

State of the County 2008



January 29, 2008
John M. W. Moorlach, C.P.A.
Chairman

The OC

- Our Community
- Our Commitment

The OC

- Orange County is diverse, productive and resilient
- More than 3 million residents within some 800 square miles
- 34 wonderful, distinctive and unique cities
- Net job provider for the area
- Travel destination with Disneyland, Knott's Berry Farm, beaches, arts, museums and shopping
- Exceptional universities and educational opportunities



- We are working together to continue the vibrancy and variety that we enjoy and offer through “branding” from recent television show phenoms
- Entertainment and resort areas
- Lodging accommodations
- Dining opportunities
- Golfing venues, beaches, biking, birds
- OCgov, OCTA, OC Parks, OC/JWA, et al.

Mission Statement

"Making Orange County a safe, healthy, and fulfilling place to live, work, and play, today and for generations to come, by providing outstanding, cost-effective regional public services."



First Year on the New Job

- Excited about touring the many places that make the OC safe, including the Sheriff's DNA Lab and investigative facilities
- Encouraged to learn about how we work to keep the OC a healthy place, including tours with the Health Care Agency and serving on the CalOptima Board
- Pleased to see ongoing improvements to our transportation infrastructures
- Appreciating the forethought and multi-generational aspects of our ground water replenishment systems

Fiscal Transparency

- Annual Detailed Budgets
- Annual Department Business Plans
- Five-Year Strategic Financial Plans
- Internal Audit Department
- External Auditors – Audited CAFR
- Office of the Performance Measurement Audit Director
- Performance Measurements
- Balanced Scorecards
- Benchmarking



Government Accounting Standards Board Statement No. 45

- Do you have an “Other Post Employment Benefit (OPEB),” such as an employee retiree medical plan?
- Is it fully funded or are you paying for it as you go?
- What is the unfunded actuarial accrued liability?
- What is the annual required contribution?
- Are you ready to report this in your CAFR?
- What is your plan to address this liability and how have the credit rating agencies reacted to it?

Unfunded Liabilities

- This is one of the largest fiscal hangovers facing both the public and private sector – promises to pay traditional pensions and retiree medical plans
- Our retiree medical unfunded liability at June of 2006? \$1.4 Billion
- Our annual required contribution? \$131 Million
- Do we have the revenues to fully fund this annual required contribution (ARC)? No
- Could we work together to fund an ARC? Yes

Collaborating for Success

- The County stepped up by more than tripling its annual contribution (from 1% of payroll to more than 3%)
- We are utilizing OCERS as the long-term investment manager for the accumulated funds
- The employees made concessions to lower costs, including grant reductions for those who retire before age 60
- Retirees will incur the costs of a split-pool

Sharing the Pain

- If you want to have a retirement benefit, you had better make sure that the employer is still solvent after you retire
- Making difficult changes for all the parties involved has reduced the unfunded liability to below \$500 million, a reduction of some \$940 million
- And the annual required contribution was reduced by nearly \$100 million



Chapter 9 Bankruptcy Tail

- We are still aggressively paying off our bankruptcy-related debt to the tune of some \$80 million per year
- We will make our last payment in 2016
- We could not find another \$131 million in our budget to comply with GASB 45
- A successful collaboration (pending the retirees' lawsuit results) allowed "The OC" to be a national model on addressing the retiree medical juggernaut
- S&P upgraded our credit rating because of our efforts to address this financial obligation

Other Upcoming Collaborative Efforts

- CopLink
- Office of Independent Review
- Selection of our next Sheriff
- Implementation of a Fair Campaign Practices Commission
- Addressing the constitutionality of retroactive pension benefits

We Have More Challenges: “Turbulence and Buffeting”

- Job losses in the County
- A housing sector recession
- Sacramento’s budget crisis – 10 percent cuts
- Impacts on health care for low-income families and disabled
- Declining sales tax revenues – Prop. 172 and Measure M
- Interest rates easing and resulting revenue declines
- Structured Investment Vehicles (SIVs)
- Volatile Stock Market (DJIA 10-Year Avg. of 4.7% @ 1/25/08)
- Aging infrastructure
- Retiree medical lawsuit by retirees
- Illegal immigration fiscal impacts
- Potential Defined Benefit Pension Plan contribution increases
- Bond Insurers’ travails (Ambac Financial Group Inc.)
- Potential increases in crime – impacting custody space
- The unpredictables – earthquakes, fire and floods

