



Citizens' Report

December 28, 2005

County of Orange, CA
Fiscal Year Ended June 30, 2005



Board of Supervisors

- Lou Correa, 1st District
- James Silva, 2nd District
- Bill Campbell, 3rd District
- Chris Norby, 4th District
- Thomas W. Wilson, 5th District

County Auditor-Controller

David E. Sundstrom

View OC Citizens' Report
online at
www.ac.ocgov.com/finrpt.asp

E-mail us your comments at
david.sundstrom@ocgov.com

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About the OC Citizens' Report

The Auditor-Controller's Office is proud to present you with its 3rd annual OC Citizens' Report for the fiscal year (FY) ended June 30, 2005. 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 2004-05 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 conformed 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 2004-2005

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.

Below are highlights of Orange County's financial activities during fiscal year 2004-05.

- Total net assets increased by \$287 million, or 8% as compared to last year.
- Long-term debt decreased by \$70 million, or 5% 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, an increase of \$108 million, or 6% in comparison with the prior year.
- At June 30, 2005, unreserved fund balance in the General Fund was \$164 million, or 7% of total FY 2004-05 expenditures and transfers of \$2.4 billion.
- General Fund revenues and transfers ended the year 1% above budget.
- General Fund expenditures and transfers ended the year 8% below budget.



A Message from your Auditor-Controller

It is my pleasure to present to you the OC Citizens' Report for fiscal year 2004-05. This has been another good year from a financial perspective for both County government and the County as a whole.

The local economy is performing very well in relation to the State and the nation. 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. Last year, the unemployment rate dropped from 4.6% to 3.8%, while job growth increased by 1.7%, resulting in 24,286 more jobs. This compares to the State unemployment rate of 5.2% and a national unemployment rate of 4.9%. This translates into Orange County having the highest corresponding statistics in Southern California for median family income (\$75,700), median home sales price (\$617,000) and taxable sales per capita (\$16,602). In 2005, the growth of the County's gross product increased by 7.5%, as compared to 7.3% for the State and 5.6% for the nation.

There are many financial successes to report about County government as well. Government-wide, net assets increased by \$287 million, or 8% when compared to last year while long-term debt decreased by \$70 million, or 5% during the fiscal year. Revenues for the year totaled \$3 billion, an increase of \$128 million or 4.4%. Expenses totaled \$2.7 billion, an increase of \$77 million or 2.9%.

Next year's financial outlook continues to be positive based on activity during the first six months of the new fiscal year:

- Bankruptcy related debt was reduced from \$763 million to \$556 million using funds the Board had judiciously set aside. The term of the debt was reduced by ten years and total general fund savings will exceed \$500 million over the next eleven years as a result of paying down the debt and obtaining better financing terms.
- Last month, the voters soundly rejected Measure "D". The measure would have shifted 10% of Proposition 172 sales taxes from County government, severely affecting the missions of the Sheriff and District Attorney shifting \$333 million from their budgets over the first eleven years.
- Workers' compensation legislation that was passed in April 2004 is projected to result in a significant cost reduction.
- Another significant issue has been the increasing cost of health care and the resulting increase in retiree medical costs. However, the County, along with the employees' collective bargaining organizations, are aggressively working to solve these critical financial issues.

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, 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 directly or indirectly oversees 24 county departments, seven of which have 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. External and internal indicators suggest that the recovery of the Orange County economy will be slow but steady in 2006. Unemployment showed increasing trends in construction, manufacturing, retail, and leisure services sections; and, taxable sales increased steadily by 5.4%. Furthermore, there was a tremendous housing appreciation of 13.6% during the year.



Mission statement: *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.*

Meet your Board of Supervisors



Bill Campbell
Chairman,
3rd District Supervisor

(714) 834-3330

bill.campbell@ocgov.com

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



Thomas W. Wilson
Vice Chairman,
5th District Supervisor

(714) 834-3550

thomas.wilson@ocgov.com

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



Lou Correa
1st District Supervisor

(714) 834-3110

lou.correa@ocgov.com

Garden Grove (portions of),
Santa Ana, Westminster



James Silva
2nd District Supervisor

(714) 834-3220

district.two@ocgov.com

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



Chris Norby
4th District Supervisor

(714) 834-3440

chris.norby@ocgov.com

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

Financial Summary: 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.

