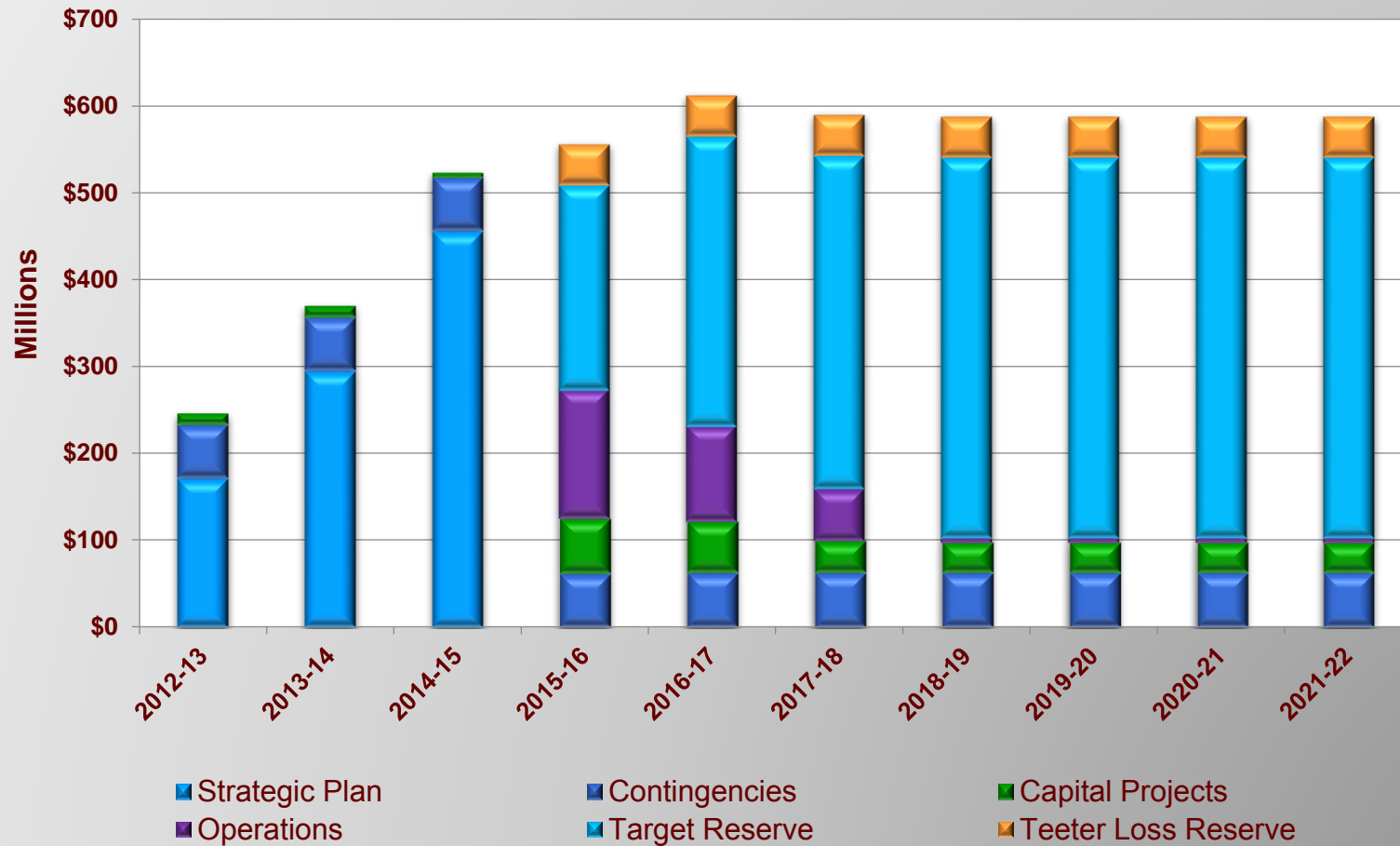


Forecasted Net County Cost





Reserves Available to General Fund



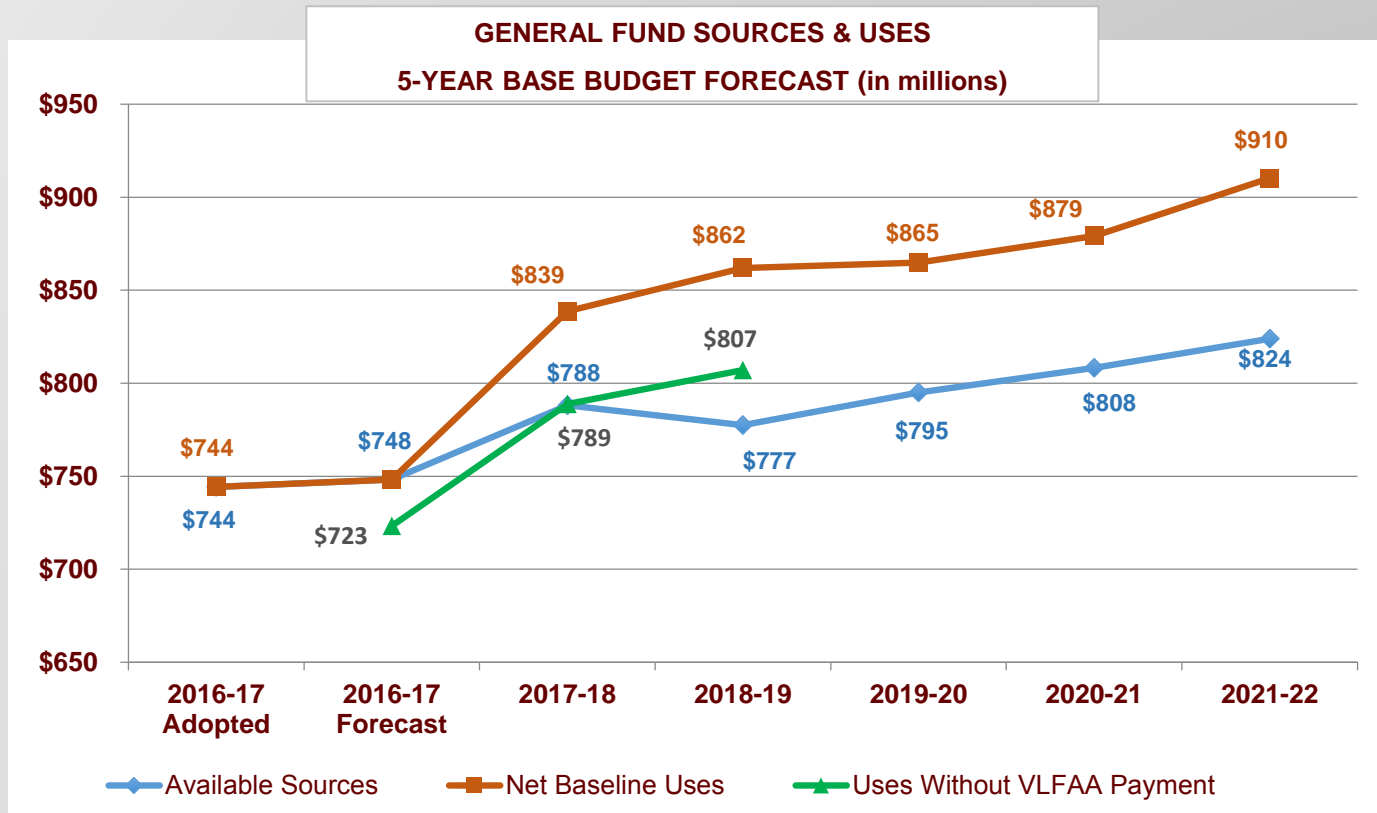


Expense Assumptions

- Salary Assumptions:
 - Years 1 through 5 – Existing MOU terms
 - Beyond existing MOU terms – 2% growth
- Retirement Rate Assumptions (Tier II):
 - Safety Rate from 62% to 67% (3@50)
 - Non-Safety Rate 29% to 33% (2.7@55)
- Health Benefit Cost Assumptions:
 - 5-Year Growth from \$191M to \$281M (46%)
- CPI Assumptions for Services and Supplies:
 - 2.3% to 2.4%



