INTRODUCTION

The County Executive Office (CEO) is pleased to provide you with the FY 2006-07 Recommended Budget. The CEO budget recommendations to the Board of Supervisors reflect Orange County's disciplined approach to fiscal management and are consistent with the County's Strategic Financial Planning process. The budget recommendations will be presented at a public budget workshop on May 25, 2006 and discussed at public budget hearing scheduled to begin on June 13, 2006.

The FY 2006-07 Recommended Budget reflects the impacts of the local, state and national economies, limited revenue growth and the rising cost of doing business. The County's local economy, although impacted by external factors, continues to be strong and diverse. As of February, the FY 2006-07 State Budget faced a $2.4 billion funding gap, down from over $8 billion a year ago. The County's budget proposal reflects the impacts of the Governor's January budget and will be updated if necessary based on the May Revise.

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 budget highlights 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 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 2006-07 ***Budget Summary*** including:

- Department's plan for support of the County's strategic priorities
- Changes included in the base budget
- Requested budget augmentations and related performance results
- Recap of the department base 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 at the end of Volume II. Departments are listed in alphabetical order with the page number of that department's budget information.

All County departments prepare annual business plans that serve two key purposes: Communicating the value that the department brings to the community and outcome indicators that measure how it is doing. Business plans are published separately by the departments and are available on the

County's website **http://www.ocgov.com/ceobusiness.asp** . 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 (performance measures). Occasionally, key outcome indicators change because of an ongoing review to ensure consistency with the departmental mission and goals. It is the intent that outcome indicator changes will be minimized over time so the reader of the business plans and this budget document can consistently observe trends and progress in meeting objectives.

New this year is a separate volume called the Budget Workbook Appendix that contains the departmental budgets for those who desire an additional level of budget detail. This includes each department's total budget broken down by major revenue and expense category. In addition, the total department budget is broken down into each of the activities within the department.

II. ORGANIZATIONAL OVERVIEW

The Orange County's FY 2006-07 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 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:

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

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

LOU CORREA, from the First District, representing the communities of Santa Ana, Westminster, and portions of Garden Grove.

JIM SILVA, 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.

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

COUNTY MISSION STATEMENT

In 1996, the County adopted its first mission statement to define Orange County government, its organizational focus and core businesses. 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.

III. ECONOMIC OUTLOOK FOR FY 2006-07

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 world's countries. Current external indicators show that despite the current sluggishness of the local economy, conditions in Orange County remain relatively favorable when compared to surrounding counties, the state and the nation. In terms of internal (historical) trends, current and projected indicators show that growth of the Orange County economy will be slow but steady in 2006. This section provides various external and internal indicators that describe 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, the State of California and the nation. In February 2006 unemployment rates for the U.S., California and Orange County were recorded at 5.1%, 5.4%, and 3.6% respectively. In February 2006, rates for surrounding counties in Southern California were 5.5% (for Los Angeles County), 4.7% (for Riverside County), 4.7% (for San Bernardino County) and 4.1% (for San Diego County). Thus far, Orange County's unemployment rates for calendar year 2006 are favorable at 3.5% in January and 3.6% in February. Similarly, the two-year point-in-time unemployment rates in Orange County are 4.1% for February 2005 and 3.6% for February 2006. In effect, in terms of unemployment rates, the County of Orange profile remains very favorable.

According to Chapman University, Orange County's job growth is expected to increase by 1.4% in 2006 and result in approximately 20,532 more jobs relative to 2005. This compares favorably, in percentage growth, with the State of California at 1.1% and at the national level at 1.3% during the same time period. Historically, job growth in Orange County has been sporadic since 2000. From 2000 to 2006 job growth in Orange County was 3.2% in 2000, 1.8% in 2001, -0.7% in 2002, 1.8% in 2003, 2.2% in 2004, 1.7% in 2005 and is projected to reach 1.4% in 2006.

Inflation, as measured by the Consumer Price Index (CPI), is expected to be slightly higher than the CPI at the state and national levels in 2006. Chapman University projects the CPI at the national level to increase by 3.7%, in California by 3.7%, and in Orange County by 4.0% in 2006. Comparisons of Orange County's historical CPI trends from 2000 to 2006 are sporadic at 3.3%, 3.4%, 2.8%, 2.6%, 3.3%, 4.4% and 4.0%, respectively.

