INTRODUCTION

The County Executive Office (CEO) presents the Budget Workbook for FY 2003-04. This document reflects the CEO budget recommendations based on Orange County's disciplined approach to fiscal management and is consistent with the priorities set forth in the County's 2003 Strategic Financial Plan. These budget recommendations will be presented at a public budget workshop scheduled for May 29, 2003 and discussed at a public budget hearing on June 10 and 11, 2003. Based on the Board direction from those hearings, the CEO will return with a budget for adoption by the County Board of Supervisors on June 24, 2003.

The FY 2003-04 Proposed Budget reflects the impacts of the local, state and national economies, limited revenue growth and the rising cost of doing business. Although impacted by external factors, the County's local economy continues to be strong and diverse. The FY 2003-04 State Budget faces a $35 billion funding gap. State legislators continue to debate the budget issues and the Governor's May Revise is due about the same time as this document goes to print. State budget solutions are likely to 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 Indicators (Performance Measures) (see following paragraph)
- Key Accomplishments of the current 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 2003-04 *Budget Summary* including:

- Department's plan for support of the County's strategic priorities
- Changes included in the base budget
- Budget augmentations and related performance plans
- Recap of the department budget
- Highlights of the key budget trends
- A matrix that shows 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 outcome indicators (performance measures). Some of the key outcome indicators have changed this year because during the 2003 business plan process there was thorough review to ensure consistency with the departmental mission and goals. In the future the key outcome indicator 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 2003-04 Recommended Budget presents the County's financial capacity and priorities in providing public safety and health, social services, environmental, 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. The Public Administrator/Public Guardian function of the Community Services Agency has been moved to the Health Care Agency. Organization placement of the remaining functions of the Community Services Agency is under study.

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. A five-member Board of Supervisors, each of who serve four-year terms and annually elect a Chairman and Vice Chairman, governs the County. The supervisors represent districts that are each equal in population. The members of the Board of Supervisors by district are as follows:

THOMAS W. WILSON, *CHAIRMAN*, 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.

JAMES W. SILVA, *VICE CHAIRMAN*, 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.

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

CHRIS NORBY, from the Fourth District, representing the communities of Buena Park, Fullerton, La Habra, Placentia and portions of Anaheim.

COUNTY MISSION STATEMENT

In 1996, the County adopted its first mission statement to define Orange County government, its organizational focus and core businesses. 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, balancing available resources with operating requirements and serves 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 if funding is available as part of a comprehensive re-adoption of the plan.

Complementing strategic and business planning is a comprehensive *County performance measurement system* that 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 outcome indicators specific to each department's mission and goals. This budget document contains reporting on key outcome indicators for 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 and FY 2002-03 budgets 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 2003-04 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 2003-04, 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 2003-04

Two indicators of the state of the Orange County economy are: how well the local economy is performing relative to surrounding counties, the state and the nation (i.e., External Indicators); and how well the local economy is performing relative to its own historical trends (i.e., Internal Indicators). In terms of the external indicators, Orange County's economy routinely out-performs local surrounding counties, the state, and national economies (in annual percentage growth), and, in fact, ranks higher (in absolute dollars) than the economies of the majority of the countries in the world. Current external indicators show that despite the current slowdown of the local economy, conditions in Orange County are expected to remain favorable relative to conditions in surrounding counties, the state and nation. However, in terms of internal indicators, Orange County's economic performance is much more volatile and uncertain. This volatility has lead local economist to ponder with uncertainty over the actual local economic outlook. This section provides various external and internal indicators that describe the current and projected outlook of the Orange County economy.

The growth in 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 4.69% in 2003 and reach $127.2 billion. This compares to an increase in Gross State Product (for the state of California) of 3.37% and an increase in Gross Domestic Product of 3.81% at the national level during the same time period. Comparisons of Orange County's projected 2003 Gross County Product (GCP) relative to prior years, shows a very slow but steady increase in GCP. For example, GCP in 2000 increased by 6.15%, dropped to 1.19% in 2001; increased to 2.35% in 2002, and is projected to increase to 4.69% in 2003.

