



County Executive Office

FY 2019-20 Recommended Budget: Key Budget Message

The County Executive Office is pleased to present the Board of Supervisors with the FY 2019-20 Recommended Budget of \$6.8 billion, which is \$305 million more than the FY 2018-19 Adopted Budget and reflects the allocation of resources to achieve the County's mission, strategic priorities, and goals.

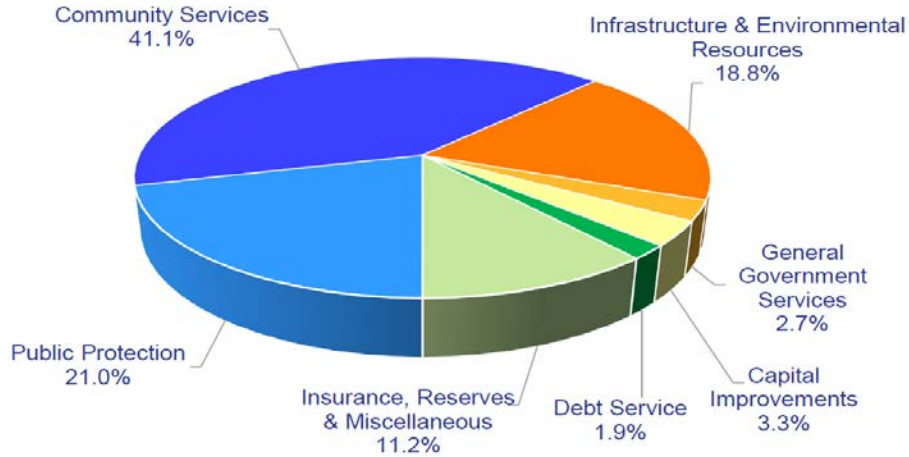
The FY 2019-20 Recommended Budget is the first budget developed after clearing two significant financial milestones. In November 2018, the County's 1994 bankruptcy case was closed; and, in June 2019, the County will make the final Vehicle License Fee Adjustment Amount Settlement payment.

Consequently, included in the budget is a recommendation for ongoing funding in several core service areas in contrast to the one-time funding in the FY 2018-19 budget. The sustained funding is intended to maintain core County operations and address essential service needs of vulnerable populations served primarily by the community services departments and programs. Through collaborative strategies, the County, 34 cities, and community organization partnerships leverage resources by integrating services within shelter, health care, behavioral health, and community re-entry systems. Also included is funding to modernize infrastructure and the County's voting system.

Highlights

- Consistent with long-term strategic priorities and the 2018 Strategic Financial Plan, the budget is balanced and provides funding for infrastructure projects.
- The base budget includes 0% growth in Net County Cost for General Fund departments.
- Revenue assumptions reflect moderate levels of growth including 4% growth in General Fund net property tax revenues over the current year-end revenue estimate.
- Budgeted General Purpose Revenues (\$906.6 million) and other sources total \$917.2 million, \$97.2 million more than the FY 2018-19 Adopted Budget of \$820 million, due primarily to a \$40.9 million increase in property tax revenues, \$4.3 million in interest, \$9.2 million transferred from the Teeter fund, and \$32 million in one-time reserve draws for capital projects.
- The Public Safety Sales Tax (Proposition 172) revenue increase of 3.1% (\$10.4 million) over the FY 2018-19 estimated revenue is based on State and economists' projections and trend data; the total FY 2019-20 budget is \$345.5 million (80% Sheriff - \$276.4 million; and 20% District Attorney - \$69.1 million).

