



## Auditor-Controller's Introduction



*This Popular Annual Financial Report (PAFR) presents financial highlights for the County of Orange, California for Fiscal Year (FY) 2002-03. This Report is a high-level summary of information contained in the County's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2003, which is available for viewing on the Auditor-Controller's website at [www.oc.ca.gov/ac](http://www.oc.ca.gov/ac).*

*The CAFR, at 214 pages of detailed financial information, is intended for in-depth users of financial reports, such as financial analysts and bond rating agencies. Conversely, this PAFR is intended as an overview summary for the more general or casual reader. On a government-wide basis, this report is limited to the summary data for the general government and its blended component units. It excludes the Orange County Children and Families Commission, which publishes its own separate financial report. Summary data from the fund-level financial reports are presented for the County General Fund, major special revenue funds, and major business-type proprietary funds. The fund data excludes other nonmajor governmental funds, fiduciary funds, and the Orange County Children and Families Commission.*

*The fiscal year ended June 30, 2003 was a challenging one for Orange County. The ongoing California state budget crisis and resulting cuts in County-operated State programs; the continued stagnation in the national, state, and local economies; turnover in crucial County leadership positions such as the County Executive Officer (CEO) and the CEO's Chief Financial Officer; a significant increase in the Orange County Employees' Retirement System's unfunded liability due to negative investment returns and increases in employee retirement benefits; and the cash deficit problem in the Planning and Development Services Department's Building and Safety Fund, all contributed to significant fiscal challenges for the County.*

*On the other hand, these challenges were somewhat mitigated by the local economy's better performance compared to the state and national economies; the continued strength in the County's housing market, resulting in an increase of 8.3% in property tax assessed values in FY 2002-03 (and a 6.8% increase for FY 2003-04); increased sales of cars statewide, resulting in a 10.6% increase in motor vehicle fee revenue compared to the original budgeted amount; and budgetary savings resulting in an increase in budgetary fund balance available (FBA) at June 30, 2003 of 7.3% compared to the FBA amount at June 30, 2002.*

*With the continuing State of California budgetary problems severely impacting local government, Orange County has another challenging year ahead. County management will continue to meet these challenges, utilizing the tools developed in past years such as departmental business plans, the five-year Strategic Financial Plan, and ongoing quarterly budgetary reviews and updates.*

*I hope you find this Popular Annual Financial Report useful and informative. If you have any comments on this report, or suggestions on how we can improve it, please email me at [david.sundstrom@ocgov.com](mailto:david.sundstrom@ocgov.com). For more information about the County and for access to many County services on-line, please visit the County's website at [www.oc.ca.gov](http://www.oc.ca.gov).*

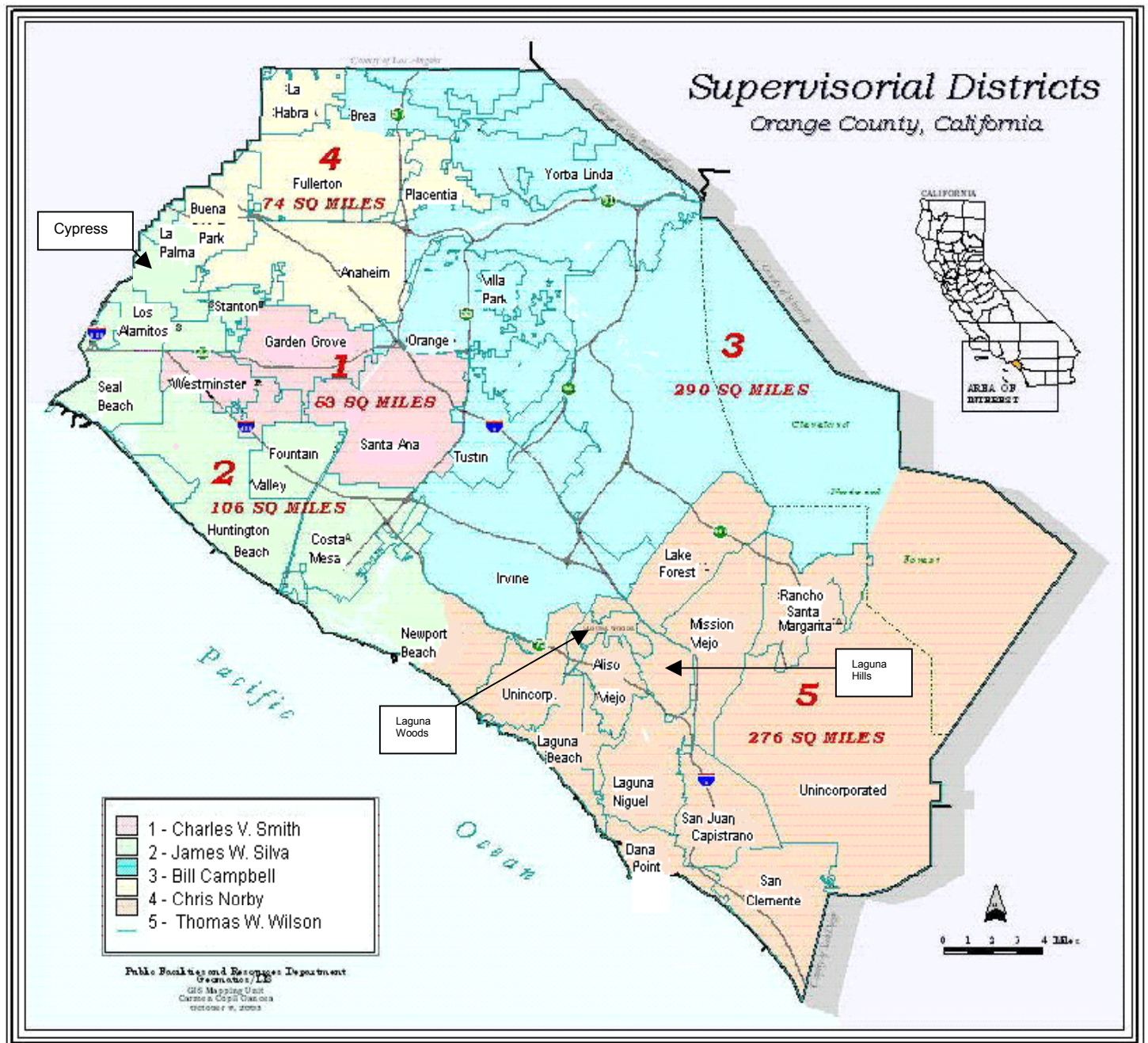
*David E. Sundstrom, CPA  
County Auditor-Controller*

*December 30, 2003*

## County of Orange

Orange County was incorporated in 1889, is located in the southern part of the State of California, and is one of the major metropolitan areas in the state and nation. Orange County occupies a land area of 798 square miles with a coastline of 42 miles serving a population of close to 3 million. It is the second most populous county in the state, after Los Angeles County, and ranks fifth in population of all counties in the entire country.