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 March 2003 unemployment rates for the U.S., California and Orange County were recorded at 5.8%, 6.8% and 3.8% respectively. In March 2003 rates for surrounding counties in Southern California were 6.3% (for Los Angeles County), 5.7% (for Riverside County), 5.5% (for San Bernardino County) and 4.3% (for San Diego County). Comparisons of Orange County's unemployment rates in November 2002, December 2002, January 2003, February 2003, and March 2003 were 4.1%, 3.9%, 4.0%, 4.0% and 3.9%, respectively. Similarly, unemployment rates in Orange County in March 2000, March 2001, March 2002 and March 2003 were 2.5%, 2.4%, 4.0% and 3.9%, respectively.

According to Chapman University, Orange County's job growth totaled 2.1% (approximately 29,475 jobs) in 2001, is expected to total 0.3% (approximately 4,156 jobs) in 2002, and is projected to increase to 1.6% (approximately 22,914 jobs) in 2003.

Inflation, as measured by the Consumer Price Index (CPI), is expected to remain moderately low in Orange County, despite being higher than the CPI at the state and national levels. Chapman University projects the CPI at the national level to increase by 2.3%, in California by 2.4%, and in Orange County by 2.7% in 2003. Comparisons of Orange County's CPI's in 2000, 2001, 2002, and 2003 are 3.3%, 3.3%, 2.7% and 2.7%, respectively.

According to DataQuick Information Systems, in March 2003 the median price for new and existing homes in Orange County increased by 18.7% (relative to March 2002), and reached $394,000. Housing appreciation in Orange County has been rapid in response to the high demand for housing caused by 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 slowdown of the local economy, housing affordability (compared to other parts of the country) will continue to remain low.

Median family incomes in 2003 were adjusted ("Re-benched") by the U.S. Department of Housing and Urban Development to comply with actual data collected during the 2000 Census. Orange County's adjusted median family income is projected to reach $70,000 in 2003. This compares to $50,300 or Los Angeles County, $59,900 for San Diego County, $51,000 for Riverside County, $60,300 for the state of California and $56,500 for the U.S during the same time period. Comparisons of adjusted median family income levels in Orange County (based on Chapman University estimates and projections) in 2000, 2001, 2002, and 2003 are $69,310; $70,577; $70,887; and $72,985, respectively.

Taxable sales in Orange County are forecast by Chapman University to increase by 3.4% in 2003, compared to 2.1% for the State of California during the same time period. Taxable sale increases in Orange County in 2000, 2001, 2001 and 2003 are 10.1%, 1.2%, 1.2, and 3.4%, respectively.

STATE LEGISLATION AND BUDGET

The Governor's January budget addressed an estimated FY 2003-04 shortfall of $34 billion as a result of the economic downturn and declining revenues. That deficit may have grown by an additional $2 billion because of higher than anticipated expenditures. On April 30, 2003 the legislature approved a $3.7 billion package that helps close the deficit. Included in the package were bills authorizing issuance of Pension Obligation Bonds to make the payment due to the State Employees Retirement Fund in FY 2003-04. Additionally the budget reduction package included reductions in State Funding for the schools. A large element of the shortfall is a decline in receipts from the personal income tax on capital gains and stock options. Although most of the Governor's proposals to pass a portion of the State Budget on to the Counties have not received necessary concurrence from the legislature there is a consensus on some reductions which are reflected or noted in this budget documents. Specific impacts of the State budget crisis on the County budget include the following:

Public Safety

- The Probation Department, in response to funding reductions, started an early, pro-active strategy to minimize the impact of funding reductions while maintaining services critical to public safety. These actions included a reduction of $10.4 million from current year funding levels to non-mandated, non-core services and programs.

- Potential sweep of undesignated Trial Court Fees of up to $4 million. These funds are currently used to make the mandated Trial Court Funding maintenance of effort payments. If they are lost, the General Fund will be required to backfill these payments.

Community Services

- Potential loss to HCA of $11 million in cost reimbursement for mandated mental health programs.

- Funding for services provided by the Office on Aging is reduced by $850,000.

- Funding for Services provided by the one-stop Workforce Investment Act centers is reduced by $3.4 million.

- State allocation to Child Support Services is expected to be reduced by $3.7 million.

- The State may attempt to pass on to the County share of the Federal penalty for the State's failure to have a new Child Support case management system in place on time. This could be a potential $4 million one-time cost to the County General Fund.