Statement of Net Assets

For FY 2004-05, the County's net assets totaled \$3.9 billion, an increase of \$287 million or 8% from FY 2003-04.

(Dollars in Millions)	Fiscal Years		% Change
	2005	2004	
Current and other assets	\$ 3,472	\$ 3,191	9%
Capital Assets	2,918	2,821	3%
Total Assets	6,390	6,012	6%
Long-term liabilities	2,006	2,014	0%
Other liabilities	496	397	25%
Total Liabilities	2,502	2,411	4%
NET ASSETS			
Invested in capital assets, net of related debt	2,673	2,574	4%
Restricted	1,260	1,308	(4%)
Unrestricted	(45)	(281)	(84%)
TOTAL NET ASSETS	\$ 3,888	\$ 3,601	8%

* Readers wanting more detailed financial information should refer to the County's 2004-05 Comprehensive Annual Financial Report (CAFR) available at County public libraries and the Auditor-Controller's website.

Net Assets Components:

- The largest component of the County's net assets, about 69% 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.
- \$1.3 billion or 32% 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 \$45 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.

Supervisors approve five brokers to manage the deal and help the county shed its 1994 burden 10 years ahead of schedule.

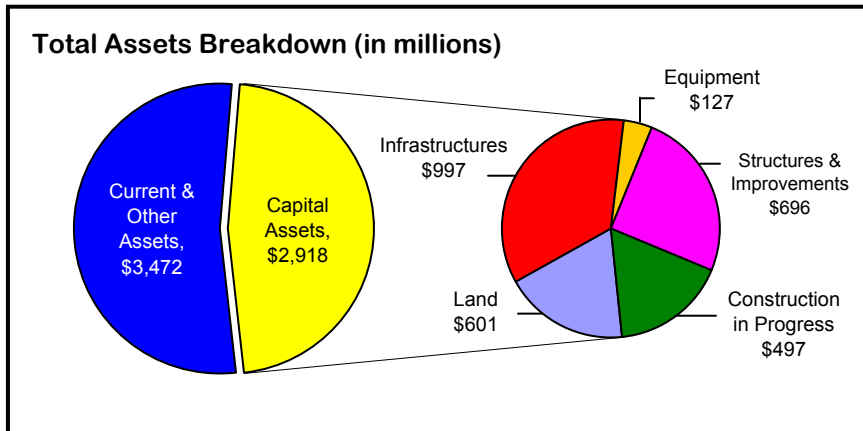
Los Angeles Times, June 8, 2005

Capital Assets

At June 30, 2005, 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 includes land, structures and improvements, equipment, construction in progress and infrastructure that are used to provide needed services to the citizens of the County.

The following lists some of the significant capital assets the County invested in FY 2004-05.

- \$71 million for the acquisition of property rights for the Santa Ana River Mainstem/Prado Dam Project.
- \$18 million for safety, security, and other enhancements at John Wayne Airport.
- \$11 million for the construction expansion at Frank R. Bowerman Landfill.
- \$8 million for the construction of three new housing units for the Youth Leadership Academy at Juvenile Hall, which will increase the capacity to 120 beds.