Orange County is governed by a five-person Board of Supervisors, and is administered by a CEO, who oversees the operations and budgets of 22 different County departments, six of which have elected department heads. The map below shows the County and its five supervisorial districts, as well as the County's cities.

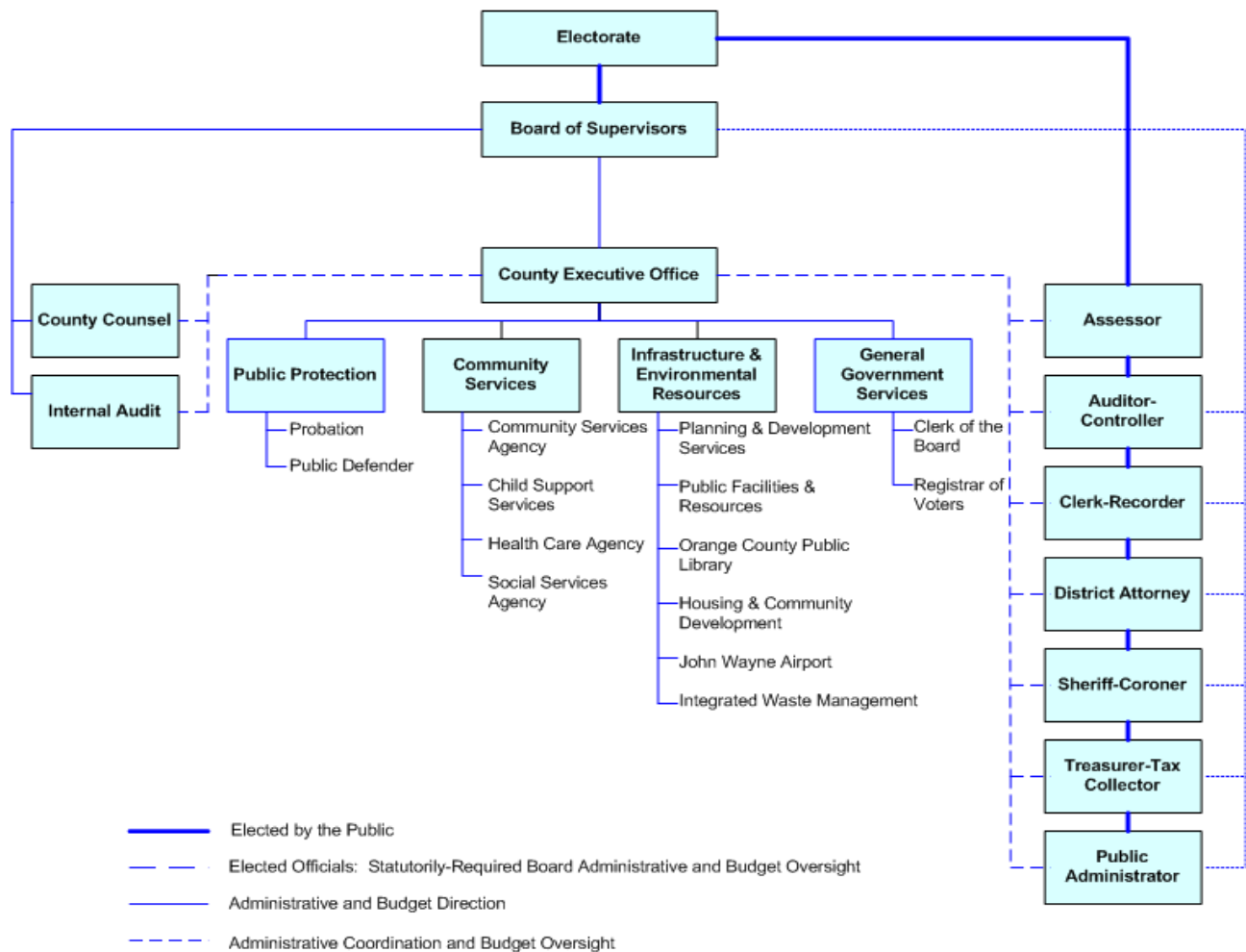


The County's 17,700 employees provide a full range of governmental services, including countywide services, unincorporated area services, and contract services for cities. Services provided countywide include social services and public assistance; health care and environmental health and enforcement; child support enforcement; district attorney and public defender services; adult and juvenile probationary supervision, and jails and juvenile facilities; coroner and law enforcement laboratory facilities; landfill operations; flood control; development and operation of County harbors, beaches, and parks; low cost housing and rental assistance; and operation of the Orange County John Wayne Airport.

Services provided to the unincorporated area of the County include Sheriff law enforcement and patrol services; animal control and animal shelter services; road construction and maintenance; construction and operation of County libraries; land use planning and enforcement, and public works and engineering; and other municipal-type services. The County also performs many of these same services for cities on a contract basis, including Sheriff patrol and law enforcement, animal control, and libraries.

The County government's organization chart is displayed below:

**COUNTY OF ORANGE  
ORGANIZATIONAL CHART  
As of June 30, 2003**





County of Orange (continued)

The County's elected officials are:

Board of Supervisors, 1<sup>st</sup> District: Charles V. Smith  
 Board of Supervisors, 2<sup>nd</sup> District: James W. Silva  
 Board of Supervisors, 3<sup>rd</sup> District: Bill Campbell  
 Board of Supervisors, 4<sup>th</sup> District: Chris Norby  
 Board of Supervisors, 5<sup>th</sup> District: Thomas W. Wilson

Assessor: Webster J. Guillory  
 Auditor-Controller: David E. Sundstrom  
 Clerk-Recorder: Tom Daly  
 District Attorney: Anthony J. Rackauckas  
 Public Administrator: John S. Williams  
 Sheriff-Coroner: Michael S. Carona  
 Treasurer-Tax Collector: John M.W. Moorlach

Appointed County officers include:

Clerk of the Board of Supervisors: Darlene J. Bloom  
 County Executive Officer: James Ruth  
 County Counsel: Benjamin P. de Mayo  
 Interim County Financial Officer: Frederick A. Branca  
 Child Support Services Director: Jan C. Sturla  
 County Librarian: John M. Adams  
 County Probation Officer: Stephanie W. Lewis  
 Health Care Agency Director: Juliette A. Poulson  
 Housing & Community Services Director: Paula  
 Burrier-Lund

Internal Audit Director: Peter M. Hughes  
 Integrated Waste Management Dept. Director: Janice V. Goss  
 John Wayne Airport Director: Alan L. Murphy  
 Planning & Development Services Dept. Director: Bryan  
 G. Speegle  
 Public Defender: Deborah Kwast  
 Public Facilities & Resources Dept. Director: Vicki L. Wilson  
 Public Guardian: John S. Williams  
 Registrar of Voters: Steven P. Rodermund  
 Social Services Agency Director: Angelo R. Doti

Financial Highlights: Government-Wide - Year Ended June 30, 2003

County's Net Assets

In spite of the slow economy, Orange County's total net assets for the Fiscal Year Ended June 30, 2003 increased by \$675.2 million, or 25% over net assets as of June 30, 2002. However, the major component of this increase was the transfer to the County by the Federal Army Corps of Engineers of the Seven Oaks Dam, which added \$425.0 million to the County's net assets in one stroke. The completion and turnover of this dam to the County was one of the major steps in the Santa Ana River Mainstem project, discussed in more detail below under "Capital Assets".

