



County of Orange

County Executive Office

May 9, 2016

To: Chairwoman Lisa A. Bartlett, Supervisor, Fifth District
Members, Board of Supervisors

From: Frank Kim, County Executive Officer

Subject: Fiscal Year 2016-17 Recommended Budget



On behalf of the County of Orange Executive Office, I am pleased to present the FY 2016-17 Recommended Budget. The 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.

Looking toward FY 2016-17, the County is well-positioned to focus on providing the needed resources to strengthen our infrastructure and continue delivering high quality public services that fulfill the County's mission to make Orange County "a safe, healthy, and fulfilling place to live, work, and play." In FY 2015-16, the County fully paid off the General Fund debt from the 1994 bankruptcy; and the issuer credit rating by Standard and Poor's was upgraded from AA to AA+. Due largely to the County's continued disciplined financial and cash management through the Board's leadership, we will be paying off the bankruptcy bonds in FY 2017-18, as well as building upon efficiencies the County put into place during the recent recessionary years.

The FY 2016-17 Recommended Budget of \$6.1 billion is structurally balanced without use of reserves for continuing operating costs or ongoing recommended augmentations. The Recommended FY 2016-17 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.

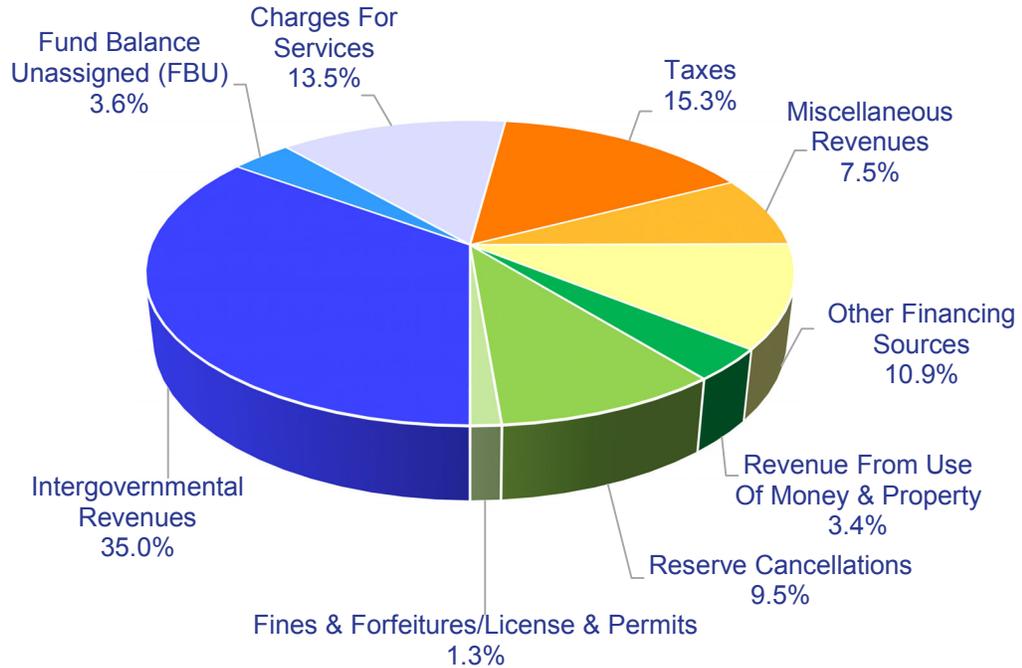
- **Civic Center Master Plan:** The Civic Center Master Plan initiative will address the County's long-term occupancy in the Orange County Civic Center, improve delivery of services to the community, improve space usage and departmental adjacencies, address the aging portfolio of County facilities, and 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 Offices are helping 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.

It is the continued coordinated efforts of the Board of Supervisors and the County employees that make it possible to exercise fiscal stewardship and continue enriching the lives of Orange County residents and the more than 40 million people who visit annually.

