

County of Orange FY 2011-12 Proposed Budget Key Budget Message

The County Executive Office is pleased to present the Board of Supervisors with the FY 2011-12 Proposed Budget. The CEO budget proposal continues to reflect Orange County's conservative management principles in addressing the impacts of the recessionary period that began in 2007. Through the leadership provided by the Board of Supervisors, the County began implementing budget reduction measures early in the FY 2008-09 budget year. By starting the budget reduction process early and targeting cuts that provide ongoing budgetary savings, the County has been able to glide down spending while maintaining essential safety net services.

The FY 2011-12 Proposed Budget presented to the Board of Supervisors reflects a fourth consecutive year of 5% Net County Cost (NCC) reduction for General Fund agencies. This reduction enables the County to achieve its goal of developing a structurally balanced budget that does not rely upon reserves to support ongoing expenditures. The revenue assumptions included in the budget reflect moderate levels of growth consistent with recent signs of economic improvement. Most economists agree that we have entered a period of economic recovery, but believe that recovery will be slow and protracted over the next few years. The County does not expect trends of accelerated growth as experienced following prior downturns.

Key Assumptions for the FY 2011-12 Proposed Budget include:

- Assessed Valuations are not expected to change
- Property Tax revenue increase of \$15 million due to SB 8 (2009)
- Sales Tax increase of 2.0%
- Public Safety Sales Tax increase of 2.1%
- Continuation of the Net County Cost reductions implemented in FY 2008-09, FY 2009-10, and FY 2010-11
- Additional 5% Net County Cost reduction for FY 2011-12
- No backfill of State budget reductions
- Internal financing of major information technology projects
- Net General Fund Reserve increase of \$19.4 million since July 1, 2010

The recommended County budget plan totals \$5.6 billion with 17,165 authorized positions. When compared to the FY 2010-11 adopted budget, these amounts reflect an increase of \$145.8 million (2.7%) and decrease of 490 positions (2.8%). The budget increase is primarily associated with the growth in program caseloads for Community Services and the repayment of the Pension Prepayment Bonds. For FY 2011-12, County departments have submitted augmentation requests to restore 156 positions and \$36.1 million in associated program funding of which 156 positions and \$30.3 million is recommended for funding by the CEO. The final adopted budget will reflect all approved budget augmentation requests and associated position changes.

County Program Appropriations

		(in Million Dollars)						FY 2011-2012
Program	Program Name		FY 2010-2011		FY 2011-2012		Two Year Variance	% of Total
- 1	Public Protection	\$	1,053.5	\$	1,077.0	\$	23.5	19.2%
II.	Community Services		2,097.7		2,203.0		105.3	39.3%
III	Infrastructure & Environmental Resources		1,302.1		1,065.4		(236.7)	19.0%
IV	General Government Services		164.9		147.7		(17.2)	2.6%
V	Capital Improvements		118.6		109.8		(8.8)	2.0%
VI	Debt Service		319.7		559.6		239.9	10.0%
VII	Insurance, Reserves & Miscellaneous		404.1		443.9		39.8	7.9%
		\$	5,460.6	\$	5,606.4	\$	145.8	100.0%

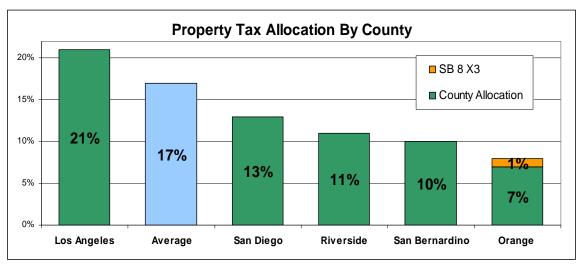
Net County Cost. The base budget includes the fourth consecutive year of 5% reduction in Net County Cost. Combined with reductions implemented since FY 2008-09, the County has reduced the annual Net County Cost allocation by \$54.7 million.

Net County Cost	Amount (in millions)
FY 2008-09	\$718.0
FY 2011-12	663.3
Reduction in NCC	\$54.7

Representing the discretionary portion of the budget, Net County Cost (NCC) for FY 2011-12 is \$663.3 million or 11.8% of the County's \$5.6 billion Proposed Budget. Net County Cost is projected to decrease \$22.9 million or 3.3% compared to the current year budget.