The schedule below shows the major components of the County's government-wide assets, liabilities and net assets as of June 30, 2003, compared to June 30, 2002. The schedule shows separate columns for the County's governmental activities, which include most of the County's operations, and the business-type activities, which includes both of the County's proprietary enterprise funds – Orange County John Wayne Airport and the Integrated Waste Management Enterprise Fund. These two business-type activities are operated similarly to commercial enterprises and are totally self-supported by charges to users of their services:

Summary Statement of Government-Wide Net Assets- County of Orange  
(All Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total	
	6/30/2003	6/30/2002	6/30/2003	6/30/2002	6/30/2003	6/30/2002
<b>ASSETS</b>						
Current and other assets	\$ 2,552,793	\$ 2,443,477	\$ 524,901	\$ 515,615	\$ 3,077,694	\$ 2,959,092
Capital assets	2,271,150	1,802,389	489,045	463,252	2,760,195	2,265,641
<b>Total Assets</b>	<b>4,823,943</b>	<b>4,245,866</b>	<b>1,013,946</b>	<b>978,867</b>	<b>58,378,899</b>	<b>5,224,733</b>
<b>LIABILITIES</b>						
Long-term liabilities	1,677,495	1,686,430	382,780	400,663	2,060,275	2,087,093
Other liabilities	355,287	393,297	57,578	54,803	412,865	448,100
<b>Total Liabilities</b>	<b>2,032,782</b>	<b>2,079,727</b>	<b>440,358</b>	<b>455,466</b>	<b>2,473,140</b>	<b>2,535,193</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	2,183,152	1,703,213	293,959	240,969	2,477,111	1,944,182
Restricted	982,861	826,217	279,629	282,432	1,262,490	1,108,649
Unrestricted	(374,852)	(363,291)	--	--	(374,852)	(363,291)
<b>Total Net Assets</b>	<b>\$ 2,791,161</b>	<b>\$ 2,166,139</b>	<b>\$ 573,588</b>	<b>\$ 523,401</b>	<b>\$ 3,364,749</b>	<b>\$ 2,689,540</b>

Components of Net Assets

*This schedule shows that in FY 2003, both the County's governmental and business-type activities had increases in total net assets over FY 2002. All three components of net assets increased: Net Assets Invested in Capital Assets, Net of Related Debt, which shows the County's total capital assets less any debt incurred to purchase or construct those assets; Restricted Net Assets, which are the assets net of liabilities in funds restricted by law for special purposes; and Unrestricted Net Assets, which are the assets less liabilities not restricted for special purposes.*

*The County's governmental activities continue to show a large **deficit** Unrestricted Net Assets balance due to the large amount of long-term debt that the County issued in 1995 and 1996 to emerge from its well-publicized Chapter 9 bankruptcy, which was declared in December, 1994, as a result of losses on derivative investments made by the County's former Treasurer-Tax Collector. A dedicated revenue stream of property taxes, vehicle license fees, sales taxes, and other revenues has been identified to fund this long-term debt.*

Capital Assets

*The total increase in Capital Assets of \$494.6 million included the following major projects:*

- Seven Oaks Dam- As mentioned above, the Seven Oaks Dam was completed and turned over to the County by the Army Corps of Engineers, as part of the Santa Ana River Mainstem flood control project. This dam added \$425.0 million to the County's capital assets in FY 2002-03. The Santa Ana River Mainstem project is one of the largest Federal flood control projects in the entire country, and is designed to control the type of large-scale flooding that occurs on average once in every 190 years. The total estimated cost of this project is \$1.4 billion, and it is being jointly funded by the Federal Government, the Orange County Flood Control District (a blended component unit of Orange County), the San Bernardino County Department of Transportation/Flood Control District, and the Riverside County Flood Control and Water Conservation District. The project involves the construction of the new Seven Oaks Dam, the raising of the existing Prado Dam, and widening and reinforcement of flood control channels. Orange County's estimated share of the cost of this project is \$413 million, funded through restricted property taxes allocated to the Orange County Flood Control District. Despite the joint nature of the project, ownership of the Seven Oaks Dam was turned over to Orange County by the Federal Government since the County will be primarily responsible for the maintenance and operations of the Dam.
- Theo Lacy Jail Phase II (Building A)- The Theo Lacy Jail is a major jail construction project designed to ease overcrowding in the County's Main Jail. \$14.9 million was expended on this phase of the project in FY 2002-03, funded mainly by Proposition 172 Public Safety Sales Tax funds.
- Ladera Ranch Improvements- This project, costing approximately \$14.8 million, included construction of street improvements, off-site transportation improvements and a Sports Park in Ladera Ranch, an unincorporated new housing development in the South County area. This project was funded by community facilities district special assessment revenues.
- Coroner Training Facility- \$10.5 million was spent on the final construction phase of the Coroner Training Facility, which will be the base of operations for the Coroner Division of the Sheriff-Coroner Department, and which includes classrooms and training facilities for use by jurisdictions from all over California. This project was funded mainly by Proposition 172 Public Safety Sales Tax monies.

Financial Highlights: Government-Wide - Year Ended June 30, 2003 (continued)

County's Net Assets (continued)

The following schedule shows the major components of the County's capital assets as of June 30, 2003 compared to the prior fiscal year:

	Governmental		Business-Type		Total		Increase
	Activities		Activities				(Decrease)
	6/30/2003	6/30/2002	6/30/2003	6/30/2002	6/30/2003	6/30/2002	% Change
Land	475,695	474,191	34,108	32,748	509,803	506,939	1%
Structures and Improvements	463,557	467,375	178,563	188,567	642,120	655,942	-2%
Equipment	108,691	94,371	24,607	24,138	133,298	118,509	12%
Infrastructure	833,461	399,848	189,733	186,488	1,023,194	586,336	75%
Construction in Progress	389,746	366,604	62,034	31,311	451,780	397,915	14%
<b>Total</b>	<b>2,271,150</b>	<b>1,802,389</b>	<b>489,045</b>	<b>463,252</b>	<b>2,760,195</b>	<b>2,265,641</b>	<b>22%</b>

The addition of the Seven Oaks Dam is reflected in the large increase in the Infrastructure component of capital assets in FY 2002-03.

