



# OC Citizens' Report

January 22, 2007



## Board of Supervisors

Vacant, 1st District

John M. W. Moorlach, 2nd District

Bill Campbell, 3rd District

Chris Norby, 4th District

Pat Bates, 5th District

## County Auditor-Controller

David E. Sundstrom

View OC Citizens' Report online at

[www.ac.ocgov.com/finrpt.asp](http://www.ac.ocgov.com/finrpt.asp)

E-mail your comments to

[david.sundstrom@ocgov.com](mailto:david.sundstrom@ocgov.com)

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## About the OC Citizens' Report

The Auditor-Controller Department is proud to present you with its 4th annual OC Citizens' Report for the fiscal year (FY) ended June 30, 2006. This report provides an overview of the County's financial condition and a brief analysis of where the County revenues come from and where those dollars are spent. It also provides an outline of trends in the local economy and how our economy compares to neighboring counties, the state and the nation.

Most of the information in this report is drawn from the financial information appearing in the FY 2005-06 Comprehensive Annual Financial Report (CAFR). The CAFR is a more detailed and complete financial presentation prepared in conformance with Generally Accepted Accounting Principles (GAAP) and was audited by the County's independent auditors, receiving an unqualified opinion. While the financial data in the OC Citizens' Report conforms with GAAP, the statistical, economic and demographic data are taken from various sources and are not GAAP-basis data. Both the CAFR and the OC Citizens' Report are available for viewing at all County public libraries and the Auditor-Controller's website at <http://www.ac.ocgov.com/finrpt.asp>.

## Financial Highlights for FY 2005-06

The County prepares two sets of financial statements that measure its finances differently. The government-wide statements present a long-term perspective of the County's assets, liabilities, and net assets, as well as its operations. The fund statements provide a short-term perspective of individual fund's assets, liabilities, and fund balance, as well as the resources flowing in and out during the fiscal year. The General Fund is the chief operating fund of the County.

Here are highlights of Orange County's financial activities during FY 2005-06:

- Total net assets increased by \$255 million, or 7% as compared to last year.
- Long-term debt decreased by \$279 million, or 21% during the current fiscal year.
- As of the end of the fiscal year, the County's governmental funds reported combined ending fund balances of \$1.9 billion, a decrease of \$51 million, or 3% in comparison with the prior year.
- At June 30, 2006, unreserved fund balance in the General Fund was \$150 million, or 6% of total FY 2005-06 expenditures and transfers of \$2.3 billion.
- General Fund revenues and transfers ended the year 2% below budget.
- General Fund expenditures and transfers ended the year 7% below budget.



## A Message from your Auditor-Controller



It is my pleasure to present to you the OC Citizens' Report for fiscal year 2005-06. This has been another good year from a financial perspective for both County government and the County as a whole.

The local economy continues to perform well in relation to the state and nation. Orange County's unemployment rate continues to be one of the lowest in the State and is below that of all Southern California counties. Comparisons of Orange County's unemployment rates from January 2000 through August 2006 were consistently favorable. Historical point-in-time unemployment rates during the month of August 2002 to 2005 show favorable recent trends. Job growth in Orange County has been steadily recovering from 2002 to 2005. Year-to-year home sales price increases in Orange County continually increased from 2002 to 2005.

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

There are financial successes to report about County government as well.

- Government-wide net assets increased \$255 million, or 7%, when compared to last year while long-term debt decreased by \$279 million, or 21%, compared to last year. The following chart displays the annual cost adjusted growth in Net Assets. The positive growth in Net Assets demonstrates the County's resolve in maintaining a sound fiscal structure.

Annual Cost Adjusted Growth in Net Assets	2005-06	2004-05	2003-04
Ending Net Assets (thousands)	\$ 4,143,016	\$ 3,888,301	\$ 3,601,348
Beginning Net Assets	<u>3,888,301</u>	<u>3,601,348</u>	<u>3,364,749</u>
\$ Change in Net Assets	\$ <u>254,715</u>	\$ <u>286,953</u>	\$ <u>236,599</u>
% Change in Net Assets	6.6%	8.0%	7.0%
Less Regional Inflation (CPI Increase)	4.7%	4.5%	3.3%
Less Population Growth	<u>0.8%</u>	<u>0.9%</u>	<u>1.2%</u>
<b>Inflation &amp; Population Adjusted Change in Net Assets</b>	<b><u>1.1%</u></b>	<b><u>2.6%</u></b>	<b><u>2.5%</u></b>

- During the month of September, 2006, the Board of Supervisors approved labor agreements with several bargaining units that significantly altered post employment health care benefits. This resulted in a reduction of over 50% of the County's \$1.4 billion unfunded actuarial accrued liability that will be required to be reported under new accounting standards starting with fiscal year 2007-08. The Comprehensive Annual Financial Report contains a detailed explanation of all post retirement liabilities.

