



OC Citizens' Report

County of Orange, CA, Fiscal Year Ended June 30, 2004

December 27, 2004

Board of Supervisors

Charles V. Smith, 1st District
James W. 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.ocgov.com/fmrpt.asp

E-mail us your comments at

david.sundstrom@ocgov.com

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The financial information in this report is derived from the County's Comprehensive Annual Financial Report (CAFR) and has been summarized for the casual reader. The CAFR is available at all public libraries in the County as well as online in the Auditor-Controller's section of the County website.

www.ocgov.com

OC Citizens' Report is an annual publication of the Auditor-Controller's Office.

This report presents the highlights of the significant economic and financial activity of Orange County, California for the fiscal year (FY) ended June 30, 2004.

Economic Indicators

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 2005. Unemployment rates improved from 4% to 3.6%, while the payroll employment showed increasing trends in construction, manufacturing, retail, and leisure services sections; and, taxable sales increased steadily by 4.8%. Furthermore, there was a tremendous housing appreciation of 30.4% during the year.

General Fund Financial Indicators

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. At the end of FY 2003-04, fund balance decreased by \$17 million, largely attributable to increased costs for retirement, salaries, and health care. While expenses for the General Fund increased, revenues from the State for Motor Vehicle License Fees (VLF) and Mandated Costs declined due to the State deferring payments to the County; for FY 03-04, the State deferred \$26 million and \$30 million, respectively. To offset declining revenues, the County increased transfers to the General Fund from certain Special Revenue Funds. Without increased transfers, fund balance would have shown a greater decline.



A Message from the Auditor-Controller

The State's budget crisis continues to adversely affect the County. Nevertheless, the County has maintained issuer ratings of Aa2 from Moody's Investors Service and A+ from Standard & Poor's. The raters cited the County's continued 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 local economy.

CEO Announces County Reorganization

– Orange County Government Online, January 9, 2004

The following highlights are illustrative of the County's strong fiscal discipline:

- ⇒ General Fund expenditures and transfers ended the year 11% below budget while General Fund revenues and transfers ended the year 3% below budget.
- ⇒ Government-wide, total net assets increased by \$236 million, or 7% as compared to last year's, while long-term debt decreased by \$75 million, or 5% during the current fiscal year.
- ⇒ The County maintains one of the lowest ratios of employees to citizens - 5.8 per 1,000 as compared to the State average of 8.9 per 1,000.
- ⇒ The County recently completed labor negotiations, resulting in no wage increases over a three-year contract. Although a significant retirement benefit was granted, it will be entirely paid for by County employees.

O.C. Wins Prop 13 Tax Ruling

– The Los Angeles Times, March 27, 2004

Economic growth in Orange County continues to look favorable relative to surrounding counties, the State, and the nation. Moreover, projected trends suggest that the recovery of the local economy will be slow but steady during the balance of 2004 and throughout 2005.

Property taxes increased by \$39 million, or 13%, due, in part, to an increased number of home purchases as a result of low housing interest rates allowing the homes to be reassessed to



their markedly higher market value. State Allocation of VLF revenue increased by \$11 million, or 6%, due to the VLF backfill gap loan amount due from the State in 2006 for FY 03-04. In the future, these increases will need to be tempered, however, by a \$27 million per year contribution the County will be required to make to the State to help balance the State's budget for the 2005 and 2006 fiscal years. Even so, I am confident that County management will continue to meet our financial challenges utilizing the tools developed in past years, such as departmental business plans, the five-year Strategic Financial Plan and ongoing quarterly budget reviews and updates.