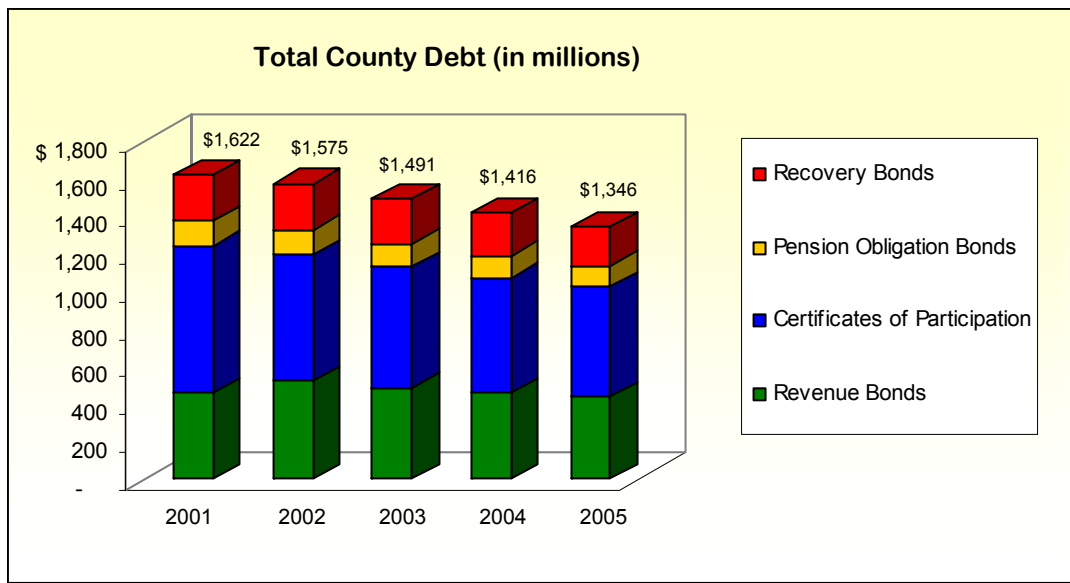
Outstanding Debt

The County continues to maintain bond ratings of Aa2 from Moody's Investors Service and A+ from Standard & Poor's. The rating report cited the County's prudent fiscal management, evidenced by a strong fiscal position and disciplined adherence to its strategic plan, focusing on debt reduction, as well as the diversified and healthy economy.

In August 2005, the County successfully completed a refunding and restructuring of the bankruptcy related debt shortening the debt term by 10 years. All of the bankruptcy debt will be paid by 2016, instead of 2026.

At June 30, 2005, the County had a total debt obligation outstanding of \$1.3 billion, excluding capital lease obligations, compensated absences and other liabilities. This results in a net decrease of 5% on the County's outstanding debt obligation.

As shown on the chart, Orange County's debt obligations have been decreasing for the past five years.



Financial Summary: 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 on how available resources are used to provide services.

Statement of Activities

As of June 30, 2005, the County's revenues for the year totaled \$3.0 billion, an increase of \$128 million from the previous year and expenses totaled \$2.7 billion, an increase of \$77 million.

(Dollars in Millions)	Fiscal Years		% of Total
	2005	2004	
REVENUES			
Program Revenues:			
Charges for Services	\$ 680	\$ 639	22%
Operating Grants & Contributions	1,555	1,540	51%
Capital Grants & Contributions	78	61	2%
General Revenues:			
Property Taxes	387	342	13%
Property Taxes in Lieu of Motor Vehicle License Fees	141	-	5%
Other Taxes	49	51	2%
Grants & Contributions not Restricted to Specific Programs	10	12	0%
State Allocation of Vehicle License Fees	54	190	2%
Other General Revenues	80	71	3%
Total Revenues	3,034	2,906	100%
EXPENSES			
General Government	172	171	6%
Public Protection	948	905	34%
Public Ways & Facilities	78	78	3%
Health and Sanitation	455	448	17%
Public Assistance	741	732	27%
Education	31	32	1%
Recreation & Cultural Services	73	76	3%
Interest on Long-Term Debt	82	79	3%
Airport	80	78	3%
Waste Management	87	71	3%
Total Expenses	2,747	2,670	100%
Change in Net Assets	287	236	
Net Assets, Beginning of the Year	3,601	3,365	
Net Assets, End of the Year	\$ 3,888	\$ 3,601	

REVENUES

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

- **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.
- **Operating Grants and Contributions** are monies received from parties outside the County and are generally restricted to one or more specific programs.