I hope that you will find this report both useful and informative. If you have any questions, please feel free to contact me by writing to me at 12 Civic Center Plaza, P.O. Box 567, Santa Ana, CA 92702-0567, dropping an email message to me at [david.sundstrom@ocgov.com](mailto:david.sundstrom@ocgov.com), or by calling my office at (714) 834-2457.

Sincerely,

David E. Sundstrom, CPA  
Auditor-Controller



## County Overview



The County of Orange is a charter county that is governed by a five-member Board of Supervisors who represent districts that are each equal in population. A County Executive Officer oversees 24 county departments while seven departments are overseen by elected department heads. The Auditor-Controller is one of the seven elected County officials.

Orange County's economy routinely outperforms 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. External and internal indicators suggest that the growth of the Orange County economy will continue to be slow but steady in 2007. Unemployment showed increasing trends in construction, manufacturing, retail, and leisure services sections; and, taxable sales increased steadily by 5.5%. Furthermore, there was a housing appreciation of 2.6% during the year.

**Mission statement:** *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.*

## Meet Your Board of Supervisors



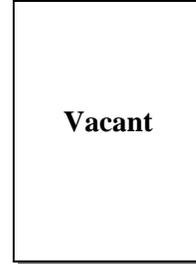
**Chris Norby**  
Chairman  
4th District Supervisor  
(714) 834-3440  
chris.norby@ocgov.com

Anaheim (portions of), Buena Park, Fullerton, La Habra, Placentia



**John M. W. Moorlach**  
Vice Chairman  
2nd District Supervisor  
(714) 834-3220

Costa Mesa, Cypress, Fountain Valley, Garden Grove (portions of), Huntington Beach, La Palma, Los Alamitos, Newport Beach, Seal Beach, Stanton



**Vacant**

1st District Supervisor  
**Special Election to be held February 6, 2007.**  
(714) 834-3110

Garden Grove (portions of), Santa Ana, Westminster



**Bill Campbell**  
3rd District Supervisor  
(714) 834-3330  
bill.campbell@ocgov.com

Anaheim (portions of), Brea, Irvine, Orange, Tustin, Villa Park, Yorba Linda



**Pat Bates**  
5th District Supervisor  
(714) 834-3550

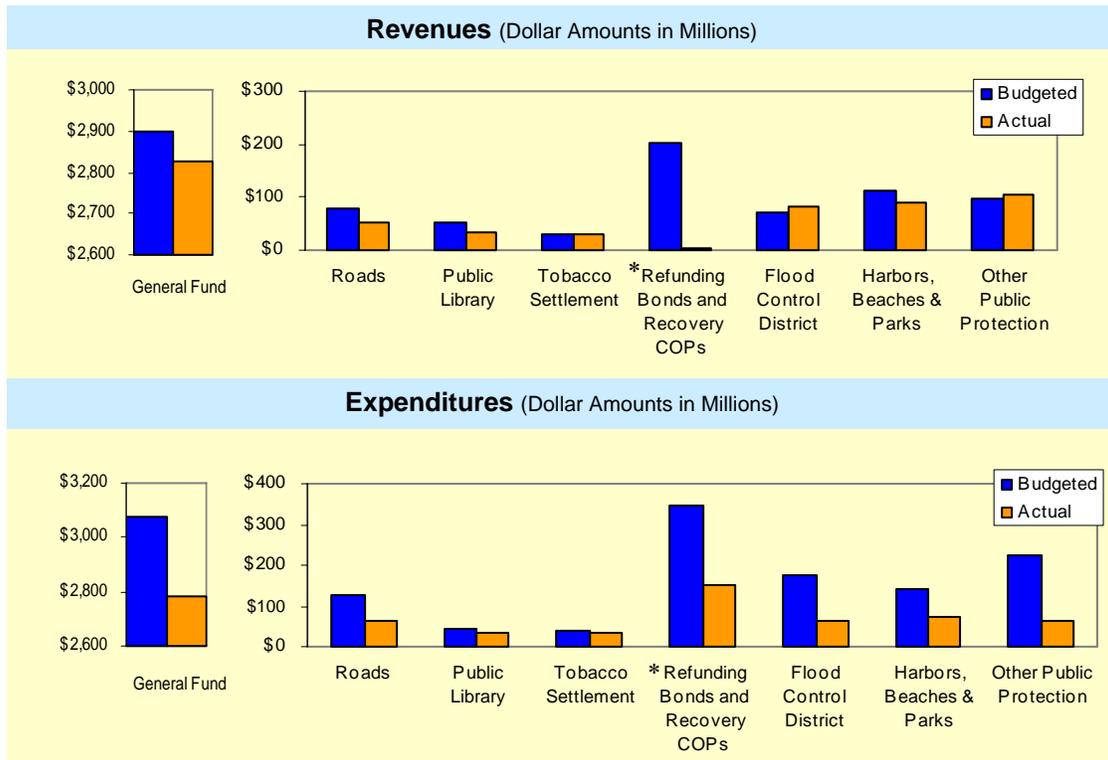
Aliso Viejo, Dana Point, Laguna Beach, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente, San Juan Capistrano