FY 2016-17 RECOMMENDED BUDGET AT A GLANCE

Total County Revenues by Source

FY 2016-17 Total = \$6.1 Billion



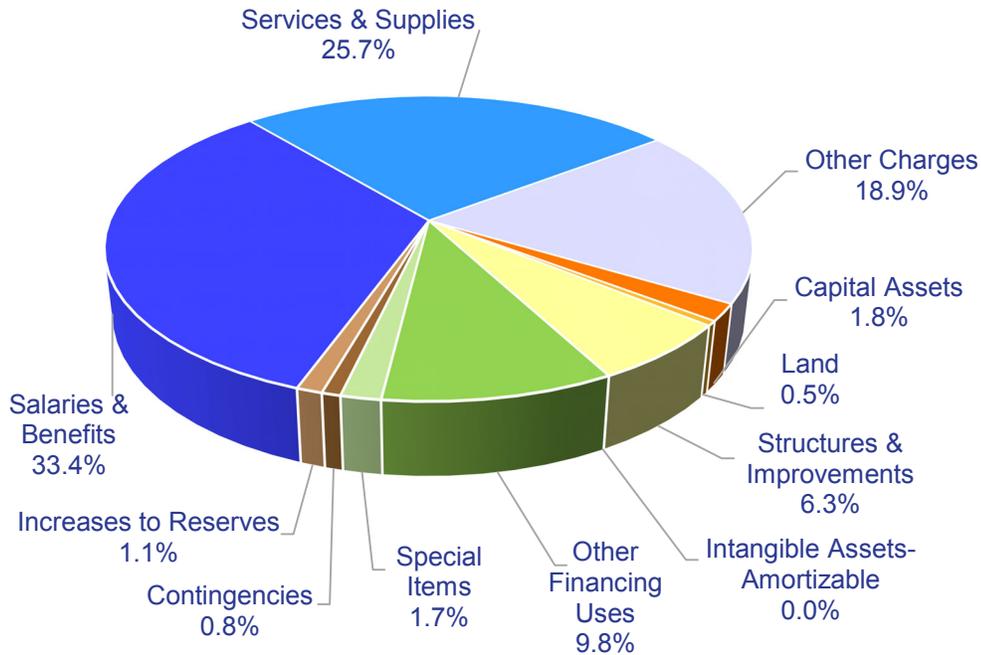
County Revenue Source (in Million Dollars)

Code	Source Name	FY 2014-2015		FY 2015-2016		FY 2016-2017		Change from FY 2015-2016 Budget	
		Actual		Modified Budget		Recommended Budget		Amount	Percent
A	Intergovernmental Revenues	\$ 2,068.7		\$ 2,108.7		\$ 2,123.0		\$ 14.3	0.7%
B	Fund Balance Unassigned (FBU)	245.6		355.2		216.8		(138.4)	-39.0%
C	Charges For Services	743.8		777.5		826.5		49.0	6.3%
D	Taxes	858.5		882.1		924.4		42.3	4.8%
E	Miscellaneous Revenues	401.8		454.3		455.3		1.0	0.2%
F	Other Financing Sources	391.2		817.7		658.4		(159.3)	-19.5%
G	Revenue From Use Of Money & Property	183.7		195.3		205.1		9.8	5.0%
H	Reserve Cancellations	199.5		543.2		574.0		30.8	5.7%
I	Fines & Forfeitures/License & Permits	125.7		87.7		78.1		(9.6)	-10.9%
		\$ 5,218.5		\$ 6,221.7		\$ 6,061.6		\$ (160.1)	-2.6%