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

EXPENSES

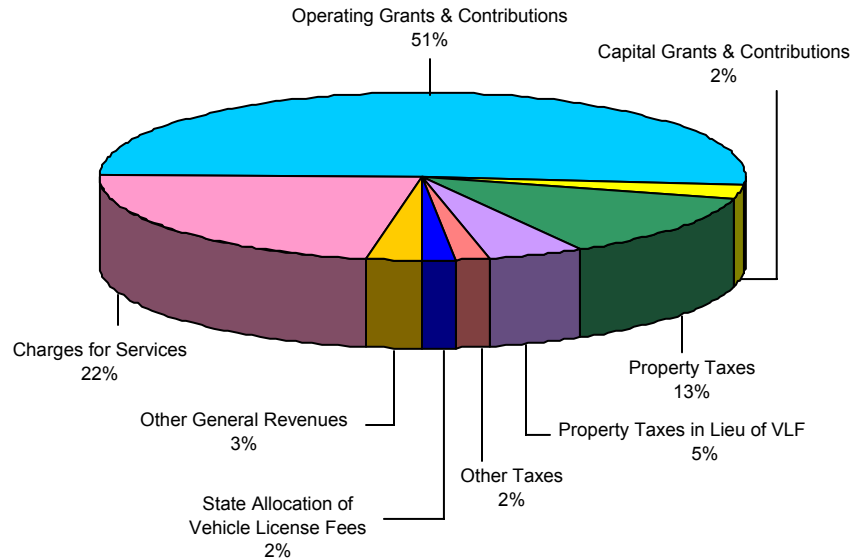
Expenses are classified by function or services.

- **General Government** include expenses incurred for administrative offices, including 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.

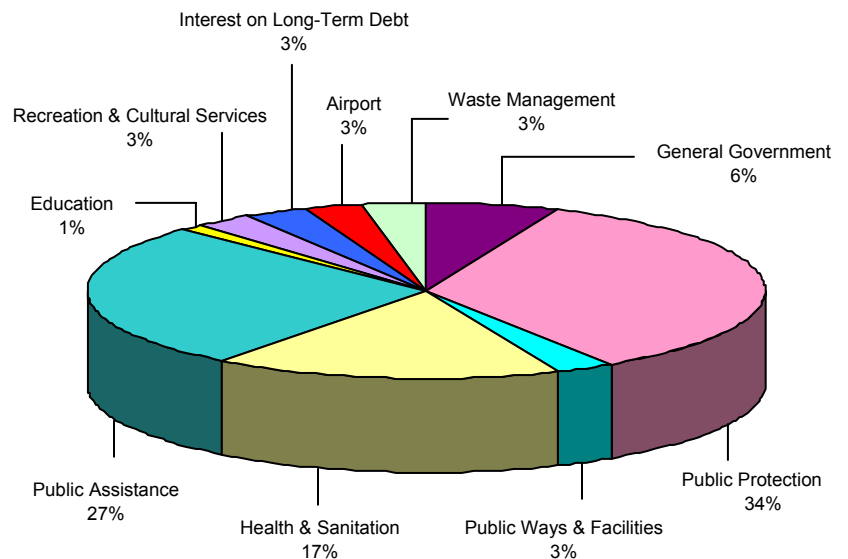
* Readers wanting more detailed financial information should refer to the County's 2004-05 Comprehensive Annual Financial Report (CAFR) available at County public libraries and the Auditor-Controller's website.

- **Public Protection** consists of Sheriff-Coroner, District Attorney, Probation, Trial Courts, Sheriff Court Operations, Grand Jury, 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 Agency, Housing and Community Services Agency, and the Department of Child Support 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.

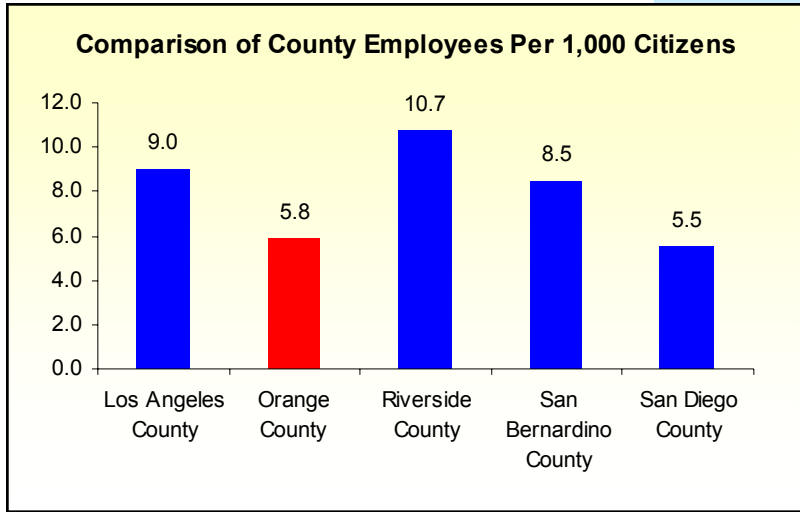
Where the money comes from...



