



County Executive Office

FY 2020-21 Recommended Budget: Key Budget Message

The County Executive Office is pleased to present the Board of Supervisors with the FY 2020-21 Recommended Budget of \$7.5 billion, which is \$706 million more than the FY 2019-20 Adopted Budget and reflects the allocation of resources to address extraordinary challenges while achieving the County's mission, strategic priorities, and goals.

As a result of the unprecedented public health challenges and significant economic impacts resulting from the novel coronavirus (COVID-19) pandemic, the budget development process for FY 2020-21 differs from that in prior years. The Fiscal Year (FY) 2020-21 Recommended Budget is the second step of a two-step budget approval process.

On June 2, 2020, the Board approved a base budget which set Net County Cost (NCC) limits for departments and included transfers, essential technical adjustments such as position realignment (including deletion of 548 vacant positions), and funding for in-progress, ongoing capital and information technology projects. This permitted the County to make payments in accordance with the approved appropriations when the fiscal year began on July 1, 2020 and provided time for the County to better assess the pandemic's economic impacts and operational challenges for FY 2020-21.

CARES Act

The FY 2020-21 Recommended Budget includes Coronavirus Relief Funds (CARES Act). These monies fund the County's response to the COVID-19 public health emergency, including medical costs, public health expenses, public health measures, and \$111 million allocated to cities and small businesses for COVID-19-related economic recovery and costs. The County received \$554 million of CARES Act funds in April 2020 to cover eligible COVID-19 expenses from March 2020 through December 30, 2020. In the State budget, an additional \$73.3 million of State CARES Act funds were allocated to the County to assist with addressing the County's public health response.

Given the unpredictable nature of the pandemic, actual expenditures to support the County's response are expected to extend beyond the CARES Act funding period. Additionally, the CARES Act funds do not provide the County any relief from pandemic-related County revenue losses resulting in a \$30 million draw from the Catastrophic Event Reserve in FY 2019-20. In FY 2020-21, losses of revenue, such as sales tax, are estimated to be in excess of \$145 million.

Continuing Projects

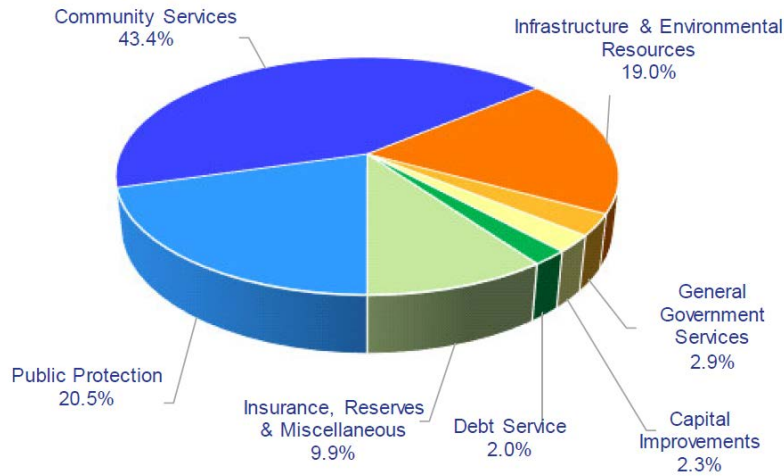
There are several ongoing essential capital and critical information technology projects that support the County's System of Care and are included in the FY 2020-21 Budget. They

include: Affordable and Supportive Housing; Be Well Regional Wellness Campus; Integrated Services; System of Care Data Integration System; and Yale Transitional Shelter.