Long-Term Liabilities

The County's Long-Term Liabilities decreased by \$26.8 million during FY 2002-03. The main components of this net decrease were:

- Airport Revenue Refunding Bonds, Series 2003- These bonds were issued to refund the Airport Revenue Refunding Bonds, Series 1993, with a net difference between the reacquisition price and the net carrying amount of the old debt of \$10.8 million, reported as a deferred amount on refunding in the Airport Enterprise Fund.
- 1996 Recovery Certificates of Participation- \$24.3 million of the 1996 Recovery Certificates of Participation (COPs), issued as part of the County's emergence from bankruptcy, were paid off during the year as a normal part of these COPs payoff schedule. The COPs are paid from a dedicated source of sales taxes and vehicle license fees diverted by the State to a trustee bank. As of June 30, 2003, \$633.5 million of the original issuance amount of \$760.8 million remains to be paid on these COPs through FY 2025-2026.

Major components of the County's long-term debt obligations are shown in the following chart:

	Governmental		Business-Type		Total		Increase
	Activities		Activities				(Decrease)
	6/30/2003	6/30/2002	6/30/2003	6/30/2002	6/30/2003	6/30/2002	% Change
Revenue Bonds	287,282	296,747	208,490	239,325	495,772	536,072	(8%)
Certificates of Participation	647,409	673,934	--	--	647,409	673,934	(4%)
Pension Obligation Bonds	120,772	134,612	--	--	120,772	134,612	(10%)
Recovery Bonds	240,110	247,455	--	--	240,110	247,455	(3%)
Add: Premium on Bonds Payable	3,445	3,491	5,777	1,983	9,222	5,474	68%
Less: Discount on Bonds Payable	--	--	--	(1,822)	--	(1,822)	(100%)
Less: Deferred Amount on Refunding	(4,597)	(4,834)	(17,255)	(15,426)	(21,852)	(20,260)	8%
<b>Total</b>	<b>1,294,421</b>	<b>1,351,405</b>	<b>197,012</b>	<b>224,060</b>	<b>1,491,433</b>	<b>1,575,465</b>	<b>(5%)</b>

*This chart is limited to the County's long-term liabilities associated with bonds and certificates of participation. The County also has other long-term liabilities in the form of capital lease obligations, accrued interest on capital appreciation bonds, accrued compensated absences liabilities such as sick leave and vacation time for County employees, property and liability and workers' compensation claims payable, and accrued solid waste landfill closure and post-closure liabilities for the future costs associated with the closing, covering, and maintaining of landfill sites operated by the Integrated Waste Management Enterprise Fund.*

*These other long-term liabilities totaled \$568.8 million as of June 30, 2003, compared to \$511.6 million at June 30, 2002, an increase of \$57.2 million. Much of this increase was due to a \$34.4 million increase in the employee compensated absences payable, due to the implementation of a cashable annual leave program for many employees.*

*Orange County's debt issuer ratings from the major bond rating agencies as of June 30, 2003 were Aa2 from Moody's Investors Service and A+ from Standard and Poor's.*

**County's Results of Activities: Revenues, Expenses, and Changes in Net Assets**

*The County's government-wide Statement of Activities, the compilation of revenues, expenses, and resulting changes in net assets for the FY 2002-03 period, is summarized below and compared to the comparable amounts for the FY 2001-02 period, again separated by governmental activities and business-type activities:*

**Summary Statement of Government-Wide Activities-County of Orange**  
**(All Amounts in Thousands)**

	Governmental		Business-Type		Total	
	Activities		Activities			
	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002
<b>REVENUES</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 431,151	\$ 388,128	\$ 191,188	\$ 180,382	\$ 622,339	\$ 568,510
Operating Grants & Contributions	1,545,050	1,438,646	10,494	1,637	1,555,544	1,440,283
Capital Grants & Contributions	510,311	44,185	16,374	1,610	526,685	45,795
<b>General Revenues:</b>						
Property Taxes	303,436	292,894	--	--	303,436	292,894
Other Taxes	51,694	7,917	--	--	51,694	7,917
Grants and Contributions not Restricted to Specific Programs	22,707	58,614	--	--	22,707	58,614
State Allocation of Vehicle License Fees	178,446	172,916	--	--	178,446	172,916
Other General Revenues	64,453	85,123	537	15,858	64,990	100,981
<b>Total Revenues</b>	<b>3,107,248</b>	<b>2,488,423</b>	<b>218,593</b>	<b>199,487</b>	<b>3,325,841</b>	<b>2,687,910</b>
<b>EXPENSES</b>						
General Government	193,192	182,237	--	--	193,192	182,237
Public Protection	892,817	863,159	--	--	892,817	863,159
Public Ways and Facilities	74,561	82,893	--	--	74,561	82,893
Health and Sanitation	441,047	430,954	--	--	441,047	430,954
Public Assistance	740,794	718,016	--	--	740,794	718,016
Education	29,108	28,583	--	--	29,108	28,583
Recreation and Cultural Services	70,273	70,875	--	--	70,273	70,875
Interest on Long-Term Debt	53,853	125,664	--	--	53,853	125,664
Airport	--	--	75,770	75,446	75,770	75,446
Waste Management	--	--	79,217	72,652	79,217	72,652
<b>Total Expenses</b>	<b>2,495,645</b>	<b>2,502,381</b>	<b>154,987</b>	<b>148,098</b>	<b>2,650,632</b>	<b>2,650,479</b>
Excess (Deficit) before Transfers	611,603	-13,958	63,606	51,389	675,209	37,431
Transfers	13,419	19,606	-13,419	-19,606	--	--
<b>Increase in Net Assets</b>	<b>625,022</b>	<b>5,648</b>	<b>50,187</b>	<b>31,783</b>	<b>675,209</b>	<b>37,431</b>
Net Assets - Beginning of the Year	2,166,139	2,160,491	523,401	491,618	2,689,540	2,652,109
<b>Net Assets - End of Year</b>	<b>\$ 2,791,161</b>	<b>\$ 2,166,139</b>	<b>\$ 573,588</b>	<b>\$ 523,401</b>	<b>\$ 3,364,749</b>	<b>\$ 2,689,540</b>

Financial Highlights: Government-Wide - Year Ended June 30, 2003 (continued)

