INTRODUCTION

The County Executive Office presents the Final Budget for FY 2002-03. This budget reflects Orange County's disciplined approach to fiscal management and is consistent with the priorities set forth in the County's 2002 Strategic Financial Plan. This Budget was discussed at a public hearing on June 11 and 12, 2002 and adopted by the County Board of Supervisors on June 25, 2002.

The FY 2002-03 Proposed Budget reflects the impacts on the local, state and national economies of the recent recession and the events of September 11, 2001. Although impacted by external factors, the strength and diversity of the local economy, has mitigated the downturn to some extent. The FY 2002-03 State Budget, under debate by the State Assembly at the time of this document went to print, may have significant adverse impacts on the County's ability to provide services to its residents.

This introduction contains a guide to reading the budget document, a brief description of the County's form of government, Supervisorial Districts, mission statement and the County's Corporate Management System. This report reviews the State budget and economic factors influencing the County budget, provides summary budget information, and issues in various program areas of the budget.

I. A CITIZEN'S GUIDE TO READING THE BUDGET DOCUMENT

This document includes information that provides readers with a greater understanding of each department's mission, organizational structure, and performance results as a narrative context for the budget amounts. The introduction section contains several charts and tables which provide an overview of issues affecting the budget, sources and uses of funds and budgeted positions. Following the introduction are sections that present each department and fund in the County's seven program areas. The seven program areas are:

1. Public Protection
2. Community Services
3. Infrastructure and Environmental Resources
4. General Government Services
5. Capital Improvements
6. Debt Service
7. Insurance, Reserves and Miscellaneous

When applicable, the presentation for each department within the seven program areas includes:

An *Operational Summary* including:

- Mission
- Budget at a Glance
- Strategic Goals
- Key Outcome (Performance) Measures (see following paragraph)
- Key Accomplishments of the past year

An *Organizational Summary* including:

- Overview Organization Chart with three levels of detail for most departments
- Description of each major activity
- Ten year staffing trend chart with highlights of staffing changes

A FY 2002-03 *Budget Summary* including:

- Department's plan for support of the County's strategic priorities
- Major changes in the base budget
- Approved budget augmentations and related performance plan
- Recap of the department final budget and history
- Highlights of the key budget trends
- A matrix that showing all of the budget units under the department's control

Readers looking for budget information for a specific department can use the Index near the end of the book. Departments are listed in alphabetical order with the page number of that department's budget information.

All County departments prepare annual business plans. A business plan sets forth long-term goals, identifies strategies for making progress on those goals during the coming year and identifies how success will be measured by using key outcome (performance) measures. Many of the key outcome measures have changed this year because during the 2002 business plan process there was thorough review to ensure their consistency with the departmental mission and goals. In the future the key outcome measure changes will be minimized so the reader of the business plans and this budget document can consistently observe trends and progress in meeting objectives.

Following the seven program areas is an appendix for readers who desire an additional level of budget detail. This includes each department's total budget broken down by major revenue and expense category and that same level of revenue and appropriation detail for each of the activities within the department.

II. ORGANIZATIONAL OVERVIEW

The Orange County's FY 2002-03 Proposed Budget presents the County's financial capacity and priorities in providing social, environmental, public health, safety and regional planning services for its residents. The County provides the public with a comprehensive array of public services through its departments and through comprehensive community partnerships with public, private and non-profit agencies. On July 1, 2002, the District Attorney's Family Support division became the County's 23rd department, the Department of Child Support Services.

FORM OF GOVERNMENT

The County is a charter County as a result of the March 5, 2002 voter approval of Measure V that provides for an electoral process to fill mid-term vacancies on the Board of Supervisors. Before Measure V as a general law County, mid-term vacancies would otherwise be filled by gubernatorial appointment. In all other respects, the County is like a general law County. The County is governed by a five-member Board of Supervisors each of who serve four-year terms and annually elect a Chairman and Vice Chairman. The supervisors represent districts that are each equal in population. The members of the Board of Supervisors by district are as follows:

CYNTHIA P. COAD, *Chair*, from the Fourth District, representing the communities of Buena Park, Fullerton, La Habra, Placentia and portions of Anaheim.

JAMES W. SILVA, *Vice Chair*, from the Second District, representing the communities of Costa Mesa, Cypress, Fountain Valley, Huntington Beach, La Palma, Los Alamitos, Newport Beach, Seal Beach, Stanton, and portions of Garden Grove.

