



## *County Executive Office*

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### **County of Orange FY 2015-16 Recommended Budget Key Budget Message**

The County Executive Office is pleased to present the Board of Supervisors with the FY 2015-16 Recommended Budget. The Recommended Budget continues to reflect Orange County's disciplined approach to fiscal management and is consistent with the County's Strategic Financial Planning process.

Over the last several years and continuing into FY 2015-16, the County has focused on stabilizing the budget, building reserves, and funding infrastructure needs that were deferred during the Great Recession. The FY 2015-16 Budget is structurally balanced with no use of reserves for ongoing operating costs.

#### **Highlights of the FY 2015-16 Recommended Budget**

- Balanced budget including 3% growth (\$18M) in Net County Cost for General Fund departments
- Total County base budget is \$5.8 billion, of which \$3.2 billion is the General Fund budget
- General Purpose Revenues are \$723.1 million, \$17.4 million more than the current year-end estimate of \$705.7 million due to inclusion of prior year fund balance for the \$15 million payment to the State - the second of five required payments, inclusion of \$15.9 million fund balance previously set aside for planned capital expenditures, and an increase in property tax revenue, offset by removal of one-time Teeter funding
- Revenue assumptions are consistent with economists' forecasts and reflect moderate levels of growth including 4% growth in property tax revenues over the current year-end estimated revenue
- Public Safety Sales Tax revenue increase of 3% (\$9M) over the current year-end estimated revenue; total FY 2015-16 budget is \$309.5 million (80% Sheriff - \$247.6M; and 20% District Attorney - \$61.9M)
- The Statewide allocation of AB109 revenue is up resulting in a \$5.2 million combined increase in base and growth revenue for Orange County; \$6.8 million in additional one-time funding is provided by the State in FY 2015-16 for costs associated with transition and stabilization
- General Fund reserve balance is estimated to increase by \$37.3 million by June 30, 2016 after \$15 million payment to State, use of \$15.9 million in fund balance for one-time capital expenditures, automatic booking of an estimated \$55.2 million in FY 2014-15 fund

balance to reserves at year-end per Board policy, and a \$13 million budgeted increase to reserves

When compared to the FY 2014-15 adopted budget, the FY 2015-16 budget reflects an increase of \$340 million (6%) and a decrease of 65 positions. The budget increase is primarily associated with appropriation of anticipated bond proceeds for the Central Utility Facility project, appropriations for transfer of funds from OC Waste & Recycling for temporary borrowing associated with the La Pata Avenue, Musick Jail Expansion and Property Tax System projects, and appropriations for increases in other various programs and projects. The decrease in positions is due primarily to department proposed position reductions required to meet NCC limits. All proposed position reductions are recommended for restoration. Board approval of the CEO's position recommendations will result in a net two position reduction from the current FY 2014-15 position count (as of FY 2014-15 Second Quarter Budget Report) of 18,150 to 18,148.

### County Program Appropriations

Program	Program Name	(In Million Dollars)			FY 2015-2016	
		FY 2014-2015	FY 2015-2016	Two Year Variance	% of Total	
I	Public Protection	\$ 1,186.1	\$ 1,214.4	\$ 28.3		21.0%
II	Community Services	2,283.2	2,280.6	(2.6)		39.4%
III	Infrastructure & Environmental Resources	978.7	1,087.1	108.4		18.8%
IV	General Government Services	170.8	175.6	4.8		3.0%
V	Capital Improvements	71.7	139.4	67.7		2.4%
VI	Debt Service	261.9	280.9	19.0		4.9%
VII	Insurance, Reserves & Miscellaneous	494.5	609.3	114.8		10.5%
		\$ 5,446.9	\$ 5,787.3	\$ 340.4		100.0%