Where the money goes...



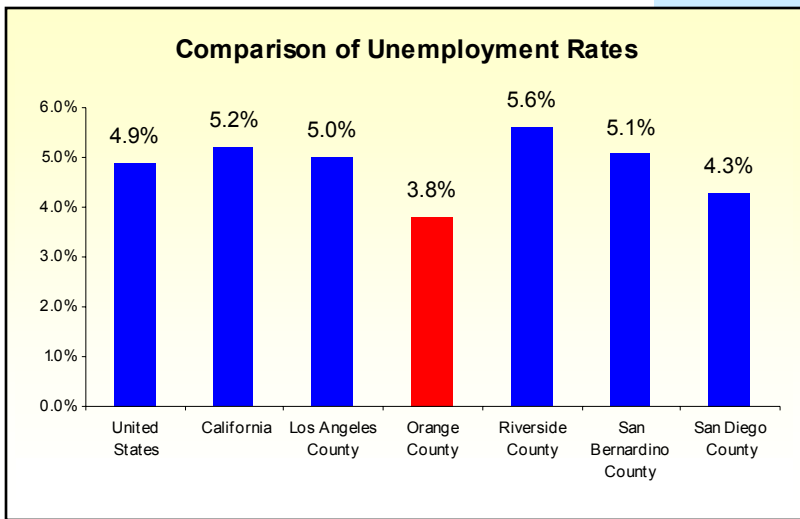
Demographics and the Economy



The County continues to rank as the second most populous county in the State of California and fifth in the nation with a population of 3,056,865 as of January 1, 2005.

Orange County experienced a population growth of 1.1% from last year.

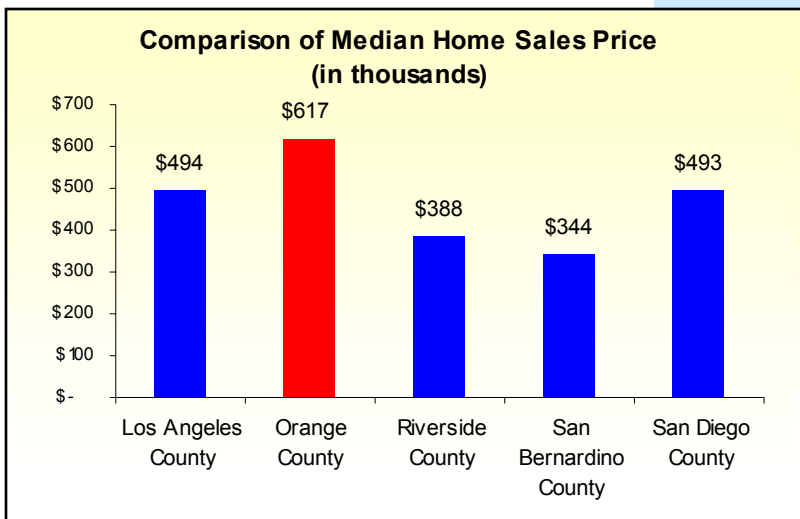
As a measure of service levels to citizens, the graph on the left provides data on the number of County employees per 1,000 citizens. As of June 30, 2005, Orange County employed an estimated 5.8 employees per 1,000 citizens.



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 2005, Orange County's unemployment rate was 3.8%, a decrease from last year's average of 4.6%.

Also for 2005, job growth increased by 1.7%, resulting in 24,286 more jobs.



The Median Family Income for 2005 was \$75,700.

As of August 2005, the median-priced home sales price for new and existing homes reached \$617,000, an increase of 13.6%.

