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RESCUING ORANGE COUNTY

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EXECUTIVE SUMMARY

Orange County's bankruptcy presents an opportunity to rethink, redesign, and rightsize the county government. The County-run investment pool has lost $1.7 billion in principal, and the County general fund has lost annual income of over $160 million.

Orange County can cope with these shortfalls without a tax increase by making use of techniques common to other bankruptcy situations. It can *sell assets* to raise cash to replenish the lost principal in the pool. It can increase the *tax base* by shifting enterprises into the private sector, thereby increasing public agency revenues without a tax increase. And it can significantly reduce operating costs by reducing County payrolls and *OUTSOURCING* additional services.

Specifically, the County could save $91 million per year by reducing its workforce by 10 percent, and another $82 million per year by reducing pay and/or benefits by 10 percent for those remaining. OUTSOURCING a number of services now provided in-house—including animal control, fleet maintenance, jail operations, paramedics, and fire protection—could yield annual savings of $56–60 million. Expanding the tax base could produce $44–50 million in new property tax revenues per year, of which the General Fund's share would be $4–4.5 million. Altogether, these changes would generate a net gain to the County of $233 to $238 million per year—well above the $160 million-per-year loss of interest income.

The County has a number of salable assets for which it would find willing and capable buyers. Some $259 million of County office buildings could be sold, with the majority leased back for continued County use. Another $67 million could be realized by the sale (with repurchase rights) of County properties now leased to others. Another $40 million in surplus lands could be sold. In addition, the County could raise $250–500 million via selling John Wayne Airport and the right to develop El Toro Airport, $100 million by selling its correctional facilities, and $261–522 million by selling its landfills. In addition, water supply and Wastewater utilities now owned by special districts could be sold, raising another $2.5 billion to pay off these districts' debt and shift these enterprises into the County's tax base.

In several cases, the authority to take these actions would have to be granted or clarified by the state or federal government. This new authority to act is all Orange County needs to solve its fiscal problems. It does not need a bailout from either level of government, nor does it need a tax increase.

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I. INTRODUCTION/GENERAL APPROACH

Orange County's fiscal crisis requires immediate and decisive action, both to cope with the shortfall in revenues in the current and future fiscal years and to recover the $1.7 billion in lost principal. But this crisis also represents an opportunity to rethink, redesign, and right-size County government for the 21st century, so that it can live within the constraint of a much smaller amount of its budget being derived from interest earnings. The decisions made by Orange County in 1995 could represent a new paradigm for streamlined, more efficient and more effective government which could be emulated across the country.

This report draws upon techniques used in both the private sector and the public sector to cope with fiscal crises. When a firm enters Chapter XI bankruptcy (in which it is expected to reorganize, downsize, and resume normal operations) it is expected to reduce its operating costs and increase its revenues. It also must restructure its balance sheet, generally by selling assets to generate cash.

Not all of these techniques are common in the public sector, but all of them *have* been used by U.S. cities and counties, especially in the fiscally difficult years of the late 1980s and early 1990s when many municipalities have had to downsize in order to survive. Reducing costs by cutting staff, eliminating low-priority programs, and OUTSOURCING (competitive contracting) of service delivery have become increasingly common. A number of municipalities are selling assets to raise cash and expand their property tax bases, for example Philadelphia (parking structures), New York City (hotel, radio station, wastewater plants), and Milwaukee County (electric power plant).

This report cannot pretend to be a comprehensive, in-depth assessment of every function of the Orange County government. It is, rather, a first look at what appear to be the most significant opportunities to use proven techniques to cope with the current fiscal crisis, while laying the basis for a streamlined, redesigned County government for the future.

II. PAYROLL REDUCTION

The first and most obvious step toward immediate reductions in operating costs should be to reduce the County's payroll. In recent years, County government has grown faster than its population and inflation combined. Since enactment of Proposition 13 in 1978, real per-capita revenues of Orange County have increased from $488 in FY 1978–79 to $623 in FY 1992–93.[1] In the current fiscal year, prior to the bankruptcy, the County workforce increased by 933 positions, to 18,149 positions. (Thus, the initial layoff of 400 in January 1995 represented less than half of the *increase* from the year before.)