Economic Cycles Happen

- They impact those in the private sector and those of us in the public sector
- When the economy is in the down-cycle we will be called upon to do more
 - More welfare benefits
 - More unemployment benefits and job training
 - More health care
 - More social services
 - More temporary housing

Dealing With Cycles

- In up-cycles government should be paying off debts from prior down-cycles and setting funds aside for the next down-cycle
- Sacramento has failed to do this, again
- We've already been notified to reduce our state mandated program expenditures by 10 percent
- The Federal government's fiscal incentive plans may be too little, too late
- In the last state fiscal crisis, Sacramento reached down and unilaterally "borrowed" our reserves

Jobless Rates Increase

“The U.S. Bureau of Labor Statistics said Orange County lost 16,000 jobs in the second quarter of 2007 and that Orange County was the only one of the nation’s 10 largest counties to lose jobs during that period.”

- OC Register, Friday, January 18, 2008



“Housing Starts Fall”

“The Commerce Department reported Thursday that construction started on 1.353 million new homes and apartments last year, down 24.8 percent from 2006. It was the second-biggest annual decline on record, exceeded only by a 26 percent plunge in 1980.”

– Orange County Register, January 18, 2008

“OC Homebuilding Hits 52-Year Low”

“In 2007, permits were issued for 2,183 single-family houses. In 1955, figure was 24,000”

Orange County Register, January 26, 2008

“New Vehicle Outlook Bleak”

- “New auto sales in Orange County tumbled 9.2 percent in 2007 to 165,919 newly registered vehicles, the Orange County Automobile Dealers Association reports.
- “The auto dealers forecast a 3.1 percent drop in 2008 as consumers steer clear of sales lots amid dismal economic news: tightening credit, rising unemployment, falling home values, growing personal debt and increasing gas prices.”
 - Orange County Register, January 24, 2008

Putting Our Best Foot Forward

- As our stakeholders (taxpayers) are suffering through a potential recession, we must continue to be transparent, educating the public that they have the most effective and efficient government available for their tax dollars
- We must do good work with satisfied customers
- We must retain the public's trust that we are giving them the best bang for their bucks

Tell The Truth

- While California and the rest of the world enjoyed a robust real estate market, the state did not address and correct its systemic budget deficit problems
- Now, while our taxpayers may be in the most need of our services, we will be financially stretched the thinnest
- Since we're an extension of the State of California, we may have to tell too many OC taxpayers that our cupboards are bare, too



Strategies Moving Forward

- We are in the process of reviewing our “corporate focus” and looking at where we want to be in the future
- We are pursuing a “servant leadership” management model from the top down
- We are maximizing the use of technology wherever and whenever possible
- We are pursuing the best and the brightest

Personal Initiatives

- Always looking for ways to improve what we do and provide assurances to the taxpayers that they can rely on us and trust us
- Work more closely with the private sector, such as OCTANe, in providing and promoting high-tech and bio-medical jobs and start-up company opportunities to our young adults
- Meet with Leadership Academy graduates for their input and feedback as we weather this portion of the economic cycle
- Listen. Listen. Listen.

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Working Together Through Thick and Thin

- We need **all hands on the oars**
- We are Orange County, “the OC,” a diversified and exciting place to live, work and play
- We know that a **crisis does not build character, it reveals it**
- We need **constructive criticism** that moves the organization forward
- **We are a winning team**, providing outstanding, cost-effective public services

Thank You

- Colleagues on the Board of Supervisors
- CEO Tom Mauk and his managerial staff
- CFO Bob Franz and Budget Director Frank Kim
- Department Heads
- Department Managers and Supervisors
- Leadership Academy Graduates
- The members of the “County Family” who deliver our outstanding services in an efficient and cost-effective manner
- Stakeholders – the taxpayers – who pay the bills and hold us accountable

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