INTRODUCTION

The County Executive Office (CEO) is pleased to provide you with the FY 2012-13 Recommended Budget. The CEO budget proposal to the Board of Supervisors continues to reflect Orange County's disciplined approach to fiscal management and is consistent with the County's Strategic Financial Planning process. The budget recommendations will be presented at a public budget workshop on May 25, 2012 and discussed at a Public Budget Hearing scheduled for June 12, 2012.

The FY 2012-13 Recommended Budget continues to reflect the impacts of the local, State and National economies, minimal or no revenue growth and the rising cost of doing business. The County continues to react to impacts of a down economy. Those impacts have been significant to County Departments beginning with the FY 2008-09 Budget and continuing into FY 2012-13. The recessionary period was declared to have officially ended in 2009; however, growth lagged through 2010 and early 2011. Fluctuating gas prices, wary consumers and a volatile stock market contributed to the weakness in recovery. Beginning in late 2011 and into 2012, economic activity reflected modest improvement over the prior year as evidenced by declines in unemployment, stabilization in housing prices, increases in manufacturing production and increases in commercial and retail sales. Most economists are forecasting modest growth to continue in 2012 and 2013, with potential for stronger growth in 2014. The County anticipates that there will be potentially modest growth going forward into FY 2012-13; however, it is anticipated that any growth in general purpose revenues will not be enough to offset costs which are anticipated to grow at a higher rate.

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 strategic planning initiative. This introduction also reviews the state budget and economic factors influencing the County budget, provides summary budget information, and budget highlights in various program areas.

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 of Volume I contains several charts and tables that 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 listed below:

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

The presentation for each department within each program area includes:

An ***Operational Summary*** including:

- Mission
- Budget at a Glance
- Strategic Goals
- Key Outcome Indicators (Performance Measures)
- Key Accomplishments of the current year

An ***Organizational Summary*** including:

- Organization Chart
- Description of each major activity
- Ten-year staffing trend chart with highlights of staffing changes

A FY 2012-13 ***Budget Summary*** including:

- Department's plan for support of the County's strategic priorities
- Changes included in the base budget

- Approved budget augmentations and related performance plan
- Recap of the department budget
- Highlights of key budget trends
- A matrix of the budget units under the department's control

Volume II contains additional budget detail. Readers looking for more detailed budget information for a specific department can use the Index at the end of Volume II. Departments are listed in alphabetical order with the page number of that department's budget information.

In addition to the departmental information available in the County budget book, all County departments prepare biennial business plans. These plans serve two key purposes:

- Communicate the value that the department brings to the community
- Report how the department is doing using outcome indicators

Business plans are published separately by the Departments and are available on the County's website. A business plan sets forth long-term goals, discusses operational and budget challenges, identifies strategies for overcoming the challenges and making progress on those goals during the coming year and identifies how success will be measured by using outcome indicators (key performance measures).

Departments are currently developing a balance scorecard, a strategic planning document designed as a framework to achieve balance between vision and strategy, to monitor performance and maintain accountability, and to improve internal and external communications as to how well programs are performing and meeting strategic goals. The balance scorecard intent is to align performance with funding and establish budgets consistent with performance trends and progress in meeting objectives.

II. ORGANIZATIONAL OVERVIEW

Orange County's FY 2012-13 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.

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 Chair and Vice Chair, governs the County. Each district varies in geographical size; however, the populations are relatively equal at approximately 600,000 residents.

The members of the Board of Supervisors by district are as follows:

JOHN M. W. MOORLACH, ***CHAIRMAN***, from the Second District, representing the communities of Costa Mesa, Cypress, Fountain Valley (portions of), Huntington Beach, La Palma, Los Alamitos, Newport Beach, Seal Beach and Stanton.

SHAWN NELSON, ***VICE CHAIRMAN***, from the Fourth District, representing the communities of Anaheim (portions of), Brea, Buena Park (portions of), Fullerton, La Habra and Placentia.

