



Orange County Sanitation District

Annual Comprehensive Financial Report

**for the year ended
June 30, 2023**

Orange County, California



**ORANGE COUNTY SANITATION DISTRICT
ORANGE COUNTY, CALIFORNIA**

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2023

Prepared By:
Administrative Services Department
Financial Management Division

Ruth Zintzun
Finance and Procurement Manager

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ORANGE COUNTY SANITATION DISTRICT
Annual Comprehensive Financial Report
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October 26, 2023

The Board of Directors of the
Orange County Sanitation District,
Orange County, California

Subject: Letter of Transmittal

Submitted herewith is the Annual Comprehensive Financial Report of the Orange County Sanitation District (OC San), Orange County, California for the fiscal year ended June 30, 2023. This report includes the financial position and activity of individual revenue areas, as described within the Governmental Structure below, as of June 30, 2023, and was prepared by the Financial Management Division of OC San's Administrative Services Department.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with OC San. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and changes in the financial position of OC San. All disclosures necessary to enable the reader to gain an understanding of the agency's financial activities have been included.

Included within the accompanying financial statements are all of the organizations, activities, and functions controlled by OC San's Board of Directors in accordance with the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting. For the purpose of this evaluation, control was determined by the Board's responsibility for: (1) adoption of the budget and user charges, (2) taxing authority, and (3) establishment of policies. The reporting entity and its services are described in further detail in Note 1 of the financial statements.

An audit of the books, financial records, and transactions of OC San is conducted annually by independent certified public accountants. OC San selected the accounting firm of Davis Farr LLP to perform the audit for the year ended June 30, 2023. The auditor's report on OC San's basic financial statements and supplementary information is located on page 1 within the financial section of this report. This report renders an unmodified opinion on OC San's basic financial statements for the year ended June 30, 2023.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

GOVERNMENTAL STRUCTURE

The Orange County Sanitation District encompasses the central and northwest section of Orange County. OC San provides wastewater treatment for an area of the County covering 479 square miles and serving a population of approximately 2.5 million, or 80 percent of the County's population. OC San was originally incorporated in 1954 as seven separate public corporations, or districts, with two additional districts added in 1985 and 1986. In April of 1998, at OC San's request, the Board of Supervisors of the County of Orange passed Resolution No. 98-140 ordering the consolidation of these nine County Sanitation Districts into a new, single sanitation district, to be known as the Orange County Sanitation District, effective July 1, 1998. This action was recommended to the Board by the Local Agency Formation Commission in

Serving:

Anaheim

Brea

Buena Park

Cypress

Fountain Valley

Fullerton

Garden Grove

Huntington Beach

Irvine

La Habra

La Palma

Los Alamitos

Newport Beach

Orange

Placentia

Santa Ana

Seal Beach

Stanton

Tustin

Villa Park

County of Orange

Costa Mesa
Sanitary District

Midway City
Sanitary District

Irvine Ranch
Water District

Yorba Linda
Water District

order to simplify governance structures, reduce the size of the Board, ease administrative processes, streamline decision-making and consolidate accounting and auditing processes. The boundaries of the nine previous districts had remained intact for the purpose of collecting sewer user fees at the previously established rate schedules and were referred to as nine individual revenue areas through June 30, 2000. Effective July 1, 2003, eight of the revenue areas consolidated user fee rates and all enterprise fund accounting and budgeting activities and are now known as the Consolidated Revenue Area. The boundaries of one of the previous districts, now known as Revenue Area No. 14, have been maintained separately because their use of OC San's collection, treatment, and disposal system is funded by the Irvine Ranch Water District (IRWD).

OC San is managed by an administrative organization composed of directors appointed by the agencies or cities which are serviced by OC San. Each of the two remaining revenue areas, the Consolidated Revenue Area and Revenue Area 14, has its own budget and is responsible for the construction and maintenance of its own collection system. All revenue areas, except Revenue Area 14 and the portion of the Consolidated Revenue Area previously known as Revenue Area 13, receive their own share of the one-percent ad valorem property tax levy. In addition, all revenue areas, except Revenue Area 14, receive user fees from property owners. Revenue Area 14 receives all of its revenues from service charges to IRWD.

The purpose of OC San's wastewater collection, treatment, and recycling program is to protect the public's health and the environment, preserving the beneficial uses of coastal waters and maintaining air quality. The objectives of operating the treatment and reclamation plants are to process and pass on for purification or dispose of the treated wastewater and the separated solids in accordance with federal, state, and local laws including the Environmental Protection Agency.

OC San's sewerage system includes approximately 388 miles of sewers that convey wastewater generated within OC San's boundaries to OC San's two reclamation plants; Plant No. 1 located in the City of Fountain Valley, and Plant No. 2 located in the City of Huntington Beach.

Plants No. 1 and No. 2 have secondary treatment capacities of 182 million gallons per day (mgd) and 150 mgd, respectively. In fiscal year 2023-24, both plants are projected to receive a combined average daily wastewater flow of 185 million gallons per day from residential, commercial, and industrial sources.

After wastewater receives secondary treatment, it flows to the Groundwater Water Replenishment System (GWRS) at the Orange County Water District, located adjacent to OC San, where it undergoes a state-of-the-art purification process consisting of microfiltration, reverse osmosis, and ultraviolet light with hydrogen peroxide. The product water is near-distilled quality. Approximately 30 million gallons (113,500 cubic meters) per day of GWRS water are pumped into injection wells to create a seawater intrusion barrier. Another 100 million gallons (378,500 cubic meters) are pumped daily to Orange County Water District's percolation basins in Anaheim where the GWRS water naturally filters through sand and gravel to the deep aquifers of the groundwater basin.

Remaining outflows of treated wastewater from Plants No. 1 and No. 2 are combined and discharged to the ocean off the Huntington Beach coast through an outfall pipe that is 120 inches in diameter and approximately five miles long. The last mile of the outfall pipe is a diffuser with over 500 ports through which treated wastewater is slowly released at a depth of 200 feet.

ECONOMIC CONDITIONS AND OUTLOOK

As reported by Chapman University in June 2023, Orange County's downward drift in job growth that began in early 2022 is forecasted to continue and turn slightly negative by year-end, making the impact of recessionary forces evident. Forecasted total payroll employment for Orange County is expected to increase 1.4 percent over the prior year, or the addition of 24,000 payroll jobs in 2023, following an increase of 5.3 percent in 2022. The California Employment Development Department (EDD) reports that Orange County saw an increase of approximately 2.6 percent in payroll jobs from August 2022 to August 2023. During this same time period, unemployment in Orange County increased from 3.2 percent to 3.9 percent

while the unemployment in California as a whole increased from 4.1 percent to 5.1 percent. Of greater concern than the short-run effects of recessionary forces is the long-run impact of Orange County's deteriorating position in luring new advanced worker establishments, which are an important indicator of generating high-value-added jobs.

On the residential property front, the lack of housing affordability is wreaking havoc on this all-important sector of Orange County's economy, according to Chapman University's forecast that calls for housing affordability in the County to reach its lowest level in history during the quarter ended June 2023. This affordability of 49.1 would suggest that median family income is less than half of what is necessary to purchase a median-priced home. During the second half of 2023, a decline in the 30-year mortgage rate to 5.8 percent by year-end will push affordability up to a still relatively low 60.3. While that's not enough to lead to a meaningful recovery in home sales, it suggests that the worst may be behind us. Another factor expected to help push up affordability is declining home prices. Chapman's forecast calls for the average median home price in Orange County to decline from \$1,020,000 in 2022 to \$930,000 in 2023, a decline of 8.8 percent. Lower mortgage rates, as well as a limited supply of homes available for sale, will lead to stabilizing home prices. An important measure of future construction activity, residential permits, fell 13.2 percent in 2022. The total number of residential permits in Orange County is forecasted for a more moderate but continuing decline of 6.6 percent, which would push permit levels to about 6,000 units, roughly equal to that recorded during the COVID recession year of 2020.

MAJOR INITIATIVES

Following are the Orange County Sanitation District's current major initiatives as outlined in the General Manager's work plan for fiscal year (FY) 2023-24:

1. Business Principles

- **Asset Management Plan** – Identify critical plant and collections assets that are currently in service and under construction that have long lead times for parts and replacement. Develop an approach to mitigate procurement risks and impacts to plant and collections resiliency under current market conditions by March 31, 2024. Develop an approach to evaluate procurement times, market pricing, and bidding risks for projects in the design phase and adjust construction cost estimates and schedules accordingly by December 31, 2023.
- **Permit Outreach and Restructuring** – Conduct an analysis of member agency services, encroachment permits, and requirements to better understand and evaluate if a regional approach and harmonized fee structure is needed with a determination by June 30, 2024.
- **Interagency Agreements for Wastewater Service** – Expand on coordination opportunities with the Irvine Ranch Water District with the expiration of agreements.
- **Pretreatment Management** – Work with member agencies to update waste discharge and pretreatment ordinance by June 30, 2024.
- **Organizational Advocacy and Outreach** – Implement an integrated outreach strategy that will include industry and media coverage for the Supercritical Water Oxidation project.

2. Environmental Stewardship

- **Food Waste Treatment** – Continue with a county-centric approach. Finalize the unified specifications and collaborate with Orange County Waste & Recycling to support the construction and utilization of a regional food waste processing facility by June 30, 2024.
- **Urban Runoff Optimization Study** – Identify opportunities within Orange County Water District, County of Orange, and OC San's respective water, stormwater, and wastewater systems for additional dry weather urban runoff diversion under a controlled discharge scenario by June 30, 2024.

- **Energy Resilience** – (Carried over from FY 2022-23) Investigate energy storage options to build resilience and offer potential cost savings. Work with the consultant as part of the Energy and Digester Gas Master Plan Study and report to the Board of Directors by October 31, 2023. Complete the Study by June 30, 2024.
- **Fleet Long-Term Strategy** – Review and update the fleet procurement strategy based on recently adopted regulations. Regulatory compliance will work with air quality consultants to analyze California Air Resources Board's Advanced Clean Fleet Regulations and develop recommendations for fleet replacement.
- **Headquarters Educational Display** – Develop a Board approved design for the hands-on educational display for the outdoor patio by June 2024.
- **Member Agency Outreach Program** – Develop outreach material for member agencies to educate, inform, and reduce impacts affecting the local and regional sewer system by December 31, 2023.
- **Industrial Users Award Program** – Identify opportunities to expand OC San Pretreatment Honor Roll Program beyond Significant Industrial Users by June 30, 2024.
- **Plant No. 2 Process Facilities Seismic Resilience** – Evaluate the seismic vulnerabilities of Plant No. 2 flow processes (primary clarifiers, activated sludge facility, and ocean outfall piping) within the plant. Determine the required improvements to maintain dry weather flow capacity after a seismic event. Incorporate necessary upgrades into future capital improvement projects. Advertise for a Request for Proposal by June 30, 2024.

3. Wastewater Management

- **Supercritical Water Oxidization** – (Carried over from FY 2022-23) Complete the commissioning and begin demonstration of the pilot project by June 30, 2024, subject to regulatory permitting.
- **Wastewater Characterization Study** – In collaboration with the Orange County Water District and regulatory agencies, conduct research to characterize changes in OC San's final effluent following completion of the Groundwater Replenishment System. Complete initial chemical and toxicological evaluation by June 30, 2024.
- **Biosolids Management** – Refresh both short and long-term hauling and management options to ensure reliability and availability of failsafe options, promote local biosolids management options, and enable compliance with Advance Clean Fleet and Greenhouse Gas reduction regulations by June 30, 2024.
- **Property Management** – Ensure compliance with easement requirements and maintain unobstructed access to OC San's regional sewer line within the Miller-Holder alignment in Huntington Beach. Begin outreach and coordination efforts by December 31, 2023.

4. Workplace Environment

- **Scanning & Paper Reduction** – (Carried over from FY 2022-23) Complete Scope of Work for Phase II, issue Request for Proposal and award the contract for implementation of the trusted system in a phased approach by December 31, 2023. Complete Phase II by June 30, 2024.
- **Emergency Preparedness** – Develop and conduct an earthquake emergency response drill, which includes evacuation of buildings, assembly and accountability of employees, deployment of the damage assessment team, and medical team response by June 30, 2024. Conduct National Incident Management System (NIMS) training for employees that are involved in emergency planning, and response or recovery efforts by June 30, 2024. NIMS training is determined based on assignment within OC San's Emergency Operations Center (EOC). Additionally, employees will receive training on how to use the Incident Command System (ICS) forms specific to their role within the EOC.

- **Centralized Training Program** – OC San’s employee training programs and activities will be transitioned from individual departments to Human Resources over a two-year period. The centralized approach will provide greater consistency, transparency, and access for all employees, and ensure that OC San’s training is responsive to the needs of the organization and in alignment with the Strategic Plan and General Manager’s Work Plan. One new full-time employee will be dedicated to the program and will be recruited for by December 30, 2023. Human Resources will develop training profiles based on roles, classifications, and work groups and fully transition the compliance and essential training elements by June 30, 2024.
- **Employee Relations Legal Services** – Solicit, interview, and recommend a licensed law firm to provide as-needed legal services to support Human Resources in employment related cases by December 31, 2023.

Strategic Planning

In November 2021, the Board of Directors adopted a new comprehensive strategic plan to steer OC San’s efforts. The Strategic Plan developed by the Board of Directors and staff defines the strategic initiatives to be pursued by OC San and provides a basis for long-term financial, capital, and operational planning. In addition, it provides for long-term continuity of vision as Board and staff members change over the many years it takes to deliver public works infrastructure. The Strategic Plan is updated every two years to align policy and execution expectations with OC San’s two-year budget cycle.

Driven by our Mission, Vision and Core Values, this Strategic Plan continues OC San’s aggressive efforts to protect the public health of the more than 2.5 million people we serve while protecting the environment where we live.

The Strategic Plan is broken down into four broad categories with fifteen policy areas that define our responsibilities and the services we provide. These areas are:

- Business Principles
 - Budget Control and Fiscal Discipline
 - Asset Management
 - Cybersecurity
 - Property Management
 - Organizational Advocacy and Outreach
- Environmental Stewardship
 - Energy Independence
 - Climate and Catastrophic Event Resiliency
 - Food Waste Treatment
 - Water Reuse
 - Environmental Water Quality, Stormwater Management and Urban Runoff
- Wastewater Management
 - Chemical Sustainability
 - Biosolids Management
 - Constituents of Emerging Concern
- Workplace Environment
 - Resilient Staffing
 - Safety and Physical Security

The Strategic Plan is not a radical departure from the current direction, but rather the well-defined iterative update to the direction of OC San. With the adoption of the Strategic Plan, staff also update the Asset Management Plan, Capital Improvement Plan, and Financial Plan that are the basis of the two-year budget adopted by the Board of Directors. The budget goals and the General Manager's work plan are the accountability steps that measure achievable progress toward the strategic initiatives listed in the Strategic Plan.

SERVICE EFFORTS AND ACCOMPLISHMENTS

The following service efforts and accomplishments were achieved by OC San during the year ended June 30, 2023:

- **Project Excellence Award for GWRs Final Expansion** - 2023 Water Environment Federation
- **Special Achievement Award in GIS** - 2023 ESRI
- **Award of Excellence, Capital Project of Year for GWRs Final Expansion** - 2023 California Association of Sanitation Agencies
- **American Inhouse Design Award** - 2023 Graphic Design USA
- **Excellence in Procurement** - 2023 National Procurement Institute
- **Project Achievement Award** - 2023 Construction Management Association of America
- **Platinum Peak Performance Award** - 2023 National Association of Clean Water Agencies
- **Utility of the Future** - 2023 National Association of Clean Water Agencies, Water Environment Federation
- **Certificate of Achievement for Excellence in Financial Reporting** - 2022 Government Finance Officers Association
- **Excellence In Innovation Award for GWRs Final Expansion** - 2023 Association of California Water Agencies
- **Innovative Project of the Year Award for GWRs Final Expansion** - 2023 California Special District Association
- **Community Engagement and Outreach Project of the Year** - 2023 California Water Environmental Association (CWEA)
- **Investment Policy Certification** - 2023 California Municipal Treasurers Association
- **Outstanding Wastewater Treatment Project and Project of the Year for GWRs Final Expansion** - 2023 American Society of Civil Engineers
- **Grand Prize (Design Category for GWRs Final Expansion)** - 2023 American Academy of Environmental Engineers & Scientists
- **John W. Gaston, Jr., Award for Excellence in Public Service Management** - 2023 American Society of Public Administration
- **Utility Leadership Award** - 2022 National Association of Clean Water Agencies

ACCOUNTING AND BUDGETARY CONTROLS

OC San's accounting records are maintained on the accrual basis. In developing and evaluating OC San's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. We believe that OC San's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Each year, OC San's Board of Directors adopts an annual operating plan. A joint works budget is first prepared that identifies the specific capital projects and operating activities to be undertaken by OC San during the year. The budgetary level of control, the level at which expenses cannot exceed budget, is exercised at the individual department level. OC San has adopted a Purchasing Ordinance that establishes requirements and procedures for the purchase of goods, services, and public work projects.

ACCUMULATED FUNDS AND RESERVES POLICY

The Board of Directors of the Orange County Sanitation District has established the following Accumulated Funds and Reserves Policy:

Cash Flow Reserve: A cash flow criterion has been established at a level to fund operations, maintenance, and certificates of participation expenses for the first half of the fiscal year, prior to the receipt of the first installment of the property tax allocation and the sewer service user fees which are collected as a separate line item on the property tax bill. The level of this criterion will be established as the sum of an amount equal to six months operations and maintenance expenses and the total of the annual debt certificate of participation (COP) service payments due in August each year.

Operating Contingency Reserve: An operating contingency criterion has been established to provide for non-recurring operating expenditures that were not anticipated when the annual budget was considered and adopted. The level of this criterion has been established at an amount equal to ten percent of the current fiscal year's annual operating budget.

Capital Improvement Reserve: A capital improvement criterion has been maintained to fund annual increments of the capital improvement program (CIP). The target level of this criterion has been established at one half of the average annual cash outlay of the capital improvement program over the next ten years. Levels higher and lower than the target can be expected while the long-term financing and capital improvement programs are being finalized.

Catastrophic Loss or Self-Insurance Reserves: A catastrophic loss or self-insurance criterion has been maintained for property damage including fire, flood, and earthquake, for general liability and for workers' compensation. This reserve criterion is intended to work with purchased insurance policies, FEMA, and state disaster reimbursements. Based on the plant infrastructure replacement value, the level of this criterion has been set to fund OC San's non-reimbursed costs, estimated to be \$100 million.

Capital Replacement/Renewal Reserve Policy: A capital replacement/renewal criterion policy has been established to provide funding to replace or refurbish the current collection, treatment, and recycling facilities at the end of their useful economic lives. The current replacement value of these facilities is estimated to be \$12.6 billion. The reserve criterion level had been established at \$75 million.

Debt Service Reserves: A debt service criterion policy has been established at ten percent of the outstanding COP and revenue obligations. Other debt service reserves are required to be under the control

of a trustee by the provisions of the COP or revenue obligations. These funds are not available for the general needs of OC San and must be maintained at specified levels.

Accumulated Funds exceeding the targets specified by OC San policy will be maintained for Capital Improvements and Rate Stabilization. These funds will be applied to future years' CIP needs due to the timing of the actual CIP outlays, in order to maintain rates or to moderate annual fluctuations.

As of June 30, 2023, OC San was in compliance with the Accumulated Funds and Reserves Policy with designated cash and investments totaling \$1,004 million, and have been earmarked for the following specific purposes in accordance with OC San's reserve policy:

Designated Cash and Investments

Cash Flow Contingency	\$ 140 million
Self-Insurance	100 million
Capital Improvements	685 million
Debt Service Requirements	<u>79 million</u>
Total Designated Cash and Investments	<u>\$1,004 million</u>

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Orange County Sanitation District for OC San's Annual Comprehensive Financial Report for the year ended June 30, 2022. This was the twenty-ninth consecutive year that OC San has received this award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Annual Comprehensive Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Annual Comprehensive Financial Report continues to meet the Certificate of Achievement Program requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

This report could not have been accomplished without the dedicated services of the Financial Management Division staff, and I would like to especially express my appreciation to Kim Cardenas, Accounting Supervisor, and the staff who assisted in its preparation. I would also like to thank OC San's Board of Directors and the General Manager for their interest and support in conducting the financial operations of OC San in a responsible and progressive manner.

Respectfully submitted,



Ruth Zintzun
Finance & Procurement Manager



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Orange County Sanitation District
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morill

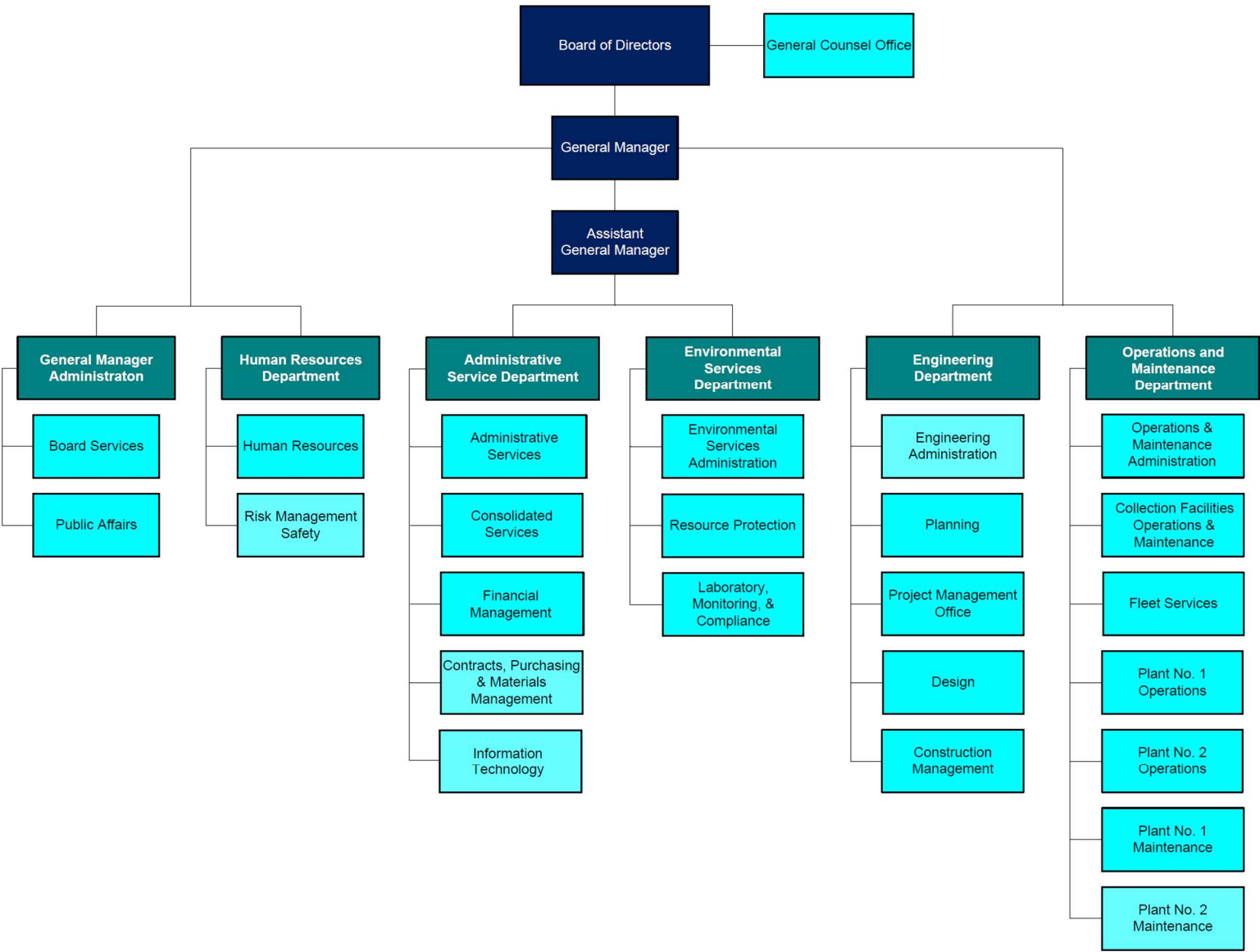
Executive Director/CEO

ORANGE COUNTY SANITATION DISTRICT

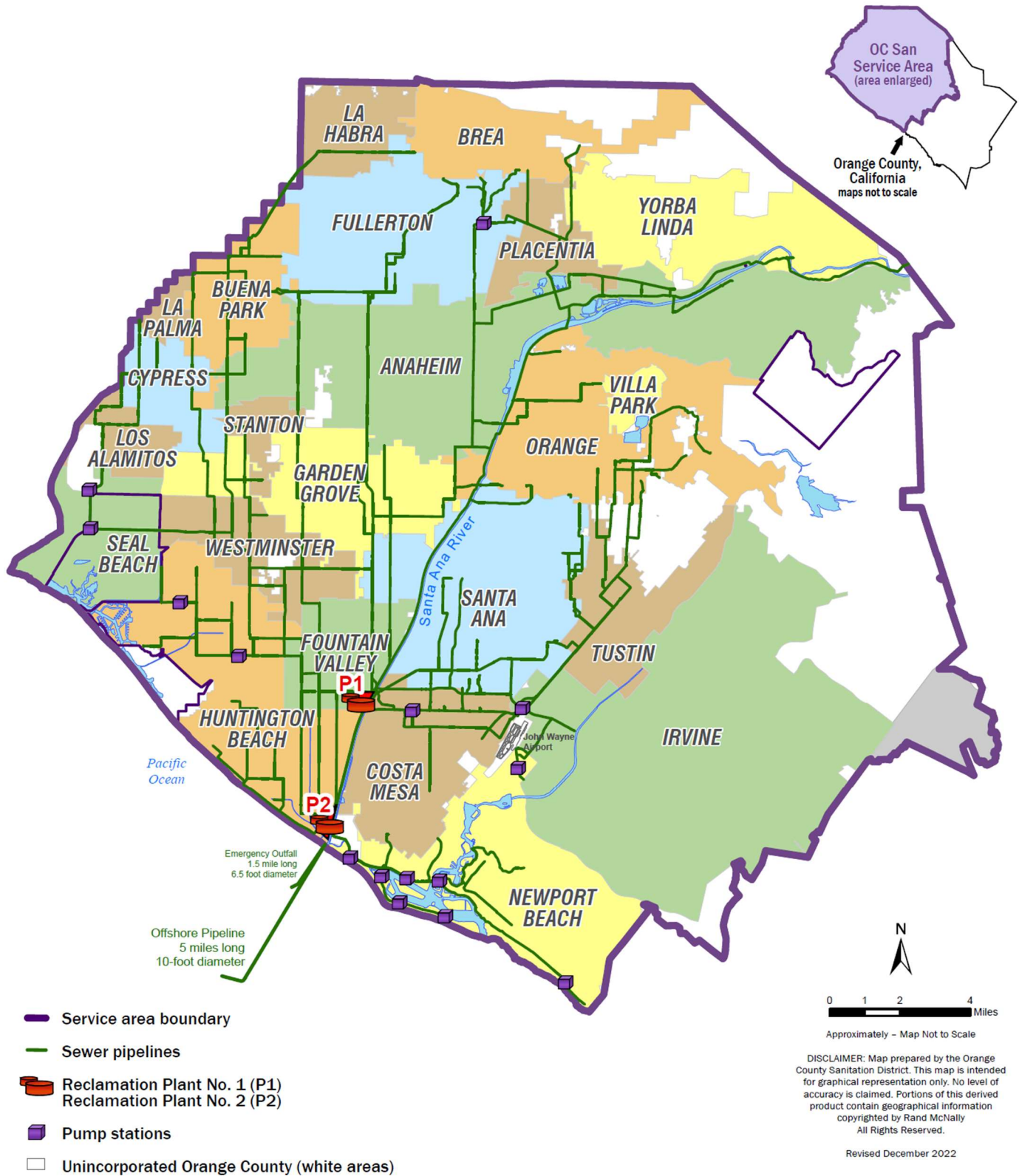
Board of Directors
As of June 30, 2023

<u>Agency</u>	<u>Active Director</u>	<u>Alternate Director</u>
Cities:		
Anaheim	Stephen Faessel	Natalie Meeks
Brea	Christine Marick	Cecilia Hupp
Buena Park	Susan Sonne	Art Brown
Cypress	Scott Minikus	Bonnie Peat
Fountain Valley	Glenn Grandis	Ted Bui
Fullerton	Bruce Whitaker	Nick Dunlap
Garden Grove	Steve Jones	John O'Neill
Huntington Beach	Pat Burns	Gracey Van Der Mark
Irvine	Farrah Khan	Tammy Kim
La Habra	Rose Espinoza	Jose Medrano
La Palma	Marshall Goodman	Debbie Baker
Los Alamitos	Jordan Nefulda	Emily Hibard
Newport Beach	Brad Avery	Erik Weigand
Orange	Jon Dumitru	John Gyllenhammer
Placentia	Chad Wanke	Ward Smith
Santa Ana	Johnathan Hernandez	Benjamin Vazquez
Seal Beach	Schelly Sustarsic	Nathan Steele
Stanton	David Shawver	Carol Warren
Tustin	Ryan Gallagher	Austin Lumbard
Villa Park	Robbie Pitts	Jordan Wu
Sanitary Water Districts:		
Costa Mesa Sanitary District	Robert Ooten	Art Perry
Midway City Sanitary District	Andrew Nguyen	Mark Nguyen
Irvine Ranch Water District	John Withers	Douglas Reinhart
Yorba Linda Water District	Phil Hawkins	Tom Lindsey
County Areas:		
Member of the Board of Supervisors	Doug Chaffee	Donald Wagner