### Authorized Program Positions

Program	Program Name <sup>1</sup>	FY 2014-2015	FY 2015-2016	Two Year Variance	FY 2015-16 % of Total
I	Public Protection	6,566	6,448	(118)	35.9%
II	Community Services	8,549	8,583	34	47.7%
III	Infrastructure & Environmental Resources	1,341	1,303	(38)	7.2%
IV	General Government Services	1,392	1,422	30	7.9%
VII	Insurance, Reserves & Miscellaneous	205	232	27	1.3%
		18,053	17,988	(65)	100.0%

1. NOTE: Programs V and VI do not have any authorized positions.

**Highlight of Key Revenues:** Property tax revenue, which accounts for 88.5% of total General Purpose Revenue, is anticipated to increase by \$40.8 million or 6.8% in FY 2015-16 compared to the FY 2014-15 adopted budget. Property tax revenue is projected to grow 4% (\$20.2M) from the FY 2014-15 year-end estimated revenue amount. Overall, total General Purpose Revenues are anticipated to increase by 7.6% or \$51.1 million; however, \$15 million is associated with the planned use of prior year fund balance for the second of five one-time payments to the State and \$15.9 million is a planned use of fund balance for one-time capital expenditures.

### General Purpose Revenue (Discretionary Funds)

Source	(In Million Dollars)			FY 2015-2016
	FY 2014-2015	FY 2015-2016	Two Year Variance	% of Total
Property Taxes	\$ 599.5	\$ 640.3	\$ 40.8	88.5%
Motor Vehicle Fees (VLF)	1.3	1.1	(0.2)	0.2%
Fund Balance Unassigned (FBU)	-	-	-	0.0%
Decreases To Reserves	10.2	30.9	20.7	4.3%
Miscellaneous Revenue (Combined Other)	2.1	2.6	0.5	0.4%
Interest	1.4	1.6	0.2	0.2%
Transfers In (From Other Funds)	23.6	12.0	(11.6)	1.6%
Sales & Other Tax	10.6	10.0	(0.6)	1.4%
Property Tax Administration (Combined Other)	20.7	21.8	1.1	3.0%
Franchises/Rents & Concessions (Combined Other)	2.6	2.8	0.2	0.4%
	\$ 672.0	\$ 723.1	\$ 51.1	100.0%

**Public Safety Sales Tax** revenue, budgeted at \$297 million in FY 2014-15, is projected to come in slightly higher than budget at \$300 million. For FY 2015-16, the County projects an increase of 3.0% over the current year projection resulting in a proposed budget of \$309 million. Even with the projected growth, Public Safety Sales Tax revenue for FY 2015-16 is not sufficient to cover the increased cost of doing business in the Sheriff and District Attorney departments. Allocation of Public Safety Sales Tax revenue is 80% to Sheriff and 20% to District Attorney.

**Net County Cost:** The discretionary portion of the budget, known as Net County Cost (NCC), for FY 2015-16 is \$723.1 million or 12.5% of the County's \$5.8 billion budget, of which \$35.9 million is one-time funding sources specific to FY 2015-16 for the one-time payment to the State and planned capital expenditures. The FY 2015-16 Budget provides General Fund departments with a 3% NCC increase, which, for some departments, is insufficient to offset the growing cost of doing business.

**Augmentation Highlights:** While the FY 2015-16 budget reflects increases in General Purpose Revenue, some County departments continue to face expenditure growth that has outpaced growth in revenues. As a result, restore augmentation requests for FY 2015-16 total

\$43.5 million in NCC with \$32.3 million recommended for funding. Of the \$32.3 million recommended restorations, \$22 million is proposed for funding on an ongoing basis in an effort to stabilize department budgets. In addition to the restore requests, departments have identified over \$32 million in NCC expand requests above and beyond base budget requirements.