Five Year Forecast with Restore & Expand Augmentations



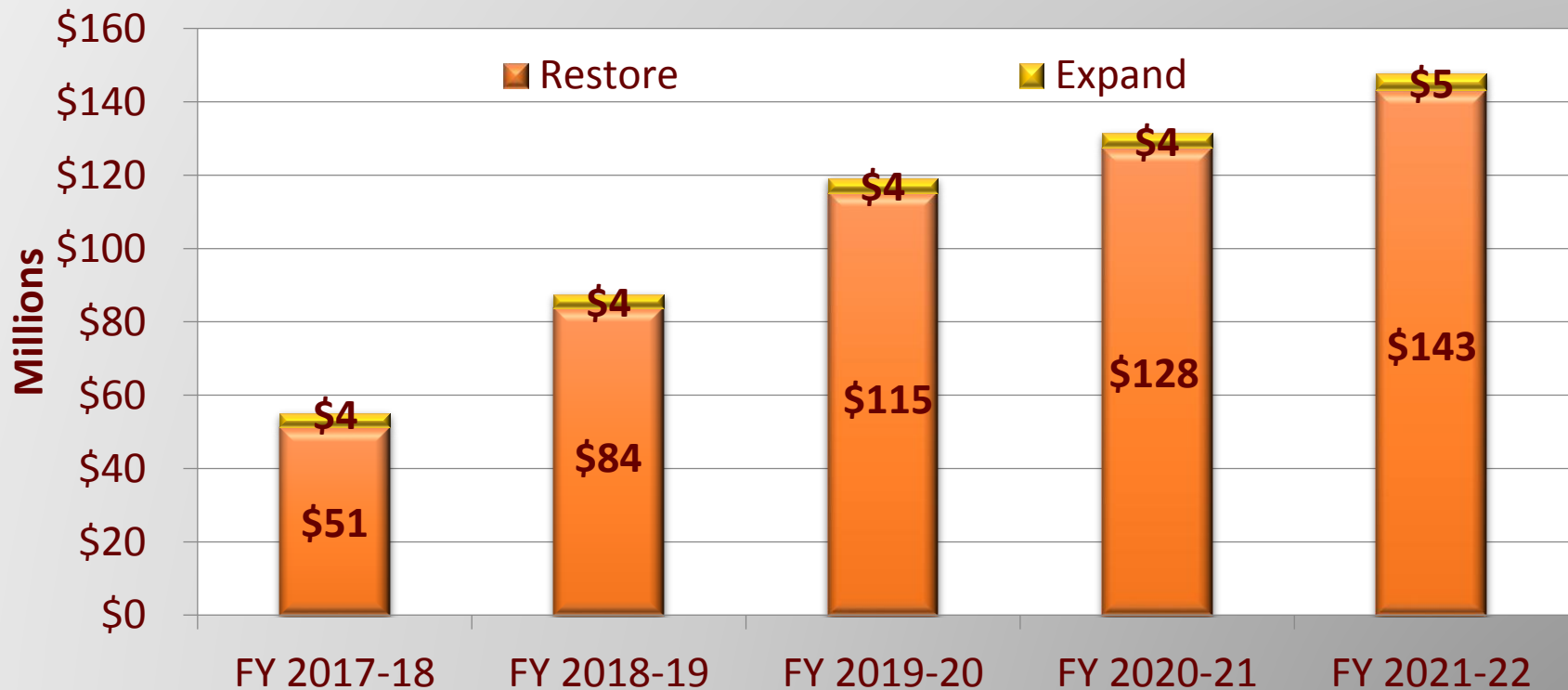
Notes:

[1] Available Sources includes use of one-time revenue, and reserves

[2] Net Baseline Uses is NCC limits plus restore and expand augmentations, and includes the remaining \$130M in VLFAA payments in FYs 2016-17 through 2018-19