ORANGE COUNTY SANITATION DISTRICT
Organizational Chart
As of June 30, 2023



ORANGE COUNTY SANITATION DISTRICT
 Map of Service Area
 As of June 30, 2023



Independent Auditor's Report

Board of Directors
Orange County Sanitation District
Fountain Valley, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Orange County Sanitation District (OC San), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise OC San's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Orange County Sanitation District, as of June 30, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OC San and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As described further in Note 1 to the financial statements, during the year ended June 30, 2023, OC San implemented Governmental Accounting Standards Board (GASB) Statement No. 96. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

OC San's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OC San's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance

but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OC San's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OC San's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis, Proportionate Share of the Net Pension Liability (Asset) – OCERS Pension Plan, Schedule of District Contributions – OCERS Pension Plan, Total Pension Liability – Additional Retiree Benefit Account, Changes in Total Pension Liability – Additional Retiree Benefit Account, Total OPEB Liability – Post-Employment Medical Benefits Plan, and Changes in Total OPEB Liability – Post-Employment Medical Benefits Plan* be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise OC San's basic financial statements. The *Combining Area Schedule of Net Position*, *Combining Area Schedule of Revenues, Expenses, and Change in Net Position*, and *Combining Area Schedule of Cash Flows* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *Combining Area Schedule of Net Position*, *Combining Area Schedule of Revenues, Expenses, and Change in Net Position*, and *Combining Area Schedule of Cash Flows* are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Combining Area Schedule of Net Position*, *Combining Area Schedule of Revenues, Expenses, and Change in Net Position*, and *Combining Area Schedule of Cash Flows* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the Annual Comprehensive Financial Report. The other information comprises the *Introductory Section*, *Statistical Section*, and *Other Data and Trends* but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2023, on our consideration of OC San's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OC San's internal control over financial reporting and compliance.



Irvine, California
October 26, 2023

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2023

This section of the financial statements of the Orange County Sanitation District (OC San) is management's narrative overview and analysis of the financial activities of OC San for the fiscal year ended June 30, 2023. The information presented here is to be considered in conjunction with additional information provided within the letter of transmittal located in the Introductory Section of this report.

Financial Highlights

- As of June 30, 2023, OC San's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$3.0 billion (net position). Of this amount, \$921.3 million represents unrestricted net position, which may be used to meet OC San's ongoing obligations to citizens and creditors.
- Total net position increased \$164.5 million, or 5.8 percent over the prior year.
- Net capital assets, consisting of non-depreciable capital assets and depreciable capital assets net of accumulated depreciation, increased \$92.2 million, or 3.3 percent over the prior year.
- Net investment in capital assets increased \$129.5 million, or 7.1 percent over the prior year.
- Restricted net position decreased \$4.8 million, or 4.4 percent under the prior year.
- Unrestricted net position increased \$39.8 million, or 4.5 percent over the prior year.
- Total outstanding bonded debt decreased by \$30.0 million, or 3.7 percent from the prior year, to \$789.8 million.

Overview of the Basic Financial Statements

OC San operates as a utility enterprise and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. As an enterprise fund, OC San's basic financial statements are comprised of two components: financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

In accordance with the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, OC San's financial statements include a Statement of Net Position; Statement of Revenues, Expenses, and Change in Net Position; and a Statement of Cash Flows.

The Statement of Net Position includes OC San's assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and provides information about the nature and amounts of investments in resources (assets) and the obligations to OC San's creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of OC San, and assessing the liquidity and financial flexibility of OC San.

The Statement of Revenues, Expenses, and Change in Net Position accounts for the current year's revenues and expenses. This statement measures the success of OC San's operations over the past year and can be used to determine OC San's creditworthiness. It also highlights OC San's dependency on property tax revenues in supplementing user fees and other charges for recovering total cost.

The final required financial statement, the Statement of Cash Flows, reports cash receipts, cash payments, and net changes in cash resulting from operations, investments, and financial activities of the reporting period.

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2023

Net Position

As previously noted, net position increased \$164.5 million, or 5.8 percent over the net position at June 30, 2022, to \$3.0 billion at June 30, 2023.

(Dollars in thousands)

	June 30, 2023	June 30, 2022, as restated	Increase (Decrease)	Percentage Increase (Decrease)
Assets				
Current and other assets	\$ 1,052,833	\$ 1,196,213	\$ (143,380)	-12.0%
Net capital assets	2,855,895	2,763,734	92,161	3.3%
Total assets	3,908,728	3,959,947	(51,219)	-1.3%
Deferred outflows of resources	110,106	59,839	50,267	84.0%
Total assets and deferred outflows of resources	4,018,834	4,019,786	(952)	0.0%
Liabilities				
Current liabilities	165,975	175,214	(9,239)	-5.3%
Noncurrent liabilities	852,918	899,245	(46,327)	-5.2%
Total liabilities	1,018,893	1,074,459	(55,566)	-5.2%
Deferred inflows of resources	20,249	130,140	(109,891)	-84.4%
Total liabilities and deferred inflows of resources	1,039,142	1,204,599	(165,457)	-13.7%
Net position				
Net investment in capital assets	1,954,939	1,825,490	129,449	7.1%
Restricted for OCERS pension benefits	103,404	108,179	(4,775)	-4.4%
Unrestricted	921,349	881,518	39,831	4.5%
Total net position	\$ 2,979,692	\$ 2,815,187	\$ 164,505	5.8%

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2023

Current and other assets decreased \$143.4 million, or 12.0 percent, due primarily to capital outlays of \$207.6 million, a decrease in OCERS net pension asset of \$168.1 million, interest paid of \$38.6 million, and bonded debt retirements of \$30.0 million, offset by net cash provided by operations of \$123.9 million, proceeds from property taxes of \$125.3 million, receipt of capital facilities capacity charges of \$20.9 million, interest received of \$17.0 million, and contributions from other governments of \$15.5 million.

Net capital assets increased \$92.2 million, or 3.3 percent, due mostly to the ongoing capital improvement program construction in progress additions of \$215.0 million, capital equipment of \$2.2 million, and land of \$0.5 million, offset by depreciation of \$123.6 million and \$1.9 million of prior capital project expenses that were written off as expense. Included in total capital outlay additions is the Headquarters Complex with incurred project costs of \$52.9 million in FY 2022-23 and a total project budget of \$167.5 million. This project is constructing the new Headquarters Building on the north side of Ellis Avenue to house administrative, engineering, resource protection, and environmental compliance staff. Collection system projects include the Rehabilitation of Western Regional Sewers, which incurred outlays of \$9.8 million in FY 2022-23 with a total project budget of \$101.0 million through the projected completion in FY 2026-27. This project is replacing or rehabilitating a portion of sewers and manholes located in OC San's northwestern service area. See page 9 for the Schedule of Capital Assets and listing of other major capital additions for FY 2022-23.

Deferred outflows of resources increased \$50.3 million, or 84.0 percent from the prior year, primarily due to a \$52.7 million or 123.0 percent increase in pension deferred outflows attributable to the change in projected and actual earnings on pension plan investments and changes of actuarial assumptions and other inputs, offset by a \$2.4 million or 14.0 percent decrease in the difference between carrying amount of the retired debt and the acquisition price of COP Series.

Current liabilities decreased \$9.2 million, or 5.3 percent, due to a decline in the amount due to other governmental agency Irvine Ranch Water District (IRWD) of \$17.2 million, offset by an increase in accounts payable and other current liabilities of \$8.0 million.

Noncurrent liabilities decreased \$46.3 million, or 5.2 percent, primarily due to bonded debt repayments of \$30.0 million, premium amortization of \$13.5 million, and a decrease in other noncurrent liabilities of \$2.8 million.

Deferred inflows of resources decreased \$109.9 million, or 84.4 percent over the prior year, primarily due to a \$109.2 million or 85.7 percent decrease in pension deferred inflows attributable to the change in projected and actual earnings on pension plan investments and differences between expected and actual experiences, and a \$0.9 million or 46.7 percent decrease in the difference between carrying amount of the retired debt and the acquisition price of COP Series.

Net investment in capital assets increased \$129.5 million, or 7.1 percent over the prior year, primarily as a result of the net increase in capital assets of \$92.2 million coupled with a \$37.3 million decrease in related debt.

Restricted net position decreased \$4.8 million, or 4.4 percent, due to the decrease in amounts restricted for Orange County Employees Retirement System (OCERS) pension benefits.

Unrestricted net position increased \$39.8 million, or 4.5 percent, due to the overall increase in net position of \$164.5 million, offset by the increase in net investment in capital assets of \$129.5 million and the decrease in restricted net position of \$4.8 million.

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2023

Change in Net Position

The change in net position increased \$59.7 million in FY 2022-23, or 57.0 percent over the prior year's increase in net position.

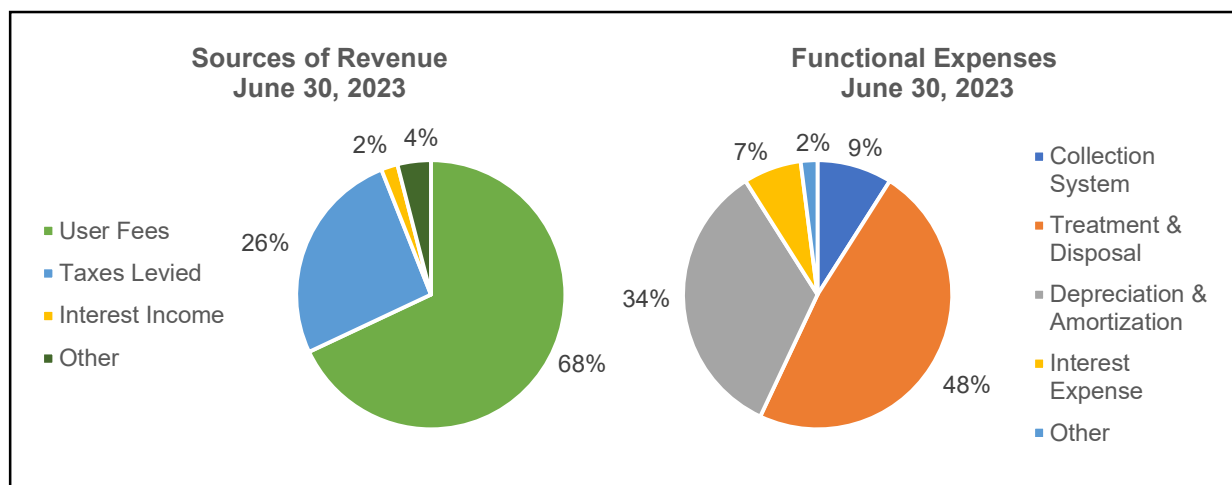
(Dollars in thousands)

	June 30, 2023	June 30, 2022	Increase (Decrease)	Percentage Increase (Decrease)
Revenues:				
Operating revenues				
Service charges	\$ 331,382	\$ 327,824	\$ 3,558	1.1%
Permit and inspection fees	1,399	1,271	128	10.1%
Total operating revenues	332,781	329,095	3,686	1.1%
Non-operating revenues				
Property taxes	125,467	119,186	6,281	5.3%
Investment and interest income (loss)	12,027	(35,335)	47,362	134.0%
Contrib. from other governments	16,066	6,227	9,839	158.0%
Other non-operating revenues	4,605	1,613	2,992	185.5%
Total non-operating revenues	158,165	91,691	66,474	72.5%
Total revenues	490,946	420,786	70,160	16.7%
Expenses:				
Operating expenses other than depreciation and amortization	207,212	156,115	51,097	32.7%
Depreciation and amortization	123,611	130,465	(6,854)	-5.3%
Non-operating expenses	27,882	55,484	(27,602)	-49.7%
Total expenses	358,705	342,064	16,641	4.9%
Income before capital contributions	132,241	78,722	53,519	68.0%
Capital contributions	32,264	26,083	6,181	23.7%
Increase in net position	164,505	104,805	59,700	57.0%
Beginning net position	2,815,187	2,710,382	104,805	3.9%
Ending net position	\$ 2,979,692	\$ 2,815,187	\$ 164,505	5.8%

As previously stated, an enterprise fund is used to account for the operations of OC San, which is financed and operated in a manner similar to private business enterprises. This allows OC San to determine that the costs (expenses, including depreciation and amortization) of providing wastewater management services on a continuing basis are financed or recovered primarily through user charges.

Sewer service user fees are evaluated annually based primarily on budget requirements for total operation and maintenance expenses and capital outlays for providing wastewater management services. Property tax revenues are dedicated for the payment of debt service.

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2023



Operating revenues increased \$3.7 million, or 1.1 percent in FY 2022-23 from the prior year, primarily due to a 1.2 percent increase in the average sewer user fee rate, offset by a slight increase in user fee rebates issued as compared to the prior year.

Non-operating revenues increased \$66.5 million, or 72.5 percent, primarily from a \$47.4 million or 134.0 percent growth in investment and interest income due to prior year unrealized losses in the investment portfolios, a \$6.3 million or 5.3 percent increase in property taxes revenue attributable to increased home sales and a rise in total assessed valuation of 6.1 percent over the prior year, a \$9.8 million or 158.0 percent increase in contributions from other governments due to the integration adjustment of Revenue Area 14's equity share in OC San's Joint Works Treatment Facilities based on the flows discharged to OC San and higher IRWD capital outlay revolving fund requirements, and a \$3.0 million or 185.5 percent increase in other revenues mainly as a result of insurance recoveries.

Operating expenses other than depreciation and amortization increased \$51.1 million, or 32.7 percent, primarily due to an increase in salaries and benefits of \$39.9 million or 70.0 percent over the prior year. When including the salaries and benefits capitalized within the capital improvement program, total operating salaries and benefits costs were \$112.0 million, a \$38.8 million or 52.9 percent increase from the prior year total of \$73.2 million, reflective of a \$38.3 million or 175.0 percent increase in retirement expenses as a result of the change in projected and actual earnings on pension plan investments and changes of assumptions, and a \$2.7 million or 3.4 percent increase in salaries and wages, offset by a \$1.9 million or 161.2 percent decrease in retiree insurance. Also contributing to the rise in operating expenses are increases of \$5.2 million or 24.7 percent in operating materials and supplies due to chemical costs, \$4.9 million or 44.2 percent in utilities, and \$2.0 million or 11.2 percent in contractual services.

Non-operating expenses decreased \$27.6 million, or 49.7 percent, primarily from \$23.6 million in prior year contributions to other governments for the integration adjustment of Revenue Area 14's equity share in OC San's Joint Works Treatment Facilities based on the flows discharged to OC San, and a reduction of \$4.1 million or 13.8 percent in interest expense due to debt repayments and refundings from previous years.

Capital contributions increased \$6.2 million, or 23.7 percent from the prior year, due to a \$5.2 million or 28.1 percent increase in capital facility capacity charges for connection fees collected from cities and supplemental capital facilities capacity charges assessed to industrial dischargers, and an increase of \$1.0 million or 13.3 percent in capital contributions from other governments, reflective of reimbursements from Orange County Water District (OCWD) for Groundwater Replenishment System costs.

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2023

Capital Assets

At June 30, 2023, OC San had a net investment of \$2.9 billion in capital assets. This represents a net increase (including additions and deletions) of \$92.2 million, or 3.3 percent over the prior year.

Schedule of Capital Assets
(Net of Depreciation and Amortization)

(Dollars in thousands)

	June 30, 2023	June 30, 2022, as restated	Increase (Decrease)	Percentage Increase (Decrease)
Land	\$ 58,153	\$ 57,681	\$ 472	0.8%
Construction in progress	637,405	552,128	85,277	15.4%
Sewage collection facilities	509,389	451,978	57,411	12.7%
Sewage treatment facilities	1,567,802	1,610,427	(42,625)	-2.6%
Effluent disposal facilities	25,984	27,362	(1,378)	-5.0%
Solids disposal facilities	239	248	(9)	-3.6%
General and administrative facilities	55,953	62,146	(6,193)	-10.0%
Lease right-to-use asset	26	56	(30)	-53.6%
Subscription right-to-use assets	944	1,708	(764)	-44.7%
Capital assets, net	\$ 2,855,895	\$ 2,763,734	\$ 92,161	3.3%

Major capital asset additions for the current fiscal year included the following:

- \$52.9 million Headquarters Complex (P1-128)
- \$38.8 million Headworks Rehabilitation at Plant No. 1 (P1-105)
- \$22.3 million Primary Treatment Rehabilitation at Plant No. 2 (P2-98)
- \$15.7 million Ocean Outfall System Rehabilitation (J-117)
- \$11.6 million TPAD Digester Facility at Plant 2 (P2-128)
- \$ 9.8 million Rehabilitation of Western Regional Sewers (3-64)
- \$ 9.2 million Central Generation Engine Overhauls at Plants 1 and 2 (J-135)
- \$ 7.5 million Westminster Blvd Force Main Replacement (3-62)

More detailed information about OC San's capital assets is provided in Notes 1 and 3 of the Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2023

Debt Administration

At June 30, 2023, OC San had \$789.8 million outstanding in bonded debt, a net decrease of \$30.0 million, or 3.7 percent from the prior year. This reduction consisted of the accumulation of principal payments made in accordance with the schedule of debt service payments.

During OC San's most recent debt refundings, Moody's, Standard and Poor's, and Fitch Ratings all reaffirmed their AAA rating of the Orange County Sanitation District. OC San's long-range financing plan is designed to maintain this high rating. Over the next ten years, OC San is projecting over \$3.1 billion in capital improvements. In accordance with OC San's long-term debt fiscal policy, OC San will restrict long-term borrowing to capital improvements that cannot be financed from current revenue. No new debt issuances are being proposed to assist with the funding of the system improvements scheduled over this time period. For more information on long-term debt activities, see Note 5 of the Notes to Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate within the County of Orange is at 3.7 percent in June 2023, an increase from the rate of 2.9 percent in June 2022.
- Inflation for the Los Angeles-Long Beach-Anaheim area increased 2.5 percent in June 2023 over the prior year June 2022 based on the actual percentage change in the consumer price index according to the U.S. Department of Labor, Bureau of Labor Statistics.
- The yield on investments increased from the 2.6 percent earnings rate in FY 2021-22 to 4.8 percent for FY 2022-23.

All of these factors are considered in preparing OC San's biennium budget.

OC San's user fee schedule was increased by 1.2 percent for FY 2022-23 over the prior year. The Single Family Residential (SFR) fee, which is the underlying rate for all other user rates, is applicable to OC San's largest customer base: the SFR fee increased by \$4.00, from \$343.00 to \$347.00. The revenue from sewer fees is necessary to support OC San's cash flow needs for operating costs, debt service, and capital improvement outlays. Capital improvement costs are projected to total \$3.1 billion over the next ten years in order to rehabilitate and upgrade existing facilities and maintain full secondary treatment standards.

Requests for Information

The financial report is designed to provide a general overview of OC San's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Management Division, Orange County Sanitation District, 10844 Ellis Avenue, Fountain Valley, CA 92708-7018.

**ORANGE COUNTY SANITATION DISTRICT
BASIC FINANCIAL STATEMENTS**

ORANGE COUNTY SANITATION DISTRICT

Statement of Net Position

June 30, 2023

Current assets:	
Cash and cash equivalents	\$ 142,998,405
Investments	847,023,569
Accounts receivable, net of allowance for uncollectibles \$109,438	9,746,343
Accrued interest receivable	3,872,997
Connection fees receivable	3,772,097
Property tax receivable	2,358,417
Current portion of lease receivable	314,539
Inventories	10,262,014
Prepaid expenses	2,726,469
Total current assets	<u>1,023,074,850</u>
Noncurrent assets:	
Restricted:	
Cash and cash equivalents	702,291
Investments	13,377,269
Accrued interest receivable	5,460
Net pension asset - OCERS	10,604,801
Unrestricted:	
Non-depreciable capital assets	695,558,065
Depreciable capital assets, net of accumulated depreciation	2,160,337,144
Due from other governmental agency	4,293,444
Noncurrent portion of lease receivable	763,983
Other noncurrent assets, net	10,344
Total noncurrent assets	<u>2,885,652,801</u>
Total assets	<u>3,908,727,651</u>
Deferred outflows of resources:	
Deferred outflows related to refundings	14,649,387
Deferred outflows related to pensions	95,457,196
Total deferred outflows of resources	<u>110,106,583</u>
Total assets and deferred outflows of resources	<u>4,018,834,234</u>
Current liabilities:	
Accounts payable	25,005,739
Accrued expenses	21,542,285
Retentions payable	12,887,042
Interest payable	15,415,200
Due to other governmental agency	37,500,330
Current portion of long-term obligations	53,623,871
Total current liabilities	<u>165,974,467</u>
Noncurrent liabilities:	
Noncurrent portion of long-term obligations	831,784,721
Total OPEB liability	1,034,882
Total pension liability - ARBA	20,098,783
Total noncurrent liabilities	<u>852,918,386</u>
Total liabilities	<u>1,018,892,853</u>
Deferred inflows of resources:	
Deferred inflows related to refundings	1,040,100
Deferred inflows related to leases	1,042,287
Deferred inflows related to pensions	18,166,514
Total deferred inflows of resources	<u>20,248,901</u>
Total liabilities and deferred inflows of resources	<u>1,039,141,754</u>
Net position:	
Net investment in capital assets	1,954,938,790
Restricted for OCERS pension benefits	103,404,237
Unrestricted	921,349,453
Total net position	<u>\$ 2,979,692,480</u>

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2023

Operating revenues:	
Service charges	\$ 331,381,548
Permit and inspection fees	1,399,637
Total operating revenues	<u>332,781,185</u>
Operating expenses other than depreciation and amortization:	
Salaries and benefits	96,882,814
Utilities	15,924,440
Supplies, repairs and maintenance	52,794,474
Contractual services	27,760,572
Feasibility studies	4,158,483
Other operating expenses	9,691,517
Total operating expenses other than depreciation and amortization	<u>207,212,300</u>
Operating income before depreciation and amortization	125,568,885
Depreciation and amortization	<u>123,610,784</u>
Operating income	<u>1,958,101</u>
Non-operating revenues:	
Property taxes	125,467,329
Investment and interest income	12,027,355
Contributions from other governments	16,066,211
Other non-operating revenues	4,604,268
Total non-operating revenues	<u>158,165,163</u>
Non-operating expenses:	
Interest	25,893,010
Loss on disposal of assets	1,949,690
Other non-operating expenses	38,883
Total non-operating expenses	<u>27,881,583</u>
Income before capital contributions	132,241,681
Capital contributions:	
Capital facilities capacity charges	23,427,920
Capital contributions from other governments	8,835,838
Total capital contributions	<u>32,263,758</u>
Change in net position	164,505,439
Total net position - beginning	<u>2,815,187,041</u>
Total net position - ending	<u><u>\$ 2,979,692,480</u></u>

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT

Statement of Cash Flows For the Year Ended June 30, 2023

Cash flows from operating activities:	
Receipts from customers and users	\$ 319,880,885
Payments to employees	(92,181,094)
Payments to suppliers	(108,576,199)
Receipts for other activities	4,189,471
Net cash provided by operating activities	<u>123,313,063</u>
Cash flows from noncapital financing activities:	
Proceeds from property taxes	<u>125,257,713</u>
Net cash provided by noncapital financing activities	<u>125,257,713</u>
Cash flows from capital and related financing activities:	
Capital facilities capacity charges	20,929,005
Contributions from other governments	15,498,887
Receipts from lease agreements	442,050
Additions to capital assets	(207,573,274)
Principal payments on debt obligations	(30,035,000)
Interest paid	(38,565,817)
Net cash used in capital and related financing activities	<u>(239,304,149)</u>
Cash flows from investing activities:	
Proceeds from sale of investments	530,771,380
Purchases of investments	(499,950,230)
Interest received	17,026,195
Net cash provided by investing activities	<u>47,847,345</u>
Net increase in cash and cash equivalents	57,113,972
Cash and cash equivalents, beginning of year	<u>86,586,724</u>
Cash and cash equivalents, end of year	<u>\$ 143,700,696</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 1,958,101
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	123,610,784
Bad debt expense (net recoveries)	(210,278)
Other non-operating revenues	4,150,588
(Increase)/decrease in operating assets and deferred outflows:	
Accounts receivable	4,505,113
Inventories	(934,211)
Prepaid expenses	213,880
Net pension asset - OCERS	168,126,444
Deferred outflows related to pensions	(52,651,713)
Increase/(decrease) in operating liabilities and deferred inflows:	
Accounts payable	(186,229)
Accrued expenses	2,806,220
Due to other governmental agency	(17,195,135)
Compensated absences	(656,561)
Claims and judgments	281,707
Total OPEB liability	(1,042,890)
Total pension liability - ARBA	(283,987)
Deferred inflows related to pensions	(109,178,770)
Net cash provided by operating activities	<u>\$ 123,313,063</u>
<u>Noncash activities:</u>	
Unrealized gain (loss) on the fair value of investments	\$ (6,227,335)
Capital assets acquired through accounts payable	6,718,252
Capital facilities capacity charges acquired	2,498,915

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

(1) Summary of Significant Accounting Policies

Reporting Entity

The Orange County Sanitation District (OC San) is a public agency which owns and operates certain wastewater facilities in order to provide regional wastewater collection, treatment, and disposal services to approximately 2.5 million people in the central and northwest portion of the County of Orange, California. OC San is overseen by a Board comprised of directors appointed by the agencies and cities which are serviced by OC San.

