County of Orange
Fiscal Year 2009-10 Proposed Budget
Budget Message

The proposed FY 2009-10 budget can be summed up with two words:

- Prudent (conservative assumptions and proactive reduction plans)
- Disciplined (no backfill of State cuts, limited use of reserves)

The development of the FY 2009-10 proposed budget reflects Orange County's disciplined approach to fiscal management and is consistent with the Strategic Financial Planning process. With the uncertainty surrounding the extent and duration of the recession, the proposed budget assumes negative or level growth in most revenue sources when compared to the current year-end projections. Although some economists forecast a recovery beginning in the latter part of 2009, the County's budget plan assumes the continuation of current economic trends throughout the fiscal year.

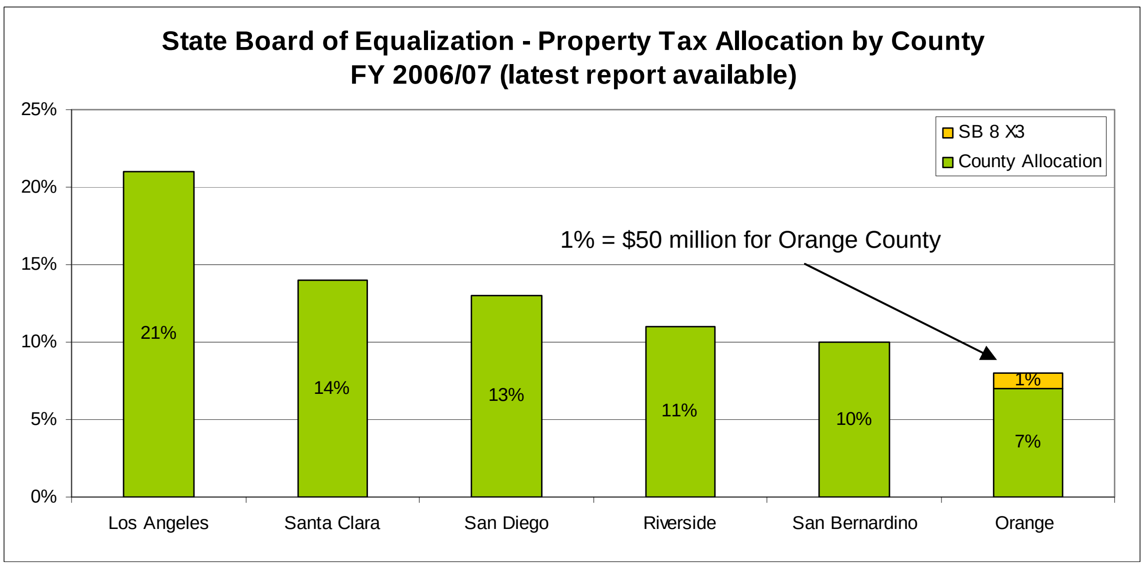
The recommended County budget plan totals $5.5 billion with 17,870 authorized employees. These amounts reflect a decrease of $1.2 billion (18%) and decrease of 798 positions, including recommended augmentation restorations. An additional 230 positions, associated with the layoffs from FY 2008-09 are scheduled for deletion in the 1st Quarter Budget Report for FY 2009-10 (5.5% total reduction in full time employees compared to FY 2008-09. The budget reductions of $1.2 billion are associated with program reductions, fewer employees, reduction in Services & Supplies expenses, restructuring of the Teeter program, reduction in capital project budgets, and a change in net County budgets.

The base budget includes a 3% reduction in Net County Cost with deeper reductions in Capital Projects and Information Technology budgets. Combined with reductions implemented during FY 2008-09, the County has reduced the General Fund budget by over $111 million (3.5%) with ongoing savings of $46 million per year reduction in NCC.

Ongoing NCC Reductions	Amount (in millions)
2% NCC Reduction	$13
3% NCC Reduction	20
Harbor Patrol Cost Shift	10
Watershed Cost Shift	3
Total	$46

Representing the discretionary portion of the budget, NCC for FY 2009-10 is $696.8 million or 13% of the County's $5.5 billion budget. The NCC is projected to decrease $21.2 million or 3% compared to the current year budget.

Property tax revenue, which accounts for about 82% of the ongoing General Purpose Revenue, is anticipated to grow by 6.8% in FY 2009-10. The growth in revenue is entirely due to legislation (SB 8) authored by Senator Correa, which increases Orange County's annual property tax allocation by $35 million in FY 2009-10, and increases to $50 million beginning in FY 2011-12. Although this legislation achieved some measure of property tax equity, Orange County still remains below equity in comparison to peer counties in the State. Not withstanding, the County is better able to maintain critical services (public safety) and avoid some layoffs because of the Senator's leadership on behalf of the County.