Significant savings could be achieved by a pair of reductions: reduce total employment by 10 percent (a cut of 1,815 positions) and reduce the compensation of those remaining by 10 percent. Since the average compensation (salary plus benefits) of County staff in FY 1994–95 is $50,250, the reduction in workforce would yield annual savings of $91.2 million. Reducing the compensation of those remaining in the workforce would yield an additional $82 million. Together, the savings would total $173 million.

How serious would the impact of this cut in workforce be? Of the 10 largest counties in California, Orange County (pre-bankruptcy) ranked ninth in the number of employees per 1,000 residents (Table 1). Reducing the workforce to 16,334 would place Orange County in tenth place, at 6.29 per 1,000, compared with San Diego's 6.40. No one questions the fact that San Diego County is well-run with a leaner staff than Orange

County's current complement. Becoming just slightly more efficient than San Diego County is all it would take to adjust to the proposed cut.

Table 1

Public Employees per 1,000 Residents in Large California Counties

Ten Largest Counties	FY 1994–95 Positions	1/1/94 Population Estimates	No. of Employees Per 1,000 Residents
Fresno	7,648	755,200	10.1
Los Angeles	86,705	9,230,600	9.4
Sacramento	10,521	1,130,400	9.3
Riverside	11,954	1,357,400	8.8
Santa Clara	13,716	1,587,800	8.6
Alameda	10,818	1,347,900	8.0
San Bernardino	13,013	1,591,800	8.2
Contra Costa	6,391 *	868,600	7.4
Orange	18,149	2,596,500	7.0
San Diego	17,307	2,688,000	6.4

* FY 93/94 budget positions used; FY 94/95 positions not available as yet.

Source: County of Orange FY 1994–95 Annual Budget.

As for the impact on the laid-off employees, it should be noted that Orange County's unemployment rate was just 4.1 percent as of December 1994 (as compared with 8.1 percent in Los Angeles County, and a statewide average of 7.0 percent). This contrast suggests that job openings should be relatively plentiful in Orange County, compared with elsewhere in the state. While there is never a "good" time to be laid off, if one has to be laid off at all, Orange County in 1995 would appear to be one of the least-bad times and places.

Rather than taking a meat-axe to each unit and subunit of County government, the Board of Supervisors should set priorities and allocate the job reductions in accordance with what they best judge to be the public's priorities (e.g., among Public Protection, Health Services, Environmental Management, etc.). Each agency can then meet its allocation of cuts by using the following techniques:

- Eliminate less-important programs altogether, allowing the County to focus on core functions.
- Reduce the extent of middle-management "fat." Overall, County government averages between five and six employees per supervisor, compared with significantly higher levels in the private sector.
- Increase the use of volunteers in various agencies, as San Diego now does extensively in police services. (San Diego volunteers take crime reports, patrol neighborhoods, and collect evidence in minor crimes.)

· Increase the contracting out of various functions to both for-profit firms and non-profit agencies.

III. OUTSOURCING

The most common form of "privatization" in use by cities and counties today is outsourcing or competitive contracting. Indeed, Orange County is no stranger to this technique. It was a pioneer in using a private firm to operate its data processing center, and currently uses a private firm to manage its workers' compensation claims administration. It is also the only county in California to contract out its lifeguard service.

In 1991 the Board of Supervisors requested a study of further opportunities for privatization (which in practice was limited principally to outsourcing). The nine-member task force solicited ideas from the various department heads, resulting in 59 possibilities, mostly with relatively small dollar impacts.[2] As of December 1994, some 21 of these had been implemented, 6 had been rejected because of legal barriers, 2 were still being pursued, and 30 were "not implemented."

Of the items implemented, most are landscaping and maintenance services, mostly in the Environmental Management Agency. Many of the "not implemented" items appear to have been rejected by the departments involved (or by the County Counsel), for reasons that are not apparent, given that similar functions have been contracted out in other jurisdictions. The six items for which legal barriers were identified resulted from Orange County's status as a general-law county. Then-Sen. Marian Bergeson twice introduced legislation (SB 84 and SB 1544) to give the County authority to contract out records storage, janitorial services at Civic Centers, food services, and school crossing guards), but these measures were defeated.