OC San's service area was originally formed in 1954 pursuant to the County Sanitation District Act and consisted of seven independent special districts. Two additional districts were formed and additional service areas were added in 1985 and 1986. These special districts were jointly responsible for the treatment and disposal facilities which they each used. In April of 1998, the Board of Supervisors of Orange County passed Resolution 98-140 approving the consolidation of the existing nine special districts into a new, single sanitation district. This action was taken in order to simplify the governance structures, reduce the size of OC San's Board of Directors, ease administrative processes, streamline decision-making and consolidate accounting and auditing processes. Pursuant to the Resolution and Government Code Section 57500, the predecessor special districts transferred and assigned all of their powers, rights, duties, obligations, functions, and properties to OC San, including all assets, liabilities, and equity.

Effective July 1, 1998, the organization became known as the Orange County Sanitation District. The boundaries of one of the previous districts, now known as Revenue Area No. 14, have been maintained separately because their use of OC San's collection, treatment, and disposal system is funded by the Irvine Ranch Water District (IRWD). The boundaries of the other eight districts have been consolidated and are collectively referred to as the Consolidated Revenue Area. OC San utilizes joint operating and capital outlay accounts to pay joint treatment, disposal, and construction costs. These joint costs are allocated to each revenue area based on gallons of sewage flow. The supplemental schedules and statements show internal segregations and are not intended to represent separate funds for presentation as major or non-major funds in the basic financial statements.

The accompanying financial statements present OC San and its blended component unit, the Orange County Sanitation District Financing Corporation (Corporation). The Corporation is a legally separate entity although in substance it is considered to be part of OC San's operations. OC San is considered to be financially accountable for the Corporation which is governed by a board comprised entirely of OC San's board members. There is no requirement for separate financial statements of the Corporation; consequently, separate financial statements for the Corporation are not prepared. The Corporation had no financial activity during the fiscal year ended June 30, 2023, other than principal and interest payments on outstanding certificates of participation and revenue obligations (see Note 5).

OC San is independent of and overlaps other formal political jurisdictions. There are many governmental entities, including the County of Orange, that operate within OC San's jurisdiction; however, financial information for these entities is not included in the accompanying financial statements in accordance with the Governmental Accounting Standards Board (GASB).

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Measurement Focus and Basis of Accounting

OC San operates as an enterprise activity. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Board of Directors is that the costs (expenses, including depreciation and amortization) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

The accounting policies of OC San conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States.

Operating Plans

Each year, OC San staff prepares an annual operating plan which is adopted by the Board of Directors. The annual operating plan is used to serve as a basis for monitoring financial progress, estimating the levy and collection of taxes, and determining future service charge rates. During the year, these plans may be amended as circumstances or levels of operation dictate.

Cash and Cash Equivalents

Investments with original maturities of three months or less when purchased, money market mutual funds, and external investment pools that can be withdrawn on demand are considered to be cash equivalents.

Investments

Investments are stated at fair value (the price that would be received to sell an asset in an orderly transaction between market participants acting in their economic best interest at the measurement date). Changes in fair value that occur during the fiscal year are reported as part of investment and interest income. Investment and interest income include interest earnings and realized and unrealized gains or losses in fair value. Investment and interest income are recorded as revenues and receivables when declared and realized gains or losses are recorded when the investment is sold.

Accounts Receivable

Accounts receivable is reported net of the allowance for uncollectible receivables. Uncollectible receivables were \$109,438 at June 30, 2023. Unbilled sewer services through June 30, 2023, are recorded as revenue and receivables. Management determines the allowance for uncollectible receivables by evaluating individual accounts receivable at least one year past due and considering a customer's financial condition, credit history and current economic conditions. Accounts receivables are written off when deemed uncollectible. Recoveries of accounts receivables previously written off are recorded when received.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Inventories

Inventories, which are held for consumption and not resale, are stated at cost on a weighted-average basis and are expensed when used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. Prepaid expenses are recorded as expenses when consumed rather than when purchased.

Capital Assets

Outlays for property, plant, equipment, and construction in progress are recorded in the revenue area which will use the asset. Such outlays may be for individual revenue area assets or for a revenue area's share of joint assets.

Capital assets of property, plant, and equipment are defined as assets with an initial, individual cost of more than \$10,000 and an estimated useful life of at least three years. Such assets are recorded at cost, except for donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement, which are recorded at acquisition value at the time received. Cost includes labor; materials; outside services; vehicle and equipment usage; other ancillary costs consisting of direct charges such as engineering, purchasing, supervision, or fringe benefits.

Depreciation of plant and equipment is provided for over the estimated useful lives of the assets using the straight-line method in accordance with generally accepted accounting principles. OC San also considers the guidelines of estimated useful lives as recommended in the State of California Controller's Uniform System of Accounts for Waste Disposal Districts, which range from 3 to 75 years. The following are estimated useful lives for major classes of depreciable assets: Sewage collection facilities – 50 years, Sewage treatment facilities – 40 years, Sewage disposal facilities – 40 years, General plant and administrative structures – 40 years, and other General plant and administrative facilities and equipment – 4 to 25 years.

Lease and subscription right-to-use assets are defined as assets with an initial, individual cost of more than \$50,000 and an estimated useful life of at least one year. Such assets are recorded at the present value of the lease or subscription liability and are amortized using the straight-line method over the term, which range from 1 to 5 years.

Restricted Assets

Certain assets are classified as restricted because their use is limited by applicable debt covenants or other legal agreements. Restricted cash and investments are maintained in separate trustee bank accounts. When both restricted and unrestricted resources are available for use, it is OC San's policy to use restricted resources first, then unrestricted resources as they are needed, except in the case of restricted amounts in the Section 115 pension trust, for which OC San will specifically identify amounts to be utilized to fund OCERS pension benefits.

Amortization

Premiums on wastewater refunding revenue obligations are amortized to interest expense over the respective terms of the installment obligations based on the effective interest method (Note 5).

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

OC San has three items that qualify for reporting in these categories, related to refundings, pensions, and leases. For refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and amortized to interest expense based on the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Deferred outflows and inflows related to pensions represent differences between estimated and actual investment earnings, changes in actuarial assumptions, and other pension related changes. Deferred inflows related to leases is associated with the lease receivable from building lease agreements, which is recognized as revenue over the life of the lease terms.

Net Position

Net position represents the total of assets and deferred outflows of resources less liabilities and deferred inflows of resources, and is classified into three categories:

Net Investment in Capital Assets – This amount consists of capital assets, net of accumulated depreciation/amortization and reduced by the outstanding balances of borrowings or other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

Restricted – This amount consists of restricted assets for which constraints are placed on asset use either by external parties or by laws or regulations of other governments. OC San's restricted net position reflects restricted cash and investments and accrued interest in the pension trust, the OCERS net pension asset, and corresponding deferred outflows and inflows.

Unrestricted – This amount represents the residual of amounts not classified in the other category and represents the net position available for OC San.

Compensated Absences

OC San's employees, other than operations and maintenance personnel, are granted vacation and sick leave in varying amounts with maximum accumulations of 200 hours and 560 hours for vacation and sick days earned but unused, respectively. Operations and maintenance personnel accrue between 80 and 250 personal leave hours per year depending on years of service, which can be accumulated up to a maximum of 440 hours. All accrued and unused vacation or personal leave is paid to the employee upon termination or retirement of the employee. Accrued and unused sick leave is paid to the employee at a percentage rate based on years of service, as stated in the Memorandum of Understanding for each bargaining group.

Vacation and sick leave benefits and personal days are recorded as an expense and liability when earned by eligible employees. The distribution between current and long-term portions of the liability is based on historical trends.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Claims and Judgments

OC San records estimated losses when it is probable that a claim liability has been incurred and when the amount of the loss can be reasonably estimated. Claims payable includes an estimate for incurred but unreported claims. The distribution between current and long-term portions of the liability is based on historical trends.

Pensions

OC San has two defined benefit pension plans for retirees: the plan maintained through and by the Orange County Employees Retirement System (OCERS) and the Additional Retiree Benefit Account (ARBA) administered directly by OC San. For purposes of measuring the net pension asset/liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of OC San's cost sharing multiple-employer plan with the OCERS plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by OCERS. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Deferred outflow and inflow of resources related to pensions result from changes in the components of the net pension asset/liability and are applicable to a future reporting period (Note 6).

Property Taxes

The County is permitted by State law (Proposition 13) to levy taxes at one percent of full market value (at time of purchase) and can increase the assessed value no more than two percent per year. OC San receives a share of this basic levy, proportionate to what was received in the 1976 to 1978 period.

Property taxes are determined annually and attached as enforceable liens on real property as of January 1 and are payable in two installments which become delinquent after December 10 and April 10. The County bills and collects the property taxes and remits them to OC San in installments during the year. Property tax revenues are recognized when levied. The Board of Directors has designated property tax revenue to be used for the annual debt service requirements prior to being used as funding for current operations.

Capital Facilities Capacity Charges

Capital facilities capacity charges represent fees imposed at the time a structure is newly connected to OC San's system, directly or indirectly, or an existing structure or category of use is increased. This charge is to pay for OC San facilities in existence at the time the charge is imposed or to pay for new facilities to be constructed that are of benefit to the property being charged.

Operating and Non-operating Revenues and Expenses

Operating revenues and expenses result from collecting, treating, and disposing of wastewater and inspection and permitting services. OC San's operating revenues consist of charges to customers for the services provided. Operating expenses include the cost of providing these services, administrative expenses, and depreciation and amortization expenses. All revenues and expenses not meeting these definitions, and which are not capital in nature, are reported as non-operating revenues and expenses.

Self-Insurance Plans

For the year ended June 30, 2023, OC San was self-insured for portions of workers' compensation, property damage, and general liability. The self-insurance portion of the workers' compensation

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

exposure is the \$1 million deductible per occurrence under the outside excess insurance coverage to statutory levels. The self-insurance portion of the property damage exposure covering fire and other perils is the \$500,000 per occurrence deductible (for most perils) under the outside excess property insurance coverage to \$1 billion. The self-insurance portion of the property damage exposure covering flood is the \$1 million per occurrence deductible with outside excess property insurance coverage to \$25 million. The self-insurance portion of the property damage exposure covering earthquake is the 5% per structure, minimum \$5 million deductible with outside excess insurance coverage to \$25 million on covered structures. OC San has insured several key structures against the peril of earthquake; all other structures are completely self-insured. The self-insurance portion of the boiler & machinery exposure is the deductible ranging from \$25,000 to \$350,000 under the outside excess boiler & machinery insurance coverage to \$100 million per occurrence combined limit. The self-insurance portion of the general liability exposure is the \$750,000 per occurrence deductible under the outside excess liability coverage to \$40 million per occurrence and aggregate. The self-insurance portion of the pollution liability exposure is the \$250,000 per loss deductible under the outside pollution liability insurance coverage to \$10 million. The main changes to insurance coverage during the fiscal year ended June 30, 2023, were increases to deductibles on some lines of coverage due to insurance market conditions and rates.

During the past three fiscal years there have been no settlements in excess of covered amounts. Claims against OC San are processed by General Counsel or an outside claim administrator. These claims are charged to claims expense based on estimated or known amounts which will ultimately be paid. Claims incurred but not yet reported have been considered in determining the accrual for loss contingencies. Workers' compensation reserves and general liability estimated loss accruals are actuarially determined. The estimate of the claims liability also includes any amounts for incremental and nonincremental claim adjustment expenses. OC San management believes that there are no unrecorded claims as of June 30, 2023, that would materially affect the financial position of OC San.

Deferred Compensation Plan

OC San offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. The plan permits all employees of OC San to defer a portion of their salary until future years. The amount deferred is not available to employees until termination, retirement, death or for unforeseeable emergency. The assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The plan assets are administered by an outside party and are not subject to the claims of OC San's general creditors. In accordance with GASB Statement No. 97, the plan's assets and liabilities are not included within OC San's financial statements.

New Accounting Pronouncements

OC San implemented the following GASB Statements for the year ended June 30, 2023:

- GASB Statement No. 91, *Conduit Debt Obligations*.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. Implementation of this Standard resulted in restating beginning balances as of July 1, 2022, to recognize subscription right-to-use assets of \$1,708,027 and an offsetting subscription liability. There was no effect on net position previously reported as of June 30, 2022.
- GASB Statement No. 99, *Omnibus 2022*.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

The following GASB Statements have been issued but are not yet effective for the year ended June 30, 2023. OC San is assessing what financial statement impact, if any, these Statements will have:

- GASB Statement No. 100, *Accounting Changes and Error Corrections — an amendment of GASB Statement No. 62*, effective for the fiscal year ending June 30, 2024.
- GASB Statement No. 101, *Compensated Absences*, effective for the fiscal year ending June 30, 2025.

(2) Cash and Investments

Cash and investments as of June 30, 2023, are classified within the accompanying Statement of Net Position as follows:

Statement of Net Position:	
Current assets, unrestricted:	
Cash and cash equivalents	\$ 142,998,405
Investments	847,023,569
Subtotal - current, unrestricted	990,021,974
Noncurrent assets, restricted:	
Cash and cash equivalents	702,291
Investments	13,377,269
Subtotal - restricted	14,079,560
Total cash and investments	<u>\$ 1,004,101,534</u>

Cash and investments consist of the following as of June 30, 2023:

Cash on hand	\$ 1,500
Deposits with financial institutions	5,513,787
Managed portfolio - cash and investments	984,506,687
Subtotal - unrestricted cash and investments	990,021,974
Monies held by trustees:	
Fiscal agent - cash and cash equivalents	11,969
Pension trust - cash and investments	14,067,591
Subtotal - restricted cash and investments	14,079,560
Total cash and investments	<u><u>\$ 1,004,101,534</u></u>

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Investments Authorized by the California Government Code and OC San's Investment Policy

The following table identifies the investment types that are authorized by the California Government Code and OC San's investment policy. This table and the subsequent tables identify certain provisions of either the California Government Code or OC San's investment policy (whichever is more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Investment Type - Authorized by the California Government Code	Maximum Maturity ⁽¹⁾⁽³⁾	Maximum Percentage of Portfolio ⁽¹⁾	Maximum Investment in a Single Issuer ⁽¹⁾
Local Agency Bonds	5 years	10% ⁽²⁾	5% ⁽²⁾
U.S. Treasury Obligations	5 years	No limit	No limit
California State Treasury Obligations	5 years	No limit	No limit
U.S. Agency Securities	5 years	No limit	20% ⁽²⁾
Banker's Acceptances	180 days	40%	5% ⁽²⁾
Commercial Paper	270 days	40%	5% ⁽²⁾
Negotiable Certificates of Deposit	5 years	30%	5% ⁽²⁾
Certificates of Deposit	5 years	No limit	5% ⁽²⁾
Repurchase Agreements	1 year	20% ⁽²⁾	5% ⁽²⁾
Reverse Repurchase Agreements	90 days ⁽²⁾	5% ⁽²⁾	5% ⁽²⁾
Corporate Medium-Term Notes	5 years	30%	5% ⁽²⁾
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	20%
Mortgage Pass-Through Securities/ CMO/Asset-Backed Securities	5 years	20%	5% ⁽²⁾
County Investment Pools	N/A	15% ⁽²⁾	15% ⁽²⁾
Local Agency Investment Fund (LAIF)	N/A	No limit	No limit
Supranational Obligations	5 years	30%	30%
Public Bank Obligations	5 years	No limit	5% ⁽²⁾

Notes

(1) Restrictions are in accordance with the California Government Code unless indicated otherwise.

(2) The restriction is in accordance with OC San's Investment Policy which is more restrictive than the California Government Code.

(3) As allowed by California Government Code Section 53601, the Board of Directors has adopted a policy of a maximum maturity of 5 years for investments purchased by OC San's external money manager for the long-term investment portfolio. The duration of the long-term investment portfolio can never exceed 60 months. Investments purchased for the short-term portfolio are subject to the maturity restrictions noted in this table.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Investments Authorized by Debt Agreements

The investment of debt proceeds held by trustees is governed by provisions of the debt covenant agreements, rather than the general provisions of the California Government Code or OC San's investment policy. The following table identifies the investment types that are authorized for investments held by OC San's debt trustees. This table and the subsequent tables identify certain provisions of the debt covenant agreements that address interest rate risk, credit risk, and concentration of credit risk.

Investment Type - Authorized by the Debt Covenant Agreement	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in a Single Issuer
U.S. Treasury Obligations	No Limit	No limit	No limit
U.S. Agency Securities	No Limit	No limit	No limit
State and Local Agency Bonds	No Limit	No limit	No limit
Certificates of Deposit	No Limit	No limit	No limit
Banker's Acceptances	180 days	No limit	No limit
Repurchase Agreements	1 year	No limit	No limit
Investment Agreements	No Limit	No limit	No limit
Forward Purchase Agreements	No Limit	No limit	No limit
Reserve Fund Put Agreements	No Limit	No limit	No limit
Guaranteed Investment Contracts	No Limit	No limit	No limit
Commercial Paper	270 days	No limit	No limit
Money Market Mutual Funds	N/A	No limit	No limit
Local Agency Investment Fund (LAIF)	N/A	No limit	No limit

Investments in Pension Trust

OC San has established an Internal Revenue Service (IRS) Section 115 trust to fund OCERS pension benefits. The tax-exempt irrevocable trust assets are to be used exclusively for payment of OCERS pension liabilities. OC San has restricted cash and investments held in the trust administered by Public Agency Retirement Services (PARS), with US Bank as the trustee, and managed by HighMark Capital under guidelines approved by OC San.

OC San has two pension trust portfolios: Moderate and Balanced. Both portfolios are constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers, and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

The primary goal of the Moderate objective is to provide current income and moderate capital appreciation. It is expected that dividend and interest income will comprise a significant portion of total return, although growth through capital appreciation is equally important. The strategic ranges are as follows: Equity (40% - 60%), Fixed Income (40% – 60 %), and Cash (0% – 20%)

The primary goal of the Balanced objective is to provide growth of principal and income. While dividend and interest income are important components of the objective's total return, it is expected that capital appreciation will comprise a larger portion of the total return. The strategic ranges are as follows: Equity (50% - 70%), Fixed Income (30% – 50 %), and Cash (0% – 20%)

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment has before maturity, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that OC San manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time, as necessary to provide the cash flow and liquidity needed for operations.

OC San monitors the interest rate risk inherent in its managed portfolio by measuring the duration of its portfolio. The duration of monies held for shorter term purposes is recommended by OC San's Treasurer and is based on OC San's cash flow requirements in meeting current operating and capital needs. The average duration of monies invested for shorter term purposes may never exceed 180 days. The duration of monies held for longer term purposes is recommended annually by OC San's Treasurer and is based on OC San's five-year cash flow forecast. The average duration may not exceed 120 percent nor be less than 80 percent of the recommended duration. The average duration of monies invested for longer term purposes may never exceed 60 months. There is no stated maximum maturity for the money market mutual funds. The money market mutual funds for BlackRock Institutional Fund and First American Government Obligations Fund are daily liquid funds available on demand.

Following is a table which summarizes OC San's managed portfolio investments by purpose and type with the duration as of June 30, 2023:

Investment Type	Fair Value	Duration (in years)	Duration (in months)
Short-Term Portfolio:			
U.S. Treasury Bills	\$ 104,228,605	0.230	2.76
Local Agency Investment Fund	67,137,425	0.712	8.55
Money Market Mutual Funds	54,982,292	-	-
U.S. Treasury Notes	39,636,816	0.190	2.28
Short-term portfolio subtotal	<u>265,985,138</u>	<u>0.298</u>	<u>3.58</u>
Long-Term Portfolio:			
U.S. Treasury Notes	243,655,280	2.924	35.09
Corporate Medium-Term Notes	189,288,177	2.535	30.42
U.S. Agency Securities*	113,699,231	2.021	24.25
Asset Backed Securities/CMO/Mortgage Pass-Through*	107,322,186	1.436	17.23
Supranationals	46,234,998	2.052	24.62
U.S. Treasury Inflation-Protected Securities (TIPS)	12,886,576	1.025	12.30
Money Market Mutual Funds	5,435,101	-	-
Long-term portfolio subtotal	<u>718,521,549</u>	<u>2.344</u>	<u>28.13</u>
Total managed investment portfolio	<u>\$ 984,506,687</u>		
* Includes highly sensitive securities.			

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

OC San monitors the interest rate risk inherent in its other investments using maturity of the investments. Following is a table of these investments, all held by trustees, as of June 30, 2023:

	12 Months or Less
Cash equivalents held by fiscal agents:	
Money Market Mutual Funds	\$ 11,969
Cash equivalents held by fiscal agents subtotal	<u>11,969</u>
Cash equivalents and investments held by pension trust:	
Money Market Mutual Funds	690,322
Mutual Funds - Equity	7,268,379
Mutual Funds - Fixed Income	<u>6,108,890</u>
Cash equivalents and investments held by pension trust subtotal	<u>14,067,591</u>
Total held by trustees	<u><u>\$ 14,079,560</u></u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

OC San's investments (including investments held by trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

- **Mortgage-backed securities:** These securities are subject to early payment in a period of declining interest rates. The resulting reduction in expected total cash flows affects the fair value of these securities, making them highly sensitive to change in interest rates. At fiscal year end, the fair value of investments in mortgage-backed securities totaled \$22,627,071 including \$22,335,429 of mortgage pass-through securities, \$241,340 of U.S. agency securities, and \$50,302 of U.S. government backed mortgage pools.

Fair Value of Investments

OC San measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and
- Level 3: Unobservable inputs.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

At June 30, 2023, OC San had the following fair value measurements:

Investment Type	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Unobservable Inputs Level 3
Investments in Short-Term Portfolio:				
U.S. Treasury Bills	\$ 104,228,605	\$ -	\$ 104,228,605	\$ -
U.S. Treasury Notes	39,636,816	-	39,636,816	-
Investments in Long-Term Portfolio:				
U.S. Treasury Notes	243,655,280	-	243,655,280	-
Corporate Medium-term Notes	189,288,177	-	189,288,177	-
U.S. Agency Securities	113,699,231	-	113,699,231	-
Asset Backed Securities/CMO/Mortgage Pass-Through	107,322,186	-	107,322,186	-
Supranationals	46,234,998	-	46,234,998	-
U.S. Treasury Inflation Protected Securities (TIPS)	12,886,576	-	12,886,576	-
Investments Held By Pension Trust:				
Mutual Funds - Equity	7,268,379	-	7,268,379	-
Mutual Funds - Fixed Income	6,108,890	-	6,108,890	-
Fair Value Hierarchy Totals		<u>\$ -</u>	<u>\$ 870,329,138</u>	<u>\$ -</u>
Investments Not Subject To Fair Value Hierarchy:				
Local Agency Investment Fund (LAIF)	67,137,425			
Money Market Mutual Funds (Short-Term Portfolio)	54,982,292			
Money Market Mutual Funds (Long-Term Portfolio)	5,435,101			
Money Market Mutual Funds (Held by Fiscal Agent)	11,969			
Money Market Mutual Funds (Held by Pension Trust)	690,322			
Total Investment Portfolio	<u>\$ 998,586,247</u>			

US Bank is the custodial bank for all of OC San's investments shown above in the managed portfolio, except for LAIF. Investments classified as Level 2 are valued using US Bank's fair value hierarchy matrix based on the asset type classification. The fair value hierarchy level matrix is based on discussions with (1) pricing vendors, (2) broker/dealers, (3) investment managers, (4) industry groups, and (5) independent accounting firms.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following table presents the minimum rating as required by the California Government Code, OC San's investment policy, or debt agreements, and the actual rating as of year-end for each investment type:

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Investment Type and the Lowest Rating Reported at Year End	Fair Value	
Investments with no legal minimum rating & no required disclosure:		
U.S. Treasury Obligations	\$ 400,407,277	
U.S. Agency Securities - GNMA	50,302	
Subtotal		\$ 400,457,579
Investments with no legal minimum rating:		
U.S. Agency Securities (other than GNMA):		
Rating of AA+ (Standard & Poor's)	113,699,231	
Local Agency Investment Fund (LAIF):		
Not rated	67,137,425	
Invested with pension trust:		
Money Market Mutual Funds: Rating of Aaa-mf (Moody's)	690,322	
Mutual Funds - Equity: Not rated	7,268,379	
Mutual Funds - Fixed Income: Not rated	6,108,890	
Subtotal		194,904,247
Investments with a legal minimum rating (or its equivalent) of A:		
Corporate Medium-Term Notes:		
Rating of AA+ (Standard & Poor's)	11,015,245	
Rating of Aa1 (Moody's)	2,907,320	
Rating of Aa2 (Moody's)	6,439,628	
Rating of Aa3 (Moody's)	9,535,198	
Rating of A1 (Moody's)	22,512,719	
Rating of A+ (Fitch)	6,428,813	
Rating of A2 (Moody's)	35,513,597	
Rating of A (Standard & Poor's)	22,715,190	
Rating of A- (Standard & Poor's)*	44,519,547	
Rating of A3 (Moody's)*	22,208,585	
Rating of BBB+ (Standard & Poor's)*	5,491,435	
Not rated	900	
Subtotal		189,288,177
Investments with a legal minimum rating (or its equivalent) of AA:		
Asset Backed Securities/CMO/Mortgage Pass-Through:		
Rating of AAA (Standard & Poor's)	106,484,624	
Rating of AA+ (Standard and Poor's)	688,630	
Rating of BB+ (Standard and Poor's)*	98,630	
Supranational Obligations:		
Rating of Aaa (Moody's)	46,234,998	
Subtotal		153,506,882
Investments with a legal minimum rating (or its equivalent) of AAA:		
Money Market Mutual Funds:		
Rating of Aaa (Moody's)	60,417,393	
Invested with fiscal agents:		
Money Market Mutual Funds: Rating of Aaa-mf (Moody's)	11,969	
Subtotal		60,429,362
Total		<u>\$ 998,586,247</u>
* Investment was in compliance with legal requirements at the time it was purchased.		