<u>Highlight of Key Revenues.</u> Property tax revenue, which accounts for 79.3% of the ongoing General Purpose Revenue, is anticipated to increase by 2.9% in FY 2011-12 due to the additional \$15 million property tax allocation from SB 8 (2009). SB 8 increased Orange County's annual property tax allocation by \$35 million beginning FY 2009-10, and increases to \$50 million in FY 2011-12 and

thereafter. The County appreciates Senator Correa's efforts to provide Orange County with an improvement to our property tax allocation rate. Although the legislation was successful in improving our "under equity" status, Orange County remains below equity in comparison to peer counties in the State.



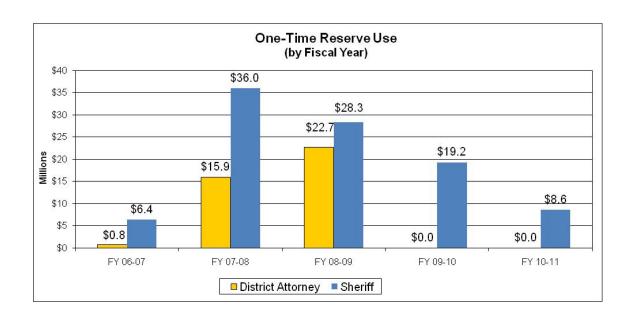
Source: State Board of Equalization Annual Report FY 2008-09 (excludes sales tax and VLF swap)

Public Safety Sales Tax revenue, which was budgeted to provide \$225.9 million in Proposition 172 revenue to the Sheriff and District Attorney in FY 2010-11, is projected to exceed budget by \$5.5 million (2.5%). For FY 2011-12 the County projects a modest increase of 2.1% over the current year projection of \$231.5 million. Even with the projected growth, Public Safety Sales Tax for FY 2011-12 is comparable to FY 2003-04 levels.



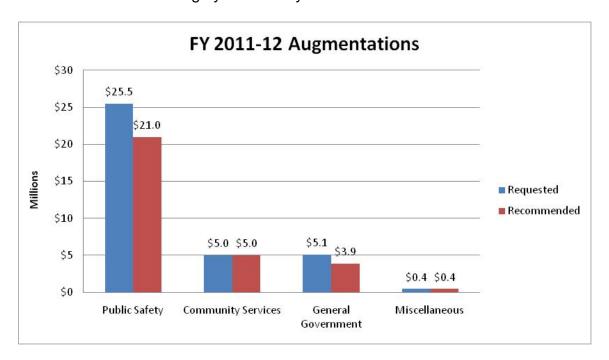
<u>Public Safety Augmentations.</u> The modest increase forecast for sales tax reflects the growth in sales tax receipts that began in December 2010 and has continued through February 2011. The decline in this revenue beginning FY 2006-07 is the primary reason for the County Executive Office's recommendations to support District Attorney and Sheriff-Coroner augmentation requests.

For Program I (Public Protection), which contains the significant portion of the augmentation requests, the County base budget plan for FY 2011-12 includes reductions of \$23.3 million and 151 positions. Impacts from the NCC reductions are agency wide for the Public Defender, District Attorney, and Sheriff-Coroner. The Sheriff and the District Attorney funding shortfalls are lower than in prior years due to continued restructuring of programs and the availability of alternative funding provided by grants, contracts for services, and other non-NCC sources. Although the decline in Public Safety Sales Tax began in FY 2006-07, the structural budget shortfalls for the Sheriff and District Attorney over the past five years were supported by the use of approximately \$137.9 million in departmental reserve funds (see chart below). Beginning in FY 2011-12, these reserves are nearly depleted requiring these departments to identify alternative funding sources, implement further reductions and requests for additional General Fund support. The Public Defender has no formal reserves and limited availability of non-NCC related funding support. As a result, the NCC reductions during the past four years have had significant program impacts which were partially offset by Board approved budget augmentations. Notwithstanding these impacts, reductions to Public Protection, which represents 50% of the NCC allocation, have been an essential component of the budget balancing process.



