



COUNTY EXECUTIVE OFFICE • MEDIA RELATIONS  
**PRESS RELEASE**

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## Fitch Ratings Gives County of Orange 'AA+' General Obligation Bond Rating

(Santa Ana, CA) — Fitch Ratings, a global financial rating agency, has assigned the County of Orange an implied unlimited tax general obligation bond rating of 'AA+.'

"In difficult times for all local governments, it is very nice to receive an unsolicited affirmation from Fitch," said John M.W. Moorlach, Chairman of the Orange County Board of Supervisors. "As noted in the Fitch report, closing the budget gaps in recent years has required difficult decisions and cooperation at every level including the Board of Supervisors, County Executive Office, County Departments, employees, unions, contract partners, vendors and the public being served."

In its rating issued April 18, Fitch stated "The county's financial position remains strong despite four consecutive years of general fund deficits, and is supported by sound fund balance levels." The rating information continues "Debt levels are very low, resulting from strong levels of pay-as-you-go capital spending and rapid amortization." In assigning the 'AA+' rating, Fitch acknowledged potential negative factors affecting the County including uncertainty about funding of state programs and the county's unfunded pension liability. Fitch also stated the Rating Outlook is Stable.

Fitch Ratings describes itself as being dedicated to providing value beyond the rating through independent and prospective credit opinions, research and data. In 1924, the Fitch Publishing Company first introduced the "AAA" to "D" ratings scale to meet demand for independent analysis of financial securities.

## **FITCH ASSIGNS AN 'AA+' IMPLIED GO TO ORANGE COUNTY, CA; AFFIRMS VARIOUS OUTSTANDING RATINGS**

Fitch Ratings-San Francisco-18 April 2012: Fitch Ratings assigns an implied unlimited tax general obligation (GO) bond rating of 'AA+' to Orange County, California (the county).

In addition, Fitch affirms its ratings on the following outstanding county debt:

- \$71.2 million refunding recovery bonds series 2005 at 'AA';
- \$29.2 million taxable pension obligation bonds, series 1996A (economically defeased in 2000) at 'AA';
- \$25.5 million taxable pension obligation bonds, series 1997A (economically defeased in 2000) at 'AA';
- \$26.3 million Orange County Public Financing Authority (OCPFA) lease revenue bonds, series 2006 at 'AA';
- \$191.8 million OCPFA lease revenue refunding bonds series 2005 at 'AA';
- \$47.4 million OCPFA lease revenue refunding bonds (Juvenile Justice Center Facility Refunding Project), series 2002 at 'AA'.

The Rating Outlook is Stable.

Fitch plans to withdraw the rating on the 2002 OCPFA lease revenue refunding bonds following their refunding, which is expected to be completed on June 1, 2012.

### **SECURITY:**

The implied GO rating is based upon a pledge of unlimited ad valorem property tax. The recovery bonds are a legal obligation of the county payable from all lawfully available funds. The pension obligation bonds are an absolute and unconditional obligation of the county imposed by law. Lease obligations (lease revenue bonds and certificates of participation) are secured by lease payments made by the city's general fund for use and occupancy of various leased assets, subject to abatement.

### **KEY RATING DRIVERS:**

**WEALTHY AND DIVERSE ECONOMY:** The county benefits from a large, diverse, and wealthy economic base, which has consistently outperformed the state and nation.

**STABLE FINANCIAL POSITION:** The county's financial position remains strong despite four consecutive years of general fund deficits, and is supported by sound fund balance levels. Projected expenditure growth over the next five years will challenge the county's ability to restore structural balance and could increase downwards pressure on current rating levels.

**EXPOSURE TO STATE FINANCES:** The county relies on state funding for many of its programs and is subject to revenue reductions as the state seeks to balance its own budget.

**LOW DEBT LEVELS:** Debt levels are very low, resulting from strong levels of pay-as-you-go capital spending and rapid amortization.

**SUBSTANTIAL PENSION LIABILITIES:** The county faces a large unfunded pension liability which will require increases to already sizeable county contributions despite recent pension reforms.

### **CREDIT PROFILE:**

## DIVERSE AND WEALTHY ECONOMY

Orange County's credit strength relies primarily on its large, diverse, and wealthy economic base. Its proximity to the Los Angeles, Riverside and San Diego areas provides ready access to the substantial southern California economy, and the county has historically attracted an outsized share of the region's wealth.

Taxable assessed values (TAV) in the county have fared better than most regions nationally, with declines of just 1.4% and 0.5% in 2010 and 2011 before a return to 1% growth in 2012. Home prices dropped about 36% between 2006 and 2009 but have remained fairly stable more recently. Unemployment rates have traditionally bettered those for the region, state, and nation, and continue to do so, falling to 7.8% in December 2011. Income and wealth indicators are 20-25% above state and national averages, while per capita TAV is high at \$141,000.

## RESILIENT FINANCES WITH ONGOING CHALLENGES

The county's financial position remains sound despite repeated drawdowns of fund balance in fiscal years 2008 through 2011. The county ended fiscal year 2011 with available fund balance of \$267 million, equivalent to a healthy 10% of general fund spending. Management projects a general fund surplus of \$23 million for fiscal 2012, which Fitch considers reasonable given recent improvements in revenues.

County projections for the next five years highlight a widening gap between general fund revenues and expenses that will challenge its ability to restore budgetary balance. The state of California's recent redirection of \$49.5 million in county vehicle license fee revenues is a contributing factor in this challenge, in combination with rising pension and health care costs. Budget gaps in recent years have been addressed through the elimination of more than 1,500 positions, ongoing wage freezes, and substantial revisions to retirement benefits. After five years of such expenditure controls, future budget gaps may prove more difficult for the county to overcome. Fitch expects the county to make additional spending adjustments to address such gaps. Further use of reserves, however, would increase downward rating pressure.

## LOW DEBT, LARGE PENSION LIABILITIES

County debt levels are low as a result of significant pay-as-you-go capital financing and limited new debt issuance. Net direct and overlapping debt levels are 2% of TAV and 98% of the county's outstanding debt will be repaid within 10 years.

Pension liabilities remain substantial with an unfunded actuarial accrued liability of \$3.8 billion as of fiscal 2011. The county is responsible for approximately 80% of this liability, with the balance attributable to other local agencies. Under Fitch's assumption of 7% annual investment returns the funded ratio for the county's pension system is weak at 65%. Recent pension reforms should reduce costs in the long-term, but county pension contributions are expected to grow over the next five years. The county also recently restructured other post-employment benefits (OPEB) for most employees and retirees, resulting in a significant reduction to OPEB liabilities.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, and National Association of Realtors.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 15, 2011);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 15, 2011).

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Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=648898](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898)

U.S. Local Government Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=648842](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648842)

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