JANET NGUYEN, **SUPERVISOR**, from the First District, representing the communities of Fountain Valley (portions of), Garden Grove, Santa Ana and Westminster.

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

PATRICIA BATES, **SUPERVISOR**, from the Fifth District, representing the communities of Aliso Viejo, Dana Point, Irvine, (portions of), Laguna Beach, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, Mission Viejo, community of Newport Coast, Rancho Santa Margarita, San Clemente and San Juan Capistrano.

STRATEGIC PLANNING INITIATIVE

The County strives to fulfill its **mission**:

Making Orange County a safe, healthy and fulfilling place to live, work and play, today and for generations to come, by providing outstanding, cost-effective regional public services.

The County is committed to providing Orange County residents with the highest quality programs and services as articulated in its mission statement. Supporting the County's mission is a set of **vision statements** for business and cultural values (**Table A**):

Table A

VISION STATEMENT FOR BUSINESS VALUES	VISION STATEMENT FOR CULTURAL VALUES
We strive to be a high quality model governmental agency that delivers services to the community in ways that demonstrate:	We commit to creating a positive, service-oriented culture which:
■ Excellence - Provide responsive and timely services ■ Leadership - leverage available resources as we partner with regional business and other governmental agencies ■ Stewardship - seek cost-effective and effective methods ■ Innovation - Use leading-edge, innovative technology	■ Attracts and retains the best and the brightest ■ Fosters a spirit of collaboration and partnership internally and externally ■ Supports creativity, innovation, and responsiveness ■ Demonstrates a "can-do" attitude in accomplishing timely results ■ Creates a fun, fulfilling and rewarding working environment ■ Models the following core values in everything we do: ● Respect ● Integrity ● Caring ● Trust ● Excellence

III. ECONOMIC OUTLOOK FOR FY 2012-13

Key factors that influence the local Orange County economy include the unemployment rate, job growth, inflation, housing market, incomes and taxable sales. External and internal indicators provide information about the state of the Orange County economy. The County routinely monitors (a) how well the local economy performs relative to surrounding counties, the state and the nation (External Indicators) and (b) how well the local economy performs relative to its own historical trends (Internal Indicator). In terms of the external indicators, Orange County's economy routinely out-performs local surrounding counties, the state, and national economies. External indicators for 2012 reflect that the local economy is experiencing a modest recovery, trending more favorable when compared to State and national economies. In terms of internal (historical) trends, current and projected indicators forecast that economic recovery at the local level will continue to be slow and moderate. Some indicators currently reflect potential for another year of decline, but at a slower rate than experienced over the last three years. This section provides trend data for various external and internal indicators that summarize the current and projected outlook of the Orange County economy.

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 and the state of California. Unemployment rates were below the prior year up to 1% in many regions. Preliminary March 2012 unemployment rates (April 20, 2012 release) were: Orange County 8.1%, compared to 11.5% for the State and 8.2% for the U.S. In contrast, rates for surrounding counties in Southern California were 11.9% for Los Angeles County, 12.8% for Riverside County, 12.7% for San Bernardino County and 9.5% for San Diego County for the same time period. Thus far, Orange County's unemployment rates for calendar year 2012 are 8.1% in March (preliminary), 8.0% in February, and 8.0% in January. The prior five-year point-in-time unemployment rates for the month of March in Orange County (final rates released) were 3.5% for 2007, 4.5% for 2008, 8.2% for 2009, 9.8% for 2010, and 8.9% for 2011. Although the number of new claims for unemployment and payroll employment continues to inch upward, the recovery in the job market is still below standard. Between March 2011 and March 2012 Orange County's nonfarm employment increased by 13,100 jobs. Professional and service sector realized an average increase of 10,500 jobs (95% in administrative and support services) and leisure and hospital realized an average increase of 7,400 jobs. The largest year-over-year decline was reported by the government sector, losing a net of 1,600 jobs (Local government -1,400, Federal government -400 and California +200). There was minimal growth in construction (0.9%) and finance (0.7%) industries for job growth. In Orange County, these industries tend to be higher than average wage sectors. The net five-year loss of jobs in these industries and hiring at lower salary levels (underemployment), continue to negatively impact income and consumer spending.