Highlights

- The total County base budget is \$7.5 billion, of which \$4.1 billion is the General Fund budget.
- Consistent with long-term strategic priorities and the Strategic Financial Plan, the budget is balanced and provides funding for infrastructure.
- The base budget includes 0% growth in Net County Cost for General Fund departments.
- The Recommended Budget does not include assumptions for state budget trigger cuts.
- Revenue assumptions reflect moderate levels of growth including 3% growth in General Fund net property tax revenues over the current year-end revenue estimate.
- Budgeted General Purpose Revenues are \$890.1 million, \$16.5 million less than the FY 2019-20 Adopted Budget of \$906.6 million, due primarily to a \$38.7 million projected decrease to reserve draws, a \$3.9 million projected decrease in transfers in; and a \$24.6 million projected increase in property tax revenues.
- The FY 2020-21 budget for the one-half cent Public Safety Sales Tax (Proposition 172) revenue is \$271.5 million (80% Sheriff - \$217.2 million; 20% District Attorney - \$54.3 million). When compared to FY 2019-20 actual Prop 172 revenues of \$324.8 million, the FY 2020-21 budget is lower by 16.4% or \$53.3 million.
- The State's funding for Trial Court Security continues to be insufficient to cover the costs for the Sheriff to provide the same level of security to the Court. In the FY 2019-20 budget, one-time County funds were used to close the gap. As a result of revenue losses associated with the pandemic and the increased cost of doing business, the FY 2020-21 funding gap is projected to be \$19 million. The CEO is recommending approximately \$7 million in one-time funds to address the revenue loss and will continue working on a solution with the California State Association of Counties and encourage the Sheriff and Court to collaborate on long-term solutions to align service levels with State funding.

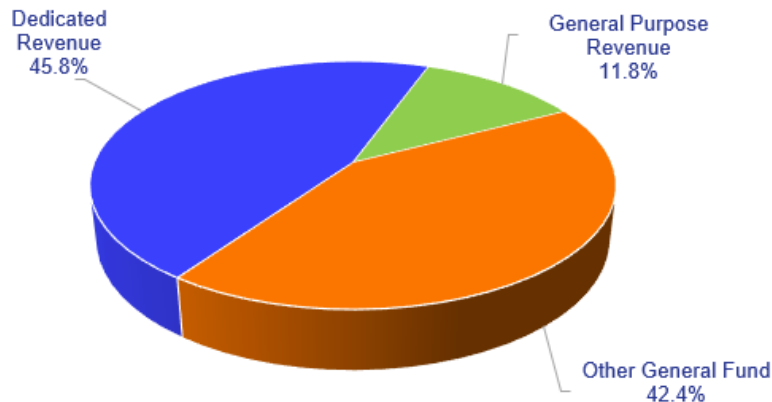
Appropriations by Program Area



Program Number	Program Name	FY 2020-21 Recommended Budget (\$M)	Percentage
I	Public Protection	\$1,541.6	20.4%
II	Community Services	3,275.3	43.4%
III	Infrastructure & Environmental Resources	1,435.2	19.0%
IV	General Government Services	215.7	2.9%
V	Capital Improvements	169.8	2.3%
VI	Debt Service	153.7	2.0%
VII	Insurance, Reserves & Miscellaneous	747.7	9.9%
	Total	\$7,539.0	

At 43.4%, 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

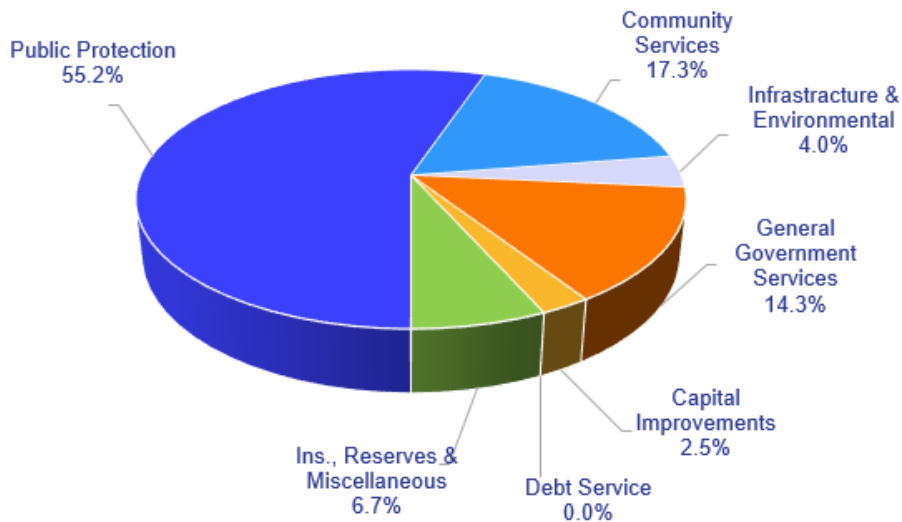


Program Name	FY 2020-21 Recommended Budget (\$M)	Percentage
General Purpose Revenue	\$ 890.1	11.8 %
Other General Fund – Non-Discretionary	3,195.2	42.4 %
Dedicated Revenue	3,453.7	45.8 %
Total	\$7,539.0	