The following subsections itemize what appear to be some of the more promising outsourcing possibilities. In most cases, they would require state legislation, either to implement or to realize the cost savings for the General Fund.

A. Animal Shelter/Animal Control

The FY 1991–92 budget for the Animal Shelter was $1.45 million and for Animal Control and Field Services was $4.32 million, a total of $5.77 million. Adjusting for 3 percent annual inflation since then gives an estimated $6.3 million for FY 1994–95.

Animal control functions have been privatized in a number of cities and counties around the country, with generally good results. The most common contract provider is the local humane society. In some communities, humane societies already own and operate a shelter of their own. Mohave County and Lake Havasu City, Arizona both contract with their local humane society, as does Great Falls, Montana. Some municipalities, such as Trenton, N.J., contract with a private firm. Savings observed in animal control contracts are typically in the 30 to 40 percent range. Thus, were Orange County to contract out these services, it might expect to save $2.2 million per year.

Great Falls is going further than simply contracting with its humane society. As other cities have done with zoos and museums, Great Falls is using a humane-society contract as a way of phasing out taxpayer support for animal control activities. At the end of its five-year contract—which pays a declining annual amount—further government support will not be forthcoming. The shelter is being given to the humane society, and animal control activities are expected to become self-supporting, via user fees and donations. Were Orange

County to adopt this approach, it could ultimately save the entire $6.3 million annual cost of these operations.

B. Fleet Maintenance

In recent years some 50 cities and counties across the country have outsourced the management and maintenance of their vehicle fleets. Among the jurisdictions doing so in 1994 were Broward County, Florida; Gary, Indiana; and Wilmington, Delaware. The nation's largest vehicle maintenance privatization has occurred in Los Angeles County, where three different firms now split the large workload (6,500 vehicles). In Orange County, the cities of Buena Park, Irvine, Mission Viejo, San Clemente, San Juan Capistrano, Santa Ana, and Yorba Linda all contract out fleet maintenance.

The current budget for GSA Transportation (motor pool) operations is $14.9 million. Typical cost savings in vehicle maintenance contracts are in the 20–25 percent range. Assuming a 20 percent saving would lead to $3 million per year in savings in Orange County.

C. Food Services

The 1991 study identified $10.3 million in food services (staff plus food costs) at the jails, juvenile institutions, and the Orangewood Children's Home. Adjusting these figures upwards at 3 percent per year yields an estimated FY 1994–95 amount of $11.25 million.

Public agencies across the country have realized cost savings and improved user satisfaction by contracting out institutional food services to private firms. Massachusetts has contracted out food services in its Department of Mental Retardation, realizing cost savings of 42 percent. Baltimore in 1993 contracted with a private firm to run the cafeterias in 18 public high schools, at a net cost saving of 23 percent. In 1994 the school systems of Pawtucket and Providence, Rhode Island contracted out all cafeteria services, as well.

Assuming that Orange County would be able to achieve 25 percent cost savings on its current $11.25 million expenditures, the annual savings would be $2.8 million.

D. Janitorial Services

In Orange County today, the cities of Anaheim, Buena Park, Costa Mesa, Cypress, Fountain Valley, Huntington Beach, Irvine, Laguna Beach, La Palma, Newport Beach, Orange, San Clemente, Villa Park, and Yorba Linda all contract out janitorial services. Other jurisdictions which have outsourced this function include Los Angeles County, Chicago, and Philadelphia.

Orange County's 1991 report cited internal studies indicating a predicted 50 percent savings on the $3.3 million then spent on custodial maintenance at Civic Center facilities. This is consistent with the record of cost savings in both Philadelphia and Los Angeles County. Updating these costs to FY 1994–95 at 3 percent per year gives a current estimate of $3.6 million. Saving 50 percent of that sum would mean $1.8 million per year.