CHARLES V. SMITH, from the First District, representing the communities of Santa Ana, Westminster, and portions of Garden Grove.

TODD SPITZER, from the Third District, representing the communities of Brea, Irvine, Orange, Villa Park, Yorba Linda, Tustin and portions of Anaheim.

THOMAS W. WILSON, from the Fifth District representing the communities of Aliso Viejo, Dana Point, Laguna Beach, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, Mission Viejo, San Clemente, San Juan Capistrano and Rancho Santa Margarita.

COUNTY MISSION STATEMENT

In 1996, the County adopted its first mission statement to define Orange County government, its organizational focus and core businesses. Since that time, the mission statement has annually been reaffirmed by the Board of Supervisors based on input and suggestions from staff and other stakeholders. The County's mission statement reads:

The County of Orange is a collection of dedicated, public-spirited individuals, who together comprise a regional service provider and planning agency committed to maximizing resources and improving the quality of life for residents in Orange County. Our core businesses are public safety, public health, environmental protection, regional planning, public assistance, social services and aviation.

The County is committed to providing Orange County residents with the highest quality programs and services as articulated in its mission statement. Supporting this mission statement is a series of guiding principles that frame how the County operates and prioritizes its resources:

- RELY ON THE STRATEGIC FINANCIAL PLAN to make day-to-day decisions that consistently move the County toward its long-term goals.
- VALUE OUR WORKFORCE to ensure that citizens are served by a professional and dedicated workforce.

- ENHANCE TECHNOLOGY for productivity and service delivery to use modern methods to reduce costs and improve services.
- COMMUNICATE COUNTY PRIORITIES to ensure that our employees and partners understand how the County is achieving its long-term goals.

INNOVATIVE GOVERNMENT

Beginning in 1996, the Board of Supervisors adopted various initiatives in an effort to improve the accountability, efficiency and responsiveness of County government. This effort is referred to as the Corporate Management System and includes a series of related, but independent initiatives to improve how the County plans and prioritizes its resources to achieve its organizational goals. The initiatives consist of:

- County Mission Statement
- Ongoing Organizational Evaluation
- Annual Departmental Business Plans
- Strategic Financial Plan
- Performance Measurement

Beginning with the first restructuring effort in 1996, the County adopted a corporate culture of continuous improvement which challenges managers throughout the organization to continually evaluate how services are provided to determine whether they can better meet customer needs or be provided more efficiently. Ongoing organizational evaluation refers to the process of continually reevaluating services to improve customer service, increase cost-effectiveness, and/or enhance service delivery. Through the development of annual departmental business plans, departments identify their mission and goals, discuss the value their organization brings to the community and how they measure their progress.

The Strategic Financial Plan process provides the framework for implementing new programs and facilities as well as serving as the foundation for the annual budget. This framework enables the Board to make annual funding decisions within the constraints of a comprehensive, long-term perspective. Since 1998, the Strategic Financial Plan has been annually updated to review revenue and expense forecasts. New priorities are identified and considered every two years as part of a comprehensive re-adoption of the plan.

Complementing strategic and business planning is a comprehensive County performance measurement system which includes three main elements:

- Community Indicators - The Community Indicators Report provides a comprehensive assessment of Orange County using seven groups of indicators: economic and business climate, technology and innovation, education, health and human services, public safety, environment and civic engagement. Several new indicators were added within these groups including tourism, transit, world trade and physical fitness of children.
- Performance Measurement - Measuring outcomes and focusing on results is increasingly becoming a way of doing business for the County. Since July 1998, the County has been working to develop meaningful measures of the outcomes specific to each department's mission and goals. This budget document contains reporting on key outcome measures of all departments.
- Performance Incentive Program - In order to provide incentives that motivate and reward employees for achievement linked to County goals, employee performance incentive programs have been implemented. Under the leadership of the Orange County Labor Management Taskforce, the Performance Incentive Program (PIP) continues to strengthen the links between individual performance and goal achievement for represented employees. Similarly, the Management Performance Plan (MPP) has directly linked management performance rewards to the achievement of project and competency development goals linked to County and Agency/Department business goals and objectives.

Each year the County makes progress in further integrating these tools into the way the County operates, prioritizes its resources, and makes decisions. Performance measures, for example, are being used to evaluate investments in programs and the community indicators report helps identify target areas for future collaborative initiatives. Augmentations to the FY 2001-02 budget contained performance plans, the outcomes of those performance plans were reviewed as part of the process for recommending continuing funding. New augmentation requests for FY 2002-03 included performance plans and will undergo the same review next year.