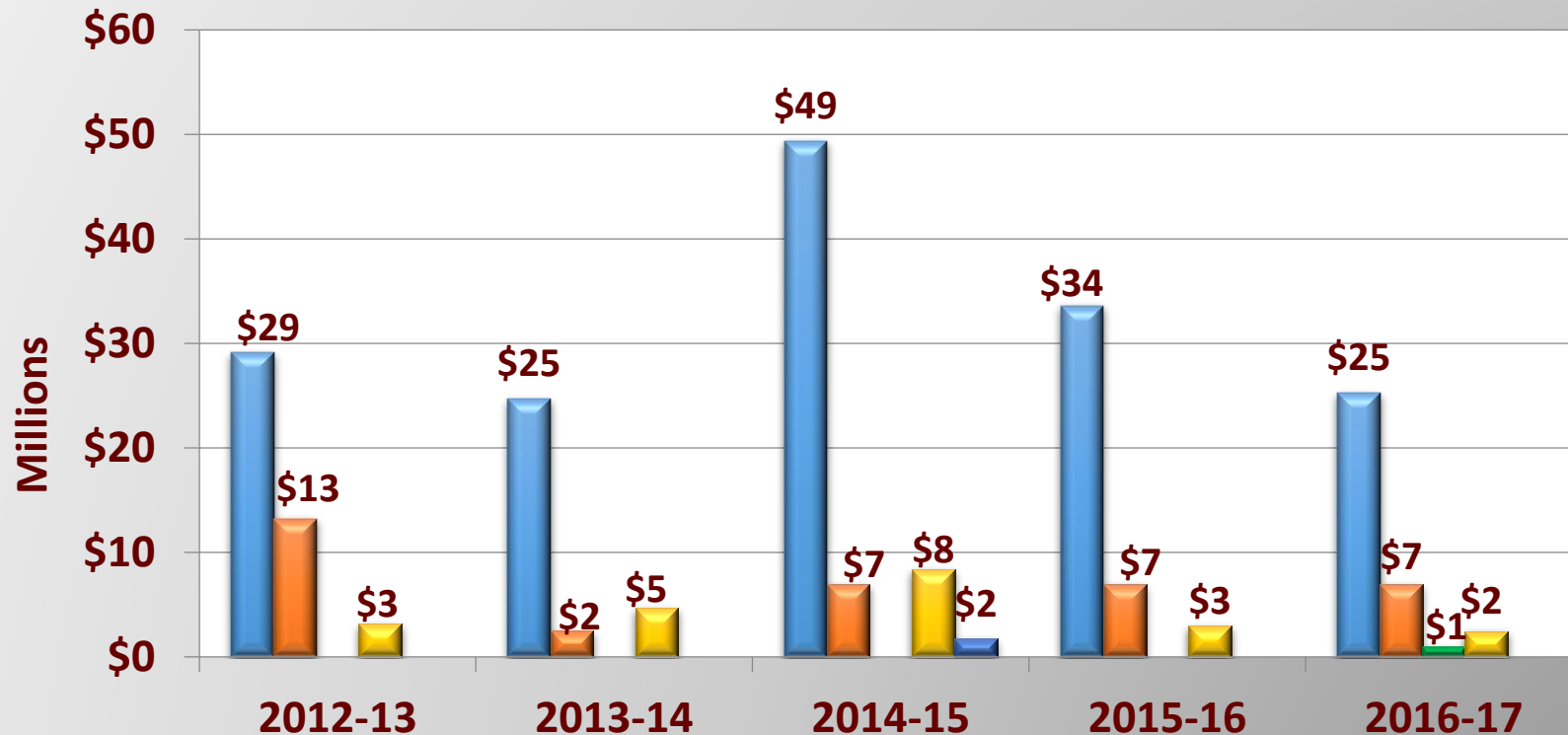
Augmentations





Restoration Requests by Program

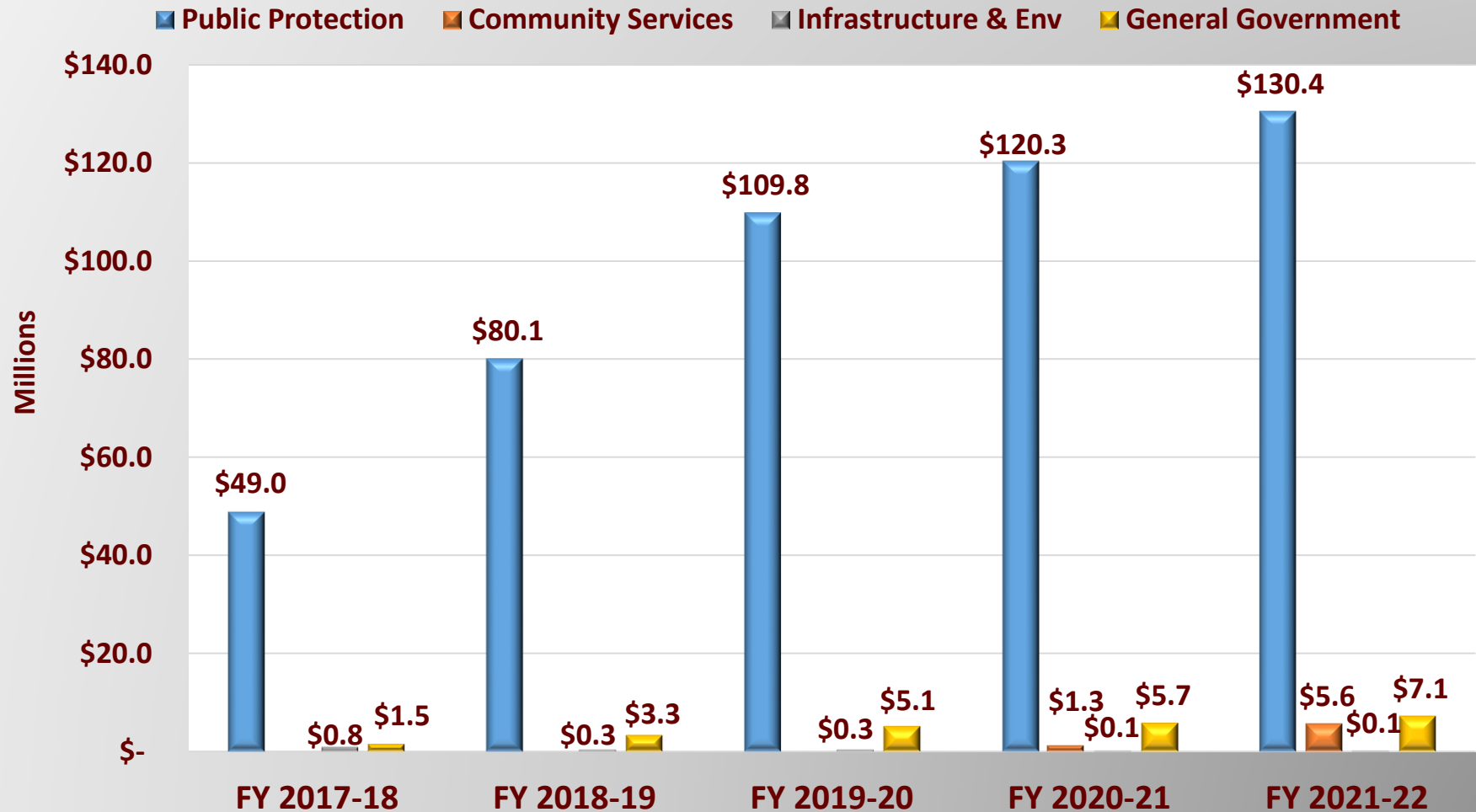
5-Year History



- Public Protection
- Community Services
- Infrastructure & Env. Resources
- General Government
- Capital Improvements



Restoration Requests by Program





Strategic Priorities

(In millions)	Total Requested Cost	Total Projected Revenue	Total Requested NCC
FY 17-18	\$110.1	\$ 34.3	\$ 75.8
FY 18-19	90.9	48.3	42.6
FY 19-20	135.3	37.2	98.1
FY 20-21	165.1	54.4	110.7
FY 21-22	188.8	53.7	135.1
5 Year Total	\$690.2	\$227.9	\$462.3

Note: Ten-year Net County Cost request is \$1.0 billion



Strategic Priorities

Budget Control	Integrated Services
017	Stepping Up Initiative
042	Behavioral Health Services Campus
060	In-Custody/Post Custody Drug Treatment Program
060	Recidivism Reduction Community Reintegration
017	Reentry Facility



Strategic Priorities (Continued)

Budget Control	Program I Public Protection
026	Science & Technology that Enhances Public Safety
055	Jail Security Electronic Control Systems Upgrade/Replacement
057	Youth Guidance Center – Classroom Facility
057	SB81 Match - Juvenile Hall Gymnasium & Visitation Center
060	Closed Circuit Television (CCTV) System for Jails
060	Sheriff-Coroner IT Strategic Plan Implementation
060	Sheriff-Coroner Facilities Maintenance Repair Plan
060	Sheriff-Coroner Facilities Capital Improvement Plan
060	Crime Lab Forensic Personnel for Evidence Analysis
060	Inmate Transportation Buses
