



## *County Executive Office*

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### **County of Orange FY 2016-17 Recommended Budget Key Budget Message**

The County Executive Office is pleased to present the Board of Supervisors with the FY 2016-17 Recommended Budget. The Recommended Budget reflects the County's disciplined approach to fiscal management and is consistent with the Board's Strategic Plan goals to stabilize the budget, prepare for contingencies and fund agency infrastructure.

The Recommended Budget of \$6.1 billion is structurally balanced without the use of reserves for continuing operating costs or ongoing recommended augmentations. The Recommended Budget includes funding for the following key initiatives:

- **Homeless Initiatives:** The County has acquired property for a multi-service center in the City of Anaheim that will serve the homeless on a year-round basis. This is one of many initiatives the County is implementing to assist our homeless residents, which includes providing mental and physical health services and increased coordination of services across County departments.
- **OC Animal Care:** The County is moving forward with the construction of a new animal care center to be built on 10 acres of land at the former Tustin Marine base. The new facility will include a state-of-the-art design with outdoor areas, kennels and a training center.
- **800 MHz Communications System:** The 800 MHz Countywide Coordinated Communications System (CCCS) is an interoperable two-way radio communications system serving the County public safety and public works agencies as well as 34 cities in the County. Efforts are underway for a full system upgrade, new infrastructure, and refresh of 800 MHz radios for County agencies and partners.
- **Civic Center Master Plan:** The Civic Center Master Plan initiative will address the County's long-term occupancy in the Orange County Civic Center, improve delivery of services to the community, improve space usage and departmental adjacencies, address the aging portfolio of County facilities, and better manage long-term occupancy and maintenance costs.

- **Central Utility Facility:** The Central Utility Facility (CUF), supporting the heating and cooling systems of the Civic Center buildings since 1968, will undergo a major upgrade in FY 2016-17 to replace antiquated equipment and underground piping with the goal of ensuring continued and uninterrupted provision of utilities to critical facilities including the Central Jail and Superior Court. Completion of this project is a crucial component supporting the new Civic Center Master Plan and is expected to result in more energy efficient, reliable and environmentally responsible systems.
  
- **Connection to Services for Older Adults and Veterans:** The County is addressing the demands of an increasing older adult population by dedicating resources to increase outreach, improve assessments, and engage and connect caregivers and those who would benefit from services. The Veterans Services Office assists the 130,000 Orange County veterans and their families receive the benefits earned through their service to our nation and have dedicated resources ensuring the veterans' needs are met through reduced wait times, increased outreach, and greater assistance with claims and other services.

**Highlights of the FY 2016-17 Recommended Budget**

- Balanced budget including 1% growth (\$6M) in Net County Cost (NCC) for General Fund departments.
- Total County base budget is \$6.1 billion, of which \$3.2 billion is the General Fund budget.
- Discretionary Funds, comprised primarily of General Purpose Revenues, are \$744.2 million, \$42.1 million more than the current year-end estimate of \$702.1 million due to \$23.2 million projected increase in property and other tax revenues, \$11 million one-time Teeter funding, one-time transfers in of \$7.3 million excess bond proceeds offset by a projected decrease of \$1.4 million of miscellaneous revenue, and \$2 million planned use of reserves for capital needs.
- 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 3.5% (\$10.7M) over the current year-end estimated revenue based on State and economists' projections and trend data; total FY 2016-17 budget is \$317 million (80% Sheriff - \$253.6M; and 20% District Attorney - \$63.4M).
- The Statewide allocation of AB109 revenue is up resulting in a \$6.8 million combined increase in base and growth revenue for Orange County, a 9% increase.

When compared to the FY 2015-16 adopted budget, the FY 2016-17 recommended base budget reflects an increase of \$264.3 million (4.6%) and a net decrease of 136 positions. The budget increase is primarily associated with increased human services costs offset by

categorical revenues, appropriations for transfer of funds from OC Waste & Recycling for temporary borrowing associated with the OC Animal Care Center, Musick Jail Expansion, and Property Tax System projects, and appropriations for increases in other various programs and infrastructure projects.