## Budgetary Highlights

The County's budget and accounting systems are based on the modified accrual system. The fiscal year begins on July 1. Revenues are budgeted in the amount expected to be received or as they are applicable to the fiscal year. Expenditures are budgeted at an amount sufficient for 12 months if they are ongoing and in their full amount if they are one-time items. The Board of Supervisors adopts the budget which becomes the spending plan for County departments. Actual revenues and expenditures are monitored during the year and reported to the Board of Supervisors on a quarterly basis. The budget may be modified based on these quarterly reports to reflect new assumptions or events.

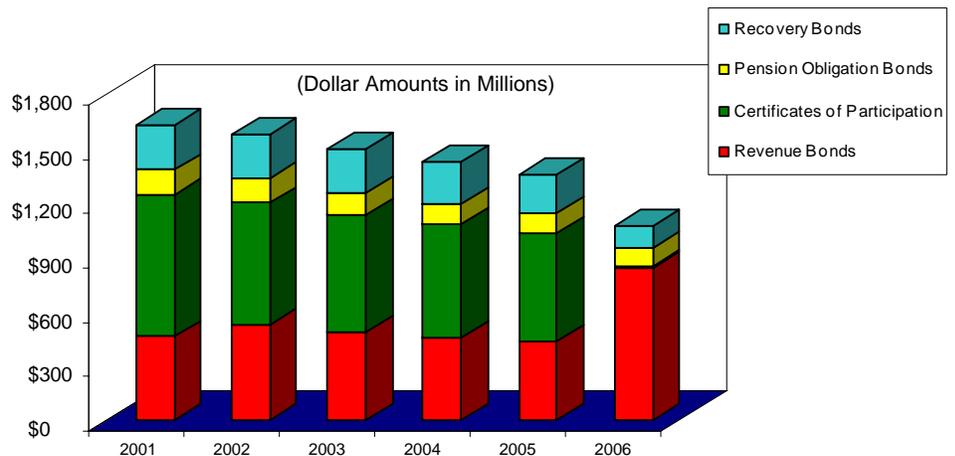
**Revenues** for FY 2005-06 for the County's budgeted General Fund and other major funds were \$3.2 billion, or 9% below budget. **Expenditures** ended up at \$3.3 billion or 22% below budget. The tables below show the budgeted revenues and expenditures compared to the actuals for the General Fund and other major County funds.



\* The decrease in actual revenues and expenditures is due to the early payment of the bankruptcy related bonds, namely the 1995 Refunding Recovery Bonds and the 1996 Recovery Certificates of Participation (COPs). Due to the prepayment, this fund was closed in FY 2005-06.

## County Debt

At June 30, 2006, the County had a total debt obligation outstanding of \$1.1 billion, excluding capital lease obligations, compensated absences and other liabilities. During the fiscal year, \$842 million of the bonds were paid off, including \$806 million of bankruptcy related debt, and \$566 million were added, which resulted in a net decrease of 21% on the County's outstanding debt obligation. As shown on the chart, Orange County's debt obligations have been decreasing for the past six years.





# Statement of Net Assets

The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the County's financial position is improving or deteriorating.

## NET ASSETS COMPONENTS:

(Dollar Amounts in Millions)	Fiscal Years		
	2006	2005	% Change
<b>ASSETS</b>			
Current and Other Assets	\$ 3,493	\$ 3,472	1 %
Capital Assets	2,875	2,918	(1)%
<b>Total Assets</b>	<b>6,368</b>	<b>6,390</b>	<b>(0)%</b>
<b>LIABILITIES</b>			
Long-Term Liabilities	1,734	2,006	(14)%
Other Liabilities	491	496	(1)%
<b>Total Liabilities</b>	<b>2,225</b>	<b>2,502</b>	<b>(11)%</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	2,650	2,673	(1)%
Restricted	1,526	1,261	21 %
Unrestricted	(33)	(45)	(26)%
<b>TOTAL NET ASSETS</b>	<b>\$ 4,143</b>	<b>\$ 3,888</b>	<b>7 %</b>

\* Readers wanting more detailed financial information should refer to the County's FY 2005-06 Comprehensive Annual Financial Report (CAFR) available at the Auditor-Controller's website at <http://www.ac.ocgov.com/firpt.asp>.