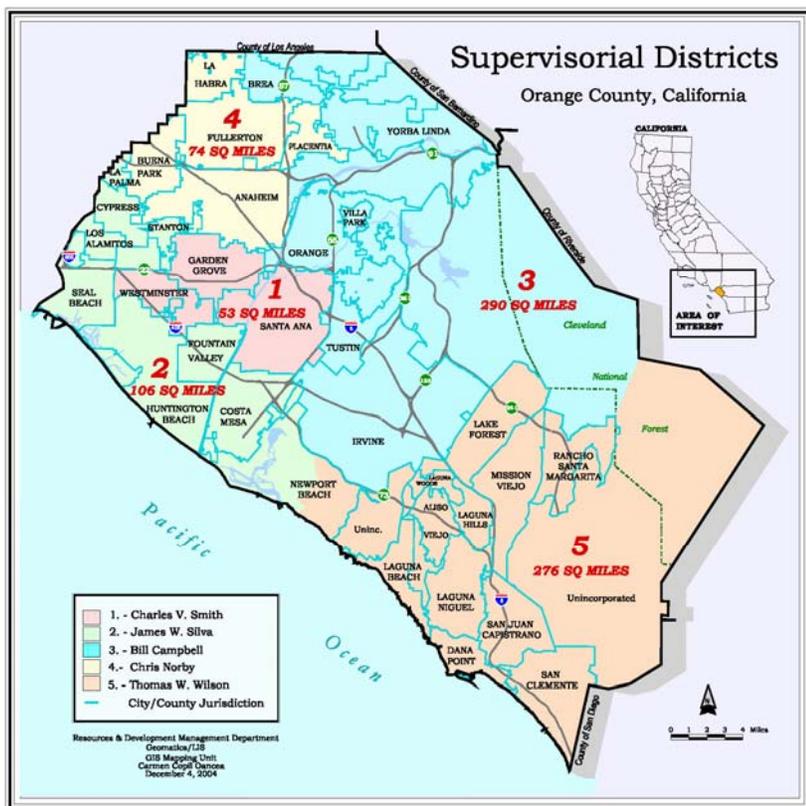
County Makes Cuts, Passes Budget

– The Los Angeles Times, June 30, 2004

I hope that you will find this report both useful and informative. If you have any questions or suggestions, please feel free to contact me by writing to me at the address below, sending me an email at david.sundstrom@ocgov.com or by calling our office at (714) 834-2456.

Sincerely,

David E. Sundstrom, CPA
Auditor-Controller
12 Civic Center Plaza
P.O. Box 567
Santa Ana, CA 92702-0567



The County of Orange is a charter county that is governed by a five-member Board of Supervisors. A Chief Executive Officer directly or indirectly oversees 22 county departments, six of which have elected department heads.

Do you know that there is 1 supervisor for every 600,000 citizens of Orange County?

The County provides a full range of services. Included in the countywide services are social services and public assistance; health care and environmental health and enforcement; child support enforcement; district attorney and public defender services; adult and juvenile facilities; coroner and law enforcement laboratory facilities; landfill operations; flood control; development and operation of the County harbors, beaches, and parks; low cost housing and rental assistance; and operation of the John Wayne airport.

As a measure of service levels to citizens, the graph on the right provides historical data on the number of County employees per 1,000 population. As of June 30, 2004, the County employed an estimated 5.8 employees per 1,000 citizens, in comparison to the State, which had 8.9 employees per 1,000 citizens.



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

Thomas W. Wilson
Chairman
5th District Supervisor



Phone Number : (714) 834-3220
E-mail: district.two@ocgov.com

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

James W. Silva
Vice Chairman
2nd District Supervisor



Phone Number : (714) 834-3110
E-mail: charles.smith@ocgov.com

Garden Grove (portions of), Santa Ana, Westminster

Charles V. Smith
1st District Supervisor



Phone Number : (714) 834-3440
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Anaheim (portions of), Buena Park, Fullerton, La Habra, Placentia

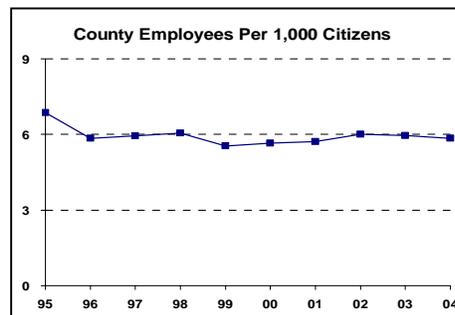
Chris Norby
4th District Supervisor



Phone Number : (714) 834-3330
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Anaheim (portions of), Brea, Irvine, Orange, Tustin, Villa Park, Yorba Linda

Bill Campbell
3rd District Supervisor



Financial Summary

This section is designed to provide a high-level summary of the financial health and stability of the County. Included are significant trends that will impact the County and discussions of major sources of revenues and uses of funds. Information contained within this section should provide the reader with a general understanding on how available resources are utilized to provide services.