### County Program Appropriations

PROGRAM	PROGRAM NAME	FY 2015-2016 ADOPTED	FY 2016-2017 RECOMMENDED	VARIANCE	% OF TOTAL FY 2016-17
I	Public Protection	1,247.4	1,281.8	34.4	21.10%
II	Community Services	2,282.2	2,361.3	79.1	39.00%
III	Infrastructure & Environmental Resources	1,087.3	1,206.4	119.1	19.90%
IV	General Government Services	193.0	177.6	(15.4)	2.90%
V	Capital Improvements	152.6	205.5	52.9	3.40%
VI	Debt Service	280.9	207.6	(73.3)	3.40%
VII	Insurance, Reserves & Miscellaneous	553.9	621.4	67.5	10.30%
		<b>5,797.3</b>	<b>6,061.6</b>	<b>264.3</b>	

### General Purpose Revenue (Discretionary Funds)

SOURCE NAME	FY 2015-2016 ADOPTED	FY 2016-2017 RECOMMENDED	VARIANCE	% OF TOTAL FY 2016-17
Property Taxes	640.3	682.9	42.6	91.8%
Vehicle License Fees (VLF)	1.1	1.1	0.0	0.1%
Fund Balance Unassigned (FBU)	0.0	0.0	0.0	0.0%
Decreases To Reserves	30.9	2.0	(28.9)	0.3%
Miscellaneous Revenue (Combined Other)	2.6	1.6	(1.0)	0.2%
Interest	1.6	2.8	1.2	0.4%
Transfers In (From Other Funds)	12.0	19.3	7.3	2.6%
Sales & Other Tax	10.0	9.9	(0.1)	1.3%
Property Tax Administration (Combined Other)	21.8	21.8	0.0	2.9%
Franchises/Rents & Concessions (Combined Other)	2.8	2.8	0.0	0.4%
<b>Totals</b>	<b>723.1</b>	<b>744.2</b>	<b>21.1</b>	

The following table reflects the number of authorized positions in the FY 2015-16 adopted budget. Forty positions were added through the quarterly budget report process, including 16 positions in the First Quarter and 24 positions in the Second Quarter for a total of 18,308 positions. Therefore, the variance between the FY 2015-16 modified budget and the FY 2016-17 recommended base budget is 176 positions. The decrease in positions is due primarily to department proposed position reductions required to meet NCC limits.

## Authorized Positions by Program

PROGRAM	PROGRAM NAME	FY 2015-2016 ADOPTED	FY 2016-2017 RECOMMENDED	VARIANCE	% OF TOTAL FY 2016-17
I	Public Protection	6,596	6,355	(241)	35.3%
II	Community Services	8,589	8,643	54	48.0%
III	Infrastructure & Environmental Resources	1,306	1,299	(7)	7.2%
IV	General Government Services	1,424	1,437	13	8.0%
VII	Insurance, Reserves & Miscellaneous	233	278	45	1.5%
<b>Totals</b>		<b>18,148</b>	<b>18,012</b>	<b>(136)</b>	

### Augmentation Highlights

The FY 2016-17 Budget Augmentation Requests book includes requests by departments to augment the FY 2016-17 Recommended Budget. The FY 2016-17 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.

Departments submit **Reduce Augmentation Requests** (Reduce) to adjust their budget to meet the FY 2016-17 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 2016-17 Recommended Budget reflects increases in NCC, some County departments continue to face expenditure growth that has outpaced growth in revenues. As a result, Restores for FY 2016-17 total \$35.5 million in NCC with \$26.2 million recommended for funding.

In addition to the restorations, departments have identified over \$13 million in NCC **Expand Augmentation Requests** (Expand) which require funding above base budget requirements.