According to DataQuick Information Systems, in March 2006 the median price for new and existing homes in Orange County increased by 10.3% (relative to March 2005), and reached $623,000. This compares to increases of 15.0% for Los Angeles County, 5.7% for San Diego County, 9.0% for Riverside County, and 23.2% for San Bernardino County. This shows that annual housing appreciation in Orange County, although not as great as in some surrounding Southern California counties, has continued to increase at a relatively rapid rate. Moreover, median sales in Orange County continue to exceed all surrounding Counties by a substantial amount; $623,000 for Orange County, $504,000 for San Diego County, $506,000 for Los Angeles County, $413,000 for Riverside County and $367,000 for San Bernardino County. Historically, year-to-year home sale price increases in Orange County for the month of March exclusively are 12.3% for March 2001, 13.7% for March 2002, 18.7% for March 2003, 23.1% for March 2004, 16.5% for March 2005 and 10.3% for March 2006. For the future, Chapman University is projecting that while housing appreciation will slow down; housing affordability rate (compared to other parts of the country) will continue to remain low.

Median family incomes were adjusted ('Re-benched') in 2003 by the U.S. Department of Housing and Urban Development (HUD) to comply with actual data collected during the 2000 Census. Orange County's adjusted (HUD) median family income is expected to be $78,300 in 2006 (up from $75,700 in 2005). This compares to $56,200 for Los Angeles County, $64,900 for San Diego County, $57,500 for Riverside County, $64,100 for the State of California and $59,600 for the U.S during the same time period.

Taxable sales in Orange County are forecast by Chapman University to increase by 5.1% in 2006. This compares to an increase of 4.7% for the State of California. Taxable sales in Orange County increased by 10.1% in 2000, by 0.3% in 2001, by 0.6% in 2002, by 5.9% in 2003, by 8.2% in 2004, by 6.3% in 2005, and are expected to increase by 5.1% in 2006.

In summary, economic growth in Orange County continues to look favorable relative to surrounding counties, the state and the nation. Moreover, projected trends suggest that the local economy will continue to grow at a slow but steady pace during the balance of 2006.

STATE LEGISLATION AND BUDGET

The FY 2004-05 State budget included significant impacts to the County budget that continued into FY 2005-06. These included:

- Two years of County General Fund property tax revenue shifted to the State ($27.7 million per year)
- Two years of 10% of property tax shift from other funds to the State:
    - $4.3 million per year from the Orange County Flood Control District
    - $3.3 million per year from County Harbors, Beaches & Parks
    - $1.7 million per year from Redevelopment
- Local governments had to wait until FY 2006-07 for mandated cost reimbursement with the original five-year payback period extended to 15 years. Some payments were made in FY 2005-06.

The Governor's January budget proposal for FY 2006-07 used revenue estimates based on a strong but slowing economy. Personal income tax revenue was estimated to grow by 7.1%. Sales tax and corporation tax revenues were estimated to grow by 4%. The total budget of $125.6 billion included a $97.9 billion general fund. The general fund component increased 8.4% over the previous year with Proposition 98 education spending up by 11.4%. The State deficit was reduced to $4.7 billion.

The Governor proposed a Strategic Growth Plan that would provide $222 billion in capital funds over ten years leveraging $68 billion in new State bonds for transportation, education, flood control and water supply projects, prisons and courts.

Many of the State budget issues could affect programs and services that the County provides to the local community. In late January, the CEO estimated that the total County budget impact of the State budget was 46 new positions in SSA and a Net County Cost increase of $999,000. Some of the more significant issues by program are listed below:

Public Safety

- Citizen's Option for Public Safety (COPS) and Juvenile Justice Crime Prevention Act (JJCPA) funding continues at current levels.
- Funding for local emergency preparedness is $46 million state-wide.
- Funding for up to 150 new judgeships state-wide is to be phased in beginning in Spring 2007 over a three-year period.
- The administration will continue to seek increased federal funding for the State Criminal Alien Assistance Program (SCAAP).

Health & Social Services

- Child Support County administration funding is held at current levels. The State is making $20 million in federal funds available at a 50% match with county funding.
- The State will fund the Child Support System Federal penalty associated with the delay in implementing the system state-wide.
- Realignment funding for mental health and health programs is expected to grow by only 2%. Realignment funding for social services programs is expected to

grow by nearly 7%. Because of slow growing revenues, caseload growth has not been fully paid for the past two years.

