



## County Executive Office

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### County of Orange FY 2018-19 Recommended Budget Key Budget Message

The County Executive Office is pleased to present the Board of Supervisors with the FY 2018-19 Recommended Budget. The budget reflects the allocation of resources to achieve the County's mission, strategic priorities, and goals.

The Recommended Budget of \$6.5 billion addresses essential community, capital, and operational needs of the County, while tackling new and ongoing challenges. Given the magnitude of the final Vehicle License Fee Adjustment Amount (VLFAA) payment to the State of \$55 million in FY 2018-19, it is imperative to continue to leverage available resources including identification and use of external funding for programs and services. County departments that rely on discretionary revenue, or Net County Cost (NCC), are being challenged to meet mandates without receiving an increase in NCC over the FY 2017-18 level. As a result, several departments that provide mandated services, such as public safety, submitted requests for additional NCC to fund baseline service levels. Restore augmentation requests from Sheriff-Coroner, District Attorney, Public Defender, Auditor-Controller, Clerk of the Board, and OC Public Works are outlined later in this document.

Overall, the FY 2018-19 Recommended Budget is consistent with long-term strategic priorities, is balanced and advances key initiatives, including continued efforts to address infrastructure needs and homelessness in Orange County.

#### **HIGHLIGHTS OF THE FY 2018-19 RECOMMENDED BUDGET**

The Recommended Budget includes various initiatives consistent with **Building a System of Care**. The County is strategically deploying outreach and engagement resources regionally in the North, Central, and South Service Planning Areas. As initiatives are implemented, the collaboration and cooperation of all 34 cities in the County of Orange are required to effectively serve the vulnerable homeless population. The County is committed to partnering with cities to provide services, and to assist in identifying facility types and service models to meet regional community needs.

The Recommended Budget also provides for:

- Ongoing Net County Cost (NCC) funding for operation of the Courtyard Transitional Center and Bridges at Kraemer Place.

- Infrastructure projects including: Civic Center Building 16, the Anita Building, Dana Point Harbor, and a variety of capital projects. Infrastructure and capital projects are consistent with the County's Capital Improvement and Facilities Master plans.

## **BUDGET OVERVIEW**

The FY 2018-19 Recommended Budget totals \$6.5 billion, which reflects an increase of \$252.8 million or 4.1% from the FY 2017-18 Adopted Budget. The General Fund portion of the budget totals \$3.5 billion, and challenges General Fund departments with 0% growth in NCC. The total number of positions decreased by 59 from the FY 2017-18 Adopted Budget due to reduce level of service augmentations submitted by departments to meet NCC limits, bringing the total to 18,227. The following tables provide appropriations and positions by program, as well as sources of General Purpose Revenue.

### **County Program Appropriations (in Million Dollars)**

<b>PROGRAM NUMBER AND NAME</b>		<b>FY 2017-2018 ADOPTED</b>	<b>FY 2018-2019 RECOMMENDED</b>	<b>VARIANCE</b>
I	Public Protection	\$ 1,372.4	\$ 1,429.3	4.1%
II	Community Services	2,478.6	2,584.8	4.3%
III	Infrastructure & Environmental Resources	1,161.6	1,159.9	-0.1%
IV	General Government Services	186.3	177.8	-4.6%
V	Capital Improvements	220.1	245.9	11.7%
VI	Debt Service	188.4	176.7	-6.2%
VII	Insurance, Reserves & Miscellaneous	602.9	688.7	14.2%
<b>TOTAL</b>		<b>\$ 6,210.3</b>	<b>\$ 6,463.1</b>	<b>4.1%</b>

### **Authorized Positions by Program**

<b>PROGRAM NUMBER AND NAME</b>		<b>FY 2017-2018 ADOPTED</b>	<b>FY 2018-2019 RECOMMENDED</b>	<b>VARIANCE</b>
I	Public Protection	6,559	6,447	(112)
II	Community Services	8,708	8,720	12
III	Infrastructure & Environmental Resources	1,286	1,288	2
IV	General Government Services	1,453	1,459	6
VII	Insurance, Reserves & Miscellaneous	280	313	33
<b>TOTAL</b>		<b>18,286</b>	<b>18,227</b>	<b>(59)</b>

