

ORANGE COUNTY DEBT MANAGEMENT STUDY

INTRODUCTION AND PURPOSE

During 1995 and 1996, Orange County borrowed \$1,039,000,000 (\$1,940,000,000 including interest) to resolve bankruptcy claims resulting from the collapse of the Orange County Investment pool in 1994.

The 1998–99 Orange County Grand Jury wished to prepare an independent analysis of the bankruptcy recovery plan (“Plan of Adjustment”) to determine the short- and long-term impact on the taxpayers of Orange County.

The Orange County Grand Jury retained the professional firm of Harvey M. Rose Accountancy Corporation to prepare an analysis of the county’s bankruptcy recovery plan and the county’s debt management policies and strategic financial plan.

METHOD OF STUDY

The Grand Jury interviewed County Officials, staff of the County Executive Office, Treasurer’s Office staff, Tax Collector’s Office personnel and attorneys representing the County in bankruptcy litigation and reviewed documents listed in Appendix A.

The Grand Jury also reviewed the report of the Harvey Rose Accountancy Corporation consultant for accuracy, approved and adopted the report. The report is included herein as Appendix B.

BACKGROUND

In 1995 Orange County issued Refunding Recovery Bonds in the amount of \$278,790,000. The county pledged Motor Vehicle License Fees (MVLFF) to pay debt service on this issue. The debt service schedule postponed beginning principal payments until fiscal year 2000–2001.

In 1996 Orange County issued Recovery Certificates of Participation (COPS) in the amount of \$760,800,000. The county pledged sales taxes; MVLFF and \$38,000,000 diverted from the Orange County Transportation Authority (OCTA) to pay debt service.

The combined debt service schedule increased from \$78,000,000 in 1995–96 to over \$90,000,000 in fiscal year 2000–2001. The Grand Jury was concerned that the financial impact of the bankruptcy had been postponed until 2000–2001.

In December 1998, the Orange County Board of Supervisors adopted a plan that would use \$230,000,000 resulting from the settlement of various lawsuits to defease (pay off) the 1995 bond issue. This plan will reduce annual debt service requirements to \$62,500,000. In the opinion of the Grand Jury's consultant, this level of debt is manageable within the county's financial resources.

In 1998 the Board of Supervisors adopted a five-year strategic financial planning process. This process was examined by the Grand Jury's consultant; and, in his opinion, the planning and forecasting methods are reasonable and prudent.

FINDINGS

Under *California Penal Code* Sections 933 and 933.05, responses are required to all findings. The 1998–99 Orange County Grand Jury has arrived at 3 major findings.

1. The bankruptcy recovery plan remains vulnerable to the actions of the California State Legislature.

A response to Finding 1 is required from the **Orange County Board of Supervisors**.

2. The **Orange County Board of Supervisors** made a wise decision to defease the 1995 bond issue.

A response to Finding 2 is required from the **Orange County Board of Supervisors**.

3. The Orange County strategic financial planning and forecasting methods are reasonable and prudent.

A response to Finding 3 is required from the **County Executive Office**.

RECOMMENDATIONS

In accordance with *California Penal Code* Sections 933 and 933.05, each recommendation must be responded to by the government entity to which it is addressed. These responses are submitted to the Presiding Judge of the Superior Court. Based on the findings, the 1998–99 Orange County Grand Jury recommends that:

1. The **Orange County Board of Supervisors** not reduce its lobbying efforts in Sacramento. (See Finding 1.)

A response to Recommendation 1 is required from the **Orange County Board of Supervisors**.

2. The **Orange County Board of Supervisors** continue the policy of defeasing bankruptcy related debt whenever possible. (See Finding 2.)

A response to Recommendation 2 is required from the **Orange County Board of Supervisors**.

3. To test forecasting methods, Orange County prepare and publish each fiscal year a detailed analysis comparing original estimates with year-end actuals. Any variation—plus or minus ten percent—should be explained. (See Finding 3.)

A response to Recommendation 3 is required from the **County Executive Office**.

COMMENDATION

The Grand Jury commends the Orange County Board of Supervisors and staff for their successful management of a unique and difficult problem.

APPENDIX

DOCUMENTS

Orange County Debt Management Study, Harvey M. Rose Accountancy Corporation
The Second Amended Plan of Adjustment, dated March 1996.

The official statement for the issuance of \$278,790,000 Refunding Recovery Bonds,
1995 Series A.

The Official Statement for the Issuance of \$760,800,000 1996 Recovery Certificates of
Participation, Series A.

Orange County Comprehensive Annual Financial Report, year ended June 30, 1997 and
June 30, 1998.

Orange County 1998–99 Annual Budget.

Orange County 1998 Strategic Financial Plan and December, 1998 Plan Update.

Various internal reports on debt management.