



## *County Executive Office*

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### **County of Orange FY 2010-11 Proposed Budget Key Budget Message**

The County Executive Office is pleased to provide the Board of Supervisors with the FY 2010-11 Proposed Budget. The development of the FY 2010-11 Proposed Budget reflects Orange County's conservative management principles in addressing the impacts of the recessionary period that began in 2007. Although the current economy is showing some signs of improvement, local and national economists predict that economic recovery will be slow and protracted. In order to align the County's spending to the reality of the "new normal" level of revenues, the County has demonstrated its commitment to make the difficult decisions today in order to achieve long-term solutions that provide ongoing budgetary savings while protecting existing services.

The FY 2010-11 Proposed Budget has been difficult to balance due to the lower "new normal" level of revenues, combined with depleted Sheriff and District Attorney reserves and the delayed impact of property assessments on revenue.

Key Assumptions for the FY 2010-11 Proposed Budget include:

- General Purpose Revenue decline of 0.1%
- Property Tax decline of 1.3%
- Public Safety Sales Tax increase of 3.3%
- Vehicle License Fee revenue increase of 2.0%
- Continuation of the 10% Net County Cost reductions from FY 2008-09 and FY 2009-10
- Additional 5% across-the-board Net County Cost reduction
- No backfill of State budget reductions
- Internal financing of major information technology projects
- Limited use of General Fund Reserves

The recommended County base budget plan totals \$5.4 billion with 17,521 authorized positions. When compared to the FY 2009-10 adopted budget, these amounts reflect a decrease of \$65.2 million (1.2%) and decrease of 374 positions (2.1%). For FY 2010-11, County departments have submitted augmentation requests to restore 138 positions and associated program funding. The final adopted budget will reflect all approved budget augmentation requests and associated position changes.

## County Program Appropriations

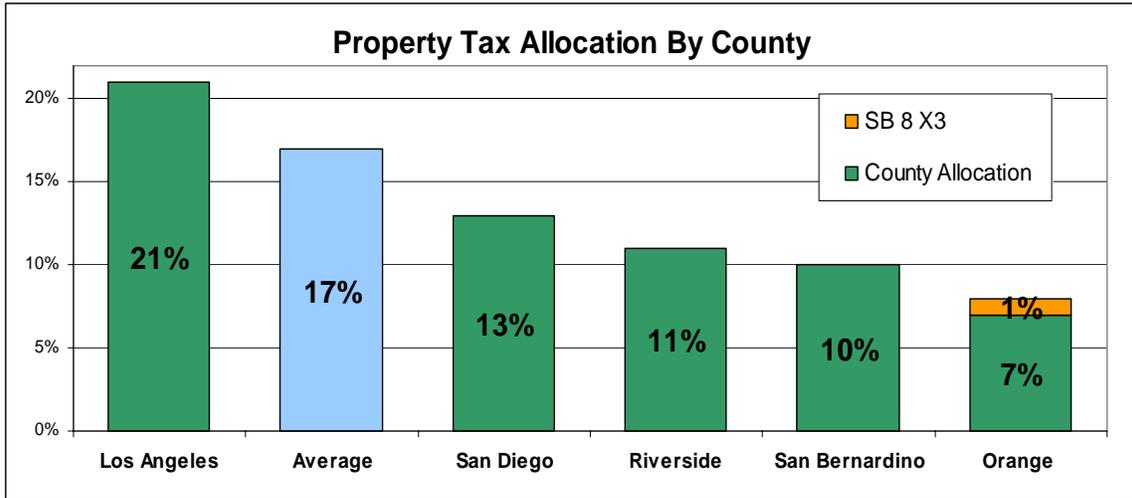
Program	Program Name	(in Million Dollars)			FY 2010-2011
		FY 2009-2010	FY 2010-2011	Two Year Variance	% of Total
I	Public Protection	\$ 1,117.0	\$ 1,002.3	\$ (114.7)	18.5%
II	Community Services	2,045.5	2,095.7	50.2	38.7%
III	Infrastructure & Environmental Resources	1,260.4	1,299.5	39.1	24.0%
IV	General Government Services	170.4	160.2	(7.6)	3.0%
V	Capital Improvements	156.2	116.3	(39.9)	2.0%
VI	Debt Service	311.5	319.5	5.4	5.9%
VII	Insurance, Reserves & Miscellaneous	424.3	426.6	2.3	7.9%
		\$ 5,485.3	\$ 5,420.1	\$ (65.2)	100.0%

