

County of Orange, California

# CITIZENS' REPORT



FOR THE YEAR ENDED  
**JUNE 30, 2016**

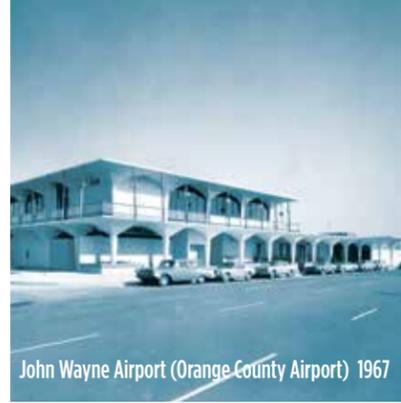


**ERIC H. WOOLERY, CPA, AUDITOR-CONTROLLER**

A LETTER FROM  
**ERIC H. WOOLERY, CPA**  
 ORANGE COUNTY  
 AUDITOR-CONTROLLER



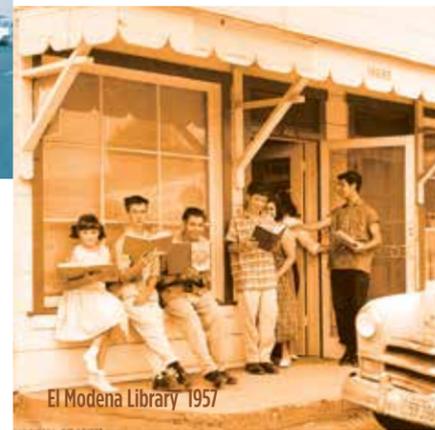
Eric H. Woolery, CPA  
 Orange County Auditor-Controller



John Wayne Airport (Orange County Airport) 1967



Dana Cove 1966



El Modena Library 1957



Carolyn Cavecche  
 President & CEO,  
 OC Taxpayers Association

SAFE-GUARDING  
 OC'S TAX DOLLARS

As 2016 comes to a close, we look back on the past year with great pride and satisfaction, having had a positive uptick in many aspects for the County. Property taxes have grown, providing the County with more revenue, as has the general fund due to smart and conservative financial planning.

Our office successfully launched new community outreach programs to create and promote added transparency in our local government. Our Accounting for Activists program has helped to educate the public on how to perform their own "investigative accounting." Our office's Fraud Symposium educational seminar on detecting financial crime was such a success and has now become a mandatory training activity for county officials who may encounter fraud in their daily work.

While the general fund has grown, so too has the County's pension liability, with an increase in the net pension liability of half a billion dollars this year alone. The County continues to set aside money in reserves for special projects, such as the 800 MHz Communication Systems, homelessness services and a new animal shelter. And lastly, economic indicators show the continued growth of the gap between the cost of living in Orange County and income. Specifically, the staggering increase of average home prices over the last 50 years versus stagnation of income growth, leading to a large gap of affordability, is an issue we expand on in this report.

On a personal note, I would like to thank my staff and all those who have worked hard to ensure the protection of our taxpayer dollars. My department's "Taxpayer Watchdogs" are serving the citizens of this County every day. One of the tenets of my office is to be the County's trusted source of financial information to account for the past, direct the present, and shape the future, but also to promote public oversight and provide accountability and transparency. The 400 plus employees of the Auditor-Controller's office are directly responsible for this mission, and are doing an outstanding job.

Thank you for taking the time to review our Citizens' Report for 2016, and as always please feel free to contact our office for any questions and concerns. We are here to serve you, the taxpayer.

Eric H. Woolery, CPA,  
 Orange County Auditor-Controller

The Orange County Taxpayers Association (OCTax) is pleased that through the Orange County Citizens' Report, prepared by the office of our Auditor-Controller Eric Woolery, taxpayers have access to the information they need to hold government officials accountable for how their tax dollars are spent.

OCTax continues to be concerned about the growth of the county's pension liability as well as the increased cost of public safety salaries and benefits to taxpayers. The increase in public safety costs will not only affect the county budget in upcoming years, but also the budgets of contract cities throughout Orange County.

Since its incorporation, Orange County has grown from an agricultural region into an urban environment with different needs and issues. The County must continue to set aside the funds needed to provide the services and infrastructure necessary to meet the needs of a changing population.

The Orange County Taxpayers Association appreciates our close working relationship with independently elected Auditor-Controller Eric Woolery. We look forward to continuing working together as he increases the efforts in making Orange County's financial information more transparent to the taxpayers.

Carolyn Cavecche  
 President & CEO, Orange County Taxpayers Association

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**OC Taxpayers' Watchdog Award**

"Jameson" is the official Taxpayers' Watchdog and mascot of the Office of the Orange County Auditor-Controller. He is on guard 24/7 reminding us that we work for the taxpayers of Orange County first and foremost. This year we presented our Taxpayer Watchdog Award to Senator Pat Bates, a true watchdog, for her strong commitment to state and local economies and her dedication to fiscal responsibility and protecting California's Taxpayers.

