County Executive Office

County of Orange
FY 2012-13 Recommended Budget
Key Budget Message

The County Executive Office is pleased to present the Board of Supervisors with the FY 2012-13 Recommended Budget. With the leadership provided by the Board of Supervisors, the County began implementing budget reduction measures early in the FY 2008-09 budget year to address the financial impacts of the recessionary economy. By starting the budget reduction process early and targeting cuts that provide ongoing budgetary savings, the County has been able to glide down spending while maintaining essential safety net services.

The FY 2012-13 Recommended Budget presented to the Board of Supervisors reflects a balanced budget without a reduction in base Net County Cost (NCC) for General Fund Agencies. After four consecutive years of 5% NCC reductions as well as mid-year reductions in FY 2011-12, the County has achieved its goal of developing a structurally balanced budget that does not rely upon reserves to support ongoing expenditures. The revenue assumptions included in the budget reflect moderate levels of growth consistent with recent signs of economic improvement. Consistent with forecasts by most economists, the County anticipates growth to be moderate through 2013, and increasing in 2014. It is anticipated that growth rates will continue to be below levels experienced following prior economic downturns.

Key Assumptions for the FY 2012-13 Recommended Budget include:

- Assessed Valuations and property tax revenues are not expected to change
- The budget includes the appropriation of $73.5 million Property Tax for VLF adjustment pursuant to the Auditor-Controller's current allocation and calculation effective January 2012
- Sales Tax increase of 6.0%
- Public Safety Sales Tax increase of 3.5% (increase is from current year-end projection)
- Continuation of the Net County Cost reductions implemented in FY 2008-09, FY 2009-10, FY 2010-11 and FY 2011-12
- No base Net County Cost reduction for FY 2012-13
- No backfill of State budget reductions
- Internal financing of major information technology projects

- General Fund Contingency and Strategic Plan reserves to remain level with balances at July 1, 2011

The recommended County budget plan totals $5.6 billion with 17,210 authorized positions. When compared to the FY 2011-12 adopted budget, these amounts reflect an increase of $15.5 million (0.3%) and decrease of 111 positions (-0.6%). The budget increase is primarily associated with the growth in program and caseloads for Community Services offset by a reduction in appropriations for capital improvements in Infrastructure & Environmental Resources. For FY 2012-13, County departments have submitted augmentation requests to restore 47 positions and $34.7 million in associated program funding of which 47 positions and $24.4 million is recommended for funding by the CEO. The final adopted budget will reflect all Board approved budget augmentation requests and associated position changes.

County Program Appropriations

Program	Program Name	FY 2011-2012	(in Million Dollars) FY 2012-2013	Two Year Variance	FY 2012-2013 % of Total
I	Public Protection	$ 1,098.4	$ 1,103.9	$ 5.5	19.6%
II	Community Services	2,208.0	2,357.4	149.4	41.9%
III	Infrastructure & Environmental Resources	1,065.4	968.1	(97.3)	17.2%
IV	General Government Services	151.6	154.1	2.5	2.8%
V	Capital Improvements	109.8	88.8	(21.0)	1.6%
VI	Debt Service	559.6	495.5	(64.1)	8.8%
VII	Insurance, Reserves & Miscellaneous	414.1	454.6	40.5	8.1%
		$ 5,606.9	$ 5,622.4	$ 15.5	100.0%

Authorized Program Positions

Program	Program Name[1]	FY 2011-2012	FY 2012-2013	Two Year Variance	FY 2012-13 % of Total
I	Public Protection	6,318	6,326	8	36.8%
II	Community Services	8,096	8,033	(63)	46.7%
III	Infrastructure & Environmental Resources	1,413	1,391	(22)	8.1%
IV	General Government Services	1,294	1,262	(32)	7.3%
VII	Insurance, Reserves & Miscellaneous	200	198	(2)	1.1%
		17,321	17,210	(111)	100.0%

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

Net County Cost: After four consecutive years of 5% reductions in Net County Cost (NCC), and a mid-year reduction in FY 2011-12, the FY 2012-13 holds NCC levels flat. Combined with reductions implemented since FY 2008-09, the County has reduced the annual Net County Cost allocation by $63.2 million. The General Fund budget recommended to the Board is **structurally balanced with no net reserve use.**

Net County Cost	Amount (in millions)
FY 2008-09	$718.0
FY 2012-13	654.7
Reduction in NCC	**$63.3**