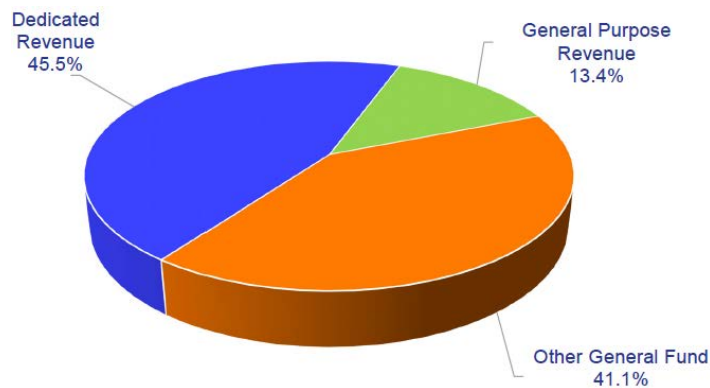
Appropriations by Program Area



Program Number	Program Name	FY 2019-20 Recommended Budget (\$M)	Percentage
I	Public Protection	\$1,421.3	21.0%
II	Community Services	2,786.0	41.1%
III	Infrastructure & Environmental Resources	1,274.5	18.8%
IV	General Government Services	183.4	2.7%
V	Capital Improvements	224.9	3.3%
VI	Debt Service	126.0	1.9%
VII	Insurance, Reserves & Miscellaneous	761.0	11.2%
	Total	\$6,771.1	

At 41.1%, the largest program area is the Community Services Program. This area includes Social Services, Health Care Agency, OC Community Resources, and Child Support Services. The vast majority of revenue in these departments is from the State and Federal Governments for the County to administer programs and services on their behalf.

Revenue Sources

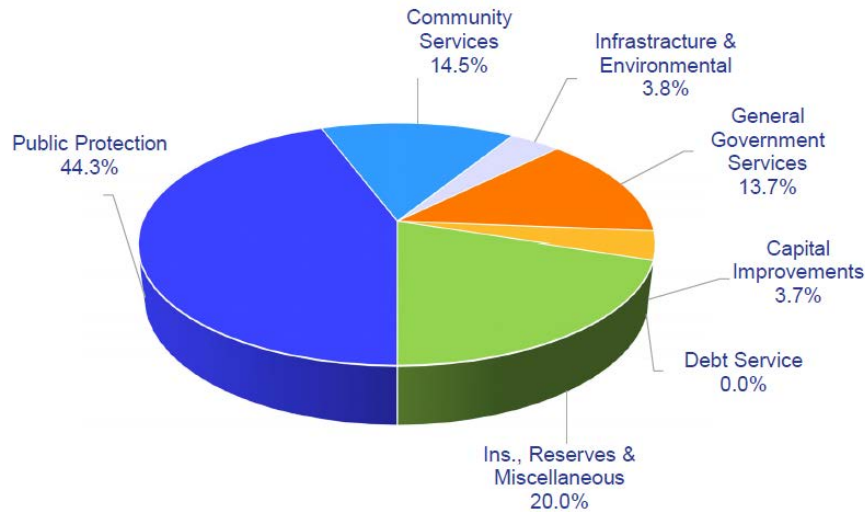


Program Name	FY 2019-20 Recommended Budget (\$M)	Percentage
General Purpose Revenue	\$ 906.6	13.4%
Other General Fund – Non-Discretionary	2,786.3	41.1%
Dedicated Revenue	3,084.2	45.5%
Total	\$6,777.1	

Revenue Sources

As indicated in the prior table, the majority of revenue, 45.5%, is **Dedicated Revenue**. This revenue source is dedicated to the County’s various enterprise, internal service, and special districts budgets. Examples are: John Wayne Airport, OC Road, OC Flood, OC Public Libraries, and OC Waste & Recycling. The second largest category of revenue, 41.1%, is categorized as **Other General Fund - Non-Discretionary**. As described in the Appropriations section, the County receives this category of revenue sources, primarily in Community Services departments, from State and Federal Government sources to administer programs and services on their behalf. **General Purpose Revenue (GPR)**, approximately 13.4% of revenue, is discretionary. This means it does not have the specific limitations associated with the Dedicated Revenue and Non-Discretionary revenue sources that make up 86.6%, or \$5.9 billion, of the budget. As indicated in the following chart, the majority of GPR, 44.3%, is allocated to Public Protection to fund County mandates in the Sheriff-Coroner, District Attorney, Probation, and Public Defender departments. Community Services GPR is used to support core community service mandates and meet match requirements. General Government GPR supports core administrative services.

General Purpose Revenue



Net County Cost (NCC)

The General Purpose Revenue allocated to a department to close the funding gap between expenditures and revenue sources is referred to as Net County Cost (NCC). The FY 2019-20 Recommended Budget includes \$906.6 million in NCC.