- Prop 36 Substance Abuse Treatment funding is funded with a one-time grant at current levels: $120 million total including $96 million for cities and counties. Funding is accompanied by expectations for program reforms intended to improve outcomes and accountability.
- AB 3632 Mental Health Services to special education students is no longer a State-mandated program. Program is funded at $69 million state-wide for the schools to contract with counties. In addition there is $50 million for this program in the Commission for State Mandates budget. Service delivery effectiveness is being reviewed. A refined proposal may be introduced in the May revise.
- Prop 63 Mental Health Services Act funding is expected to grow by 1%.
- Calendar year 2006 Medi-Cal provider rates are slated for a 5% reduction that could place additional stress on the County's safety-net health care system serving vulnerable populations.
- The Governor proposes $120 million state-wide for enhanced ability to respond to natural and intentional disasters.
- Increased funding for Medi-Cal program awareness, enrollment and retention could increase workload in SSA by 12 positions and provide an additional $1.7 million in State and Federal funding.
- County Medi-Cal program administration salary and overhead reimbursement frozen at current level.
- In-Home Supportive Services (IHSS) funding is up 4.1% with caseload growth estimated at 6.4%. IHSS administration funding to the County could increase by about $449,000 and require three additional positions with a minor increase in Net County Cost.
- Current year CalWorks child care funding is being reduced by $114.6 million state-wide since child care costs are not expected to materialize. Next year, CalWorks single allocation funding to counties reduced by $40 million state-wide and may be offset with existing county performance incentive funds.
- Current year performance incentive funds are being reduced as are next year funds leading to a potential reduction of $689,000 for the County. SSA is concerned about the impact this may have on the CalWIN project and case processing.
- Increased funding for Foster Care to expand permanent homes for children and implement an adult mentor program.
- Food Stamp program Federal funding is increased by an estimated $2 million for the County requiring an additional 16 positions and an increase of $304,000 in Net County Cost.
- Funding for the Promoting Safe and Stable Families program is decreasing by $183,000 for the County. This could require re-evaluation of the Family Resource Center contracts.
- Child Welfare Services funding is increased by $2.2 million for the County. This would require 15 positions and an increase of $616,000 in Net County Cost.

Infrastructure & Environmental Resources

- Prop 42 funding for pavement and storm drain projects: the FY 2004-05 suspended amount of $255 million state-wide to cities and counties will be paid one year early in FY 2006-07. The FY 2003-04 suspended amount ($122 million state-wide to cities and counties) remains dependent on tribal gaming bonds.
- No funding of State Flood Control Subventions; reimbursement has been suspended for the past two years. $59 million in Orange County subventions remains unpaid with up to $50 million more being claimed in the next year. Lack of subventions could delay the completion of the Santa Ana River Project.

General Government

- $98 million is included for the beginning of a 15-year repayment plan for SB-90 mandated cost reimbursement.
- The Property Tax Administration grant continues to be suspended. It is being considered for implementation in FY 2007-08.
- $45 million in current year funding state-wide is included to reimburse counties for the November 2005 special elections cost.

The May revision of the State budget is scheduled for release on May 12, 2006 and could result in modifications to the recommendations in the County budget. These will be discussed at the County budget hearings. The CEO will continue to monitor the State budget process as the Governor and the Legislature work together to finalize the State budget. Further changes that affect the County budget will be incorporated as they 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 and caseload projections and the latest State budget information.
- Total property taxes are projected to increase by 6.5%.
- Total sales and other taxes to the General Fund are projected to increase by 6.9% based on estimates by Chapman University; Hinderliter, De Llamas & Associates (sales tax consultant to the County) and the State Board of Equalization.
- Vehicle license fees, excluding the prior year's gap loan repayment, are projected to increase by 4.7% based on State projections, Chapman University forecasts and trend data.
- Health & Welfare Realignment revenue from the State allocated to Health, Mental Health, Social Services and Probation is projected to increase 6% from prior year estimated amounts.
- 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. The amount for FY 2006-07 is projected to be 4.5% greater than the prior fiscal year.
- The interest rate on cash balances in the County Investment Pool administered by the County Treasurer is expected to be 5%, an increase from the average 3.5% over the past 12 months.
- Substance Abuse and Crime Prevention Act (Proposition 36) funds are estimated to be $7.9 million. In Orange County, these funds are allocated to the following participating departments:
  - $5.7 million to Health Care Agency
  - $1.4 million to Probation
  - $0.4 million to District Attorney
  - $0.4 million to Public Defender