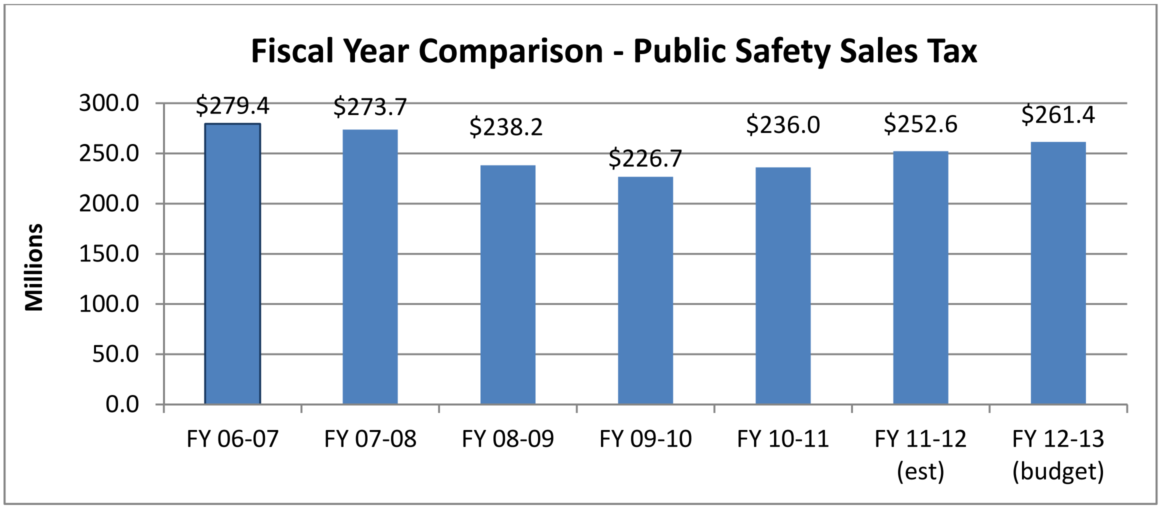
Representing the discretionary portion of the budget, Net County Cost (NCC) for FY 2012-13 Recommended Budget is $654.7 million or 11.7% of the County's $5.6 billion budget. Including the recommended augmentation funding of $27.0 million, Net County Cost is projected to decrease $9.1 million or 1.4% compared to the FY 2011-12 adopted budget.

Highlight of Key Revenues: Property tax revenue, which accounts for 91.9% of the ongoing General Purpose Revenue, is anticipated to increase by $75.3 million or 14.3% in FY 2012-13 primarily due to the Property Tax for VLF adjustment that occurred during FY 2011-12. Correspondingly, revenue from Motor Vehicle License Fees (VLF) declined by $48.3 million. Overall, General Purpose Revenues are anticipated to decline by 1.4%.

General Purpose Revenue (Discretionary Funds)

		(in Million Dollars)		FY 2012-2013
Source	FY 2011-2012	FY 2012-2013	Two Year Variance	% of Total
Property Taxes	$ 526.1	$ 601.4	$ 75.3	91.9%
Motor Vehicle Fees (VLF)	49.6	1.3	(48.3)	0.2%
Fund Balance Available (FBA)	20.0	-	(20.0)	0.0
Decreases To Reserves	5.3	5.0	(0.3)	0.8%
Miscellaneous Revenue (Combined Other)	9.7	9.7	-	1.5%
Interest	3.2	2.8	(0.4)	0.4%
Transfers In (From Other Funds)	18.8	2.0	(16.8)	0.3%
Sales & Other Tax	10.0	10.6	0.6	1.6%
Property Tax Administration (Combined Other)	18.5	19.2	0.7	2.9%
Franchises/Rents & Concessions (Combined Other)	2.6	2.7	0.1	0.4%
	$ 663.8	$ 654.7	$ (9.1)	100.0%

Public Safety Sales Tax revenue, which was budgeted to provide $236.4 million revenue to the Sheriff and District Attorney in FY 2011-12, is projected to exceed budget by $16.2 million (6.9%). For FY 2012-13 the County projects an increase of 3.5% over the current year projection of $252.6 million. Even with the projected growth, Public Safety Sales Tax for FY 2012-13 is well below the $279.4 million received 6 years ago in FY 2006-07.



<u>Public Safety Augmentations:</u> The District Attorney and Sheriff-Coroner continue to experience funding shortfalls related to a long-term net decrease in Public Safety Sales Tax. Declines in this revenue source were steep beginning in FY 2008-09 and FY 2009-10 (-13.3% and -5.5% respectively) with only modest increases beginning in FY 2010-11 and forecasted for future periods. The Sheriff-Coroner is further impacted by declines or flat growth in other, significant revenue sources.