# PURPOSE

The purpose of the Orange County Citizens' Report is to provide the public, in layman's terms, the highlights of the County's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2016. The CAFR is a detailed and complete financial presentation prepared in conformance with the United States Generally Accepted Accounting Principles (GAAP) and is available in its entirety online at [goo.gl/FKZGYv](http://goo.gl/FKZGYv) (or use QR Code below.) The CAFR details how the County spent its budget of more than \$5.8 billion during the past fiscal year. While the financial data in the OC Citizens' Report conforms to GAAP, some statistical, economic and demographic data are taken from various sources and are not GAAP-based data. The CAFR is prepared by the Auditor-Controller staff and independently audited by Macias, Gini & O'Connell LLP, receiving an unmodified (clean) opinion. A companion to CAFR is the County budget, prepared by the County CEO Finance Department. It outlines how the County plans to spend its resources in the fiscal year.



The County prepares two sets of financial statements that measure its finances differently. Government-wide statements present a long-term look at the County's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Fund statements, of which the General Fund is the chief operating fund, provide a short-term perspective of individual fund's assets, liabilities, and fund balance. It shows the difference between what the County currently owns versus what the County currently owes. It also presents the resources flowing in and out during the fiscal year. One way to view it is that the long-term perspective would report a homeowner's mortgage balance and the property's value, while the short-term perspective would report only the house payments and the income to make those payments.

## FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2015-16:

- Total net position increased by \$178 million, or 9% as compared to last year.
- Long-term debt decreased by almost \$7 million, or 1% as compared to last year.
- The County's governmental funds reported combined ending fund balances of \$2 billion, an increase of \$171 million, or 8% as compared to last year.
- General fund revenues and other financing sources ended the year 5% below budget.
- General fund expenditures and other financing uses ended the year 7% below budget.

The County's fiscal year starts on July 1. The County's budget process usually begins in late December with careful planning. Revenues are budgeted in the amount expected to be received or as they are applicable to the fiscal year. Expenditures are budgeted at an amount sufficient for 12 months if they are ongoing and in their full amount if they are one-time items. The Board of Supervisors adopts the budget, which becomes the spending plan for County departments. Actual revenues and expenditures are monitored during the year and reported to the Board of Supervisors on a quarterly basis. The budget may be modified based on these quarterly reports to reflect new assumptions or events.

The County's budget for FY 2015-16 was \$5.8 billion, of which \$3.2 billion was budgeted for the General Fund. As indicated below, general fund actual revenues were less than budgeted mainly due to lower state and federal public assistance revenues and lower than anticipated Proposition 172 Public Safety Sales Tax revenues. Its actual expenditures were less than budgeted primarily due to departments having lower than budgeted expenditures in all categories.

# COUNTY BUDGET

## Beep Beep!

In 1955, Allen Motor Co. in Laguna Beach advertised an Oldsmobile 88 for \$2,465.00!



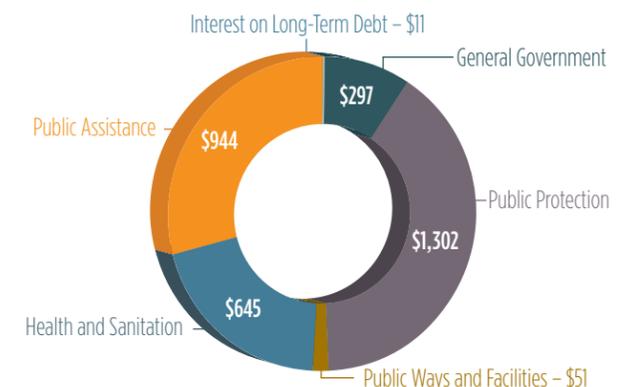
### GENERAL FUND BUDGET VS. ACTUAL (DOLLARS IN MILLIONS)



### LOOKING AHEAD TO NEXT YEAR'S BUDGET

The County's Recommended Budget for FY 2016-17 totals \$6.1 billion, of which \$3.3 billion is for the General Fund, and includes major initiatives for homeless assistance, OC animal care shelter, countywide public safety communications system, Civic Center Master Plan, Central Utility Facility, and services for older adults and veterans.

### ADOPTED FY 2016-17 GENERAL FUND BUDGET BY FUNCTION (DOLLAR AMOUNTS IN MILLIONS)



# STATEMENT OF NET POSITION

## The Statement of Net Position

presents the County's financial position from a long-term perspective. It reports all of the County's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the County's financial position is improving or deteriorating.



### Knowledge is Power

Having the facts to show us the financial health of our county allows us to make early adjustments, saving significant taxpayer dollars.