According to Chapman University (December 2011 projections), Orange County's **job growth** is expected to increase slightly (1.6%) in 2012, a welcome improvement from the declines which began in 2007 and lasted through 2010. From 2007 to 2010 job growth in Orange County was 3 -0.2% in 2007, -2.2% in 2008, -7.4% in 2009, -1.4% for 2010 and projected to be 1.0% to 1.4% for 2011. Job growth and personal income (forecasted to increase 3.6%) continue to be monitored closely.

Inflation, as measured by the Consumer Price Index (CPI), is expected to be slightly lower for Orange County relative to the State of California and to the CPI at the national level in 2011 and 2012. Chapman University projects CPI at the national level to increase by 3.1% in 2011 and 3.2% in 2012. Increases forecasted for California are 2.7% in 2011 and 3.0% in 2012. Comparisons of Orange County's historical CPI trends from 2007 to 2012 are sporadic at 3.3% in 2007, 3.5% in 2008, -0.8% in 2009, 1.2% in 2010 and 2.7% and 2.9% projected for 2011 and 2012 respectively.

The real estate **housing market** continues to have sporadic impact on the local economy and throughout the State of California. Potential buyers are appear to be still holding back and not reacting to lower prices and low mortgage rates. According to DataQuick Information Systems in a report issued April 17, 2012, "The year is young and lots could still change, but the results from the first big sales month of 2012 (March) suggest the market is stuck in low gear. This remains a very gradual – not to mention fragile – recovery." DataQuick also reported that "Indicators of market distress continue to move in different directions. Foreclosure activity remains high by historical standards but is lower than peak levels reached over the last few years."

In Southern California, the number of unit sales was up, but gains were modest. In addition, gains among price ranges fluctuated with sales between $200,000 and $400,000 increasing year-over-year by 4.2% whereas sales above $800,000 declined 5.6%

The median sales price in Orange County was $400,000 in March 2012, representing a -7.0% year-over-year decrease from March 2011 when the median sales price was $430,000. Changes in median price among peer Counties was varied with decreases of -4.4% in Los Angeles County and -1.4% in San Diego County, increase of 1.0% in Riverside County and San Bernardino County median price remaining flat at 0.0%. The median price for the State during the same time period reflected an increase of 0.8%. Orange County median home prices in March 2012 remained higher relative to surrounding counties and the State; $400,000 for Orange County, $306,000 for Los Angeles County, $200,000 for Riverside County, $150,000 for San Bernardino County, $320,500 for San Diego County, and $251,000 for the State of California.

With respect to sales, 2,856 homes were sold in Orange County in March 2012 compared to 2,615 in March 2010, representing an increase of 9.2%. The year-over-year change in sales for surrounding counties and the State were 2.8% in Los Angeles County, -2.3% in Riverside County, -1.3% in San Bernardino County, 5.7% in San Diego County, and 2.9% in California.

In terms of numbers of homes in default (the first step in the foreclosure process), relative to the first quarter of 2012 (January, February and March) Orange County experienced a decrease of -19.8%, from 4,652 during the first quarter of 2011 to only 3,733 during the first quarter of 2012. This compares to counterpart changes in rates of default of -18.0% for Los Angeles County, -18.1% for Riverside County, -14.4% for San Bernardino County, -12.0% for San Diego County, and -17.6% for the State of California. The actual number of trustee deeds recorded (actual homes foreclosed on) also reflected year-over-year declines as follows: -21.0% for Orange County, -30.9% for Los Angeles County, -34.0% for Riverside County, -31.6% for San Bernardino County -35.8% for San Diego County and -29.7% statewide.

