



County Executive Office

County of Orange FY 2017-18 Recommended Budget Key Budget Message

The County Executive Office is pleased to present the Board of Supervisors with the FY 2017-18 Recommended Budget. The budget reflects the County's commitment to disciplined fiscal management and providing quality services to our residents.

State Budget Challenges

The Recommended Budget of \$6.2 billion addresses essential community, capital, and organizational needs of the County, while also tackling new challenges. One impending challenge relates to the proposed repeal of the Coordinated Care Initiative (CCI). This change was announced in January with the Governor's Proposed FY 2017-18 Budget and would shift In-Home Supportive Services (IHSS) Maintenance of Effort (MOE) costs from the State to counties. The estimated impact to Orange County is approximately \$38 million. Until the State budget is adopted, the total FY 2017-18 Orange County impact is unknown. To address the potential IHSS impact, a concurrent budgeting process was initiated for each department receiving General Purpose Revenues from the County General Fund. Departments developed contingency plans to be implemented once the impact of the IHSS cost shift is known. The process provided the opportunity to plan for potential budget reductions that could be swiftly implemented and strategically managed to ensure the continued delivery of critical services.

Highlights of the FY 2017-18 Recommended Budget

Initiatives imbedded within the Recommended Budget include **Building a System of Care**. The County is moving forward with several key initiatives to improve the overall response to homelessness across the region. These initiatives include the Courtyard Transitional Shelter, the year-round shelter, Bridges at Kraemer Place, as well as leveraging grants to expand services, such as the Whole Person Care Initiative. Successful initiatives require collaboration. To that end, North, Central, and South Service Planning Areas (SPAs) were initiated to engage all 34 Cities in coordinated strategies promoting increased investments in outreach, services, and affordable housing developments, and working to engage community-based resources from housing developers, nonprofit organizations, and faith-based partners.

The Recommended Budget also provides for:

- Opening of the new animal care center in Tustin.

- A 1% growth (\$6.4M) in Net County Cost (NCC) for General Fund departments.
- A \$6.2 billion total County base budget; \$3.3 billion is the General Fund budget.
- Completion of Central Utility Facility Infrastructure project.

Revenue and Expense Assumptions

- Budgeted General Purpose Revenues are \$796.9 million, \$52.7 million more than the FY 2016-17 adopted budget of \$744.2 million due mostly to a \$28.8 million projected increase in property tax revenues and \$19.9 million transfers in of one-time revenues.
- Public Safety Sales Tax (Proposition 172) revenue increase of 2.5% (\$7.6M) over the FY 2016-17 estimated revenue based on State and economists' projections and trend data; total FY 2017-18 budget is \$313.4 million (80% Sheriff - \$250.7M; and 20% District Attorney - \$62.7M).
- The Statewide allocation of 2011 Public Safety Realignment (AB 109) revenue is budgeted with an increase of approximately \$3.7 million combined in base and growth revenue for Orange County, a 4.8% increase.
- State and Federal funding sources are estimated by departments based on established funding allocation formulas, caseload projections, and the latest State and Federal budget information.
- The FY 2016-17 Assessed Roll of Values increased by 5.44%. The change in assessed values for FY 2017-18 is conservatively projected at 4.0%.
- The fourth Vehicle License Fee Adjustment Amount (VLFAA) payment of \$50 million is included in the FY 2017-18 base budget. The final payment of \$55 million is required to be paid in FY 2018-19.

Comparison to FY 2016-17

When compared to the FY 2016-17 adopted budget, the FY 2017-18 recommended base budget reflects an increase of \$148.6 million (2.5%) and a net decrease of 303 positions. The budget increase is primarily associated with increased human services costs offset by categorical revenues, recommended funding to maintain departments' current level of service, the FY 2017-18 VLFAA payment owed to the State and appropriations for increases in other various programs.

The tables below provide comparisons of Appropriations and General Purpose Revenue between the FY 2016-17 Annual Budget and the FY 2017-18 Recommended Budget.

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

PROGRAM NUMBER AND NAME	FY 2016-2017 ADOPTED	FY 2017-2018 RECOMMENDED	VARIANCE
I Public Protection	\$ 1,310.3	\$ 1,331.6	21.3
II Community Services	2,410.0	2,477.2	67.2
III Infrastructure & Environmental Resources	1,151.7	1,160.9	9.2
IV General Government Services	184.1	185.4	1.3
V Capital Improvements	208.4	215.8	7.4
VI Debt Service	207.6	188.4	(19.2)
VII Insurance, Reserves & Miscellaneous	583.4	644.8	61.4
	\$ 6,055.5	\$ 6,204.1	\$ 148.6