State Realignment revenue included in the County's budget for Sheriff, Probation and Health Care Agency includes $47.0 million in State funding allocated to support the costs associated with realigned public safety responsibilities regarding adult felony offenders to counties under the 2011 Realignment legislation, AB 109. The actual amount of funding will not be known until adoption of the State's budget in June. Inadequacy of funding for this realigned responsibility remains a significant programmatic and financial risk to the County for FY 2012-13 and beyond.

For Program I (Public Protection), which contains the significant portion of the augmentation requests, the County base budget plan for FY 2012-13 includes reductions of $26.5 million and 47 positions. Impacts from the NCC reductions are agency-wide for the Public Defender, District Attorney, and Sheriff-Coroner. The District Attorney (DA) and Public Defender funding shortfalls are lower than in prior years due to continued restructuring of programs and DA's availability of alternative funding provided by grants and other non-NCC sources. Funding shortfalls impacting the Sheriff-Coroner are greater than the prior year, primarily due to declines in key revenues related to lease of detention beds to the Federal government.

Although the decline in Public Safety Sales Tax began in FY 2007-08, the structural budget shortfalls for the Sheriff and District Attorney over the past five years were supported by the use of approximately $137.9 million in departmental reserve and capital funds. These funding sources are nearly depleted, requiring these departments to identify alternative funding sources, implement further reductions and requests for additional General Fund support. The Public Defender has no formal reserves and limited availability of non-NCC related funding support. As a result, the NCC reductions during the past four years have impacted programs which were partially offset by Board approved budget augmentations. Notwithstanding these impacts, reductions to Public Protection, which represents 50% of the NCC allocation, have been an essential component of the budget balancing process.

The above impacts are the primary reason for the County Executive Office's recommendations to support District Attorney, Public Defender and Sheriff-Coroner augmentation requests. The recommended budget includes proposed restoration of all 47 positions and funding $20.4 million in General Fund support for Board consideration. Additional funding of $0.9 million is recommended for Sheriff-Coroner OC Crime Lab equipment needs and funding for AlertOC program transferred to the Emergency Management Division.

Risks: The FY 2012-13 budget was conservatively developed and includes revenue growth factors consistent with the economic forecasts for the County and State. Although the County's economy is showing some modest signs of improvement in consumer spending and tourism, there remains uncertainty caused by high unemployment, a weak housing market, and the potential of funding pressure from the State's continuing budget crisis. As these economic factors impact the County's budget, adjustments will be made during mid-year budget actions.

Passage of AB1X 26 eliminated redevelopment agencies statewide. As the State and redevelopment agencies move forward in the complicated process of winding down financial obligations and programatic responsibilities, the County may need to adjust the budget to reflect the final resolution of projects and programs funded by AB1X 26.

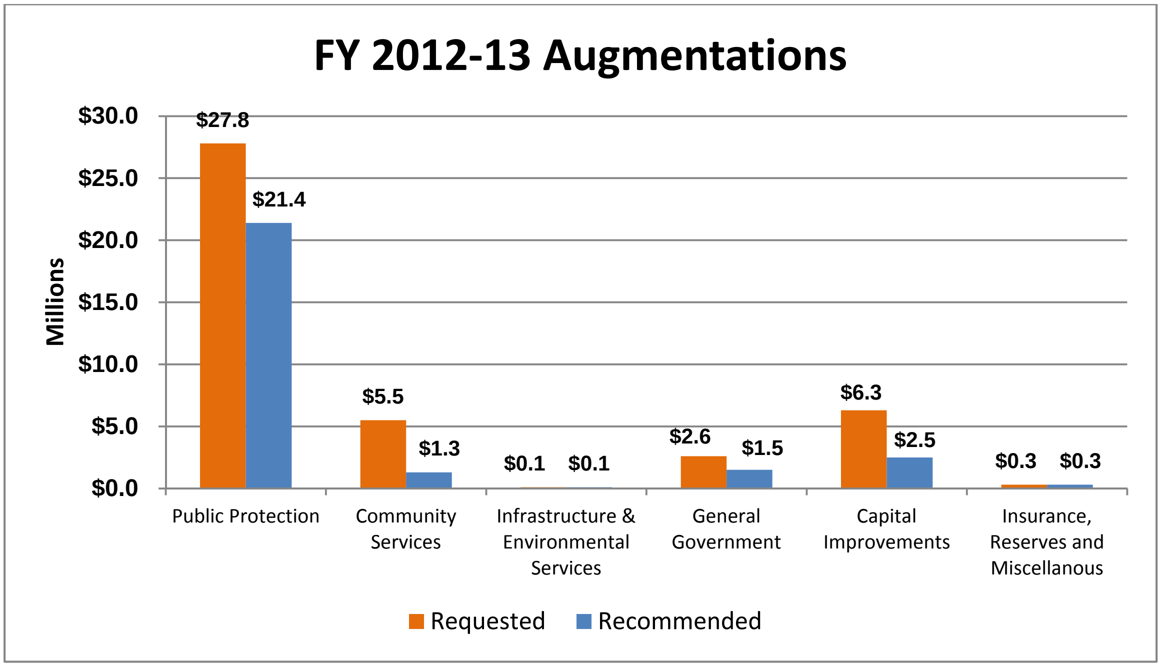
There are lawsuits and claims pending against the County. The most significiant is the State's claim against the County's apportionment of Vehicle License Fee Adjustment Amount (VLFAA) filed on April 5, 2012. The State's claim identifies the disputed amount of $73.5 million for FY 2011-12.