- The State will not fund increases in cost of doing business in programs including Child Welfare Service, Food Stamps, Medi-Cal, CalWORKS and Adult Protective Services. This will result in a $6.6 million reduction in these programs ($4.3 million reduction in General Fund costs).

- An additional $8 million in CalWORKS incentive funds is at risk.

Infrastructure & Environmental Resources

- Orange County Public Library will lose over $1 million in Public Library Foundation Act funding. The County Librarian is shifting resources and personnel in order to ensure current operating hours at all branch libraries can be maintained.

- The Flood Control District will lose $25.6 million in State Flood Control Subvention funds. These funds are important to the completion of the Santa Ana River project including the raising the Prado Dam by nearly 30 feet and purchasing property behind the dam at the 100 year flood line. If not reimbursed by the State, The Flood Control District would have to divert funds from other regional flood control projects.

- Unallocated Redevelopment funds of about $3.8 million may be swept by the State.

- Road maintenance funds of $6 million that were authorized by AB 2928 for the acceleration of road maintenance and local drainage improvements may be lost.

General Government

- The State may require an undesignated cut to local government which, if allocated based on population, could cost the County General fund about $20 million. This reduction is not included in the County's recommended budget.

The Governor's May revision to the State Budget is expected on May 14, 2003. The CEO and County Departments will review the revised information, assess the impacts and make the appropriate budget recommendations to the Board.

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 the latest State budget information. Basic secured and unsecured property taxes are projected to increase by 5.6%. Motor vehicle license fees are projected to decline by about 3% based on State projections, Chapman University forecasts and trend data. In addition, the intercept of a portion of the motor vehicle license fees for the County's 1995 Refunding Recovery Bonds increases from $21.8 million to $28.3 million, further reducing this funding source. State residents currently enjoy a 67% reduction in their motor vehicle license bill and the State backfills the reduction to maintain local government financing at the pre-reduction level. Although the Governor's original State budget proposed elimination of this backfill, there has been significant pressure to continue the backfill. This recommended budget assumes continuation of the backfill. Base sales tax revenue to the general fund is projected to increase by 3.3% 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 increase only 2% from FY 2002-03 estimated amounts and are not keeping pace with program cost increases.

The one-half cent Public Safety Sales Tax of $224 million (allocated 80% to the Sheriff and 20% to the District Attorney) is projected to be 3.5% greater than the FY 2002-03 estimated amount. The interest earning rate on cash balances in the County Investment Pool administered by the County Treasurer is expected to be 1.53%, which is lower than the average 1.91% earned during the first nine months of the current year.

On the expense side, labor costs are centrally calculated based on approved positions, historical position vacancy rates and a 3.5% base building wage increase subject to approval by the Board of Supervisors as agreements with the various labor bargaining units are completed. 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 and safety employees. In total, retirement costs for the County in FY 2003-04 will be about $150 million, an increase of 38%. Health insurance increases are expected to average 20%. Inflation on other services and supplies is generally estimated at 2.8% 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. The fiscal year begins on July 1. 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 must be balanced with available financing.

BUDGET DEVELOPMENT

In January 2003, the CEO issued the following budget development policies and guidelines to all County departments as a starting point for the FY 2003-04 budget development:

1. Consistency with Strategic Financial Plan and Business Plan Concepts: Base operating budget requests shall be consistent with the priorities and operational plans contained in the Strategic Financial Plan and the departmental business plans as resources are available. Department heads are responsible for using these planning processes and program outcome indicators to evaluate existing programs and redirect existing resources as needed for greater efficiency, to reduce cost and minimize the requests for additional resources. A certification regarding the evaluation of existing resources is required as part of the submittal.

2. Salaries & Employee Benefits: The Salary and Benefits Forecasting System (SBFS) in BRASS will set the regular salary and employee benefits base budgets. The vacancy factor will be set at the historical actual vacancy rate (12 months ending December 2002 per the bi-weekly Master Position Control reports) for each department.

3. 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, and consistent with the Strategic Financial Plan guidelines.

