

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

This section of the County’s Comprehensive Annual Financial Report (CAFR) provides a narrative overview and analysis of the financial activities of the County for the year ended June 30, 2009. We hope that the information presented here, in conjunction with the Letter of Transmittal, provides a clear picture of the County’s overall financial status. Unless otherwise indicated, all amounts in this section are expressed in thousands of dollars.

**FINANCIAL HIGHLIGHTS**

- Total net assets decreased by \$29,580 (including the effect of restating Beginning Net Assets), or 1% as compared to last year.
- Long-term debt decreased by \$259,205, or 28% during the current fiscal year.
- As of the end of the FY, the County’s governmental funds reported combined ending fund balances of \$1,746,823, a decrease of \$318,664, or 15% in comparison with the prior year.
- At June 30, 2009, unreserved fund balance in the General Fund was \$26,819, or 1% of total FY 2008-09 expenditures and transfers of \$2,703,975.
- General Fund revenues and transfers ended the year 15% below budget.
- General Fund expenditures and transfers ended the year 16% below budget.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statements presented in the County’s CAFR are divided into three different sections:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

| <b>Basic Financial Statements</b>           |   |   |  |
|---|---|---|--|
| <b>Government-wide Financial Statements</b> | <b>Fund Financial Statements</b>                                  |   |  |
|   | <b>Governmental Funds</b>   | <b>Proprietary Funds</b>  | <b>Fiduciary Funds</b>                       |
| Statement of Net Assets                     | Balance Sheet   | Statement of Net Assets   | Statement of Fiduciary Net Assets            |
|   | Statement of Revenues, Expenditures, and Changes in Fund Balances | Statement of Revenues, Expenses, and Changes in Fund Net Assets |  |
| Statement of Activities                     | Budgetary Comparison Statement                                    | Statement of Cash Flows   | Statement of Changes in Fiduciary Net Assets |
| Notes to the Basic Financial Statements     |   |   |  |

The following table summarizes the major features of the basic financial statements:

|  | Government-wide<br>Financial<br>Statements   | Fund Financial Statements   |   |   |
|--|--|---|---|---|
|  |  | Governmental<br>Funds   | Proprietary<br>Funds  | Fiduciary<br>Funds  |
| <b>Type of Financial Statement</b>             | Statement of Net Assets<br><br>Statement of Activities                                 | Balance Sheet<br><br>Statement of Revenues, Expenditures, and Changes in Fund Balances  | Statement of Net Assets<br><br>Statement of Revenues, Expenses, and Changes in Fund Net Assets<br><br>Statement of Cash Flows | Statement of Fiduciary Net Assets<br><br>Statement of Changes in Fiduciary Net Assets     |
| <b>Scope</b>                                   | Entire entity (except fiduciary funds)   | Day-to-day operating activities for basic services  | Day-to-day operating activities for business-type services  | Resources on behalf of others   |
| <b>Accounting basis and measurement focus</b>  | Accrual accounting and economic resources measurement focus                            | Modified accrual and current financial resources measurement focus  | Accrual accounting and economic resources measurement focus   | Accrual accounting and economic resources focus   |
| <b>Type of asset and liability information</b> | All assets and liabilities, both financial and capital, short-term and long-term       | Current assets and liabilities that come due during the year or soon thereafter   | All assets and liabilities, both financial and capital, short-term and long-term  | All assets held in a trustee or agency capacity for others                                |
| <b>Type of inflow and outflow information</b>  | All revenues and expenses during the year, regardless of when cash is received or paid | Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable | All revenues and expenses during the year, regardless of when cash is received or paid  | All additions and deductions during the year, regardless of when cash is received or paid |

## Government-wide Financial Statements

The government-wide financial statements consist of the following two financial statements: the Statement of Net Assets and the Statement of Activities. Both of these statements were prepared using an accounting method and a measurement focus similar to those used by private-sector companies, the accrual basis of accounting and the economic resources measurement focus. The **Statement of Net Assets** provides information regarding 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 financial position of the County is improving or deteriorating. The **Statement of Activities**, on the other hand, provides information on how the government's net assets changed during the most recent fiscal year regardless of the period when the related cash or cash equivalent is received or paid. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The Statement of Net Assets and the Statement of Activities distinguish functions of the County that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include (1) general government, (2) public protection, (3) public ways and facilities, (4) health and sanitation, (5) public assistance, (6) education, and (7) recreation and cultural services. The business-type activities of the County include airport and waste management.

The government-wide financial statements also provide information regarding the County's component units, entities for which the County (the primary government) is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations, and therefore, data from these component units are combined with data of the primary government. Financial information for the Children and Families Commission of Orange County, a discretely presented component unit, is reported separately from the financial information presented for the primary government itself.

## Fund Financial Statements

- **Fund** - a separate accounting entity with a self-balancing set of accounts.
- Focus is on **major funds**.
- Provides information regarding the three major categories of all County funds: **governmental, proprietary, and fiduciary**.

The fund financial statements report on groupings of related funds that are used to maintain control over resources that have been segregated for specific activities or objectives. A fund is a separate accounting entity with a self-balancing set of accounts. Like other state and local governments, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of governmental and proprietary fund financial statements is on major funds as determined by the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*." All of the County funds can be divided into three major categories of funds: governmental, proprietary, and fiduciary.

**Governmental Funds** - Governmental funds include most of the County's basic services and are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements are prepared using the modified accrual basis of accounting and current financial resources measurement focus.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are prepared for both the governmental funds' Balance Sheet and the governmental funds' Statement of Revenues, Expenditures, and Changes in Fund Balances to facilitate comparisons between governmental funds and governmental activities. The primary differences between the government-wide and fund financial statements relate to noncurrent assets, such as land and structures and improvements, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund financial statements.

In FY 2008-09, a decrease of \$76,818 in net assets in the government-wide financial statements was reported, and a decrease of \$318,664 in fund balances was reported in the fund financial statements. Refer to the financial analysis of the governmental activities and governmental funds below for details on the factors contributing to these differences.

The County maintains several individual governmental funds organized according to their type (General Fund, Special Revenue, Debt Service, Capital Projects and Permanent Funds). Information is presented separately in the governmental funds' Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is always a major fund, and all other major funds. Information for nonmajor funds is presented in the aggregate in these statements. Individual fund data for each of the nonmajor governmental funds is presented elsewhere in this report. The County adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements and schedules have been provided for these funds to demonstrate compliance with the budget.

**Proprietary Funds** - The County maintains two different types of proprietary funds: Enterprise Funds and Internal Service Funds. **Enterprise Funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its Airport and Waste Management. **Internal Service Funds** are used to accumulate and allocate costs internally among the County's various functions such as insurance, transportation, publishing, and information technology. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Airport and Waste Management operations, which are both considered to be major funds of the County. Conversely, the Internal Service Funds are combined into a single, aggregated presentation in the proprietary funds financial statements with the individual fund data provided in combining statements, which can be found elsewhere in this report.

**Fiduciary Funds** - Fiduciary funds include the **Trust** and **Agency** funds and are used to account for assets held on behalf of outside parties, including other governments. Financial information for fiduciary funds is not reported in the government-wide financial statements because the resources of these funds are not available to support the County's programs. The combining statements for fiduciary funds are included elsewhere in this report.

## Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. To find a specific note, refer to the Table of Contents.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of the County's financial position. At June 30, 2009, the County's combined net assets (governmental and business-type activities) totaled \$4,655,419, a decrease of 1% from FY 2007-08.

The largest component of the County's net assets (63%) was **invested in capital assets, less any related outstanding debt** used to acquire those assets. Capital assets include land, structures and improvements, equipment, construction in progress, and infrastructure that are used to provide needed services to the citizens of the County. Since the capital assets themselves cannot be used to liquidate the associated debt, the resources needed to repay the debt must be provided from other sources.

### **COMPONENTS OF NET ASSETS**

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

The County's **restricted** net assets total \$1,717,635 which represents 37% of its net assets. This 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 provisions or legislation, including those passed by the County itself.

The final 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. As of June 30, 2009, governmental activities showed a negative amount of \$1,271 in unrestricted net assets, compared to \$57,812 in FY 2007-08. The deficit balance shown for unrestricted net assets was caused primarily by the County's continued retirement of bankruptcy-related debt in FY 2008-09, and is not a reflection of the County's lack of resources to meet its ongoing obligation to the citizens and creditors. Additional causes of the unrestricted net assets deficit are declining revenues caused by the slowing economy and the deferral or delay in reimbursement of state and local services, while expenses (salaries and pension costs) continue to steadily increase.

The following table presents condensed financial information derived from the government-wide Statement of Net Assets:

| <b>NET ASSETS – Primary Government</b>             |                                |                     |                                 |                   |                     |                     |
|--|--------------------------------|---------------------|---------------------------------|-------------------|---------------------|---------------------|
| June 30, 2009                                      |                                |                     |                                 |                   |                     |                     |
|  | <b>Governmental Activities</b> |                     | <b>Business-Type Activities</b> |                   | <b>Total</b>        |                     |
|  | <u>2009</u>                    | <u>2008</u>         | <u>2009</u>                     | <u>2008</u>       | <u>2009</u>         | <u>2008</u>         |
| <b>ASSETS</b>                                      |                                |                     |                                 |                   |                     |                     |
| Current and other assets                           | \$ 2,773,189                   | \$ 3,000,431        | \$ 733,000                      | \$ 801,300        | \$ 3,506,189        | \$ 3,801,731        |
| Capital assets                                     | 2,523,055                      | 2,388,820           | 558,032                         | 520,657           | 3,081,087           | 2,909,477           |
| <b>Total Assets</b>                                | <b>5,296,244</b>               | <b>5,389,251</b>    | <b>1,291,032</b>                | <b>1,321,957</b>  | <b>6,587,276</b>    | <b>6,711,208</b>    |
| <b>LIABILITIES</b>                                 |                                |                     |                                 |                   |                     |                     |
| Long-term liabilities                              | 1,315,785                      | 1,309,632           | 253,060                         | 321,123           | 1,568,845           | 1,630,755           |
| Other liabilities                                  | 279,866                        | 302,208             | 83,146                          | 93,246            | 363,012             | 395,454             |
| <b>Total Liabilities</b>                           | <b>1,595,651</b>               | <b>1,611,840</b>    | <b>336,206</b>                  | <b>414,369</b>    | <b>1,931,857</b>    | <b>2,026,209</b>    |
| <b>NET ASSETS</b>                                  |                                |                     |                                 |                   |                     |                     |
| Invested in capital assets,<br>net of related debt | 2,445,397                      | 2,302,926           | 493,658                         | 395,227           | 2,939,055           | 2,698,153           |
| Restricted   | 1,256,467                      | 1,416,673           | 461,168                         | 512,361           | 1,717,635           | 1,929,034           |
| Unrestricted                                       | (1,271)                        | 57,812              | --                              | --                | (1,271)             | 57,812              |
| <b>Total Net Assets</b>                            | <b>\$ 3,700,593</b>            | <b>\$ 3,777,411</b> | <b>\$ 954,826</b>               | <b>\$ 907,588</b> | <b>\$ 4,655,419</b> | <b>\$ 4,684,999</b> |

As of June 30, 2009, the County's total assets decreased by 2%, or \$123,932 during the current fiscal year. Current and other assets decreased by \$295,542 (8%) due primarily to the amortization of the prepaid pension cost in FY 2008-09 to pay for a portion of the County's annual required contribution to OCERS (\$61,641). The decrease in current and other assets is also attributable to a reduction in restricted investments with trustee for the retirement of long-term obligations. Capital assets increased by \$171,610 (6%).