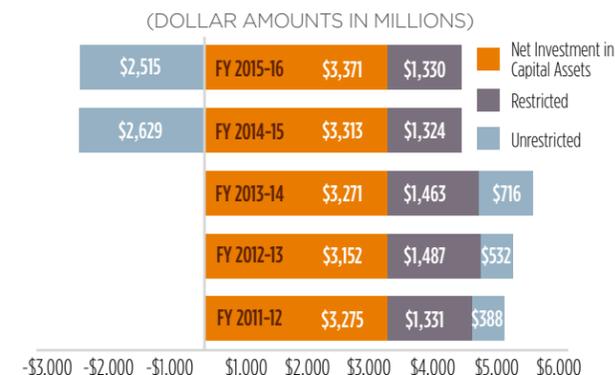
## STATEMENT OF NET POSITION (DOLLAR AMOUNTS IN MILLIONS)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>Assets</b>					
Current and Other Assets	\$3,617	\$3,770	\$3,940	\$4,043	\$4,330
Capital Assets	3,513	3,502	3,579	3,619	3,658
<b>Total Assets</b>	<b>7,130</b>	<b>7,272</b>	<b>7,519</b>	<b>7,662</b>	<b>7,988</b>
<b>Deferred Outflows of Resources</b>					
Deferred Charge on Refunding	-	-	10	6	4
Deferred Outflows of Resources Related to Pension	-	-	-	667	1,116
<b>Total Deferred Outflows of Resources</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>673</b>	<b>1,120</b>
<b>Liabilities</b>					
Long-Term Liabilities	1,365	1,488	1,383	5,187	5,664
Other Liabilities	771	613	696	746	804
<b>Total Liabilities</b>	<b>2,136</b>	<b>2,101</b>	<b>2,079</b>	<b>5,933</b>	<b>6,468</b>
<b>Deferred Inflows of Resources</b>					
Deferred Inflows of Resources Related to Pension	-	-	-	394	454
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>394</b>	<b>454</b>
<b>Net Position</b>					
Net Investment in Capital Assets	3,275	3,152	3,271	3,313	3,371
Restricted	1,331	1,487	1,463	1,324	1,330
Unrestricted	388	532	716	(2,629)	(2,515)
<b>Total Net Position</b>	<b>\$4,994</b>	<b>\$5,171</b>	<b>\$5,450</b>	<b>\$2,008</b>	<b>\$2,186</b>

### NET POSITION COMPONENTS

The largest component of the County's net position is net investment in capital assets. It cannot be used to liquidate the County's debt. The second component is restricted net position. The resources are subject to external restrictions on how they may be used, for example, restrictions imposed by grantors, contributors, laws or regulations of other governments, or restrictions imposed by law through constitutional provision or legislation, including those passed by the County itself. The final component of net position is unrestricted net position. It is a resource that can be used to meet ongoing obligations to citizens and creditors.

### 5 YEAR COMPARISON OF NET POSITION



## The Statement of Activities

reports the County's revenues and expenses during the fiscal year, as well as any transaction that increases or decreases its net position. Revenues are classified by source and expenses are classified by function.

### CHANGES IN NET POSITION - PRIMARY GOVERNMENT

(DOLLAR AMOUNTS IN MILLIONS)

	2012	2013	2014	2015	2016
<b>Revenues</b>					
Program Revenues	\$2,596	\$2,724	\$2,892	\$2,884	\$3,000
General Revenues	913	962	907	1,023	1,008
<b>Total Revenues</b>	<b>3,509</b>	<b>3,686</b>	<b>3,799</b>	<b>3,907</b>	<b>4,008</b>
<b>Expenses</b>					
General Government	162	221	131	192	204
Public Protection	1,232	1,264	1,262	1,326	1,434
Public Ways and Facilities	144	138	128	114	142
Health and Sanitation	594	621	626	538	555
Public Assistance	930	944	989	1,050	1,097
Education	41	39	41	43	46
Recreation and Cultural Services	103	101	97	102	115
Interest on Long-Term Debt	57	31	28	24	20
Airport	107	123	121	125	121
Waste Management	95	95	94	69	96
Compressed Natural Gas	-	-	-	-	-
<b>Total Expenses</b>	<b>3,465</b>	<b>3,577</b>	<b>3,517</b>	<b>3,583</b>	<b>3,830</b>
Excess before Transfers	44	109	282	324	178
Transfers	-	-	-	-	-
Extraordinary Gain/(Loss)	(69)	1	-	-	-
<b>Increase (Decrease) in Net Position</b>	<b>(25)</b>	<b>110</b>	<b>282</b>	<b>324</b>	<b>178</b>
<b>Net Position - Beginning of the Year (as restated)</b>	<b>5,019</b>	<b>5,061</b>	<b>5,168</b>	<b>1,684</b>	<b>2,008</b>
<b>Net Position - End of the Year</b>	<b>\$4,994</b>	<b>\$5,171</b>	<b>\$5,450</b>	<b>\$2,008</b>	<b>\$2,186</b>