Revenue Sources

As indicated in the prior table, the majority of revenue, 45.8%, 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, 42.4%, is **Other General Fund - Non-Discretionary**. As described in the Appropriations section, the County receives this category of revenue, primarily in Community Services departments, from State and Federal Government sources to administer programs and services on their behalf. **General Purpose Revenue (GPR)**, approximately 11.8% of revenue, is discretionary. While, it does not have the specific limitations associated with the Dedicated Revenue and Non-Discretionary revenue sources that make up 88.2%, or \$6.6 billion, of the budget, the County uses this funding source to meet its mandated service requirements that are not fulfilled by the State and Federal governments such as match requirements for the Community Services programs and the operational expense of the Public Protection and General Government departments.

General Purpose Revenue



Net County Cost (NCC)

Net County Cost (NCC) is the General Purpose Revenue allocated to departments and is the variance between expenditures and revenue sources. The FY 2020-21 Recommended Budget includes \$890.1 million in NCC.

Program Number	Program Name	FY 2020-21 Recommended Budget (\$M)	Percentage
I	Public Protection	\$ 490.5	55.2%
II	Community Services	154.2	17.3%
III	Infrastructure & Environmental Resources	35.9	4.0%
IV	General Government Services	127.7	14.3%
V	Capital Improvements	22.0	2.5%
VI	Debt Service	0.1	0.0%
VII	Insurance, Reserves & Miscellaneous	59.7	6.7%
	Total	\$ 890.1	

Program VII includes \$45.3 million in NCC towards funding CEO Recommended Augmentations.

In addition to NCC, other sources of one-time funds, including reserve draws are recommended to fund augmentations. A detailed description of each augmentation is available in the FY 2020-21 Budget Augmentation Requests book. Following the position information below are tables summarizing the Augmentations by Type, Program, and Department.

Positions

Program	Base Budget	Augmentations		Total Recommended
		Restore	Expand	
Public Protection	5,878	514	24	6,416
Community Services	8,542	0	22	8,564
Infrastructure & Environmental	1,246	0	24	1,270
General Government	1,376	0	1	1,377
Insurance, Reserves, Miscellaneous	372	0	0	372
TOTAL	17,414	514	71	17,999

Augmentation Recommendations

AUGMENTATION SUMMARY BY TYPE

Augmentation Type	Positions	Requested	Recommended
Restore	514	\$ 165,638,590	\$ 114,936,075
Expand	71	79,094,347	59,756,896
TOTAL *	585	\$ 244,732,937	\$ 174,692,971

As part of the budget development process, County departments identify funding requirements to maintain current service and staffing levels. If a funding gap exists, the department submits a **Restore Augmentation**. In the initial pre-COVID March Budget submittal, departments requested approximately \$88M in Restore Augmentations. Post-COVID, department Restore Augmentation requests were \$198M but reduced to \$165.6M at the time of final budget balancing as a result of updated revenue and expenditure projections.

RESTORE AUGMENTATION APPROPRIATIONS

Department	Restore Augmentations	
	Requested	Recommended
Public Protection		
• District Attorney	14,031,513	7,025,253
• Public Administrator	57,985	57,985
• Office of Independent Review	132,227	132,227
• Probation	3,356,378	3,356,378
• Public Defender	8,648,710	7,772,010
• Sheriff-Coroner	94,953,001	73,272,382
• Emergency Management Division	238,121	238,121
• Sheriff Court Operations	19,277,863	6,891,427
Total Public Protection	140,695,798	98,745,783
Community Resources		
• Social Services Agency	22,881,996	14,272,324
General Government		
• Auditor-Controller	905,012	762,184
• Clerk of the Board	46,588	46,588
• County Counsel	118,007	118,007
• Treasurer-Tax Collector	875,115	875,115
• Internal Audit	116,074	116,074
Total General Government	2,060,796	1,917,968
TOTAL	\$165,638,590	\$114,936,075

Expand Augmentations are department requests to fund either new programs or increased service levels.