Financial Highlights of FY 2003-04

- ⇒ Total net assets increased by \$236 million, or 7% as compared to last year's.
- ⇒ Long-term debt decreased by \$75 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 \$1.8 billion, an increase of \$26 million, or 1% in comparison with the prior year.
- ⇒ At June 30, 2004, unreserved fund balance in the General Fund was \$124 million, or 5% of total FY 2003-04 expenditures of \$2.3 billion.
- ⇒ General Fund revenues and transfers ended the year 3% below budget.
- ⇒ General Fund expenditures ended the year 11% below budget.

The following table provides summarized data from the government-wide Statement of Activities. It is a compilation of revenues, expenses, and resulting changes in net assets for FY 2003-04 in comparison to prior year:

Changes in Net Assets - Primary Government (In Millions)

	Fiscal Years		Increase (Decrease)		% of Total
	2004	2003	Amount	% Change	
REVENUES					
Program Revenues:					
Charges for Services	\$ 639	\$ 622	\$ 17	3%	22%
Operating Grants and Contributions	1,540	1,556	(16)	(1%)	53%
Capital Grants and Contributions	61	527	(466)	(88%)	2%
General Revenues:					
Property Taxes	342	303	39	13%	12%
Other Taxes	51	52	(1)	(1%)	2%
Grants and Contributions, not Restricted to Specific Programs	12	23	(11)	(48%)	0%
State Allocation of Vehicle License Fee	190	178	12	7%	7%
Other General Revenues	71	65	6	9%	2%
Total Revenues	2,906	3,326	(420)	(13%)	100%
EXPENSES					
General Government	171	193	(22)	(11%)	6%
Public Protection	905	893	12	1%	34%
Public Ways and Facilities	78	75	3	4%	3%
Health and Sanitation	448	441	7	2%	17%
Public Assistance	732	741	(9)	(1%)	27%
Education	32	29	3	10%	1%
Recreation and Cultural Services	76	70	6	9%	3%
Interest on Long-Term Debt	79	54	25	46%	3%
Airport	78	76	2	3%	3%
Waste Management	71	79	(8)	(10%)	3%
Total Expenses	2,670	2,651	19	1%	100%
Change in Net Assets	236	675	\$ (439)	(65%)	
Net Assets, Beginning of the Year	3,365	2,690			
Net Assets, End of the Year	\$ 3,601	\$ 3,365			

Net Assets Increase

- ⇒ 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. As of June 30, 2004, the County's total net assets increased by \$236 million, or 7%.
- ⇒ Net assets invested in capital assets, net of related debt refer to the County's total capital assets less any debt incurred to purchase or construct those assets. These net assets increased by \$97 million, or 4%.
- ⇒ Restricted assets increased by \$46 million, or 4%. These are assets, net of liabilities, that are subject to external restrictions on how the resources can be used.
- ⇒ The unrestricted assets deficit balance decreased by \$94 million, or 25%. The deficit balance shown for unrestricted net assets was caused by the County's election to settle bankruptcy-related debt according to the Modified Second Amended Plan of Adjustment, and is not a reflection of the County's lack of resources to meet its ongoing obligations to citizens and creditors.

Net Assets - Primary Government (In millions)	Fiscal Years		
	2004	2003	% Change
	Current and other assets	\$ 3,191	\$ 3,078
Capital Assets	2,821	2,760	2%
Total Assets	6,012	5,838	3%
Long-term liabilities	2,014	2,060	(2%)
Other liabilities	397	413	(4%)
Total Liabilities	2,411	2,473	(3%)
Net Assets			
Invested in capital assets, net of related debt	2,574	2,477	4%
Restricted	1,308	1,263	4%
Unrestricted	(281)	(375)	(25%)
Total Net Assets	\$ 3,601	\$ 3,365	7%