# STATEMENT OF ACTIVITIES

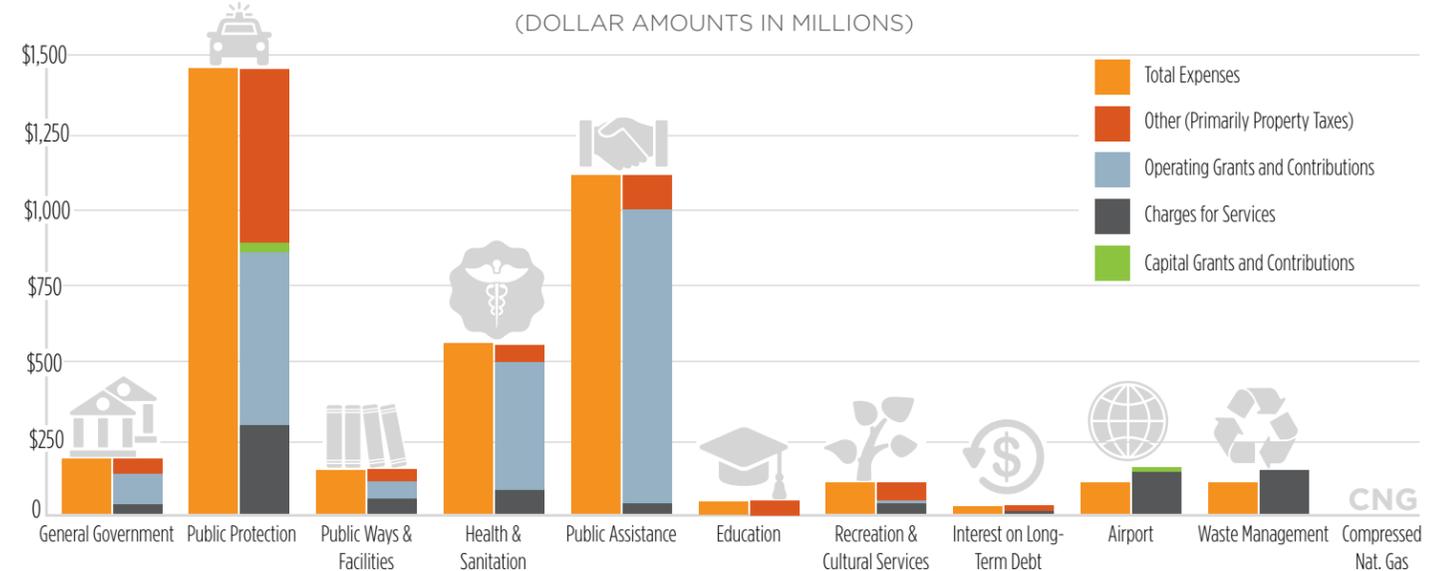
## Did You Know?



The Statement of Activities enables you to see how much it costs the County to perform its various functions, determine the tax burden placed on citizens and businesses to finance government services, and determine if the County is raising resources to finance its operations.

### FUNDING RESOURCES FOR COUNTY SERVICES - GOVERNMENTAL ACTIVITIES

(DOLLAR AMOUNTS IN MILLIONS)



# REVENUES AND EXPENSES



## The County

of Orange is typical of most state and local entities in that we provide a pension plan with defined benefits and partially paid retiree medical benefits for our employees. The Orange County Employees Retirement System (OCERS) administers the County's pension plan, which provides pension benefits to the County's diverse workforce. County contributions, when combined with employee contributions and investment earnings, will fully provide for employee pension benefits when they retire. The County's projected retirement cost shows a steady increase over the next five years (source: County's 2016 Strategic Financial Plan).

# PENSION

## REVENUES

**PROGRAM REVENUES** are derived directly from the program itself or from parties outside the County's taxpayers or citizenry. It includes **Operating Grants and Contributions**, monies received from parties outside the County and are generally restricted to one or more specific programs; **Charges for Services**, revenues that arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided; and **Capital Grants and Contributions**, monies received for capital purposes to purchase, construct, or renovate capital assets associated with a specific program.

**GENERAL REVENUES** are taxes and other items, such as unrestricted interest revenue not reported as program revenues.

## EXPENSES

**GENERAL GOVERNMENT** includes expenses incurred by the Board of Supervisors, Clerk of the Board, Auditor-Controller, County Executive Office, County Counsel, Performance Audit, Registrar of Voters, and Treasurer-Tax Collector.

**PUBLIC PROTECTION** consists of Clerk-Recorder, Flood Control, Sheriff-Coroner, District Attorney, Probation, Trial Courts, Sheriff Court Operations, Grand Jury,

Child Support Services, Public Defender, and Alternate Defense.

**PUBLIC WAYS AND FACILITIES** consist of repairs and maintenance of public roads and parking facilities by the OC Public Works.

**HEALTH AND SANITATION** includes indigent medical services, public health care and emergency medical service programs, and environmental health services provided by OC Public Works and the Health Care Agency.

**PUBLIC ASSISTANCE** is comprised of a variety of social services, as well as housing and community services from OC Community Resources and the Social Services Agency.