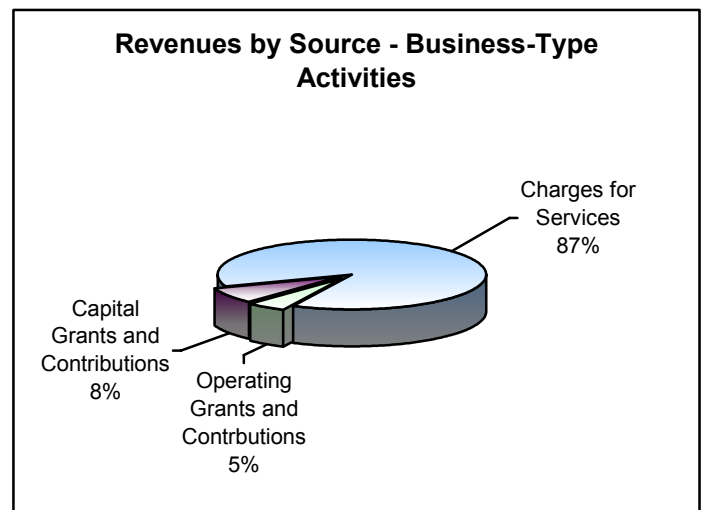
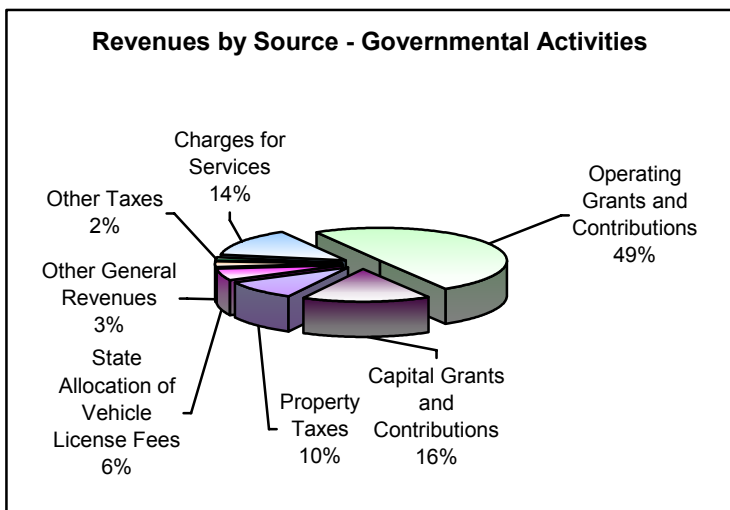
County's Results of Activities: Revenues, Expenses, and Changes in Net Assets (continued)

Revenues

Revenues in FY 2002-03 increased by \$637.9 million, or 23.7%, over FY 2001-02, again mainly due to the turnover of the Seven Oaks Dam to the County from the Federal government, which was recorded as a \$425 million capital contribution revenue in the governmental activities. The major increases in revenues from FY 2001-02 to FY 2002-03 were:

- Seven Oaks Dam Capital Contribution- The turnover of the Seven Oaks Dam from the Federal Government to the County was recorded as a \$425.0 million Capital Contribution revenue in the governmental funds (see discussion of this project under "Capital Assets" above). This accounted for the major portion of the increase of \$480.9 million in Capital Grants and Contributions revenue from FY 2001-02 to FY 2002-03.
- Federal Aviation Administration (FAA) Grants- Another portion of the increase in Capital Grants and Contributions was \$13.4 million in FAA grants to the Airport Enterprise Fund for improvements to the baggage security system.
- Operating Grants and Contributions- This revenue source increased by \$115.3 million from FY 2001-02 to FY 2002-03, due mainly to increases in a number of Federal and State funded social services and health care programs caused by caseload growth and increased Federal reimbursements.
- Charges for Services- Revenue from Charges for Services increased by \$53.8 million, due mainly to increased developer fees, charges for primary and general election services to other local governmental agencies, and increases in fines and reimbursements for environmental fraud cases and Sheriff law enforcement service contracts with cities.

The charts below show the percentage of total revenues by source for governmental activities and for business-type activities:



Expenses

Total expenses for FY 2002-03 were almost exactly equal to the FY 2001-02 expenses, at \$2.65 billion for each year. Normal inflationary increases in salary and benefit and services and supplies expenditures were offset by a decrease of \$71.8 million in Interest on Long-Term Debt, caused mainly by corrections of two prior year interest expense over-accruals, as well as normal decreases in interest expense due to lower principal amounts of long-term debt.

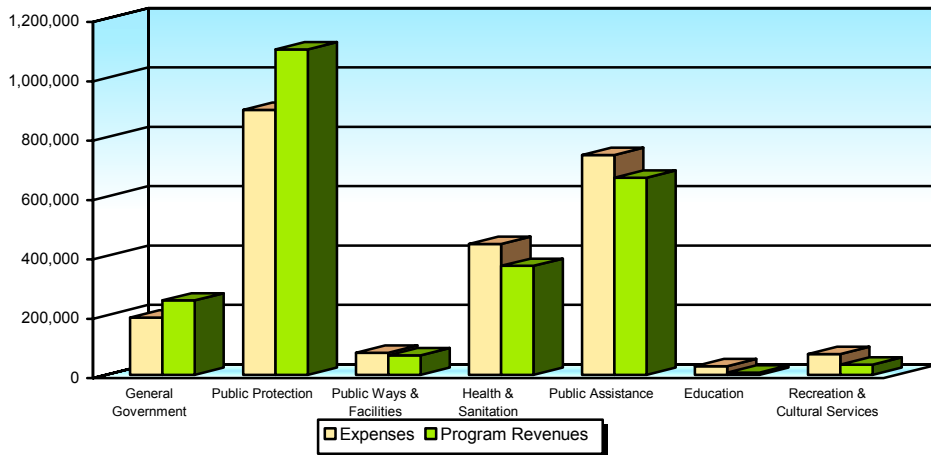


Changes in Net Assets

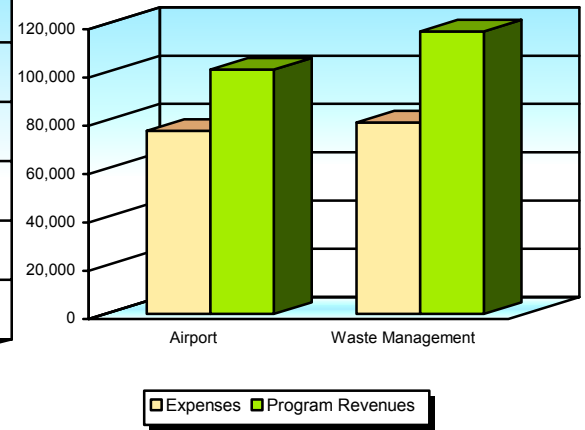
As a result of the revenue increases described above, total County net assets increased by \$675.2 million from June 30, 2002 to June 30, 2003, principally due to the addition of the \$425.0 million Seven Oaks Dam. However, total Unrestricted Net Assets continues to be a deficit balance, of \$374.9 million as of June 30, 2003, due to the County's large long-term bankruptcy debt of \$873.6 million, which is not offset by any County assets.

The following charts display comparisons of revenues to expenses for both the County's governmental activities and the business-type activities for FY 2002-03:

Expenses and Program Revenues - Governmental Activities



Expenses and Program Revenues - Business-Type Activities



Financial Highlights: Individual Major Funds- Year Ended June 30, 2003

Major funds are funds that meet specific criteria defined by the Governmental Accounting Standards Board (GASB), or funds that management deems important enough to be displayed separately in the CAFR. Orange County reports nine separate major funds in its CAFR: General Fund; Roads; Public Library; Tobacco Settlement; Refunding and Recovery Certificates of Participation and Debt Prepayment; Flood Control District; Harbors, Beaches, and Parks County Service Area; John Wayne Airport Enterprise Fund; and the Integrated Waste Management Department Enterprise Fund.