Total County Appropriations by Use

FY 2016-17 Total = \$6.1 Billion



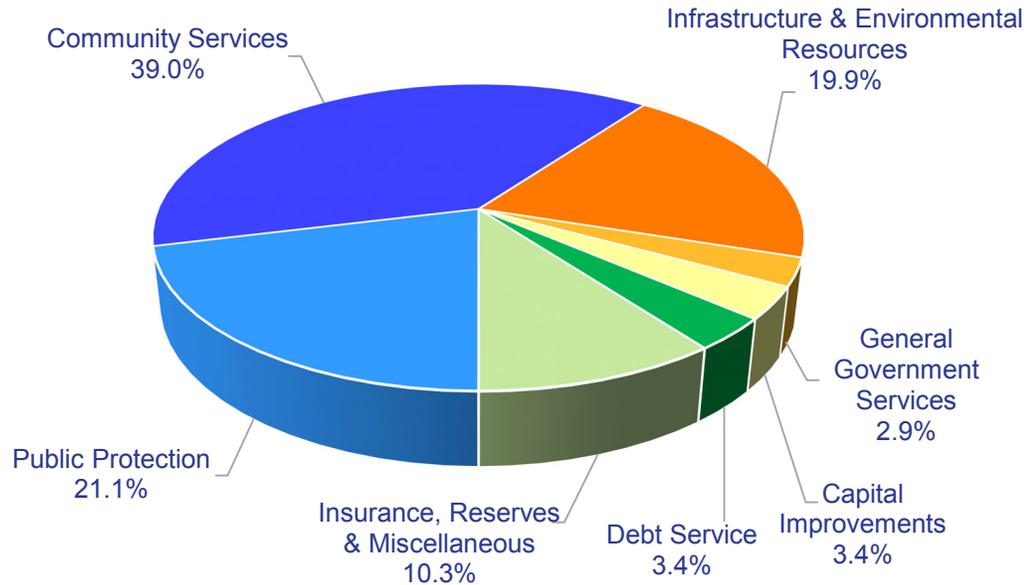
County Appropriations (in Million Dollars)

Code	Use	FY 2014-2015	FY 2015-2016	FY 2016-2017	Change from FY 2015-2016 Budget	
		Actual	Modified Budget	Recommended Budget	Amount	Percent
A	Salaries & Benefits	\$ 1,877.1	\$ 2,025.6	\$ 2,076.6	\$ 51.0	2.5%
B	Services & Supplies	1,168.4	1,679.3	1,595.1	(84.2)	-5.0%
C	Other Charges	1,031.0	1,285.3	1,180.0	(105.3)	-8.2%
D	Capital Assets	66.4	126.7	113.0	(13.7)	-10.8%
E	Land	3.3	27.7	31.6	3.9	14.1%
F	Structures & Improvements	78.3	340.7	395.6	54.9	16.1%
G	Intangible Assets-Amortizable	0.0	2.7	2.6	(0.1)	-3.7%
H	Other Financing Uses	358.4	572.1	613.5	41.4	7.2%
I	Special Items	-	80.5	104.6	24.1	29.9%
J	Contingencies	-	2.7	48.1	45.4	1,681.5%
K	Increases to Reserves	431.6	220.9	71.2	(149.7)	-67.8%
L	Intrafund Transfers*	(122.3)	(151.4)	(170.3)	(18.9)	12.5%
		\$ 4,892.2	\$ 6,212.8	\$ 6,061.6	\$ (151.2)	-2.4%

* NOTE: Intrafund transfers represent expenses recovered from one fund budget to another fund budget within the County General Fund and are not included in the pie chart for total County Appropriations by Use.