**EDUCATION** includes the operating costs of providing library services from OC Community Resources.

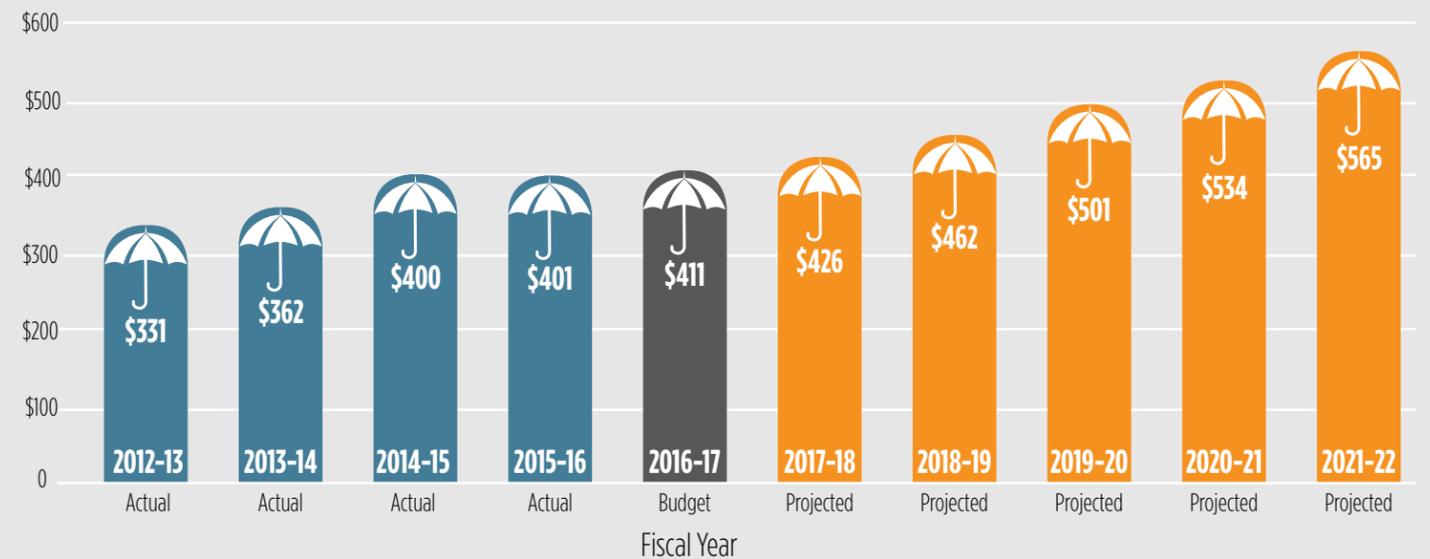
**RECREATIONAL AND CULTURAL SERVICES** represents operations related to the harbors, beaches and parks, and includes costs from OC Community Resources and Dana Point Harbor.

**INTEREST ON LONG-TERM DEBT** accounts for indirect expense of interest paid on general long-term debt incurred by the governmental functions.

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

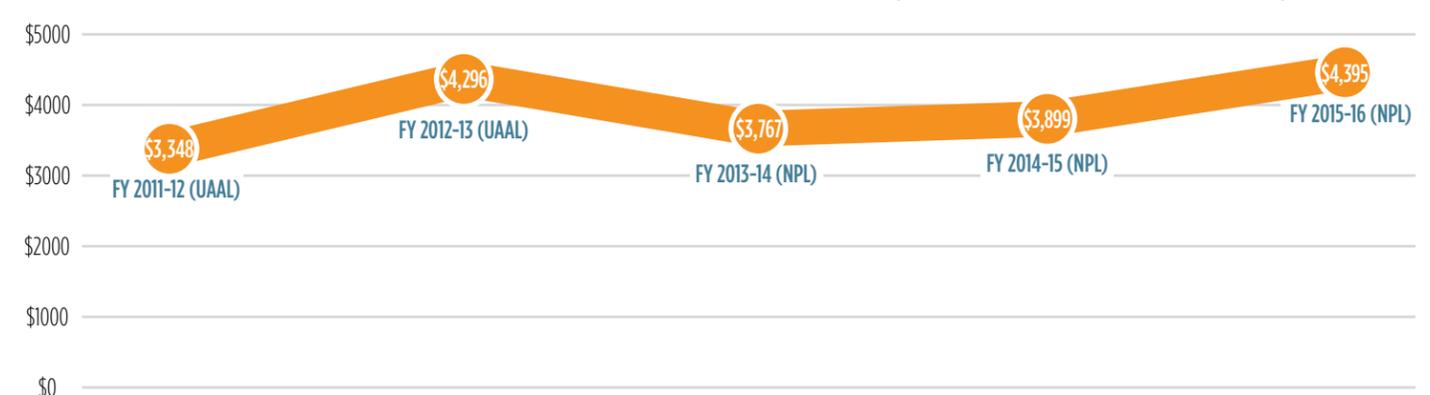
**WASTE MANAGEMENT** accounts for the operation, expansion, closing of existing landfills and the opening of new landfills.