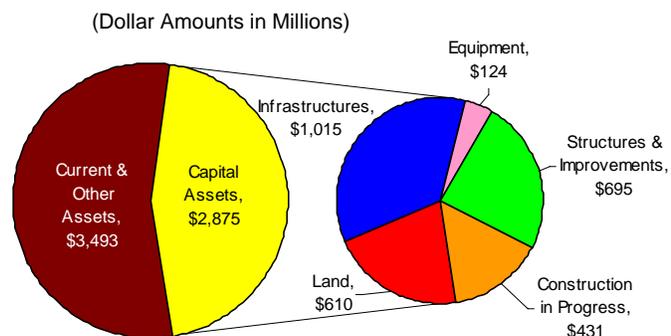
The largest component of the County's net assets, about 64% or \$2.7 billion, was **invested in capital assets, less any related outstanding debt** used to acquire those assets. Even though the County's investment in capital assets is reported net of related debt, the capital assets themselves cannot be used to liquidate the County's debt, and so the resources needed to pay these liabilities must be provided from other resources.

\$1.5 billion or 37% of the County's net assets are **restricted**. Restricted means that these resources are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws/regulations of other governments, or restrictions imposed by law through constitutional provision or legislation, including those passed by the County itself.

The last component of net assets is **unrestricted net assets**. Unrestricted net assets are resources that the County may use to meet its ongoing obligations to citizens and creditors. Total unrestricted net assets is a negative amount of \$33 million. This deficit balance was caused by the County's election to settle bankruptcy-related debt and is not a reflection of the County's lack of resources to meet its ongoing obligations to citizens and creditors.

## CAPITAL ASSETS

At June 30, 2006, the County's assets totaled \$6.4 billion. \$3.5 billion is from current and other assets and \$2.9 billion is from capital assets. Capital assets include land, structures and improvements, equipment, construction in progress and infrastructure that are used to provide services to the citizens of Orange County.





## Statement of Activities

This section is designed to provide a summary of the financial health and stability of the County. Information contained within this section should provide the reader with a general understanding of how available resources are used to provide services.

As of June 30, 2006, the County's revenues for the year totaled \$3.1 billion, an increase of \$106 million from the previous year and expenses totaled \$2.9 billion, an increase of \$139 million.

(Dollar Amounts in Millions)	Fiscal Years		FY 2006
	2006	2005	% Increase
<b>REVENUES</b>			
<b>Program Revenues:</b>			
Operating Grants and Contributions	\$ 1,628	\$ 1,555	5%
Charges for Services	693	680	2%
Capital Grants and Contributions	20	78	-74%
<b>General Revenues:</b>			
Property Taxes	423	387	9%
Property Taxes in Lieu of Motor Vehicle License Fees	158	141	12%
Other Taxes	51	49	4%
Grants and Contributions not Restricted to Specific Programs	2	9	-80%
State Allocation of Vehicle of Motor License Fees	57	54	5%
Other General Revenues	108	80	35%
<b>Total Revenues</b>	<b>3,140</b>	<b>3,034</b>	<b>4%</b>
<b>EXPENSES</b>			
General Government	228	172	32%
Public Protection	973	948	3%
Public Ways and Facilities	105	78	35%
Health and Sanitation	468	455	3%
Public Assistance	773	741	4%
Education	40	31	32%
Recreation and Cultural Services	73	74	-1%
Interest on Long-Term Debt	65	82	-21%
Airport	84	80	6%
Waste Management	77	88	-12%
<b>Total Expenses</b>	<b>2,885</b>	<b>2,747</b>	<b>5%</b>
<b>Increase in Net Assets</b>	<b>255</b>	<b>287</b>	
Net Assets - Beginning of the Year	3,888	3,601	
<b>Net Assets - End of the Year</b>	<b>\$ 4,143</b>	<b>\$ 3,888</b>	

\*Readers wanting more detailed financial information should refer to the County's FY 2005-06 Comprehensive Annual Financial Report (CAFR) available at the Auditor-Controller's website at <http://www.ac.ocgov.com/finrpt.asp>.

## REVENUES

**Program Revenues** are derived directly from the program itself or from parties outside the County's taxpayers or citizenry.

- **Operating Grants and Contributions** are monies received from parties outside the County and are generally restricted to one or more specific programs.
- **Charges for Services** are revenues that arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided.
- **Capital Grants and Contributions** are monies received for capital purposes, to purchase, construct, or renovate capital assets associated with a specific program.