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

SOURCE	FY 2016-2017 ADOPTED	FY 2017-2018 RECOMMENDED	VARIANCE
Property Taxes	\$ 682.9	\$ 711.7	28.8
Motor Vehicle License Fees (VLF)	1.1	1.2	0.1
Fund Balance Unassigned (FBU)	-	-	--
Decreases To Reserves	2.0	2.0	-
Miscellaneous Revenue (Combined Other)	1.6	3.4	1.8
Interest	2.8	4.6	1.8
Transfers In (From Other Funds)	19.3	39.2	19.9
Sales & Other Tax	9.9	10.7	0.8
Property Tax Administration (Combined Other)	21.8	21.4	(0.4)
Franchises/Rents & Concessions (Combined Other)	2.8	2.7	(0.1)
	\$ 744.2	\$ 796.9	\$ 52.7

The following table reflects the number of positions in the FY 2016-17 Budget and FY 2017-18 Recommended Budget. The decrease in positions is due primarily to department proposed position reductions required to meet NCC limits.

Authorized Positions by Program

PROGRAM NUMBER AND NAME		FY 2016-2017 ADOPTED	FY 2017-2018 RECOMMENDED	VARIANCE
I	Public Protection	6,545	6,270	(275)
II	Community Services	8,739	8,700	(39)
III	Infrastructure & Environmental Resources	1,285	1,284	(1)
IV	General Government Services	1,442	1,453	11
VII	Insurance, Reserves & Miscellaneous	279	280	1
		18,290	17,987	(303)

Budget Augmentation Highlights

The FY 2017-18 Budget Augmentation Requests book includes requests by departments to augment the FY 2017-18 Recommended Budget. The FY 2017-18 Recommended Budget provides General Fund departments with a 1% Net County Cost (NCC) increase, which, for some departments, is insufficient to offset the growing cost of doing business.

As part of the budget development process, departments submit **Reduce Augmentation Requests** (Reduce) to adjust their budget to meet the FY 2017-18 NCC allocation. If the reduction results in impacts to the agency's ability to fulfill mandates, a corresponding **Restore Augmentation Request** (Restore) is submitted. Department restorations typically request sufficient NCC to sustain current operations. While the FY 2017-18 Recommended Budget reflects increases in NCC, some County departments continue to face expenditure growth that has outpaced growth in revenues. In light of the budget challenges facing the County, the majority of the requests are recommended for partial funding. Restore Augmentation Requests for FY 2017-18 total \$54.6 million in NCC with \$34.1 million recommended for funding. In addition to the restoration requests, departments have identified over \$13 million in NCC **Expand Augmentation Requests** (Expand) which require funding above base budget requirements.

A detailed description of each augmentation is available in the FY 2017-18 Budget Augmentation Requests book.

AUGMENTATION SUMMARY

AUGMENTATION TYPE	APPROPRIATIONS REQUESTED		NCC RECOMMENDED	POSITIONS	
	NCC	OTHER		REQUESTED	RECOMMENDED
Restore	54,586,753		34,110,693	275	275
Expand	13,315,331	1,843,158	7,955,246	26	22
TOTAL	67,902,084	1,843,158	42,065,939	301	297

Board approval of the CEO's position recommendations would result in a net increase of 20 positions from the current FY 2016-17 position count (as of FY 2016-17 Third Quarter Budget Report) of 18,264 to 18,284. All of the proposed position reductions are recommended for restoration. The table below provides a program level summary of augmentations requesting NCC.

NCC AUGMENTATION SUMMARY

PROGRAM	NCC RESTORE AUGMENTATIONS		NCC EXPAND AUGMENTATIONS	
	REQUESTED	RECOMMENDED	REQUESTED	RECOMMENDED
Public Protection	52,596,126	33,046,261	8,559,627	7,518,908
Infrastructure & Environmental Resources	794,503	397,252	291,338	291,338
General Government	1,196,124	667,180	145,000	145,000
Capital Improvements*			4,319,366	
TOTAL NCC	54,586,753	34,110,693	13,315,331	7,955,246

*An alternative funding source is recommended; if funding is unavailable, NCC is recommended (see the Budget Augmentations Request book page 67 for details)

Restore Augmentations

As a result of budget challenges in FY 2017-18, most requests are recommended for partial restoration. The CEO will work closely with these agencies during the year to ensure essential services are funded.