Total liabilities for this year decreased by 5% or \$94,353. Other liabilities decreased by \$32,443 (8%), mostly due to the payment of FY 2007-08 Proposition 1B (Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act) monies to the cities in FY 2008-09. Long-term liabilities decreased by \$61,910 (4%) due to the retirement of long-term obligations and a decrease in the landfill site closure/postclosure liability. Refer to Note 11, Long-Term Obligations, for the reduction of the specific obligations.

The following table provides summarized data of the government-wide Statement of Activities:

| CHANGES IN NET ASSETS – Primary Government                         |                            |                     |                             |                   |                     |                     |
|--|----------------------------|---------------------|-----------------------------|-------------------|---------------------|---------------------|
| For the Year Ended June 30, 2009                                   |                            |                     |                             |                   |                     |                     |
|  | Governmental<br>Activities |                     | Business-Type<br>Activities |                   | Total               |                     |
|  | 2009                       | 2008                | 2009                        | 2008              | 2009                | 2008                |
| <b>REVENUES</b>  |                            |                     |                             |                   |                     |                     |
| Program Revenues:  |                            |                     |                             |                   |                     |                     |
| Charges for Services   | \$ 531,250                 | \$ 525,524          | \$ 218,551                  | \$ 225,687        | \$ 749,801          | \$ 751,211          |
| Operating Grants<br>and Contributions                              | 1,641,501                  | 1,735,820           | 171                         | 569               | 1,641,672           | 1,736,389           |
| Capital Grants<br>and Contributions                                | 94,031                     | 46,308              | 7,466                       | 15,188            | 101,497             | 61,496              |
| General Revenues:  |                            |                     |                             |                   |                     |                     |
| Property Taxes   | 456,924                    | 461,682             | --                          | --                | 456,924             | 461,682             |
| Property Taxes in Lieu of<br>Motor Vehicle License<br>Fees         | 232,760                    | 224,210             | --                          | --                | 232,760             | 224,210             |
| Other Taxes  | 94,184                     | 84,434              | --                          | --                | 94,184              | 84,434              |
| Grants and Contributions<br>not Restricted to<br>Specific Programs | 27,637                     | 23,434              | --                          | --                | 27,637              | 23,434              |
| State Allocation of Vehicle<br>Motor License Fees                  | 50,390                     | 54,656              | --                          | --                | 50,390              | 54,656              |
| Other General Revenues   | 63,021                     | 94,660              | 18,118                      | 32,092            | 81,139              | 126,752             |
| <b>Total Revenues</b>  | <b>3,191,698</b>           | <b>3,250,728</b>    | <b>244,306</b>              | <b>273,536</b>    | <b>3,436,004</b>    | <b>3,524,264</b>    |
| <b>EXPENSES</b>  |                            |                     |                             |                   |                     |                     |
| General Government   | 268,092                    | 264,049             | --                          | --                | 268,092             | 264,049             |
| Public Protection  | 1,230,894                  | 1,164,458           | --                          | --                | 1,230,894           | 1,164,458           |
| Public Ways and Facilities   | 108,748                    | 131,563             | --                          | --                | 108,748             | 131,563             |
| Health and Sanitation  | 593,331                    | 576,160             | --                          | --                | 593,331             | 576,160             |
| Public Assistance  | 898,668                    | 862,709             | --                          | --                | 898,668             | 862,709             |
| Education  | 41,265                     | 37,728              | --                          | --                | 41,265              | 37,728              |
| Recreation and Cultural<br>Services                                | 81,896                     | 75,612              | --                          | --                | 81,896              | 75,612              |
| Interest on<br>Long-Term Debt                                      | 59,751                     | 76,210              | --                          | --                | 59,751              | 76,210              |
| Airport  | --                         | --                  | 91,959                      | 86,750            | 91,959              | 86,750              |
| Waste Management   | --                         | --                  | 79,374                      | 101,990           | 79,374              | 101,990             |
| <b>Total Expenses</b>  | <b>3,282,645</b>           | <b>3,188,489</b>    | <b>171,333</b>              | <b>188,740</b>    | <b>3,453,978</b>    | <b>3,377,229</b>    |
| Excess<br>before Transfers and Special Items                       | (90,947)                   | 62,239              | 72,973                      | 84,796            | (17,974)            | 147,035             |
| Transfers  | 14,129                     | 16,802              | (14,129)                    | (16,802)          | --                  | --                  |
| Special Items  | --                         | --                  | --                          | (6,835)           | --                  | (6,835)             |
| <b>Increase/(Decrease) in Net Assets</b>                           | <b>(76,818)</b>            | <b>79,041</b>       | <b>58,844</b>               | <b>61,159</b>     | <b>(17,974)</b>     | <b>140,200</b>      |
| Net Assets - Beginning<br>of the Year, as Restated                 | 3,777,411                  | 3,698,370           | 895,982                     | 846,429           | 4,673,393           | 4,544,799           |
| <b>Net Assets - End<br/>of the Year</b>                            | <b>\$ 3,700,593</b>        | <b>\$ 3,777,411</b> | <b>\$ 954,826</b>           | <b>\$ 907,588</b> | <b>\$ 4,655,419</b> | <b>\$ 4,684,999</b> |

As of June 30, 2009, the County's net assets decreased by \$17,974 during the current fiscal year. Revenues for the year totaled \$3,436,004, a decrease of \$88,260 from the previous year, and expenses totaled \$3,453,978, an increase of \$69,914 from last year's total expenses (including special items of \$6,835).

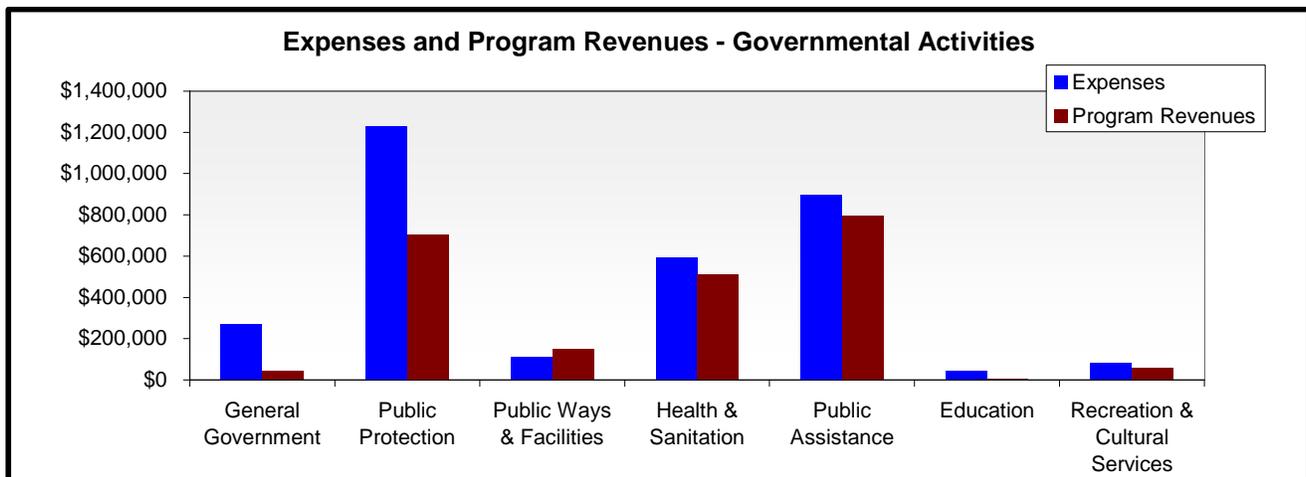
**Governmental Activities**

The County’s governmental activities rely on several sources of revenue to finance ongoing operations. Operating grants and contributions comprised the largest revenue source for the County followed by charges for services. Operating grants and contributions are monies received from parties outside the County and are generally restricted to one or more specific programs such as the State and Federal revenues for public assistance and for health care. In the governmental funds, expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. As expenditures increase, revenues increase proportionately. 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. Examples of the types of services that fall under this category include engineering services provided to cities under contract, park and recreation fees, and law enforcement services provided to governmental agencies under contract.