**General Revenues** are taxes and other items, such as unrestricted interest revenue not reported as program revenues.

## EXPENSES

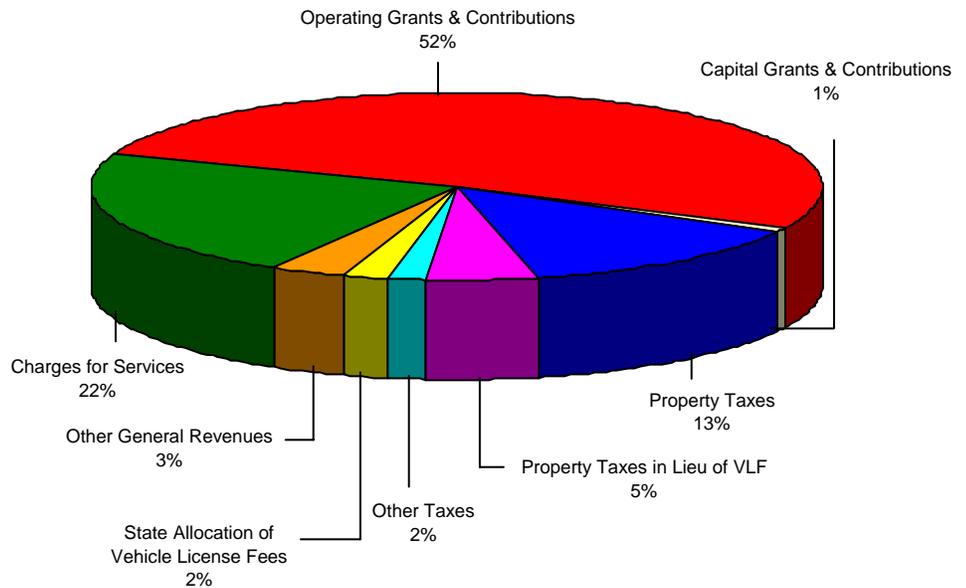
Expenses are classified by function.

- **Public Protection** consists of the Sheriff-Coroner, District Attorney, Probation, Trial Courts, Sheriff Court Operations, Grand Jury, Child Support Services, Public Defender and Alternate Defense.
- **Public Ways and Facilities** consists of repairs and maintenance of public roads and parking facilities under the Resource Development and Management Department.

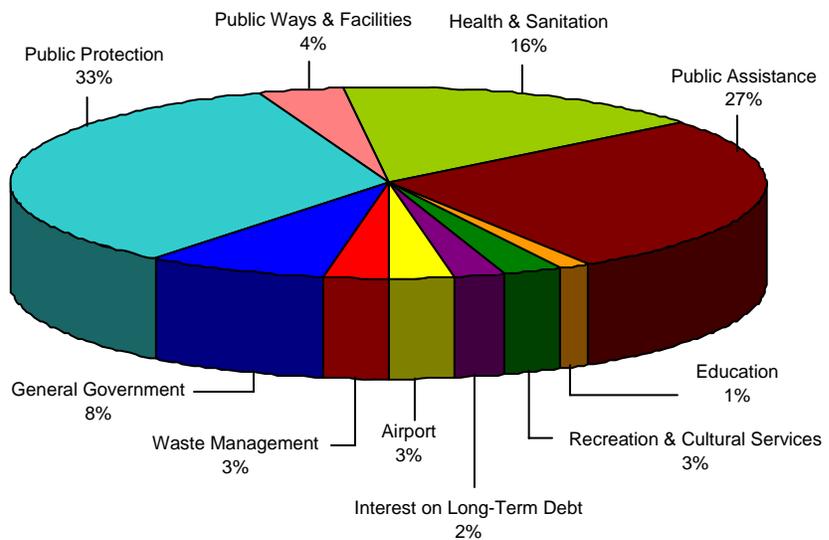


- Health and Sanitation** includes indigent medical services, maintenance of public health care and emergency medical services programs.
- Public Assistance** consists of Social Services and Housing and Community Services.
- Education** reflects the operating costs of providing library services, as well as building public libraries.
- Recreation and Cultural Services** represents the operating and capital asset related expenses for the harbors, beaches and parks.
- Interest on Long-Term Debt** accounts for indirect expense of interest paid on general long-term debt incurred by the governmental functions.
- Airport** accounts for major construction and self-supporting aviation-related activities rendered at John Wayne Airport.
- Waste Management** accounts for the operation, expansion, and closing of existing landfills and the opening of new landfills.
- General Government** includes expenses incurred for the Board of Supervisors, Clerk of the Board, Assessor, Auditor-Controller, County Executive, County Counsel, Clerk-Recorder, Human Resources, Internal Audit, Registrar of Voters and Treasurer-Tax Collector.