Home sales declined in 2010 and early 2011 after the expiration of State and Federal tax incentives. Although the ratio of home prices to median family income declined to 6.1 from a peak of 8.9 in 2005, strict lending standards and minimal job growth continues to negatively impact sales. Dr. Esmael Adibi, of Chapman University, explains that "there are still too many unsold housing units in the market and a large number of homes in the foreclosure process that will keep the supply of resale housing units at an elevated level." Chapman is projecting that single-family resale housing prices will grow moderately, approximately 0.2%, and unit sales will remain flat in Orange County during 2012. Recent market gains in February and March 2012 are seasonal in general, with most economists projecting that trends will level again by summer.

Orange County 2012 Median family **income** per the U.S. Department of Housing and Urban Development (HUD) was estimated at $85,300 up from the 2011 median family income estimate for Orange County of $84,200. This compares to $64,800 for Los Angeles County, $63,300 for Riverside County, $63,300 for San Bernardino County, $75,900 for San Diego County, $71,400 for the State of California and $52,400 for the U.S during the same time period.

Taxable sales in Orange County are forecast by Chapman University to increase by 6.0% in 2011 and 5.7% in 2012. This compares to a projected increase of 10.6% projected for the State of California included in the Governor's FY 2012-13 Proposed Budget and 13.8% increase for the State projected by the Department of Finance in April 2012. Per the State Board of Equalization (BOE), taxable sales growth in Orange County was 5.9% in 2003, 8.8% in 2004, 6.5% in 2005, 3.9% in 2006, 0.2% in 2007, -6.4% in 2008, -14.7% in 2009 and 4.3% in 2010. BOE reports taxable sales two years in arrears.

In summary, most indicators reflect that the economic condition of Orange County is better than or comparable to surrounding counties, the state and the nation. With respect to historical (internal County) trends, some level of recovery is anticipated in most economic sectors but growth is expected to be modest.

STATE LEGISLATION AND BUDGET

The Governor released the FY 2012-13 State Budget Proposal on January 5, 2012 which continued the budget balancing concepts proposed in the development of the State's FY 2011-12 budget. The budget recommends closing approximately half of the State's projected budget shortfall with expense reductions and the remaining half with temporary tax increases. The budget includes a new round of trigger cuts, primarily impacting education and the courts, if proposed tax measures are not approved by voters in November 2012.

- Budget Shortfall of $9.2 billion:
  - $4.1 billion deficit carryover from FY 2011-12
  - $5.1 billion ongoing shortfall in FY 2012-13
- Budget Balancing Proposal of $10.3 billion:
  - Expenditure Reductions - $4.2 billion
  - New Taxes and Fees - $4.7 billion
  - Other Solutions - $1.4 billion

The Governor, in his executive summary, projected that slow economic growth would continue to impact the State's budget and that baseline State General Fund revenues would not return to their FY 2007-08 level until FY 2014-15.

In January 2012, the State Legislative Analyst's Office (LAO) released an overview of the Governor's budget proposal and concluded that the Governor's plan would continue the State's efforts to restore budgetary balance; the plan created uncertainty for schools as a result of the potential for implementation of trigger cuts that primarily impact schools. The LAO again raised concern that revenue estimates were optimistic and that actual revenues are likely to be lower when received due to volatility of income streams such as personal income taxes. The LAO forecasted State General Fund Revenues for FY 2012-13 at $3.2 billion below the Governor's proposed budget.

The impact of the current State Budget as well as potential impacts from the Governor's FY 2012-13 Proposed Budget continue to put further pressure on service levels, revenues and cash flows. The Federal deficit may have additional impacts on the County. We are currently monitoring State and Federal fiscal policy on an ongoing basis for potential impacts to the County. Projections for impacts have not been included in the FY 2012-13 recommended budget as there is still a high degree of uncertainty as to how final, adopted State and Federal budgets will impact localities. County budgets will be adjusted during the fiscal year, as the impacts become known.