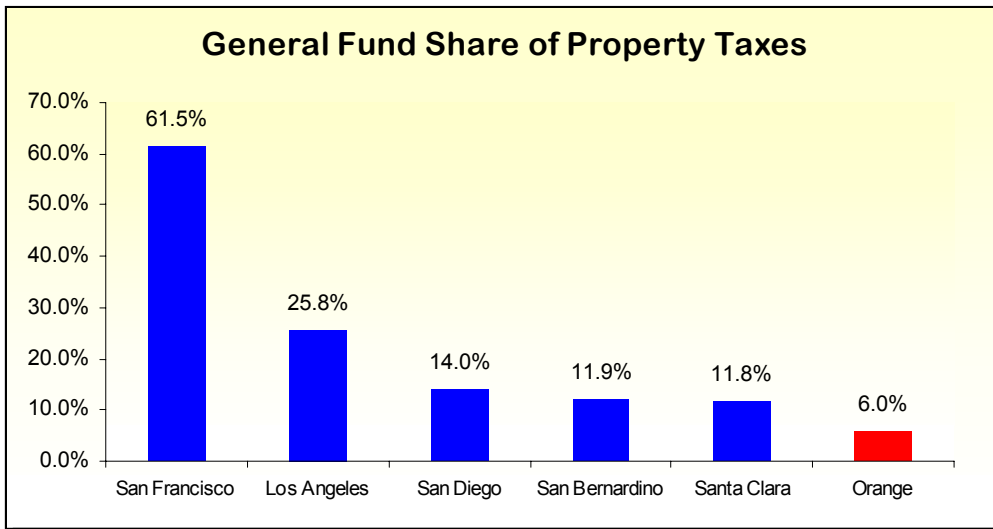
Annual housing appreciation in Orange County, although not as great as in surrounding Southern California counties, has continued to increase at a relatively rapid rate.

According to the California Association of Realtors, only 11% of OC households can afford the median priced home.

Your Property Tax Dollars

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, we still receive the same ratio of funds as in 1979. This results in Orange County receiving only 6% of its residents' property taxes to use for General Fund services.

The chart below reflects what percentage of other counties' property tax dollars remain in their General Fund.



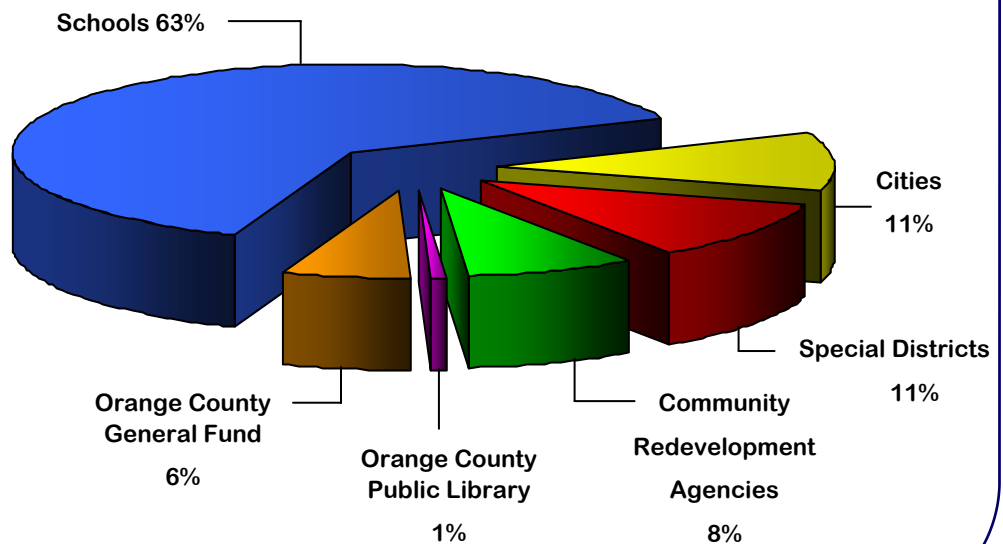
Orange County General Fund receives the lowest share of property tax in the State of California.

Only 6% of the typical property tax dollar supports County General Fund services. An additional 1% received by the County supports the County Library, a non-general fund department. For FY 2004-05, Orange County's share of property taxes totaled \$387 million.

The largest share of all property taxes supports school districts.