## Where the money comes from...

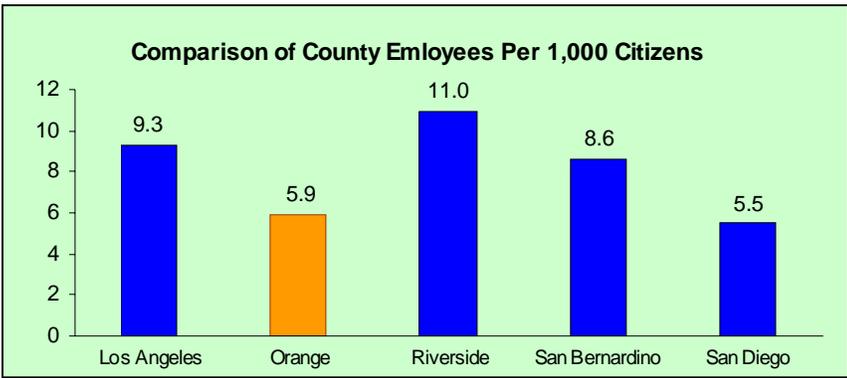


## Where the money goes...



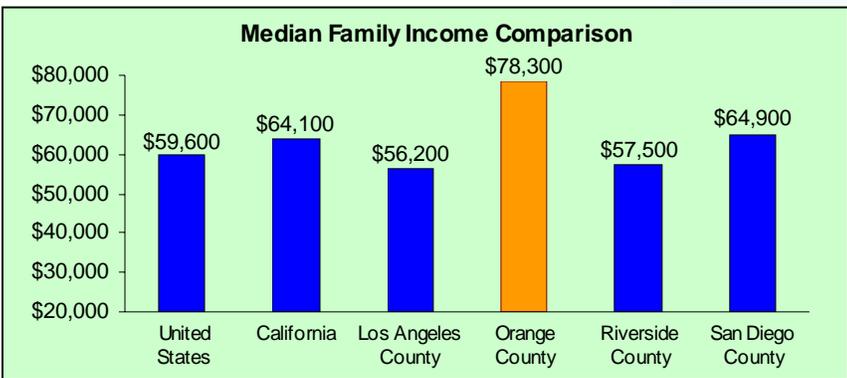


# Demographics and the Economy



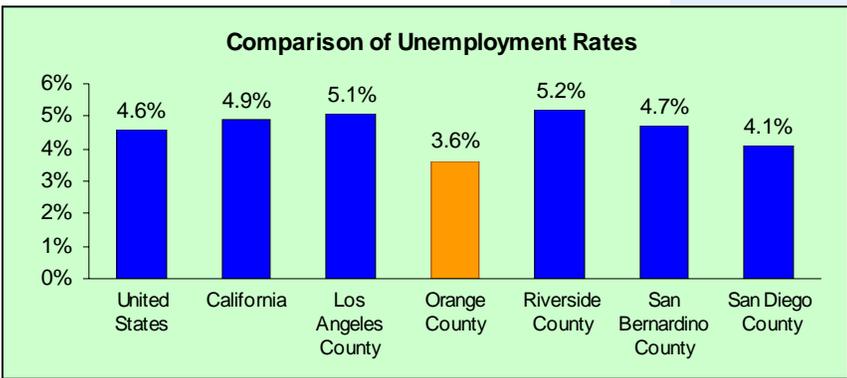
Orange County continues to rank as the second most populous county in the State of California and fifth in the nation with a population of 3,072,336, an increase of 0.8%, as of January 1, 2006.

As a measure of service levels to citizens, the graph on the left shows that as of June 30, 2006, Orange County employed an estimated 5.9 employees per 1,000 citizens.



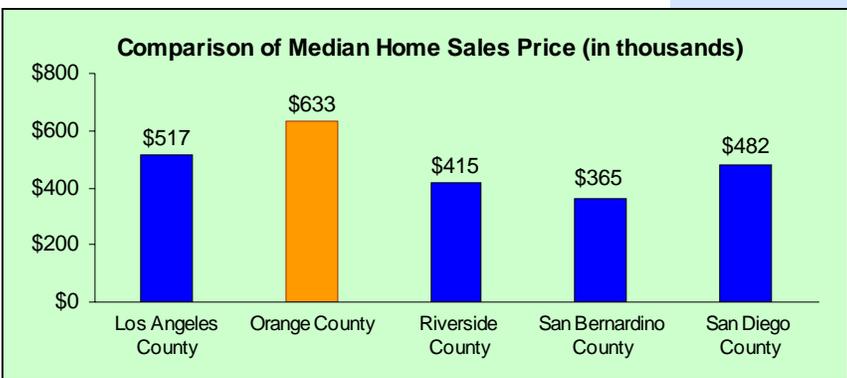
The Median Family Income for 2006 in Orange County was \$78,300, which is higher than surrounding counties and statewide average.

Also, the growth of median family income increased by 3.4% which compares favorably with the statewide and national increase of 3.2% and 2.8%, respectively.



The unemployment rate in Orange County is one of the lowest in the State and is below that of surrounding Southern California counties, the State, and the nation. For 2006, the County's unemployment rate was 3.6%, a decrease of 0.2% from last year.

Also for 2006, job growth increased by 1.7%, resulting in 25,726 more jobs. This compares favorably with the statewide and national increase of 1.5%.