Outstanding Debt

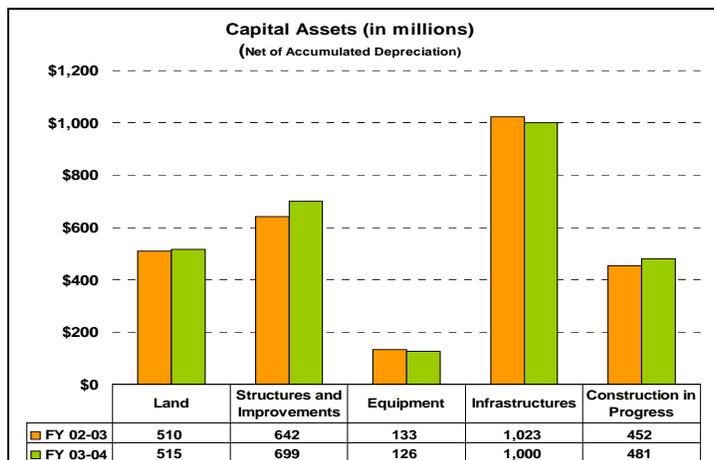
- ⇒ At June 30, 2004, the County had a total debt obligation outstanding of \$1.4 billion, excluding capital lease obligations, compensated absences and other liabilities.
- ⇒ During the year, \$116 million of bonds were retired, while \$38 million was added, thus resulting in a net decrease of 5% on the County's outstanding bond obligation.

Long-Term Debt Obligations (In millions)	Fiscal Years		
	2004	2003	% Change
	Revenue Bonds	\$ 465	\$ 496
Certificates of Participation	619	647	(4%)
Pension Obligation Bonds	117	121	(3%)
Recovery Bonds	226	240	(6%)
Unamortized Deferred Charges	(11)	(13)	(15%)
Total	\$ 1,416	\$ 1,491	(5%)

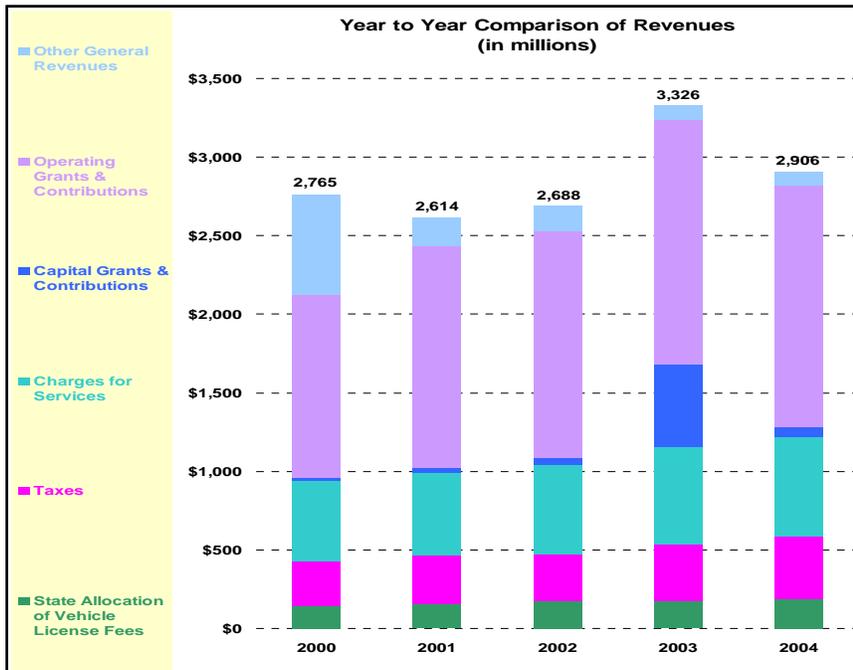
Capital Assets

- ⇒ The County's capital assets as of June 30, 2004 increased by \$61 million, or 2%. During the year, the County's capital asset activities were as follows:

Capital Assets, Beginning of year	\$ 2,760
Asset additions	210
Retirements	(70)
Depreciation	(92)
Transfers	13
Capital Assets, End of year	\$ 2,821



County Revenues



Total Revenues

The County's total revenues for FY 2003-04 were \$2.9 billion, a **decrease of \$420 million, or 13%** over the prior year. The County's revenues came from program revenues and general revenues:

Program Revenues

Program Revenues (Charges for Services, Operating Grants and Contributions, and Capital Grants and Contributions) are derived directly from the program itself or from parties outside the County's taxpayers or citizenry. As a whole, they reduce the net cost of the service to be financed from the government's general revenues.