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Concentration of Credit Risk

Limitations on the amount that OC San is allowed to invest in any one issuer have been identified previously in the section "Investments Authorized by the California Government Code and OC San's Investment Policy" and in the section "Investments Authorized by Debt Agreements". OC San follows whichever guideline is the most restrictive.

As of June 30, 2023, OC San had no investments representing five percent or more of total investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and OC San's investment policy contain legal requirements that limit the exposure to custodial credit risk for deposits as follows: a financial institution must secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and OC San's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of June 30, 2023, in accordance with OC San's investment policy, none of OC San's investments were held with a counterparty. All of OC San's investments were held with an independent third-party custodian bank registered in the name of OC San. OC San uses US Bank as a third-party custody and safekeeping service for its investment securities.

Investment in State Investment Pool

OC San is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of OC San's investment in this pool is reported in the accompanying financial statements at amounts based upon OC San's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, other asset-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes. The amounts invested in LAIF are recorded as cash and cash equivalents at June 30, 2023.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

(3) Capital Assets

Capital asset activity for the year ended June 30, 2023, is as follows:

	Beginning Balance at July 1, 2022, as restated	Additions / Transfers	Deletions / Transfers	Ending Balance at June 30, 2023
Capital assets not depreciated:				
Cost:				
Land	\$ 57,680,623	\$ 472,547	\$ -	\$ 58,153,170
Construction in progress	552,127,545	215,010,095	(129,732,745)	637,404,895
Total nondepreciable assets	609,808,168	215,482,642	(129,732,745)	695,558,065
Depreciable capital assets:				
Cost:				
Sewage collection facilities	900,839,423	80,597,840	-	981,437,263
Sewage treatment facilities	2,826,642,906	44,779,081	-	2,871,421,987
Effluent disposal facilities	96,972,016	-	-	96,972,016
Solids disposal facilities	3,463,236	-	-	3,463,236
General and administrative facilities	261,393,327	4,684,949	(431,147)	265,647,129
Lease right-to-use asset	86,747	-	-	86,747
Subscription right-to-use assets	1,708,027	-	-	1,708,027
Excess purchase price over book value on acquired assets	19,979,000	-	-	19,979,000
Subtotal	4,111,084,682	130,061,870	(431,147)	4,240,715,405
Accumulated depreciation and amortization:				
Sewage collection facilities	(448,861,483)	(23,186,564)	-	(472,048,047)
Sewage treatment facilities	(1,216,215,253)	(87,404,250)	-	(1,303,619,503)
Effluent disposal facilities	(69,610,412)	(1,377,997)	-	(70,988,409)
Solids disposal facilities	(3,214,563)	(9,719)	-	(3,224,282)
General and administrative facilities	(199,247,324)	(10,837,900)	391,175	(209,694,049)
Lease right-to-use asset	(30,617)	(30,617)	-	(61,234)
Subscription right-to-use assets	-	(763,737)	-	(763,737)
Excess purchase price over book value on acquired assets	(19,979,000)	-	-	(19,979,000)
Subtotal	(1,957,158,652)	(123,610,784)	391,175	(2,080,378,261)
Net depreciable assets	2,153,926,030	6,451,086	(39,972)	2,160,337,144
Net capital assets	\$2,763,734,198	\$221,933,728	\$(129,772,717)	\$2,855,895,209

For the fiscal year ended June 30, 2023, capital asset additions of \$130.0 million in depreciable capital assets are \$0.3 million more than the \$129.7 million transferred from Construction in Progress due to \$2.2 million of capital equipment purchases, partially offset by \$1.9 million of prior capital project expenses that were written off as expense. The beginning balance at July 1, 2022, was restated for subscription right-to-use assets due to GASB 96 implementation.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

(4) Lease Receivable

OC San is a lessor in three noncancellable leases for building office space. The lessees are required to make fixed monthly payments ranging from \$8,196 to \$16,367 per month. OC San recognized \$357,525 in lease revenue and \$34,312 in interest revenue during the current fiscal year related to these agreements. As of June 30, 2023, the lease receivable is \$1,078,522 and deferred inflows of resources is \$1,042,287.

(5) Long-Term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2023:

	Beginning Balance, July 1, as restated	Additions	Deletions	Ending Balance, June 30	Due within one year	Long-term amount
Compensated absences	\$ 10,306,663	\$ 9,850,126	\$ (10,506,686)	\$ 9,650,103	\$ 8,416,065	\$ 1,234,038
Claims and judgments	5,273,297	4,432,264	(4,150,558)	5,555,003	540,020	5,014,983
Lease liability	58,158	-	(30,789)	27,369	27,369	-
Subscription liability	1,708,027	-	(1,094,573)	613,454	613,454	-
Certificates of participation / revenue obligations	819,785,000	-	(30,035,000)	789,750,000	31,580,000	758,170,000
Unamortized premium	93,317,847	-	(13,505,184)	79,812,663	12,446,963	67,365,700
Totals	\$ 930,448,992	\$ 14,282,390	\$ (59,322,790)	\$ 885,408,592	\$ 53,623,871	\$ 831,784,721

Compensated Absences

OC San's policies related to compensated absences are described in Note 1. OC San's liability at June 30, 2023, is \$9,650,103 with an estimated \$8,416,065 to be paid or used within the next fiscal year.

Claims and Judgments Payable

OC San is self-insured in a number of areas as described in Note 1. The following is a summary of the change in claims and judgments payable for the years ended June 30, 2023, and 2022:

	2022-23	2021-22
Claims and judgments payable at July 1	\$ 5,273,297	\$ 4,332,897
Claims incurred during the fiscal year	4,432,264	3,103,355
Changes in estimates for claims of prior years	(681,136)	179,350
Payments on claims during the fiscal year	(3,469,422)	(2,342,305)
Claims and judgments payable at June 30	5,555,003	5,273,297
Less: current portion	(540,020)	(406,360)
Total long-term claims and judgments payable	\$ 5,014,983	\$ 4,866,937

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Lease Liability

On April 13, 2021, OC San entered into a three-year lease agreement as lessee for property access used to operate a chemical dosing site as part of OC San's sewer collection facilities. Required monthly payments range from \$2,680 to \$2,800 per month. OC San's lease liability at June 30, 2023, is \$27,369. The future principal and interest lease payments as of June 30, 2023, are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 27,369	\$ 631	\$ 28,000
Total	<u>\$ 27,369</u>	<u>\$ 631</u>	<u>\$ 28,000</u>

Subscription Liability

As of June 30, 2023, OC San was engaged in four subscription-based information technology arrangements for the right to use various vendor-provided software including geographic information systems, Microsoft Enterprise licenses, server virtualization licenses, and wastewater asset management applications. The future principal and interest subscription payments as of June 30, 2023, are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 613,454	\$ 18,118	\$ 631,572
Total	<u>\$ 613,454</u>	<u>\$ 18,118</u>	<u>\$ 631,572</u>

Certificates of Participation / Revenue Obligations

OC San issued certificates of participation and revenue obligations in order to finance construction of the treatment facilities. Each issuance represents a direct and proportionate interest in the semi-annual interest payments. Installment payments for the issues are payable from any source of lawfully available funds of OC San. Certificates of participation and revenue obligations at June 30, 2023, are summarized as follows:

	Amount
2010A wastewater revenue obligations	\$ 80,000,000
2010C wastewater revenue obligations	157,000,000
2014A wastewater refunding revenue obligations	39,180,000
2015A wastewater refunding revenue obligations	127,510,000
2016A wastewater refunding revenue obligations	126,855,000
2017A wastewater refunding revenue obligations	65,815,000
2021A wastewater refunding revenue obligations	111,770,000
2022A wastewater refunding revenue obligations	<u>81,620,000</u>
Total certificates of participation / revenue obligations	<u>\$ 789,750,000</u>

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Outstanding Certificates of Participation and Revenue Obligations

All of the outstanding debt of OC San is senior lien debt with rate covenants that require a minimum coverage ratio of 1.25. The minimum coverage ratio is the ratio of net annual revenues available for debt service requirements to total annual debt service requirements. As of June 30, 2023, the coverage ratio for senior lien debt was 4.18.

May 2010 Wastewater Revenue Obligations, Series 2010A

On May 18, 2010, OC San completed the sale of \$80,000,000 of wastewater revenue obligations under the federally taxable Build America Bonds program. The obligations were issued to finance and reimburse OC San for the acquisition, construction, and installation of additional improvements made to the wastewater system. The stated interest rate on the obligations is fixed and will range from 5.56 percent to 5.58 percent, however, in accordance with their designation as Build America Bonds, OC San expected to receive a cash subsidy from the United States Treasury equal to 35 percent of the interest payable with respect to these revenue obligations, resulting in lower net costs. On March 1, 2013, the federal government implemented certain automatic spending cuts known as the sequester. As a result of the sequester, federal subsidy payments on Build America Bonds have been reduced annually from a high of 8.7 percent for the federal fiscal year end September 30, 2013, to a low of 5.7 percent for the federal fiscal year end September 30, 2022. Annual principal payments are due on February 1, beginning February 1, 2034, through February 1, 2040.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

December 2010 Wastewater Revenue Obligations, Series 2010C

On December 8, 2010, OC San completed the sale of \$157,000,000 of wastewater revenue obligations under the federally taxable Build America Bonds program. The obligations were issued to finance and reimburse OC San for the acquisition, construction, and installation of additional improvements made to the wastewater system. The stated interest rate on the obligations is fixed and will range from 6.35 percent to 6.40 percent, however, in accordance with their designation as Build America Bonds, OC San expected to receive a cash subsidy from the United States Treasury equal to 35 percent of the interest payable with respect to these revenue obligations, resulting in lower net costs. Similar to 2010 C Series A certificates of participation, the sequester also reduced the federal subsidy on these Build America Bonds from a high of 8.7 percent for the federal fiscal year end September 30, 2013, to a low of 5.7 percent for the federal fiscal year end September 30, 2022. Annual principal payments are due on February 1, beginning February 1, 2031, through February 1, 2044.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

August 2014 Wastewater Refunding Revenue Obligations, Series 2014A

On August 7, 2014, OC San completed the sale of \$85,090,000 of wastewater refunding revenue obligations. The obligations were issued to partially refund \$93,930,000 of the outstanding principal balance of the 2007 Series B certificates of participation. The stated interest rate on the obligations is fixed at 5 percent. Annual principal payments are due on February 1, beginning February 1, 2018, through February 1, 2027.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

February 2015 Wastewater Refunding Revenue Obligations, Series 2015A

On February 12, 2015, OC San completed the sale of \$127,510,000 of wastewater refunding revenue obligations. The obligations were issued to partially refund \$152,990,000 of the outstanding principal balance of the 2007 Series B certificates of participation. The stated interest rate on the obligations is fixed at 5 percent. Annual principal payments are due on February 1, beginning February 1, 2028, through February 1, 2037.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

March 2016 Wastewater Refunding Revenue Obligations, Series 2016A

On March 30, 2016, OC San completed the sale of \$145,880,000 of wastewater refunding revenue obligations. The obligations were issued to partially refund \$162,780,000 of the outstanding principal balance of the 2009 Series A certificates of participation. The stated interest rate on the obligations is fixed and will range from 4 to 5 percent. Annual principal payments are due on February 1, beginning February 1, 2020, through February 1, 2039.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

February 2017 Wastewater Refunding Revenue Obligations, Series 2017A

On February 1, 2017, OC San completed the sale of \$66,370,000 of wastewater refunding revenue obligations. The obligations were issued to refund the \$91,620,000 outstanding principal balance of the 2007 Series A certificates of participation. The stated interest rate on the obligations is fixed at 5 percent. Annual principal payments are due on February 1, beginning February 1, 2021, through February 1, 2030.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

2021 Wastewater Refunding Revenue Obligations, Series 2021A

On July 29, 2021, OC San completed the sale of \$133,510,000 of wastewater refunding revenue obligations. The obligations were issued to refund the \$61,575,000 outstanding principal balance of the 2011 Series A certificates of participation and to refund the \$102,200,000 outstanding principal balance of the 2018 Series A revenue refunding certificate anticipation notes. The stated interest rate on the obligations is fixed at 5 percent. Annual principal payments are due on February 1, beginning February 1, 2022, through February 1, 2036.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

2022 Wastewater Refunding Revenue Obligations, Series 2022A

On February 1, 2022, OC San completed the sale of \$81,620,000 of wastewater refunding revenue obligations. The obligations were issued to refund the \$100,645,000 outstanding principal balance of the 2012 Series A certificates of participation and to refund the \$6,670,000 outstanding principal balance of the 2012 Series B certificates of participation. The stated interest rate on the obligations is fixed at 5 percent. Annual principal payments are due on February 1, beginning February 1, 2031, through February 1, 2033.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Annual Amortization Requirements

The annual requirements to amortize all debt related to certificates of participation and revenue obligations as of June 30, 2023, are as follows:

Year Ending June 30,	Principal	Estimated Interest	Total
2024	\$ 31,580,000	\$ 36,742,219	\$ 68,322,219
2025	33,120,000	35,163,219	68,283,219
2026	34,830,000	33,507,219	68,337,219
2027	36,445,000	31,765,719	68,210,719
2028	42,420,000	29,943,469	72,363,469
2029 - 2033	261,350,000	115,993,575	377,343,575
2034 - 2038	245,465,000	51,357,704	296,822,704
2039 - 2043	102,060,000	10,467,303	112,527,303
2044	2,480,000	103,168	2,583,168
Total	<u>\$ 789,750,000</u>	<u>\$ 345,043,595</u>	<u>\$ 1,134,793,595</u>

(6) Pension Benefits

OC San has two defined benefit pension plans for retirees: the plan maintained through and by the Orange County Employees Retirement System (OCERS) and the Additional Retiree Benefit Account (ARBA) administered directly by OC San.

A summary of pension amounts for OC San's plans at June 30, 2023, is presented below:

	OCERS	ARBA	Total
Net pension asset - OCERS	\$ 10,604,801	\$ -	\$ 10,604,801
Deferred outflows - pensions	92,680,591	2,776,605	95,457,196
Total pension liability - ARBA	-	20,098,783	20,098,783
Deferred inflows - pensions	13,954,206	4,212,308	18,166,514
Pension expense	16,413,154	1,380,771	17,793,925

A. Orange County Employees Retirement System (OCERS)

Plan Description: All qualified permanent and probationary employees are eligible to participate in OC San's Employee Pension Plan (Plan), which is a cost-sharing multiple employer defined benefit pension plan administered by the Orange County Employees Retirement System (OCERS). OCERS was established in 1945 under the provisions of the County Employees Retirement Law of 1937 (CERL). The Plan operates under the provisions of the CERL, the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by OCERS' Board of Retirement. The Plan's authority to establish and amend the benefit terms are set by the CERL and PEPRA and may be amended by the California State Legislature. The Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

Benefits Provided: OCERS provides service retirement, disability, death, and survivor benefits to plan members who may be public employees or beneficiaries. The CERL and PEPRA establish

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

benefit terms. Benefits are based on years of credited service equal to one year of full-time employment. Members of plans B and H with ten years of service credit are entitled to receive a retirement allowance beginning at age 50; members of plan U with 5 years of service are eligible to receive a retirement allowance at age 52. Members attaining age 70 are eligible to retire regardless of credited service.

Benefits are determined by plan formula, age, years of service and final average salary (FAS) as follows:

	Plan H	Plan B	Plan U
Hire Date	After 9/21/79 Prof/Sup*: Before 10/1/10 OCEA*: Before 8/1/11 501*: Before 7/1/11	Prof/Sup: After 10/1/10 OCEA: After 8/1/11 501: After 7/1/11 All: Before 1/1/2013	On or after 1/1/2013
Final Average Compensation (FAS)	Highest 36 months	Highest 36 months	Highest 36 months
Normal Retirement Age	Age 55	Age 57.5	Age 67
Service Requirement Eligibility	Age 70, any years Age 50, 10 years	Age 70, any years Age 50, 10 years	Age 70, any years Age 52, 5 years
Benefit percent per year of service for normal retirement age	2.5% per year of FAS for every year of service credit	1.667% per year of FAS for every year of service credit	2.5% per year of FAS for every year of service credit
Benefit Adjustments	Reduced before age 55	Reduced before age 57.5	Reduced before age 67
FAS Limitation	Internal Revenue Code Section 401(a)(17)	Internal Revenue Code Section 401(a)(17)	Public Employees Pension Reform Act (PEPRA): 120% of Social Security wage base per year

* Prof/Sup: Professional and Supervisor employee groups, bargaining unit SPMG.

* OCEA: Administrative, Clerical, Engineering, and Technical Services employee groups, bargaining unit OCEA.

* 501: Operations and Maintenance employee groups, bargaining unit International Union of Operating Engineers Local 501.

A cost-of-living adjustment is provided to benefit recipients based on changes in the Consumer Price Index (CPI) up to a maximum of 3% per year. Any increase greater than 3% is banked and may be used in years when the CPI is less than 3%. The increase is established and approved annually by the Board of Retirement.

The Plan also provides disability and death benefits to eligible members and their beneficiaries, respectively. For retirees, the death benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to benefits based on the member's years of service and whether or not the cause of death is service related.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

At the December 31, 2022, measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	603
Inactive employees entitled to but not yet receiving benefits	145
Active employees	<u>605</u>
Total	<u><u>1,353</u></u>

Contributions: Participating employers and active members are required by statute to contribute a percentage of covered salary to the Plan. CERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and be effective on the July 1 following notice of a change in rate. Funding contributions are determined annually on an actuarial basis as of December 31 by OCERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Contributions to the Plan from OC San were \$8,816,866 for the year ended June 30, 2023.

Contribution rates in effect for the fiscal year ended June 30, 2023, are as follows:

Employer Contribution Rate, 7/1/22 - 6/30/23	13.46%	13.25%	9.86%
Employee Contribution Rate, 7/1/22 - 6/30/23 (2)	6.55-13.31% (1)	7.33-13.39%	6.90-14.66%
Paid by Employer for Employee	3.50%	0.00%	0.00%

(1) Net of employer paid portion of 3.5%.

(2) Employee rates are determined by the age of entry into the retirement system.

For the year ended June 30, 2023, the contributions and average employer's contribution rate as a percentage of covered payroll were as follows:

Plans	Employer Contributions	Employee (Paid by Employer) Contributions	Average Employer Contribution Rate (%)
Plan H	4,185,800	1,069,108	6.94%
Plan B	899,112	-	1.19%
Plan U	3,731,954	-	4.93%
Total	<u>\$ 8,816,866</u>	<u>\$ 1,069,108</u>	

Pension Assets/Liabilities: As of June 30, 2023, OC San reported a net pension asset of \$10,604,801 for its proportionate share of OCERS' net pension liability. The net pension asset was measured as of December 31, 2022, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. OC San's proportion of the net pension asset was based on a projection of OC San's long-term share of contributions to the pension plan relative to the projected contribution of all participating employers, actuarially determined.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

At December 31, 2022, OC San's proportion of the net pension liability was negative (0.197%), which was an increase of 8.521% from its proportion measured as of December 31, 2021. The change in OC San's proportion of the net pension liability during the fiscal year ended June 30, 2023, was caused by contributions and projections noted above.

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions: For the year ended June 30, 2023, OC San recognized pension expense of \$16,413,154 for its proportionate share of the pension expense. At June 30, 2023, OC San reported its share of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 21,845,552	\$ 13,954,206
Net difference between projected and actual investment earnings on pension plan investments	51,743,560	-
Changes of assumptions (1)	5,759,591	-
Employer contributions paid to OCERS subsequent to the measurement date	13,331,888	-
Total	<u>\$ 92,680,591</u>	<u>\$ 13,954,206</u>

- (1) The monetary effects of changes in actuarial assumptions and method totals \$5,759,591 for deferred outflows and \$0 for deferred inflows of resources. These changes include:
- adjustments to the mortality tables,
 - retirement assumptions for deferred vested members (age at retirement 59, increase of 4.00% in reciprocity, and an increase in compensation increases),
 - % in the rate of marriage for male and female members at retirement or pre-retirement death,
 - an increase in the Consumer Price Index of 2.75% per year, maximum increase is 3%,
 - and a slight increase of .50% in salaries per year.

Detail for these changes is available in the Segal Actuarial Valuation for December 31, 2022, Section 3. This report is available on the OCERS website at www.ocers.org.

The \$13,331,888 reported as deferred outflows of resources related to pensions resulting from OC San's contributions to OCERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OCERS pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2024	\$ 1,152,046
2025	11,328,468
2026	18,189,452
2027	33,665,319
2028	1,059,212
Total	<u>\$ 65,394,497</u>

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Actuarial Assumptions and Methods: The total pension liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.00% of net pension plan investment expenses, including inflation
Discount rate	7.00%
Inflation rate	2.50%
Projected salary increases	4.00% to 11.00%
Cost of living adjustment	2.75% of retirement income

OCERS Economic and Demographic Assumptions: On August 17, 2020, the OCERS Board adopted the following significant changes to the economic and demographic actuarial assumptions, used to establish retirement contribution rates effective July 1, 2021:

- Reduced the assumed rate of price inflation from 2.75% to 2.50%.
- Adopted the use of Public Retirement Plans Mortality tables (PUB-2010) published by the Society of Actuaries.

Additionally, the OCERS Board adopted a three-year phase-in of the impact to the contribution rates associated with the Unfunded Actuarially Accrued Liability. The cumulative effect of these changes will have the impact of increasing contribution rates for members and plan sponsors.

The mortality assumptions used in the total pension liability at December 31, 2022, were based on the Amount-Weighted Above-Median Mortality Tables (adjusted for OCERS experience), projected generationally with the two-dimensional mortality improvement scale MP-2019, and adjusted separately for healthy and disabled members. The basis for determining the mortality assumptions used were based on the results of the actuarial experience study for the period January 1, 2017, through December 31, 2019.

Further details of the experience study can be found in the OCERS Annual Comprehensive Financial Report, available on their website at www.ocers.org.

Long-Term Expected Real Rate of Return: The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table for the calendar year ended December 31, 2022:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Large Cap Equity	23.10%	5.43%
Small Cap Equity	1.90%	6.21%
International Developed Equity	13.00%	6.67%
Emerging Markets Equity	9.00%	8.58%
Core Bonds	9.00%	1.10%
High Yield Bonds	1.50%	2.91%
TIPS	2.00%	0.65%
Emerging Market Debt	2.00%	3.25%
Corporate Credit	1.00%	0.53%
Long Duration Fixed Income	2.50%	1.44%
Real Estate	3.01%	4.42%
Private Equity	13.00%	9.41%
Value Added Real Estate	3.01%	7.42%
Opportunistic Real Estate	0.98%	10.18%
Energy	2.00%	9.68%
Infrastructure (Core Private)	1.50%	5.08%
Infrastructure (Non-Core Private)	1.50%	8.92%
CTA - Trend Following	2.50%	2.38%
Global Macro	2.50%	2.13%
Private Credit	2.50%	5.47%
Alternative Risk Premia	2.50%	2.50%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.00% for the year ended December 31, 2022. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2022.

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate: The following table represents OC San's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what OC San's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate:

Net Pension Asset (Liability)	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
December 31, 2022	\$ (110,139,693)	\$ 10,604,801	\$ 109,092,390

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Pension Plan Fiduciary Net Position: Detailed information about OCERS' fiduciary net position is available in a separately issued OCERS Annual Comprehensive Financial Report. That report may be obtained from OCERS at 2223 Wellington Avenue, Santa Ana, California 92708 or at their web site (www.ocers.org).

B. Additional Retiree Benefit Account (ARBA)

Plan Description: The OC San ARBA plan is a single-employer defined benefit plan which was administered by OCERS until February 29, 2008, when OC San began direct administration. This benefit was established by the OC San Board of Directors on October 25, 1992. It provides a monthly payment to retirees towards the premium costs of health insurance for the retiree and eligible dependents. The retiree is not required to use this amount for health insurance premium or to remain on the OC San medical plan. The plan is a funded on a pay-as-you-go plan from general funds and is administered by OC San. Stand-alone financial statements are not issued for the plan.

Benefits Provided: Employees who retire receive \$10 per month for every year of service up to a maximum of 25 years, or \$250 per month. This amount is independent of salary and is fixed at retirement. Because OC San cannot ensure the use of the benefit for payment of eligible health insurance expenses, the benefit is taxable to the retiree. Survivor benefits are provided in the event that a retiree pre-deceases his/her spouse. For retirees hired prior to July 1, 1988, OC San provides health insurance coverage for 2½ months per year of service (see Note 7 – Other Post-Employment Benefits). ARBA benefits begin immediately after this benefit ends. For those hired on or after July 1, 1988, ARBA benefits begin immediately upon retirement and continue for life. Employees hired into the OCEA bargaining group after August 1, 2011, are ineligible for this benefit.