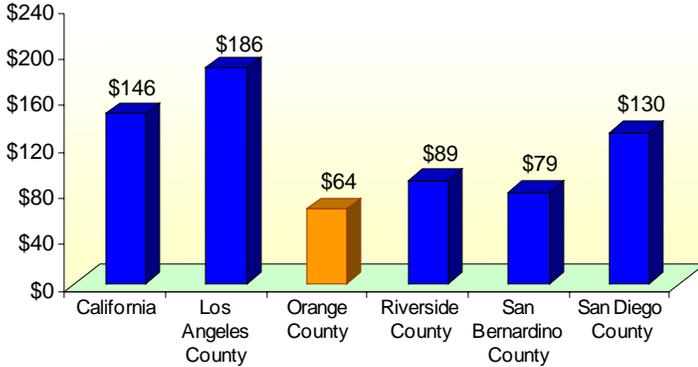
The median-priced home sales price for new and existing homes reached \$633,000, an increase of 2.6%, as of August 2006.

According to the California Association of Realtors, only 22% of first-time buyers in Orange County could afford the median-priced home in the 3rd quarter of 2006, a decrease of 2% from the same period a year ago.

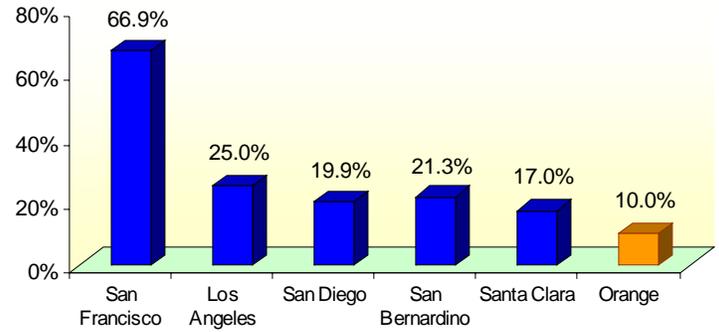


# Your Property Tax Dollars

**Property Taxes Allocation Per Capita, 2003/04**



**General Fund Share of Property Taxes**



Orange County is a donor county, meaning we send more tax dollars to Sacramento than we receive in services. This inequity is based on formulas developed in 1979 that reflected the County's more rural character. Today, even though the County is more urbanized, Orange County receives only 10% of its residents' property taxes to use for General Fund services.

## Distribution of Property Tax Dollars



- Orange County General Fund receives the second lowest share of property tax after Yolo County compared to all other Counties in the entire state of California.
- Only 10% of the typical property tax dollar supports County General Fund services. The additional 1% received by the County supports the County Library, a non-general fund department.
- Action taken by the State in the FY 2005-06 budget provided property tax in lieu of Vehicle License Fees (VLF) resulting in an increased property tax allocation to the General Fund (6% to 10%).
- The largest share of all property tax distributions supports school districts.
- The Orange County Fire Authority is governed by an independent board, and is included with the Special Districts.



# Spotlight

## County Services and Operations



The Assessor Department implemented a new tool to perform appraisals of newly constructed tract homes. This new tool incorporates tablet PC, electronic documents and images, and online workflow to streamline the new construction field appraisal and office review process. This new approach eliminates most of the paper handling required for appraisers.

The Public Defender participated in the development of the Orange County Outreach Court, a program designed to assist the homeless population in Orange County. The program expanded to include regular sessions at both the Orange County Rescue Mission and the Mental Health Association.



County Counsel prepared documents and assisted Housing and Community Development Services staff in loan closings for approximately \$1.9 million for construction of affordable housing within Orange County.

In January 2006, the District Attorney established the White Collar Crime Prosecution Team (WCCPT). This team is comprised of prosecutors, investigators, and support staff. The WCCPT prosecutes embezzlement, larceny, computer crime, identity theft and other fraud schemes. These types of cases are growing in number and complexity both in Orange County and nationwide.



## Snapshots in time

This year's cover depicts Ralph B. Clark Regional Park. One of the most unique assets of Clark Park is the Interpretive Center. The center provides an enlightening pre-historic perspective of Orange County through exhibits, interpretive programs and guided tours. It also provides opportunities to join fossil-hunting expeditions and watch paleontologists excavate fossils. Refer to the back cover for contact information.

157 million years ago

146 million years ago

65 million years ago

County formed by volcanic activity and crashing Earth plates.



**CRETACEOUS PERIOD** Orange County was under water during this period. Dinosaurs also roamed the Earth, and then died out at the end of the period. Orange County's first fossils date from this time.



In FY 2005-06, Orange County offered new and existing services and operations in order to provide the highest quality of life to its residents. Below are highlights of some of the County's achievements during the year.

In September 2005, through efforts from many areas within the Health Care Agency, Orange County was selected as one of six primary investigative vanguard sites for the National Children's Study. This is a 21 year comprehensive study to investigate the impact of genetic, behavioral, social environment, and physical environmental risk factors on the growth, development and health of children.



The Probation department collaborated with Immigration and Customs Enforcement to identify and remove sex offenders in violation of immigration law who pose a serious risk to the community.

John Wayne Airport (JWA) served over 9.6 million passengers in 2005, representing the highest annual count in Airport history.