MAJOR REVENUE AND EXPENSE ASSUMPTIONS

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

- State and Federal funding sources are estimated by departments based on established funding allocation formulas, caseload projections and the latest State budget information.
- The current year Assessed Roll of Values was up by 0.87%. The change in assessed values for FY 2012-13 is projected at 0.5%.
- Health & Welfare Realignment revenue from the State allocated to Health, Mental Health, Social Services and Probation is projected to increase on average by 7.9%, ranging from 0.7% to 12.5% based upon current program and revenue trends.
- Additional State Realignment revenue included in the County's budget for Sheriff, Probation and Health Care Agency includes $47.0 million in State funding allocated to support the costs associated with realigned public safety responsibilities regarding adult felony offenders to counties under the 2011 Realignment legislation, AB 109.
- The one-half cent Public Safety Sales Tax (Proposition 172) funds are allocated 80% to the Sheriff's Department and 20% to the District Attorney by Board policy. Receipts for FY 2012-13 are projected to increase 3.5% based on State and economists' projections and trend data.
- The interest rate on cash balances in the County Investment Pool administered by the County Treasurer is expected to average 0.32%, reflecting a decrease of 0.08% from FY 2011-12 revised projections of 0.40%.

Assumptions for various categories of expenses include:

- Labor costs are centrally calculated based on approved positions and historical vacancy factors. One to two step merit increases are assumed for employees who are eligible. Actual merit awards are based on the employee's performance evaluation. No base building wage increase appropriations are built into the departmental budgets as these are subject to negotiations and approval by the Board of Supervisors. As negotiated agreements are completed, current budget status will be reviewed and the need for budget adjustments will be determined.
- Retirement costs are expected to decrease this year by an average of 2.2% when compared to costs included in the FY 2011-12 Adopted Budget. Base rates, depending on tier and bargaining group, may range from a decrease of 11.9% to an increase of 14.3%. Retirement rates are anticipated to continue to increase in future years through FY 2014-15 primarily due to the actuarial smoothing of 2008 investment portfolio losses.
- Employee health insurance costs are expected to increase on average by approximately 9.36%.
- Retiree medical cost for most bargaining units is budgeted at 2.5% of payroll. This rate reflects the modified plan approved by the Board in June 2009. The recommended budget plan fully funds the annual required contribution.
- Inflation on other services and supplies is generally allowed at 2.1% with higher rates for fuel and medical supplies.

2011 STRATEGIC FINANCIAL PLAN

The Strategic Financial Plan (SFP) process provides the framework for balancing available resources with operating requirements, implementing new programs and facilities and serves as the foundation for the annual budget. This framework enables the Board to make annual funding decisions within the context of a comprehensive, long-term perspective. Since 1998, the Strategic Financial Plan has been updated annually to review the financing necessary to carry out programs and services. New priorities are identified and considered as part of a comprehensive update of the plan.

The Strategic Financial Plan contains five elements:

- Economic Forecast
- General Purpose Revenue and Fund Balance Available Forecast
- Program Cost Forecast
- Strategic Priorities
- General Fund Reserves Policy