⇒ 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.

Charges for services increased by \$17 million, or 3% mainly due to the following

- reimbursement from the Ladera Ranch Community Facility District for the widening of Antonio Parkway.
- increase in rents and concession from airline rent, parking, and lease concessions due to the increased number of passengers and level of travelers' activities in the airport.
- increase in the amount of "in-county" solid waste disposed at the landfills.

⇒ Operating Grants and Contributions are monies received from parties outside the County and are generally restricted to one or more specific programs. State and Federal revenue funding

decreased by \$16 million, or 1% reduction in this program revenues.

⇒ Capital Grants and Contributions decreased by \$466 million, or 88%, mainly due to a \$455 million one-time contribution of the Seven Oaks Dam from the US Army Corps of Engineers to the County in FY 2002-03.

General Revenues

Taxes and other items, such as unrestricted interest revenue not reported as program revenues, are classified as General Revenues. The changes in General Revenues for FY 2003-04 are as follows:

- ⇒ Property taxes increased by \$39 million, or 13% due to an increased number of home purchases as a result of low housing interest rates, as well as higher home prices.
- ⇒ State allocation of VLF increased by \$11 million, or 7% due to the VLF backfill gap loan amount due from the State in 2006.
- ⇒ Other General Revenue increased by 1% mainly due to the \$4 million deferred pass-through tax incremental revenue from the City of Yorba Linda Redevelopment Agency. This is the first of three agreed upon annual installment payments.



Expenses by Function



Total Expenses

The County's expenses for FY 2003-04 were \$2.6 billion, an increase of \$19 million, or 1% over the prior year. Expenses are classified by function or services.

General Government (\$171 million, 6% of Total Expenses)

County operating costs include the 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.

Public Protection (\$905 million or 34% of Total Expenses)

Consists of Sheriff-Coroner, District Attorney, Probation, Trial Courts, Sheriff Court Operations, Grand Jury, Public Defender and Alternate Defense.

Public Ways & Facilities (\$78 million or 3% of Total Expenses)

Consists of the repairs and maintenance of public roads and parking facilities under the Resource Development and Management Department.

Health and Sanitation (\$448 million or 17% of Total Expenses)

Includes indigent medical services, maintenance of public health care and emergency medical services programs.

Public Assistance (\$732 million or 27% of Total Expenses)

Consists of the Social Services Agency, Housing and Community Services Agency, and the Department of Child Support Services.

Education (\$32 million, or 1% of Total Expenses)

Reflects the operating costs of providing library services, as well as building public libraries.

Recreation & Cultural Services (\$76 million, or 3% of Total Expenses)

Represents the operating and capital asset related expenses for the harbors, beaches and parks.

Interest on Long-Term Debt (\$79 million, 3% of Total Expenses)