JWA also ensured that the Transportation Security Administration (TSA) regulations were integrated into its Aviation Security Plan and achieved full compliance with required security measures.



Website enhancements were implemented in the Child Support Services (CSS) department to improve customer service and casework efficiency. Clients can now open cases through the website, inform CSS of address changes, submit service requests online and request a reviews of their current child support order.

Orange County is part of a land mass that geologists believe has been moving north for millions of years, crashing against another plate and forming our mountains. The county was also once part of an ancient river delta, which helped to form Orange County's fertile plain.

Whether enjoying the warm waters or basking in the sun, hundreds of animals have roamed the county millions of years ago. The levels of both the land and sea have changed, dictating what lived here. Below is a timeline of Orange County's three most fossil-rich times.

*Reprinted by permission of the Orange County Register, copyright 2000.*

23 million years ago

5.2 million years ago

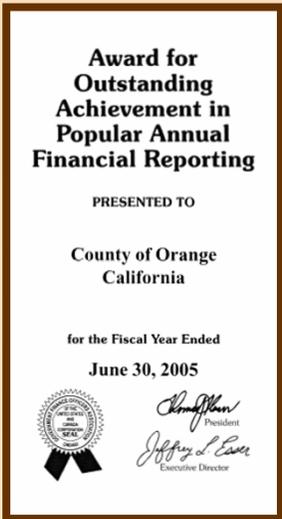
1.6 million years ago

10,000 years ago

**MIOCENE EPOCH** Much of the county was submerged, and marine creatures such as whales and sharks, flourished in the shallow sea. Fossils found here have given scientists many clues about Pacific Ocean life at this time. On land, jungles and savannas grew in the warm, moist climate.



**PLEISTOCENE EPOCH** Mammoths, giant sloths and sabertooth cats lived alongside rabbits, snakes and frogs, whose descendants live here today. Humans arrived about 10,000 years ago. The climate was slightly cooler and wetter than today.



## Outstanding Achievement Award

The Government Finance Officers Association (GFOA) of the United States and Canada has given an Award for Outstanding Achievement in Popular Annual Reporting to Orange County, California for its Popular Annual Financial Report for the fiscal year ended June 30, 2005. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. The Award for Outstanding Achievement in Popular Annual Financial Reporting is good for one year. The published report must reflect the program standards of creativity, presentation, understandability and reader appeal.

Come visit the County of Orange Internet Site at

<http://www.ocgov.com>

### *The County's website includes information about:*

- Your Board of Supervisors
- Board Agendas
- County job listings
- Purchasing bid solicitations
- County directories
- Assessment appeals
- Links to court information and local court rules
- Voter information
- County permits and forms

### *Financial information such as the:*

- County tax rate book
- Budget
- Annual financial statements
- OC Citizens' Report
- Strategic Financial Plan
- Department Business Plans
- Treasurer Investment Policy Statements (IPS)

### *The site also provides several online services, including:*

- County purchasing online
- Listening to Board meetings live and archived
- Online public comments to Board agendas
- Ordering birth, death and marriage certificates online
- Performing a fictitious business name search
- Looking up election results and polling places
- Paying property taxes

### About our front cover:

This year's cover depicts Ralph B. Clark Regional Park. Nestled at the foot of the Coyote Hills, Clark Park has one of the richest fossil deposits in the state. These rich fossil beds were originally revealed when the California Division of Highways (now CalTrans) excavated sand and gravel from the site for use in freeway construction between 1956 to 1973.

One of the most unique assets of Clark Park is the Interpretive Center which provides an enlightening pre-historic perspective of Orange County. Clark Park also features picnic areas, softball fields, tennis courts, volleyball courts, horseshoe pits and several entertaining playgrounds for children. In addition, fishermen can enjoy a 3-acre lake stocked with large mouth bass, bluegill and channel catfish.

For more information about Clark Park, please visit [www.ocparks.com/clarkpark/](http://www.ocparks.com/clarkpark/) or contact the park office at (714) 973-3170. The park is located at 8800 Rosecrans Avenue in Buena Park.

### The following sources were used to compile this report:

Economic & Business Review, Chapman University, June 2006 • DataQuick Information System • U.S. Department of Housing and Urban Development, 2006 California Employee Development Department • California Association of Realtors • California Department of Finance • Orange County Community Indicators, 2006 Facts & Figures 2006 • County of Orange 2005-06 Fourth Quarter Budget Report • County of San Diego Adopted Operational Plan, 2006-07 to 2007-08 County of Los Angeles 2006-07 Proposed Budget • San Bernardino County 2006-07 Final Budget • Riverside County Proposed Budget for 2006-07 • Orange County Register County of Orange 2005-06 Comprehensive Annual Financial Report

Photos courtesy of Resources & Development Management Department, Ralph B. Clark Regional Park, CEO Media Relations