During FY 2001-02 the County was assigned higher credit ratings by the two largest rating firms, A+ from Standard and Poors, and Aa2 from Moody's. These ratings, which place Orange County among the highest rated counties in California, are in large measure due to the corporate management system, particularly the Strategic Financial Plan. In FY 2002-03, the County will continue the progress made and strive for innovation in service delivery, strategic planning, and performance measurement. In these ways, Orange County continues to be an example of innovative government.

III. FINANCIAL OUTLOOK FOR FY 2002-03

Orange County is blessed with a strong and diverse economy that routinely out-performs the state and national economies (in annual percentage growth), and ranks higher (in absolute dollars) than the economies of the majority of the countries in the world. While there has been increasing attention and concern regarding the current slowdown of the national economy, the current recession is expected to be mild relative to the previous 1990-91 recession. Moreover, despite the obvious slowdown in the local economy, conditions in Orange County are expected to remain much more favorable than conditions at the state and national levels. This section provides various indicators that describe the projected outlook of the Orange County economy.

The growth in the Real Gross County Product (a measure of the value of goods and services produced in one year and an indicator of the strength of the local economy) is forecast by Chapman University to increase by 7% in 2003 and reach $137.2 billion. This compares to an increase in Gross State Product (for the state of California) of 5% and an increase in Gross Domestic Product of 5% at the national level during the same time period.

Orange County's unemployment rate continues to be one of the lowest in the State, and is below that of all surrounding Southern California counties, the state of California and nation. In July 2002 unemployment rates for the U.S., California and Orange County were recorded at 5.9%, 6.6% and 4.1% respectively. In July 2002 rates for surrounding counties in Southern California were 7.3% (for Los Angeles County), 6.7% (for Riverside County), 5.8% (for San Bernardino County) and 4.2% (for San Diego County). According to Chapman University, Orange County's job growth in 2001 totaled 2.1% (approximately 29,475 jobs), is expected to decrease to 1.5% (approximately 20,950 jobs) by the end of 2002, and is projected to increase to 2.7% (approximately 39,133 jobs) through the end of 2003.

Inflation, as measured by the Consumer Price Index (CPI), is also expected to remain moderately low in Orange County, despite being higher than the CPI at the national level. Chapman University projects the CPI at the national level to increase by 2.4%, in California by 3.0%, and in Orange County by 3.0% in 2003.

According to DataQuick Information Systems, in July 2002 the median price for new and existing homes in Orange County increased by 18.8% (relative to July 2001), and reached $360,000. Housing appreciation in Orange County has been rapid in response to the high demand for housing caused by steady job growth, low interest rates and a tight supply of housing. For the future, Chapman University is projecting that while housing appreciation will slow down, due primarily to the expected slowdown of the local economy, housing affordability (compared to other parts of the country) will remain low.

Orange County's median family income is projected by the U.S. Department of Housing and Urban Development to increase by 2.6% in 2002, reaching $75,600. This compares to 4.1% (reaching $60,800) for the state of California and 3.6% (reaching $54,400) for the U.S in 2002. Taxable sales in Orange County are forecast by Chapman University to increase by 3.2% in 2002 and by 5.6% in 2003. Although current trends show signs of a slowing local economy, economic conditions should continue to have a positive impact on the receipt of general purpose and other revenue sources that the County depends upon to fund its operations. These moderately favorable economic trends should also help reduce some of the service demands placed on County government. Current trends in income and taxable sales should also have a moderately positive impact on the County budget.

STATE LEGISLATION AND BUDGET

The Governor's January budget addressed an estimated FY 2002-03 shortfall of $12.5 billion as a result of the economic downturn and declining revenues. A large element of the shortfall has a decline in receipts from the personal income tax on capital gains and stock options. The surplus of revenue accumulated from the two prior years, was used up making emergency energy purchases. The shortfall was closed with $5.2 billion in spending reductions and $7.3 billion in loans, transfers, tobacco settlement securitization and other revenue increases. By the time the May revision was released, the estimated shortfall had increased to $23.6 billion; about 30% of the general fund. In order to deal with the additional $11.1 billion shortfall, $2.4 billion in additional budget reductions were made (including Medi-Cal, social services, payments to local governments and juvenile justice grant programs) and $8.7 billion in additional loans, transfers, tobacco settlement securitization and other revenue increases were made including an increase of $0.50 in the cigarette tax and a one-year decrease in the vehicle license fee credit. All major program areas other than education were targeted for significant reductions. In response to the release of the May revision, in May 24 the County Executive Officer implemented a hiring freeze in general fund departments.