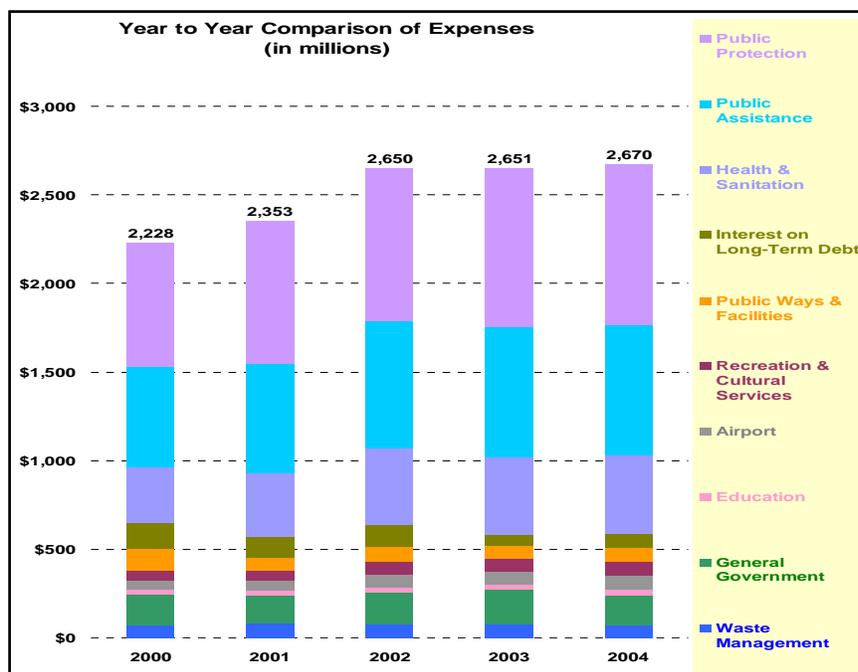
This accounts for the indirect expense of interest paid on general long-term debt incurred by the governmental functions.

Airport (\$78 million, 3% of Total Expenses)

This accounts for major construction and self-supporting aviation-related activities rendered at John Wayne Airport.

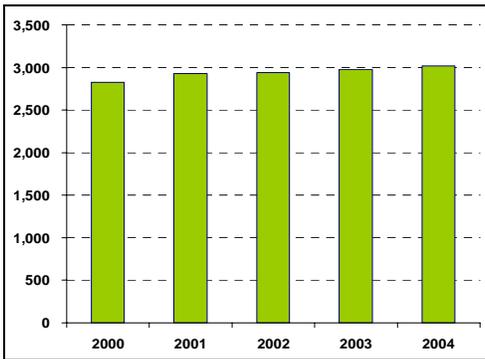
Waste Management (\$71 million, 3% of Total Expenses)

This accounts for the operation, expansion, and closing of existing landfills and the opening of new landfills.

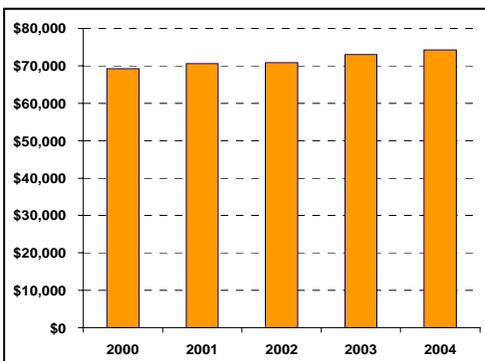


Demographics and the Economy

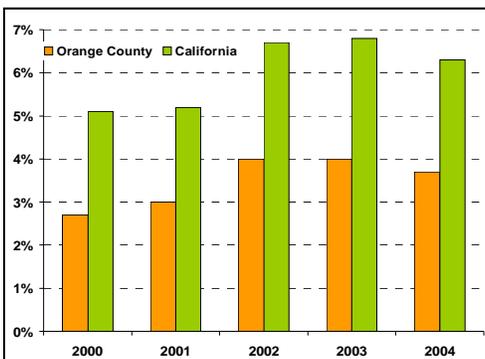
Population (in millions)



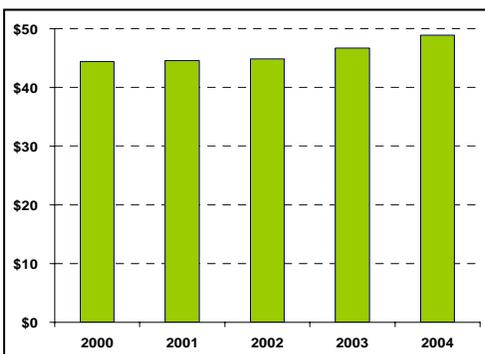
Median Family Income



Unemployment Rate



Taxable Sales (in billions)



Year	Population	Median Family Income	Unemployment Rate
2000	2,828,000	\$ 69,310	2.7%
2001	2,926,000	\$ 70,577	3.0%
2002	2,940,000	\$ 70,887	4.0%
2003	2,979,000	\$ 72,985	4.0%
2004	3,017,000	\$ 74,200	3.6%

Population

- ⇒ The County continues to rank as the second most populous county in the State of California and fifth in the nation as of January 1, 2004.
- ⇒ Population growth of 1.3% over last year.

