# Executive Summary

## *Introduction*

Per the Board of Supervisors' request and direction, the Strategic Financial Plan (SFP) has been updated in preparation for the County's FY 05-06 annual budget. The information contained in the SFP provides an overview of the County's anticipated revenues and financial expenditures, as well as potential issues that may impact the County's limited resources.

The primary focus of the SFP is on the portion of the General Fund, often referred to as the discretionary general fund or the Net County Cost (NCC), which is the source of funding for those activities that the Board has some discretion over. The non-discretionary portion of the budget contains activities such as benefit payments to clients, which the County provides using revenues from the State and Federal Governments specifically for that purpose. For FY 05-06, the NCC estimate is $548.6 million and represents a second consecutive year of flat or level costs.

## *Process*

Preparation of the SFP involved compiling the various summaries and schedules: Economic Forecast (Section III), General Revenue Forecast, Fund Balance Available, Departmental Reserves (all contained in Section IV), NCC Limits (Section V), and Strategic Priorities (Section VII). Also included for Board consideration and approval is the General Fund Reserves Policy (Section VI), which covers existing reserves available to the General Fund. This policy is intended to provide flexibility in the maintenance and use of these reserves.

Each year, the A. Gary Anderson Center for Economic Research at Chapman University provides the County with both the Economic and General Revenue Forecasts. Information from various indicators such as payroll employment, building permit valuation and taxable sales suggest that the upcoming year will continue a slow, steady recovery.

The General Purpose Revenue Forecast projects modest growth of revenue sources for the next 10 years. As a result of more recent information by the Auditor-Controller's (A/C), the FY 05-06 General Purpose Revenue figures have been revised using the A/C's First Available Financing Report. For the remaining years of the plan, overall GPRs were estimated by applying Chapman's annual growth rate. Chapman has endorsed this methodology by staff.

Using the average from the last five years of actual Fund Balance Available (FBA), staff has analyzed the various components of FBA (Fund level reserves; Departmental NCC savings; and Prior period encumbrance cancellations) has estimated FY 05-06 FBA at $105 million. A fourth component historically used in calculating FBA (Reserve for Budgeted and Unused Contingencies) is recommended for consolidation with another reserve for the FY 05-06 Budget (see General Fund Reserves Policy, Section VI) and thus not included for future use to balance the annual budget.

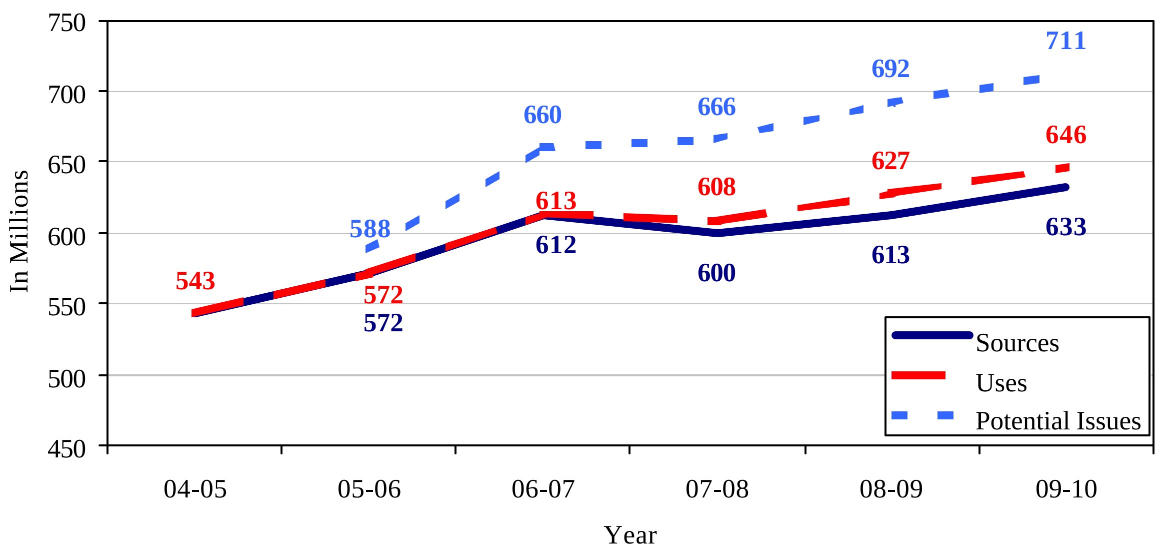
Departmental Net County Cost (NCC) limits are set for ongoing baseline operations. NCC limits were calculated using the FY 04-05 limits as the starting point and subsequently amended for adjustments, Step 2 reductions, which include the implementation of a hiring freeze, and approved funding of augmentations. The FY 05-06 NCC limits are set at $548.6 million, approximately 12% of the total County Budget. Starting with FY 06-07, an annual 3% growth factor is built in.

The Top 10 Strategic Priorities from the 2004 SFP are included in the Potential Issues section for consideration should funding be available. A brief description and cost summary, where applicable, of each are attached in the last section of the workbook. As the No. 1 Strategic Priority, funding that has been previously set-aside for the CAPS Upgrade or Replacement is scheduled for use in FY 05-06.

***Outlook***

The Strategic Financial Plan's five-year projections indicate that, even with general purpose revenues increasing roughly 4% annually and level NCC limits, sustained operations will require the County continue to conserve financial resources (see chart below). Revenue sources are projected approximately $572 million in FY 05-06, increasing to $633 million in FY 09-10. Known uses are projected to range from $572 million in FY 05-06 to $646 million in FY 09-10. However, when potential issues are taken into account (such as the O.C. Fire Authority Tax

**Strategic Financial Plan Summary**



Initiative (Proposition. 172), and reduced state funding for In-Home Support Services workers), costs surpass estimated revenues, impacting the County's ability to maintain current level of service. The additional costs for these items increase annual obligations by $16.6 million in FY 05-06 and reach a maximum of $79 million in FYs 08-09 and 09-10.

The sources line includes forecasted revenue sources, one-time revenues, and estimates of annual carryover or Fund Balance Available (FBA) and the second year shift of property tax revenues to the state. Uses represent the known impacts or projects the County will need to fund, such as the NCC limits. Potential Issues represents issues the County may need to address, which include the Top 10 Strategic Priorities as approved by the Board, with input from departments, in June 2004. Summaries of these priorities are included in Section VII.

The County faces some difficult funding choices. While there appears to be sufficient funding for current operations, additional funding requirements will strain financial resources. County staff is looking to Board for direction as it begins to formulate plans for balanced budget for FY 05-06 and beyond.

The County Executive Office staff will present the Strategic Financial Plan to the public and the Board of Supervisors at a special meeting scheduled for Tuesday, April 12, 2005 beginning at 1:30 p.m.