Summary data for the major governmental funds are presented below:

MAJOR GOVERNMENTAL FUNDS								
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES								
(In Thousands)								
	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balances		Increase (Decrease) Change	
	2003	2002	2003	2002	2003	2002		
General Fund	\$ 2,170,606	\$ 2,028,811	\$ 2,206,647	\$ 1,999,718	\$ (36,041)	\$ 29,093	\$ (65,134)	
Roads	44,110	54,761	38,813	44,759	5,297	10,002	(4,705)	
Public Library	32,936	30,848	32,679	28,741	257	2,107	(1,850)	
Tobacco Settlement	36,249	36,913	35,548	26,884	701	10,029	(9,328)	
Refunding and Recovery COPs & Debt Prepayment	130,681	286,483	92,163	85,655	38,518	200,828	(162,310)	
Flood Control District	87,075	233,567	58,721	79,106	28,354	154,461	(126,107)	
Harbors, Beaches, and Parks	73,188	67,785	71,447	63,810	1,741	3,975	(2,234)	
<b>Total</b>	<b>\$ 2,574,845</b>	<b>\$ 2,739,168</b>	<b>\$ 2,536,018</b>	<b>\$ 2,328,673</b>	<b>\$ 38,827</b>	<b>\$ 410,495</b>	<b>\$ (371,668)</b>	

*Financial Highlights: Individual Major Funds- Year Ended June 30, 2003 (continued)*

**County General Fund**

The County's General Fund records the transactions for all of the County's operations which are not required by law, regulation, or Board of Supervisors administrative policy to be recorded in separate funds. The General Fund includes most of the County's functions, such as law enforcement and public protection, health care, social services and public assistance programs, and general governmental support services. Revenues for the General Fund consist mainly of State and Federal revenues for reimbursable programs, property taxes, vehicle license fees, and charges for services. The main reason for the \$65.1 million net decrease in the net change in fund balance from FY 2001-02 to FY 2002-03 was a large increase in retirement contributions to the Orange County Employees Retirement System due to the increase in the System's unfunded liability, caused by negative investment returns and additional retirement benefits granted to employees.

**Roads**

This fund accounts for road and highway construction and maintenance projects funded mainly by the State gas tax. At the end of FY 2002-03, there was a decrease in net change in fund balances of \$4.7 million in this fund due primarily to the reduction in revenue from the Traffic Congestion Relief Plan.

**Public Library**

This fund accounts for the construction and operation of the County's libraries in both the unincorporated area and in some cities. There was a decrease in net change in fund balances of \$1.8 million for FY 2002-03 due to an increase in salaries and employment benefits for the additional staff hired for the newly constructed Foothill Ranch branch library and a reduction in State Public Library Fund (PLF) support to local libraries.

**Tobacco Settlement**

This fund accounts for tobacco settlement monies allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. In 2000, Orange County voters passed Measure H, also known as the Tobacco Settlement Funds Initiative, which requires that the tobacco settlement revenue must be allocated 80% for specified health care services and 20% for public safety programs. At the end of FY 2002-03, there was a decrease in net change in fund balances of \$9.3 million primarily due to an increase in expenditures of Measure H eligible health care programs.

**Refunding and Recovery Certificates of Participation and Debt Prepayment**

This fund accounts for the bankruptcy-related debt issuances – the 1995 Refunding Recovery Bonds and the 1996 Recovery Certificates of Participation – and the designated funds set aside for bond debt prepayment purposes. This fund's net change in fund balance decreased by \$162.3 million due to reclassifications and consolidations of funds made to comply with GASB-mandated accounting requirements.

**Flood Control District**

This fund accounts for the construction and maintenance of flood control channels, and also for the County's share of the costs of the Santa Ana River Mainstem Project, and is funded mainly by property taxes and Federal and State construction funds. As a result of the same accounting changes made to comply with GASB requirements mentioned above, this fund had a negative change of \$126.1 million in fund balance variance in FY 2002-03.

**Harbors, Beaches, and Parks**

*This county service area provides development, construction, maintenance, and operations of the County's harbors, beaches, and parks on a countywide basis. It is funded mainly by property taxes and State parks bond funds. For the same GASB-related reasons mentioned above, this fund had a small \$2.2 million decrease in fund balance net change in FY 2002-03.*

*The summary data for the County's two major business-type enterprise funds – John Wayne Airport and Integrated Waste Management – are presented below:*

<b>ENTERPRISE FUNDS</b>								
<b>COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS</b>								
<i>(In Thousands)</i>								
	<b>Revenues, Contributions and Transfers</b>		<b>Expenses and Transfers</b>		<b>Change in Fund Net Assets</b>		<b>Increase (Decrease)</b>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>Change</u>	
Airport	\$ 101,314	\$ 82,782	\$ 74,712	\$ 77,549	\$ 26,602	\$ 5,233	\$ 21,369	
Waste Management	117,265	115,873	92,524	84,951	24,741	30,922	(6,181)	
<b>Total</b>	<b>\$ 218,579</b>	<b>\$ 198,655</b>	<b>\$ 167,236</b>	<b>\$ 162,500</b>	<b>\$ 51,343</b>	<b>\$ 36,155</b>	<b>\$ 15,188</b>	

**John Wayne Airport Enterprise Fund**

*The Airport Enterprise Fund is a self-supporting business-type fund which accounts for all of the revenues and expenditures of the County-operated John Wayne Airport. Airport construction, maintenance, and operations expenses are funded by charges to the airlines, lessees, concessionaires, and rental car operators at the Airport. This fund had a net increase in the change in fund net assets for FY 2002-03 of \$21.4 million, due mainly to additional revenues from the FAA for improvements to the baggage security system, and to increased airline and concession revenues due to an increased number of passengers at the Airport over FY 2001-02, when passenger traffic was impacted by the tragic events of September 11, 2001.*

**Integrated Waste Management Department (IWMD) Enterprise Fund**

*The IWMD Enterprise Fund accounts for the costs of developing, maintaining, operating, and closing solid waste landfill sites in the County. The fund is a business-type fund, fully supported by charges to the waste haulers. At the end of FY 2002-03, there was a decrease in change in fund net assets in this fund of \$6.2 million due mainly to an increase in the closure and post-closure costs for the Santiago Canyon Landfill.*