**General Purpose Revenue (Discretionary Funds)  
(in Million Dollars)**

<b>SOURCE</b>	<b>FY 2017-2018 ADOPTED</b>	<b>FY 2018-2019 RECOMMENDED</b>	<b>VARIANCE</b>
Property Taxes	\$ 711.7	\$ 759.7	6.7%
Motor Vehicle License Fees (VLF)	1.2	1.4	16.7%
Fund Balance Unassigned (FBU)	-	-	-
Decreases To Reserves	2.0	8.8	340.0%
Miscellaneous Revenue (Combined Other)	3.4	1.5	-55.9%
Interest	4.6	6.5	41.3%
Transfers In (From Other Funds)	39.2	6.3	-83.9%
Sales & Other Tax	10.7	10.7	-
Property Tax Administration (Combined Other)	21.4	22.4	4.7%
Franchises/Rents & Concessions (Combined Other)	2.7	2.7	-
<b>TOTAL</b>	<b>\$ 796.9</b>	<b>\$ 820.0</b>	<b>2.9%</b>

**Expense and Revenue Summary**

**Expense**

- The budget increase is associated primarily with increased human services costs offset by categorical Federal and State revenues; early redemption of airport bonds; the final VLFAA payment of \$55 million owed to the State; and appropriation of anticipated revenues dedicated for special revenue funds.
- The decrease in positions is due primarily to department proposed position reductions required to meet NCC limits. The increase in Program VII is due primarily to a shift of information technology positions from various departments to OCIT Shared Services.
- The 2011 Realignment revenue allocated for Trial Court Security is not sufficient to cover the cost of continuing the FY 2017-18 level of court security services provided by the Sheriff. The Court Security appropriations budget for FY 2018-19 was aligned with anticipated revenue and is likely insufficient to provide the current level of service. The County and the Court are working to identify and implement solutions to align court security services with the State funding provided for court security.

**Revenue**

- Budgeted General Purpose Revenues are \$820 million, \$23.1 million more than the FY 2017-18 adopted budget of \$796.9 million, due primarily to a \$48 million projected increase in property tax revenues; a \$32.9 million projected decrease in transfers in; and a \$6.8 million increase in reserve draws for capital projects.

- The Public Safety Sales Tax (Proposition 172) revenue increase of 3.5% (\$5.8 million) over the FY 2017-18 estimated revenue is based on State and economists' projections and trend data; the total FY 2018-19 budget is \$333.8 million (80% Sheriff - \$267 million; and 20% District Attorney - \$66.8 million).
- The Statewide allocation of AB109 (2011 Public Safety Realignment) revenue for Community Corrections is budgeted with an increase of approximately \$5.7 million (or 6.7%) combined in base and growth revenue for Orange County.
- State and Federal sources are estimated by departments based on established funding allocation formulas, caseload projections, and the latest State and Federal budget information.

### **BUDGET AUGMENTATION OVERVIEW**

The FY 2018-19 Budget Augmentation Requests book includes requests by departments to augment the FY 2018-19 Recommended Budget. As part of the budget development process, departments submit **Reduce Augmentation Requests** to meet the FY 2018-19 NCC allocation. If a reduction impacts the department's ability to maintain base service levels or fulfill mandates, a corresponding **Restore Augmentation Request** is submitted. Departments typically request NCC restorations to sustain current operations. As the FY 2018-19 Recommended Budget reflects 0% growth in NCC allocations, some County departments continue to face expenditure growth that has outpaced growth in revenues. In light of the budget challenges facing the County, a majority of the requests are recommended for partial one-time funding. Restore Augmentation Requests for FY 2018-19 total \$59 million in NCC with \$33.1 million recommended for funding. In addition to restoration requests, **Expand Augmentation Requests**, which require funding above base budget requirements, total \$9.9 million in NCC with \$9 million recommended for funding. A detailed description of each augmentation is available in the FY 2018-19 Budget Augmentation Requests book.