RETIREMENT COST PROJECTIONS (DOLLAR AMOUNTS IN MILLIONS)



Beginning in FY 2014-15, the County implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27," to report its entire net pension liability in the financial statements. The chart below shows the County's unfunded actuarial accrued liability (UAAL) or net pension liability over the past five fiscal years.

COUNTY PENSION LIABILITY FIVE YEAR TREND (DOLLAR AMOUNTS IN MILLIONS)

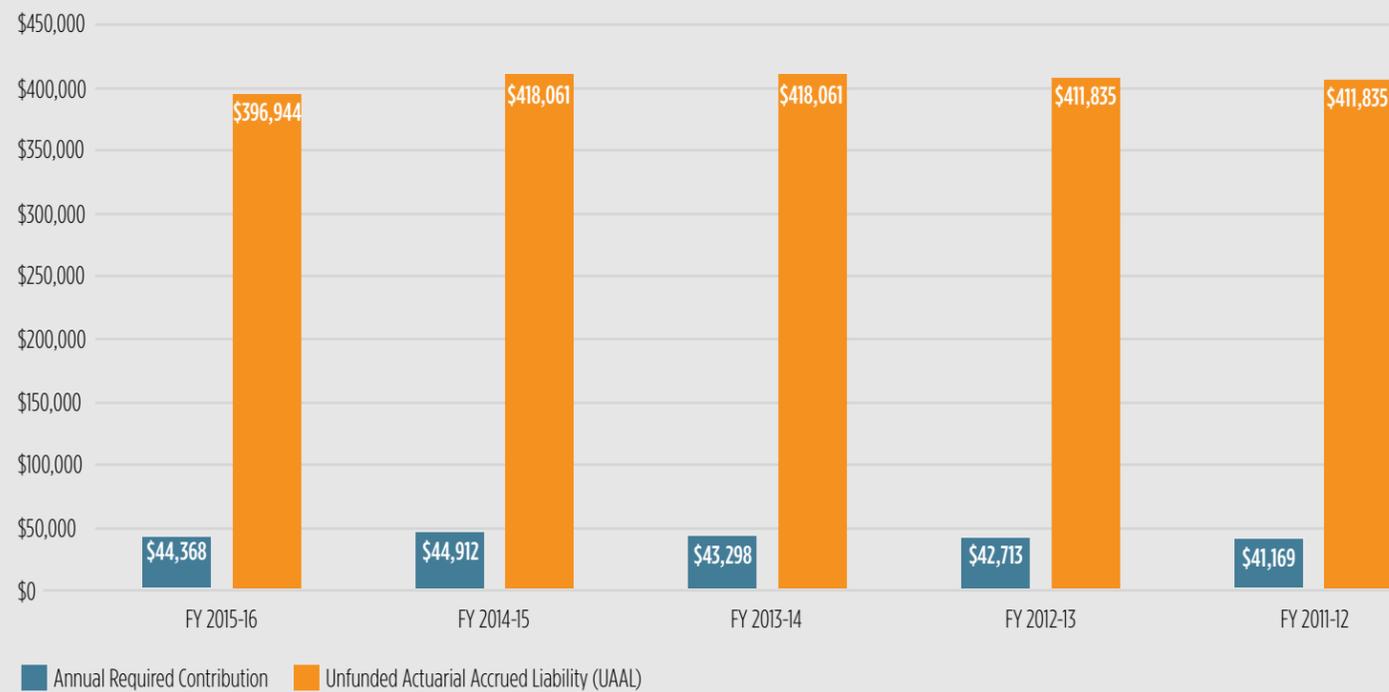


# RETIREE MEDICAL PLAN

The County also provides other postemployment benefits (OPEB), primarily healthcare benefits, to eligible employees who retire from the County and receive a pension from OCERS. Eligible retired employees receive a monthly grant that helps offset the costs of maintaining health insurance following retirement. Currently, the County is setting aside contributions in the County of Orange Retiree Medical Trust to pay for the retiree's medical grant through the Retiree Medical Plan. The Retiree Medical Plan specifically states that it does not create any vested right to benefits. The impact of healthcare cost increases to the plan is limited to the annual increase to the grant, which has a maximum increase/decrease of 3% per year. Therefore, it is the grant annual increase, rather than healthcare cost trends, that affect the OPEB's UAAL. As a result, the County OPEB Annual Required Contribution (ARC) and OPEB UAAL have remained relatively stable.

**OC Fact** In 2016, 13.5% of the County's population is 65 and older. This population is projected to nearly double by 2040.