The base budget includes a 5% across-the-board reduction in Net County Cost with deeper reductions in Capital Projects and Information Technology budgets. Combined with reductions implemented during FY 2008-09 and FY 2009-10, the County has reduced the baseline Net County Cost allocation to General Fund departments by \$105 million.

Ongoing NCC Reductions	Amount (in millions)
5% NCC Reduction (FY 08/09)	\$33
5% NCC Reduction (FY 09/10)	27
5% NCC Reduction (FY 10/11)	32
Watershed Funding Realignment	3
Harbor Patrol Funding Realignment	10
<b>Total</b>	<b>\$105</b>

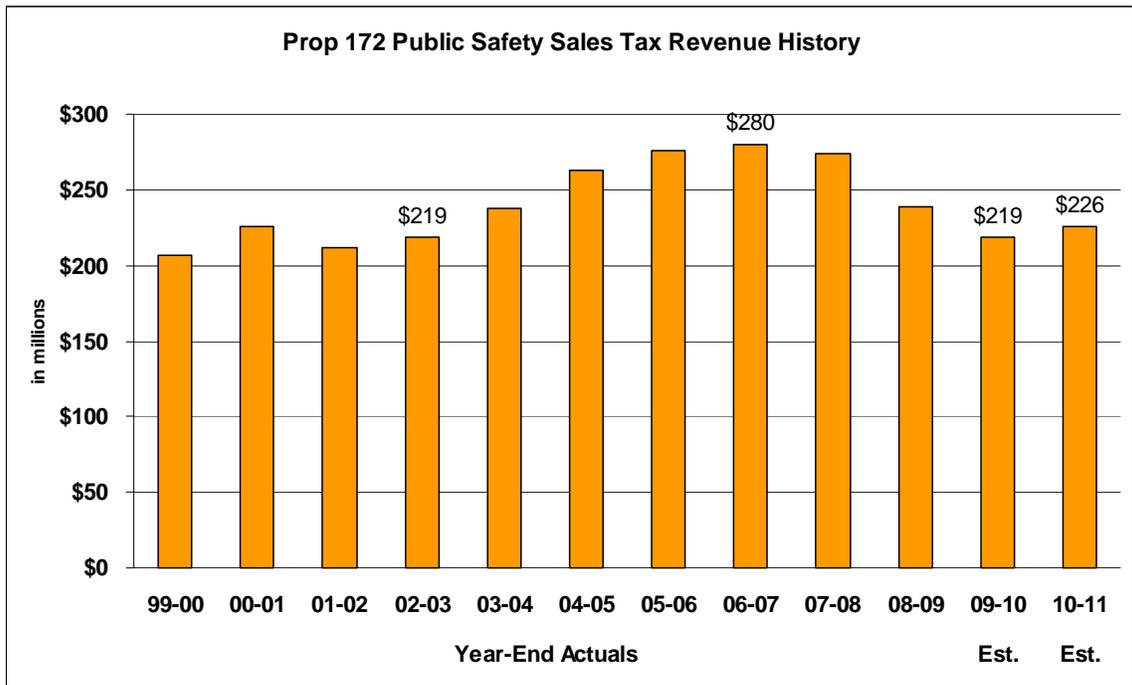
Representing the discretionary portion of the budget, Net County Cost (NCC) for FY 2010-11 is \$687.7 million or 12.5% of the County's \$5.4 billion Proposed Budget. Net County Cost is projected to decrease \$13.1 million or 1.9% compared to the current year budget.