E. Jail Operations

The operation of correctional facilities by private-sector firms under contract has grown rapidly in recent years. According to the mid-1994 census conducted by the University of Florida, there are 78 secure

facilities for adult offenders under contract operation by private firms in the United States today.[3] The capacity of these facilities is 40,299 inmates, and as of mid-1994 some 93 percent of that capacity was occupied. Privately managed correctional facilities are in operation or under development in 18 states and Puerto Rico. In Southern California, privately operated jails are in operation in Seal Beach and San Diego. Of the 78 private facilities in operation as of June 30, 1994, some 38 were minimum-security only; 30 were equipped for medium-security inmates, and 10 could handle maximum security inmates.

The 1994–95 budget for Corrections is $64 million; a total of 1,075 Sheriff's Department staff are involved in operating the jail facilities. The most careful cost comparison studies indicate annual savings from contract operation of existing jail facilities of about 10 percent.[4] Thus, some $6.4 million per year might be saved by contracting out the operations of the jails. As with several of the other items noted previously, state legislation would be required to give Orange County the authority to contract out this function. (Alternatively, if Orange County became a charter county it would automatically acquire the legal authority to privatize correctional operations.)

F. Paramedics

The Orange County Fire Department (OCFD) provides paramedic service for unincorporated areas and for 18 cities. The County's current EMS system forbids the private sector to provide paramedic (ALS—advanced life support) service anywhere in Orange County, which means all cities must provide this service via their fire departments. OCFD responds to medical calls with a fire engine staffed with EMT (emergency medical technician)-trained firefighters (BLS—basic life support) plus an ambulance staffed with paramedics (ALS). Because the fire department does not transport patients, a private ambulance with BLS capability also responds in order to transport the patient. When ALS treatment is required en-route to the hospital, a fire paramedic rides along in the private ambulance, and a fire unit comes along in order to retrieve the paramedic.

The cost of OCFD's paramedic activities are borne by the taxpayers. Insurance providers (private firms, Medi-Cal, Medicare) will reimburse for transports but not directly for treatment. The present system is wastefully duplicative, and ends up costing twice—once in taxes to support the OCFD activities and a second time in user fees to the private firms for BLS transport.

The most cost-effective paramedic systems employ a public-private partnership in which the fire department provides only BLS first-response, using EMT-trained firefighters in fire engines, along with private paramedics (ALS) who both treat and transport the patients. The cost to the fire department is only the marginal cost of operating the fire engines for these additional calls. Eliminated are dedicated fire department ambulances, fire department paramedics, and all tax-funded expenses required to support those resources. The private ambulance firm, selected competitively for an exclusive franchise of 3 to 5 years, is able to bill at ALS (rather than BLS) rates. Even allowing for the portion of bills which third-party providers will not reimburse, and for uncollectibles, many such systems can be 100 percent supported by these user fees.

One reason the proposed system could be self-supporting is that today's major paramedic firms operate much more productively than fire departments. For example, paramedic calls exhibit huge fluctuations from hour to hour and from day to day, which can be statistically analyzed and predicted. Private firms use peak-hour staffing and flexible geographic deployment to match resources to demand. Fire departments, including OCFD, continue to use traditional 24-hour shifts (meaning that the *same* number of paramedics are on duty at all hours, regardless of demand).

A number of large cities and counties currently use the type of paramedic system design recommended here. Of California's 41 largest cities, 17 use private paramedics to both treat and transport, including San Diego, San Jose, Oakland, and Fresno. Nationwide, among the recognized "high-performance" EMS systems using this model are Pinellas County (Fla.), Kansas City, Oklahoma City, Fort Wayne, and Las Vegas. Nationwide, about 50 percent of all municipalities use the private sector for paramedic service. Several of these systems, including Las Vegas, are entirely self-supporting, with zero taxpayer subsidy. The others are in the low end of the subsidy range, with per-capita annual tax subsidy of less than $3. By contrast, we estimate OCFD's annual tax subsidy to be between $7 and $8 per capita.

Very preliminary estimates are that the full taxpayer cost of OCFD's paramedic service is $20 million per year. In a county as affluent as Orange County, privatization should make it possible for a private firm to provide paramedic treatment and transport with zero taxpayer subsidy, meaning this entire amount could be saved. In addition, one firm has made a preliminary estimate that it might be willing to pay $5 million to purchase the existing assets of OCFD's paramedic system pursuant to the award of a 5-year franchise to operate the system.