THE COUNTY'S OPEB ARC VS. UAAL FIVE YEAR TREND (DOLLAR AMOUNTS IN THOUSANDS)

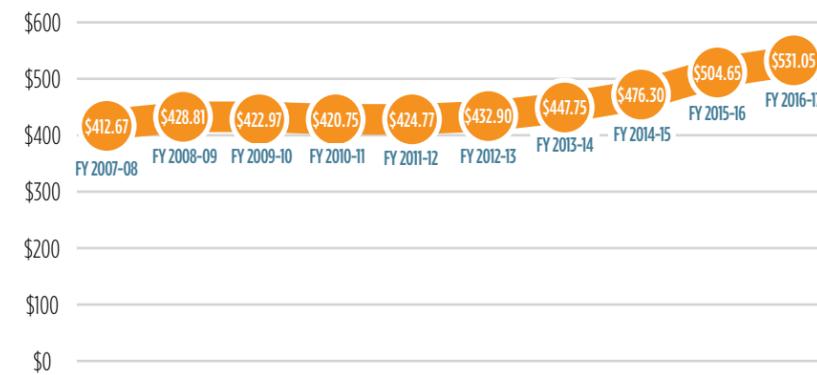


An upcoming accounting standard GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," will require the County to report its OPEB liabilities in the financial statements, and a more comprehensive measure of OPEB expense will be disclosed. The implementation will enhance transparency and accountability through revised notes to the basic financial statements and provide additional supplementary information to financial statement users on the total cost of providing services to the County's citizens.

Property Tax is a major source of revenue for local government in California. In FY 2015-16, \$6.32 billion in property tax collections were distributed to county government, cities, schools, redevelopment trust funds and special districts in Orange County. County government relies on property tax as the main source of revenue to pay for county-wide services. Although Orange County is the third most populous county in the State, the property tax per capita received by the County of Orange to fund county-wide services is one of the lowest of the surrounding Southern California counties. Changes in assessed value have a corresponding impact on property tax assessments. Orange County's total assessment roll for FY 2015-16 is valued at \$504.65 billion and increased by 5.23% to \$531.05 billion for FY 2016-17.

# YOUR PROPERTY TAX DOLLARS

ORANGE COUNTY 10 YEAR ASSESSED VALUE (DOLLAR AMOUNTS IN BILLIONS)



PROPERTY TAX PER CAPITA BY COUNTY



## Property Taxes Up Close



\* The dollar does not take into account the sales tax compensation and the swaps the State has done for property tax, such as triple flip and VLF.  
 \*\* Any remaining balance after payment of enforceable obligations in the Redevelopment Property Tax Trust Fund is distributed back to the taxing entities.

# PROPERTY TAX

**Property Tax** is imposed on property owners and is based on the value of the property. Proposition 13, which was passed by California voters in 1978, limits the property tax rate to 1% of assessed value, plus the rate necessary to fund local voter approved general obligation debt. Increases in assessed value for property are limited to 2% per year if there has been no ownership change, or no new construction. Newly acquired property is assessed at fair market value, typically the purchase price, and the value of new construction is added to the existing base value of the property.

In addition to the value based property tax, special assessments or fixed charges may also be added to the property tax bill. These fixed charges may include special taxes to pay **Mello-Roos** district (Community Facilities District or CFD) bonds. These bonds are issued to pay for services and general benefit facilities such as streets, sewers, parks, and libraries within the Mello-Roos district. The time period for paying Mello-Roos bonds can be up to 40 years. As the bonds are paid off, the need to collect the special taxes may cease.



## Go Home!

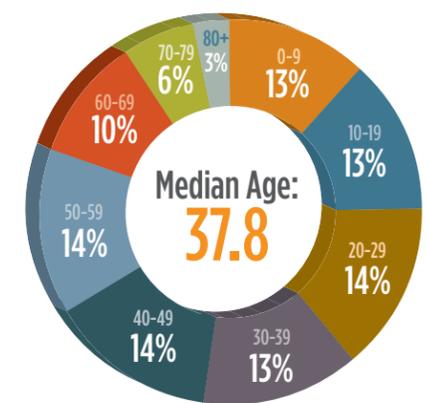
In 1955, you could purchase a brand new 4 bedroom home in Huntington Beach for the bargain price of just \$11,500!



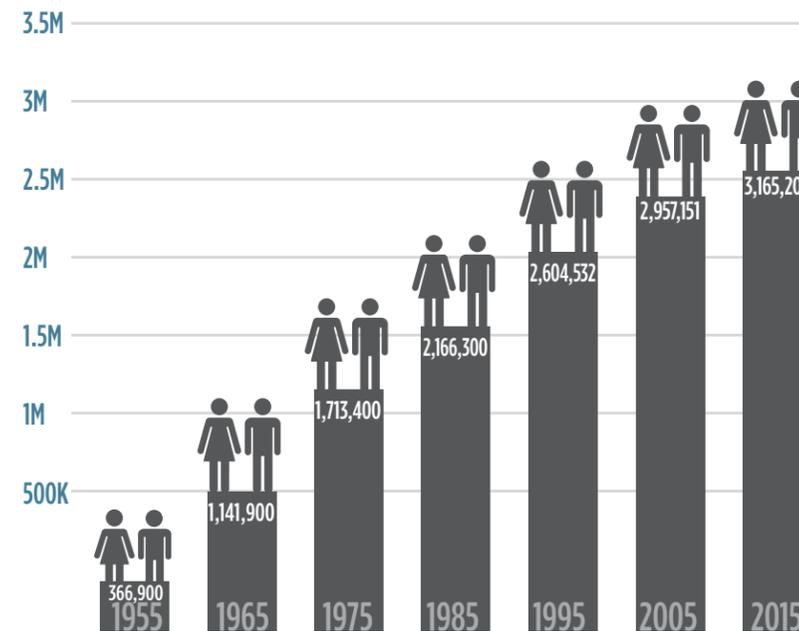
# ORANGE COUNTY DEMOGRAPHICS

**Orange County** is 798 square miles of breathtaking sunsets, world famous beaches, shopping centers, and tourist destinations. And for a lucky 3.1 million people, they get to call it home. So, who does make up our Orange County family?