To mitigate some of the identified risks, the County has developed a contingency plan that would reduce NCC by 5% or $27.2 million.

Recommended Budget: FY 2012-13 will continue to be a challenging budget year as the County makes difficult decisions with respect to funding for core services. Augmentation requests for FY 2012-13 total $42.6 million in NCC with $27.0 million recommended for funding by the County Executive Office.

Departments also submitted 5% Net County Cost Contingency Reduction plans totaling $27.2 million which are not recommended for implementation at this time. Continued uncertainty related to State and Federal budget actions as well as potential for continued cost increases which exceed revenue growth create a situation where the County must be prudent and ready to act if significant fiscal changes occur.

A summary of augmentation requests by program follows:



State Budget: On May 14, Governor Brown released his May Revise, which is a $91 billion budget proposal that sharply cuts health and welfare spending, reduces State payrolls by five percent and freezes construction of new courthouses. Since January, California's budget deficit has grown from $9.2 billion to $15.7 billion. The gap increased due to reduced estimate for tax revenues by $4.3 billion while the federal government and courts blocked $1.7 billion in cuts the State previously identified. The remainder of the difference reflects a $2.4 million increase in the amount of money the State is mandated to spend on education (Proposition 98) offset by $1.9 billion in various program and cost reductions.

The Governor's budget assumes that his tax initiative will pass in November and presumes that $5.6 billion of the State's $15.7 billion deficit will be filled with new taxes. If it fails, the budget includes an automatic $6.0 billion cut to public schools and higher education along with ending programs such as lifeguards at state beaches

Features of the May Revision includes the following:

- Approximately 50% of the budget shortfall closed by expenditure reductions.
- $2.5 billion in cuts to Health and Human Services with deep cuts to Medi-Cal, CalWORKs and IHSS.
- Seven percent reduction in hours for In-Home Supportive Services recipients.
- Reduce $544 million from the State's trial courts. $300 million from use of local reserves to offset General Fund costs and $240 million in savings by delaying court construction.
- $2.4 billion in revenue to K-14 schools associated with the dissolution of redevelopment agencies. These funds would reduce the State's Proposition 98 funding requirements.
- $5.9 billion in funding for AB 109 Public Safety Realignment. This funding level is a slight increase from the $5.6 billion in FY 2011-12.

Following the enactment of a State budget the County will reconcile any impacts as part of the FY 2012-13 1st Quarter Budget Report.

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 set aside a prudent level of General Fund Reserves with minimal use during the first three years of the Great Recession. As a result, the FY 2012-13 Strategic Plan and Contingency reserve balances remain level compared to FY 2011-12 beginning balances. The Capital Project reserve is expected to increase by $39.9 million to support deferred maintenance projects for public safety facilities.

The maintenance of Contingency and Strategic Plan 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 and provide a measure of security against the potential impacts from the State budget or other unanticipated events. Due to the increase in General Fund cash balances, the County does not plan to issue Tax and Revenue Anticipation Notes (TRANS) in FY 2012-13.

Reserve Balances		
($ in millions)	**7/1/2011**	**6/30/2013**
Contingency Reserve	$ 61.3	$ 61.3
Capital Project Reserve	12.4	52.8
Strategic Plan Reserve	141.1	140.8
General Fund Reserves	$ 214.8	$ 254.9

<u>Conclusion:</u> In spite of ongoing budget challenges, the County remains well positioned to manage the continued impacts of the economic slowdown, of State budgetary actions 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 results. 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 2012-13 Recommended Budget to the Board of Supervisors during the Public Budget Hearings scheduled for June 12th and 13th.