On January 24, 2012, the Board of Supervisors adopted the County's 2011 Strategic Financial Plan. Due to the current economic situation and the declining cash balance in the General Fund, no new strategic priorities were built into the plan. The Strategic Financial Plan included an assumption of a gradual decline and leveling of General Fund Balance Available, modest general purpose revenue growth and continuation of the State's 15 year repayment of past mandated cost claims. The spending side included assumptions of no growth in departmental Net County Cost limits for FY 2012-13, followed by increases of 1%, 2%, 3% and 3% in the four fiscal years beginning with FY 2013-14 through FY 2016-17. This year the plan focused on General Fund gap analysis in an effort to highlight the significant impacts of state budget actions, the continuing impact of depressed General Fund revenues and the growing cost of doing business. A summary analysis of capital needs was also conducted. The plan identified a cumulative 5-year budget gap of $582.9 million including $76.2 million in reductions that would be required to meet the FY 2012-13 Net County Cost (NCC) limits. The FY 2012-13 base budgets submitted by Departments reduced the $76.2 million gap to $37.1 million due in large part to continued efforts to minimize and defer spending. The significance of rising retirement and health and benefits costs, coupled with the potential risks associated with continued deferral of capital maintenance projects, make it necessary to continue to place emphasis on cost reductions. The plan forces the County to acknowledge that continued diligence and control is necessary to maintain balance and realize continued results from the difficult actions Departments have already taken, beginning in 2007. The difficult reality is that service cuts have been made and further reductions and/or new revenues will be necessary to achieve an operating plan that is sustainable over the long-term. In response to this, Departments have submitted plans for a potential 5% Net County Cost contingency reduction. It is not proposed that the reductions be implemented at this time; however, Departments are ready to implement should it become necessary. This reduction would be in addition to reductions of 5% made as part of the FY 2011-12 budget and 15% across the board reductions made over the three prior fiscal years, beginning mid-year in FY 2008-09, and deeper cuts in targeted areas such as capital projections and information technology. The annual update of the Strategic Financial Plan will begin in September of 2012.

IV. OVERVIEW OF THE FY 2012-13 RECOMMENDED COUNTY BUDGET

BASIS OF BUDGETING

The County's budget and its accounting system are 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. Consistent with generally accepted accounting principles, revenues are recognized when they are measurable and available. The County's availability criterion is 60 days after the end of the fiscal year. Fund Balance Available (FBA) is estimated and adjusted for increases or decreases to reserves. Revenues plus FBA equals total available financing.

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. In each fund, expenses and increases to reserves must be balanced with available financing.

BUDGET DEVELOPMENT

The following budget development policies and guidelines are used by all County departments as a starting point for the budget development:

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 December 2011 Strategic Financial Plan and the approved departmental business plans as resources are available. Department heads are responsible for using these planning processes along with 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 budget request submittal.

Salaries & Employee Benefits: The Salary and Benefits Forecasting System (SBFS) in BRASS (the County's budget system) will set the regular salary and employee benefits base budgets. The vacancy factor will be set at the historical actual calendar year 2011 vacancy rates (through pay period 25).

Budgeted extra-help positions must comply with the MOU provisions. Those that do not are to be deleted with a corresponding reduction in the extra-help account.

Services & Supplies: Services and supplies shall be budgeted at the same level as actual use during last fiscal year and current year projections to the extent they are necessary to support business plan and Strategic Financial Plan goals.

Fees and Charges for Services: Departments are responsible for identifying total cost for programs with fees and to set fees at full cost recovery for the entire fiscal year. Full cost recovery includes direct and indirect costs, overhead and depreciation for the period during which the fee will be in effect. If fees are set at less than full cost recovery, the reason for subsidy should be given. Fees that are set by State law shall be implemented in accordance with those laws.

Revenue and Grants: Program revenues (e.g. State and Federal programs revenues) are to be used to offset the department's proportional share of operating costs to the full extent of the program regulations. Local matching funds should normally be at the legal minimum so that the General Fund subsidy (backfill) is minimized. Program revenues are to be used for caseload growth.

One-time revenues shall be limited for use on non-recurring items including start-up costs, program or reserve stabilization, capital expenses and early debt retirement.

New revenue sources pending legislation or grant approval should not be included in the base budget request. They should be considered during the quarterly budget report process (i.e. when legislation is passed or grants awarded).

Net County Cost (NCC): NCC limits for the next five years are based on the current budget, adjusted for one-time items and annualization of current year approved ongoing augmentations. The FY 2012-13 budget policy included no growth in the limits consistent with the 2011 SFP. Due to uncertainty regarding growth in General Purpose Revenues and impacts of State budget actions, Departments have submitted 5% contingency reduction plans.

Departments are to submit budget requests at or below the NCC limits. The CEO/Budget Office is authorized to automatically reduce, if necessary, the appropriation requests of any budget that exceeds the established NCC limit.