Benefits are determined by hire date, bargaining unit and years of service as follows:

Hire date	All: Prior to 7/1/88	All: After 7/1/88 OCEA*: Before 8/1/11
Benefit amount per year of service for normal retirement age	\$10 per month x years of service up to a maximum of 25 years	\$10 per month x years of service up to a maximum of 25 years
Service requirement eligibility	Age 50 or over with 10 or more years Any age with 30 or more years Age 70 or over, any years	Age 50 or over with 10 or more years Any age with 30 or more years Age 70 or over, any years
Benefit payments	Monthly for life	Monthly for life
Benefit schedule	Immediately after retiree health insurance coverage ends	Immediately upon retirement

* OCEA: Administrative, Clerical, Engineering, and Technical Services employee groups, bargaining unit OCEA.

No cost-of-living adjustment is provided to benefit recipients.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

At the July 1, 2021, actuarial valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	410
Active employees	559
Total	969

Contributions: There are no employee contributions for this plan; OC San covers 100% of the cost. OC San utilizes a pay-as-you-go method for funding the plan. Contributions to the plan from OC San were \$1,146,060 for the year ended June 30, 2023.

Pension Liabilities: As of June 30, 2023, OC San reported a total pension liability of \$20,098,783 for its ARBA plan. The total pension liability was determined by an actuarial valuation as of July 1, 2021. OC San funds benefits on a pay-as-you-go basis and elected not to pre-fund its pension obligation. As a result, there are no plan assets and the total pension liability is equal to the net pension liability. Standard actuarial update procedures were used to project/discount from July 1, 2021, to the measurement date of June 30, 2023.

The actuarial valuation performed as of July 1, 2021, used the entry age, level percent of pay cost method. This method represents the present value of all benefits accrued through the valuation date assuming that each employee's liability is expensed from hire date until retirement date as a level percentage of pay.

The following table shows the changes in the total pension liability:

	Total Pension Liability Increase (Decrease)
Beginning balance at July 1, 2022	\$ 20,382,770
Changes in the year:	
Service cost	545,116
Interest on total pension liability	751,286
Difference between expected and actual experience	-
Changes of assumptions	(434,329)
Benefit payments	(1,146,060)
Net changes	(283,987)
Ending balance at June 30, 2023	\$ 20,098,783

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension: For the year ended June 30, 2023, OC San recognized pension expense of \$1,380,771 for its ARBA plan. At June 30, 2023, OC San reported its share of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 797,747	\$ (970,197)
Changes of assumptions (1)	1,978,858	(3,242,111)
Total	<u>\$ 2,776,605</u>	<u>\$ (4,212,308)</u>

(1) The monetary effects of changes in actuarial assumptions and method totals \$1,978,858 for deferred outflows and (\$3,242,111) for deferred inflows of resources. These changes include passage of time, a change in the discount rate from 3.69% to 3.86%, change in actuarial system, census and other losses.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to ARBA pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2024	\$ (30,135)
2025	(238,387)
2026	(377,058)
2027	(412,341)
2028	(363,771)
2029	(14,011)
Total	<u>\$ (1,435,703)</u>

Actuarial Assumptions and Methods: The total pension liability in the July 1, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	3.75% per annum
Discount rate	1.92% per annum as of July 1, 2021 (valuation date) 3.86% per annum as of June 30, 2023 (measurement date)
Inflation rate	2.75% per annum
Projected salary increases	3.00% per annum (for service cost only; benefits not pay-related)

The mortality assumptions used in the total pension liability at July 1, 2021, were based on the Pub-2010 General Employee and Healthy Retiree Amount-Weighted Above-Median Mortality Tables for males or females, projected generationally with the two-dimensional mortality improvement scale MP-2019.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Discount Rate: The discount rate used to measure the total pension liability was 1.92% as of the valuation date, July 1, 2021, and 3.86% as of the measurement date, June 30, 2023. Because there are no assets held in a trust, the discount rate is based on the 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of the Total Pension Liability to Changes in the Discount Rate: The following table represents the total pension liability calculated using the discount rate of 3.86% as of the measurement date, as well as what total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.86%) or 1 percentage point higher (4.86%) than the current rate:

Total Pension Liability	1% Decrease (2.86%)	Current Discount Rate (3.86%)	1% Increase (4.86%)
June 30, 2023	\$ 22,875,983	\$ 20,098,783	\$ 17,810,727

(7) Other Post-Employment Benefits (OPEB)

Plan Description: The post-employment medical benefits plan is a single-employer defined benefit plan administered by OC San. This plan was established and may be modified only by action of the OC San Board of Directors. Stand-alone financial statements are not issued.

Benefits Provided: OC San offers medical insurance to active and retired employees, as well as their qualified dependents. All retirees may choose coverage in an OC San medical plan, with retirees paying the full premium. However, for employees hired prior to July 1, 1988, medical benefits begin immediately at retirement with OC San paying 2.5 months of premium for each year of continuous service toward the cost of coverage under OC San medical plans. At the termination of this period the retiree may elect to continue coverage at his/her own expense. For the fiscal year ended June 30, 2023, premiums ranged between \$189 and \$3,975 per month, depending on the plan and number of dependents covered.

At the July 1, 2021, actuarial valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits (includes 30 with premiums paid by OC San and 63 under age 65 paying premiums)	93
Active employees eligible for premiums paid by OC San	3
Total	96

Contributions: There are no employee contributions to this plan; OC San covers 100% of the cost for qualifying employees as stated above. Retirees opting to remain with the plan after employment pay 100% of the premium cost, except for those for whom OC San pays for a period (see above). OC San utilizes a pay-as-you-go method for funding the plan. Contributions to the plan from OC San were \$305,724 and the estimated implicit subsidy was \$703,379, resulting in total payments of \$1,009,103, and retirees contributed \$1,327,276 for the year ended June 30, 2023.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

OPEB Liabilities: As of June 30, 2023, OC San reported total OPEB liability of \$1,034,882 for its post-employment retiree medical benefits plan. The total OPEB liability was determined by an actuarial valuation as of July 1, 2021. OC San funds benefits on a pay-as-you-go basis and elected not to pre-fund its OPEB obligation. As a result, there are no plan assets and the total OPEB liability is equal to the net OPEB liability. Standard actuarial update procedures were used to project/discount from July 1, 2021, to the measurement date of June 30, 2023.

The actuarial valuation performed as of July 1, 2021, used the entry age, level percent of pay cost method. This method represents the present value of benefits accrued through the valuation date, assuming that each employee's liability is expensed from hire date until retirement date as a level percentage of pay.

The following table shows the changes in the total OPEB liability:

	Total OPEB Liability Increase (Decrease)
Beginning balance at July 1, 2022	\$ 2,077,772
Changes in the year:	
Service cost	3,803
Interest on total OPEB liability	55,501
Difference between expected and actual experience	(77,497)
Changes of assumptions	(15,594)
Benefit payments (1)	(1,009,103)
Net changes	(1,042,890)
Ending balance at June 30, 2023	\$ 1,034,882

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB: For the year ended June 30, 2023, OC San recognized OPEB expense of negative (\$33,787) for its post-employment retiree medical benefits plan. At June 30, 2023, OC San reported \$0 for its share of deferred outflows/inflows of resources related to OPEB.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Actuarial Assumptions and Methods: The total OPEB liability in the July 1, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	3.75% per annum
Discount rate	1.92% per annum as of July 1, 2021 (valuation date) 3.86% per annum as of June 30, 2023 (measurement date)
Inflation rate	2.75% per annum
Healthcare cost trend rate	4.00% for 2023, 5.20% for 2024-2069, and 4.00% for 2070 and later; Medicare ages: 4.00% for all years
Projected salary increases	3.00% per annum

The mortality assumptions used in the total OPEB liability at July 1, 2021, were based on the Pub-2010 General Employee and Healthy Retiree Amount-Weighted Above-Median Mortality Tables for males or females, projected generationally with the two-dimensional mortality improvement scale MP-2019

Actuarial assumptions used in the July 1, 2021, valuation were based on a review of plan experience during the period July 1, 2019, through June 30, 2021.

Discount Rate: The discount rate used to measure the total OPEB liability was 1.92% as of the valuation date, July 1, 2021, and 3.86% as of the measurement date, June 30, 2023. Because there are no assets held in a trust, for GASB 75 reporting purposes, the discount rate is based on a yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate: The following table represents the total OPEB liability calculated using the discount rate of 3.86% as of the measurement date, as well as what total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.86%) or 1 percentage point higher (4.86%) than the current rate:

Total OPEB Liability	1% Decrease (2.86%)	Current Discount Rate (3.86%)	1% Increase (4.86%)
June 30, 2023	\$ 1,129,049	\$ 1,034,882	\$ 946,823

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following table represents the total OPEB liability, as well as what total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rate:

Total OPEB Liability	1% Decrease (1)	Current Trend Rate (2)	1% Increase (3)
June 30, 2023	\$ 921,586	\$ 1,034,882	\$ 1,156,183

(1) 3.00% for 2023, 4.20% for 2024-2069, and 3.00% for 2070 and later years; Medicare ages: 3.00% for all years

(2) 4.00% for 2023, 5.20% for 2024-2069, and 4.00% for 2070 and later years; Medicare ages: 4.00% for all years

(3) 5.00% for 2023, 6.20% for 2024-2069, and 5.00% for 2070 and later years; Medicare ages: 5.00% for all years

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

(8) Transactions with Irvine Ranch Water District – Revenue Area No. 14

Formation of Revenue Area No. 14 & Excess Purchase Price Over Book Value of Acquired Assets

On July 1, 1985, Revenue Area No. 14 was formed as an independent special district as a result of a negotiated agreement between OC San and IRWD. At the time of Revenue Area 14's creation, OC San consisted of eight independent special districts (see Note 1 – Reporting Entity). The eight existing districts sold a portion of the joint treatment facilities and land to the newly created district and recorded capacity rights revenue at the time of the sale.

In accordance with the negotiated agreement between OC San and IRWD, IRWD paid OC San \$34,532,000 for an initial 15 million gallons per day capacity in OC San's joint treatment facilities (with an ultimate collection capacity of 32 million gallons per day) and for a pro-rata interest in real property (based on flow of 32 million gallons per day). The book value of the assets acquired was determined to be \$14,553,000 as of June 30, 1986; these assets were recorded at book value in Revenue Area 14. The excess of the purchase price over the assets' book value was \$19,979,000 and was recorded as an intangible asset in Revenue Area 14. The excess of the purchase price over the assets' book value was amortized over useful lives of the original assets acquired. The excess of purchase price over the assets' book value was fully amortized as of June 30, 2017.

Annual Transactions

IRWD entered into a separate agreement with Revenue Area 14 on January 1, 1986, whereby IRWD agreed to fund quarterly payments of Revenue Area 14's proportionate share of OC San's joint capital outlay revolving fund budget requirements and certain capital improvements during the term of the agreement, for which contributions of \$5,110,831 were recorded as contributions from other governments during the fiscal year ended June 30, 2023. IRWD also agreed to fund the annual integration adjustment of Revenue Area 14's equity share in OC San's Joint Works Treatment Facilities based on the flows discharged to OC San. Integration contributions charged to IRWD of \$10,909,575 from Revenue Area 14 were recognized and reported as contributions from other governments during the fiscal year ended June 30, 2023. These contributions received from or credited to IRWD for their agreed-upon share of capital assets and equity share in OC San's Joint Works Treatment Facilities are calculated as prescribed in the agreements.

Any amounts credited to IRWD are not refunded in cash but are held as a credit to satisfy future contributions required of IRWD. Amounts owed from IRWD are invoiced on a quarterly or annual basis. As a result, a balance of \$37,500,330 was reported in due to other governmental agency as of June 30, 2023.

Annual Cash Reserve Requirement

The cash reserve contribution requirement from IRWD is \$9.7 million at June 30, 2023, in accordance with Amendment No. 2 to the Agreement between IRWD and OC San Acquiring Ownership Interests, Assigning Rights, and Establishing Obligations. This cash reserve requirement is recognized as a liability to IRWD.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

(9) Commitments and Contingencies

Construction Commitments

OC San has active construction projects to add additional capacity, improve treatment, or replace/rehabilitate existing assets. At June 30, 2023, the outstanding commitments with contractors totaled \$412,332,491.

Subscription Commitments

OC San has entered into subscription agreements to purchase the right to use various vendor-provided software. At June 30, 2023, outstanding commitments before the commencement of the subscription term totaled \$1,906,304.

Litigation

Certain claims involving disputed construction costs have arisen in the ordinary course of business. Additionally, OC San is a defendant in lawsuits. Although the outcome of these matters is not presently determinable, management does not expect that the resolution of these matters will have a material adverse impact on the financial condition of OC San.

(10) Subsequent Events

On July 5, 2023, an amendment to the Groundwater Replenishment System agreement between OC San and the Orange County Water District (OCWD) revised the repayment plan for reimbursements from OCWD to OC San. The amended terms included returning the amount previously reimbursed by OCWD for the Plant 2 Plant Water Pump Station Relocation Project (J-117B), payment of all J-117B reimbursements no later than six months after completion of the project, and accrual of 2% interest on all amounts. The previously reimbursed amount of \$10,273,177 was returned to OCWD on August 1, 2023. The revised payment terms were applied to the amount of \$4,293,444 reported in due from other governmental agency at June 30, 2023.

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**ORANGE COUNTY SANITATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**

ORANGE COUNTY SANITATION DISTRICT
Proportionate Share of the Net Pension Liability (Asset)
Orange County Employees Retirement System (OCERS) Pension Plan
Last 10 Fiscal Years (1)

	Fiscal Year Ended June 30,				
	2015	2016	2017	2018	2019
Proportion of the net pension liability (asset)	1.13%	0.74%	(0.20%)	(0.80%)	0.47%
Proportionate share of the net pension liability (asset)	\$ 57,418,760	\$ 42,439,759	\$ (10,384,508)	\$ (39,571,100)	\$ 29,029,147
Covered payroll (2)	\$ 58,641,163	\$ 59,789,927	\$ 60,000,017	\$ 62,341,796	\$ 66,475,479
Proportionate share of the net pension liability (asset) as a percentage of covered payroll	97.92%	70.98%	(17.31%)	(63.47%)	43.67%
OCERS' fiduciary net position as a percentage of the total pension liability	89.61%	92.74%	101.70%	105.96%	95.86%

	Fiscal Year Ended June 30,			
	2020	2021	2022	2023
Proportion of the net pension liability (asset)	(0.97%)	(1.63%)	(8.72%)	(0.20%)
Proportionate share of the net pension liability (asset)	\$ (49,446,615)	\$ (68,643,378)	\$ (178,731,245)	\$ (10,604,801)
Covered payroll (2)	\$ 71,395,906	\$ 73,290,519	\$ 73,539,248	\$ 74,669,376
Proportionate share of the net pension liability (asset) as a percentage of covered payroll	(69.26%)	(93.66%)	(243.04%)	(14.20%)
OCERS' fiduciary net position as a percentage of the total pension liability	106.64%	108.50%	121.74%	101.22%

(1) The amounts presented were determined as of the measurement date December 31. Data for the fiscal year ended June 30, 2014 is not available in a comparable format.

(2) Covered payroll represents compensation earnable and pensionable compensation for the measurement period ended December 31. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

ORANGE COUNTY SANITATION DISTRICT
Schedule of District Contributions
Orange County Employees Retirement System (OCERS) Pension Plan
Last 10 Fiscal Years (1)

	Fiscal Year Ended June 30,				
	2015	2016	2017	2018	2019
Contractually required contribution	\$ 17,201,569	\$ 12,222,849	\$ 7,709,734	\$ 7,525,655	\$ 7,769,431
Contributions in relation to the contractually required contribution	(17,201,569)	(12,222,849)	(7,709,734)	(7,525,655)	(7,769,431)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll (2)	\$ 60,025,942	\$ 60,595,474	\$ 62,266,907	\$ 65,390,144	\$ 69,101,109
Contributions as a percentage of covered payroll	28.66%	20.17%	12.38%	11.51%	11.24%

	Fiscal Year Ended June 30,			
	2020	2021	2022	2023
Contractually required contribution	\$ 8,739,661	\$ 8,479,429	\$ 8,537,920	\$ 8,816,866
Contributions in relation to the contractually required contribution	(8,739,661)	(8,479,429)	(8,537,920)	(8,816,866)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll (2)	\$ 69,688,759	\$ 72,191,190	\$ 74,053,285	\$ 75,739,101
Contributions as a percentage of covered payroll	12.54%	11.75%	11.53%	11.64%

(1) The amounts presented for each fiscal year were determined as of June 30. Data for the fiscal year ended June 30, 2014 is not available in a comparable format.

(2) Covered payroll represents compensation earnable and pensionable compensation for the fiscal year ended June 30. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

ORANGE COUNTY SANITATION DISTRICT
Total Pension Liability (3)
Additional Retiree Benefit Account (ARBA)
Last 10 Fiscal Years (1)

	Fiscal Year Ended June 30,				
	2015	2016	2017	2018	2019
Total pension liability	\$ 16,680,614	\$ 18,313,122	\$ 18,467,361	\$ 20,831,172	\$ 21,577,464
Covered-employee payroll (2)	\$ 62,139,375	\$ 62,977,577	\$ 65,120,945	\$ 68,126,103	\$ 71,948,599
Total pension liability as a percentage of covered-employee payroll	26.84%	29.08%	28.36%	30.58%	29.99%

	Fiscal Year Ended June 30,			
	2020	2021	2022	2023
Total pension liability	\$ 21,434,655	\$ 23,320,422	\$ 20,382,770	\$ 20,098,783
Covered-employee payroll (2)	\$ 74,602,862	\$ 78,413,423	\$ 79,472,505	\$ 82,806,556
Total pension liability as a percentage of covered-employee payroll	28.73%	29.74%	25.65%	24.27%

- (1) The amounts presented for each fiscal year were determined as of June 30. Data for the fiscal year ended June 30, 2014 is not available in a comparable format.
- (2) This plan is not administered through a trust or equivalent arrangement, thus covered-employee payroll is used. Covered-employee payroll represents total payroll of employees that are provided benefits through the pension plan for the fiscal year ended June 30.
- (3) There are no assets in a trust compliant with GASB codification P22.101. OC San funds benefits on a pay-as-you-go basis and elected not to pre-fund its pension obligation. As a result, there are no plan assets and the total pension liability is equal to the net pension liability.

ORANGE COUNTY SANITATION DISTRICT
Changes in Total Pension Liability (2)
Additional Retiree Benefit Account (ARBA)
Last 10 Fiscal Years (1)

	Fiscal Year Ended June 30,				
	2016	2017	2018	2019	2020
Beginning balance at July 1	\$ 16,680,614	\$ 18,313,122	\$ 18,467,361	\$ 20,831,172	\$ 21,577,464
Changes in the year:					
Service cost	270,223	278,330	553,795	570,409	576,661
Interest on total pension liability	626,386	593,711	649,192	663,852	608,775
Difference between expected and actual experience	-	-	-	-	(2,263,797)
Changes of assumptions	1,230,327	(70,952)	1,889,274	328,481	1,823,672
Benefit payments	(494,428)	(646,850)	(728,450)	(816,450)	(888,120)
Net changes	1,632,508	154,239	2,363,811	746,292	(142,809)
Ending balance at June 30	\$ 18,313,122	\$ 18,467,361	\$ 20,831,172	\$ 21,577,464	\$ 21,434,655

	Fiscal Year Ended June 30,		
	2021	2022	2023
Beginning balance at July 1	\$ 21,434,655	\$ 23,320,422	\$ 20,382,770
Changes in the year:			
Service cost	703,496	835,711	545,116
Interest on total pension liability	530,599	496,575	751,286
Difference between expected and actual experience	-	898,171	-
Changes of assumptions	1,619,642	(4,129,069)	(434,329)
Benefit payments	(967,970)	(1,039,040)	(1,146,060)
Net changes	1,885,767	(2,937,652)	(283,987)
Ending balance at June 30	\$ 23,320,422	\$ 20,382,770	\$ 20,098,783

(1) The amounts presented for each fiscal year were determined as of June 30. Data for fiscal years ended June 30, 2014 through 2015 is not available in a comparable format.

(2) OC San funds benefits on a pay-as-you-go basis and elected not to pre-fund its pension obligation. As a result, there are no plan assets and the total pension liability is equal to the net pension liability.

ORANGE COUNTY SANITATION DISTRICT
Total OPEB Liability (3)
Post-Employment Medical Benefits Plan
Last 10 Fiscal Years (1)

	Fiscal Year Ended June 30,						
	2017	2018	2019	2020	2021	2022	2023
Total OPEB liability	\$ 6,398,694	\$ 5,025,395	\$ 4,013,291	\$ 2,483,644	\$ 1,332,528	\$ 2,077,772	\$ 1,034,882
Covered-employee payroll (2)	\$65,120,945	\$68,126,103	\$71,948,599	\$74,602,862	\$78,413,423	\$79,472,505	\$82,806,556
Total OPEB liability as a percentage of covered-employee payroll	9.83%	7.38%	5.58%	3.33%	1.70%	2.61%	1.25%

- (1) The amounts presented for each fiscal year were determined as of June 30. Data for fiscal years ended June 30, 2014 through 2016 is not available in a comparable format.
- (2) This plan is not administered through a trust or equivalent arrangement, thus covered-employee payroll is used. Covered-employee payroll represents total payroll of employees that are provided benefits through the OPEB
- (3) There are no assets in a trust compliant with GASB codification P52.101. OC San funds benefits on a pay-as-you-go basis and elected not to pre-fund its OPEB obligation. As a result, there are no plan assets and the total

ORANGE COUNTY SANITATION DISTRICT
Changes in Total OPEB Liability (3)
Post-Employment Medical Benefits Plan
Last 10 Fiscal Years (1)

	Fiscal Year Ended June 30,					
	2018	2019	2020	2021	2022	2023
Beginning balance at July 1	\$ 6,398,694	\$ 5,025,395	\$ 4,013,291	\$ 2,483,644	\$ 1,332,528	\$ 2,077,772
Changes in the year:						
Service cost	18,182	16,489	4,334	5,238	8,426	3,803
Interest on total OPEB liability	177,395	159,195	98,047	45,840	57,237	55,501
Difference between expected and actual experience	-	-	(115,924)	-	2,477,916	(77,497)
Changes of assumptions	(95,279)	78,935	88,289	41,063	(285,984)	(15,594)
Benefit payments (2)	(1,473,597)	(1,266,723)	(1,604,393)	(1,243,257)	(1,512,351)	(1,009,103)
Net changes	(1,373,299)	(1,012,104)	(1,529,647)	(1,151,116)	745,244	(1,042,890)
Ending balance at June 30	\$ 5,025,395	\$ 4,013,291	\$ 2,483,644	\$ 1,332,528	\$ 2,077,772	\$ 1,034,882

(1) The amounts presented for each fiscal year were determined as of June 30. Data for fiscal years ended June 30, 2014 through 2017 is not available in a comparable format.

(2) Benefit payments include implicit subsidy associated with benefits paid.

(3) OC San funds benefits on a pay-as-you-go basis and elected not to pre-fund its OPEB obligation. As a result, there are no plan assets and the total OPEB liability is equal to the net OPEB liability.