OC POPULATION BY AGE<sup>1</sup>



OC POPULATION GROWTH 1955-2015



Source: State of California Department of Finance

**51%** of the population is female<sup>1</sup>



**583,186** Residents in OC are homeowners<sup>2</sup>



**122,998** OC Residents are Veterans<sup>1</sup>

**52%** of the population is married<sup>1</sup>

**39%** of OC Residents have a College Degree<sup>1</sup>

## Property Taxes Up Close

**Shari L. Freidenrich, CPA**  
Orange County Treasurer - Tax Collector  
P.O. BOX 1438 • Santa Ana, CA 92702-1438  
625 N. Ross Street, Building 11, Room 558, Santa Ana  
Office Hours: 8:00 AM-5:00 PM Monday - Friday  
Phone Hours: 9:00 AM-5:00 PM (714) 834-3411  
ocgov.com/octaxbill

**2016-17 SECURED PROPERTY TAX BILL**  
For Fiscal Year Beginning July 1, 2016 and Ending June 30, 2017

0063839-0063839 PDF# 57828 OCT13  
**ASSESSEE NAME AND ADDRESS ARE NOT AVAILABLE ONLINE PER CA GOV CODE §6254.21**

OWNER OF RECORD AS OF 12:01 AM, JANUARY 1, 2016  
**ASSESSEE NAME AND ADDRESS ARE NOT AVAILABLE ONLINE PER CA GOV CODE §6254.21**

PARCEL NO. (APN)	TAX RATE AREA	1st Installment DUE 11/1/16	2nd Installment DUE 2/1/17	To PAY BOTH INSTALLMENTS BY 12/31/16
XXX-XXX-XX	33-030	\$4,330.52	\$4,330.53	\$8,661.05

**IMPORTANT INFORMATION**  
Pay your secured tax bill online at no cost using a checking or savings account (eCheck) at [ocgov.com/octaxbill](http://ocgov.com/octaxbill) and receive an emailed receipt and same day credit. Sign up online at [ocgov.com/taxreminder](http://ocgov.com/taxreminder) to receive an email reminder of the due dates.

**ASSESSEE NAME AND ADDRESS ARE NOT AVAILABLE ONLINE PER CA GOV CODE §6254.21**

Special Assessment/Fixed Charges  
Mello-Roos Tax

**DID YOU KNOW?**  
Don't wait in line, pay online at [ocgov.com/octaxbill](http://ocgov.com/octaxbill), receive same day credit and an emailed receipt. There is no cost to pay by eCheck!  
Mailed payments must have a USPS postmark on or before the delinquent date. If you wait until the last day to mail your payment, get your envelope hand-stamped with a postmark to ensure it is timely.  
Check out the GIS map of your parcel at [ocgov.com/octaxmap](http://ocgov.com/octaxmap).  
Sign up to receive a due date reminder email at [ocgov.com/taxreminder](http://ocgov.com/taxreminder).

**PROPERTY LOCATION**  
ADDRESS NOT AVAILABLE

**ASSESSED VALUES & EXEMPTIONS AS OF JANUARY 1, 2016**

DESCRIPTION	FULL VALUE	COMPUTED TAX
LAND	181,720	
IMPROVEMENTS - BUILDING	467,280	
<b>TOTAL VALUES:</b>	<b>649,000</b>	<b>8,661.05</b>
<b>TOTAL NET TAXABLE VALUE:</b>	<b>649,000</b>	<b>8,661.05</b>

**VOTER APPROVED TAXES AND SPECIAL ASSESSMENTS**

SERVICE AGENCY	RATE	VALUE	TAXES
BASIC LEVY RATE	1.00000	649,000	6,490.00
CAPISTRANO UNIFIED	.00843	649,000	54.71
METRO WATER D-MWDOC	.00350	649,000	22.71
TAX ON LAND ONLY SNTA MARGARITA WTR DIST	.36440	185,817	677.11
<b>SPECIAL ASSESSMENT CHARGES</b>			
MOSQ.FIRE ANT ASSMT			171.36
VECTOR CONTROL CHG			4.80
MWD WATER STDBY CHG			316.06
1915 AD Bond VN			936.30
<b>TOTAL CHARGED</b>	<b>1.37633</b>		<b>8,661.05</b>