### AUGMENTATION SUMMARY

AUGMENTATION TYPE	APPROPRIATIONS REQUESTED		NCC RECOMMENDED	POSITIONS	
	NCC	OTHER		REQUESTED	RECOMMENDED
Restore	35,546,913	35,546,913	26,262,125	168	168
Expand	13,707,680	22,201,939	12,300,925	137	131
<b>TOTAL</b>	<b>49,254,593</b>	<b>57,748,852</b>	<b>38,563,050</b>	<b>305</b>	<b>299</b>

Board approval of the CEO's position recommendations would result in a net 120 position increase from the current FY 2015-16 position count (as of FY 2015-16 Second Quarter Budget Report) of 18,188 to 18,308. All proposed position reductions are recommended for restoration.

A detailed description of each augmentation is available in the FY 2016-17 Budget Augmentation Requests book. The table below provides a summary of augmentations requesting NCC.

**NCC AUGMENTATION SUMMARY**

PROGRAM	NCC RESTORE AUGMENTATIONS		NCC EXPAND AUGMENTATIONS	
	REQUESTED	RECOMMENDED	REQUESTED	RECOMMENDED
Public Protection	25,232,651	22,859,518	6,016,630	5,101,836
Community Services	6,911,655	0	947,388	551,109
Infrastructure & Environmental Resources	970,248	970,248	245,980	245,980
General Government	2,432,359	2,432,359	3,500,000	3,500,000
Capital Improvements	n/a	n/a	2,902,000	2,902,000
<b>TOTAL NCC</b>	<b>35,546,913</b>	<b>26,262,125</b>	<b>13,611,998</b>	<b>12,300,925</b>

**Restore Augmentation Requests**

Detail of the **Public Protection** restore augmentations is provided in the table below. The recommendation is to fully restore positions; however, full NCC restoration is not recommended for the District Attorney or Sheriff. The CEO will work closely with these agencies during the year to ensure there are no impacts on public safety.

**PUBLIC PROTECTION**

DEPARTMENT	NCC RESTORE AUGMENTATION	
	REQUESTED	RECOMMENDED
District Attorney	9,120,977	7,463,844
District Attorney-Public Administrator	573,425	573,425
Sheriff-Coroner	15,538,249	14,822,249
<b>TOTAL NCC</b>	<b>25,232,651</b>	<b>22,859,518</b>

The \$6.9 million restoration request in **Community Services** is related to the Social Services Agency's General Relief (GR) and In-Home Support Services (IHSS) programs. The CEO recommends deferring consideration of this request until mid-year when actual caseloads and costs are known.

**COMMUNITY SERVICES**

DEPARTMENT	NCC RESTORE AUGMENTATION	
	REQUESTED	RECOMMENDED
Social Services Agency	6,911,655	0
<b>TOTAL NCC</b>	<b>6,911,655</b>	<b>0</b>

The \$970,248 restoration request for OC Public Works in **Infrastructure and Environmental Resources** is recommended for full restoration.

<b>INFRASTRUCTURE AND ENVIRONMENTAL</b>		
<b>DEPARTMENT</b>	<b>NCC RESTORE AUGMENTATION</b>	
	<b>REQUESTED</b>	<b>RECOMMENDED</b>
OC Public Works	970,248	970,248
<b>TOTAL NCC</b>	<b>970,248</b>	<b>970,248</b>

**General Government** restore augmentations are related to requests from the Assessor (\$1.1M), Auditor-Controller (\$534K), Clerk of the Board (\$207K), Treasurer-Tax Collector (\$370K), and CAPS Program (\$265K). Full restoration is recommended for these agencies.

<b>GENERAL GOVERNMENT</b>		
<b>DEPARTMENT</b>	<b>NCC RESTORE AUGMENTATION</b>	
	<b>REQUESTED</b>	<b>RECOMMENDED</b>
Assessor	1,055,306	1,055,306
Auditor-Controller	534,892	534,892
CAPS Program	265,262	265,262
Clerk of the Board	206,829	206,829
Treasurer-Tax Collector	370,070	370,070
<b>TOTAL NCC</b>	<b>2,432,359</b>	<b>2,432,359</b>

**NCC Funded Expand Augmentation Requests**

NCC Funding for **Public Protection** expand augmentation requests is recommended for the District Attorney totaling \$2M and the addition of 29 positions to address growth in workload. For the Sheriff-Coroner, recommended expand augmentations of \$3.1M include: \$2M for the second phase of the Sheriff’s CCTV (jail video system) project; \$342K and two positions to establish a Cyber Crime Unit; and \$725K and four positions to expand coverage in unincorporated areas.