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**ORANGE COUNTY SANITATION DISTRICT
SUPPLEMENTARY INFORMATION**

ORANGE COUNTY SANITATION DISTRICT
Combining Area Schedule of Net Position
June 30, 2023

	Revenue Area No. 14	Consolidated Revenue Area	Totals
Current assets:			
Cash and cash equivalents	\$ 5,416,534	\$ 137,581,871	\$ 142,998,405
Investments	32,083,796	814,939,773	847,023,569
Accounts receivable, net of allowance for uncollectibles \$109,438	-	9,746,343	9,746,343
Accrued interest receivable	-	3,872,997	3,872,997
Connection fees receivable	-	3,772,097	3,772,097
Property tax receivable	-	2,358,417	2,358,417
Current portion of lease receivable	-	314,539	314,539
Inventories	-	10,262,014	10,262,014
Prepaid expenses	-	2,726,469	2,726,469
Total current assets	37,500,330	985,574,520	1,023,074,850
Noncurrent assets:			
Restricted:			
Cash and cash equivalents	-	702,291	702,291
Investments	-	13,377,269	13,377,269
Accrued interest receivable	-	5,460	5,460
Net pension asset - OCERS	-	10,604,801	10,604,801
Unrestricted:			
Non-depreciable capital assets	18,640,817	676,917,248	695,558,065
Depreciable capital assets, net of accumulated depreciation	64,957,162	2,095,379,982	2,160,337,144
Due from other governmental agency	-	4,293,444	4,293,444
Noncurrent portion of lease receivable	-	763,983	763,983
Other noncurrent assets, net	-	10,344	10,344
Total noncurrent assets	83,597,979	2,802,054,822	2,885,652,801
Total assets	121,098,309	3,787,629,342	3,908,727,651
Deferred outflows of resources:			
Deferred outflows related to refundings	-	14,649,387	14,649,387
Deferred outflows related to pensions	-	95,457,196	95,457,196
Total deferred outflows of resources	-	110,106,583	110,106,583
Total assets and deferred outflows of resources	121,098,309	3,897,735,925	4,018,834,234
Current liabilities:			
Accounts payable	-	25,005,739	25,005,739
Accrued expenses	-	21,542,285	21,542,285
Retentions payable	-	12,887,042	12,887,042
Interest payable	-	15,415,200	15,415,200
Due to other governmental agency	37,500,330	-	37,500,330
Current portion of long-term liabilities	-	53,623,871	53,623,871
Total current liabilities	37,500,330	128,474,137	165,974,467
Noncurrent liabilities:			
Noncurrent portion of long-term liabilities	-	831,784,721	831,784,721
Total OPEB liability	-	1,034,882	1,034,882
Total pension liability - ARBA	-	20,098,783	20,098,783
Total noncurrent liabilities	-	852,918,386	852,918,386
Total liabilities	37,500,330	981,392,523	1,018,892,853
Deferred inflows of resources:			
Deferred inflows related to refundings	-	1,040,100	1,040,100
Deferred inflows related to leases	-	1,042,287	1,042,287
Deferred inflows related to pensions	-	18,166,514	18,166,514
Total deferred inflows of resources	-	20,248,901	20,248,901
Total liabilities and deferred inflows of resources	37,500,330	1,001,641,424	1,039,141,754
Net position:			
Net investment in capital assets:			
Collection system	12,506,179	566,085,174	578,591,353
Treatment and disposal land	1,938,954	51,800,714	53,739,668
Treatment and disposal system	69,152,846	2,154,411,342	2,223,564,188
Capital-related liabilities	-	(900,956,419)	(900,956,419)
Subtotal	83,597,979	1,871,340,811	1,954,938,790
Restricted for OCERS pension benefits	-	103,404,237	103,404,237
Unrestricted	-	921,349,453	921,349,453
Total net position	\$ 83,597,979	\$ 2,896,094,501	\$ 2,979,692,480

ORANGE COUNTY SANITATION DISTRICT

Combining Area Schedule of Revenues, Expenses, and Change in Net Position For the Year Ended June 30, 2023

	Revenue Area No. 14	Consolidated Revenue Area	Totals
Operating revenues:			
Service charges	\$ 2,468,559	\$ 328,912,989	\$ 331,381,548
Permit and inspection fees	15,823	1,383,814	1,399,637
Total operating revenues	<u>2,484,382</u>	<u>330,296,803</u>	<u>332,781,185</u>
Operating expenses other than depreciation and amortization:			
Salaries and benefits	3,689,138	93,193,676	96,882,814
Utilities	532,286	15,392,154	15,924,440
Supplies, repairs and maintenance	1,791,210	51,003,264	52,794,474
Contractual services	883,449	26,877,123	27,760,572
Feasibility studies	109,855	4,048,628	4,158,483
Other operating expenses	257,106	9,434,411	9,691,517
Total operating expenses other than depreciation and amortization	<u>7,263,044</u>	<u>199,949,256</u>	<u>207,212,300</u>
Operating income (loss) before depreciation and amortization	(4,778,662)	130,347,547	125,568,885
Depreciation and amortization	<u>3,379,254</u>	<u>120,231,530</u>	<u>123,610,784</u>
Operating income (loss)	<u>(8,157,916)</u>	<u>10,116,017</u>	<u>1,958,101</u>
Non-operating revenues:			
Property taxes	3,906,060	121,561,269	125,467,329
Investment and interest income	509,616	11,517,739	12,027,355
Contributions from other governments	16,021,331	44,880	16,066,211
Other non-operating revenues	121,096	4,483,172	4,604,268
Total non-operating revenues	<u>20,558,103</u>	<u>137,607,060</u>	<u>158,165,163</u>
Non-operating expenses:			
Interest	1,139	25,891,871	25,893,010
Loss on disposal of assets	13,992	1,935,698	1,949,690
Other non-operating expenses	1,067	37,816	38,883
Total non-operating expenses	<u>16,198</u>	<u>27,865,385</u>	<u>27,881,583</u>
Income (loss) before capital contributions	12,383,989	119,857,692	132,241,681
Capital contributions:			
Capital facilities capacity charges	-	23,427,920	23,427,920
Capital contributions from other governments	242,831	8,593,007	8,835,838
Total capital contributions	<u>242,831</u>	<u>32,020,927</u>	<u>32,263,758</u>
Change in net position	12,626,820	151,878,619	164,505,439
Total net position - beginning	<u>70,971,159</u>	<u>2,744,215,882</u>	<u>2,815,187,041</u>
Total net position - ending	<u>\$ 83,597,979</u>	<u>\$ 2,896,094,501</u>	<u>\$ 2,979,692,480</u>

ORANGE COUNTY SANITATION DISTRICT
Combining Area Schedule of Cash Flows
For the Year Ended June 30, 2023

	Revenue Area No. 14	Consolidated Revenue Area	Eliminations	Totals
Cash flows from operating activities:				
Receipts from customers and users	\$ (14,710,753)	\$ 334,591,638	\$ -	\$ 319,880,885
Payments to employees	(3,689,138)	(88,491,956)	-	(92,181,094)
Payments to suppliers	(3,574,973)	(105,001,226)	-	(108,576,199)
Receipts for other activities	108,937	4,080,534	-	4,189,471
Net cash provided by (used in) operating activities	(21,865,927)	145,178,990	-	123,313,063
Cash flows from noncapital financing activities:				
Proceeds from property taxes	3,906,060	121,351,653	-	125,257,713
Net cash provided by (used in) noncapital financing activities	3,906,060	121,351,653	-	125,257,713
Cash flows from capital and related financing activities:				
Capital facilities capacity charges	-	20,929,005	-	20,929,005
Contributions from other governments	16,264,162	4,344,443	(5,109,718)	15,498,887
Receipts from lease agreements	12,330	429,720	-	442,050
Additions to capital assets	(16,019,293)	(207,573,274)	16,019,293	(207,573,274)
Disposal of capital assets	-	10,909,575	(10,909,575)	-
Principal payments on debt obligations	-	(30,035,000)	-	(30,035,000)
Interest paid	(1,139)	(38,564,678)	-	(38,565,817)
Net cash provided by (used in) capital and related financing activities	256,060	(239,560,209)	-	(239,304,149)
Cash flows from investing activities:				
Proceeds from sale of investments	40,574,884	490,196,496	-	530,771,380
Purchases of investments	(23,058,086)	(476,892,144)	-	(499,950,230)
Interest received	775,564	16,250,631	-	17,026,195
Net cash provided by (used in) investing activities	18,292,362	29,554,983	-	47,847,345
Net increase (decrease) in cash and cash equivalents	588,555	56,525,417	-	57,113,972
Cash and cash equivalents, beginning of year	4,827,979	81,758,745	-	86,586,724
Cash and cash equivalents, end of year	\$ 5,416,534	\$ 138,284,162	\$ -	\$ 143,700,696
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (8,157,916)	\$ 10,116,017	\$ -	\$ 1,958,101
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	3,379,254	120,231,530	-	123,610,784
Bad debt expense (net recoveries)	-	(210,278)	-	(210,278)
Other non-operating revenues	107,870	4,042,718	-	4,150,588
(Increase)/decrease in operating assets and deferred outflows:				
Accounts receivable	-	4,505,113	-	4,505,113
Inventories	-	(934,211)	-	(934,211)
Prepaid expenses	-	213,880	-	213,880
Net pension asset - OCERS	-	168,126,444	-	168,126,444
Deferred outflows related to pensions	-	(52,651,713)	-	(52,651,713)
Increase/(decrease) in operating liabilities and deferred inflows:				
Accounts payable	-	(186,229)	-	(186,229)
Accrued expenses	-	2,806,220	-	2,806,220
Due to other governmental agency	(17,195,135)	-	-	(17,195,135)
Compensated absences	-	(656,561)	-	(656,561)
Claims and judgments	-	281,707	-	281,707
Total OPEB liability	-	(1,042,890)	-	(1,042,890)
Total pension liability - ARBA	-	(283,987)	-	(283,987)
Deferred inflows related to pensions	-	(109,178,770)	-	(109,178,770)
Net cash provided by (used in) operating activities	\$ (21,865,927)	\$ 145,178,990	\$ -	\$ 123,313,063
Noncash activities:				
Unrealized gain (loss) on the fair value of investments	\$ (266,892)	\$ (5,960,443)		\$ (6,227,335)
Capital assets acquired through accounts payable	-	6,718,252		6,718,252
Capital facilities capacity charges acquired	-	2,498,915		2,498,915

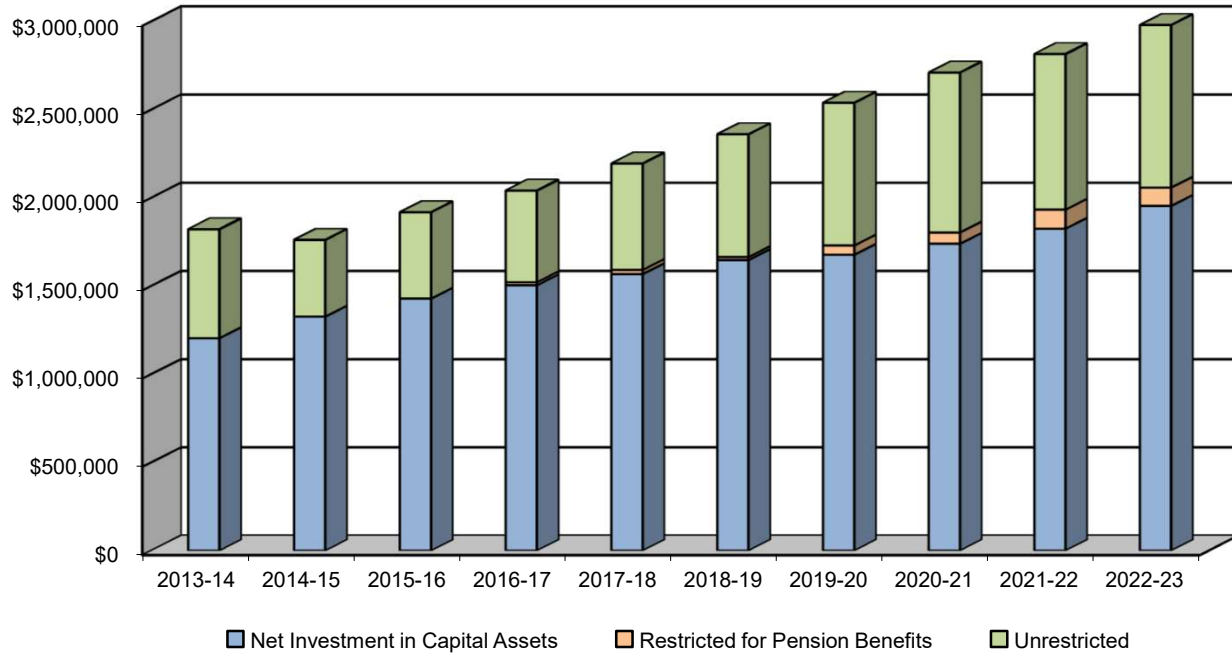
ORANGE COUNTY SANITATION DISTRICT STATISTICAL SECTION

This part of the Annual Comprehensive Financial Report of the Orange County Sanitation District (OC San) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about OC San's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Position and Trends These schedules contain current and trend information to help the reader understand OC San's financial position and how OC San's financial performance and well-being have changed over time.	62 - 66
Revenue Capacity These schedules contain information to help the reader assess OC San's most significant revenue source of sewer service fees.	67 - 69
Debt Capacity These schedules present information to help the reader assess the affordability of OC San's current levels of outstanding debt and OC San's ability to issue additional debt in the future. All of OC San's debt is recorded in a proprietary fund; consequently, many of the schedules which are applicable to governmental funds are not presented.	70 - 72
Operating Information These schedules contain data to help the reader understand how the information in OC San's financial report relates to the services it provides and the activities it performs.	73 - 76
Demographic and Economic Factors These schedules offer demographic information to help the reader understand the environment within which OC San's financial activities take place.	77 - 80

ORANGE COUNTY SANITATION DISTRICT

Net Position by Component
(Dollars in Thousands)
Last Ten Fiscal Years



Fiscal Year	Net Investment in Capital Assets	Restricted for Pension Benefits ⁽⁴⁾	Unrestricted ⁽⁴⁾	Total Net Position
2013-14	\$ 1,204,706	\$ -	\$ 617,589	\$ 1,822,295
2014-15	1,327,384	-	434,460	1,761,844 ⁽¹⁾
2015-16	1,429,269	-	489,303	1,918,572 ⁽²⁾
2016-17	1,504,898	17,112	519,215	2,041,225
2017-18	1,568,118	23,893	602,778	2,194,789 ⁽³⁾
2018-19	1,647,723	16,837	695,942	2,360,502
2019-20	1,678,041	52,844	808,125	2,539,010
2020-21	1,740,102	63,748	906,532	2,710,382
2021-22	1,825,490	108,179	881,518	2,815,187
2022-23	1,954,939	103,404	921,349	2,979,692

Notes

⁽¹⁾ Beginning net position restated due to implementation of GASB 68.

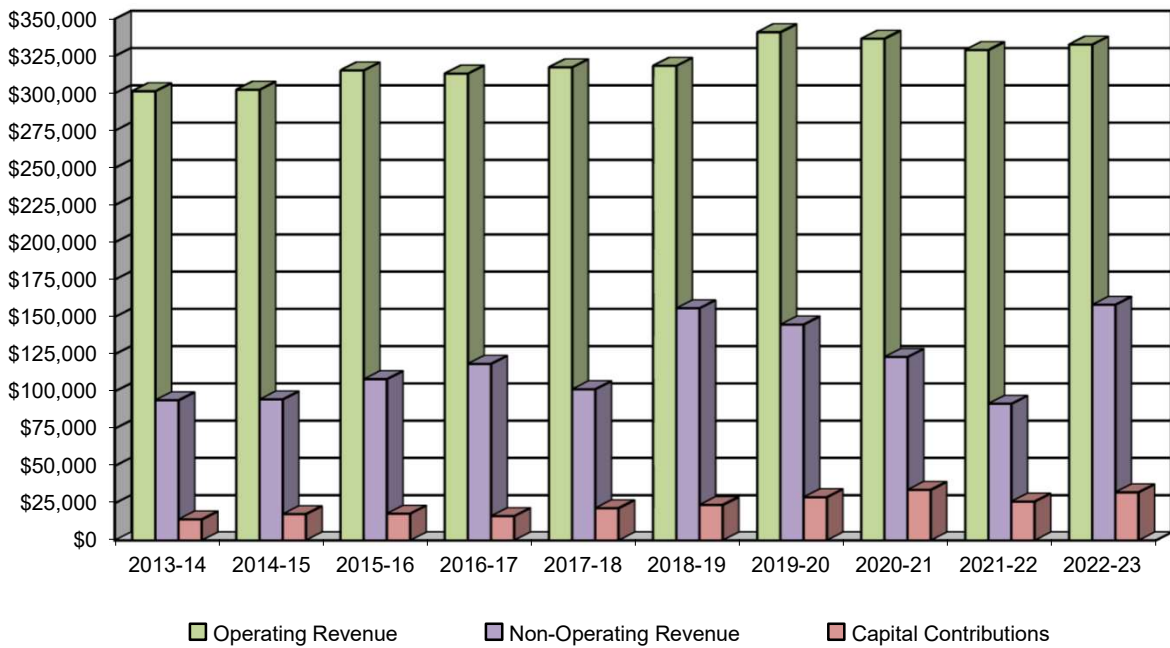
⁽²⁾ Beginning net position restated due to implementation of GASB 73.

⁽³⁾ Beginning net position restated due to implementation of GASB 75.

⁽⁴⁾ FY 2016-17 to 2020-21 net position restated to reflect amounts restricted for OCERS pension benefits.

Source: Orange County Sanitation District's Financial Management Division.

ORANGE COUNTY SANITATION DISTRICT
Revenues and Gross Capital Contributions by Source
(Dollars in Thousands)
Last Ten Fiscal Years



Fiscal Year	Operating Revenue			Non-Operating Revenue			Total Non-Operating	Capital Contributions ⁽¹⁾
	Service Charges	Permit & Inspection Fees	Total Operating	Property Taxes	Investment & Interest Income (Loss)	Other ⁽¹⁾		
2013-14	\$ 300,611	\$ 848	\$ 301,459	\$ 74,944	\$ 6,498	\$ 12,595	\$ 94,037	\$ 14,093
2014-15	301,548	902	302,450	79,835	4,806	9,996	94,637	17,656
2015-16	314,477	951	315,428	84,407	9,183	14,658	108,248	17,974
2016-17	312,237	1,045	313,282	88,284	3,081	27,146	118,511	16,351
2017-18	316,329	1,170	317,499	94,188	3,230	4,055	101,473	21,633
2018-19	317,291	1,199	318,490	99,534	29,102	27,197	155,833	23,797
2019-20	339,895	1,169	341,064	104,492	33,669	6,731	144,892	29,034
2020-21	335,569	1,131	336,700	110,245	1,694	11,176	123,115	33,936
2021-22	327,824	1,271	329,095	119,186	(35,335)	7,840	91,691	26,083
2022-23	331,382	1,399	332,781	125,467	12,027	20,671	158,165	32,264

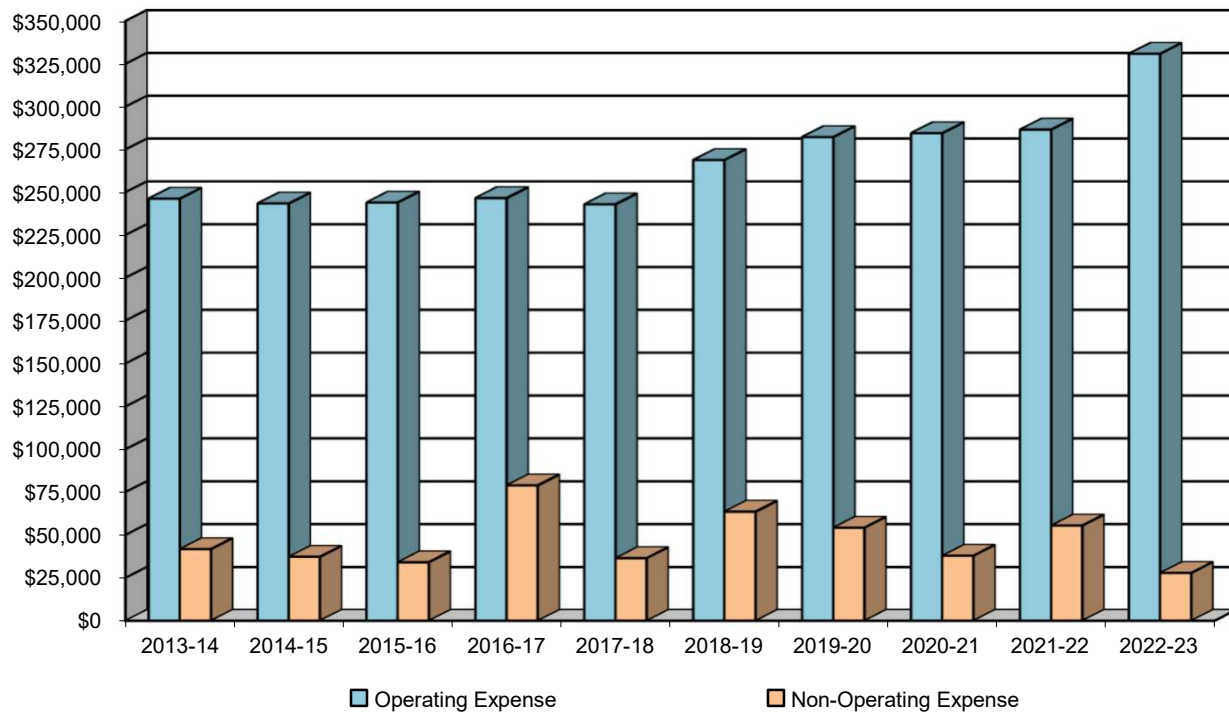
Notes

⁽¹⁾ FY 2017-18 to 2020-21 restated to reflect capital contributions from other governments. Fluctuations in other non-operating revenue are primarily due to integration contributions charged or credited to the Irvine Ranch Water District, refer to Basic Financial Statements Note 8 for details.

Source: Orange County Sanitation District's Financial Management Division.

ORANGE COUNTY SANITATION DISTRICT

Expenses by Type
(Dollars in Thousands)
Last Ten Fiscal Years



Fiscal Year	Operating Expense					Non-Operating Expense		
	Salaries & Benefits	Utilities	Maint & Other	Depr & Amort	Total Operating	Interest Expense	Other ⁽¹⁾	Total Non-Operating
2013-14	\$ 79,179	\$ 6,381	\$ 60,887	\$ 99,805	\$ 246,252	\$ 40,450	\$ 1,317	\$ 41,767
2014-15	79,657	7,246	62,323	94,186	243,412	34,112	3,168	37,280
2015-16	75,576	7,246	70,679	90,502	244,003	27,597	6,482	34,079
2016-17	74,291	6,119	69,843	96,320	246,573	25,648	53,270	78,918
2017-18	67,418	7,298	70,840	97,399	242,955	35,011	1,483	36,494
2018-19	85,506	7,733	73,347	102,239	268,825	34,466	29,116	63,582
2019-20	82,917	8,622	76,794	113,888	282,221	33,833	20,428	54,261
2020-21	74,772	9,789	83,457	116,452	284,470	34,837	3,072	37,909
2021-22	57,004	11,046	88,065	130,465	286,580	30,027	25,457	55,484
2022-23	96,883	15,924	94,405	123,611	330,823	25,893	1,989	27,882

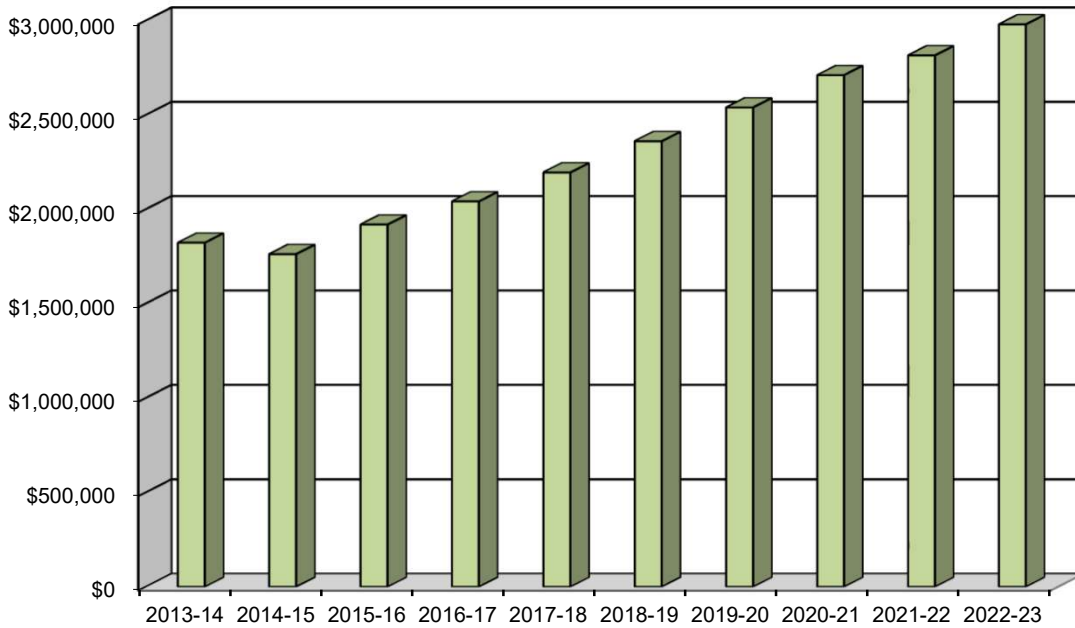
Notes

⁽¹⁾ Fluctuations in other non-operating expense are primarily due to integration contributions charged or credited to the Irvine Ranch Water District, refer to Note 8 of the Notes to Basic Financial Statements for details.

Source: Orange County Sanitation District's Financial Management Division.

ORANGE COUNTY SANITATION DISTRICT

Change in Net Position
(Dollars in Thousands)
Last Ten Fiscal Years



Ending Net Position by Fiscal Year

Fiscal Year	Total Revenues	Total Expenses	Change in Net Position	Beginning Net Position	Ending Net Position
2013-14	\$ 409,589	\$ 288,019	\$ 121,570	\$ 1,700,725	\$ 1,822,295
2014-15	414,743	280,692	134,051	1,627,793 ⁽¹⁾	1,761,844
2015-16	441,650	278,082	163,568	1,755,004 ⁽²⁾	1,918,572
2016-17	448,144	325,491	122,653	1,918,572	2,041,225
2017-18	440,605	279,449	161,156	2,033,633 ⁽³⁾	2,194,789
2018-19	498,120	332,407	165,713	2,194,789	2,360,502
2019-20	514,990	336,482	178,508	2,360,502	2,539,010
2020-21	493,751	322,379	171,372	2,539,010	2,710,382
2021-22	446,869	342,064	104,805	2,710,382	2,815,187
2022-23	523,210	358,705	164,505	2,815,187	2,979,692

Notes

⁽¹⁾ Beginning net position restated due to implementation of GASB 68.

⁽²⁾ Beginning net position restated due to implementation of GASB 73.

⁽³⁾ Beginning net position restated due to implementation of GASB 75.

Source: Orange County Sanitation District's Financial Management Division.

ORANGE COUNTY SANITATION DISTRICT
Cash and Investment Reserve Balances
(Dollars in Millions)
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Cash Flow Contingency</u>	<u>Self- Insurance</u>	<u>Capital Improvement Program</u>	<u>Debt Service Requirements</u>	<u>Total</u>
2013-14	\$ 189	\$ 57	\$ 296	\$ 131	\$ 673
2014-15	177	57	194	129	557
2015-16	181	57	190	117	545
2016-17	174	57	173	107	511
2017-18	173	57	350	100	680
2018-19	177	57	429	97	760
2019-20	178	57	552	94	881
2020-21	128	100	639	94	961
2021-22	134	100	659	91	984
2022-23	140	100	685	79	1,004

Notes

The Board of Directors of the Orange County Sanitation District has established the criteria below to determine the total funds required as listed in the Accumulated Funds and Reserves Policy:

The Cash Flow Contingency Reserve is to fund operations, maintenance, and certificates of participation debt service expenses for the first half of the fiscal year, prior to the receipt of the first installment of the property tax allocation and sewer service user fees.

The Self-Insurance Reserve is to provide requirements for property damage including fire, flood and earthquake, general liability and workers' compensation.

The Capital Improvement Program Reserve is to fund annual increments of the capital improvement program with a target level at one half of the average annual capital improvement program over the next 10 years.