The Orange County Fire Authority, which is governed by an independent board, is included with the Special Districts.

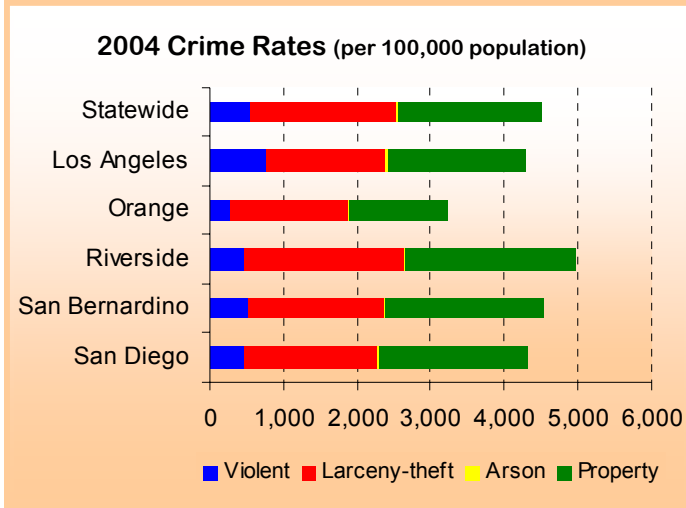
Distribution of Property Tax Dollars



COUNTY WIDE SERVICES

- Affordable Housing (Housing Authority)
- Agricultural Commissioner
- Airport
- Child Protection & Social Services
- Child Support Services
- Clerk-Recorder
- Coroner & Forensic Services
- District Attorney
- Elections & Voter Registration
- Environmental/Regulatory Health
- Flood Control & Transportation
- Grand Jury
- Harbors, Beaches & Parks

The Safest Place to Live in Southern California



What makes living in Orange County ideal? One reason has to do with having the lowest crime rate in Southern California compared to other Southland counties. Violent crime, arson and larceny-theft are down from 2003.

OC | past & present



Opened in 1901, the Old Orange County Courthouse is Southern California's oldest court building.



Due to the steady increase of population and employment growth in Orange County, the 5 Freeway is now one of the most congested highways in the nation, compared to the 1960s.

1870 Dr. William N. Hardin of Anaheim introduces oranges to Orange County when he extracts seeds from a barrel of rotten Tahitian oranges.

1892 Oil fields discovered in Brea creating oil and land booms for North Orange County.

1889 Orange County breaks away from Los Angeles to become its own county.

1923 Eddie Martin Airport opens on property just north of today's John Wayne Airport.

Spotlight: County Operations and Services

In FY 2004-05, 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.

The **Sheriff Coroner** department trained over 5,000 first responders through the Emergency Response to Terrorism Incidents class sponsored by a federal grant through Homeland Security.

The **Public Defender** department collaborated with other agencies in the planning and development of a Drug Court for parents of dependent children to provide treatment programs for parents and aid in the reunification of families.

The **Health Care Agency** continued to enhance its readiness to respond to a possible act of terrorism by increasing laboratory capabilities, demonstrating the ability to conduct mass vaccination clinics, training all Agency employees on emergency management procedures, and performing training exercises in the recently established Agency Operations Center.

The **Resources and Development Management** department completed construction of bank protection improvements in the Santa Ana River Canyon upstream of Weir Canyon Road and removed about 200,000 cubic yards of sand from the mouth of the SAR restoring flood carrying capacity. The removal of the remainder 300,000 cubic yards to complete this project is scheduled for FY 2005-06.

The **Human Resources** department maximized use of volunteer resources to meet County needs and service plans by supporting agencies/departments in the recruitment and management of more than 26,000 volunteers annually who contribute approximately 950,000 service hours with an estimated cost avoidance to County government of \$26 million.

The **Clerk Recorder** now offers the E-Marriage License Application System. This system allows customers to complete a Marriage License application from the Internet. The system reduces staff data entry by 95%. The average time to apply for a marriage license has been dramatically reduced from 20 minutes to 5 minutes.