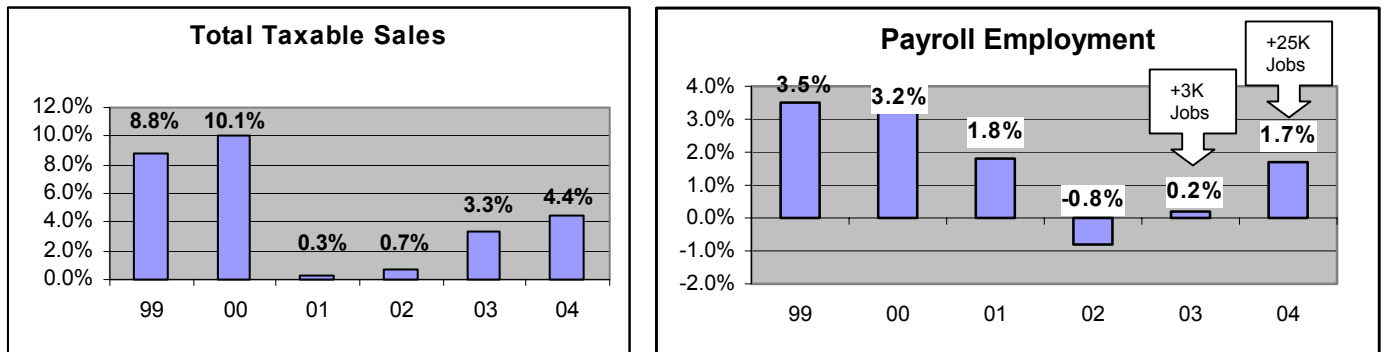
**Orange County Economic Forecast**

*After suffering a similar economic stagnation during 2001 and 2002 as experienced by both California and the United States, although at a less precipitous rate, Orange County's economy appears poised for a rebound, according to the economic forecasters at Chapman University, which prepares an annual economic forecast for the County based on a complex econometric model. Chapman University also provides five-year forecasts of County General Fund discretionary revenues such as property taxes and vehicle license fees to the County for use in the five-year Strategic Financial Plan prepared every year for long-term budgetary planning.*

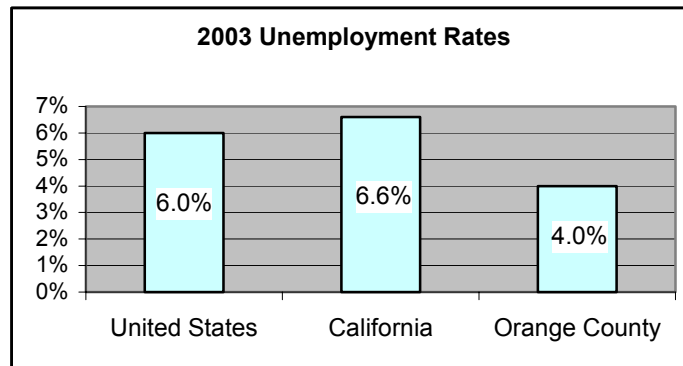
**Orange County Economic Forecast (continued)**

The latest Chapman University Economic and Business Review, published in December 2003, forecasts real Gross Domestic Product growth for the U.S. for calendar 2004 of 3.9%, up from the estimated 3.0% increase for calendar 2003, and an increase in employment in California for calendar 2004 of 1.1%, compared to the anemic 0.1% increase estimated for calendar 2003, with an increase in personal income of 4.2% for 2004 compared to 3.6% for 2003.

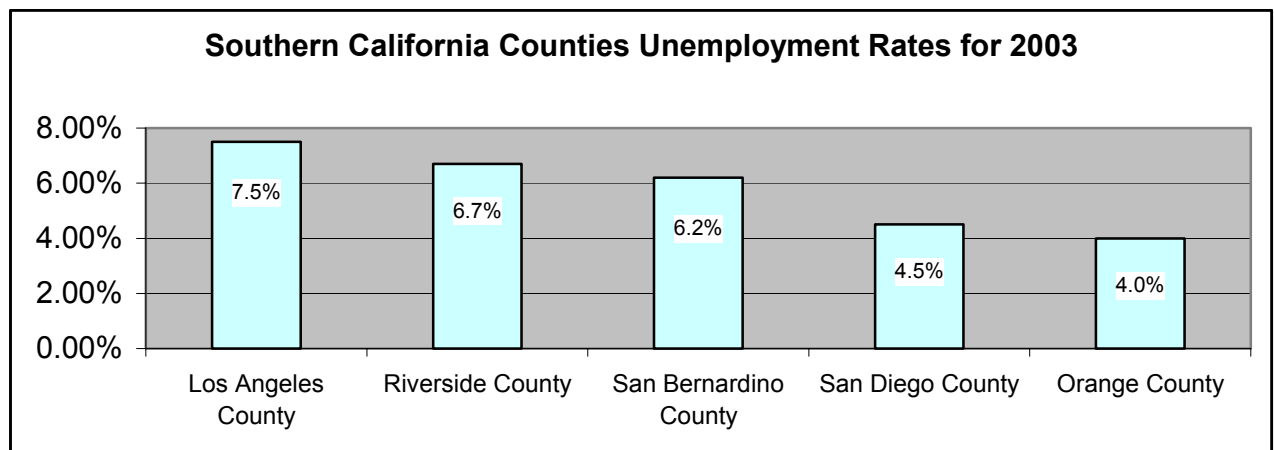
For Orange County, Chapman University is predicting job growth of 1.7% in calendar 2004, compared to only 0.2% in 2003, with taxable sales increasing by 4.4% in calendar 2004 compared to 3.3% in 2003, and personal income forecasted to increase by 4.9% in the County in calendar 2004, compared with a 3.9% increase in 2003. Sample charts for Orange County from the Chapman University December 2003 Forecast are shown below:



The County's economy remains stronger than the country's, the State's, and surrounding counties, as evidenced by the following comparisons of unemployment rates:



Source: State of California, Employment Development Department



Source: Economic & Business Review, Chapman University June 2003



State and County Budgets: Fiscal Year 2004-05

As of the writing of this Report, the budget for the State of California faces many uncertainties. The State's newly elected Governor repealed the increase in the vehicle license fee in-lieu tax, which is distributed to cities and counties, but has taken action to insure that the reduction is "backfilled" to cities and counties from the State's General Fund. The State Legislature has yet to weigh in on this action. Loss of this discretionary revenue source could result in an annual revenue shortfall of over \$120 million to the County's General Fund, which is almost 5% of the County's total General Fund budget.

A ballot measure to be voted on at the March, 2004 election will determine whether the State can issue bonds to finance the estimated cumulative budget deficit of \$15 billion for Fiscal Years 2002-03 and 2003-04. The FY 2004-05 State budget will not be issued by the Governor until January, 2004, but already indications are that the budget may have a deficit of upwards of \$10 billion.