#### **AUGMENTATION SUMMARY BY TYPE**

AUGMENTATION TYPE	NCC REQUESTED	NCC RECOMMENDED	POSITIONS	
			REQUESTED	RECOMMENDED
Restore	58,985,388	33,080,391	88	88
Expand	9,858,795	8,991,863	55	45
<b>TOTAL</b>	<b>68,844,183</b>	<b>42,072,254</b>	<b>143</b>	<b>133</b>

Board approval of the CEO's position recommendations results in a net decrease of 30 positions from the current FY 2017-18 position count (as of FY 2017-18 Third Quarter Budget Report) of 18,257 to 18,227. All proposed position reductions are recommended for restoration. The following table provides a program level summary of augmentations requesting NCC.

**AUGMENTATION SUMMARY BY PROGRAM**

PROGRAM	NCC RESTORE AUGMENTATIONS		NCC EXPAND AUGMENTATIONS	
	REQUESTED	RECOMMENDED	REQUESTED	RECOMMENDED
Public Protection	57,417,020	32,097,581	4,425,029	3,558,097
Community Services			200,000	200,000
Infrastructure & Environmental Resources	397,252	397,252	566,116	566,116
General Government	1,171,116	585,558	175,000	175,000
Capital Improvements			4,492,650	4,492,650
<b>TOTAL</b>	<b>58,985,388</b>	<b>33,080,391</b>	<b>9,858,795</b>	<b>8,991,863</b>

**Restore Augmentations**

As a result of competing funding needs in FY 2018-19, most requests are recommended for partial restoration. The CEO will work closely with departments during the year to ensure essential services are supported.

DEPARTMENT	NCC RESTORE AUGMENTATIONS	
	REQUESTED	RECOMMENDED
<b>Public Protection</b>		
District Attorney	6,486,065	3,891,639
Public Administrator	625,092	375,055
Public Defender	3,688,623	2,213,174
Sheriff-Coroner	45,467,586	24,468,059
Emergency Management	136,696	136,696
Trial Courts	1,012,958	1,012,958
<b>Infrastructure and Environmental</b>		
OC Public Works	397,252	397,252
<b>General Government</b>		
Auditor-Controller	771,278	385,639
Clerk of the Board	399,838	199,919
<b>TOTAL</b>	<b>58,985,388</b>	<b>33,080,391</b>

**Expand Augmentations**

A total of \$3,558,097 is recommended in NCC funding for **Public Protection**. The District Attorney requested NCC funding to add 12 positions for information technology operations support and six positions for the branch courts misdemeanor cases discovery process, of which seven and four positions and partial funding are respectively recommended. The Public Administrator requested \$142,092, of which \$113,674 is recommended to add one position supporting the recently implemented case management system. The Public Defender requested NCC funding to add four positions for increased evidentiary and discovery requirements; one position to provide desktop and network security support; and

one position to meet workload demands of the AB109/Reentry Unit. Recommended expand augmentations include funding of \$313,148 to add three positions for increased evidentiary and discovery requirements, and one position with no additional funding for desktop and network security support. One position requested for the AB109/Reentry Unit is recommended for deferral pending a position classification review. Sheriff requested \$2,317,303 in NCC funding, all of which is recommended to acquire a digital radiography system, upgrade the Central Jail electrical infrastructure, and replace 13 vehicles.

A total of \$200,000 is recommended in NCC funding for **Community Services** to establish an employment program for the homeless population, which is expected to be part of a larger joint effort with other local jurisdictions coordinated by the City of Anaheim.

A total of \$566,116 is recommended in NCC funding for **Infrastructure and Environmental Resources** to add three positions to meet workload demands and established inspection requirements; replace end-of-life tools and equipment; and add one position to support access control services.

A total of \$175,000 is recommended in NCC funding for **General Government** to purchase four new mail extraction machines for vote-by-mail processing.

A total of \$4,492,650 is recommended in NCC funding for the following **Capital Improvements** projects on behalf of the Sheriff's Department: Central Jail renovation, Katella Range Facility upgrade, Jail Electronics Security System upgrade, and Jail Hardening.