<b>PUBLIC PROTECTION</b>		
<b>DEPARTMENT</b>	<b>NCC EXPAND AUGMENTATION</b>	
	<b>REQUESTED</b>	<b>RECOMMENDED</b>
District Attorney	2,950,326	2,035,532
Sheriff-Coroner	3,066,304	3,066,304
<b>TOTAL NCC</b>	<b>6,016,630</b>	<b>5,101,836</b>

A total of \$551K in NCC funding for **Community Services** is recommended for OC Community Resources including \$269K to fund two positions to expand services offered by the Office on Aging , \$212K to assist with affordable housing and homeless initiatives, and \$70K to expand services provided by the Veterans Services Offices.

**COMMUNITY SERVICES**

DEPARTMENT	NCC EXPAND AUGMENTATION	
	REQUESTED	RECOMMENDED
OC Community Resources	551,109	551,109
<b>TOTAL NCC</b>	<b>551,109</b>	<b>551,109</b>

A total of \$246K 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	341,662	245,980
<b>TOTAL NCC</b>	<b>341,662</b>	<b>245,980</b>

A total of \$3.5 million in NCC funding for **General Government** is recommended for County Counsel to fund outside legal counsel services related to ongoing litigation.

**GENERAL GOVERNMENT**

DEPARTMENT	NCC EXPAND AUGMENTATION	
	REQUESTED	RECOMMENDED
County Counsel	3,500,000	3,500,000
<b>TOTAL NCC</b>	<b>3,500,000</b>	<b>3,500,000</b>

Finally, \$2.9M in NCC funding is recommended in the **Capital Improvements** budget. The Central Men’s Jail (CMJ), Central Women’s Jail (CWJ) and Sheriff Headquarters require replacement of air handlers. In FY 2016-17, \$1.4M is recommended towards this project. An additional \$1.5M is recommended to fund replacement and update of facility assets to maintain health and safety.

**CAPITAL PROJECTS**

DEPARTMENT	NCC EXPAND AUGMENTATION	
	REQUESTED	RECOMMENDED
Capital Projects	2,902,000	2,902,000
<b>TOTAL NCC</b>	<b>2,902,000</b>	<b>2,902,000</b>

## **Risks**

The FY 2016-17 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. Prop 172 revenues have recently displayed volatility statewide. Even during sustained periods of growth, 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. Thus, it is essential to monitor Prop 172 revenue. The CEO will closely monitor forecasts and collaborate with the Sheriff and District Attorney to ensure there are no impacts on public safety as a result of a revenue decline.

The County anticipates moderate growth in General Purpose Revenues in FY 2016-17; however, if actual trends remain consistent with the County's 2015 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 2016-17 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.

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 7, 2016, the Governor's FY 2016-17 proposed budget was released. Department budgets reflect aspects of the State's budget known at the time of County budget submittal on March 1, 2016. The Governor's May Revise budget is scheduled for release mid May 2016. Any necessary changes to the County budget as a result of the May Revise will be made during the FY 2016-17 First 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 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 approximately \$32 million by June 30, 2016 after use of \$2 million in fund balance for one-time capital expenditures, and automatic booking of an estimated \$34 million in FY 2015-16 fund balance to reserves at year-end per Board policy.

While the reserve balance is projected to increase by June 30, 2016, over the following two years, the balance may be reduced by \$105M to make the last two 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 Voters New Electronic Voting System (estimated cost \$20M). Finally, the County will be challenged to cover the cost of strategic priorities identified in the 2015 Strategic Financial Plan such as homeless initiatives, re-platforming of the property tax system, 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.

### **Conclusion**

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 2016-17 Recommended Budget to the Board of Supervisors during the Public Budget Hearings scheduled for June 14, 2016.