Property tax revenue, which accounts for 79.7% of the ongoing General Purpose Revenue (GPR less FBA and Reserve use), is anticipated to decline by 1.3% in FY 2010-11. Budgeted property tax revenue for the Proposed Budget includes \$35 million from SB 8 X3, which increased Orange County's annual property tax allocation by \$35 million beginning FY 2009-10, and increases to \$50 million in FY 2011-12 and thereafter. Although this legislation achieved some measure of property tax equity, Orange County still remains below equity in comparison to peer counties in the State.



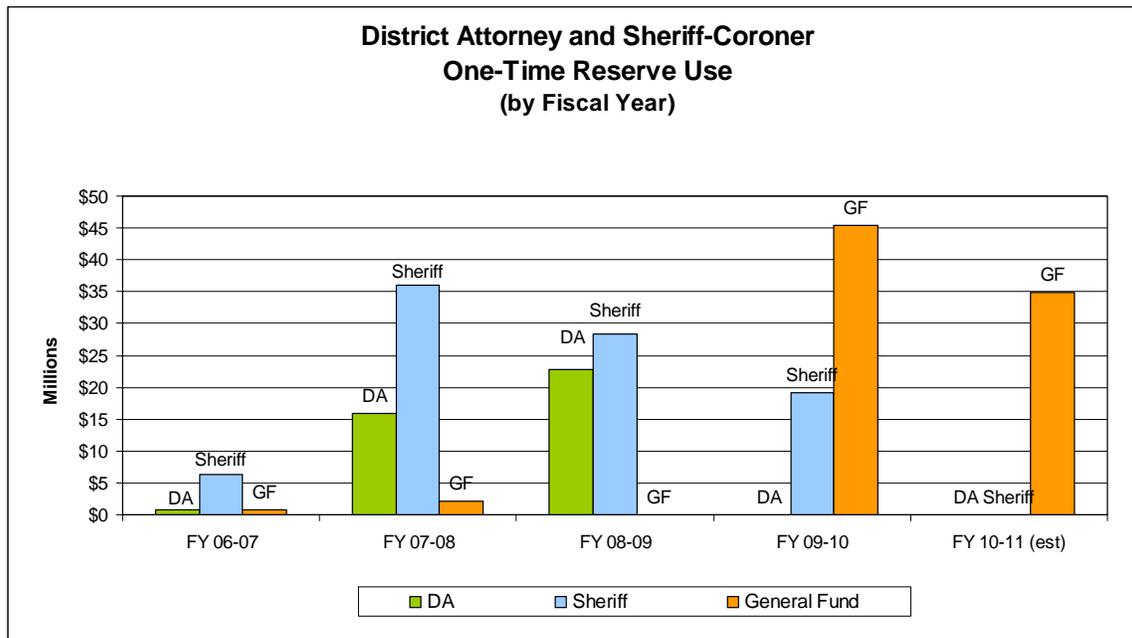
Source: State Board of Equalization Annual Report FY 2007-08

Public Safety Sales Tax revenue, which was budgeted to provide \$250 million in Proposition 172 revenue to the Sheriff and District Attorney in FY 2009-10, is projected to fall short of budget by \$30 million (12%). For FY 2010-11 the County projects a modest increase of 3.3% over the current year projection to \$226 million (budget assumption modified subsequent to printing of the County Budget Workbook). Even with the projected growth, Public Safety Sales Tax for FY 2010-11 is comparable to FY 2002-03 levels.



The continuation of the decline in taxable sales and the resulting shortfall in Public Safety Sales Tax revenue has resulted in the depletion of the Public Safety Sales Tax Reserve (Fund 14B) during FY 2008-09. The decline in this revenue is the primary reason for the County Executive Office's recommendations to support District Attorney and Sheriff-Coroner augmentation requests using \$34.8 million in General Fund Reserves and one-time funding sources .

For Program I (Public Protection), which contains the significant portion of the augmentation requests, the County base budget plan for FY 2010-11 includes reductions of \$76.1 million and 160 positions. Impacts from the NCC reductions are agency wide at the Probation Department, Public Defender, District Attorney, and Sheriff-Coroner. The Sheriff and the District Attorney have larger funding gaps in FY 2010-11 due to the decline in Public Safety Sales Tax and the depletion of department reserves. 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 three years were supported by the use of approximately \$130 million in departmental reserve funds as well as an exemption from the FY 09/10 5% NCC reduction. Beginning in FY 2010-11, these reserves are fully depleted requiring these departments to make significant reductions and requests for General Fund Reserves.