The Proposed Budget recommends Board consideration of Program I (Public Safety) restoration augmentations of \$21.0 million and 151 positions. The restorations are recommended in order to preserve core prosecution, jail, investigation and defense services.

FY 2011-12 will continue to be a challenging budget year as the County makes difficult decisions with respect to funding for core services. Augmentation requests for FY 2011-12 total \$36.1 million in NCC with \$30.3 million recommended for funding by the County Executive Office.



<u>State Budget.</u> The FY 2011-12 Proposed Budget does not include potential impacts of the State budget. State budget impacts are currently unknown as the Governor has not been successful in achieving all of the required legislative changes or voter approval to support his revenue solutions. For this reason, the County budget was developed conservatively in light of this uncertainty and has incorporated only known and quantifiable items. Departments are assessing the changes as information becomes available and will adjust their FY 2011-12 budgets as appropriate. Some legislative items which have passed include:

- CalWORKS Significant changes to CalWORKS include shortening time limits for adults to receive aid and the reduction of grants by 8%.
- Medi-Cal Realignment The State Budget proposes a realignment of all Drug Medi-Cal (DMC) services, Drug Court Treatment Services, Non-DMC Discretionary, and Non-DMC Perinatal.
- Proposition 10 The State Budget proposes to shift funding to fund Medi-Cal services for children up to age five. This shift requires voter approval. Programs and services supported by Proposition 10 may be at risk.

- Public Safety Realignment This includes the Realignment to counties of low level offenders, adult parolees and juvenile offenders. The Governor signed this legislation but indicated that the provisions will not go into effect until "the creation of a community corrections grant program and an appropriation of funding."
- Cash Deferrals Extends the provision allowing the State to defer social services and other payments to local governments.

The three bills that were not enacted include core elements of the Governor's budget balancing plan. These include elimination of the redevelopment agencies (AB 101/SB 77), a constitutional amendment to realign \$5.9 billion in health and human services and public safety programs to local government (SCA 1/ACA 2), and a call for a special election (AB 107/SB 83) to extend the temporary tax increases for five years.

With uncertainty surrounding the Legislature's ability to implement the Governor's realignment plan funded by an extension of the temporary tax extensions, it is becoming more likely that the Governor will release a May Revise budget proposal that includes an "all cuts" plan.

Following the enactment of a State budget the County will reconcile any impacts as part of the 1st Quarter Budget Report or earlier if necessary.

As an organization committed to conservative General Fund Reserves. financial management, the County must carefully balance the use of reserves to support core services while maintaining our ability to respond to critical countywide needs. The County has set aside a prudent level of General Fund Reserves with minimal use during the first three years of this recession. During FY 2010-11 the County increased General Fund Reserves by \$17.2 million. The increase was primarily associated with the transfer to reserves of unallocated Fund Balance Available (FBA) and the establishment of contingency reserves for Social Services Agency and Health Care Agency. The FY 2011-12 proposed budget adds an additional \$2.1 million to reserves primarily due to consolidation of \$6.8 million in residual balance from a reserve type fund offset by a \$4.8 million draw to support one-time costs in the FY 2011-12 Proposed Budget. The projected year-over-year increase to General Fund Reserves is a significant achievement for the County and demonstrates a commitment to living within our Maintaining a healthy reserve balances is necessary to support means. adequate cashflow throughout the year and provide a measure of security against the potential impacts from the State budget.

Reserve Balances									
(\$ in millions)	7/1/2010		6/30/2012						
Contingency Reserve		61.3	\$	61.3					
Strategic Plan Reserve		123.8		143.0					
Capital Project Reserve		12.4		12.6					
General Fund Reserves	\$	197.5	\$	216.9					

In spite of the challenging budget year ahead, the County remains well positioned to manage the continued impacts of the economic slowdown, of State budgetary actions and will continue to effectively address the needs of County residents. The Board of Supervisors has demonstrated a commitment to conservatively managing the budget and making adjustments as needed to address changes in revenue results. The leadership provided by the Board of Supervisors and the efforts of our elected and appointed department heads is appreciated.

The County Executive Office looks forward to presenting the FY 2011-12 Proposed Budget to the Board of Supervisors during the Public Budget Hearings scheduled for June 14th and 15th.

Thomas G. Mauk County Executive Officer