Total County Appropriations by Program

FY 2016-17 Total = \$6.1 Billion

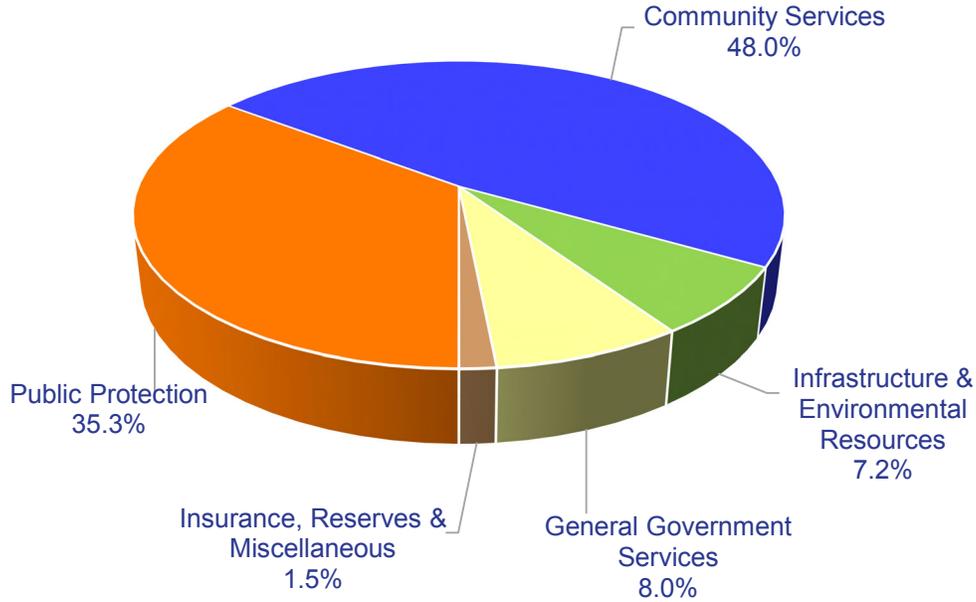


County Program Appropriations (in Million Dollars)

Program	Program Name	FY 2014-2015	FY 2015-2016	FY 2016-2017	Change from FY 2015-2016 Budget	
		Actual	Modified Budget	Recommended Budget	Amount	Percent
I	Public Protection	\$ 1,121.6	\$ 1,268.5	\$ 1,281.8	\$ 13.3	1.0%
II	Community Services	2,046.5	2,310.4	2,361.3	50.9	2.2%
III	Infrastructure & Environmental Resources	737.5	1,202.3	1,206.4	4.1	0.3%
IV	General Government Services	162.0	198.4	177.6	(20.8)	-10.5%
V	Capital Improvements	85.2	249.5	205.5	(44.0)	-17.6%
VI	Debt Service	191.6	294.0	207.6	(86.4)	-29.4%
VII	Insurance, Reserves & Miscellaneous	547.8	689.7	621.4	(68.3)	-9.9%
		\$ 4,892.2	\$ 6,212.8	\$ 6,061.6	\$ (151.2)	-2.4%

Authorized Positions by Program

FY 2016-17 Total Positions = 18,012



Authorized Program Positions

Program	Program Name ^a	FY 2014-2015	FY 2015-2016	FY 2016-2017	Change from FY 2015-2016 Budget	
		Actual	Modified Budget	Recommended Budget	Amount	Percent
I	Public Protection	6,593	6,522	6,355	(167)	-2.6%
II	Community Services	8,583	8,652	8,643	(9)	-0.1%
III	Infrastructure & Environmental Resources	1,303	1,299	1,299	-	0.0%
IV	General Government Services	1,422	1,434	1,437	3	0.2%
VII	Insurance, Reserves & Miscellaneous	234	281	278	(3)	-1.1%
		18,135	18,188	18,012	(176)	-1.0%

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

FY 2016-17 RECOMMENDED BUDGET HIGHLIGHTS AND ASSUMPTIONS

Budget Highlights

- Balanced budget including 1% growth (\$6M) in Net County Cost for General Fund departments
- Total County base budget is \$6.1 billion, of which \$3.2 billion is the General Fund budget
- General Purpose Revenues are \$742.2 million, \$40.1 million more than the current year-end estimate of \$702.1 million due to \$23.2 million projected increase in property tax revenues, \$11 million one-time Teeter funding, and one-time transfers in of \$7.3 million excess bond proceeds offset by a projected decrease of \$1.4 million of miscellaneous revenue.
- Revenue assumptions are consistent with economists' forecasts and reflect moderate levels of growth including 4% growth in secured property tax revenues over the current year-end estimated revenue.
- The one-half cent Public Safety Sales Tax (Proposition 172) 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 (2012 Public Safety Realignment) revenue is budgeted with an increase of approximately \$6.8 million combined in base and growth revenue for Orange County, a 9% increase
- General Fund reserve balance is estimated to increase by approximately \$32 million by June 30, 2017 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.

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, appro-

priations 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. The decrease in positions is due primarily to department proposed position reductions required to meet NCC limits. All proposed position reductions are recommended for restoration. 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.