Reserves and Contingencies: The County General Fund currently contains formal reserves, appropriations for contingencies, appropriated reserve-type funds and reserves held by others. The purpose of these reserves is to protect community programs and services from temporary revenue shortfalls and provide for unpredicted, sudden and unavoidable one-time expenditures. Certain departments and non-General Funds have other reserves dedicated to specific programs and uses.

Balanced Budget: The General Fund requirements will be balanced to available resources. Budgets for funds outside the General Fund are to be balanced to Available Financing without General Fund subsidy unless previously approved by the Board or CEO. Available Financing shall be determined by an accurate projection of June 30 Fund Balance Available (FBA) and realistic estimates of budget year revenues and any planned decreases to reserves. If available financing exceeds requirements, the difference should be put into reserves for future use.

Augmentations (requests for new or restored resources): All augmentation requests must include outcome indicators that clearly outline the department's intended outcome(s) resulting from the additional resources. They must be ranked in order of the department's priority for approval. 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. This certification will be contained in the budget cover letter from the department head to the CEO.

Approved augmentations will undergo an outcome indicator review for two subsequent years as a condition of continued funding. Departments will report on outcome indicator results (to the extent data is available by budget submittal due date) of the performance expectations in a format that will be provided as a separate package. Augmentations will be funded if the CEO and department agree that:

- They meet the performance expectations
- They merit continuation
- They are still relevant to the department's business plan
- Sufficient funding exists

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 and legal restrictions on funds, 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, departments prepare current year projections of expenses and revenues and requests for the next fiscal year. The CEO/County Budget Office 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 and then to the Board of Supervisors during public budget hearings. Operating and capital budgets are prepared in this single process and presented together in this budget book.

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

1. Total County Revenue Budget
2. Total County Financing
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 Revenue
8. General Fund Net County Cost by Program
9. Public Safety Sales Tax
10. Health & Welfare Realignment
11. Total County Budget Comparison by Agency/ Department
12. Provision for Reserves & Designations Summary
13. Position Summary
14. Summary of Net County Costs
15. County of Orange Organization Chart

HIGHLIGHTS OF THE FY 2012-13 ADOPTED

Total Budget:

- Total County Base Budget is $5.6 billion, level with the prior year adopted budget.
- Total budgeted positions are 17,210 a decrease of 47 positions from the current modified budget.
- Total General Fund Budget is $3.1 billion, level with the prior year adopted budget and below the current modified budget $3.4 billion.
- General Purpose Revenues are $649.7 million.

Specific Program Highlights:

This section provides highlights of the base budgets and recommended augmentations for the County budget programs and departments. Due to increases in costs which continue to outpace growth in sources, many Departments have proposed cuts which are included in the current year recommended budget. Departments have worked diligently to manage their budgets as have significantly reduced funding gaps identified in the 2011 Strategic Financial Plan. Departments continue to consistently maintain programs and minimize impacts on services.

Due to the continued uncertainty related to stability of General Purpose Revenues and other General Fund revenue sources, General Fund Departments were requested to submit contingency plans to implement a potential 5% Net County Cost reduction. A total of $27.2 million in contingency reductions were submitted but are not recommended for implementation at this time.

Public Protection

District Attorney

- The District Attorney submitted $2.1 million in proposed reductions with a maximum potential of 19 positions to be reduced. All programs within the District Attorney's office will be impacted at some level by the proposed reduction. All $2.1 million is recommended for restoration. Restoration is targeted to support core staffing that is required to provide effective prosecution services. Additional detail of service impacts are provided in the Budget Augmentation Book.

Public Defender

- Public Defender submitted $2.4 million in proposed reductions with a maximum potential of 28 positions to be reduced. The reduction in funding would require that the Department begin reducing caseloads immediately. All $2.4 million is recommended for restoration. Additional detail of service impacts are provided in the Budget Augmentation Book.