Assumptions on the expense side:

- 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. No Performance Incentive Program (PIP) appropriations are built into the departmental budgets as this program is currently a time-off award only. A 2% Management Appraisal Program increase is budgeted consistent with labor agreements already approved.
- Retirement costs are expected to increase on average up to 29%. In January 2006 the County issued a short-term 18-month pension obligation bond and prepaid $115 million of the FY 2006-07 retirement cost. This prepayment results in a savings of $9.7 million that will be rebated to the County departments.
- Employee health insurance is expected to increase by 5.8%.
- Inflation on other services and supplies is generally allowed at 3% with higher rates for fuel and medical supplies.

NOVEMBER 2005 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 annually updated to review revenue and expense forecasts. 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

In the May 2004 SFP, departments forecasted that the future cost of on-going baseline activities would have exceeded projected available financing. As part of that plan, the Board adopted a balancing strategy of level Net County Costs for all General Fund departments for two years, FY 2004-05 and FY 2005-06 with modest growth of about 3% per year thereafter. The FY 2006-07 budget recommendations are based on this strategy with few exceptions for smaller departments with little budget flexibility.

In November 2005, the department heads met together to consider and rank the County's strategic priorities. This resulted in the following top priority list:

- Youth and Family Resource Centers
- Child Welfare Services
- Network Backbone Replacement
- Health and Wellness Initiative
- Preventive Maintenance
- Water Quality and Watershed Protection
- Alternative Funding for Harbor Patrol
- Juvenile Hall (new facility)
- Musick Jail Expansion
- District Attorney High Tech Crime Unit Expansion
- Affordable Housing
- Business Continuity and Disaster Recovery Plan
- Health Care Access for Children
- Loma Ridge Facility Expansion
- Healthy Eating and Physical Activity Program

The November 2005 SFP approved by the Board on December 13, 2005 resulted in a base forecast that was balanced for the next five years. Revenue assumptions included the end of the two year property tax shift to the State and the beginning of the State's 15 year repayment of past mandated cost claims. The spending side included assumptions of 3% growth in departmental Net County Cost limits, savings from the July 2005 bankruptcy debt refinancing, increased capital funding for Harbors, Beaches and Parks including Dana Point Harbor, increased cost for the retiree medical program, potential budget augmentations, and funding for many of the top strategic priorities including one Youth and Family Resource Center, Health and Wellness Initiative, High Tech Crime Unit, and Business Continuity & Disaster Recovery. Additional funding was identified for the CAPS (Countywide Accounting and Personnel System) business process re-engineering project.

IV. OVERVIEW OF THE FY 2006-07 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 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. 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

In late December 2005, the CEO issued the following budget development policies and guidelines to 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 November 2005 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 will set the regular salary and employee benefits base budgets. The vacancy factor will be set at the historical actual calendar year 2005 vacancy rates.

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 Step 2 items (non-core, non-mandated, over match items) recommended for reduction in the 2003 Strategic Financial Plan. The limits allow a 3% growth after having been held level for the past two fiscal years. There is a continued need to carefully manage the growth in the use of General Purpose Revenues.

Departments shall 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 on 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. Authorized Positions by Program
12. Total County Budget Comparison by Agency/Department
13. Provision for Reserves Summary
14. Position Summary
15. Summary of Net County Costs
16. County of Orange Organization Chart

HIGHLIGHTS OF THE FY 2006-07 RECOMMENDED BUDGET

Total Budget:

- Total County Budget is $5.53 billion, an increase of 11.4% from the prior year adopted budget.
- Total budgeted positions are 18,114 in the base budget, an increase of 0.5% from the prior year adopted budget. Approval of recommended augmentations would increase the total position count by 183.
- Total General Fund Budget is $2.92 billion, an increase of 11.7% from the prior year adopted budget.
- General Purpose Revenues (excluding General Fund Balance Available) total $559 million, an increase of 6% over current year projected revenues excluding the State's one-time vehicle license fee gap loan repayment in FY 2005-06.
- General Fund Balance Available (FBA) is projected to be $118.5 million by the end of the current year as shown in **Table A** on the following page:

Table A

	FY 2003-04 Actual	FY 2004-05 Actual	FY 2005-06 Projected
Beginning FBA July 1	$ 163.8	$ 145.3	$ 166.8
Changes to Reserves	(4.0)	18.0	(57.5)
Revenues	2,297.6	2,399.4	2,831.0
Available Financing	**2,457.4**	**2,562.7**	**2,940.3**
Expenditures/Encumbrances	(2,325.6)	(2,407.6)	(2,831.3)
Changes in Encumbrances	13.5	11.7	9.5
Ending FBA June 30	$ 145.3	$ 166.8	$ 118.5

Specific Program Highlights:

This section provides highlights of the base budgets and recommended augmentations for the County budget programs and departments.