Major Revenue and Expense Assumptions

The County budget includes a wide variety of funding sources. The budget recommendations are based on the following revenue assumptions:

- State and Federal funding sources are estimated by departments based on established funding allocation formulas, caseload projections, and the latest State and Federal budget information.
- The 2015-16 Assessed Roll of Values was up by 5.89%. The change in assessed values for FY 2016-17 is conservatively projected at 4.0%.
- 1991 Health & Welfare Realignment revenue from the State allocated to Health, Mental Health, Social Services, and Probation is projected at \$196.8 million based upon current program and revenue trends.
- The current gross interest yield year-to-date for fiscal year 2015-2016 is 0.61% for the Orange County Investment Pool. The current net yield for fiscal year 2015-16 is 0.54%. The forecasted gross yield for the fiscal year 2015-16 for the Orange County Investment Pool is expected to be 0.70% and the forecasted net yield is expected to be 0.63%. (March 2016 Treasurer's Monthly Investment Report).

Assumptions for various categories of expenses include:

- Labor costs are centrally calculated based on approved positions and historical vacancy factors. One to two step merit increases are assumed for employees who are eligible. Actual merit awards are based on the employee's performance evaluation.
- No base building increases in appropriations for wages are built into departmental budgets. Salary increases are subject to negotiations and approval by the Board of Supervisors.
- Overall retirement costs are decreasing this year by approximately .85% when compared to costs included in the FY 2015-16 Adopted Budget. The decline in retirement costs is mainly attributable to lower retirement rates resulting from the OCERS' December 31, 2014 actuarial valuation. Base rates, depending on bargaining group, range from a decrease of -3.67% to an increase of 2.37%. Base rate growth has slowed as a result of the collective effects of: favorable investment returns (after smoothing); lower than expected COLA increases; lower than expected salary increases, as well as changes in actuarial assumptions which included a net increase in mortality rates.
- Health insurance rates are expected to increase by 3.5% to 9.4% above FY 2015-16 projected rates depending on health plan type. FY 2016-17 budgeted health insurance costs are expected to increase from the FY 2015-16 budget by an average of approximately 1.2% due to health plan changes implemented in FY 2014-15 that have mitigated the increase of year-over-year budgeted costs.
- Retiree medical cost is budgeted at 0.4% to 7.1% of payroll depending on bargaining group. Retiree medical rates are based on a bi-annual valuation. FY 2016-17 Recommended Budget retiree medical rates are based on the June 30, 2015 valuation.
- Services and supplies shall be budgeted at the same level as actual use during last fiscal year and current year projections to the extent they are necessary to support business plan and Strategic Financial Plan goals.

Specific Program Highlights

This section provides highlights of the base budgets and recommended augmentations for the County budget programs and departments. Due to increases in costs which continue to outpace growth in sources, some Departments have proposed reductions included in the recommended budget and which are recommended for full or partial restoration. Departments have worked diligently to manage their budgets to consistently maintain programs and minimize impacts on services.

PUBLIC PROTECTION

■ District Attorney

The District Attorney submitted \$9.1 million in proposed reductions with a maximum potential of 67 positions to be reduced. The recommended restoration of \$7.5 million and all positions is required to support core staffing for effective prosecution services. The District Attorney and County Executive Office will work closely throughout the fiscal year to manage the funding gap to ensure no impacts on public safety or staffing.

In addition, District Attorney requested expand augmentations of \$3.0 million and 35 positions to address increased complexity of cases and administrative services functions. Recommended for approval is funding of \$2.0 million and the addition of 29 positions.

■ District Attorney-Public Administrator

District Attorney-Public Administrator submitted \$573 thousand in proposed reductions with a maximum impact of 4 position reductions. The recommended restoration of \$573 thousand (\$366 thousand ongoing and \$207 thousand one-time) and all positions is required to ensure adequate staffing to sustain core mandated functions.

■ Sheriff's Department

Due to increases in expenditures and County funding limitations, the Sheriff's Department (Sheriff) submitted \$15.5 million in proposed reductions with a potential maximum impact on 97 positions. All positions and \$14.8 million in funding are recommended for restoration. The Sheriff and County Executive Office will work closely throughout the fiscal year to manage the \$1.5 million funding gap to ensure no impacts on public safety or staffing.