Income

- ⇒ The median family income was \$74,200. This was an increase of 1.7% from the previous year's \$72,985.

Jobless Rate Falls

The Orange County Register, January 17, 2004

Unemployment

- ⇒ The unemployment rate declined to 3.6% from last year's average of 4.0%, while the rate statewide declined from 6.8% to 6.3%.
- ⇒ Payroll employment increased by 1.9% or 27,242 jobs as compared to a 1.6% increase in 2003.

Taxable Sales

- ⇒ Taxable sales increased to \$48.9 billion, or a 4.8% growth rate. Estimated taxable sales for 2005 is \$51.3 billion.

O.C. Home Affordability Lowest in 16 years

The Orange County Register, May 7, 2004

Housing

- ⇒ As of June 30, 2004, the median-priced home sales price for new and existing homes reached \$540,000, an increase of 30.4%.
- ⇒ Only 11% of OC households can afford the median-priced home in Orange County as compared to 22% in June 2003.

OC's Stats.....Growth by numbers

Second most
populous county
in California

2



1889

Year when the County
was incorporated



5

Fifth largest population in
the whole United States

798

Square miles of land

34

Cities



42

Miles of
coastline



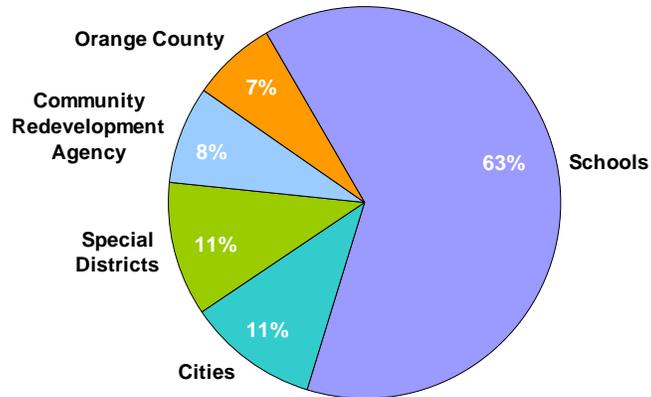
35,000

Acres of parks,
historic sites
and open
space facilities

Key Project Accomplishments

- ⇒ Implemented the District Attorney Case Management System, which serves as the hub for the County of Orange's Integrated Law and Justice system.
- ⇒ Broke the largest auto fraud crime ring in Orange County history.
- ⇒ Collected more than \$4 million to repay debts owed to victims of crimes.
- ⇒ Increased the number of suspects identified using latent fingerprint by 24%.
- ⇒ Lowered toxicology analysis time on Coroner's cases from 28 days to 20 days.
- ⇒ Decreased the number of traffic collisions in the Sheriff's South County contract cities from 4,829 in 2001 to 4,324 in 2003, a reduction of 10.5%.
- ⇒ Led the five largest California counties in collection on current child support for the past five fiscal years.
- ⇒ Implemented the Electronic Benefit Transfer (EBT) System for CalWORKs and Food Stamp clients.
- ⇒ Completed the transfer and annexation of the former MCAS, El Toro to the City of Irvine for development of OC Great Park.

WHERE THE TYPICAL PROPERTY TAX DOLLAR GOES



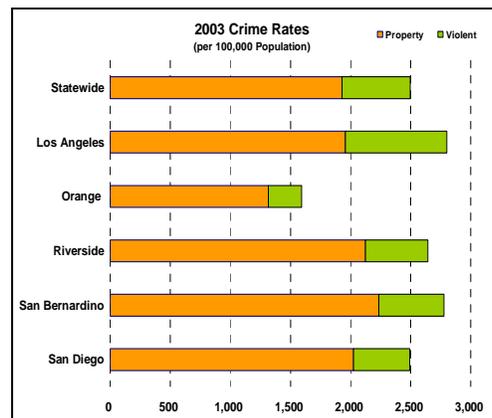
- ⇒ Orange County General Fund receives the lowest share of property tax in the entire State of California.
- ⇒ Only 6% of the typical property tax dollar supports County General Fund services. The additional 1% received by the County supports the County Library, a non-general fund department.
- ⇒ The 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.