For FY 2009-10, the additional property tax allocation enables the County to:

- Strategically invest in new programs
  - Probation Adult Day Reporting Center (6 positions and $920K)
  - Probation Youth Reporting Center (13 positions and $710K)

- Maintain critical public protection programs within the District Attorney, Public Defender, Probation and Sheriff-Coroner departments by restoring $33.4 million in program cuts
  - Probation Field Unit Officers (23 full-time employees)
  - Sheriff Jail Operations (161 full-time employees and 1,956 beds)
  - Sheriff Patrol and Investigations Units (27 full-time employees)
  - District Attorneys positions (149 full-time employees)
  - Public Defender positions (30 full-time employees)

FY 2008-09 sales tax revenue, which was budgeted to provide $280 million in Proposition 172 revenue to the Sheriff and District Attorney, is projected to fall short of budget by $30 million (10.6%). For FY 2009-10 the County projects a decrease of -1.0% from the current year projection to $250 million. The continuation of the decline in taxable sales and the resulting shortfall in Proposition 172 revenue has resulted in the depletion of the Proposition 172 Reserve (Fund 14B) during FY 2008-09; one year earlier than projected in the Strategic Financial Plan. The decline in Proposition 172 revenue is the primary reason for the reduction scenarios proposed by the Sheriff and the District Attorney.

State Realignment revenue, which is funded by (State) Sales Tax and Vehicle License Fees, is budgeted to provide $223 million to the Social Services Agency and Health Care Agency in FY 2008-09. The current projections anticipate that this State revenue will fall short of budget by $16.4 million (7.35%) due to declining taxable sales. For FY 2009-10 the County estimates that this funding source will decrease by -1.0% as compared to the FY 2008-09 year-end projections. This will result in no additional impact on SSA and HCA as the budget reduction measures implemented during FY 2008-09 structurally aligned ongoing Realignment revenue with ongoing expenses.

In managing the budget, the County has focused its efforts for over a year on taking progressive steps to trend down each program to align ongoing expenses to projected ongoing revenues. As a general rule, reserves were used to glide down program spending over the course of the fiscal year. Reduction plans implemented during the year were based on minimizing impacts on services and staffing.

Steps taken by the County to address budget issues (in sequential order):

1. Commit to no backfill of State budget cuts
2. Hiring Freeze
3. Develop contingency plans
4. Limit contract cost growth and negotiate reductions where possible
5. Eliminate non-essential spending (travel, equipment, overtime, etc)
6. Implement employee suggestions for cost savings
7. Increase contingency reserve by $22.3 million
8. Reduce capital projects and IT expenditures
9. Realign costs to non-General Funds
10. Implement Services & Supplies control policy
11. Eliminate Executive Management COLAs
12. Defer Management P4P
13. 2% NCC reduction
14. Transfer all savings to reserves
15. Furlough (SSA)
16. Layoff (SSA, Probation, IT, Planning)

17. 3% NCC reduction in FY 2009-10

For Programs II to VII, these actions resulted in the layoff of 172 positions at SSA, 58 positions at Probation, and 7 positions in Information Technology ISF. Combined with the 2% and 3% NCC reductions, these actions were sufficient to balance Program II to VII budgets in FY 2009-10. With the exception of potential State impacts that are currently unknown, these program budgets are structurally balanced for FY 2009-10.

For Program I (Public Protection), the County base budget plan for FY 2009-10 includes reductions of $101 million and 818 positions. Impacts from the budget reductions are agency wide at the Probation Department, Public Defender, District Attorney, and Sheriff-Coroner. With the additional resources available from SB 8 (Sen. Correa) and the use of reserve funds set aside, the County proposal recommends restoration augmentations of $49.2 million and 390 positions and expansion augmentations of $1.6 million and 19 positions within Public Protection. The restorations are allocated by priority order and preserve core prosecution, jail, investigation, probation, and defense services.

Even with these recommendations, reductions in the Sheriff and District Attorney departments are significant. The Sheriff is requesting restoration of $25 million beyond the funding recommended by the County Executive Office. The District Attorney is requesting restoration of $10 million beyond the funding recommended by the County Executive Office.

This budget is driven by the free fall in the economy during the first and second quarters of the fiscal year. Following the fall of housing valuations, taxable sales and interest rates plummeted, creating a recession of such magnitude that some counties and municipal governments have considered bankruptcy as an option. Even with prudent and disciplined planning, there exist several areas of risk in the County's FY 2009-10 budget:

- County unemployment in April 2009 was 8.5%. With the sharp rise in jobless claims, the demand for County services has increased along with the associated cost of providing the services.

- State revenues shortfalls for FY 2009-10 are projected at $21 billion. It is likely that the State will reduce funding for County mandated services; however, the amount and timing are unknown. The State is considering a Prop. 1A borrowing from counties and cities (estimated Orange County General Fund impact at $36.6 million, OC Parks impact $4.1 million, Flood Control District $5.3 million, and OC Libraries impact of $3.1 million).

- The Sheriff and District Attorney are drawing $34 million from departmental one-time funding sources in FY 2009-10. Additionally, $34 million in recommended augmentation restorations from the County

General Fund are from one-time sources. If these agencies do not reduce expenses in FY 2009-10 using these one-time funds, the County will have greater difficulty in balancing the FY 2010-11 budget.

- The economic recession could worsen. Property tax and sales tax revenues could fall further, reducing the amount of available resources to support county budgets.

- The cooperation of all labor organizations and executive management is critical to achieving and maintaining long-term financial stability for the County.

The good news is that our Board of Supervisors has had the discipline to take action early by reducing filled positions, deferring non-essential expenditures, and setting aside reserve funds. Through the budget reduction analysis process, County government has become more efficient and will continue to look for new opportunities for cost savings in FY 2009-10. When the recession ends, the County will be poised to recover quickly to provide services to our residents.