With the additional resources available from use of reserve funds, the Proposed Budget recommends Program I (Public Safety) restoration augmentations of \$38.7 million and 128 positions. The restorations are recommended in order to preserve core prosecution, jail, investigation, probation, and defense services.

Subsequent to the printing of the Budget Workbook, the Sheriff-Coroner and District Attorney have continued to work with the Public Safety Working Group to develop budget balancing measures for FY 2010-11. Included in these budget adjustments are:

- Sheriff-Coroner \$4.8 million cost saving from the temporary closure of the 4<sup>th</sup> Floor of Men's Central Jail
- Sheriff-Coroner \$0.26 million cost saving from a reduction to information technology service contract
- Sheriff-Coroner revenue increase of \$2.5 million for federal jail bed contract
- Increase in Proposition 172 Public Safety Sales Tax revenue growth assumption from 2% to 3.3% based on an average of the most recent three months of actuals
- Increase the recommended Restore Level of Service Augmentations by \$6 million for the Sheriff-Coroner and \$4 million for the District Attorney

(These adjustments modify the budget recommendations included in the printed Budget Workbook)

The County Executive Office supports the adjustments to the District Attorney and Sheriff-Coroner budgets. Although the increased revenue assumptions add risk to the FY 2010-11 budgets, both the District Attorney and the Sheriff have committed to managing their budgets within these revised limits without requesting additional General Fund support.

Even with these adjustments, the Sheriff-Coroner and the District Attorney budget shortfall is projected at \$4.6 million and \$1.5 million respectively.

State Realignment revenue, which is funded by (State) Sales Tax and Vehicle License Fees, is budgeted to provide \$214.4 million to the Social Services Agency and Health Care Agency in FY 2009-10. Current year projections anticipate that this State revenue will fall short of budget by \$30.8 million (14.4%) due to declining taxable sales. For FY 2010-11 the County estimates that this funding source will increase by \$6.0 million (3.2%) as compared to the FY 2009-10 year-end projections. This modest increase will allow for a limited amount of increased funding to support the growth in caseloads the County has experienced in safety net programs.

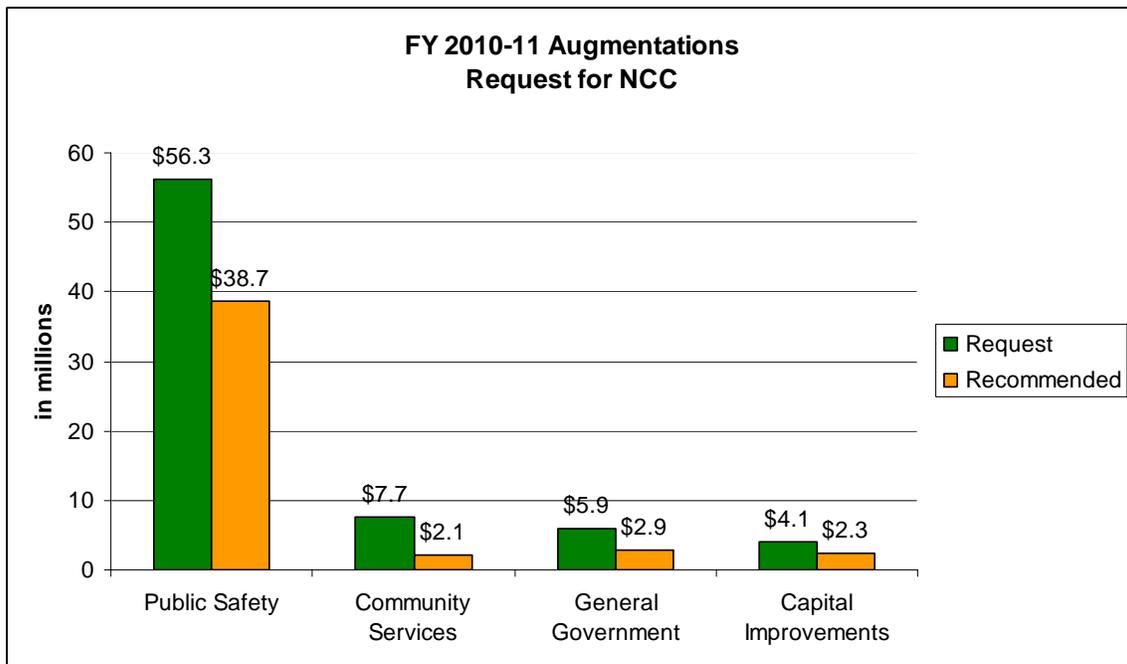
The FY 2010-11 Proposed Budget does not include impacts of the State budget. It is anticipated that due to the severity of the State's \$19+ billion budget shortfall and the difficult choices that will be made, the State will not have an adopted budget at the time the County considers its budget. Following the adoption of a State budget the County will reconcile any impacts as part of the 1<sup>st</sup> Quarter Budget Report or earlier if necessary.