060/042	James A. Musick Facility Expansion - Phase 1 Staffing
060/042	James A. Musick Facility Expansion - Phase 2 Staffing
060	Computer-aided Design System Upgrade
060	Automated Content Classification Solution
060	Disaster Recovery



Strategic Priorities (Continued)

Budget Control	Program II Community Services
042	Psychiatric Crisis Stabilization and Support Services
063	In-Home Supportive Services
063	Resource Family Approval
063	Continuum of Care Reform
063	Adult Protective Services

Budget Control	Program III Infrastructure & Environmental Resources
080	Badge Encryption Upgrade
080	Software Solution for Agricultural Commissioner



Strategic Priorities (Continued)

Budget Control	Program IV General Governmental Services
014	CAPS+ Performance Budgeting Upgrade
014	CAPS+ Human Resources/Payroll Upgrade
014	CAPS+ Financial/Procurement & Human Resources/Payroll Replacement
014	CAPS+ Financial/Purchasing Upgrade
014	CAPS+ Vendor Self Service and Financial Workflow Mobility
014	CAPS+ Employee and Management Self Service
015	Property Tax System Upgrade
054	Integrated Talent Management System
031	New Electronic Voting System

Budget Control	Program V Capital Improvements
036	County Facilities Master Plan
036	Countywide IT Security Assessment



Integrated Services



Steve Kea
Assistant Sheriff



Strategic Priorities - Integrated Services

1. Stepping Up Initiative
2. Behavioral Health Services Campus
3. In-Custody/Post-Custody Drug Treatment Program
4. Recidivism Reduction Community Reintegration
5. Reentry Facility