At the end of May, both the State Senate and Assembly were considering budget bills that contained significant but less drastic impacts to local governments. For example, the Governor's May revision called for $0.9 billion in reductions impacting local governments which the Senate and Assembly versions each contained $0.5 billion with a slightly different mix of program areas being affected. During June a proposal was considered that would have passed on half or more of the Federal penalties resulting from the child support case management system missing the completion deadline. Orange County's share was estimated to be about $3.5 million. By the end of June, that proposal was rescinded. The County budget hearings were held in June and the County Executive Officer recommended that the Board of Supervisors include the following $57 million in program reductions based on the Governor's May revision:

Public Safety

- District Attorney, $1,186,449 - reduced funding for prosecuting serious crime including spousal abuse cases, welfare fraud, and vertical prosecution of methamphetamine abuse.

- Probation, $248,240 - reduced grant funding for programs including war on methamphetamine, seriously disturbed juveniles gang intervention, $10 million impact in FY 03-04 through the proposed elimination of the Juvenile Justice Crime Prevention Act (AB 1913) funding for such programs as Youth and Family Resource Centers, Early Intervention, Substance Abuse Education and Recognition, Gang Prevention, School Mobile Response Team and Juvenile Drug Court Expansion. Elimination of AB 1913 funding in 03-04 will have impacts on other County departments.

Community Services

- Community Services Agency, $2,655,571 - reduction in funding for programs that include Emancipated Youth, general education and job training for incarcerated youth, employment services for clients in the welfare-to-work program, and non-custodial parent services.

- Health Care Agency, $13,869,866-reduced mental health services provided at the Juvenile Hall, eliminate contracted mental health services for wards of the court, eliminate contract outpatient services for supervised probationers and those involved with The Juvenile Drug Court, reduce Early and Periodic Screening Diagnosis and Testing Program for children and young adults, eliminate the Adult and Children's System of Care, reduce services for homeless adults, reduce breast cancer early detection program and comprehensive perinatal outreach services.

- Social Services, $39,278,080 -reduction in services to clients in the CalWorks program such as youth employment, family resource centers, emancipated youth services, educational services, delays in food stamp eligibility determination, delays in providing health care for children and adults under the Medi-Cal program, delays in eligibility determination for foster parents, delays in payments to caregivers, delays in adult protective services investigations, reduction in in-Home Support Services for eligible adults and reduction of adoptive placements of children.

Infrastructure & Environmental Resources

- Orange County Public Library, $483,564 -reduction in books and/or titles available to the public.

During July and August the State Senate and Assembly continued deliberations and worked through various proposals of combining fewer program reductions balanced with new or increased revenues; further increasing the cigarette tax in order to preserve the current vehicle license fee credit; or making further program cuts instead of new revenues.

On September 5, 2002 the Governor signed the final FY 2002-03 State budget, breaking by three days the previous record set in 1992 for the latest recorded budget. The final version closed the $23.6 billion gap with $7.5 billion in program reductions (programs hardest hit by the final balancing are county health and social services programs) $4.5 billion from tobacco settlement securitization and the remaining $11.6 billion in loans, deferrals, fund shifts, debt restructuring, transfers, etc. Earlier plans to increase the cigarette tax and change the vehicle license fees were abandoned. There are $750 million in unspecified State operational cuts authorized by the Legislature the specifics of which have yet to be identified.

The expectation is that FY 2003-04 will be another difficult budget year for the State because many of the balancing actions were one-time or limited-term in nature. On August 7 the State Department of Finance issued instructions for State agencies and departments to develop 20% reduction plans that would be ready for full implementation for FY 2003-04.

County Departments are currently analyzing the changes between the May revision and the September final version of the State budget. The changes will be incorporated into the County budget in the First Quarter Budget Report, tentatively scheduled to be on the November 5, 2002 Board of Supervisors meeting agenda.