As noted, the current County EMS plan forbids the private sector to provide ALS service; this would have to be changed. But as far as we know, there is no state legal barrier to prevent Orange County adopting the privatized model. The major obstacle would be resistance by OCFD and its fire union.

The other barrier to be overcome is the current Orange County tax structure, in which the Fire Department is not part of the General Fund, but is instead funded principally via an earmarked portion of the property tax. Thus, without a change in this structure, the savings realized by privatizing the paramedic service would simply be absorbed as higher spending elsewhere in the Fire Department. Changing the tax structure is thus essential to the realization of General Fund savings from this measure.

It might be objected that the County should not sell its equipment, thereby making itself "hostage" to the selected provider. The County could preserve somewhat more flexibility by retaining the equipment, but since ambulances do not have the long useful lives of fire engines, this is not really a very significant issue. Private firms will argue, probably correctly, that they can do a better job if they have full control of all the needed resources.

OCFD might concede that the present system is duplicative, but propose instead that OCFD take over patient transport from the private sector, permitting it to send ALS bills. While this would reduce the current duplication and taxpayer subsidy, it would not be the most cost-effective approach, for at least two reasons. First, unless it abandoned 24-hour shifts, OCFD's productivity ratio would be much lower than that of a private firm (hence, its costs would be higher). Second, fire departments do significantly worse at collections than private firms.[5]

G. Fire Protection

At $100 million, the Orange County Fire Department is one of the largest items in the budget. Assuming as above that paramedic operations represent 20 percent of this cost, the cost for fire prevention and suppression totals some $80 million.

A number of small and medium-size communities in the United States currently contract with a private firm for complete fire protection services.[6] The largest number of such communities is in Arizona, including the

city of Scottsdale. Privately contracted fire service also exists in communities in Georgia, Illinois, Oregon, and Tennessee. Although most of the private fire-protection firms began operation in rural areas, where they operated subscription service, their urban services (as in Scottsdale) are provided via contract with the city government, as with other outsourced municipal services.

The private sector has developed three key practices that set it apart from municipal fire agencies. These three practices are: 1) the use of a mixed force of full-time and paid-reservist firefighters (so that fewer full-time salaries need to be paid, but an equivalent or larger number of trained people respond to fires); 2) cross-training and multiple-service provision, so that the same emergency-services personnel, equipment, and stations can provide more than one type of service, thereby spreading costs among all the services; and 3) a clear focus on fire prevention, using both technology and public-education approaches. In addition, private companies may be able to offer service to a number of adjacent communities, thereby achieving significant economies of scale.

Based on comparative studies of the costs of private vs. traditional fire service, the cost savings from contracting out fire service should be in the vicinity of 25 percent. On an $80-million budget, that would mean savings of $20 million per year. As noted previously regarding paramedic service, in order to realize the savings from privatizing fire service, the law would have to be modified to allocate a smaller fraction of the property tax to structural fire protection and a larger fraction to the General Fund.

* * * *

Based on the foregoing subsections, Table 2 summarizes the estimated annual budgetary savings to be obtained via outsourcing the services discussed. Orange County ought to be able to realize some $56–60 million per year via these changes.

Table 2

Estimated Savings From Outsourcing

	Annual Savings ($ millions)
Animal Control/Animal Shelter	$2.2–6.3
Fleet Maintenance	3.0
Food Services	2.8
Janitorial Services	1.8
Jail Operations	6.4
Paramedics*	20.0
Fire Protection*	20.0
TOTAL ANNUAL SAVINGS	$56.2–60.3

* non-General Fund services.

IV. PROPERTY SALE & LEASEBACK

Most of the outsourcing opportunities that could yield significant financial benefits require state legislation, and are therefore uncertain to be achievable in the short term. By contrast, the County can raise cash quickly via certain types of asset transactions. This section focuses on those with the greatest near-term potential, while Section V discusses those that may take longer and/or might require legislation.