AUGMENTATIONS	Restore Augmentations		Expand Augmentations	
	Requested	Recommended	Requested	Recommended
Public Protection	33,590,003	29,658,824	6,976,068	3,249,804
Community Services	6,930,418	0	6,950,000	3,107,527
General Government	2,944,046	2,636,075	14,267,998	14,267,998
Capital Improvements	n/a	n/a	4,066,000	4,066,000
<b>TOTAL</b>	<b>43,464,467</b>	<b>32,294,899</b>	<b>32,260,066</b>	<b>24,691,329</b>

**Restore Augmentations**

Detail of the **Public Protection** restore augmentations is provided below. Although full restoration is not provided for the District Attorney, \$5.6 million is recommended for restoration on an ongoing basis to help stabilize the department’s budget. The remaining \$200K is recommended for one-time expenditures. The District Attorney and CEO will work closely during the year to ensure no impacts on public safety. Full restoration is not recommended at this time for the Sheriff’s Department pending actual known jail population and associated overtime costs.

Department	Requested	Recommended
District Attorney (DA)	6,946,088	5,766,372
DA-Public Administrator	1,192,442	1,192,442
Public Defender	1,642,733	1,642,733
Sheriff's Department	23,808,740	21,057,277
<b>Total</b>	<b>33,590,003</b>	<b>29,658,824</b>

The \$6.9 million restoration request in **Community Services** is related to the Social Services Agency’s General Relief program (residual relief program for those not eligible for any other form of aid). The CEO recommends deferring consideration of this request until mid-year when actual caseloads and costs are known.

**General Government** restore augmentations are related to requests from the Assessor (\$475K), Auditor-Controller (\$337K), County Executive Office (\$662K), Human Resources (\$390K), Treasurer-Tax Collector (\$949K) and Internal Audit (\$130K). Full restoration is recommended with the exception of Auditor-Controller, Treasurer-Tax Collector and Internal Audit. Restoration of \$309K of the \$337K is recommended for the Auditor-Controller, \$799K of the \$949K is recommended for the Treasurer-Tax Collector, and

consideration of the Internal Audit request is recommended for deferral pending the Auditor Oversight Committee’s review of the County’s multiple audit functions for possible consolidation.

**Expand Augmentations**

Funding for several **Public Protection** expand augmentation requests is recommended including \$2.2 million and two positions for the Sheriff’s CCTV (jail video system) project, one position and \$112K for the OC Crime Lab Crime Scene Investigation unit, \$800K for Multi-Factor Authentication Equipment required to comply with the FBI’s Criminal Justice Information Services policy, and one position and \$97K to comply with Homeland Security Presidential directives for hazard/incident management response.

A total of \$6.7 million in funding in **Community Services** is recommended to provide for the potential acquisition, rehabilitation and/or construction of two year-round emergency shelters consistent with the County’s 10-year plan to end homelessness. Included in the base budget is \$3.6 million for ongoing operating costs recommended to be redirected for this purpose, as well as use of \$3.1 million in FY 2014-15 unspent monies originally budgeted for shelter ongoing operating costs.

Detail of the **General Government** expand augmentations is provided below.

<b>Department</b>	<b>Requested</b>	<b>Recommended</b>
CAPS Program	6,500,000	6,500,000
County Executive Office	226,873	226,873
Human Resources	64,125	64,125
County Counsel	3,000,000	3,000,000
Registrar of Voters	4,477,000	4,477,000
<b>Total</b>	<b>14,267,998</b>	<b>14,267,998</b>

Funding of \$6.5 million is recommended for the CAPS+ upgrade project, a strategic priority in the 2014 Strategic Financial Plan. NCC of \$227K to fund three positions in CEO is being shifted from OC Public Works (OCPW) – funds not previously transferred for the centralization of Real Estate services, but available due to cost-saving measures implemented by OCPW. An additional \$3 million is recommended for County Counsel to cover anticipated outside legal counsel services costs, and \$4.5 million is required for one-time election related costs.

Finally, \$4.1 million is recommended in the **Capital Improvements** budget: \$1.4 million related to the Lowe agreement for development of the El Toro property, \$2.1 million to begin work on Probation’s multipurpose rehabilitation center, and \$550K for required repairs to the Joplin Youth Center wastewater pond.