MAJOR REVENUE AND EXPENSE ASSUMPTIONS

The County budget includes a wide variety of funding sources. State and Federal funding sources are estimated by departments based on established funding allocation formulas and caseload projections and State budget information. Basic secured and unsecured property taxes are projected to increase by 4.2%. Motor vehicle license fees are projected to decline by 1% based on the State's projections, trend analysis and the fact that the intercept for the County's 1995 Refunding Recovery Bonds increases from $14.5 million to $21.8 million. State residents enjoy a reduction in their motor vehicle license bill and the State backfills the reduction to maintain local government financing at the pre-reduction level. Base sales tax revenue is projected to remain about the same based on estimates by Chapman University; Hinderliter, De Llamas & Associates (sales tax consultant to the County) and the State Board of Equalization. Health & Welfare Realignment revenue from the State allocated to Health, Mental Health, Social Services and Probation is projected to decline about 4% from FY 2001-02 actual amounts; about the same as the FY 2000-01 actual amounts.

The one-half cent Public Safety Sales Tax of $227 million (allocated 80% to the Sheriff and 20% to the District Attorney) is projected to be about the same as the FY 2000-01 actual amount. The interest earning rate on cash balances in the County Investment Pool administered by the County Treasurer is expected to be 2.75%, which is slightly higher than the 2.17% rate earned in July 2002.

On the expense side, labor costs are centrally calculated based on approved positions, historical position vacancy rates and a 4% base building wage increase as approved by the Board of Supervisors in existing agreements with the various labor bargaining units. Merit increases for certain represented employees are budgeted based on the incumbent salary step level with actual awards based on the employees annual performance review. Performance Incentive Pay (PIP) is budgeted at 2% of base pay and actual awards are based on the employees' achievement of specific, measurable goals and do not increase the employee's salary base. Retirement costs have increased significantly for general employees and the budget reflects the costs of the recently increased (3% of pay at 50 years of age) safety retirement benefit, effective June 28, 2002. Safety employees are contributing 1.78% of pay for 18 months, beginning in FY 2002-03 to help offset the increased cost to the County. The Board has also approved granting Probation Services employees (deputy probation officers) safety retirement status of 2% of pay at 50 years of age, effective June 28, 2002; however there is no additional cost to the County in FY 2002-03. The Probation Services retirement rates in FY 2003-04 will reflect the new costs including the accumulated costs from FY 2002-03. The affected Probation Services employees will be contributing 2% of pay for three years beginning in FY 2002-03. In total, retirement costs for the County in FY 2002-03 will exceed $100 million; more than double the costs in FY 2001-02. Additionally Health insurance increases are expected to average 20%. Inflation on other services and supplies is generally estimated at 3.0% with higher rates for medical supplies.

BASIS OF BUDGETING

The County's budget, as is its accounting system, is based on the modified accrual system. Revenues are budgeted as they are expected to be received or as they are applicable to the fiscal year. Fund balance available (FBA) is estimated and adjusted for increases or decreases to reserves. Revenues plus fund balance available equals total available financing. Consistent with the Governmental Accounting Standards Board (GASB) ruling 33, only revenues expected to be received within 60 days of the end of the fiscal year are included. Expenses are budgeted at an amount sufficient for 12 months if they are ongoing and in their full amount if they are one-time items. Expenses and increases to reserves may not exceed available financing.

BUDGET DEVELOPMENT

In January 2002, the CEO issued the following budget development policies and guidelines to all County departments as a starting point for the FY 2002-03 budget development:

1. Consistency with Strategic Financial Plan and Business Plan Concepts: Base operating budget requests shall be consistent with the elements and concepts contained in the Strategic Financial Plan and the Business Plans. Department heads are responsible for using these planning processes and program performance measurements to evaluate existing programs and redirect existing resources as needed for greater efficiency and to reduce cost.

2. Base Operating Budgets: Starting point is the June 26, 2001 adopted budget for FY 2001-02 as modified by year-to-date Board actions. Specific deletions and acceptable additions to these base budgets are outlined as guidance for the new base budgets.

3. Salaries & Employee Benefits: The budget system automated salary calculation results set the regular salary and employee benefits base budgets. The vacancy factor is set at the historical actual vacancy rate (12 months ending December 2001 per the bi-weekly Master Position Control reports) for each department. The CEO/Budget Office may agree to exceptions to the calculation on a very limited basis for unusual circumstances. This methodology was introduced for the FY 1999-00 budget salary calculations and is effective in setting realistic salary appropriation amounts. Appropriations are monitored during the year. Should departments achieve a lower than budget vacancy rate and appropriations are needed, appropriation adjustments are recommended in the quarterly budget report process.

4. Services & Supplies: Services and supplies shall be budgeted at a realistic level as compared to actual use during last fiscal year and current year-end projections, adjusted as outlined in the base budget section above and consistent with the Strategic Financial Plan guidelines.