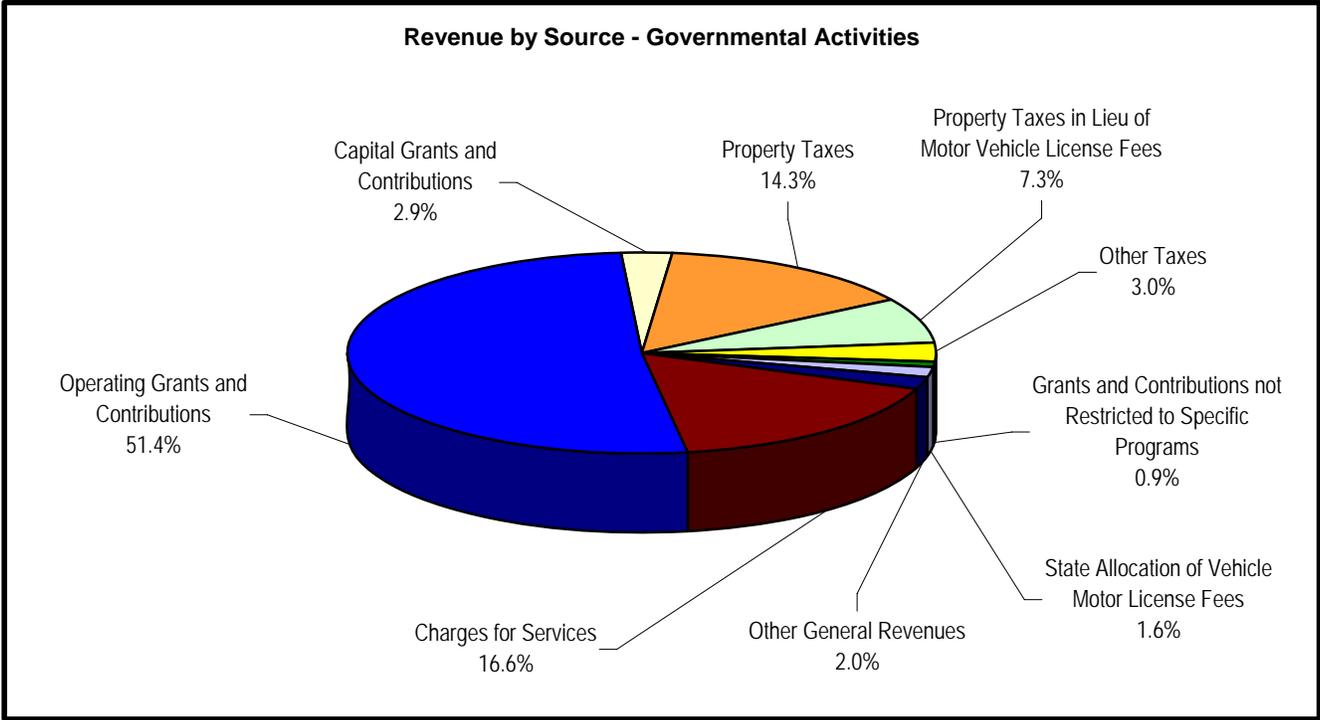
At the end of FY 2008-09 total revenues for the governmental activities, including transfers from the business-type activities were \$3,205,827, a decrease of \$61,703 from the previous year. Expenses totaled \$3,282,645, an increase of \$94,156 from the prior year. Governmental activities decreased the County’s net assets by \$76,818, accounting for most of the total negative growth in the net assets of the County. In addition to the effects of expenditure-driven grants, key elements of the decrease are as follows:

- Operating grants and contributions decreased by \$94,319 due to a continued decline in Proposition 172 revenue resulting from a drop in taxable sales, a reduction in Juvenile Probation Camps funding, and lower interest earnings on purpose-restricted revenues.
- The allocation of Proposition 1B monies from the State for FY 2008-09 was smaller than the FY 2007-08 allocation.
- Property tax revenues decreased by \$4,759 due to a reduction in the supplemental property tax and penalty collections in FY 2008-09.
- State allocation of motor vehicle license fees decreased by \$4,266 due to a drop in car purchases or sales activity during the current economic downturn.
- Capital grants and contributions increased by \$47,723 due primarily to the donation of road infrastructure from the cities to the County.
- An increase of \$48,369 in salaries, compensated absences, and pension costs were experienced in most functions such as public protection (\$30,954), public assistance (\$9,630), and general government (\$6,513).
- An increase of \$75,492 in services and supplies was attributable to the increase in professional services for the Mental Health Services Act Program, Medical Services Initiative Program, Public Protection services, and Teeter Program services. The increase in expenses was partially offset by a reduction in interest expense for bonds payable and office expenses.

The following chart presents a comparison of expenses by function and the associated program revenues for governmental activities:

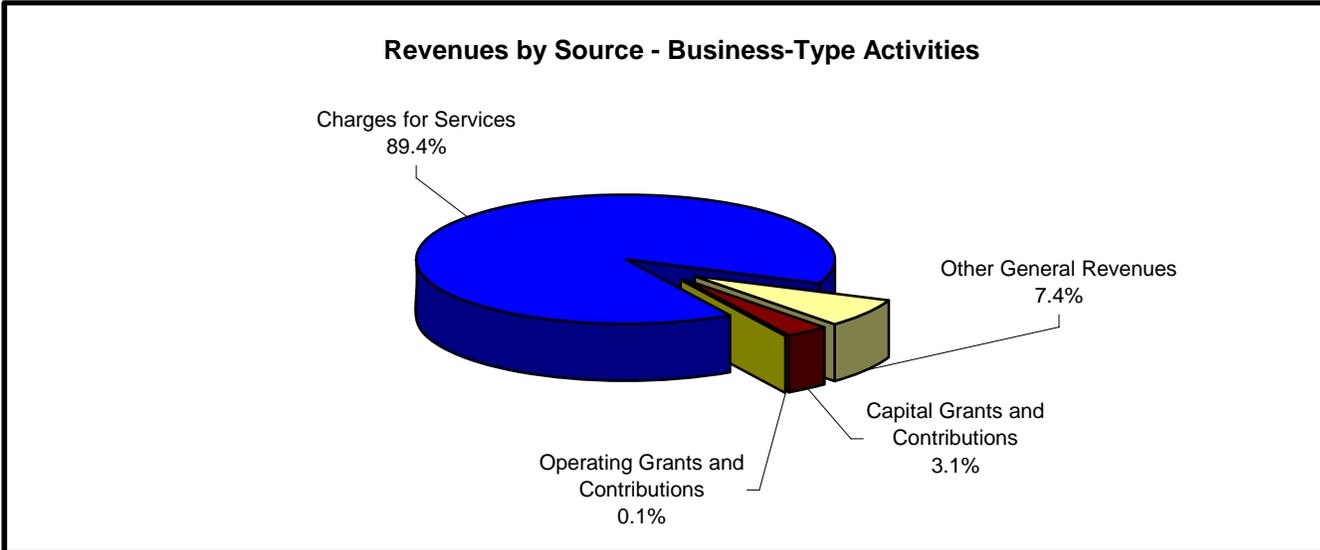


The chart below presents the percentage of total revenues by source for governmental activities:



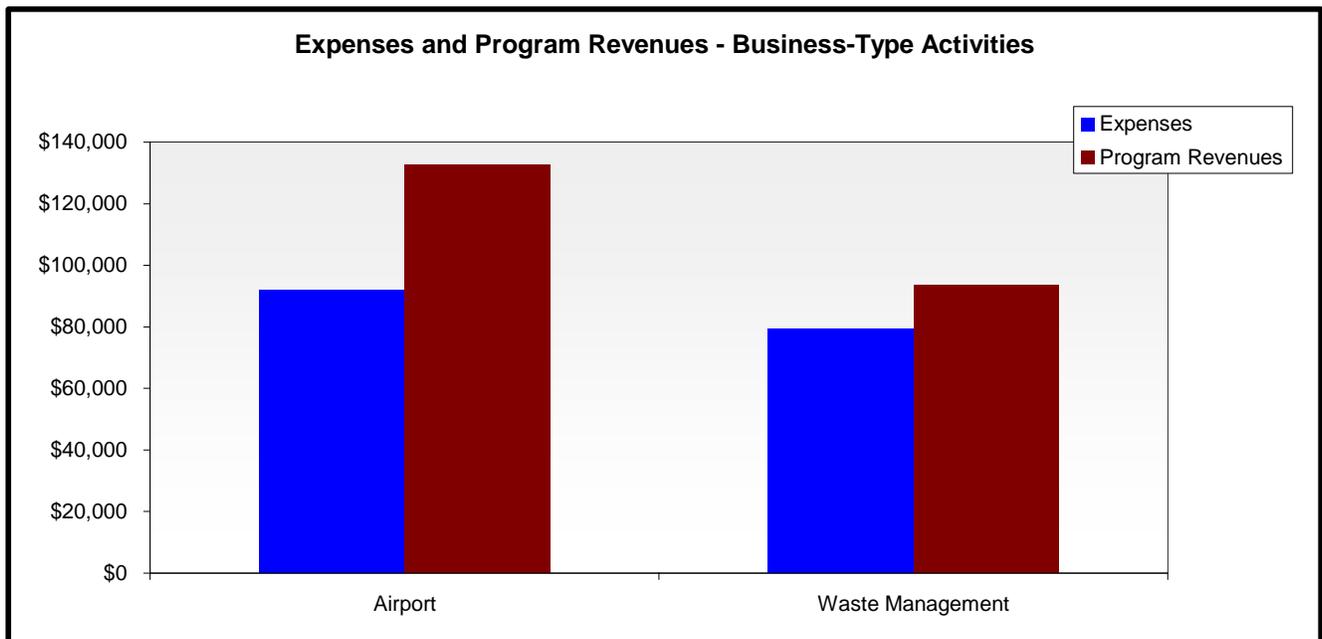
**Business-Type Activities**

The County has two business-type activities: Airport and Waste Management. In keeping with the intent of recovering all or a significant portion of their cost through user fees and charges, business-type activities reported charges for services as their largest source of revenues. Operating grants and contributions, as well as capital grants and contributions, were the other revenue sources for Airport and Waste Management activities. Capital grants and contributions include revenues received from the Federal Aviation Administration (FAA) for use in airport construction projects.



At the end of FY 2008-09, the business-type activities' total revenues exceeded expenses resulting in an increase in net assets of \$58,844, compared to the prior year's increase of \$61,159. Revenues totaled \$244,306, a decrease of \$29,230 from the prior year; this decrease is primarily due to a smaller amount of disposal fees charged to users of the waste disposal sites than prior year, a decrease in interest revenue resulting from declining investment yields in the County's Investment Pool, and a decrease in capital grants and contribution for airport construction projects. Expenses, including transfers to the governmental activities and special items, totaled \$185,462, representing in a decrease of \$26,915 from the previous year. The decrease in expenses is primarily due to the decrease in the landfill site closure/postclosure costs. The program revenues (charges for services, operating grants and contributions, and capital grants and contributions) financed the majority of expenses recorded for the business-type activities. Other factors concerning the finances of the County's two enterprise funds are discussed in the Proprietary Funds section of the "Financial Analysis of the County's Funds."

The following chart displays expenses and the associated program revenues by function for the business-type activities:



**FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS**

The County uses fund accounting to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

**Governmental Funds**

Governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Such information may be useful in evaluating the County's near-term financing requirements.