Program Number	Program Name	FY 2019-20 Recommended Budget (\$M)	Percentage
I	Public Protection	\$ 401.0	44.3%
II	Community Services	131.2	14.5%
III	Infrastructure & Environmental Resources	34.9	3.8%
IV	General Government Services	124.0	13.7%
V	Capital Improvements	33.9	3.7%
VI	Debt Service	0.1	0.0%
VII	Insurance, Reserves & Miscellaneous	181.5	20.0%
	Total	\$ 906.6	

Program VII includes \$126.4 million in NCC to fund CEO Recommended Restore Augmentations (\$100 million) and Expand Augmentations (\$26.4 million). A detailed description of each augmentation is available in the FY 2019-20 Budget Augmentation Requests book. A summary of Augmentations by Type, Program, and Department are provided below.

Augmentations Address Challenges and Recommend Sustained Funding

AUGMENTATION SUMMARY BY TYPE

Augmentation Type	NCC Requested	NCC Recommended	Positions	
			Requested	Recommended
Restore	\$ 107,560,773	\$ 100,032,302	0	0
Expand	75,313,348	63,741,623	232	165
TOTAL	\$ 182,874,121	\$ 163,773,925	232	165

As part of the budget development process, County departments built budgets in two stages. The first stage, the base budget, excludes new or expanded programs. Departments that are reliant on NCC may request additional NCC to balance the department’s base budget. As expected from the 2018 Strategic Financial Plan forecasts, several departments submitted requests for additional NCC to fund baseline service levels. These actions are referred to as **Restore Augmentations**.

NCC RESTORE AUGMENTATIONS

Department	NCC Restore Augmentations	
	Requested	Recommended
Public Protection		
• District Attorney	\$ 13,087,337	\$ 13,087,337
• Public Administrator	455,625	455,625
• Probation	8,466,876	4,551,783
• Public Defender	5,945,869	2,332,491
• Sheriff-Coroner	65,663,855	65,663,855
• Emergency Management Division	160,786	160,786
• Sheriff Court Operations	8,791,350	8,791,350
Total Public Protection Restore Augmentations	102,571,698	95,043,227
Infrastructure & Environmental Resources Restore Augmentations		
• OC Public Works	678,523	678,523
General Government		
• Assessor	2,477,476	2,477,476
• Auditor-Controller	298,716	298,716
• Property Tax System Support	170,761	170,761
• Clerk of the Board	765,000	765,000
• County Counsel	316,765	316,765
• Internal Audit	281,834	281,834
Total General Government Restore Augmentations	4,310,552	4,310,552
TOTAL	\$107,560,773	\$100,032,302

In FY 2018-19, most Restore Augmentations were allocated on a one-time basis. In the FY 2019-20 Recommended Budget, requests for ongoing expenditures are recommended for ongoing funding.

Augmentations that fund either new programs or increased service levels are referred to as **Expand Augmentations**.

NCC EXPAND AUGMENTATIONS

Department	NCC Expand Augmentations	
	Requested	Recommended
Public Protection		
• District Attorney	\$ 13,223,158	\$ 2,947,015
• Public Defender	1,069,048	590,822
• Sheriff-Coroner	6,370,000	6,370,000
Total Public Protection Expand Augmentations	20,662,206	9,907,837
Community Services		
• OC Community Resources	661,186	661,186
• Health Care Agency	20,411,003	20,411,003
Total Community Services Expand Augmentations	21,072,189	21,072,189
Infrastructure & Environmental Resources Expand Augmentations		
• OC Public Works	150,319	150,319
General Government		
• Auditor-Controller	978,142	160,786
• CAPS Operations and Maintenance	1,682,625	1,682,625
• County Counsel	24,287	24,287
• Registrar of Voters	10,197,000	10,197,000
• Treasurer-Tax Collector	613,728	613,728
Total General Government Expand Augmentations	13,495,782	12,678,426
Capital Improvements Expand Augmentations		
• Capital Projects	19,932,852	19,932,852
TOTAL	\$75,313,348	\$63,741,623

A significant area impacting the budget is the responsibility for housing defendants convicted of certain non-violent crimes in county jails, which requires that the County accommodate the medical and mental health needs of both short- and long-term inmates. As County jail facilities and programs were originally designed for short stays, effectively housing and providing services to a higher needs population for longer periods of time exerts pressure on current resources.