5. Billable Services, Fees and Revenue: Program revenues are to be used for caseload growth. One-time revenues shall be used for one-time expenses. Departmental fees are to be set at full cost recovery. Departments should be able to demonstrate that their fee studies are current. New revenue sources pending legislation or grant approval will be considered during the quarterly budget report process and should not be included in the base budget request (i.e. when legislation is passed or grants awarded).

6. Net County Cost (NCC): The 2002 Strategic Financial Plan projected ongoing general purpose revenues growing at a modest rate (about 3% per year) and narrowly in balance with operating expenses. Therefore, there is a continued need to minimize the growth in the use of general purpose revenues. The combined total of base budget requests plus augmentation requests shall be equal to or less than the FY 2002-03 NCC amounts targets.

7. Augmentations (requests for new resources): Augmentations are defined depending on the budget type:

   - For budgets within the General Fund, an augmentation request is any resource request that results in increased NCC, increased position totals (excluding extra-help) or new or enhanced non-mandated programs or services, even if they were included in the Strategic Financial Plan and/or the Business Plan.

   - For special revenue funds, Internal Service Funds and all other budgets outside the General Fund, an augmentation request is any resource request that results in an indirect NCC increase, increased position totals or major new programs not identified in the Strategic Financial Plan or the Business Plan.

   All augmentation requests must include performance measures that clearly outline the department's intended outcome(s) resulting from the receipt of the additional resources. The department head must certify that all potential alternatives for redirecting existing resources have been examined and that there are no lower priority items that can be reduced or eliminated in order to free up existing resources. Long term vacant positions will be used in all departments before new positions are added.

   New for FY 2002-03: The net County Cost Targets used for the proposed budget are the net county cost forecasts submitted by the departments in the 2002 Strategic Financial Plan with some modifications to reflects un-anticipated retirement benefits and strategic priorities approved by the Board. Augmentations newly approved for FY 2002-03 will undergo a performance measurement review as a condition of continued funding. Departments will report on the first year results (as much as is available by budget submittal due date) of the performance expectations.

8. Program Budgets outside the General Fund: It is the department head's responsibility to ensure that the proposed use of program funds is consistent with the department's business plans, the County strategic priorities and has been coordinated with the appropriate stakeholder groups external to the County.

In context of these policies and guidelines, the Strategic Financial Plan and departmental business plans, departments prepare current year projections of expenses and revenues and requests for the next fiscal year. The CEO/County Budget Offices reviews the requests, meets and discusses the requests with the department and prepares final recommendations for the Board. These recommendations are presented to the public via a budget workshop before the Board of supervisors holds its public budget hearings. Operating and capital budgets are prepared in this single process and presented together in this budget book.

CONSISTENCY WITH THE 2002 STRATEGIC FINANCIAL PLAN

On October 30, 2001 the Board adopted the 2002 Strategic Financial Plan. Based on the County's mission statement and departmental business plans, the Strategic Financial Plan serves as a tool for identifying available resources, core business operating requirements and capital needs. The plan helps identify when resources are expected to become available for major projects and when those projects can be started. New programs and projects contemplated in the plan are recommended for Board approval during the budget process. Specific elements from the plan incorporated into the FY 2002-03 Recommended Budget are:

- General purpose revenues and fund balance available in the recommended budget exceed the plan amounts by 6%.

- Increase General Fund Contingencies from $22 to $23 million. Of this $23 million, $5 million is appropriated in Fund 099 and $18 million is reserved (not appropriated) in the General Fund. In addition and also consistent with the financial plan, the General fund has $2.4

million in reserve for future maintenance and construction plus $50.1 million in reserve for operational costs of future strategic priorities. The items total $52.5 million in funds potentially available for appropriation in future fiscal years.