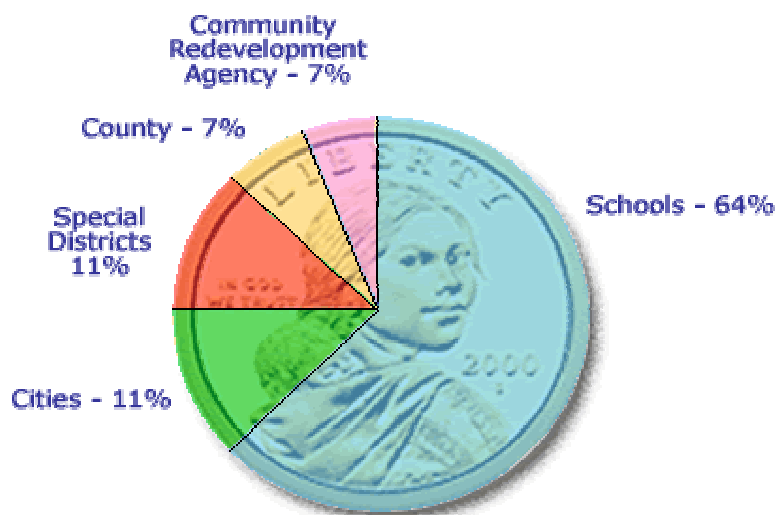
The County's budget for FY 2004-05 will be heavily dependent on what happens at the State level. Severe budget cuts in the State budget to social services, health care, and public assistance programs operated by the County on behalf of the State would result in significant budget cuts to the County. The possible loss of the vehicle license fee reduction "backfill" would seriously impact the discretionary portion of the County's General Fund budget. Until the Governor's proposals in the initial State budget in January, 2004 are known, counties can only speculate.

Other Orange County Statistics

Property Taxes

Although not as significant a portion of General Fund revenues as it previously was, due to State shifts of property taxes from counties, cities, and special districts to schools, property taxes still make up over \$180 million of the County's General Fund revenue. Orange County's General Fund receives the smallest portion of property taxes of any of the 58 counties in California, at an average share of less than 6% of the total tax allocations. The graphic below shows the average allocation percentages of the one percent basic tax rate to governmental agencies in Orange County. The County's share includes 1% for the County Library:

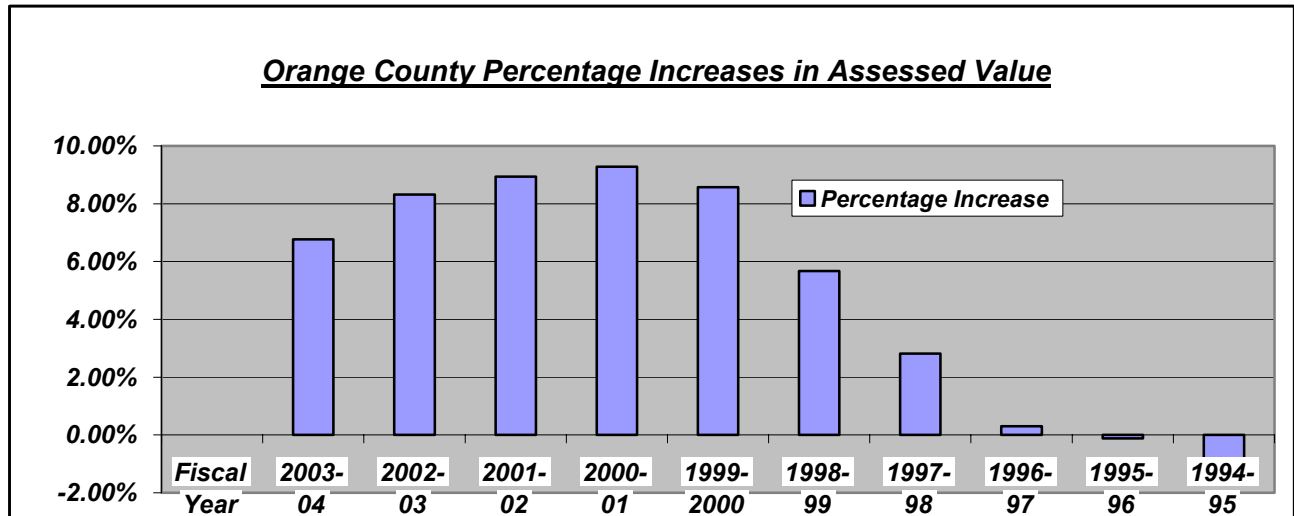
**PROPERTY TAX ALLOCATION IN ORANGE COUNTY**  
**Where the Typical Orange County**  
**Property Tax Dollar Goes**  
(Locally Assessed 1% Basic Levy)



Other Orange County Statistics (continued)

Property Taxes (continued)

Due to the steadily escalating housing prices in Orange County, new housing construction, and increased housing sales activity, the assessed values for property tax purposes have continued to increase, even though homes that do not change ownership or have no improvements made to them are limited to a 2% increase for tax purposes each year under Proposition 13:



Demographic Statistics

Population, median family income, and unemployment rates for Orange County for the last ten years are shown in the following chart:

<u>Year</u>	<u>Population</u>	<u>Median Family Income</u>	<u>Unemployment Rate</u>
1994	2,597,000	\$ 54,413	5.8%
1995	2,641,000	\$ 55,507	5.5%
1996	2,624,000	\$ 57,106	4.3%
1997	2,659,000	\$ 59,629	3.4%
1998	2,722,000	\$ 61,812	3.0%
1999	2,776,000	\$ 63,478	2.9%
2000	2,828,000	\$ 69,310	2.7%
2001	2,926,000	\$ 70,577	3.0%
2002	2,940,000	\$ 70,887	4.0%
2003	2,979,000	\$ 72,985	4.0%

Basis for Popular Annual Financial Report

This PAFR was prepared using data from the County's CAFR for the Fiscal Year Ended June 30, 2003, mainly from the portion of the CAFR entitled "Management's Discussion and Analysis". The financial information in this Popular Report is presented in accordance with GAAP as set forth by the GASB, which is the financial reporting standards-setting body for governmental agencies. The statistical, economic, and demographic data are taken from various sources, and are not GAAP-basis data.

Both this Popular Report and the CAFR are available for viewing on-line at the Auditor-Controller's website, [www.oc.ca.gov/ac](http://www.oc.ca.gov/ac). Please email the Auditor-Controller at [david.sundstrom@ocgov.com](mailto:david.sundstrom@ocgov.com) if you have suggestions for improving this Report, or would like to receive extra copies of this Report or of the Comprehensive Annual Financial Report.

County of Orange Board of Supervisors



Charles V. Smith  
1<sup>st</sup> District



James W. Silva  
2<sup>nd</sup> District



Bill Campbell  
3<sup>rd</sup> District



Chris Norby  
4<sup>th</sup> District



Thomas W. Wilson  
5<sup>th</sup> District

Seven Oaks Dam



Photo from County of San Bernardino Department of Public Works- Flood Control District website at [www.co.san-bernardino.ca.us/flood/damage](http://www.co.san-bernardino.ca.us/flood/damage)

John Wayne Orange County Airport

*Overhead View-  
Thomas F. Riley Terminal*



*Evening View-  
Terminal Main Entrance*



*Terminal Baggage Claim Area*



Photography Credit for Airport Photos: Lawrence Crandall- Crandall Photography  
P.O. Box 943  
Sunset Beach, CA 90742