In particular, unreserved fund balance may serve as a valuable measure of the government's resources that are available for spending at the end of the fiscal year. This amount is available for spending at the discretion of the County's Board of Supervisors (the Board) in order to achieve the established function of the respective funds. Other than the General Fund, all other County funds are restricted for the particular purpose that each fund was established for. For example, special revenue funds have either legal or operational requirements to restrict expenditures for specified purposes, and debt service funds are restricted for payment of principal and interest on general long-term debt.

Commitments by the County related to executory contracts for goods or services are recorded and established as reservations of fund balances in the governmental funds.

At June 30, 2009, the County's governmental funds reported total fund balances of \$1,746,823 which is a decrease of \$318,664 in comparison with the prior year. Of the total fund balances for the governmental funds, \$1,180,025 (68%) constitutes unreserved fund balances.

A significant amount of these unreserved fund balances are designated by the Board for the following uses in the next fiscal year and are deemed to be restrictions, commitments, or limitations, which affect the availability of fund resources in the next fiscal year:

| Funds   | Planned Uses of Unreserved Fund Balances  |
|---|---|
| General Fund  | - Re-budgeted capital projects, information systems projects and upgrades, and increases to reserves.   |
| Roads   | - Construction and maintenance of roadways, and for specialized engineering services to other governmental units and the public.  |
| Flood Control District                                  | - Planning, construction, operation, and maintenance of regional flood protection and water conservation works, such as dams, control channels, retarding basins and other flood control infrastructure.  |
| OC Parks  | - Development and maintenance of County harbors, tidelands and related aquatic recreational facilities, as well as the acquisition, operation and maintenance of County beaches, inland regional park recreation facilities and community park sites in the unincorporated areas. |
| Other Public Protection                                 | - Safety and law enforcement activities such as automated fingerprint identification systems, investigation teams and child support information.  |
| Teeter Plan Obligation<br>Commercial Paper Program Note | - Financing activities related to the Teeter Plan Commercial Paper Notes Program including the transfer of excess penalty to the General Fund.  |
| Other Governmental                                      | - Construction of various capital projects including affordable housing, for accounting of revenues received and reserved for future incorporation agreements, mental health services, and operational contingencies.   |

The remaining fund balances are reserved. Reserved fund balances primarily represent assets that are not available for spending or assets with restrictions imposed by parties outside the County.

**Comparative Analysis of Changes in Fund Balances**

The following schedule presents a summary of revenues and other financing sources, expenditures and other financing uses, and the net change in fund balances for the governmental funds for the current and previous fiscal years:

| <b>GOVERNMENTAL FUNDS</b><br><b>COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES</b><br>For the Year Ended June 30, 2009 |   |                     |  |                     |                                |                    |
|---|---|---------------------|--|---------------------|--------------------------------|--------------------|
|   | Revenues and Other<br>Financing Sources |                     | Expenditures and Other<br>Financing Uses |                     | Net Change in<br>Fund Balances |                    |
|   | 2009                                    | 2008                | 2009                                     | 2008                | 2009                           | 2008               |
| General Fund  | \$ 2,677,046                            | \$ 2,867,612        | \$ 2,703,975                             | \$ 2,936,379        | \$ (26,929)                    | \$ (68,767)        |
| Roads   | 57,373                                  | 78,564              | 72,155                                   | 75,515              | (14,782)                       | 3,049              |
| Flood Control District  | 128,178                                 | 150,215             | 127,282                                  | 93,047              | 896                            | 57,168             |
| OC Parks  | 108,113                                 | 113,566             | 94,154                                   | 80,816              | 13,959                         | 32,750             |
| Other Public Protection   | 70,933                                  | 81,591              | 152,902                                  | 117,440             | (81,969)                       | (35,849)           |
| Teeter Plan Obligation  |   |                     |  |                     |                                |                    |
| Commercial Paper Program Note   | 153,375                                 | --                  | 168,478                                  | --                  | (15,103)                       | --                 |
| Other Governmental  | 755,720                                 | 517,094             | 950,456                                  | 538,021             | (194,736)                      | (20,927)           |
| <b>Total</b>  | <b>\$ 3,950,738</b>                     | <b>\$ 3,808,642</b> | <b>\$ 4,269,402</b>                      | <b>\$ 3,841,218</b> | <b>\$ (318,664)</b>            | <b>\$ (32,576)</b> |

\* Teeter Plan Obligation Commercial Paper Program Note Fund was determined a major Governmental Fund in FY 2008-09

In addition to the effects of expenditure-driven grants, the following information provides explanations for the significant changes in fund balance:

General Fund

The General Fund is the chief operating fund of the County. At the end of FY 2008-09, expenditures exceeded revenues resulting in a decrease in fund balances of \$26,929 compared to last year's decrease in fund balances of \$68,767. Revenues decreased by \$190,566, and expenditures decreased by \$232,404, resulting in an increase in the net change in fund balances from the prior year of \$41,838. The following is a brief summary of the primary factors which contributed to the increase in the net change in fund balances for the General Fund in FY 2008-09:

- Revenues decreased by \$190,566 primarily because the County recorded the Taxable Pension Obligation Bonds, Series 2007 (\$211,065) in FY 2007-08 as an other financing source; a reduction of \$61,973 in Proposition 172 (Public Safety Sales Tax) revenue, realignment revenue, and sales tax and vehicle license fees was realized in FY 2008-09, and a decrease of \$23,585 in other revenue was recorded in FY 2008-09. The revenue decrease was offset by an increase in transfers of \$103,791 to the General Fund for reimbursement of costs for the Mental Health Services Act, the Cogeneration Plant at Central Utility Facility Construction Project, and the Youth Offender Program, and additional transfers from Other Public Protection Funds to support the Sheriff Department's programs.
- Expenditures decreased by \$232,404 primarily because the debt service payments for the Taxable Pension Obligation Bonds, Series 2007 (\$212,778) were recorded in FY 2007-08, and there was a reduction in office expenses and contributions to non-county agencies in FY 2008-09 (\$65,725). The expenditure decrease was offset by an increase in (1) salaries and pension costs of \$38,140 for various functions such as public protection (\$27,396), public assistance (\$8,778), and general government (\$6,534); and (2) support and preventive services of \$23,093 for the In-Home Supportive Services and Welfare-to-Work programs.

Roads

This fund accounts for the maintenance and construction of roadways, and for specialized engineering services to other governmental units and the public. At the end of FY 2008-09, fund balances decreased by \$14,782, compared to last year's increase in fund balances of \$3,049. There was a \$18,791 decrease in intergovernmental revenues due primarily to a delay in the State's allocation of Proposition 1B general obligation bonds to the County to fund transportation projects that will benefit motorists throughout the County. Public ways and facilities expenditures decreased by \$8,909 due primarily to a decrease in professional services for construction projects and disbursements of Proposition 1B monies to participating cities that support Proposition 1B roadway improvement projects. The expenditure decrease was partially offset by an increase of \$5,549 in capital outlay for the Irvine Avenue and Ortega Highway Widening Projects.

#### Flood Control District

This fund accounts for the planning, construction and operation of flood control and water conservation works, such as dams, basins, and trunk channels, and for the retardation, conservation and controlled discharge of storm waters. At the end of FY 2008-09, there was an increase in fund balances of \$896 compared to last year's increase in fund balances of \$57,168. A decrease of \$33,476 in intergovernmental revenues resulted from the State's delay in reimbursing the County for the Santa Ana River (SAR) Mainstem Subvention Claim in FY 2008-09. The decrease in revenue was offset by the increase of \$16,359 in miscellaneous revenue for the sale of the Katella Yard. Expenditures increased by \$34,235 primarily due to the land acquisition and relocation of tenants for the Prado Dam Project.

#### OC Parks

This fund accounts for the development of aquatic recreational facilities and the acquisition, operation and maintenance of County beaches, inland regional park recreational facilities and community park sites in the unincorporated areas. At the end of FY 2008-09, there was a \$13,959 increase in fund balances compared to last year's increase of \$32,750 in fund balances. Revenue decreased by \$5,453 primarily due to the decrease in grants received for the Irvine Park Sewer Conversion and Laguna Coast Wilderness Park Projects, and a decrease in transfer from other funds to support park capital projects. Expenditures increased by \$13,338 primarily due to the reimbursement of the Sheriff's harbor patrol service costs at the Dana Point Harbor and transfers to the General Fund for the purchase of the Chestnut Avenue Complex.

#### Other Public Protection

This group of funds is used to account for safety and law enforcement activities. Revenues consist primarily of Federal and State grants. At the end of FY 2008-09, there was a decrease in fund balances of \$81,969 compared to last year's decrease in fund balances of \$35,849. Revenues decreased by \$10,658, while expenditures increased by \$35,462, resulting in a decrease in the net change in fund balances of \$46,120. Licenses, Permits, and Franchises decreased by \$2,772 due to the lower demand for building permits. A decrease of \$6,454 in interest revenue resulted from declining interest yields in the County's Investment Pool and a diminishing cash balance from which interest is earned. The revenue decreases were partially offset by an increase in charge for service to other counties for the Multi-County Electronic Recording Delivery System project. There was an increase of \$29,202 of excess unrestricted revenues transferred to the General Fund to support the Sheriff Department's programs. A \$6,546 increase in capital outlay was for the purchase of patrol service equipment and a building (including land) for the Regional Narcotics Suppression Program unit.

#### Teeter Plan Obligation Commercial Paper Program Note

This fund was established in FY 2008-09 and accounts for the activities related to the Teeter Program, the funding for which was restructured in 2008 from long-term bonds to a commercial paper (CP) program. At the end of FY 2008-09, there was a decrease in fund balances of \$15,103. Residual balances from the Orange County Special Financing Authority, penalties and interest collected, did not fully cover the additional costs, interest expenses of the CP Notes incurred in the first year of the CP Program, and CP principal.

#### Other Governmental Funds

At the end of FY 2008-09, there was a decrease in fund balances of \$194,736 compared to last year's decrease in fund balances of \$20,927. Expenditures increased by \$412,435 primarily due to the redemption of the Teeter Plan Revenue Bonds, Series 1995A through E of \$123,725 in FY 2008-09, and an increase of \$281,150 in transfers out (1) to reimburse the General Fund for the Mental Health Services Act expenditures, and the construction costs for the Tustin Family Campus and the Cogeneration Plant at Central Utilities Facility, (2) to consolidate the residual balances of the Orange County Special Financing Authority into the Teeter Plan Obligation Commercial Paper Program Note Fund, and (3) to consolidate the residual equity of the Special Assessment Districts, Community Facilities District and Service Areas Capital Projects Fund with the Service Areas, Lighting, Maintenance and Assessment Districts Special Revenue Fund. The increase in expenditures was offset by an increase in revenues of \$238,626 due primarily to: (1) the receipt of a larger allocation of the Prop. 63 (State Mental Health Services) monies from the State, (2) the proceeds of Commercial Paper Notes to retire the Teeter Plan Revenue Bonds, Series 1995A through E, and (3) the residual transfer from the Special Assessment Districts, Community Facilities District and Service Areas Capital Projects Fund to the Service Areas, Lighting, Maintenance and Assessment Districts Special Revenue Fund.