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

Steps taken by the County to address budget challenges:

- Eliminate non-essential spending (travel, equipment, overtime, etc)
- Implement Services & Supplies control policy
- Implement employee suggestions for cost savings
- Internal financing of major information technology projects
- Hiring Freeze
- Furlough and Layoffs
- Progressive Net County Cost reduction to all General Fund programs
- New labor agreements with no pay increases
- New labor agreements with lower cost retirement plans
- No backfill of State budget reductions

FY 2010-11 will continue to be a challenging budget year as the County makes difficult decisions with respect to funding and the use of one-time solutions. Augmentation requests for FY 2010-11 total \$74 million in NCC with \$46 million recommended for funding by the County Executive Office.



As an organization committed to conservative financial management, the County must carefully balance the use of reserves to maintain financial stability while

maintaining our ability to respond to critical countywide events. With the Board of Supervisors' leadership, the County has set aside a prudent level of General Fund Reserves with minimal use during the first two years of this recession. As the County enters FY 2010-11, we must immediately begin planning for FY 2011-12 and the reality that continued reliance upon one-time funding sources may not be possible.

**Reserve Balances (estimated July 1, 2010)**

(in millions)	Current
Contingency Reserve	\$ 61.3
Strategic Plan Reserve	97.1
Capital Project Reserve	12.4
General Fund Reserves	\$ 170.8

Note: Estimated balance as of July 1, 2010 assumes a Strategic Plan Reserve draw of \$26.7 million to support the FY 2010-11 recommended budget augmentations.

In spite of the challenging budget year ahead, the County remains well positioned to manage continued impacts of the economic slowdown, of State budgetary actions and will continue to address the needs of County residents. The Board of Supervisors has demonstrated a commitment to conservatively managing the budget, making adjustments as needed to address changes in revenue results and future projections. Throughout this turbulent period, the County has maintained financial stability and its strong credit rating, which was reaffirmed in May 2010.

The FY 2010-11 proposed budget and recommended budget augmentations were developed by the County Executive Office with additional feedback from the Public Safety Working Group. Although the budget was developed using conservative assumptions, there are program areas that remain at risk and require close monitoring by the County Budget Office. These risks include:

- State budget impacts are unknown and therefore not included in the proposed budget
- Revenue assumptions for VLF and sales tax are affected by economic activity and remain volatile
- Federal bed contract revenue for the Sheriff-Coroner and Health Care Agency total \$13.5 million
- Budget assumes \$20 million in General Fund Balance Available
- Federal stimulus funding extension is assumed for Social Services Agency

As we move into FY 2010-11 and begin the planning process for the FY 2011-12 budget and the 2010 Strategic Financial Plan, the County will continue to develop

and implement cost reduction measures that provide ongoing budget savings while protecting existing services. We look forward to the Budget Hearings in June and are available for questions on the proposed budget.