In addition, Sheriff requested \$3.1 million in expand augmentations to add four positions for expanded ser-

vice to County unincorporated areas; two positions for cyber-crime investigations; and funding for the Closed-Circuit Television System (CCTV) upgrade and expansion. The \$946 thousand ongoing and \$2.1 million one-time funding recommended for approval funds the additional positions and equipment replacement and upgrades.

COMMUNITY SERVICES

■ OC Community Resources

OC Parks requested an expand augmentation of \$1.4 million and 26 positions to provide resources and address increased demand for events and programs at park facilities. No Net County Cost is requested.

■ Social Services Agency (SSA)

The recommended budget includes a request of \$6.9 million for the General Relief and In-Home Supportive Services programs, which is not recommended at this time. Caseloads will be monitored throughout the fiscal year to determine if a mid-year adjustment for funding is required.

In addition, SSA requested the addition of 50 positions for Medi-Cal (20 positions) and CalFresh (30 positions) program caseload growth. Addition of all positions and \$4.4 million appropriations (\$1.8 million for Medi-Cal and \$2.6 million for CalFresh) is recommended with deferral of Net County Cost pending mid-year review of caseloads and funding.

INFRASTRUCTURE AND ENVIRONMENTAL RESOURCES

■ OC Public Works

OC Public Works submitted \$970 thousand in proposed reductions related to OC Facilities Operations. The recommended restoration of \$970 thousand is required to ensure adequate funding for maintenance of safe and functional facilities.

■ OC Waste & Recycling (OCWR)

The recommended budget includes the ability to borrow up to \$36.6 million from OCWR to fund costs associated with the OC Animal Care Center (\$22 million), James A. Musick jail expansion (\$10.3 million), and Property Tax System projects. All borrowed funds will be repaid within three years from various funding sources.

GENERAL GOVERNMENT

■ Assessor

Assessor submitted \$1.1 million in proposed reductions. The recommended restoration of \$1.1 million ongoing is required to sustain core mandated assessment and valuation functions.

■ County Counsel

County Counsel is requesting an additional \$3.5 million, which is recommended for approval to cover the cost of outside legal services.

CAPITAL PROJECTS

- Funding of \$2.9 million is requested for the following projects: Sheriff - Air Handler Unit replacement at various facilities (\$1.4 million); and replacement and updates of County-owned facility assets to ensure health and safety (\$1.5 million). Funding for both requests is recommended for approval.

DEBT

- The adopted budget funds all debt obligation payments. Budgets displayed in Program VI include amounts for annual payments on the County's refunded debt financing of the Juvenile Justice Center, Manchester parking facilities, and debt financing of infrastructure improvements in the County's Assessment Districts and Community Facilities Districts. Although the County's former 1996 and 1997 Pension Obligation Bonds were economically defeased, this budget reflects the payments made by the trustee from escrow. This program also includes the debt associated with the County's Tooter program. The 2005 Refunding Recovery Bonds were retired on June 1, 2015, therefore appropriations are no longer budgeted for the debt service related to those bonds. The 2005 Lease Revenue Refunding Bonds will be paid off in July of 2017 with funds deposited with the Trustee during FY 2016-17. Debt related to the specific operations of John Wayne Airport is included in Program III where the operational budgets for that department are also found. Based on the County's Strategic Financial Plan and at current funding levels, the County is able to fulfill these debt obligations and sustain current and future services and operations.

CASH FLOW MANAGEMENT

- The County issued short term taxable Pension Obligation Bonds to prepay, at a discount, a portion of the County's FY 2016-17 pension obligation. The bonds were issued on January 13, 2016 in the amount of \$334.3 million at rates ranging from 0.753% to 1.208%.

SUMMARY

This budget serves as a realistic plan of resources available to carry out the County's core businesses and priorities. It is consistent with the County's mission statement, and the 2015 Strategic Financial Plan. It follows the CEO budget policy guidelines, meets most of the departmental augmentation requests, incorporates impacts of the State budget proposals known at this time, addresses important capital needs and provides adequate reserves.

This County budget document is also available on-line at:
<http://ocgov.com/gov/ceo/deputy/finance>

The County also invites you "Inside OC Financials" to explore additional financial information including the OpenOC data tool, Strategic Financial Plan, and quarterly budget reports.

<http://ocgov.com/about/openoc/>