The following chart shows the fund balances for governmental funds for the current and previous fiscal year:

| <b>COMPARATIVE FUND BALANCE</b>                      |                     |                     |                       |  |
|--|---------------------|---------------------|-----------------------|--|
| Governmental Funds *                                 |                     |                     |                       |  |
| June 30, 2009 and 2008                               |                     |                     |                       |  |
|  | 2009                | 2008                | Increase/(Decrease) % |  |
| General Fund   | \$ 288,044          | \$ 314,973          | (9)%                  |  |
| Roads  | 100,108             | 114,890             | (13)%                 |  |
| Flood Control District                               | 313,323             | 312,427             | --                    |  |
| OC Parks   | 135,415             | 121,456             | 11 %                  |  |
| Other Public Protection                              | 115,571             | 197,540             | (41)%                 |  |
| Teeter Plan Obligation Commercial Paper Program Note | (15,103)            | --                  | --                    |  |
| Other Governmental Funds                             | 809,465             | 1,004,201           | (19)%                 |  |
| <b>Total</b>   | <b>\$ 1,746,823</b> | <b>\$ 2,065,487</b> | <b>(15)%</b>          |  |

\* Teeter Plan Obligation Commercial Paper Program Note Fund was determined a major Governmental Fund in FY 2008-09

### Proprietary Funds

The proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Airport and Waste Management, both of which are considered to be major funds of the County. Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

### Comparative Analysis of Changes in Fund Net Assets

The following table presents the enterprise funds' actual revenues and other financing sources, expenses and transfers, and changes in fund net assets for the current and previous fiscal year:

| <b>ENTERPRISE FUNDS</b>  |  |                   |  |                   |                              |                  |
|--|--|-------------------|--|-------------------|------------------------------|------------------|
| <b>COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS</b> |  |                   |  |                   |                              |                  |
| For the Year Ended June 30, 2009   |  |                   |  |                   |                              |                  |
|  | Revenues, Contributions<br>and Transfers |                   | Expenses, Special Items<br>and Transfers |                   | Change in<br>Fund Net Assets |                  |
|  | 2009                                     | 2008              | 2009                                     | 2008              | 2009                         | 2008             |
| Airport  | \$ 139,907                               | \$ 150,745        | \$ 93,290                                | \$ 94,347         | \$ 46,617                    | \$ 56,398        |
| Waste Management   | 105,720                                  | 122,708           | 92,883                                   | 118,905           | 12,837                       | 3,803            |
| <b>Total</b>   | <b>\$ 245,627</b>                        | <b>\$ 273,453</b> | <b>\$ 186,173</b>                        | <b>\$ 213,252</b> | <b>\$ 59,454</b>             | <b>\$ 60,201</b> |

#### Airport

This fund accounts for major construction and self-supporting aviation related activities rendered at John Wayne Airport, Orange County (JWA). At the end of FY 2008-09, there was an increase in fund net assets of \$46,617, compared to the prior year increase of \$56,398. Revenues decreased by \$10,838 primarily due to the combination of a \$5,343 decrease in capital grant contributions for the Airport Improvement Program, a \$3,654 decrease in interest earning, and a \$2,085 decrease in Passenger Facility Charge revenue resulting from lower passenger activity. Expenses increased by \$5,778 excluding a \$6,835 decrease in special items associated with the Parking Structure B1 recorded in FY 07-08. The increase is primary due to an increase in the Salaries and Benefits costs and additional Airport security service charge.

#### Waste Management

This fund is used to account for the operation, expansion, and closing of existing landfills and the opening of new landfills. Monies are collected through gate tipping fees, which users pay based primarily on tonnage. At the end of FY 2008-09, there was an increase in fund net assets of \$12,837, compared to the prior year increase of \$3,803. Revenues decreased by \$16,876 primarily due to a decrease in importation tonnage and declining interest earned. Expenses also decreased by \$25,698 primarily due to the decrease in the landfill closure and post-closure expenses.

For further comparative analysis of changes in Fund Net Assets, please see the Business-Type Activities.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

This section provides a summary of the primary factors involved in the variances between: 1) the Original Budget and the Final Amended Budget; and 2) the Final Amended Budget and the Actual Amounts for the General Fund. In addition to the effects of expenditure-driven grants, the following information provides explanations for significant variances. Refer to the Budgetary Comparison Statement for details on this budgetary comparison.

### **Original Revenue Budget vs. Final Amended Revenue Budget**

The following provides a summary of the primary factors attributable to the increase or decrease in the General Fund final amended budget revenues compared to the original budget revenues:

#### Charges for Services

- An increase of \$14,430 in the Sheriff's Department due to finalizing new law enforcement service contracts after the Original Budget.
- An increase of \$7,919 in Registrar of Voters for election services related to the May 2009 Special Election and the November 2008 Presidential Election.
- An increase of \$5,835 in OC Community Resources resulting from the transfer of administrative positions from OC Public Libraries, Housing Community Services, and OC Parks to OC Community Resources as part of the County's reorganization.

#### Transfers In

- An increase of \$19,409 in the Sheriff's Department from various sources, including purpose-restricted revenues in Other Public Protection Special Revenue Funds, and excess Public Safety Sales Tax to support the department's potential revenue shortfall.
- An increase of \$14,623 in the Miscellaneous Agency for reimbursement for the purchase of the former County Records Center facility, and costs associated with the new Teeter Commercial Paper Program originally paid from the General Fund, as well as unallocated appropriations in the District Community Priorities & Project Fund being returned to the General Fund.
- An increase of \$9,733 in the Health Care Agency from various sources, including HCA Realignment, Tobacco Settlement, Emergency Medical Services, and Substance Abuse & Crime Prevention Act funds, to support ongoing program costs.
- An increase of \$6,049 in the Social Services Agency (SSA) for the renovation of the Tustin Family Campus.

#### Other

- An increase of \$21,692 due primarily from the County's retention of a portion of the retirement annual required contribution (ARC) that is billed to each agency. The County used the OCERS Investment Account to fund a portion of the County's ARC. The revenue was set aside to increase the General Fund's Reserve for Contingencies.

### **Original Expenditure Budget vs. Final Amended Expenditure Budget**

The following provides a brief summary of the primary factors attributable to the increase in the General Fund final amended budget expenditures compared to the original budget expenditures:

#### Registrar of Voters

- A \$10,587 increase in appropriations primarily to cover the costs of the State's special election held on May 2009 and the costs of the November 4, 2008, Presidential Election.

#### Sheriff-Coroner

- A \$19,288 increase in appropriations to support crime investigation, emergency management, forensic science, and security services; as well as the purchase of equipment needed to combat terrorism and enhance countywide emergency preparedness.

Social Services Agency (SSA)

- A decrease of \$17,267 in appropriations due to lower realignment revenues and reallocation of SSA's Net County Cost towards the In-Home Supportive Services, California Work Opportunities and Responsibility to Kids (CalWorks), and Foster Care Programs.

California Works Opportunities and Responsibility to Kids

- An increase of \$16,484 in appropriations to cover the additional projected caseloads for the CalWorks Program, which enables disadvantaged individuals and families to become self-sufficient through employment.

Aid to Families with Dependent Children - Foster Care

- An increase of \$12,728 in appropriations to cover significantly higher caseloads in the Wraparound and Seriously Emotionally Disturbed programs, and supplemental foster care payments retroactive to July 2007.

Community Services Programs

- An increase of \$27,115 in appropriations needed to support the OC Animal Care and Administration services transferred to OC Community Resources starting in January 2009.

Health Care Agency

- A decrease of \$14,147 in appropriations to transfer positions for Animal Care Services to OC Community Resources.

**Final Amended Revenue Budget vs. Actual Revenue Amounts**

The following information provides a summary of the primary factors that caused the variance in the General Fund actual revenues compared to the final amended budget revenues:

Fines, Forfeitures, and Penalties

- A \$7,801 negative variance due to a decrease in the collection of the 10% penalty assessed to unpaid secured tax bills and an increase in refunds for roll corrections on the unsecured roll.
- A \$3,367 negative variance due to a new legislative bill effective January 1, 2009 which reduced the traffic school bail amount.

Intergovernmental Revenues

- A \$23,422 negative variance for the Sheriff's Department due to the decline in Proposition 172 revenues and delayed receipts for the Homeland Security and other grants.
- A \$13,073 negative variance for the OC Watersheds Agency due to the State's suspension of the Proposition 50, Wetlands Recovery, and Wildlife Conservation Board Grant projects.
- An \$11,842 negative variance due to the reclassification of excess delinquent penalties as interfund transfers from the Teeter Plan Obligation Commercial Paper Program Fund. The revenues were originally budgeted as intergovernmental revenues.
- A \$10,888 negative variance for the Probation Department due mainly to lower than anticipated State funding for the Juvenile Justice Crime Prevention Act and Juvenile Probation Camps, a structural claiming change in Title IV-E revenue, and lower probation fees.
- A \$10,838 negative variance for SSA due to the lower realignment revenues and prior year corrections for the Medi-Cal and CalWORKs Programs.
- A \$9,870 negative variance for Aid to Families with Dependent Children-Foster Agency due to lower realignment revenues and revenue adjustment for the Wraparound Program.
- A \$6,264 negative variance for the Miscellaneous Agency due to the State's delay in paying the SB90 mandates reimbursement.

#### Charges for Services

- A \$10,905 negative variance in OC Public Works due to lower than anticipated revenue resulting from lower reimbursable indirect charges.
- A \$4,853 negative variance in the Sheriff's Department due to a decrease in the contract amount for law enforcement services with the cities; the contracted amount includes a retirement rebate, prior year overtime adjustment, and reduced personnel costs.
- A \$4,545 negative variance in the Registrar of Voters due to the deferred reimbursement from the State for the May 2009, Statewide Special Election.
- A \$4,471 negative variance in the Trial Courts Agency due to lower court fees than budgeted.
- A \$4,163 negative variance in OC Community Resources due to lower than anticipated charges for animal services collected in FY 2008-09.