4. Billable Services, Fees and Revenue: Departments planning to charge other County departments for services are responsible for obtaining the recipient department's agreement as to the budgeted amount of charges. Program revenues are to be used to offset the department's proportional share of operating cost changes. 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 have on file documentation 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). Departments are required to submit with their budget request a fee inventory. This inventory will list all fees, the date they were last updated (and what fiscal year was used for the cost basis), and the current status (indicated by a percentage figure) of full cost recovery.

5. Net County Cost (NCC): The 2003 Strategic Financial Plan projected ongoing general purpose revenues growing at a modest rate (about 3.5% per year) and requirements exceeding revenues in FY 2007-08. In addition, the State budget will likely have significant impacts on available funds. Therefore, there is a continued need to carefully manage the growth in the use of general purpose revenues. NCC limits by department were developed using the following formula and discussed with the departments:

   Modified NCC budget per Second Quarter Budget Report

   Less: FY 2002-2003 one-time items
   Less: Step 1 reductions
   Less: Step 2 reductions
   Less: Backfill of program revenues
   Plus: General Purpose Revenue growth factor of not more than 3.5%

   Departments must submit budget requests that contain NCC amounts that are below the limit.

6. Funds outside the General Fund: All budgets for funds outside the General Fund are to be balanced to Available Financing without General Fund subsidy. Available Financing shall be determined by an accurate projection on June 30 Fund Balance Available (FBA). Available Financing includes FBA, a realistic estimate of budget year revenues and any planned decreases to reserves. If available financing exceeds requirements, the difference should be put into reserves for the use in the future.

7. Augmentations (requests for new resources): Augmentations are defined depending on the type of budget in question. For budgets within the General Fund, an augmentation request is any resource request that results in increased NCC, increased position totals (including extra-help) or new or enhanced non-mandated, non-core programs or services. These are augmentations 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 (including extra-help) or major new programs not identified in the Strategic Financial Plan or the Business Plan.

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 available financing, the department's business plan, the County's 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 March 4, 2003 the Board adopted the 2003 Strategic Financial Plan. The 2003 Strategic Financial Plan process began in July as the departments started their operating forecasts. Preparation of the 2002 Strategic Financial Plan included four elements:

- Economic Forecast
- General Purpose Revenue and Fund Balance Available Forecast
- Program cost forecast
- Strategic Priorities

The economic forecast and General Purpose Revenue forecast is prepared by Dr. Esmael Adibi, Director of the A. Gary Anderson Center for Economic Research at Chapman University. The County departments provide program forecasts. Identification of Strategic Priorities is a collaborative effort that involves the department heads and the Board.

The initial plan projected a significant gap between resources and requirements. This gap was greater than previously anticipated; it was caused by the following factors:

- Employee health insurance increases of 20% per year
- Retirement rate increases of 30% per year for the first two years; 5% per year for the subsequent years
- Market driven salary increases
- Nearly all revenues growing more slowly than program operating costs

A department head offsite was held on August 1, 2002 and out of that meeting, a Department Head Committee was formed to assist the CEO in developing balancing recommendations for the plan. In December, the Committee delivered its recommendations to the CEO and these were shared at a second department head offsite. The 2003 plan shows continuing, and in some cases accelerated, cost increases and reflects series of recommendations to achieve long-term balancing.

Building on previous Board direction and the Department Head Committee recommendations, the CEO developed a set of six balancing strategies and incorporated these into the model in order to balance the plan over the next five years:

1. Step 1 reductions - identification of cost reductions and efficiencies without affecting service to the public
2. Step 2 reductions - evaluation of how the County used its general purpose revenues based on core services, mandates and required matches
3. CEO strategies for additional cost savings and revenue enhancements
4. Labor/Management Committee suggestions
5. No backfill of program revenues that grow more slowly than operating costs
6. Strategic Priorities that can be modified or deferred
7. Use of existing reserves while retaining the County contingency funds
8. Preserve $94.7 million in debt pre-payment fund for its original purpose; use only if needed after other cost reduction strategies are implemented. This fund may be needed to balance in five years.