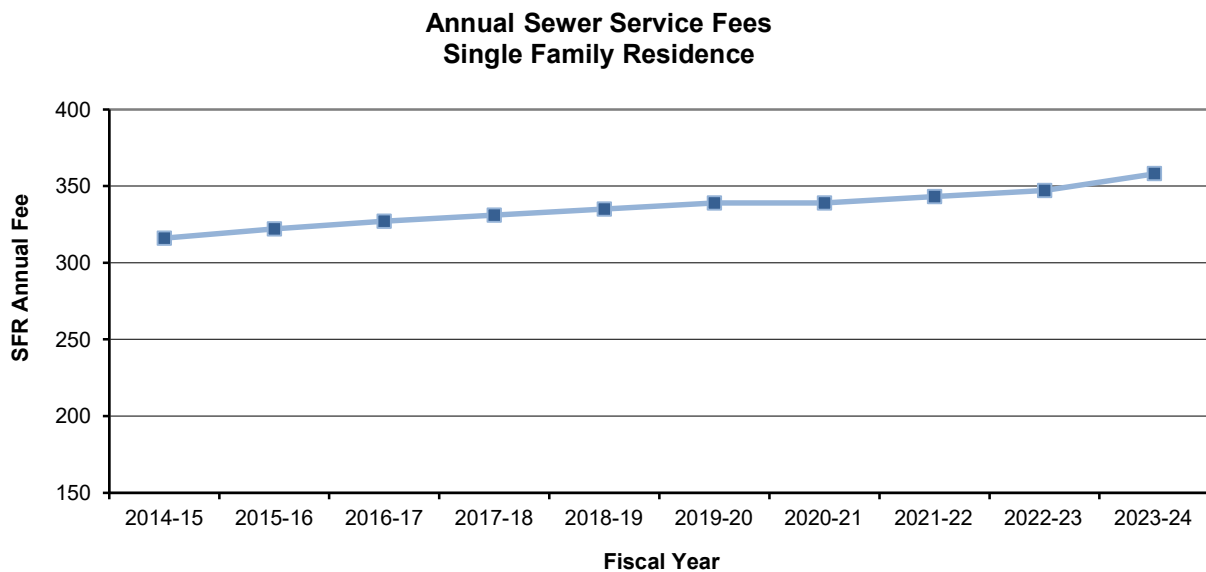
The Debt Service Requirements Reserve is held pursuant to the provisions of certificates of participation issues, and the monies are not available for the general needs of the Orange County Sanitation District.

Source: Orange County Sanitation District's Financial Management Division.

ORANGE COUNTY SANITATION DISTRICT
Sewer Service Fees
Single Family Residence Rate
Last Nine Fiscal Years and Next Fiscal Year

Sewer service fees are comprised of three categories: residential customers, commercial customers, and industrial customers. Although the majority of sewer service fee revenues are from residential and commercial customers (see the schedule of Number of Accounts and Revenues by Customer Class), the fee paid by each residential and commercial customer is less than the individual fees paid by industrial customers. The rates for commercial and industrial customers are derived from the base sewer service fee charged for a single-family residence and are based on the type of business and the strength and volume of waste that is discharged into the sewer system. Due to the complexity of the rate structure for commercial and industrial customers and since the rates are derivatives of the single-family residence rate, only the single-family residence rate is presented within the statistical section.

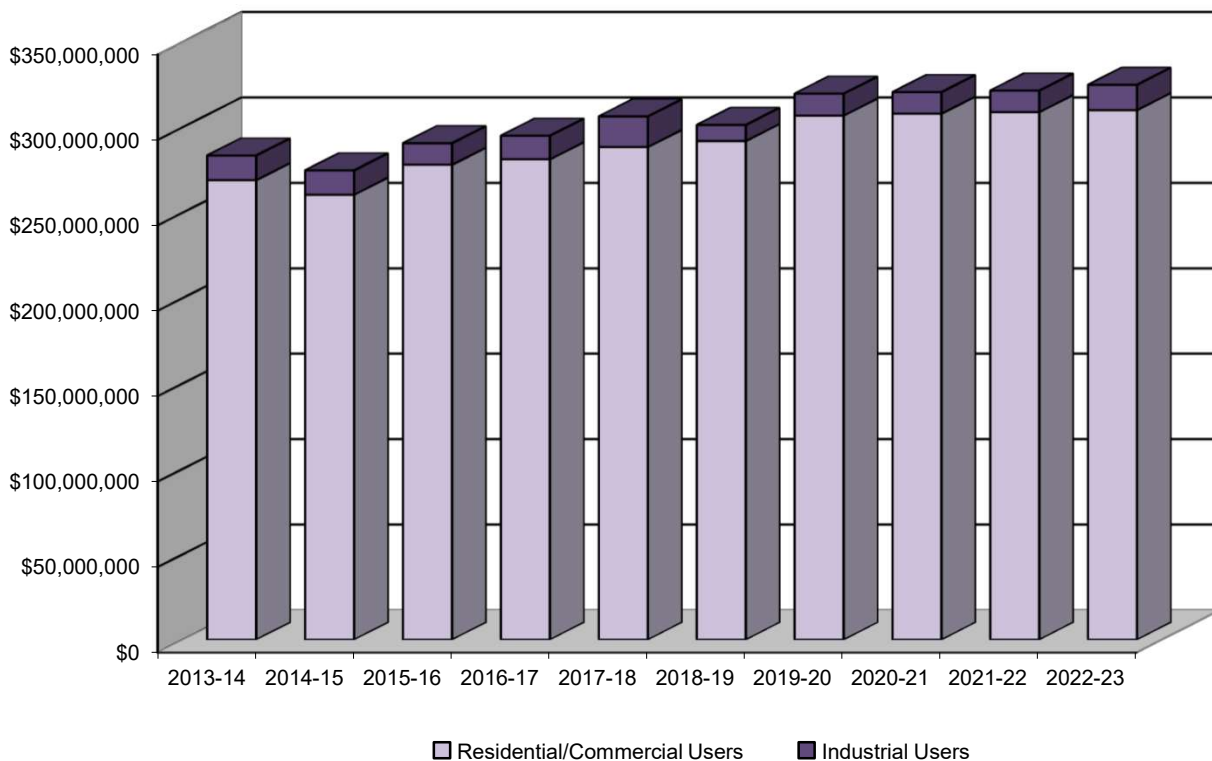
Fiscal Year	Sewer Service Charge
2014-15	\$ 316.00
2015-16	322.00
2016-17	327.00
2017-18	331.00
2018-19	335.00
2019-20	339.00
2020-21	339.00
2021-22	343.00
2022-23	347.00
2023-24	358.00



Source: Orange County Sanitation District's Financial Management Division.

ORANGE COUNTY SANITATION DISTRICT
Number of Accounts and Revenues by Customer Class
(Dollars in Millions)
Last Ten Fiscal Years

Fiscal Year	Residential/Commercial			Industrial		
	Number of Equivalent Single-Family Dwellings (1)	Total Sewer Svc. Charge Revenue	Percentage of Sewer Service Charge Revenues	Number of Customer Accounts	Total Sewer Svc. Charge Revenue	Percentage of Sewer Service Charge Revenues
2013-14	873,308	\$ 269.0	95%	489	\$ 14.4	5%
2014-15	824,465	260.5	95%	467	14.2	5%
2015-16	863,317	278.0	96%	450	12.6	4%
2016-17	859,869	281.2	95%	466	13.8	5%
2017-18	871,338	288.4	94%	473	17.9	6%
2018-19	871,312	291.9	97%	476	9.4	3%
2019-20	904,886	306.8	96%	473	12.8	4%
2020-21	908,219	307.9	96%	467	12.6	4%
2021-22	900,327	308.8	96%	462	12.6	4%
2022-23	893,270	310.0	95%	446	14.8	5%



Notes

(1) - Number of equivalent single-family dwellings is an estimate, calculated by dividing residential/commercial revenue by the sewer service fee for each fiscal year.

Source: Orange County Sanitation District's Financial Management Division.

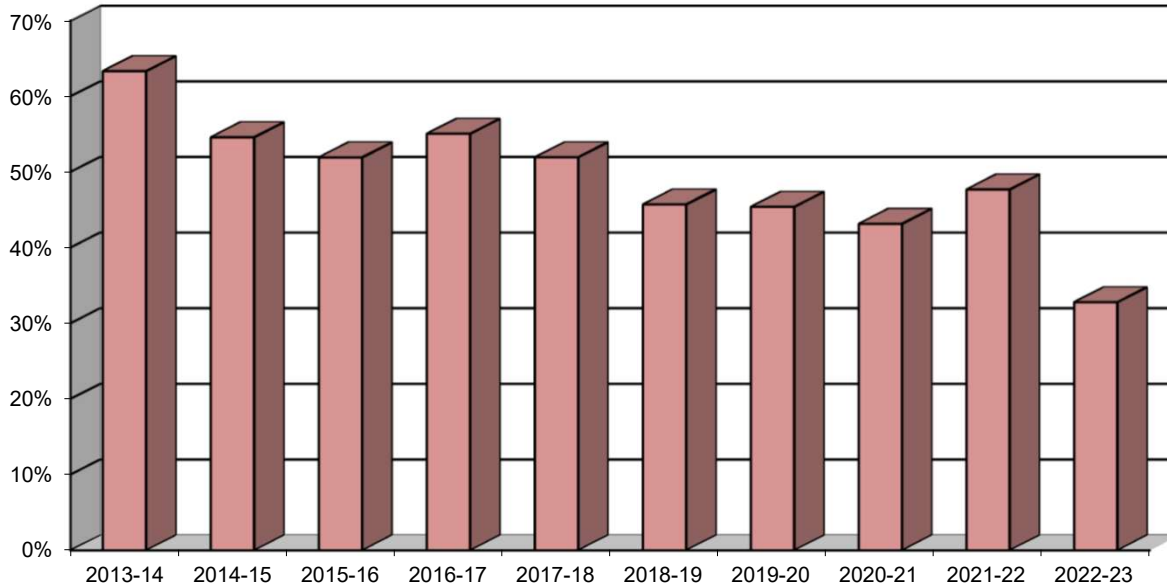
ORANGE COUNTY SANITATION DISTRICT
Principal Sewer Service Customers
For the Current Fiscal Year and Nine Years Ago

Customer	Fiscal Year Ended 6/30/23			Fiscal Year Ended 6/30/14		
	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue
House Foods America Corp. (West)	\$ 1,187,619	1	0.36%	\$ 1,096,791	1	0.36%
House Foods America Corp. (East)	1,072,974	2	0.32%			
Stremicks Heritage Foods, LLC	956,111	3	0.29%	971,832	3	0.32%
Nor-Cal Beverage Co. Inc. (Main)	938,554	4	0.28%	577,261	6	0.19%
Pulmuone Foods USA (Wildwood), Inc. (East)	816,325	5	0.25%	383,365	10	0.13%
Newport Fab, LLC (TowerJazz Semiconductor)	748,821	6	0.23%	475,299	7	0.16%
MCP Foods, Inc.	480,689	7	0.15%	898,925	4	0.30%
Ameripec, Inc.	472,212	8	0.14%	420,365	8	0.14%
Van Law Food Products, Inc	385,832	9	0.12%			
Beverage Visions, LLC (Yorba Linda)	371,779	10	0.11%			
Kimberly-Clark Worldwide, Inc.				1,059,850	2	0.35%
Dean Foods Co. of CA Inc.				585,374	5	0.19%
Pepsi-Cola Bottling Group				402,513	9	0.13%
	<u>\$ 7,430,916</u>		<u>2.25%</u>	<u>\$ 6,871,575</u>		<u>2.27%</u>

Although the majority of sewer service fee revenues are from residential and commercial customers (see the schedule of Number of Accounts and Revenues by Customer Class), the fee paid by each residential and commercial customer is customarily less than the individual fees paid by industrial customers. Consequently, this schedule shows the largest industrial sewer service fee customers.

Source: Orange County Sanitation District's Financial Management Division.

ORANGE COUNTY SANITATION DISTRICT
Ratio of Annual Debt Service to Total Expenses
(Dollars in Thousands)
Last Ten Fiscal Years



Fiscal Year	Principal (1)	Interest (2)	Total Debt Service (3)	Total Operating Expenses (4)	Ratio of Debt Service to Total Operating Expenses
2013-14	\$ 39,590	\$ 53,163	\$ 92,753	\$ 146,447	63.34%
2014-15	27,875	53,586	81,461	149,226	54.59
2015-16	29,405	50,301	79,706	153,501	51.93
2016-17	35,575	47,143	82,718	150,253	55.05
2017-18	32,140	43,466	75,606	145,556	51.94
2018-19	31,655	44,481	76,136	166,586	45.70
2019-20	32,730	43,664	76,394	168,333	45.38
2020-21	30,430	42,061	72,491	168,018	43.14
2021-22	33,875	40,564	74,439	156,115	47.68
2022-23	30,035	37,880	67,915	207,212	32.78

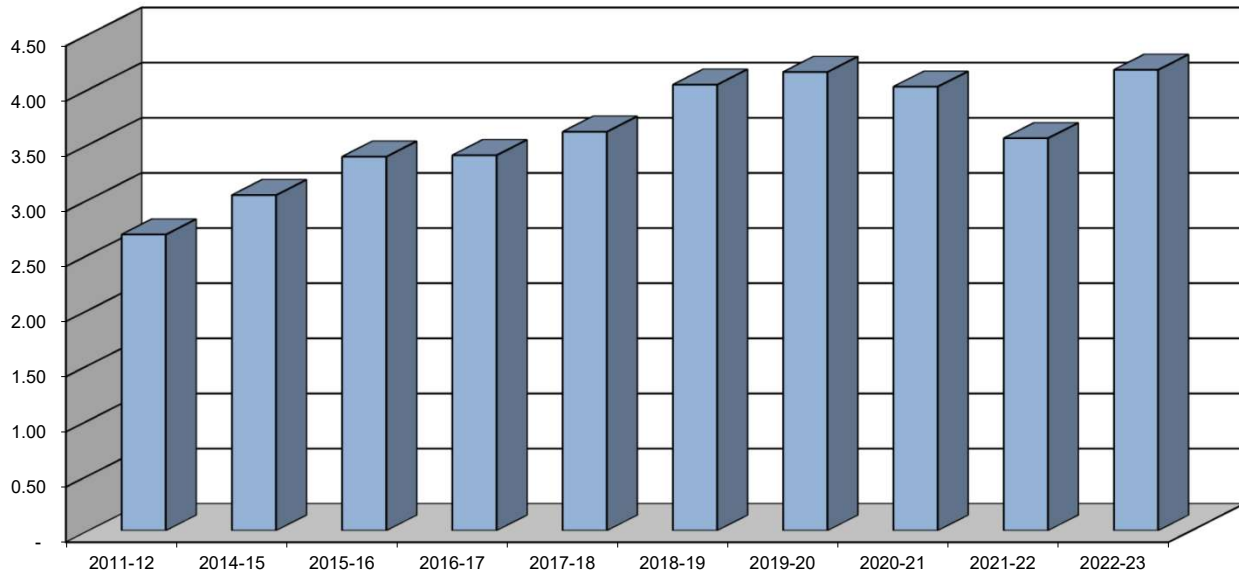
Notes

- (1) - Excludes principal reductions due to debt refundings.
- (2) - Excludes amortization of premium/discount and deferred amount.
- (3) - Debt consists of certificates of participation, revenue obligations, and anticipation notes.
- (4) - Excludes depreciation and amortization expense.

Source: Orange County Sanitation District's Financial Management Division.

ORANGE COUNTY SANITATION DISTRICT
Debt Coverage Ratios
(Dollars in Millions)
Last Ten Fiscal Years

The Orange County Sanitation District has no legal debt limits as imposed by state legislation. OC San does have contractual covenants within the existing certificates of participation indenture agreements which require minimum coverage ratios of 1.25. The coverage ratio is calculated as the ratio of net annual revenues available for debt service payments to total annual debt service requirements.



	Fiscal Year Ending June 30,									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Operating & Non-Operating Revenues:										
Service Charges, Net of Refunds-Regional	\$ 269.0	\$ 260.5	\$ 278.0	\$ 281.2	\$ 288.4	\$ 291.9	\$ 306.8	\$ 307.9	\$ 308.8	\$ 310.0
Service Charges, Net of Refunds-Local (1)	5.7	5.5	5.7	1.3	(0.1)	-	-	-	-	-
Industrial Sewer Service Charges	14.4	14.2	12.6	13.8	17.9	9.4	12.8	12.6	12.6	14.8
SAWPA Assessment	2.4	2.7	3.2	3.3	2.7	2.9	2.6	2.8	2.8	2.9
IRWD Assessment	19.6	26.4	26.6	36.0	9.9	36.3	20.8	16.0	8.6	18.6
Ad Valorem Taxes	74.9	79.8	84.4	88.3	94.2	99.5	104.5	110.2	119.2	125.5
Interest Earnings (2)	6.5	4.8	9.2	3.1	3.2	29.1	33.7	1.7	(35.3)	12.0
Other Revenues (3)	3.0	3.2	4.0	4.8	2.8	5.2	4.8	8.6	4.1	7.1
Total Revenues	395.5	397.1	423.7	431.8	419.0	474.3	486.0	459.8	420.8	490.9
Operating Expenses (4)	146.4	149.2	153.5	150.3	145.6	166.6	168.3	168.0	156.1	207.2
Net Revenues	\$ 249.1	\$ 247.9	\$ 270.2	\$ 281.5	\$ 273.4	\$ 307.7	\$ 317.7	\$ 291.8	\$ 264.7	\$ 283.7
Debt Service Requirements										
Principal Payments	\$ 39.6	\$ 27.9	\$ 29.4	\$ 35.6	\$ 32.1	\$ 31.7	\$ 32.7	\$ 30.4	\$ 33.9	\$ 30.0
Interest Payments	53.2	53.6	50.3	47.1	43.5	44.4	43.7	42.1	40.5	37.9
Total Debt Service Requirements	\$ 92.8	\$ 81.5	\$ 79.7	\$ 82.7	\$ 75.6	\$ 76.1	\$ 76.4	\$ 72.5	\$ 74.4	\$ 67.9
Coverage Ratios	2.68	3.04	3.39	3.40	3.62	4.04	4.16	4.02	3.56	4.18
Ending Reserves (5)	\$ 542.0	\$ 428.0	\$ 428.0	\$ 404.0	\$ 580.0	\$ 663.0	\$ 787.0	\$ 867.0	\$ 893.0	\$ 925.0

Notes

- (1) - Local Sewer transferred to East Orange County Water District in FY2016-17.
- (2) - Interest earnings include unrealized gains and losses from investments adjusted to market value.
- (3) - FY 2017-18 to 2020-21 other revenues restated to remove capital contributions from other governments.
- (4) - Operating expenses exclude depreciation and amortization expenses.
- (5) - Excludes debt service reserves in accordance with the Orange County Sanitation District's reserve policy.

Source: Orange County Sanitation District's Financial Management Division.

ORANGE COUNTY SANITATION DISTRICT

Ratios of Outstanding Debt
Last Ten Fiscal Years

Fiscal Year	(5) Total Outstanding Debt	(3) Median Family Income (1)	Debt as a Percentage of Median Family Income	(4) Population Estimate (2)	Debt per Capita
2013-14	\$ 1,278,998,124	\$ 84,900	0.007%	2,491,268	513.39
2014-15	1,241,140,357	85,900	0.007%	2,521,803	492.16
2015-16	1,206,722,347	85,000	0.007%	2,548,745	473.46
2016-17	1,140,679,773	88,000	0.008%	2,578,681	442.35
2017-18	1,095,737,610	92,700	0.008%	2,609,419	419.92
2018-19	1,050,502,373	97,900	0.009%	2,607,092	402.94
2019-20	1,004,215,901	103,000	0.010%	2,589,011	387.88
2020-21	963,115,533	106,700	0.011%	2,550,763	377.58
2021-22	913,102,847	119,100	0.013%	2,557,216	357.07
2022-23	869,562,663	127,800	0.015%	2,532,334	343.38

Notes & Data Sources

(1) - Data is for the entire county of Orange.

(2) - Data is for the estimated population served by the Orange County Sanitation District.

(3) - Data Source: U.S. Department of Housing and Urban Development.

(4) - Data Source: Demographic Research Unit, California Department of Finance.

(5) - Data Source: Orange County Sanitation District. Debt includes certificates of participation, revenue obligations, and anticipation notes and is presented net of original issuance premiums.

ORANGE COUNTY SANITATION DISTRICT
Comparison of the Volume of Wastewater Treated
With Revenues and Expenses
Last Ten Fiscal Years

Fiscal Year	Millions of Gallons of Wastewater Treated Per Day	Collection, Treatment & Disposal Cost per Million Gallons	Total Operating Costs (In Thousands)	Total Non-Operating Costs (In Thousands)	Total Operating Revenues (In Thousands)	Total Non-Operating Revenues ⁽¹⁾ (In Thousands)
2013-14	198	\$ 1,936.64	\$ 246,252	\$ 41,767	\$ 301,459	\$ 94,037
2014-15	187	2,070.97	243,412	37,280	302,450	94,637
2015-16	183	2,110.43	244,003	34,079	315,428	108,248
2016-17	188	2,054.56	246,573	78,918	313,282	118,511
2017-18	185	2,069.30	242,955	36,494	317,499	101,473
2018-19	191	2,274.73	268,825	63,582	318,490	155,833
2019-20	188	2,421.83	282,221	54,261	341,064	144,892
2020-21	182	2,428.28	284,470	37,909	336,700	123,115
2021-22	179	2,254.66	286,580	55,484	329,095	91,691
2022-23	186	2,961.49	330,823	27,882	332,781	158,165

Total expenses in FY 2022-23 increased \$71 million, or 24.5 percent since FY 2013-14 primarily as a result of expansion of the Capital Improvement Program (CIP) and increase in operational services levels with OC San's decision beginning in FY 2002-03 to maximize existing secondary treatment facilities as OC San moved from a 50/50 mix of primary and secondary effluent treatment to meeting secondary treatment standards as of December 31, 2012. The majority of the increase in expenses is due to repairs, maintenance, and utilities in order to deliver required levels of service. An increase was also realized in depreciation expense as a result of the expansion in capital facilities.

In FY 2022-23, personnel expenses increased 70.0 percent over the prior year. This increase is mainly due to the difference between projected and actual investment earnings on OCERS plan investments that have been recognized as pension expense. The number of full-time equivalent positions authorized increased by 8 in FY 2022-23.

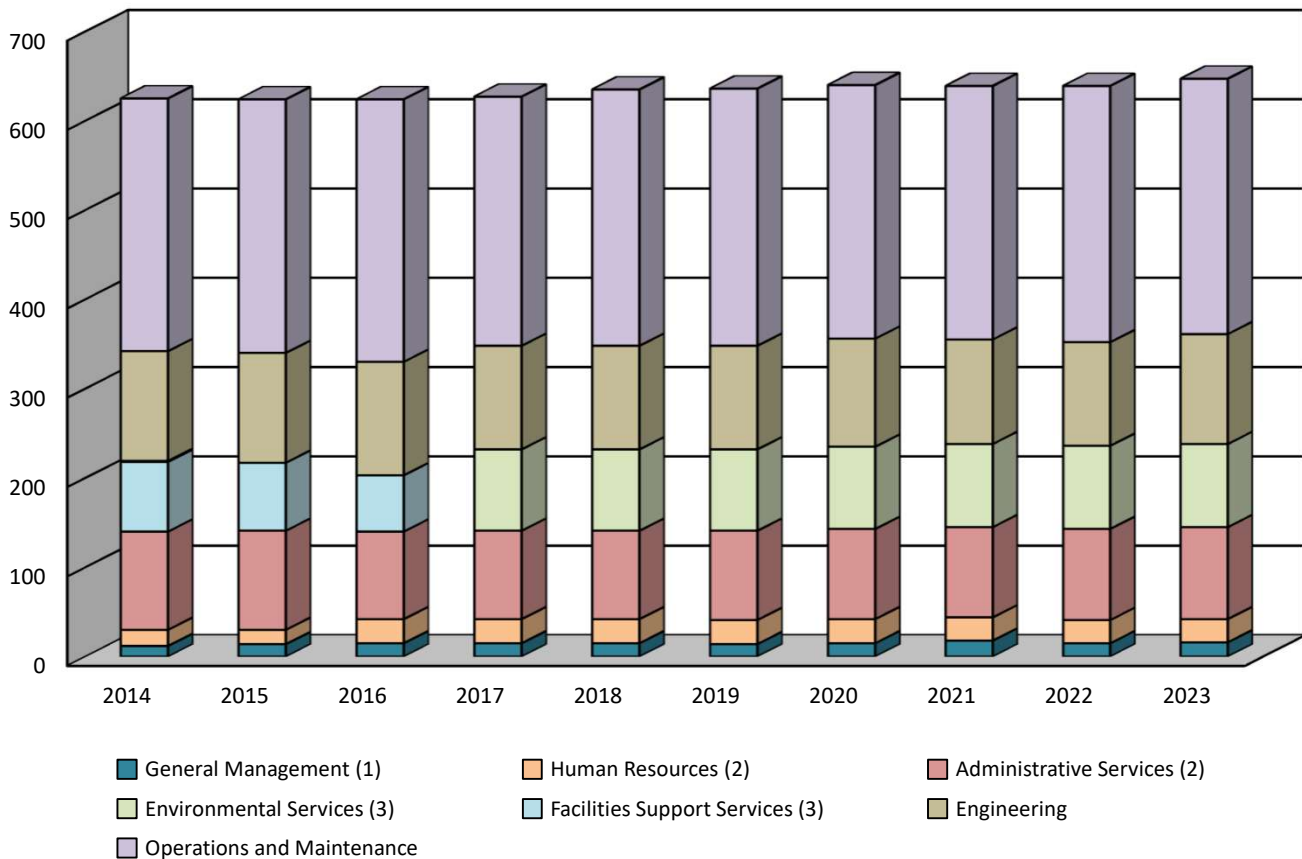
As depicted from the chart above, actual wastewater treatment flows were 198 mgd in FY 2013-14. The last several years of California's water conservation efforts have resulted in FY 2022-23 flows of only 186 mgd, a decrease of 12 mgd or 6.1 percent since FY 2013-14.

Notes

⁽¹⁾ FY 2017-18 to 2020-21 restated to remove capital contributions from other governments.

Source: Orange County Sanitation District's Financial Management Division.