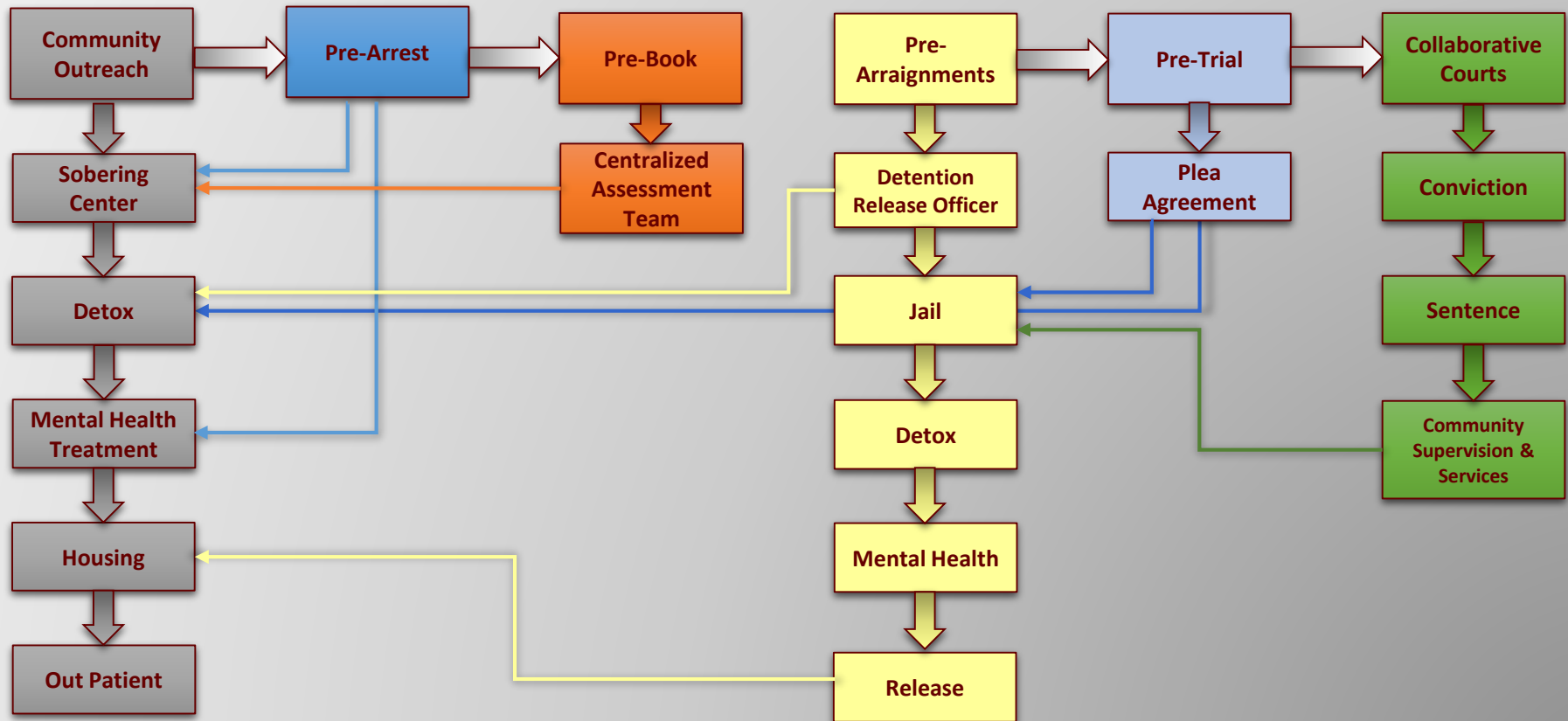
Strategic Priority 1

THE STEPPING UP INITIATIVE



Criminal Justice Diversion Flow Chart

Adult and Juvenile



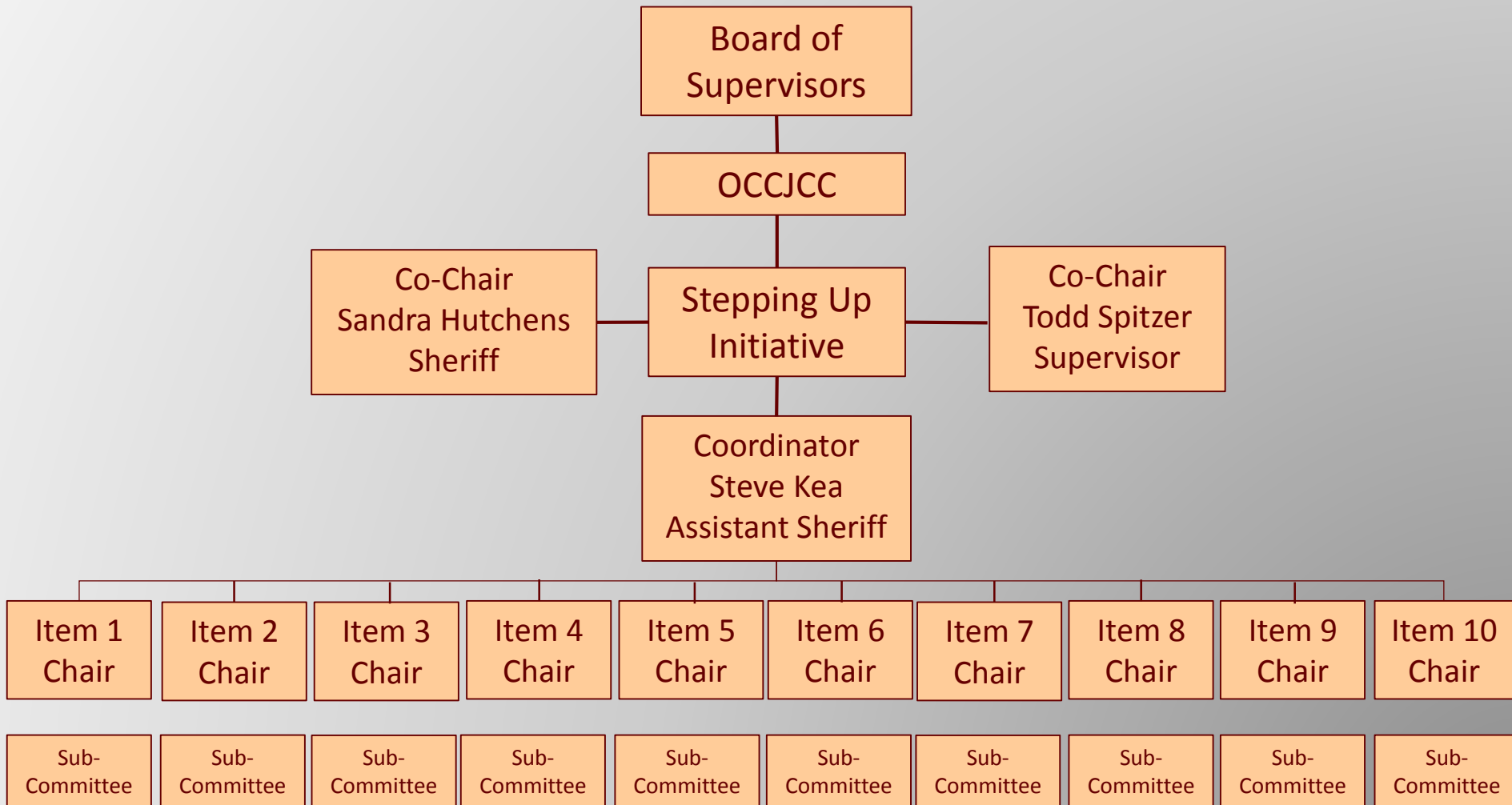


Ten Recommendations

1. Determine a standard definition of mental illness
2. Develop a screening/assessment tool to identify mentally ill persons
3. Develop a comprehensive community outreach program to preemptively divert mentally ill persons towards treatment and away from the criminal justice system
4. Construct a County Urgent Care and Restoration Center with 24 hours/7 days access
5. Remodel the IRC to expand mental health treatment services in the Orange County Jail
6. Expand programs in the Jail for mentally ill offenders to include integration upon release
7. Expand collaborative court efforts to divert mentally ill offenders
8. Expand post-custody outpatient services, housing, and treatment for mentally ill offenders
9. Develop a comprehensive data collection and analysis plan
10. Consider the implementation of an Office of Integrated Services