#### Other

- A \$335,014 negative variance in the Miscellaneous Agency due primarily to a change in accounting that previously budgeted the billing for retirement contribution to departments as revenue in the Miscellaneous Agency. Starting in FY 2008-09, the retirement contributions were forwarded directly to OCERS from a trust fund.
- A \$5,252 positive variance in the General Fund Level Agency for the receipt of intercept monies from the State for the Certificate of Participation Intercept Program.

#### **Final Amended Expenditure Budget vs. Actual Expenditure Amounts**

The following provides a summary of the primary factors causing the significant variance in the General Fund actual expenditures as compared to the final amended budget expenditures:

#### Capital Projects

- A \$33,549 positive variance due to the deferral of various capital projects such as Deferred Maintenance Projects for the Sheriff's Department, the Multipurpose Service Center Project for the Homeless and Veterans, and the 800 Megahertz coastal solution-enhanced coverage.

#### Sheriff-Coroner

- A \$32,047 positive variance resulting from cost saving strategies and a delay in eligible expenditures for Homeland Security Grants.

#### Health Care Agency

- A positive variance of \$29,443 resulting from cost saving strategies and delaying the start-up of the human services contracts for the Mental Health Services Act.

#### Social Services Agency

- A \$28,759 positive variance due to higher than anticipated savings from furloughs, reallocation of staff to reduce overtime, elimination of extra-help, and delayed information technology and facilities projects. In addition, there were sustained reductions to contracts, child care and CalWORKs transportation costs.

#### Miscellaneous

- A \$317,902 positive variance primarily due to a change in accounting that previously budgeted the retirement contribution to OCERS as an expenditure of the Miscellaneous Agency. Starting in FY 2008-09, the retirement contributions were forwarded directly to OCERS from a trust fund.

**Capital Assets**

At June 30, 2009, the County’s capital assets for both the governmental and business-type activities amounted to \$3,081,087 net of accumulated depreciation. The investment in capital assets includes land, structures and improvements, equipment, infrastructure (roads, bridges, flood channels, trails, traffic signals, and harbors), and construction in progress. The total increase in the County’s investment in capital assets for the current year was 5.9%.

Capital assets for the governmental and business-type activities are presented below to illustrate changes:

| CAPITAL ASSETS<br>(Net of Depreciation)<br>June 30, 2009 |                            |                     |                             |                   |                     |                     |                        |
|--|----------------------------|---------------------|-----------------------------|-------------------|---------------------|---------------------|------------------------|
|  | Governmental<br>Activities |                     | Business-Type<br>Activities |                   | Total               |                     | Increase<br>(Decrease) |
|  | 2009                       | 2008                | 2009                        | 2008              | 2009                | 2008                | % Change               |
| Land   | \$ 644,822                 | \$ 610,889          | \$ 38,083                   | \$ 38,058         | \$ 682,905          | \$ 648,947          | 5.2 %                  |
| Structures and<br>Improvements                           | 526,052                    | 525,604             | 157,891                     | 172,046           | 683,943             | 697,650             | (2.0)%                 |
| Equipment  | 95,242                     | 97,582              | 34,943                      | 34,436            | 130,185             | 132,018             | (1.4)%                 |
| Infrastructure   | 876,244                    | 837,511             | 184,096                     | 200,069           | 1,060,340           | 1,037,580           | 2.2 %                  |
| Construction in<br>Progress                              | 380,695                    | 317,234             | 143,019                     | 76,048            | 523,714             | 393,282             | 33.2 %                 |
| <b>Total</b>   | <b>\$ 2,523,055</b>        | <b>\$ 2,388,820</b> | <b>\$ 558,032</b>           | <b>\$ 520,657</b> | <b>\$ 3,081,087</b> | <b>\$ 2,909,477</b> | <b>5.9 %</b>           |

The following lists the significant expenditures for capital assets in FY 2008-09:

General Fund

- \$20,661 for the Cogeneration Plant at the Central Utilities Facility.
- \$5,384 for the renovation of the fifth floor and the Heating, Ventilation, and Air Conditioning (HVAC) and Electrical system upgrades at the Central Justice Center.
- \$1,451 for the replacement of an existing perimeter fence at Juvenile Hall.

Roads

- \$4,457 for the widening of Irvine Avenue from University to Bristol Street.
- \$2,601 for the Ortega Highway Widening Project.
- \$1,149 for the bridge seismic retrofit and barrier replacement of Santiago Canyon Road.

Flood Control District

- \$26,016 for the acquisition of property in the flood plain or in the right-of-way construction area for the Prado Dam Project.
- \$10,907 for the San Juan Creek Channel Improvement Project.
- \$8,830 for the construction of a new pump and pump house at the Los Alamitos Pump Station.
- \$3,941 for construction and other improvement costs associated with relocating the Katella Yard operations.

Other Governmental Funds

- \$18,956 for the construction of the Tustin Family Campus. The campus will be a multi-treatment facility that will provide specialized residential treatment and services for children and families, and young adults in Orange County.

Airport

- \$14,043 for the gate expansion at the terminal building.
- \$11,043 for the construction of the new South Remain Over Night (RON) airplane parking.
- \$7,992 for the deconstruction of Parking Structure B1.
- \$4,757 for the construction of passenger loading bridges for Terminal A and B.
- \$2,956 for reconstructing the landing surface of the main runway.

- \$2,809 for the design of a new parking structure, as part of Airport's Improvement Program.
- \$1,492 for the construction of an airside dock access to the Terminal B ramp and the replacement of an existing trash compactor.

Waste Management

- \$11,506 for the temporary landslide backcut excavation project at the Frank R. Bowerman (FRB) Landfill.
- \$2,250 for the expansion costs (including architect and engineering services) at the FRB Landfill.

Additional information on the County's capital assets can be found in Note 5, Changes in Capital Assets.

Commitments for Capital Expenditures

At the end of FY 2008-09, significant commitments for capital expenditures included the following:

- \$314,500 for the Santa Ana River Mainstem Project.
- \$26,663 for the design and construction of the Central Plant at John Wayne Airport.
- \$15,179 for the Terminal Building Gate Expansion at John Wayne Airport.
- \$13,425 for the Ortega Highway Widening Project.
- \$11,384 for a new pump and pump house at the Los Alamitos Pump Station.
- \$11,249 for the San Juan Creek Channel improvement project.
- \$7,557 for the Katella Avenue – Smart Street Improvement Project.

Additional information on the County's commitments for capital expenditures can be found in Note 15, Construction and Other Significant Commitments.

**Long-Term Debt**

At June 30, 2009, the County had a total debt obligation outstanding of \$653,221, excluding capital lease obligations, compensated absences and other liabilities. During the year, \$262,397 of the bonds, including \$60,906 of bankruptcy related debt, was retired, which resulted in a net decrease of 28% on the County's outstanding bond obligation. The County is limited by law in issuing general obligation bonded debt to 1.25 percent of the last equalized assessment property tax roll. However, this does not affect the financing of any of the County's planned facilities or services because as of the end of the fiscal year, the County had no net general obligation bonded debt. The County's debt obligations are in the form of revenue bonds, certificates of participation (COPs), and other forms of debt not covered by the general obligation bonded debt limitation.

The following table summarizes the County's outstanding bonds at June 30, 2009:

| <b>LONG-TERM DEBT BOND OBLIGATIONS</b> |                            |                   |                             |                   |                   |                   |                        |
|--|----------------------------|-------------------|-----------------------------|-------------------|-------------------|-------------------|------------------------|
| June 30, 2009                          |                            |                   |                             |                   |                   |                   |                        |
|  | Governmental<br>Activities |                   | Business-Type<br>Activities |                   | Total             |                   | Increase<br>(Decrease) |
|  | 2009                       | 2008              | 2009                        | 2008              | 2009              | 2008              | % Change               |
| Revenue Bonds                          | \$ 415,725                 | \$ 598,210        | \$ 67,604                   | \$ 130,550        | \$ 483,329        | \$ 728,760        | (34)%                  |
| Certificates of<br>Participation       | 5,502                      | 6,306             | --                          | --                | 5,502             | 6,306             | (13)%                  |
| Pension Obligation<br>Bonds            | 69,711                     | 72,728            | --                          | --                | 69,711            | 72,728            | (4)%                   |
| Recovery Bonds                         | 93,606                     | 106,751           | --                          | --                | 93,606            | 106,751           | (12)%                  |
| Add: Premium on<br>Bonds Payable       | 32,661                     | 34,524            | 1,798                       | 2,174             | 34,459            | 36,698            | (6)%                   |
| Less: Deferred<br>Amount on Refunding  | (28,630)                   | (32,167)          | (4,756)                     | (6,650)           | (33,386)          | (38,817)          | (14)%                  |
| <b>Total</b>                           | <b>\$ 588,575</b>          | <b>\$ 786,352</b> | <b>\$ 64,646</b>            | <b>\$ 126,074</b> | <b>\$ 653,221</b> | <b>\$ 912,426</b> | <b>(28)%</b>           |

Additional information on the County's long-term debt activity can be found in Note 11, Long-Term Obligations.

**Bond Ratings**

The County continued to maintain the issuer ratings of Aa2 from Moody’s Investors Service and AA- from Standard & Poor’s (S&P); currently Fitch Ratings does not provide issuer ratings. The Orange County Development Agency (OCDA) 2003 Santa Ana Heights (SAH) Bonds is AAA insured from Fitch Ratings and S&P with a municipal bond insurance policy, but are not currently rated (NR indicates not rated).

In FY 2008-09, the following changes occurred in the County’s underlying debt ratings as compared to the previous year:

- Declined S&P Rating from A+ to A and changed Fitch Rating from NR to WD (WD indicates withdrawal) for the OCDA Neighborhood Development and Preservation Project Tax Allocation Refunding Bonds.
- Changed Moody’s Rating from NR to WD for the OCDA 2003 SAH Bonds.
- Improved S&P Ratings from A+ to AA- for the Airport 1997 Revenue Refunding Bonds as well as Airport 2003 Revenue Refunding Bonds.