By focusing on core services, mandates and matches, the plan included strategic recommendations on what reductions should be made to balance the plan. In adopting the plan, the Board made some very difficult and necessary decisions about what programs and services had to be modified or cancelled. Specific elements from the plan incorporated into the FY 2002-03 Recommended Budget are:

- Elimination of new funds for the Community Social Program grants. Only carry over funds will be budgeted.
- Phased in 50% reduction of the General Fund portion of the Office on Aging and the CEO Central Training and Communications budget.
- Phased in 75% reduction of the General Fund portion of the Human Relations Council, Tourism Council, Business Council and the Film Commission.
- 50% reduction in the intern program
- Deferral of the Employee Recognition Program
- Discontinue the General Fund contribution to Arts Orange County and the Agricultural Commission.
- Phased in reduction to over-matched funds in Health Care and Social Services.
- Elimination of the Office of Protocol and International Business Development.
- Recognition of additional revenues and cost savings from CEO strategies and Labor/Management Committee suggestions.
- Realize savings from cancel and modified strategic priorities including:
  - Cancel four years of planned General Fund contributions to affordable housing projects making $34.8 million available for other general fund purposes.
  - Hold General Fund contingencies at current levels rather than increasing them by $1 million per year.
  - Annual $10 million increases to Debt Prepayment Fund eliminated. The current fund remains intact at $94.7 million for use when the cost effective opportunity to redeem debt is available.
  - South Court Facility - Pay-as-you construction, replaced with debt financing, makes $29.4 million available for other general fund uses
  - Discontinue city watershed grant program
- Strategic Priorities from the Plan that are incorporated into the FY 2003-04 Recommended Budget are:
  - Adoptions Program
  - Annexation of County Islands
  - Health Care Agency - Bio-terrorism Response

The next (2004) Strategic Financial Planning Process will begin in mid-July incorporating any known impacts from the final State Budget as well as Board direction on the Final FY 2003-04 County Budget.

IV. FINANCIAL SUMMARY OF THE FY 2003-04 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. Total Budgeted Positions Summary by Program and Department
14. County Organization Chart

HIGHLIGHTS OF THE FY 2003-04 FINAL BUDGET

In addition to the specific ways in which this budget is consistent with the 2003 Strategic Financial Plan, additional County budget highlights and issues include:

Total Budget:

- Total County Base Budget is $4.8 billion, a decrease of about 4% from the previous adopted budget.
- Total budgeted positions (including recommended augmentations) are 17,775, an increase of fourteen positions from the previous adopted budget. This includes 131 extra-help positions that are being converted to regular positions due to the on-going and essential nature of work they provide. Departments are absorbing the additional cost of these conversions.
- General Fund Balance Available (FBA) is projected to be $123.3 million by the end of the current year (TABLE A):

TABLE A

	FY 2000-01 Final	FY 2001-02 Final	FY 2002-03 Projected
Beginning FBA July 1	$ 108.7	$ 146.0	$ 152.6
Changes to Reserves	(41.5)	(32.5)	22.1
Revenues	1,888.7	2,041.5	2,170.5
Transfer to PSST fund	N/A	N/A	(8.0)
Available Financing	1,955.9	2,155.0	2,337.1
Expenditures/Encumbrances	(1,827.9)	(2,017.0)	(2,235.6)
Changes in Encumbrances	18.2	14.6	21.8
Other adjustments	(0.2)	0.0	0.0
Ending FBA June 30	$ 146.0	$ 152.6	$ 123.3

SPECIFIC PROGRAM HIGHLIGHTS:

Public Protection

- Provides funding to the District Attorney for the completion of the Case Management System that will serve as the hub for the County's Integrated Law & Justice System.
- Includes anticipated reimbursement from the cities and Fire Authority that will share the cost of operation and maintenance of the 800 MHz Communications Network.
- The Probation Department was successful in preserving $8.4 million in State construction grant funding to relocate the Youth Leadership Academy to the Juvenile Hall property in the City of Orange.
- Sets aside funding for the opening of Theo Lacy Jail Building A Module M that will provide an additional 192 maximum-security beds. Funds will be transferred to the Sheriff's budget when the jail population reaches the point where opening the facility is necessary.

- Includes funding for completion of the state-of-the art Coroner Training Facility. The construction of this facility was funded primarily with a State grant and once completed, will act as a Statewide training facility and Coroner Division headquarters.