- Increase the Debt Prepayment Fund by $35.5 million, this includes $10 million approved in the 2002 Strategic Financial Plan and $24.5 million made available from reserves by the alternative funding of the Theo Lacy Phase III Jail Expansion; $32.7 million was set aside by the Board of Supervisors in the 2001 Strategic Financial Plan for jail expansion, $8.2 million was used to balance the FY 2002-03 General Fund Budget.
- Allocate $8.8 million for affordable housing initiatives.
- Allocate $4.0 million for additional 800 Megahertz communication system sites, to improve reception throughout the County by emergency response agencies.
- Allocate $3.1 million for enhancement of the Assessment Tax System funded from the State grant program, AB 589.
- Allocate $.6 million for Watershed and Ocean Monitoring Plan
- Increase funding for technology - CAPS and IBM mainframe upgrade, $4.3 million.
- Theo Lacy Building B construction, $33 million funded largely from a temporary transfer of cash from the Special Designated Revenue Fund 15S; to be repaid over the next six years from the public safety share of Tobacco Settlement Revenue.
- $2 million earmarked by the Board of Supervisors for sprinkler system/alarm improvements at the Mens Central Jail in Santa Ana in the 2002 Strategic Financial Plan, are not included in the FY 2002-03 budget, because the project is now estimated at $8 million. The Sheriff-Coroner is working on a plan for mitigation and the Board designation of $2 million will remain in the Strategic Priority reserve until the plan is completed.

There were significant overruns of 2002 Strategic Financial Plan net county cost forecasts for FY 2002-03 due to unanticipated cost increases and revenue decreases. Because the 2002 Strategic Financial Plan Forecasts were used as the net county cost targets for the FY 2002-03 budgets, the department overruns which exceed $500,000 were treated as reductions in the recommended budget and augmentations were submitted for consideration by the Board for partial or complete restoration. These overruns amounted to $24.6 million. The County Executive Office recommended that the Board use one-time money (budgeted in the miscellaneous fund) to fund the overruns that were beyond the managerial control of the departments (retirement and health insurance costs) in the amount of $19.4 million. The Board approved restoration of most items amounting to $24.5 million. The long term solution to these overruns will be the subject of the 2003 Strategic Financial Plan process which is now under way.

Because of the overruns, the planned increase to the Debt Prepayment Fund 14V was reduced by about $7 million and therefore the planned increase to the Strategic Priority Reserve of $44 million was reduced to the $30 million placed into reserve by the Board of Supervisors on October 30, 2001. The impact of this reduction to reserve increase will be addressed in the forthcoming 2003 Strategic Financial Plan process.

IV. FINANCIAL SUMMARY OF THE FY 2002-03 RECOMMENDED COUNTY BUDGET

Preceding the budget program sections, the following charts and tables are provided as an overview of the budget:

1. Total County Budget by General Purpose Revenues, Other General Funds and Dedicated Revenues
2. Total County Budget All Funds Controlled by the County Board of Supervisors
3. Total County Revenues by Source
4. Total County Appropriations by Program
5. General Fund Sources & Uses of Funds
6. General Fund Appropriations by Program
7. General Purpose Revenues (including General Fund Balance Available (FBA))
8. General Fund Net County Cost by Program
9. Public Safety Sales Tax
10. Health & Welfare Realignment Sources & Uses
11. Authorized Positions by Program

12. Total County Budget Comparison to Prior Fiscal Year by Program and Department
13. Summary of Reserves
14. Total Budgeted Positions Summary by Program and Department
15. County Organization Chart

HIGHLIGHTS OF THE FY 2002-03 FINAL BUDGET

In addition to the specific ways in which this budget is consistent with the 2002 Strategic Financial Plan, additional County budget highlights and issues include:

Total Budget:

- Total County Budget is $4.9 billion, an increase about 4% over the previous adopted budget.
- Total budgeted positions (including recommended augmentations) are 17,741, an increase of 2.6% over the previous adopted budget.
- Performance measures are used to evaluate continued funding of FY 2001-02 budget augmentations and as the basis for recommendations on FY 2002-03 augmentations regardless of funding source.

Specific Program Highlights:

The FY 2002-03 Recommended Budget:

- Recommends additional resources for the District Attorney to replace administration support lost from the creation of the Child Support Services Department.
- Pursuant to AB 196 and SB542, the District Attorney's Family Support Division became a new, independent County department known as the Department of Child Support Services.
- CSA and HCA, in collaboration with OCTA, budget for a plan for Senior Non-Emergency Medical Transportation Program using Tobacco Settlement Revenue.
- Provides for the phased opening of Theo Lacy Jail Building "A" ultimately providing 384 beds plus 125 medical beds.
- Plans for the development of anti-terrorism and homeland security efforts in the Sheriff-Coroner and Health Care Agencies.
- Implements 3% of pay @ age 50 Retirement Benefit for Sheriff-Coroner Safety personnel and 2% of pay @ age 50 safety retirement benefits for Probation Services employees.
- Continues implementation of Mobile Data Computer (MDC) terminals in Sheriff's patrol vehicles
- Allocates $2 million for improvements to the Manchester Office Building.
- Includes provision for four additional 800 MHz remote sites to improve safety communications network.
- Supports completion of multiple Sheriff-Coroner construction projects including Coroner Training Facility, Training Facility.
- The Probation Department budget includes $872,000 and eleven new positions to help meet the demands of a Proposition 36 (Substance Abuse Crime Prevention Act) supervision caseload that is expected to reach over 4,300 cases in just its first year of operation. New referrals in the Adult Assessment caseloads have increased 44% this past year alone.
- Probation budget request includes $2.5 million and fourteen new positions to operate a sixth Youth and Family Resource Center to serve the South and Central regions of Orange County as part of the County's $10 million Comprehensive Multi-agency Juvenile Justice Plan under the Schiff-Cardenas Crime Prevention Act of 2000.
- Budgets for the use of a State Board of Corrections awarded construction grant funding that will provide for a new 60-bed housing unit and support facilities at the existing Juvenile Hall site in Orange and the construction of the 90-bed Rancho Potrero Leadership Academy in Trabuco Canyon.
- Consistent with the provisions of Measure H, the Tobacco Settlement Funds Initiative, approved by the voters in November 2000. Total funds for FY 2002-03 (including carryover from FY 2001-02) are estimated at $50.5 million and the money not previously committed in FY 2001-02 are allocated as follows:

- 19% Health care services for seniors and persons with disabilities
- 23% Emergency room physicians and on-call specialists
- 12% Tobacco related disease prevention and control
- 20% Nonprofit community clinics
- 6% Proportional reimbursement to hospitals for charity care
- 20% Public safety including a drug/alcohol rehabilitation program at Theo Lacy jail (64 secure beds)

Use of all Measure H Tobacco Settlement Funds is monitored for strict adherence to the provisions of the initiative. Actual Tobacco Settlement Funds received will be allocated by the above percentages, whether they fall below, meet or exceed budget amounts.

- Continues the second full year funding of Proposition 36, the Substance Abuse and Crime Prevention Act. The County will receive nearly $8 million annually for five years to provide assessment, treatment and monitoring.
- Includes a Watershed Management budget of $22 million to facilitate the Board's leadership in partnership with local agencies and organizations to address watershed issues. Water quality issues will be addressed in conjunction with flood protection, environmental enhancement and recreation.
- Funds the Local Redevelopment Authority Program Office (MCAS El Toro Reuse) with $1 million to provide for "wind-down" expenses now that the City of Irvine will be the lead in reuse planning.
- Provides second year funding for the Orange County Film Commission ($100,000), the Art Commission ($150,000), international business and trade development ($250,000) and tourism ($350,000).
- Funds all debt obligation payments. Budgets displayed in Program VI include amounts for annual payments on the County's 1996 Recovery Certificates of Participation (COPS), 1995 Recovery Bonds, refunded debt financing of the Juvenile Justice Center, Manchester parking facilities, and debt financing of infrastructure improvements in the County's Assessment Districts, Community Facilities Districts and the Orange County Development Agency. This program also includes budgets for the debt prepayment fund. Although the County's 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 Teeter program. Debt related to specific operations such as John Wayne Airport and Integrated Waste Management is included in Program III where the operational budgets for those operations are also found. The County currently has no plans for temporary cash-flow borrowing because there are sufficient general fund cash balances and reserves. 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.
- Funds major capital items including:
  - Construction of Theo Lacy Jail Building B (576 beds; $33 million)
  - Property acquisition related to the Prado Dam on the Santa Ana River
  - Final closure of the Santiago Landfill
  - Construction of various Americans with Disabilities Act retrofit and deferred maintenance projects at various County facilities
  - New fund for Newport Coast Assessment District improvements ($27 million)

V. 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 and corporate management system including the strategic financial plan and departmental business plans. It follows the CEO budget policy guidelines, meets the majority of departmental requests, incorporates impacts of the State budget as currently known, increases resources for critical capital needs and meets important contingency fund and debt reduction goals.

VI. NEXT STEPS

The Board of Supervisors held public hearings regarding this budget on June 11 and 12, 2002. Results of those hearings are incorporated into this budget document. The Board is adopted this budget on June 25, 2002. The new fiscal year began on July 1, 2002. During the fiscal year, the CEO will present the Board with quarterly budget status reports and recommend appropriate changes as needed including changes which may arise from final County fund balances, adoption of the State budget, new legislation, etc.

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You may also review the budget document on-line at:

- http://www.oc.ca.gov/ceo/finance/