EXPAND AUGMENTATION APPROPRIATIONS

Department	Expand Augmentation Appropriations	
	Requested	Recommended
Public Protection		
• District Attorney	1,888,687	1,205,425
• Probation	658,387	658,387
• Public Defender	1,917,773	826,800
• Sheriff-Coroner	16,377,236	9,060,339
• Sheriff Court Operations	142,127	0
• Sheriff Court Inmate Welfare	1,021,546	1,021,546
• Sheriff Construction & Facility	10,464,432	8,768,000
Development		
Total Public Protection	32,470,188	21,540,497
Community Resources		
• OC Community Resources	1,698,116	1,698,116
• OC Public Library	49,977	49,977
• Health Care Agency	5,808,336	5,808,336
• Social Services Agency	2,840,318	2,840,318

Department	Expand Augmentation Appropriations	
	Requested	Recommended
Total Community Services	10,396,747	10,396,747
Infrastructure & Environmental Resources		
• OC Public Works	676,336	676,336
• Building & Safety Fund	115,902	115,902
• OC Flood	349,842	349,842
• OC Waste & Recycling	1,277,688	1,277,688
Total Infrastructure & Environmental Resources	2,419,768	2,419,768
General Government		
• Auditor-Controller PTS	1,074,195	1,074,195
• County Executive Office: Reentry/Vision 2025	3,969,183	3,969,183
• Clerk-Recorder	142,828	142,828
• Treasurer-Tax Collector	600,000	600,000
Total General Government	5,786,206	5,786,206
Capital Improvements		
• IRC Facility Modifications*	6,468,000	6,468,000
• Sheriff Capital Projects	2,196,432	500,000
• Appropriations Establishing Transfers		
Out for Capital Projects*	8,664,432	6,968,000
Total Public Protection	17,328,864	13,936,000
Insurance, Reserves & Miscellaneous		
• OC Fleet Services	10,692,574	5,677,678
Total Insurance, Reserves & Miscellaneous	10,692,574	5,677,678
TOTAL*	\$79,094,347	\$59,756,896

**Appropriations required to transfer funds from Budget Control 036 to Fund 15D for Capital Improvements projects.*

Risks

For FY 2020-21, the uncertainty associated with the economic impacts of COVID-19 are the County's greatest risk. While the CEO's Recommended Budget is balanced with minimal use of reserves and impacts due to the County's proactive and prudent financial planning, long-term revenue losses cannot be sustained without impacts.

Early on, in March 2020, the County instituted a hard hiring and expenditure freeze to address anticipated revenue shortfalls with the understanding that the completion of projects and implementation of new projects may be delayed. The staffing and expenses required to respond to the pandemic are exempted from the freeze.

During the year leading up to the COVID-19 pandemic, the County already had a soft hiring and expenditure freeze in place to ensure its expenditures were aligned with available revenue. This approach to managing resources contributed to the County's ability to

manage the COVID-19 pandemic revenue losses with no mandatory furloughs or layoffs in FY 2020-21 to balance the budget.

Considering the significant forecasted revenue losses in FY 2020-21 with no Federal revenue loss backfill leading up to the balancing of the budget, the Board approved the Voluntary Incentive Program on July 14, 2020, resulting in the retirement or resignation of 476 employees potentially yielding up to \$43M in Countywide savings from a variety of funding sources as of August 13, 2020. The program continues through October 8, 2020, offering the possibility of additional savings. The loss of employees across the County requires departments to quickly reallocate resources to mitigate negative impacts on service delivery. The cost savings is not incorporated into the FY 2020-21 Budget, providing departments with flexibility to meet high priority needs.

Conclusion

The novel coronavirus (COVID-19) pandemic has resulted in unprecedented public health and economic challenges. The County will continue to prioritize public health and safety while navigating through these uncertainties. The combined efforts of the Board of Supervisors and County employees toward proactively addressing the pandemic's impacts coupled with responsible fiscal management will position the County to anticipate and address challenges as they arise. As we navigate through these uncertainties, the County remains committed to the mission to make Orange County, "a safe, healthy, and fulfilling place to live, work, and play."

Next Steps

The County Executive Office looks forward to presenting the FY 2020-21 Recommended Budget to the Board of Supervisors during the Public Budget Hearings scheduled for September 1, 2020.

The Board of Supervisors is scheduled to adopt the FY 2020-21 Annual Budget at their September 15, 2020 meeting.