Stepping Up Initiative Organizational Chart





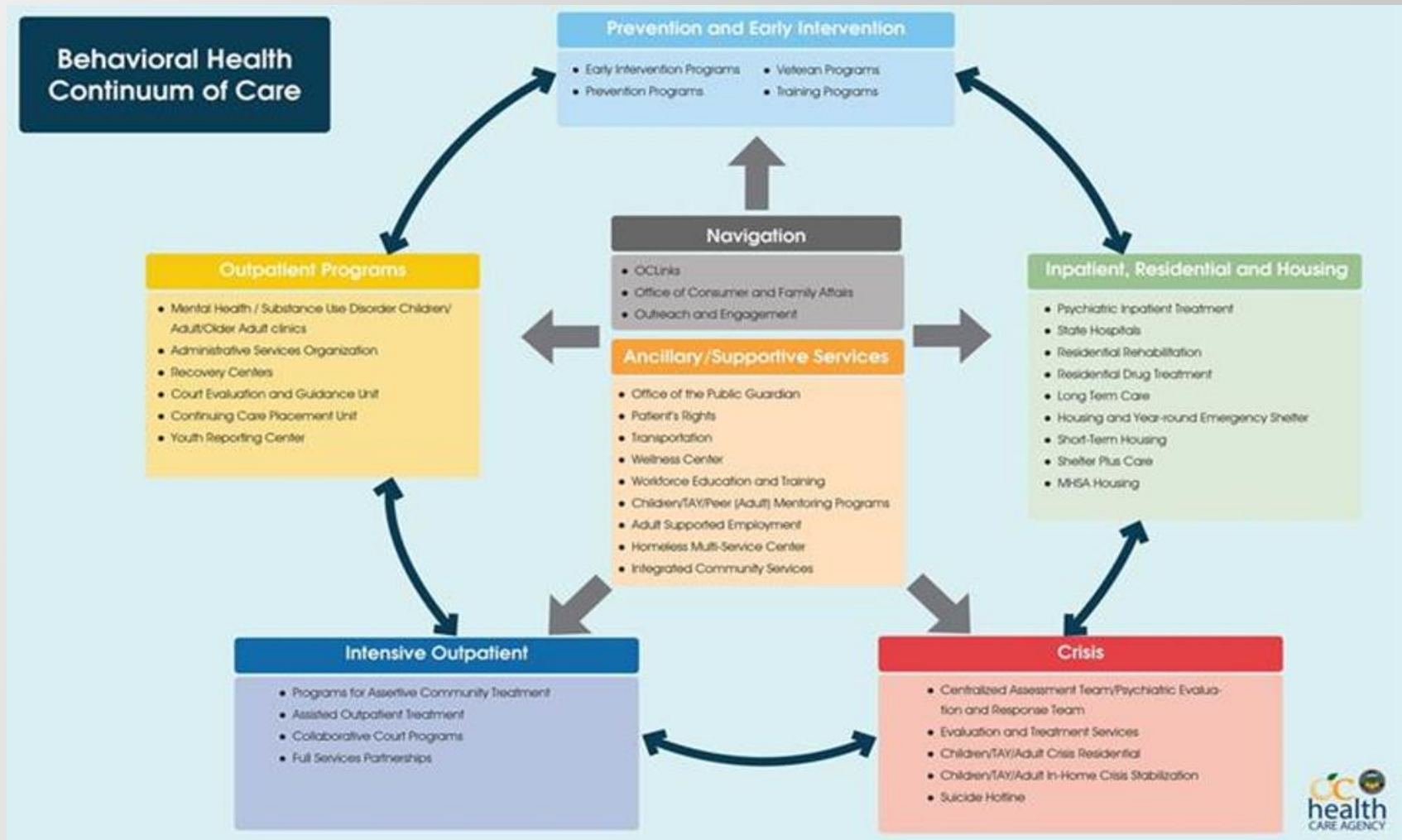
Strategic Priority 2

Behavioral Health Services Campus Adult & Juvenile

- 1. Creation of hub of co-located services (single site or multiple sites to be determined)**
- 2. Improved outcomes due to better integration of services and community relations**
- 3. Improved access for clients**
- 4. Reduce or eliminate reliance on Emergency Room and/or Custodial Services**
- 5. Most importantly clients receive timely treatment**



Collocated Urgent Care Services





Strategic Priority 3

In-Custody/Post-Custody Drug Treatment Program

1. Professional drug treatment for men and women in-custody
2. Post-Custody community based treatment
3. Sober living for one year
4. Case management throughout the process
5. Public-Private Partnership



Strategic Priority 4

Recidivism Reduction Community Reintegration

1. Cognitive Behavioral Therapy Program
2. 200 inmates (5 jails)
3. Case management throughout the process
4. Post-custody treatment for one year
5. Software tracking system to report recidivism outcomes
6. Public-Private Partnership



Strategic Priority 5

Reentry Facility

1. One stop shop for newly released inmates, services include:

- Obtaining Identification Cards
- Treatment Services
- Educational Programs
- Work and Housing Assistance

2. Preliminary Planning Underway



Develop Comprehensive Plan

Data Collection & Analysis

- **Combine healthcare and Criminal Justice Data**
- **Inventory existing record keeping systems for integration - look for opportunities to data mine reports for strategic development**
- **Look for ways to track individuals throughout system, with privacy considerations**
- **Consider “10 most wanted” list (criteria to be determined) – Proactive Problem Solving**
- **Consider new software system vs. independent data streams with a dashboard**

Stakeholders: Sheriff, Health Care Agency, Social Services Agency, Probation, CEO, Courts, Public Defender, District Attorney, Office of Coordinated Care



Consider Implementing Office of Integrated Services

- Multiple independent efforts to service those in need create potential gaps, redundancies, underutilization, and inconsistent cost models
- Programs contracted for, or provided by: Social Services, HCA, Sheriff, Probation, Parole, Collaborative Courts, and the Office of Coordinated Care as well as NGOs and others are in need of coordination
- Services include: Housing, medical treatment, mental health services, counseling, job placement, government assistance, education, transportation, and child care
- Coordination needed for current and future funding sources



Questions?



Competing Needs for General Funds

Strategic Priorities

Capital & IT Projects



Salaries & Benefits



Next Steps

- Path for Success
 - Disciplined Financial Management
 - Continue to Take Timely Action
 - Be Creative
 - Work Together
- FY 2017-18 Annual Budget
 - Department Budget Submittal – March 1
 - Public Budget Hearings – June 13 & 14



Thank You