You can make a difference...

be an  volunteer

OC moves to safest in Southern California

Due to decreases in both property and violent crimes, Orange County's property crime and violent crime rates went down by 1.5% and 1.4%, respectively in 2003. Property crimes per 100,000 people was 1,317, while violent crime was 274. Orange County has the lowest property and violent crime index among the Southland counties.



Get connected with your County...

Visit the County website, a fast and convenient way of keeping in touch with your county government. Review issues, download forms, print agendas and find special events and programs. You can be connected to your county anytime of the day in a heartbeat.

www.ocgov.com

Explore...

all aspects of  lifestyle, business, health, technology, family, education, politics, culture, the arts and much more...



real orange
Weeknights at 6:30PM & 11:00PM
Weekdays at 8:00AM

INSIDE OC
with rick reiff
Wednesdays at 7:00PM
Sundays at 11:30AM
Segments twice weekly on Real Orange

k o c e T E L E V I S I O N

For **live** audio feed from the **Orange County** Board of Supervisors meeting, log on:
<http://www.ocgov.com/supervisors/supervisorslive.asp>

The Board regularly meets on **Tuesdays** in the Hall of Administration, Board Hearing Room, 10 Civic Center Plaza, first floor, Santa Ana. Meetings begin at **9:30 a.m.**

Got Gardening Questions?

The Master Gardener Hotline for Orange County has the answers!

<http://uccemg.org/>



Marvel at the 10-acre Grove of Coastal Redwoods

Take a leisurely hike through Carbon Canyon Regional Park; at the end of the nature trail, you will be in the midst of the young giants.

In OC, nearly half (47.1%) of all privately-held firms are 50% or more women-owned.



Key Project Accomplishments

- ⇒ Provided a total of 403 new affordable units.
- ⇒ Opened Ladera Ranch Public Library in September 2003.
- ⇒ Acquired 94 acres of real property for Santa Ana River/Prado Dam Project.
- ⇒ Completed the Federally required ATSA baggage-screening system.
- ⇒ Expanded countywide child care services by opening 49 new licensed child care programs to serve an additional capacity of 3,695 children.
- ⇒ Maintained Moody's and Standard & Poor's credit rating of Aa2 and A+ respectively.
- ⇒ Enhanced countywide volunteer programs resulting in an estimated \$25 million in avoided costs for the County.

About the OC Citizens' Report

The *OC Citizens' Report* provides the general public with 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, as well as an outline of trends in the local economy. Most of the information in this report is drawn from the financial information appearing in the FY 2003-04 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 Citizen's Report* conformed with GAAP, the statistical, economic and demographic data are taken from various sources and are not GAAP-basis data. Both the *OC Citizens' Report* and CAFR are available for viewing at all County public libraries and the Auditor-Controller's website, <http://www.ac.ocgov.com/finrpt.asp>.

Auditor-Controller's Office
County of Orange, CA

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

**COUNTY OF ORANGE,
CALIFORNIA**

For the fiscal year ending
June 30, 2003



Nancy L. Zjella
President
Jeffrey L. Esch
Executive Director

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, 2003. 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 published report must reflect the program standards of creativity, presentation, understandability and reader appeal.

Sources

The following sources were used to compile this report:
Economic & Business Review, Chapman University, June 2004
DataQuick Information System
U.S. Department of Housing and Urban Development, 2004
State of California Employee Development Department
United States Department of Justice
California Association of Realtors
California Department of Finance
U.S. Bureau of the Census
Orange County Community Indicators, 2004
Center for Women's Business Research, 2004
Legislative Analyst's Office
KOCE-TV Foundation
Photos courtesy of Resources & Development Management Department

About our Front Cover

Santiago Oaks Regional Park
This secluded refuge offers the natural charm of mountain vistas, an orange grove, native oak trees and a creek. To get more information, go to www.ocparks.com/santiagooaks/.