The County maintains the following long-term underlying debt ratings:

| <b>LONG-TERM DEBT RATINGS</b>                                       |                            |                |              |
|---|----------------------------|----------------|--------------|
| June 30, 2009   |                            |                |              |
|   | <b>Standard and Poor’s</b> | <b>Moody’s</b> | <b>Fitch</b> |
| 2005 Refunding Recovery Bonds                                       | A+                         | Aa3            | AA-          |
| 2005 Lease Revenue Bonds  | A+                         | A1             | AA-          |
| 1991 Parking COPs   | NR                         | A1             | WD           |
| OCDA Neighborhood Development and Preservation                      |                            |                |              |
| Project Tax Allocation Refunding Bonds                              | A                          | A2             | WD           |
| 2002 Lease Revenue Bonds  | A+                         | A1             | AA-          |
| 2006 Lease Revenue Bonds  | A+                         | A1             | AA-          |
| OCDA 2003 SAH Tax Allocation Revenue Bonds                          | NR                         | WD             | WD           |
| 1996 Pension Obligation Bonds                                       | NR                         | Aa2            | AA-          |
| 1997 Pension Obligation Bonds                                       | NR                         | Aa2            | AA-          |
| Airport 1997 Revenue Refunding Bonds                                | AA-                        | Aa3            | AA-          |
| Airport 2003 Revenue Refunding Bonds                                | AA-                        | Aa3            | AA-          |
| Integrated Waste Management Department 1997 Revenue Refunding Bonds | NR                         | A1             | A+           |

**OTHER POTENTIALLY SIGNIFICANT MATTERS**

The County’s management has determined that the following are significant matters that have a potential impact on the County’s financial position or changes in financial position:

**Governmental Activities**

State Legislation and Budget

The Governor released the FY 2009-10 State Budget Proposal on December 31, 2008, which proposed \$41,700,000 in budgetary solutions to close the gap and establish a \$2,200,000 reserve. The summary of the proposed budget identified two sources for the extraordinary budget gap. The first was the “massive and unsustainable new spending commitments” the state made in the midst of a revenue surge whose source was capital gains revenues from the dot-com boom. This structural deficit was never fixed, as the state relied instead upon one-time measures such as borrowing each year. The second source of the state’s current shortfall was the decline in revenues that has resulted from the recession.

On January 8, 2009, the State Legislative Analyst's Office (LAO) released an overview of the Governor's budget proposal and concluded that the Governor's budget generally was built upon reasonable assumptions. However, the LAO noted that there was significant risk from further deterioration of the economy and from costs that the state is likely to incur but are not included in the Governor's budget proposal. On February 19, 2009, the Governor and the State Legislature crafted a budget for FY 2009-10 with additional mid-year reductions to address the rapidly growing budget deficit. Due to the continuing deterioration in revenues from February to June, the Legislature completed a second revision to the FY 2009-10 budget which was signed by the Governor on July 29, 2009.

The following are significant State budget reductions that have an impact to Orange County:

*Borrowing from Local Government* – The budget plan includes \$2,000,000 in Proposition 1A borrowing from local government to be repaid with interest by June 30, 2013. In 2004, California voters passed Proposition 1A to ensure that local property and sales tax revenues remained with local governments to fund local services. The budget package includes several elements that make it securitization friendly:

- Authorizes securitization of the State's repayment through the Joint Powers Authority (JPA)
- State pays cost of issuance, including credit enhancement, COI, and interest capped at 8 percent
- Repayment is priority behind education and State general obligation debt payments

The County's share of the borrowing is estimated at \$65,000 broken down as follows:

- General Fund - \$38,000
- OC Parks - \$4,000
- OC Libraries - \$3,000
- Flood Control District - \$5,000
- Structural Fire Fund - \$15,000

On October 27, 2009 the Board approved the County's participation in the JPA to securitize the State's \$65,000 in Proposition 1A borrowing. The timeline established for the sale and distribution of the proceeds from the securitization is expected to provide participating counties with an equivalent property tax amount and thereby eliminate the impact of the property tax revenue reduction due to the suspension of Proposition 1A.

*Transfer from Local Government* – The revised budget plan includes \$2,000,000 in shifts from redevelopment agencies (\$1,700,000 in FY 2009-10 and \$350,000 in FY 2010-11). The impact to the Orange County Development Agency (OCDA) is estimated at \$10,600 (\$8,800 in FY 2009-10 and \$1,800 in FY 2010-11).

State budget highlights are summarized below by County budget program. Amounts quoted are statewide unless otherwise noted.

*Health and Human Services* – Overall the state budget includes cuts and policy changes that result in reduction in eligibility and/or reduced service levels for health and social programs.

- CalWORKs – Statewide savings of \$375,000 by reducing county administration funding as well as direct welfare to work services and child care. Also reduces number of consecutive months an adult may receive a cash grant and gradually increases sanctions for cases that do not meet program requirements. The estimated funding reduction to Orange County is \$13,667 to SSA, \$967 to HCA for public health nurses serving CalWORKs clients, and \$3,967 for mental health and substance abuse services.
- CalWORKs, Supplemental Security Income (SSI), and State Supplementary Payment (SSP) – Eliminates automatic cost of living adjustments.
- CalWIN Consortium – Reduced Orange County funding for maintenance and operation of the CalWIN system by an estimated \$237.
- In-Home Supportive Services (IHSS) – State budget eliminates all IHSS services for recipients with functional index (FI) below 2 and eliminates all domestic services. The budget also reduces the IHSS Public Authority Administration funding to \$10,000 statewide. The impacts related to change in eligibility to Orange County are difficult to estimate. The reduction in authorized hours for domestic services will potentially reduce provider wages. However, it is anticipated that clients will appeal these cuts by appealing their functional ranking. While the appeal is pending, the client will continue to receive benefits. Orange County's Public Authority funding reduction is estimated at \$578. Orange County will receive an estimated \$210 in revenue with \$90 County match requirement for fraud investigation.

- Child Welfare Services – Funding is reduced to counties by 10 percent or \$80,000 statewide. Funding reduction will impact staffing levels and contract services. The estimated funding reduction to Orange County is \$5,000.
- Foster Care Assistance – State budget includes reduction in the basic rate by 10 percent or \$27,000 statewide. Reduced rates could promote the closure of some placements and limit services. The estimated funding reduction to Orange County is \$1,476.
- Transitional Housing Program Plus – State budget includes funding reduction of \$5,000 statewide. The reduction will affect our ability to help establish permanency and independence among former foster youth who become emancipated. The estimated funding reduction to Orange County is \$314.
- Medi-Cal Administration – State budget includes \$60,000 in reduction from county administration which will result in an additional \$60,000 reduction in federal funds.
- Healthy Families Program – The budget includes reduction in funding statewide by \$173,000 resulting in a cap on enrollment effective July 17, 2009. All new applicants will be placed on a waiting list for enrollment. Also eliminates up to \$60 (absolute dollars) to contractors for helping individuals enroll and remain in Medi-Cal and Health Families programs. The estimated funding reduction to Orange County is \$1,806.
- Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) – State budget reduces funding statewide by \$14,600. The estimated funding reduction to Orange County is \$470.
- Children’s Dental Disease Prevention – The State budget suspends the program and eliminates all funding. Orange County’s estimated funding reduction is \$240.
- Adolescent Family Life Program – The State budget reduces funding for case management services to pregnant and parenting teens. The estimated funding reduction to Orange County is \$551.
- AIDS/HIV Program – The budget reduces \$77,000 in funding for AIDS education, prevention, testing, therapeutic monitoring, and counseling programs. The estimated funding reduction to Orange County is \$2,246.
- Mental Health Managed Care – The budget reduces funding by \$113,000 statewide. The funding supports access to specialty mental health services when medical necessity criteria are met. The estimated funding reduction to Orange County is \$4,314. Prop. 63 funding is available to support the State cut.
- Privatizing Eligibility – The State will consider development of a comprehensive plan to privatize eligibility for CalWORKs, Medi-Cal, and Food Stamp programs.
- Proposition 36 – Eliminates all funding for Prop. 36 and reduces Offender Treatment Program to \$63,000. Orange County’s estimated funding reduction is \$4,300 to HCA, \$328 to District Attorney, \$328 to Public Defender, and \$1,100 to Probation.

#### *Administration of Justice*

- The largest reduction within the Administration of Justice program is the unspecified \$631,000 cut that the State will address when the Legislature return in August 2009. The Governor has indicated that these reductions will target cost savings from reduced prison and parole populations.
- Judicial Branch – The budget includes \$169,000 reductions to trial courts resulting in one day per month court closure and increases to certain fees.

#### *Other Programs*

- Proposition 42/Highway User Tax Account – State budget defers the first two quarterly payments of Proposition 42 until May 2010 and defers six monthly payments of HUTA to be repaid sometime after January 2010. The estimated Orange County impact is a deferral of \$8,500 for Prop. 42 and \$9,000 for HUTA.
- Proposition 1B Local Streets and Roads Account – The State budget appropriates \$700,000 in Prop. 1B funds with \$442,000 for counties. The budget allows counties to temporarily borrow from Prop. 1B funds to backfill the Prop. 42 deferrals. The estimated Orange County allocation is \$27,300 with disbursement expected in FY 09-10.
- Election Reimbursements – The budget does not specifically include provisions to reimburse counties for the May Special Election. Orange County’s cost estimate is \$4,500.

#### Deterioration of the FY 2009-10 State Budget

On November 18, 2009 the Legislative Analyst’s Office (LAO) announced that the State’s General Fund budget shortfall through FY 2010-11 is estimated at \$20,700,000. The budget shortfall is based on a projected \$6,300,000 deficit for FY 2009-10 and a \$14,400,000 gap between projected revenues and expenditures in FY 2010-11.

The FY 2009-10 budget gap is due to revenue shortfalls as well as budget reductions the state has failed to implement. These include anticipated cost reductions in the prison system, Medi-Cal savings, the failed sale of the State Compensation Insurance Fund, and court decisions that have blocked or have the potential to block certain internal borrowings. The majority of these problems carry forward into FY 2010-11 continuing the structural imbalance in the State budget. The LAO has indicated that the ongoing budget problem is \$20,000,000 annually. The County will continue to monitor the State's actions on the budget and provide the Board with an analysis of impacts to County services.

#### Cash Flow Management

On July 1, 2009, the County of Orange issued \$150,000 in Tax and Revenue Anticipation Notes (TRANs) to finance seasonal cash flow requirements during FY 2009-10. The proceeds from the TRANs cover anticipated cash deficits resulting from the uneven flow of revenues. County General Fund expenditures occur in relatively level amounts throughout the year, while receipts follow an uneven pattern. Secured property tax installments, which represent the largest component of general purpose revenues, are primarily received in December and April of each year. Additionally, the late adoption of the final State budget as well as the State's use of IOUs resulted in delays to the reimbursement of many health and human service programs administered by the County. The County will repay the TRANs borrowing by June 30, 2010 from available cash balances within the General Fund.