Community Services

- Reflects the March 12, 2003 Board of Supervisors direction that the Public Administrator/Public Guardian function of the Community Services Agency be transferred to the Health Care Agency. Sixty-six positions and $5.8 million were transferred.
- Increased caseloads and service hours for In-Home Supportive Services is being funded with one-time funds of $6 million. This entitlement program is growing significantly faster than the available funding source. If this continues, there will be a significant impact to the general fund in the near future.
- Health Care Agency is planning over $23 million in reduction in services in Behavioral Health Services ($9.7 million), Correctional and Mental Health services ($6.2 million) and Public Health Services ($7.1 million) because realignment and other revenue sources dedicated to these programs are increasing more slowly than program expenses. These service reductions will be the subject of special Beilenson Hearings conducted in conjunction with the Budget Hearings on June 10, 2003.
- Consistent with the provisions of Measure H, the Tobacco Settlement Funds Initiative, approved by the voters in November 2000, total funds including carryover are estimated at $41.5 million to be allocated to the following services:

  •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 Proposition 36, the Substance Abuse and Crime Prevention Act program although the State funding of $8 million annually for five years to provide assessment, treatment and monitoring has proven to be significantly under funded.

Infrastructure and Environmental Resources

- Includes a Watershed Management budget of $18 million to facilitate the Board's leadership to address watershed issues. This is about $4 million less than the current year as a result of pro-active efforts of the Public Facilities & Resources Department to scale the projects down to available funds.
- The Planning & Development Services Department converted to a time and materials fee structure during the current year. This fee structure is intended to achieve full cost recovery. However, there is work to be done on permits filed under the prior (discounted) fee schedule that may require a General Fund subsidy. The department has requested a budget augmentation for these costs.
- Orange County Public Library will maintain current public service hours in all branches with fewer staff and less funding for new materials due to the loss of over $1 million in State Public Library Foundation Act funds and operating costs that exceed revenue growth.
- The County will use over $2 million in Road and Harbors, Beaches & Parks funds to meet the National Pollutant Discharge Elimination System and other water quality mandates.
- The County is realizing energy cost savings in facilities where energy efficient lighting and digital HVAC controls have been installed. Public Facilities & Resources Department will continue moving forward with additional energy saving projects such as installing photovoltaic panels at the County Data Center and a cogeneration plant at the Central Utility Facility in the Santa Ana Civic Center.
- Construction will continue on Prima Deshecha Landfill Zone 1 expansion. This project will provide approximately three million tons or four years of additional capacity in the landfill system.

General Government

- The Office of Protocol and International Business Development are recommended for closure consistent with the Board direction for balancing the Strategic Financial Plan.
- Various programs funded by the County Executive Office budget will be reduced including the Intern Program, Employee Recognition Program (deferred), Tourism Council, Orange County Business Council, Film Commission, Arts Orange County, training and communications, workforce issues and the city watershed grant program.
- Includes nearly $19 million in State and Federal funding for purchase and implementation of the Direct Record Electronic (DRE) voting system.

Capital Projects

- Continuing construction of Theo Lacy Jail Building B (576 beds; $33 million)
- Funds the Musick Master Plan ($1.1 million)
- The Ladera Ranch Branch Library is scheduled to open in August 2003.
- The Dana Point Harbor revitalization project conceptual plan has been completed and a debt-financing plan is being developed to provide the funds necessary for implementation.
- Funds for the Central Utility Facility chiller replacement project is being carried over from the current year.
- Funds are included for a Youth Leadership Academy at Juvenile Hall replacing the Rancho Potrero Leadership Academy at Joplin Ranch (120 beds; $10.7 million)
- Weapons screening improvements will be provided at four Orange County Justice Centers ($1.1 million)
- Seismic retrofit improvements will be made at the County Central Garage ($1 million)
- Deferred Maintenance and Americans with Disability Act improvement projects
- Collectively, the budgets for Community Facility District projects are decreasing about $50 million due to the completion of various projects.

Debt

- 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 $94 million set aside in 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.

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

A public workshop on this recommended budget will be held on May 29, 2003. The Board of Supervisors will hold public hearings regarding this budget on June 10 and 11, 2003. Results of those hearings will be incorporated into the budget document for final Board adoption on June 24, 2003. The new fiscal year begins on July 1, 2003. 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, new grants awards, and other circumstances or conditions that may affect the budget.

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

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