A. Fee Simple Properties

As of the FY 1992–93 Real Property Inventory, Orange County owned and operated a large amount of commercial-type office buildings. The various civic centers (including Santa Ana, North O.C. Regional, South O.C. Regional, and Westminster Complex) total 124 acres and 4.3 million sq. ft. In addition, the Manchester Complex contains another 71 acres and 1.5 million sq. ft., and there are 78 more acres and another 606,500 sq. ft. in satellite complexes. Altogether, these properties total 273 acres and 6.5 million sq. ft. Not included in these figures

are special-purpose properties such as the airport, fire stations, flood-control properties, parks, maintenance yards, honor farm and youth rancho, public housing, and libraries.

Most of these properties could be sold to investors (raising cash) and leased back to the County for continued use. Established market rates for the value of office space and for lease rates of such space provide a general guideline, at least for those properties with general office use. Single-purpose properties (courtrooms, jails, etc.) would either not be marketable or could be sold to specialized buyers (such as private corrections firms)—but these will be excluded from this discussion. To the degree that the County government is downsizing due to the bankruptcy, a portion of its current office space may become surplus and could be sold outright, without any leaseback provision.

There are many ways to structure sale/leaseback transactions. From the County's standpoint, the rationale is to convert a physical asset into cash, in a relatively short time frame. If an additional purpose is to downsize government, then short- to medium-term leases would provide the greatest degree of flexibility to adjust to reduced office space needs in the future. On the other hand, to the extent that the County is judged to need certain spaces on a permanent basis, a lease-purchase arrangement would permit the County to resume ownership by the end of the long-term lease period. The County's GSA Real Estate division has developed a sale/leaseback with reverter concept, in which the transaction price is the net present value of the difference between the County's operating and maintenance cost and that of the private sector. In most arrangements of this type, the net cost to the County would be slightly lower than under the status quo. Moreover, the County would avoid the risks of possible unexpected future major maintenance or capital improvements.

In 1994 the County arranged for the sale and leaseback (without reverter) of the Health Care Agency headquarters building. The winning bidder paid $2.1 million for this six-story building. The County signed a full-service lease for 15 years at a rate of $1.30/sq. ft. Under this type of lease, the lessor pays for all operating and capital-improvement costs. Thanks to significantly lower private-sector operating costs (e.g. for janitorial services), the net cost to HCA is expected to be little more than its previous cost of occupying the space.

For an initial valuation estimate, assume that 80 percent of the square footage in the civic centers category is sufficiently general-purpose to be salable (and mostly leased back). The low end of the current rate for commercial-type office space is $50 per sq. ft. Applying this rate to 80 percent of the 6.47 million sq. ft. yields potential sales revenue of $258.8 million.

The properties under discussion are all owned in fee simple by the County. The only potential barrier is whether bond covenants on any of the properties might require the redemption or defeasance of such bonds in the event the property were sold. The Internal Revenue Service's recently adopted Revenue Procedure 93-17 may help with such situations, since it provides a way to retain the tax-exempt status of such bonds as long as the facility remains in the original use and the proceeds are used for similar public purposes.

The most likely objection to the sale and leaseback of County buildings is that while it will raise cash, it may end up costing the County (and hence the taxpayers) more in the long run. Whether this is true or not for a specific facility will depend on the details of what it is worth, what the County is now paying on its bonds, and other specifics. But even if this turns out to be the case for all such transactions, one must keep in mind the question, “Compared to what?” The alternative ways of obtaining the cash to replace the County's lost principal are (1) a bond issue, or (2) a tax increase. Both of these would also cost the County (and its

taxpayers) more in the long run. The sale/leaseback idea needs to be reviewed in comparison to these other costly measures, not in isolation.

B. Properties Leased to Others

In addition to the unencumbered properties which the County owns in fee simple, the County currently has 315 leases and other agreements in force by which various private parties pay to use County properties. These agreements cover nearly 1.9 million sq. ft. of building space and over 1,900 acres of land area. In FY 1993–94 these properties generated $55 million in revenues. The largest dollar amounts are generated by various airport parking, car rental, and airline facilities which lease space for their operations at John Wayne Airport. Because of the potential for sale of the airport (discussed below in Section V), these properties will be excluded from the analysis in this section. Most of the other large-dollar leases are at various park, harbor, and beach facilities.