DEPARTMENT	NCC EXPAND AUGMENTATIONS	
	REQUESTED	RECOMMENDED
<b>Public Protection</b>		
District Attorney	1,376,931	813,972
Public Administrator	142,092	113,674
Public Defender	588,703	313,148
Sheriff-Coroner	2,317,303	2,317,303
<b>Community Services</b>		
OC Community Resources	200,000	200,000
<b>Infrastructure and Environmental</b>		
OC Public Works	566,116	566,116
<b>General Government</b>		
Registrar of Voters	175,000	175,000
<b>Capital Improvements</b>		
Capital Projects	4,492,650	4,492,650
<b>TOTAL</b>	<b>9,858,795</b>	<b>8,991,863</b>

## **RISKS**

The FY 2018-19 budget was developed utilizing revenue growth factors for property and sales tax revenue consistent with economic forecasts for the County and State. The County's General Purpose Revenue is heavily reliant on property tax revenue. In the FY 2018-19 Recommended Budget, property tax revenues comprise approximately 93% of General Purpose Revenue. The County anticipates moderate growth in General Purpose Revenues in FY 2018-19. The trends remain consistent with the County's 2017 Strategic Financial Plan; however, growth in future years' General Purpose Revenues would not be sufficient to offset costs which, if left unchecked, are anticipated to grow at a higher rate.

Furthermore, Prop 172 Public Safety Sales Tax Revenue (Prop172) remains a significant funding source for the District Attorney and Sheriff departments, but has fluctuated with the economy. Although Prop 172 revenue recaptured pre-recession losses and has experienced growth since FY 2013-14, it is not significant enough to offset ongoing operational cost increases. The CEO closely monitors forecasts and collaborates with the departments to ensure there are no impacts on public safety resulting from revenue fluctuations.

In-Home Supportive Services (IHSS) program cost shift to counties remains a concern and a top priority. Under the new funding structure, the County's Maintenance-of-Effort increased from \$35.4M in FY 2016-17 to \$65.9M in FY 2017-18. Although the State provided some funding to mitigate the immediate impacts of shifting significant IHSS program costs to the County, the level of funding declines every year. Unfortunately, this reduction in State revenue coincides with statutorily defined increases in program costs. The County is working in collaboration with California State Association of Counties (CSAC) and other stakeholders to address this issue. If left unchecked, by all accounts, the growth in costs will become unsustainable for counties in several years. In FYs 2017-18 and 2018-19, the Social Services Agency (SSA) is relying on use of limited SSA reserves to cover the increasing gap between revenue and costs. In FY 2018-19, the gap is estimated to be \$7.3M and is projected to grow to \$14.1M in FY 2019-20. As currently projected, SSA will have exhausted available reserves at the end of FY 2018-19.

As previously mentioned, another area of risk relates to the growing gap between State funding and the costs of court security. The County and Court are working together to identify solutions to align security services provided with State funding. The current projected funding shortfall is \$10.5M.

The County will evaluate and identify any risks or impacts as a result of the May Revision to the State's FY 2018-19 Budget. Traditionally, any significant changes are addressed in the First Quarter Budget Report presented to the Board of Supervisors in November.

## **GENERAL FUND RESERVES**

As an organization committed to conservative financial management, the County must carefully balance the use of reserves to support core services while maintaining the ability to respond to important countywide needs.

The County has developed a practice of reserving fund balance, when available, for anticipated future capital projects such as the Sheriff's jail video system (CCTV) and the Registrar of Voters new Electronic Voting System. The maintenance of reserve balances demonstrates the County's continued commitment to living within its means and sustaining budget stability. Maintaining healthy reserve balances is necessary to support adequate General Fund cash flow throughout the year, to provide a measure of security against unanticipated impacts or events, and to sustain the County's current credit ratings.

The General Fund Balance Unallocated (FBU) at the end of FY 2017-18 is currently projected to be zero due to the \$50 million VLFAA payment.

## **CONCLUSION**

The County is positioned to continue to effectively address the needs of County residents. The Board of Supervisors continues to demonstrate a commitment to conservatively managing the budget and making adjustments as needed to address changes in revenue or operations. 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 2018-19 Recommended Budget to the Board of Supervisors during the Public Budget Hearings scheduled for June 12, 2018.