ORANGE COUNTY SANITATION DISTRICT
Authorized Full-time Equivalents (FTE) by Function
Last Ten Fiscal Years



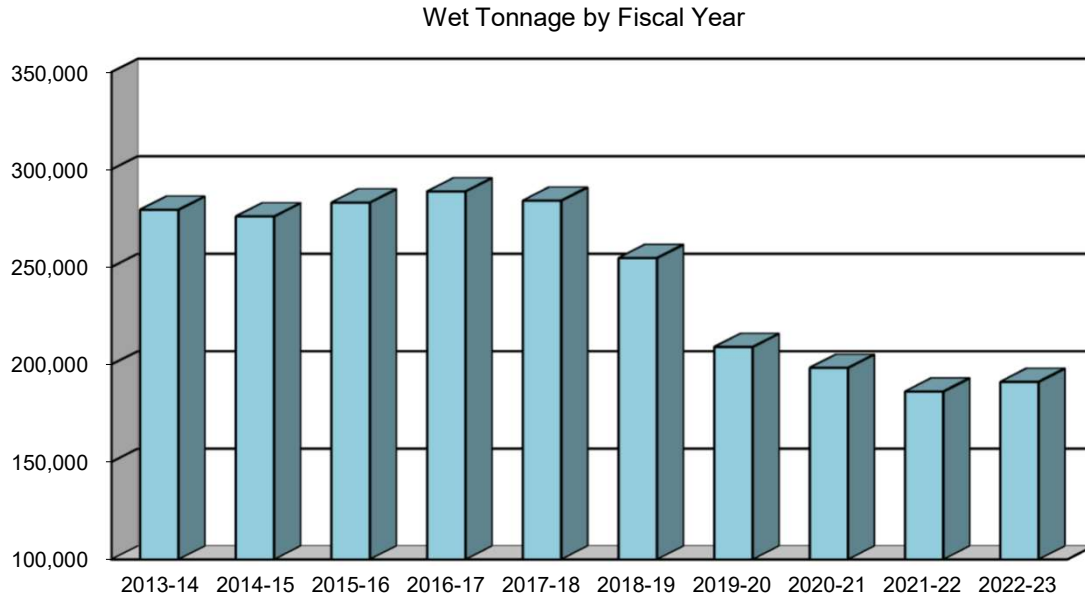
	Fiscal Year Ending June 30,									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
General Management (1)	12	14	15	15	15	14	15	18	15	16
Human Resources (2)	18	16	27	27	27	27	27	26	26	26
Administrative Services (2)	110	111	98	99	99	100	101	101	102	103
Environmental Services (3)	-	-	-	91	91	91	92	93	93	93
Facilities Support Services (3)	78	76	63	-	-	-	-	-	-	-
Engineering	123	123	127	116	116	116	121	117	116	123
Operations and Maintenance	283	284	294	279	287	288	284	284	287	286
Total FTEs	624	624	624	627	635	636	640	639	639	647

Notes

- (1) - Management Discretion positions used on a temporary basis have been excluded from FTE count.
- (2) - In 2016, Risk Management moved from Administrative Services to Human Resources Department.
- (3) - In 2017, Divisional reorganization created Environmental Services and eliminated Facilities Support Services.

Source: Orange County Sanitation District's Financial Management Division.

ORANGE COUNTY SANITATION DISTRICT
Biosolids Produced
Last Ten Fiscal Years



<u>Fiscal Year</u>	<u>Wet Tonnage</u>
2013-14	279,362
2014-15	275,943
2015-16	283,052
2016-17	288,771
2017-18	284,039
2018-19	254,616 ⁽¹⁾
2019-20	209,000
2020-21	198,306
2021-22	186,128
2022-23	191,098

Notes

⁽¹⁾ Beginning in Fiscal Year 2018-19, biosolids produced were reduced due to the commissioning of dewatering centrifuges at both reclamation plants.

Source: Orange County Sanitation District's Environmental Compliance Division.

ORANGE COUNTY SANITATION DISTRICT

Capital Asset Statistics
Last Ten Fiscal Years

Fiscal Year	Miles of Trunk & Subtrunk Sewers	Number of Pump Stations	Primary Treatment Capacity (1)	Secondary Treatment Capacity (1)
2013-14	580	17	376	332
2014-15	580	17	376	332
2015-16	570	17	376	332
2016-17	396 (2)	17	376	332
2017-18	396	17	376	332
2018-19	389	17	376	332
2019-20	388	17	376	332
2020-21	388	17	376	332
2021-22	388	17	376	332
2022-23	388	17	376	332

Notes

(1) - Capacity is presented as million gallons treated per day.

(2) - In FY 2016-17, local sewers were transferred to East Orange County Water District.

Source: Orange County Sanitation District

ORANGE COUNTY SANITATION DISTRICT
Demographic Statistics
Covering The Entire County of Orange (1)
Last Ten Fiscal Years

Fiscal Year	(2) Population Estimates	Total Personal Income (In Thousands)	Per Capita Personal Income	(4) Median Family Income	(5) Public School Enrollment	(6) Unemployment Rate
2013-14	3,114,000	\$ 179,141,000 (3)	\$ 57,528	\$ 84,900	500,487	5.2%
2014-15	3,148,000	193,081,000 (3)	61,334	85,900	497,116	4.3%
2015-16	3,183,000	200,783,000 (3)	63,080	85,000	493,030	4.4%
2016-17	3,194,000	205,052,000 (3)	64,199	88,000	490,430	3.8%
2017-18	3,221,000	212,807,000 (3)	66,098	92,700	485,835	3.3%
2018-19	3,222,000	224,716,000 (3)	68,840	97,900	478,823	3.0%
2019-20	3,194,000	241,153,000 (3)	73,983	103,000	473,612	13.6%
2020-21	3,153,764	256,700,000 (3)	81,117	106,700	456,572	6.5%
2021-22	3,162,245	257,865,000 (3)	84,479	119,100	448,729	2.9%
2022-23	3,137,164	266,043,000 (3),(7)	84,804	127,800	441,249	3.7%

Notes and Data Sources

(1) - The Orange County Sanitation District services 479 square miles or 60% of the total 799.8 square miles that make up the boundaries of Orange County.

(2) - Data Source: Demographic Research Unit, California Department of Finance.

(3) - Data Source: A. Gary Anderson Center for Economic Research, Chapman University.

(4) - Data Source: U.S. Department of Housing and Urban Development.

(5) - Data Source: California Department of Education, Educational Demographics Unit.

(6) - Data Source: State of California, Employment Development Department as of June 30 of each fiscal year.

(7) - Forecasted number.

ORANGE COUNTY SANITATION DISTRICT

Estimated Population Served by the
Orange County Sanitation District
June 30, 2023

	Population as of January 1, 2023
Anaheim	328,580
Brea	48,184
Buena Park	83,517
Costa Mesa	111,183
Cypress	49,818
Fountain Valley	56,987
Fullerton	142,873
Garden Grove	171,183
Huntington Beach	195,714
Irvine	303,051
La Habra	61,835
La Palma	15,332
Los Alamitos	12,129
Newport Beach	83,411
Orange	139,063
Placentia	52,507
Santa Ana	299,630
Seal Beach	24,647
Stanton	39,084
Tustin	79,558
Villa Park	5,790
Westminster	90,498
Yorba Linda	67,068
Subtotal Cities ⁽¹⁾	2,461,642
Estimated Population Served in Unincorporated Areas ⁽²⁾	70,692
	<u>2,532,334</u>

Data Sources

(1) Demographic Research Unit, State of California Department of Finance

(2) Center for Demographic Research, California State University, Fullerton.

ORANGE COUNTY SANITATION DISTRICT
Principal Orange County Employers (1)
For the Current Fiscal Year and Nine Years Ago

Employers	Fiscal Year Ended 6/30/23			Fiscal Year Ended 6/30/14		
	Number of Employees (2)	Rank	Percentage of Total County Employment (3)	Number of Employees (4)	Rank	Percentage of Total County Employment (5)
Walt Disney Co.	34,000	1	2.23%	25,000	1	1.64%
University of California, Irvine	18,706	2	1.23%	22,253	2	1.46%
County of Orange	18,000	3	1.18%	18,035	3	1.19%
Providence (St. Joseph Health)	13,037	4	0.85%	12,062	4	0.79%
Kaiser Permanente	9,592	5	0.63%	6,040	6	0.40%
Hoag Memorial Hospital	7,888	6	0.52%			
Albertsons Southern California	7,633	7	0.50%			
Target Corp.	6,000	8	0.39%	5,400	10	0.36%
Allied Universal	5,929	9	0.39%			
Walmart Inc.	5,900	10	0.39%	6,000	8	0.39%
Boeing Co.				6,890	5	0.45%
Bank of America Corp.				6,000	7	0.39%
MemorialCare				5,635	9	0.37%
Total	126,685		8.31%	113,315		7.44%

Notes & Data Sources

(1) - Data is for the entire county of Orange.

(2) - Data Source: Orange County Business Journal Book of Lists published November 2022

(3) - Data Source: State of California, Employment Development Department

- Percentage is calculated by dividing employees by total employment of 1,525,600 as of June 2023.

(4) - Data Sources: Orange County Business Journal Book of Lists published November 2013; County of Orange

(5) - Data Source: State of California, Employment Development Department

- Percentage is calculated by dividing employees by total employment of 1,520,100 as of June 2014.

ORANGE COUNTY SANITATION DISTRICT

Operating Indicators
June 30, 2023

District Organization: The Orange County Sanitation District is one consolidated district made up of two revenue areas which service unincorporated county areas and twenty-three cities and related special districts, as follows:

Consolidated Revenue Area

Orange County (unincorporated areas)

Cities:

Anaheim	Huntington Beach	Santa Ana
Brea	Irvine	Seal Beach
Buena Park	La Habra	Stanton
Costa Mesa	La Palma	Tustin
Cypress	Los Alamitos	Villa Park
Fountain Valley	Newport Beach	Westminster
Fullerton	Orange	Yorba Linda
Garden Grove	Placentia	

Special Districts:

Costa Mesa Sanitary District
Midway City Sanitary District
Yorba Linda Water District

Revenue Area No. 14

Orange County (unincorporated areas)

Cities:

Irvine
Orange
Tustin

Special District:

Irvine Ranch Water District

Governing Body:	25-member Board of Directors
Authorized Full-Time Equivalent Employees:	647
Operational Date:	July 1, 1954
Authority:	California Health & Safety Code Section 4700 et. seq.
Services:	Wastewater collection, treatment, and disposal
Service Area:	479 square miles
Population Served:	2.5 million
Total Miles of Sewers (including force mains):	388 miles
Reclamation Plants:	2
Outlying Pump Stations:	15

Wastewater System Treatment Capacities (Million Gallons per Day)

	<u>Actual Flows FY22-23</u>	<u>Existing Primary Treatment Capacity</u>	<u>Existing Secondary Treatment Capacity</u>
Plant 1	122	208	182
Plant 2	64	168	150
Total	<u>186</u>	<u>376</u>	<u>332</u>

Source: Orange County Sanitation District's Financial Management Division.

ORANGE COUNTY SANITATION DISTRICT OTHER DATA TRENDS

Information within this section consists of other data and trends including additional annual disclosures as required by the Orange County Sanitation District's debt covenants beyond what is allowed to be reported in the Statistical Section.

ORANGE COUNTY SANITATION DISTRICT

Cash and Investment Portfolio As of June 30, 2023

	Shares Par	Cost Base	Market Value Base	% of Total	Net Unrealized Gain/(Loss) Base
INVESTMENT PORTFOLIO:					
CASH & CASH EQUIVALENTS (U.S. DOLLAR):					
FIRST AMERICAN SHORT TERM FDS	60,417,393	60,417,393	60,417,393	6.59%	-
U.S. GOVERNMENT	10,000,000	9,923,395	9,928,300	1.08%	4,905
SUBTOTAL - CASH & CASH EQUIVALENTS	70,417,393	70,340,788	70,345,693	7.67%	4,905
FIXED INCOME SECURITIES (U.S. DOLLAR):					
CONSUMER DISCRETIONARY	21,719,000	21,778,606	20,621,090	2.25%	(1,157,516)
CONSUMER STAPLES	8,070,000	8,060,859	7,724,693	0.84%	(336,166)
FINANCE	108,300,000	107,995,373	101,525,258	11.07%	(6,470,115)
HEALTH CARE	16,000,000	16,013,792	15,593,230	1.70%	(420,562)
INDUSTRIAL	3,485,000	3,480,574	3,374,038	0.37%	(106,536)
INFORMATION TECHNOLOGY	11,922,000	12,634,388	11,524,102	1.26%	(1,110,286)
MTG RELATED SECURITY	110,422,628	110,633,887	107,319,707	11.70%	(3,314,180)
PRIVATE PLACEMENTS	20,400,000	20,261,551	18,706,881	2.04%	(1,554,670)
SUPRANATIONAL	50,440,000	50,333,543	46,234,998	5.04%	(4,098,545)
TELECOMMUNICATION SERVICES	5,000,000	4,785,920	4,727,450	0.52%	(58,470)
U.S. AGENCY	120,270,000	121,686,486	113,699,231	12.39%	(7,987,255)
U.S. GOVERNMENT	394,762,557	389,951,031	377,594,880	41.16%	(12,356,151)
U.S. GOVERNMENT TIPS	13,284,856	13,140,136	12,886,576	1.40%	(253,560)
UTILITY	5,735,000	5,736,523	5,491,435	0.60%	(245,088)
SUBTOTAL - FIXED INCOME SECURITIES	889,811,041	886,492,669	847,023,569	92.33%	(39,469,100)
TOTAL INVESTMENT PORTFOLIO	<u>\$ 960,228,434</u>	<u>956,833,457</u>	<u>917,369,262</u>	<u>100.00%</u>	<u>\$ (39,464,195)</u>
DEMAND DEPOSITS AND CASH ON HAND		5,515,287	5,515,287		
MONIES HELD WITH FISCAL AGENTS		11,969	11,969		
MONIES WITH THE LOCAL AGENCY INVESTMENT FUND		68,171,692	67,137,425		
MONIES WITH THE SECTION 115 TRUST		14,894,828	14,067,591		
TOTAL CASH AND INVESTMENTS		<u>\$ 1,045,427,233</u>	<u>\$ 1,004,101,534</u>		

Source: US Bank and Orange County Sanitation District's Financial Management Division.

ORANGE COUNTY SANITATION DISTRICT
Property Tax Rates - Direct and Overlapping Governments
Last Ten Fiscal Years

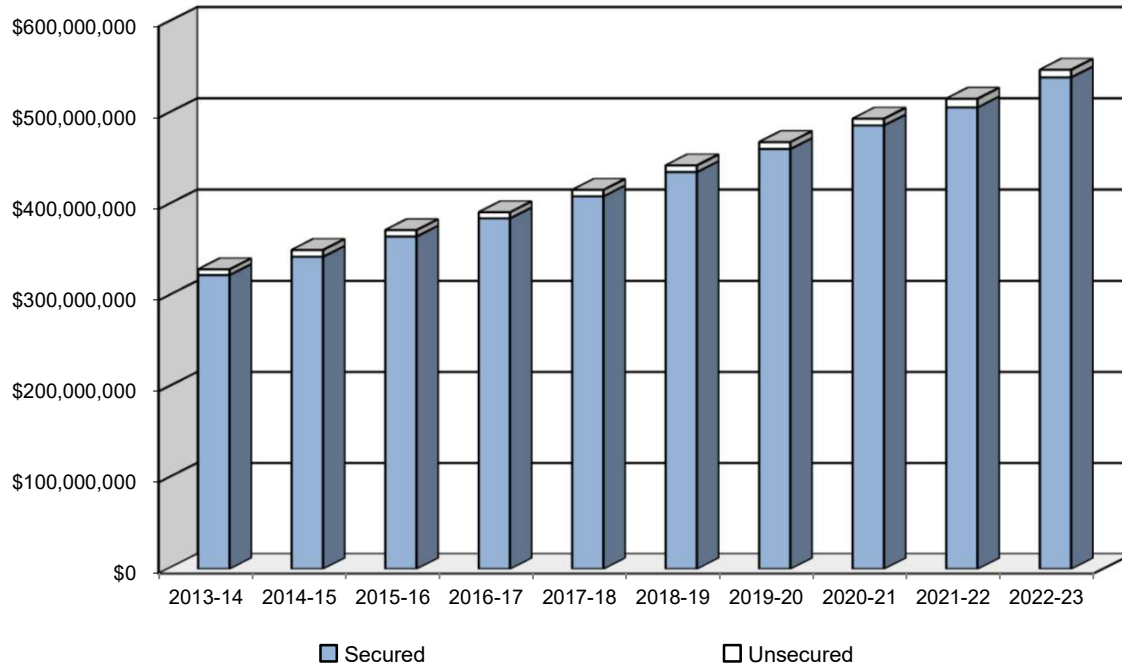
Fiscal Year	Tax Rate			OC San's Average Share of Basic Levy
	Basic Levy	OC San 1958 General Obligation Bonds	Total Tax Rate	
2013-14	1.00%	0.00%	1.00%	1.65%
2014-15	1.00%	0.00%	1.00%	1.63%
2015-16	1.00%	0.00%	1.00%	1.62%
2016-17	1.00%	0.00%	1.00%	1.61%
2017-18	1.00%	0.00%	1.00%	1.59%
2018-19	1.00%	0.00%	1.00%	1.59%
2019-20	1.00%	0.00%	1.00%	1.58%
2020-21	1.00%	0.00%	1.00%	1.59%
2021-22	1.00%	0.00%	1.00%	1.61%
2022-23	1.00%	0.00%	1.00%	1.59%

Notes

In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount of assessed value. This 1.00% is shared by all taxing agencies within which the subject property resides. In addition to the 1.00% fixed amount, property owners were charged taxes as a percentage of assessed property values for the payment of OC San general obligation bonds (which were paid in full in fiscal year 1998-99).

Source: Orange County Auditor-Controller's Office.

ORANGE COUNTY SANITATION DISTRICT
Assessed and Estimated Actual Value of Taxable Property
(Dollars In Thousands)
Last Ten Fiscal Years

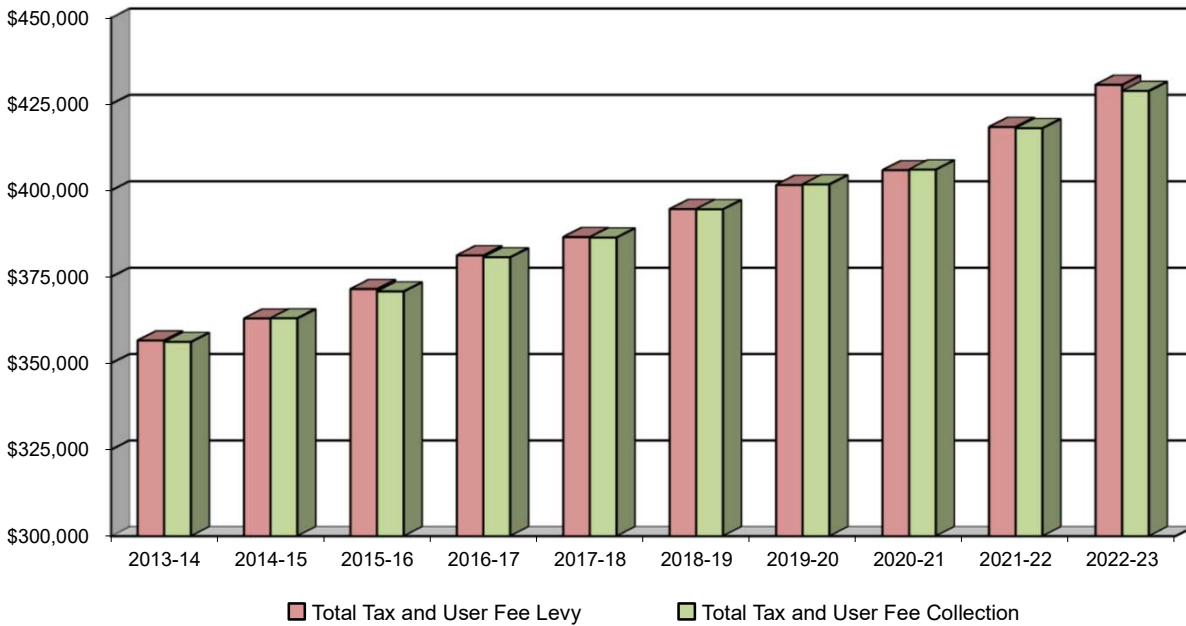


Fiscal Year	Secured	Unsecured	Total	Percent Change in Assessed Value
2013-14	\$ 323,064,994	\$ 6,220,505	\$ 329,285,499	4.09%
2014-15	343,102,030	7,378,643	350,480,673	6.44%
2015-16	365,267,850	6,936,768	372,204,618	6.20%
2016-17	385,137,024	6,642,312	391,779,336	5.26%
2017-18	409,310,248	6,990,609	416,300,857	6.26%
2018-19	435,911,818	7,213,037	443,124,855	6.44%
2019-20	461,217,033	7,489,937	468,706,970	5.77%
2020-21	486,958,908	7,289,732	494,248,640	5.45%
2021-22	506,709,716	9,445,337	516,155,053	4.43%
2022-23	539,539,856	8,340,728	547,880,584	6.15%

In 1978, the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an inflation factor which is limited to a maximum increase of 2%. With a few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above. Consequently, the assessed and estimated values are the same.

Source: Orange County Auditor-Controller's Office.

ORANGE COUNTY SANITATION DISTRICT
Property Tax and User Fee Levies and Collections
(Dollars in Thousands)
Last Ten Fiscal Years



Fiscal Year	Total Tax and User Fee Levy	Current Tax and User Fee Collection	Percent of Levy Collected	Delinquent Collection	Total Tax and User Fee Collection	% of Total Collection to Levy	Outstanding Delinquencies	% of Delinquencies to Levy	(1) Pass-Through Payments
2013-14	\$356,607	\$ 356,108	99.86	\$ 76	\$ 356,184	99.88	\$ 499	0.14	\$ 7,274
2014-15	362,978	362,927	99.99	108	363,035	100.02	51	0.01	8,447 (2)
2015-16	371,502	370,170	99.64	637	370,807	99.81	1,332	0.36	9,199 (2)
2016-17	381,226	380,078	99.70	608	380,686	99.86	1,148	0.30	9,751
2017-18	386,538	385,673	99.78	741	386,414	99.97	865	0.22	11,353
2018-19	394,641	393,809	99.79	786	394,595	99.99	832	0.21	12,524
2019-20	401,604	400,865	99.82	931	401,796	100.05	739	0.18	13,469
2020-21	405,878	405,053	99.80	1,035	406,088	100.05	825	0.20	15,034
2021-22	418,400	416,869	99.63	1,177	418,046	99.92	1,531	0.37	18,433
2022-23	430,603	428,681	99.55	143	428,824	99.59	1,922	0.45	18,903

Notes

(1) Upon dissolution of California redevelopment agencies during fiscal year 2011-12, property tax increment formerly remitted to OC San by its member city redevelopment agencies was instead deposited into the newly formed Redevelopment Property Tax Trust Fund (RPTTF) from which the Auditor-Controller makes disbursements on behalf of the successor agencies. There is no tax levy associated with these collections; thus, they have been excluded from the "% of Total Collection to Levy" calculation.

(2) In fiscal year 2014-15 and 2015-16, the County did not bill user fees for wholly exempt agencies not subject to property taxes. In fiscal year 2014-15 and 2015-16, OC San internally billed user fees of \$5 million and \$4.5 million, respectively, to wholly exempt agencies. These amounts have been excluded from the levy and collection amounts above, as only tax and user fees included on County property tax billings are shown in this schedule.

Source: Orange County Auditor-Controller's Office.

ORANGE COUNTY SANITATION DISTRICT
Property Value and Construction
Covering The Entire County of Orange **(1)**
(Dollars In Thousands)
Last Ten Fiscal Years

Assessed Property Value (2)		Calendar Year	Non- Residential Construction (3)	Residential Construction (3)		Total Construction Value (3)
Fiscal Year	Value		Value	No. of Units	Value	
2013-14	\$ 447,749,156	2014	\$ 1,993,154	10,636	\$ 2,640,484	\$ 4,633,638
2014-15	476,303,290	2015	2,196,000	10,897	2,834,000	5,030,000
2015-16	504,650,360	2016	2,487,000	12,134	3,160,000	5,647,000
2016-17	531,052,158	2017	2,062,000	10,294	3,217,000	5,279,000
2017-18	563,662,044	2018	3,507,000	8,105	2,776,000	6,283,000
2018-19	598,901,016	2019	3,144,000	10,294	2,650,000	5,794,000
2019-20	632,758,256	2020	1,929,000	5,907	1,884,000	3,813,000
2020-21	663,241,179	2021	1,802,000	7,471	2,368,000	4,170,000
2021-22	689,088,931	2022	1,868,000	6,483	2,195,000	4,063,000
2022-23	733,634,516	2023	1,536,000	6,058	2,000,000	3,536,000 (4)

Notes and Data Sources

(1) - The Orange County Sanitation District services 479 square miles or 60% of the total 799.8 square miles that make up the boundaries of Orange County.

(2) - Data Source: Orange County Auditor-Controller's Office.

(3) - Data Source: A. Gary Anderson Center for Economic Research, Chapman University.

(4) - Forecasted number.

ORANGE COUNTY SANITATION DISTRICT

Insurance in Force
As of June 30, 2023

Type	Insurer	Deductible	Limit
<u>All-Risk Property</u>			
Fire and Other Perils	Public Entity Property Insurance Program (multiple insurers)	\$500,000 per occurrence	\$1 billion / occurrence
Flood	Public Entity Property Insurance Program	\$1 million per occurrence	\$25 million / occurrence
Boiler & Machinery	Public Entity Property Insurance Program (multiple insurers)	\$25,000 to \$350,000	\$100 million / occurrence
<u>Earthquake</u> (certain structures only)	Multiple insurers	5% per structure, min. \$5 million	\$25 million
<u>Crime Insurance</u>	Alliant Crime Insurance Program	\$25,000	\$5 million
<u>Cyber Insurance</u>	Lloyd's of London (Beazley)	\$250,000	\$2 million \$500,000 for Breach Response
<u>Excess General Liability</u>	Great American Insurance Co. (first \$10 million layer); Gemini Insurance Co. (\$15 million layer, excess \$10 million) Arch Insurance Company (\$5 million layer, excess \$25 million) Great American Insurance Co. (\$10 million layer, excess \$30 million)	\$750,000	\$40 million / occurrence and annual aggregate
<u>Travel & Accident</u>	Federal Insurance Co.	None	Accidental Death & Dismemberment Class 1: Elected Officials \$500,000 per occurrence Class 2: Employees 10X annual 10X annual salary, up to \$500,000 per occurrence
<u>Excess Workers' Compensation</u>	Public Risk Innovation, Solutions, and Management (PRISM)	\$1 million each accident	Unlimited statutory coverage each accident, each employee \$4 million employer's liability
<u>Pollution Liability</u>	Ironshore Specialty Insurance Co.	\$250,000	\$10 million per loss
<u>Watercraft Liability</u>	Atlantic Specialty Insurance Co.	\$2,500 bodily injury \$10,000 all other	\$10 million
Hull & Machinery	Atlantic Specialty Insurance Co.	\$10,000	\$600,000
Pollution Liability	Great American Insurance Co.	\$25,000	\$5 million

Source: Orange County Sanitation District's Financial Management Division.

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**ORANGE COUNTY SANITATION DISTRICT
FINANCIAL MANAGEMENT DIVISION**

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06/30/23