Table 3

Properties Leased to Others

Agency	Lessee	Annual Revenue
HB&P	Dana Point Marina Co.	$1,332,930
HB&P	Newport Dunes	1,063,764
HB&P	T.B.W. Co.	959,404
HB&P	Mile Square Golf Course	804,160
Manchester	Ampco Parking	715,404
HB&P	Dana Point Assoc.	459,375
Refuse Disp.	Air Products & Chemicals	378,183
HB&P	Goldrich, Kest & Grau	353,526
HB&P	Dana Village Properties, Inc.	346,243
HB&P	American Golf Corp.	326,703
TOTAL		$6,739,692

Source: County of Orange Real Property Inventory, FY 1993-94.

Like the County office buildings discussed above, these leased properties are potential candidates for sale to investors, with various conditions attached. Specifically, the existing uses of the properties and the existing lease agreements would have to be maintained by the new owner. To some degree, the existence of a known lease-revenue stream would make these properties easier to sell than the County's office buildings, which would require appraisal and then negotiations of new leasing agreements. This means they could be sold more quickly than the office buildings.

Rather than basing the sale price on the potential highest-and-best use of the property, it would instead be based on a multiple of the existing lease-revenue stream. For example, a park or harbor property currently generating $1 million per year might be sold for $10 million (10 times the gross revenue). The agreement of sale would include a provision permitting the County to buy the property back at some future date (when the County was in better financial shape) for a price defined by a formula permitting the purchaser to have earned a reasonable return on its investment (e.g., an inflation-adjusted 10 percent). In order to ensure that the facility remains in use for the public despite future changes of ownership, the agreement of sale could include a deed restriction extending further into the future than the current lease (e.g., 50 years).

The major properties that might be subject to such restricted-sale transactions are listed in Table 3. Based on a multiple of 10 times their current gross lease revenue, the total that could be realized via sale is $67 million.

V. MAJOR ASSET SALES

A. Airports

Orange County owns and operates John Wayne Airport as an enterprise fund. The airport receives no General Fund support (and makes no contribution to the General Fund). Current federal airport grant (AIP) law provides that all "revenue" generated by the airport must remain on the airport and/or be used for airport purposes. Thus, even if the County were to reduce airport costs or increase airport revenues, it could not legally receive a share of the resulting profits.

John Wayne alone is not likely to be a very attractive candidate for sale. Its future growth potential is restricted by: 1) the current Settlement Agreement limiting the annual passenger volume; 2) its single, relatively short runway; and 3) its highly built-up and noise-sensitive surroundings. Discussions with private airport firms also reveal that the airport's concession-revenue potential is already relatively well-developed, and its operating costs appear to be reasonable. There is also very little undeveloped real estate, and a high level of debt. Furthermore, the buyer of John Wayne would face large unquantifiable uncertainty over the timing and extent of the future competitive threat posed by a commercial El Toro. Hence, the County should offer for sale or lease, as a package, both John Wayne and the airport portion of El Toro.

The County has requested from the Defense Department 2,000 acres of the El Toro Marine Corps Air Station for use as a commercial airport. The Southern California Association of Governments' recent base-conversion study confirmed that El Toro has the greatest potential of all current Southern California military bases for use in meeting future air passenger demand.[7]

The two-airport *system* would be highly attractive to private airport firms, with extensive runway capacity already in place, the ability to develop terminal facilities in a cost-effective phased-in manner, and extensive real-estate development potential. Under unified ownership, we could expect the orderly development of El Toro into a world-class airport offering transcontinental and trans-Pacific service, with John Wayne's role gradually shifting to short-haul, commuter, and general-aviation flights.

The sale of commercial (air-carrier) airports is well-established overseas, but the first such transaction has not yet occurred in the United States. In the United Kingdom, the following airports have been sold since 1987: Heathrow, Gatwick, Stansted, Liverpool, East Midlands, Prestwick, Edinburgh, Glasgow, and Belfast. Austria and Denmark have sold part-interests in Vienna and Copenhagen airports, respectively. Other countries planning the sale of major airports include Argentina, Australia, the Czech Republic, Italy, Malaysia, and New Zealand.