#### **Long-Term Financial Planning**

##### County Accounting and Personnel System (CAPS) Upgrade

CAPS is a vital part of the County's infrastructure that is needed for business processes such as financial planning and budget development, maintaining the County's financial records, collecting costs for federal and state claiming, procuring goods and services, paying vendors, processing the County's payroll, and administering enterprise-wide human resource functions. CAPS maintains financial records for the County's budget of approximately \$5,500,000 and maintains human resource records and processes payroll for a work force of over 18,000 employees.

CAPS is based on 1980's technology of which is becoming costly to maintain and operate. The vendor who developed the current software announced that within the next three years it will discontinue support of the software deployed at the County. The County enacted an action plan and upgraded the financial application which was implemented on July 1, 2009. This upgrade resulted in new software and moved the county into open systems technology. This implementation covered the primary operational needs in the following areas:

- Chart of Accounts
- General Accounting
- Capital Assets
- Accounts Payable
- Cost Accounting
- Procurement

The County is now focusing on meeting the needs to support this application over the next year which must include:

- Year-end Processing
- County Wide Cost Allocation Plan
- CAFR Reporting
- Financial Data Warehouse
- Enhanced Reporting
- Performance Budgeting

The County is now in process of similar actions for the HR/Payroll application and contracted with CGI to assist in the implementation of the CGI Human Resources and Payroll, Advantage 3.x. application. To date, the County has quantified the level-of-effort and related costs to implement a solution, identified a technically capable and cost effective platform to run the system and developed a project plan with required funding for the implementation. This project is in progress with an implementation date of January 2011. The total estimated project cost is \$16,900.

In FY 2009-10 the County will assess options to automate the purchasing of office supplies and other commodities. The County will complete an assessment of the expected benefits and cost savings. If the return on investment is measurable a project plan will be established and submitted for approval to management.

#### Property Tax Management System Upgrade

The County's property tax assessment, collection and allocation system processes approximately \$6,000,000 annually in property taxes and special assessments for the County, cities, school districts and special districts within the County. The current system was developed in the late 1980s in an obsolete programming language. Maintenance of the system requires specialized knowledge that is hard to obtain. Under direction from the Board to rewrite the system and to respond to the Grand Jury's recommendation to replace the mainframe with an open system platform, the Auditor-Controller, Clerk of the Board, and Treasurer-Tax Collector embarked on a multi-year phased implementation of the new Property Tax Management System (PTMS).

In January 2006, a contract was awarded to Sierra Systems to conduct a needs assessment and to document the requirements of the new PTMS. This project also included documenting the business rules, identifying areas for improvement, and creating a blueprint for implementation. The needs assessment project was completed in July 2007 at a cost of \$1,600.

On July 15, 2008, the Board approved the contract with Tata Consultancy Services (TCS) to develop and implement the new PTMS based on the requirements specifications documented during the needs assessment. The contract is for the period, July 16, 2008 through July 15, 2011, at a total cost not to exceed \$8,786. During the fiscal year, the TCS contract was revised to reflect a new Global Delivery Model; reducing the contract costs by approximately \$1,600.

PTMS is being developed in three tiers which will result in periodic movement of data between the Assessment Tax System (ATS) and PTMS while in transition stages. The project is scheduled to be completed in FY 2010-11. The total estimated cost for the project at this time is \$13,000, with cumulative expenditures of \$5,043 spent as of June 30, 2009.

#### Assessment Tax Systems (ATS) Re-Engineering

The Assessor Department is mandated under the provisions of the California State Constitution and the Revenue and Taxation Code to discover and value all tangible properties in the County of Orange and produce the rolls of values. The assessed value for the 2008 annual roll was over \$418,000,000, which impacts the billing and collection of over \$6,000,000 in tax revenue and special assessments to support the operations of the schools, cities, special districts, and the County.

The Assessment Tax Systems (ATS) is a mainframe application that has been used by the Assessor Department since 1987. The vendor support for the programming language (IDEAL) for the current ATS is being phased out. Starting in 2006, under the approval of the Board, as a Strategic Initiative, a project to re-engineer the Assessor ATS was initiated. The new ATS will adopt current open systems platform and work flow technologies to enhance the user interface and strengthen the effectiveness and efficiency of the valuation and assessment work products.

The Assessor Department assembled a project team of in-house managers and subject matter experts, ACS contract staff, and outside vendors to complete this work. The project is scheduled to be completed in FY 2010-2011. The total estimated cost for the project at this time is \$21,400 to \$22,000.

Refer to Note 20, Subsequent Events for details on the internal borrowing to finance the above information technology projects.

#### Renewal of Information Technology Services Contract

The County's ten year contract with its Information Technology Service Provider is scheduled to expire on June 30, 2011. The current contract is valued at \$250,000. The County is currently developing a sourcing strategy and approach to meet its future information technology needs.

#### Teeter Plan Restructuring

On June 29, 1993, the Board adopted the Teeter Plan pursuant to Sections 4701 through 4717 of the California Revenue and Taxation Code. The taxing agencies in Orange County that participate in the Teeter Plan program annually receive the full amount of their share of taxes from the secured property tax roll, whether or not these taxes have been collected. The Teeter Plan provides these participating agencies with stable and timely cash flow without the collection risk, and the County receives the delinquency penalties and interest amounts when the taxes are paid.

On June 27, 1995, the Orange County Special Financing Authority (Authority) issued the Taxable and Tax-exempt Teeter Plan Revenue Bonds, Series A through E totaling \$155,000. Revenues from the Teeter Plan paid the bond debt service as well as the Authority's annual purchase of unpaid secured property tax receivables from the County at a purchase price that did not exceed 100% of the property tax due excluding penalties. In the event that the Authority did not have sufficient monies available to purchase the annual unpaid secured property taxes receivables, the County's General Fund was obligated to make up the cash shortfall. As of June 30, 2008, the outstanding balance of Teeter Bonds was \$123,725.

As a result of a substantially increased annual amount of unpaid delinquencies subject to the Teeter Plan over the past three years, the 1995 Teeter Plan did not have the capacity to fund the ongoing program. As an interim solution, the County issued Teeter Plan Notes on July 10, 2008 to make up the Teeter Plan funding shortfall of \$75,600. Subsequently, the Board authorized a Commercial Paper Program for the purpose of refunding the Authority Teeter Bonds and the Teeter Plan Notes issued July 10, 2008, as well as providing a continuing source of funding for the County's annual obligation to make distributions to the participating taxing agencies.

The County issued its Teeter Plan Obligation Commercial Paper Notes Series A (the "CP") not to exceed \$178,300. The CP was and will be issued from time to time to mature on business days not to exceed 270 days from issuance. The CP constitutes an obligation required by law and is secured by a direct pay letter of credit provided by Dexia Credit Local, New York Branch, certain delinquent taxes (excluding penalties and interest) and the County General Fund. The proceeds of the CP, less cost of issuance, were used along with other available monies in the amount of \$123,725 to retire the outstanding Orange County Special Financing Authority Teeter Plan Revenue Bonds, Series 1995 A through E on September 2, 2008, to redeem the 2008-09 Teeter Notes on November 10, 2008, to fund a Tax Losses Reserve Fund to be held and expended by the County in accordance with Teeter Plan law and to establish a Series A Taxes fund to which the delinquent taxes serving as security for the CP are deposited.

#### Airport Improvement Program

The Airport is currently implementing the Airport Improvement Program (AIP) that will create additional terminal area capacity in the form of new aircraft gates, holdrooms, concessions, passenger/baggage screening capabilities, and more parking. It will also help redistribute traffic between Terminal A, B and C, thus achieving a balanced operation throughout the terminal complex. A key objective of the AIP is to ensure that the new facilities are designed and developed in a way that creates a single, seamless environment for passengers.

The AIP includes the construction of a new multi-level 275,000 square foot terminal building (Terminal C), two new commuter/regional holdrooms that will each accommodate four regional aircraft at ground level, a South Remain-Over-Night (South RON) aircraft parking area, demolition of the former Parking Structure B1 to make room for Terminal C, a new parking structure (Parking Structure C) and improvements to the existing Terminal A and B. The new terminal and parking structure are scheduled for completion in 2011.

Pursuant to the comprehensive financial program approved by the Board in December 2005 (and updated in mid-2007), the Airport has begun to implement the financing plan for the AIP, which is estimated to cost approximately \$457,000. The capital costs are to be funded from various sources, including: (1) Airport revenues; (2) FAA Airport Improvement Program grants; (3) Transportation Security Administration (TSA) grants; (4) Passenger Facility Charge (PFC) revenues; (5) general airport revenue bonds; and (6) future subordinated debt. As is the case with any substantial capital improvement program, the Airport anticipates encountering many challenges in balancing the current level of operation and high standards for customer service with the substantial construction activity. Refer to Note 20, Subsequent Events, for additional information on the AIP.

#### Funding Progress of the County's Retirement System

The funded ratio of the System is a measure of the ability of the System to make obligated payments to current retirees and future retirees. The funded ratio (actuarial value of plan assets divided by actuarial accrued liability) dropped from 82.76% in 2002 to 70.85 % in 2004. Since 2004, the funded ratio increased to 74.08% in 2007 before dropping to 71.34% as of December 31, 2008. (refer to the Required Supplemental Information, Orange County Employees Retirement System Schedule of Funding Progress for Years Ended December 31). The decline in funding status is caused by multiple factors, including OCERS market losses of 21.71% in 2008, changes in actuarial assumptions, changes in methodology, and enhancement of retirement benefits. Market losses and other actuarial changes during 2008 will result in increased employer contributions during the County FY 2010-11 of roughly 3.82% of payroll for safety employees and 2.21% for non-safety employees.

On November 4, 2008, the voters in Orange County approved Measure J, which requires voter approval for any future pension benefit enhancements. The County carefully monitors the activities at OCERS and regularly provides input to OCERS management, providing input at OCERS Board meetings as deemed appropriate.

**Requests for Information**

We hope that the preceding information provided a general overview of the County's overall financial status. For questions or comments concerning information contained in this report, please contact the Auditor-Controller's Office, County of Orange, 12 Civic Center Plaza, Santa Ana, CA 92702 or you can access our website at <http://www.ac.ocgov.com>.