PUBLIC PROTECTION

District Attorney

- An augmentation includes an additional $700,000 in general funds and eight positions in the High Tech Crime Unit.
- An augmentation would add five positions to support caseload growth.

Probation

- The department's base revenue budget reflects the fact that the Orange County Probation Department is the largest Franchise Tax Board client in the State for collection of fines, fees and penalties owed by probationers.
- An augmentation includes $1.5 million in General Funds (half year funding) and 15 positions to re-open a Youth and Family Resource Center. Four of six centers had been closed over the past few years due to lack of funding.
- Another augmentation includes nearly $1 million in General Funds and 12 positions to improve monitoring of probationers.

Sheriff

- An augmentation includes $3.5 million in funding for 26 positions and operational expenses to as the next step to open three modules of Theo Lacy Jail Building B and make the facility operational at full capacity.

COMMUNITY SERVICES

Department of Child Support Services

- The department's base budget reflects the fifth year of flat funding from the State. As a result, the base budget is balanced by holding additional positions vacant and using $1.3 million (about 30%) of departmental reserves.
- A Federal Budget issue regarding the potential elimination of the Federal match of incentive funds could result in a $6.8 million loss of funding. This issue is being monitored and contingency plans are being developed for implementation if needed.

Health Care Agency

- Consistent with the provisions of Measure H, the Tobacco Settlement Funds Initiative approved by the voters in November 2000, total estimated revenue of $31.5 million will 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 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.

- Base budget assumes full implementation of Proposition 63 funds estimated at $25.5 million for increased mental health services.
- The department is holding most contract provider rates at the current level to stay within the Net County Cost limit.

Social Services Agency

- The CalWIN State-wide automated welfare system successfully went live in Orange County in February 2006.
- An augmentation includes $1.2 million in Federal and County funds and 21 positions for improved services to foster care families and children. This is intended to reduce abuse and maltreatment, improve placement, facilitate reunification and improve the quality of care.

Housing & Community Services (including 012)

- The department's base budget includes a 10% reduction in the Federal Community Development Block Grant. The department balanced its budget by deleting 10 vacant positions, reducing operating costs and obtaining reimbursement from the Orange County Housing Authority for eligible administrative costs.
- An augmentation includes $448,954 and one position for a disaster preparedness housing action plan.
- Another augmentation includes $0.5 million in General Funds to expand the number of nights the cold weather shelter armory program could operate.

INFRASTRUCTURE AND ENVIRONMENTAL RESOURCES

Resources & Development Management Department (RDMD)

- An augmentation includes an additional $1 million in General Funds for watershed protection and water quality operations and projects. There is also an additional $0.5 million in the CEO budget for watershed and water quality governance matching funds.
- An augmentation includes $1 million and eight positions for the expansion of the highly effective preventive maintenance program.
- The base Road Fund budget includes $8 million in Proposition 42 funds for road maintenance.
- FY 2006-07 brings an end to the two year property tax shift from the Flood Control District and Harbors Beaches and Parks (HBP). Over this period Flood lost $8.6 million and HBP lost $6 million. The end of this revenue shift will provide additional funds for the capital improvement programs.
- The base Flood Control District budget includes $30 million for Prado Dam land acquisition or structural improvements as an alternative. The department continues to seek State reimbursement for past land acquisition cost.
- The base budget for HBP includes funding for the development and implementation of the HBP strategic plan.
- A new HBP Capital fund budget has been created for separate accountability of capital expenses in this program.
- An augmentation includes an option to provide General Funds to offset the cost of Harbor Patrol in the HBP fund and the Dana Point Harbor department.
- Another augmentation includes three positions and operational costs for the planned Fall 2006 opening of the James and Rosemary Nix Nature Center at Laguna Coast Wilderness Park.

Dana Point Harbor Department

- Projects planned for FY 2006-07 are the boat launch ramp renovation and dredging. The budget also includes a $1.5 million loan from the State Department of Boating and Waterways for waterside improvements and a $70 million bond financing for revitalization of the harbor's commercial core area.