Sheriff-Coroner

- Due to declines in revenue, including Federal and State funding, weak growth in revenues such as Proposition 172 revenue and County funding limitations, the Sheriff-Coroner submitted $21.9 million in proposed reductions with no reduction in positions. Due to funding limitations, only $16.7 million is recommended for restoration. Additional detail of service impacts are provided in the Budget Augmentation Book.

Community Services

- Significant Community Service impacts were realized in FY 2008-09, FY 2009-10 and again in FY 2010-11 due to State funding shortfalls. There were no requests for restoration of reductions made in FY 2011-12. The FY 2012-13 recommended budget includes a reduction of $5.0 million for In-Home Supportive Services which is not recommended for restoration due to General Fund funding limitations. Caseloads and funding impacts will be monitored throughout the year.

Health-Care Agency

- The Health Care Agency is requesting an additional $1.2 million to cover increased enrollment in the Medical Services Initiative (MSI) program ($1.0 million) and funding for Behavioral Health Inpatient Beds ($250,000). One-time funding of $1.2 million is recommended.

Infrastructure and Environmental Resources

OC Public Works

- OC Public Works is requesting funding of $100,000 to retain a Housing Element consultant to comply with the California Department of Housing and Community Development's (HCD) mandate that each local jurisdiction in the Southern California Council of Governments (SCAG) region submit an updated Housing Element by October 2013. One-time funding is recommended.

General Government

Assessor

- The recommended base budget for the Assessor includes a $3.3 million reduction in appropriations to meet Net County Cost Limits of which $1.3 million is recommended for restoration. Detail of potential service impacts are provided in the Budget Augmentation Book.

County Accounting & Payroll System (CAPS) Program

- The recommended base budget includes $1.7 million in appropriations offset by revenue from financing proceeds for the implementation of the CAPS+ Budget Reporting and Analysis Support System (BRASS) upgrade to the Performance Budgeting (PB) system.

Capital Improvements

Capital Projects

- The recommended base budget for Capital Projects includes a $2.5 million reduction in appropriations to meet Net County Cost Limits which is recommended for full restoration. $960,862 of this reduction would impact Sheriff-Coroner Fund 14Q, Construction and Facility Development Fund, as specific jail projects would be cancelled or deferred if funding is not restored. Additional detail of project impacts is provided in the Budget Augmentation Book.

Debt

The adopted budget funds all debt obligation payments. Budgets displayed in Program VI include amounts for annual payments on the County's refunded debt financing of the Juvenile Justice Center, Manchester parking facilities, and debt financing of infrastructure improvements in the County's Assessment Districts, Community Facilities Districts and the Orange County Development Agency.

Although the County's former 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. Based on the County's Strategic Financial Plan and at current funding levels, the County is able to fulfill these debt obligations and sustain current and future services and operations.

Cash Flow Management

In July 2011, the County of Orange issued $150 million in Tax and Revenue Anticipation Notes (TRANs) to finance seasonal cash flow requirements during Fiscal Year 2011-12. The notes will be fully paid by June 2012. It is not currently anticipated that the County will issue Tax and Revenue Anticipation Notes (TRANs) in FY 2012-13.

The proceeds from the TRANs cover anticipated cash deficits resulting from the uneven flow of revenues, such as State payment deferrals of reimbursement of many health and human service programs administered by the County. County General Fund expenditures occur in relatively level amounts throughout the year, while receipts follow an uneven pattern. Secured property tax installments, which represent the largest component of general purpose revenues, are primarily received in December and April of each year.

The County issued short term taxable Pension Obligation Bonds to prepay, at a discount, the County's 2012-13 pension obligation. The bonds were issued on January 18, 2012 in the amount of $230 million at rates ranging from .75% to .95%.

IV. SUMMARY

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

V. NEXT STEPS

The new fiscal year begins on July 1, 2012. 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, final state budget impacts, new legislation, new grants awards, and other circumstances or conditions that may affect the budget.

Please see the following page for contacts regarding information in this report:

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This County budget document is available on-line at:

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