COUNTY WIDE SERVICES

Indigent Medical Services

Jails & Juvenile Facilities

Juvenile Justice Commission

Landfills & Solid Waste Disposal

Law Enforcement

Local Agency Formation Commission

Probationary Supervision

Public Assistance

Public Defender/ Alternate Defense

Public & Mental Health

Senior Services

Tax Assessment & Collection

Weights & Measures



In 1967, the Eddie Martin Terminal was built at the Orange County Airport. The airport was re-named John Wayne Airport and the Thomas F. Riley Terminal now takes the place of the Eddie Martin Terminal.



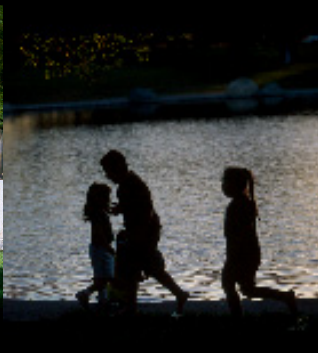
In 1956, Huntington Beach was littered with oil wells. Today, residential homes cover the area and visitors and residents gather at the beach to enjoy the Southern California sunshine.

1954 Santa Ana freeway (I-5) opens.

2003 Irvine receives approval from the Local Agency Formation Commission to annex the former El Toro Marine Corps Air Station.

1971 Placentia is the first U.S. city to be designated an "All-American City" by the National Municipal League.

2005 Orange County refinanced its bankruptcy related debt, enabling the County to pay off its 1994 burden in 2016, instead of 2026—ten years ahead of schedule.



About our front cover:

This year's cover depicts Mile Square Regional Park. The park is conveniently located in the City of Fountain Valley, approximately five miles from the Pacific Ocean. Once a Military airfield, Mile Square Regional Park is now an urban park that totals 640 acres of land and offers a welcome haven from the daily routine of life in Orange County. The park offers many recreational opportunities for people of all ages, making Mile Square Park a great place to spend the entire day.

For more information about Mile Square Park, please visit their website at www.ocparks.com/milesquare/ or contact the park office at (714) 973-6600.

Come visit the County of Orange Internet site at <http://www.ocgov.com>

The County's website includes information about:

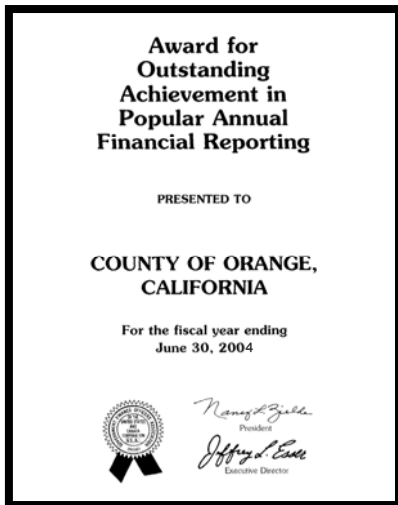
- Your Board of Supervisors
- Board Agendas
- County job listings
- Purchasing bid solicitations
- County directories
- Assessment appeals
- Links to court information and local court rules
- Voter information
- County permits and forms

Financial information such as the:

- County tax rate book
- Budget
- Annual Financial Statements
- OC Citizens' Report

The site also provides several online services, including:

- The ability to listen to Board meetings live and archived
- Online public comments to Board agendas
- County purchasing online
- Ordering birth, death and marriage certificates online
- Performing a fictitious business name search



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, 2004. 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.

The following sources were used to compile this report:

Economic & Business Review, Chapman University, June 2005 • DataQuick Information System • U.S. Department of Housing and Urban Development, 2005 State of California Employee Development Department • United States Department of Justice • California Association of Realtors • Orange County Historical Society California Department of Finance • U.S. Bureau of the Census • Orange County Community Indicators, 2005 • Facts & Figures 2005 • State Legislative Analyst's Office County of Orange 2004-05 Fourth Quarter Budget Report • County of San Diego Adopted Operational Plan, 2005-06 to 2006-07 County of Los Angeles 2005-06 Proposed Budget • San Bernardino County 2004-05 Final Budget • Riverside County Proposed Budget for 2005-06 County of Orange 2004-05 Comprehensive Annual Financial Report
Photos courtesy of Resources & Development Management Department, Orange County Archives, and the Huntington Beach Conference & Visitors Bureau