To address this need, the Orange County Sheriff’s Department, in collaboration with the Health Care Agency, developed plans to increase the County’s capacity to treat the health and mental health needs of inmates. The Recommended Budget includes Expand Augmentations for both one-time facility modifications (\$9.2 million) and ongoing funding for additional health care staff (\$16 million) to enhance patient care to inmates.

Capital Improvements NCC Expand Augmentations provides funding for several projects including:

Department	Project	FY 2019-20 Funding
Sheriff	Intake Release Center Modification	\$9.2M
Sheriff	Katella Range Facility Upgrade	4.2M
Sheriff	Jail Electronic Security System	3.3M
Sheriff	Jail Hardening	1.0M
Probation	Youth Guidance Center Classrooms	2.2M

NCC AUGMENTATION SUMMARY BY PROGRAM

Program Number	Program Name	NCC Restore Augmentations		NCC Expand Augmentations	
		Requested	Recommended	Requested	Recommended
I	Public Protection	\$102,571,698	\$ 95,043,227	\$ 20,662,206	\$ 9,907,837
II	Community Services	0	0	21,072,189	21,072,189
III	Infrastructure & Environmental Resources	678,523	678,523	150,319	150,319
IV	General Government	4,310,552	4,310,552	13,495,782	12,678,426
V	Capital Improvements	0	0	19,932,852	19,932,852
	TOTAL	\$107,560,773	\$100,032,302	\$ 75,313,348	\$ 63,741,623

Note: Programs VI and VII did not have any NCC Augmentations

Risks

The FY 2019-20 budget was developed utilizing revenue growth factors for property and sales tax revenue consistent with January 2019 economic forecasts for the County and State. The County budget anticipates moderate growth in General Purpose Revenues in FY 2019-20. The County’s General Purpose Revenue is heavily reliant on property tax revenue as property tax revenues comprise approximately 94% of General Purpose Revenue.

The FY 2019-20 Recommended Budget assumes a 4% growth in General Fund net property tax revenues. This reliance on property tax revenue presents risks. The County’s seven year streak of month-to-month growth in the median home price ended in February 2019 with a 1.4% decline. This drop in median home price coincided with a 17.1% countywide reduction in the number of home sales when compared to February 2018. Since the property tax received by the County is derived from actual revenue received, revenue growth is already limited by Proposition 13. Typically, property tax revenue increases when properties are built or sold and the property tax is aligned with the current assessed value. Therefore, the simultaneous reduction in median home price coupled with a reduction in the number of homes sold exacerbates the risk on the General Purpose Revenue generated by property tax revenue.

The FY 2019-20 Recommended Budget includes a projection of \$345.5 million in Prop 172 Public Safety Sales Tax Revenue (Prop 172). This is a significant funding source for the District Attorney (\$69.1 million) and Sheriff-Coroner (\$276.4 million) departments. Since funding is based on actual sales tax generated, this revenue source fluctuates 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.

The County will evaluate and identify any risks or impacts as a result of the May Revision to the State's FY 2019-20 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 those listed on page 6. Additionally, other projects in the Recommended Budget funded by reserving fund balance include the Sheriff's jail video system (CCTV), the Registrar of Voters' new Voting System, the CAPS Performance Budget Upgrade, Replacing Aged Inmate Buses, and Sheriff vehicle replacements. 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.

According to current estimates, the General Fund Balance projected at the end of FY 2018-19 is \$747.3 million and \$714.6 million at the end of FY 2019-20. The forecasted decline in the reserve balance is due to the planned use of capital project reserves, does not include any fund balance that will automatically roll to reserves at the end of FY 2018-19 or FY 2019-20, and does not negatively impact the County's budget stabilization reserve.

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 prudently manage the budget and make 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.

Next Steps

The County Executive Office looks forward to presenting the FY 2019-20 Recommended Budget to the Board of Supervisors during the Public Budget Hearings scheduled for June 11, 2019.

The Board of Supervisors is scheduled to adopt the FY 2019-20 Annual Budget at their June 25, 2019 meeting.