Orange County Public Library (OCPL)

- The base budget includes funding to replace the public access computers, increase the books and materials budget to $3.7 million and funds construction of the Wheeler Branch Library.
- An augmentation for a $3.6 million General Fund loan would help the Library purchase the St. Andrew Place Headquarters Building saving annual lease payments.

Integrated Waste Management Department (IWMD)

- The base budget is higher than the current year due to funding for habitat mitigation required for expansion permits, replacement of old trucks and scrapers with new trucks and articulated scrapers that will operate more efficiently reducing fuel costs and emissions.
- The base budget also includes funding for Olinda Landfill soil removal and Prima Deshecha Landfill water extraction.

- IWMD will continue to support the County General Fund in FY 2006-07 with $12.7 million for bankruptcy recovery debt obligations.

John Wayne Airport

- Capital improvements total $82 million for FY 2006-07 and include a utility co-generation plant, southeast parking structure, terminal building gate expansion and baggage handling equipment upgrade.

GENERAL GOVERNMENT

- A new budget for the County-wide Accounting and Personnel System (CAPS) operations has been established at $15.4 million. This cost was formerly part of the Data Systems Development projects budget in the Capital Projects section of the budget.
- The Registrar of Voters base budget includes $13 million in State reimbursement of the Voter Verifiable Paper Audit Trail equipment purchased in FY 2005-06.
- The Clerk-Recorder's base budget includes operating cost for the new South County office that opened in March 2006.
- The Treasurer's base revenue budget is lower due to prior year's investment pool administration charge rebates. The Net County Cost is higher due to increased data processing charges.
- The Assessor's Property Tax Administration fund reflects only carry over funding of $4 million from prior years. No new State funds are budgeted for this program.

CAPITAL IMPROVEMENTS

- Refurbishment of the Central Justice Center has been an ongoing project for a few years, one floor per year. The FY 2006-07 budget includes $14.5 million in funding for three more floors to take advantage of special pricing with the on-site contractor.
- $5 million is recommended for potential projects that may be identified through the facilities master plan.
- $5 million is recommended to be reserved for Criminal Justice Facilities and improvements.
- $3.7 million of design and first year debt service payment funds are included for the new South County Courthouse that would provide up to 18 new courtrooms.
- Conversion of the existing Central Utility Facility in Santa Ana to add co-generation of electricity for use in County buildings in the Civic Center for significant savings in electricity cost. The budget includes $31.4 million for construction which will be funded through bond financing.
- RDMD/Facilities Operations FY 2006-07 Maintenance and Repair Plan for various County facilities is budgeted at $5 million. It includes funding for re-roofing, air intake equipment maintenance, courtroom seating replacement, generator rehabilitation, caulking and weatherproofing, asphalt repair and vent cleaning.
- Augmentations for Data Systems Development projects total $9.7 million and include additional funds for the Assessment Tax System rewrite ($3.6 million) and several new initiatives that total $6.1 million.
- The Capital Improvements section of the budget also includes the capital projects in the various community facilities districts and assessment districts throughout the County.

DEBT

The Recommended 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. 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.

On July 19, 2005 the Board of Supervisors approved the use of $116 million in the County's Debt Defeasance Fund and the issuance of up to $200 million in refunding recovery bonds and up to $485 million in lease revenue refunding bonds for the restructuring of the County's bankruptcy debt. The financial benefit of this restructuring was to save more than $8 million annually and shorten the debt term by 10 years for the 1996 Recovery Certificates of Participation (COPS). About half of these savings accrue to the County General Fund. In November 2005 the Board directed that half of the General Fund savings, about $2 million, be allocated to the HBP deferred maintenance and capital plan. The restructured debt payments, savings and use of the savings are reflected in this budget.

INSURANCE, RESERVES & MISCELLANEOUS

This program includes a recommended $16 million increase to General Fund reserves to partially replenish the amounts swept by the State over the last two years.

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 January State budget proposals, addresses important capital needs and meets important contingency fund and debt reduction goals.

VI. NEXT STEPS

A public workshop on this Recommended Budget is planned for May 25, 2006. The Board of Supervisors will hold public hearings regarding this budget starting June 13, 2006. Results of those hearings will be incorporated into this budget and will be returned to the Board for adoption on June 27, 2006. The new fiscal year begins on July 1, 2006. 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.

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

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