DEPARTMENT	NCC RESTORE AUGMENTATION	
	REQUESTED	RECOMMENDED
Public Protection		
District Attorney	7,581,360	4,548,816
Public Administrator	341,954	0
Public Defender	3,267,237	1,960,342
Sheriff-Coroner	37,020,133	22,212,080
Emergency Management	351,047	290,628
Trial Courts	4,034,395	4,034,395
Infrastructure and Environmental		
OC Public Works	794,503	397,252
General Government		
Assessor	463,494	231,747
Auditor-Controller	594,394	297,197
Clerk of the Board	138,236	138,236
TOTAL NCC	54,586,753	34,110,693

NCC Expand Augmentation Requests

Public Protection NCC expand augmentations totaled \$8,559,627 and requested 16 additional positions. The Public Defender requested four Paralegal positions and funding to meet workload demands related to body-worn camera video and e-discovery. These requests are recommended. The Sheriff-Coroner requested: four Deputy Sheriff positions to expand coverage in unincorporated areas; four Forensic Scientist positions related to analyzing sexual assault kits, property crime DNA, and Driving Under the Influence of Drugs (DUID) toxicology; \$2 million to continue the CCTV (jail video system) project; and, \$3.6 million to fund vehicle purchases. These requests are recommended.

An additional request for NCC to fund four Forensic Scientist positions for the crime lab is not recommended. Currently two Limited Term positions are funded by Prop. 69, and it is recommended that Prop. 69 be pursued for continued funding as well as to seek grant funding.

PUBLIC PROTECTION

DEPARTMENT	NCC EXPAND AUGMENTATION	
	REQUESTED	RECOMMENDED
Public Defender	1,002,185	854,111
Sheriff-Coroner	7,557,442	6,664,797
TOTAL NCC	8,559,627	7,518,908

A total of \$291,338 in NCC funding for **Infrastructure and Environmental Resources** is recommended to fund the purchase of replacement vehicles for OC Public Works.

INFRASTRUCTURE AND ENVIRONMENTAL RESOURCES

DEPARTMENT	NCC EXPAND AUGMENTATION	
	REQUESTED	RECOMMENDED
OC Public Works	291,338	291,338
TOTAL NCC	291,338	291,338

A total of \$145,000 in NCC funding for **General Government** is recommended to fund broadcast services in the Clerk of the Board budget.

GENERAL GOVERNMENT

DEPARTMENT	NCC EXPAND AUGMENTATION	
	REQUESTED	RECOMMENDED
Clerk of the Board	145,000	145,000
TOTAL NCC	145,000	145,000

A total of \$4,319,366 in NCC funding for **Capital Improvements** was requested to fund Phase II of the construction contract for Bridges at Kraemer Place. Recommend funding from Southern California Home Financing Authority. If funding is unavailable, NCC is recommended. Final determination will be addressed during the FY 2017-18 Quarterly Budget Process.

CAPITAL IMPROVEMENTS

DEPARTMENT	NCC EXPAND AUGMENTATION		OTHER FUNDING
	REQUESTED	RECOMMENDED	
Capital Projects	4,319,366	0	4,319,366
TOTAL	4,319,366	0	4,319,366

Risks

Although the FY 2017-18 budget was developed with conservative assumptions utilizing revenue growth factors consistent with economic forecasts for the County and State, there is looming uncertainty associated with the State shifting IHSS costs to the County.

The County’s General Purpose Revenue is heavily reliant on property tax revenue. In the FY 2017-18 Recommended Budget, property tax revenue makes up approximately 90% of General Purpose Revenue. The County anticipates moderate growth in General Purpose Revenues in FY 2017-18. The trends remain consistent with the County’s 2016 Strategic Financial Plan; however, if left unchecked, growth in future years’ General Purpose Revenues would not be sufficient to offset costs which are anticipated to grow at a higher rate.

Another crucial source of funding is Prop 172, Half-Cent Public Safety Sales Tax, which serves as a primary revenue source for the Sheriff and District Attorney. Statewide, Prop 172 revenues continue to grow at a slow pace making it essential to vigilantly monitor this revenue source. The CEO closely monitors forecasts and collaborates with the Sheriff and District Attorney to ensure there are no impacts on public safety resulting from revenue fluctuations.

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 maintained a prudent level of General Fund reserves.

The General Fund reserve balance is estimated to increase by approximately \$11 million by June 30, 2017 after use of \$2 million in fund balance for one-time capital expenditures, and

automatic booking of an estimated \$13 million in FY 2016-17 fund balance to reserves at year-end per Board policy.

While the reserve balance is projected to increase by June 30, 2017, the County has future plans to use funds previously set aside in reserves for projects such as the Sheriff's jail video system (CCTV) and the Registrar of Voters new Electronic Voting System.

The maintenance of, and growth in, reserve balances demonstrates the County's continued commitment to living within our 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.

Conclusion

The County is positioned to continue to effectively address the needs of County residents. When the State Budget impacts are known, a plan will be presented to the Board of Supervisors to manage any immediate impacts. 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 2017-18 Recommended Budget to the Board of Supervisors during the Public Budget Hearings scheduled for June 13, 2017.