**Risks:** The FY 2015-16 budget was conservatively developed and includes revenue growth factors consistent with economic forecasts for the County and State. Although the County's economy is showing signs of improvement, concern remains especially related to two of the County's primary funding sources – property tax and sales tax revenues, including Prop 172 Half-Cent Public Safety Sales Tax revenue. While Prop 172 revenues have experienced growth since the recessionary period, it has been difficult to rebuild the Excess Public Safety Sales Tax Reserve Fund 14J back to the nearly \$100 million balance that existed pre-Great Recession. This has increased the Sheriff's and District Attorney's reliance on the General Fund.

The County anticipates moderate growth in General Purpose Revenues in FY 2015-16; however, if actual trends remain consistent with the County's 2014 Strategic Financial Plan, it is anticipated that the growth in future years' General Purpose Revenues will not be enough to offset costs which are anticipated to grow at a higher rate. While the FY 2015-16 Recommended Budget is balanced without the use of reserves for ongoing operating costs, future increases in the cost of doing business that surpass revenue growth could make it difficult to sustain any growth in service levels. Thus, while funding is provided in the FY 2015-16 Budget for increased one-time costs such as for capital projects, any allocation of new revenue for ongoing expanded levels of service is limited.

The County continues to meet with various labor groups. Impacts of any newly approved agreements will be reconciled during the year through the quarterly budget report process if costs cannot be absorbed using existing resources.

**State Budget:** On January 9, 2015, the Governor's FY 2015-16 proposed budget was released. Department budgets reflect aspects of the State's budget known at the time of County budget submittal on March 2, 2015. The Governor's May Revise budget is scheduled for release on May 14, 2015. Any necessary changes to the County budget as a result of the May Revise will be made during the FY 2015-16 First Quarter Budget Report. The County is optimistic that the State will follow through on its commitment to reimburse counties for SB90 mandate reimbursements should the May Revise revenue projections reflect available funding.

**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 critical countywide needs. The County has maintained a prudent level of General Fund reserves with minimal use during the Great Recession.

The General Fund reserve balance is estimated to increase by \$37.3 million by June 30, 2016 after the \$15 million payment to the State, use of \$15.9 million in fund balance for one-time capital expenditures, automatic booking of an estimated \$55.2 million in FY 2014-15 fund balance to reserves at year-end per Board policy, and a \$13 million budgeted increase to reserves. While the reserve balance is projected to increase by June 30, 2016, this estimate does not take into account unforeseen significant expenditures that could require a draw from reserves during the fiscal year. In addition, over the following three years the balance will be reduced by \$130 million to make the last three VLFAA-related payments to the State. The County also has plans for use of some of the existing and future fund balance in reserves for projects such as the Sheriff's jail video system (CCTV) and the Registrar of Voter's new election system. Finally, the County will be challenged to cover the cost of strategic priorities identified by departments in the 2014 Strategic Financial Plan such as funding for the 800 MHz Countywide Coordinated Public Safety Communications System, development of the property tax system, development of the El Toro property, acquisition and operation of one or more year-round emergency shelters, and the Civic Center Master Plan.

It is important that over the next few years, the County replenish its reserves as the payments to the State are made and as funds are drawn down to cover the cost of the planned expenditures. The current Board policy requiring all year-end fund balance to automatically roll into reserves will facilitate this.

The maintenance of, and growth in, reserve balances demonstrates the County's continued commitment to living within our means. 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. Due to the increase in General Fund cash balances, the County does not plan to issue Tax and Revenue Anticipation Notes (TRANS) in FY 2015-16.

**Conclusion:** In spite of ongoing budget challenges, the County remains well positioned to manage the continued impacts of a slowly growing economy, 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 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 2015-16 Recommended Budget to the Board of Supervisors during the Public Budget Hearings scheduled for June 9, 2015.