Airport privatization is taking place for three reasons. First, governments are seeking to improve airport performance, improving their efficiency and customer-responsiveness. Second, they seek to use private capital for expansion, rather than drawing on the public sector's limited resources. Third, like Orange County, many governments have major fiscal problems and seek to raise cash via asset sales.

In the United States, the principal form of airport privatization has been short-term (five years or less) contract management (as used at Albany, Burbank, Stewart, White Plains, and several others). A few airports have been leased for long terms (up to 99 years) to private firms, including Atlantic City (terminal only), Bader Field (NJ), Morristown (NJ), Rickenbacker (OH), and Teterboro (NJ). All of these airports, both contract-managed and leased, continue to receive AIP grants.

It is extremely difficult to estimate what a buyer would pay for the two airports, short of an actual RFP being on the table spelling out exactly what would be offered. John Wayne's net income in 1991, 1992, and 1993 was quite small (indeed, a loss of $7 million in 1993) and its debt level of $252 million is high. Its book asset value at the end of FY 1993 was $446 million, but with liabilities of $317 million, its equity was just $129 million.

On the other hand, assuming DoD gives the airport portion of El Toro to the County free and clear (and assumes liability for environmental cleanup), its runways alone would cost some $200 million to replicate (not counting the land value). Assuming those runways have many years of additional useful life, the buyer would be able to begin operations using the existing modest terminal with comparatively little capital outlay.

At this juncture, the magnitude of a possible transaction price would appear to be somewhere between $250 million and $500 million. The best way to get a better estimate would be to issue an informal request for strategies, as did Indianapolis early in 1994, to see if there is a basis for proceeding with a formal competition.

The potential barriers to privatization of the airports are federal. They are:

❶ *Could Orange County use the proceeds for general-fund purposes?* Three competent legal analyses in 1992 and 1993 concluded that airport sale or lease proceeds could be used in this manner, since they do not constitute "revenue generated by the airport" in terms of the legislative history of the AIP law (which referred to operating revenues).[8] [9] [10] Also, Executive Order 12803 on Infrastructure Privatization (1992) provides for municipalities to recover their previous investment in such facilities prior to any possible repayment of federal grants. However, the exact definition of previous investment is somewhat unclear.

❷ *Would Orange County have to repay federal AIP grants?* Under OMB's Common Rule, grant repayment is not mandatory, but the grant-making agency may decide to require it. If the FAA insists on repayment, the amount in question would be the balance remaining after applying accelerated depreciation to the assets purchased with the grants (according to E.O. 12803). The airport currently lists $53 million as its net federal grant balance, but it is not clear whether it used straight-line or accelerated depreciation. Further, efforts are under way in Washington to reduce or eliminate the grant-payback requirement, either via legislation or via a modification of the Executive Order.

❸ *Could the airports receive future AIP grants?* Since 1978, the AIP law permits privately owned airports to receive discretionary grants for capital projects. Annual entitlement grants, based on enplanements, are not permitted for privately owned airports. Absence of the latter, while making a small difference in the economics of the airports, would not be a deal-killer.

❹ *Would the existing airport revenue bonds have to be paid off at the time of sale?* The existing bond covenants require that these bonds be paid off in the event of a sale. The reason for this is presumably to protect their tax-exempt status. The Internal Revenue Service, via Revenue Procedure 93-17, now permits such bonds to remain tax-exempt despite a change to private ownership, as long as the facility remains in service to the public for its original purpose. It might be possible to persuade airport bondholders to continue holding the bonds, if the IRS ruled that their tax-exempt status would be maintained.

❺ *How soon could DoD give the El Toro airport land to Orange County?* In order to be able to sell the two airports as a package, Orange County must first own them both. El Toro is not scheduled to be fully closed by DoD until 1999. Even if actual title cannot be transferred this year, the County may be able to obtain a binding legal commitment for the ownership change, and that may be sufficient for purposes of going forward with an RFP. Being able to offer both airports as a package would remove the huge uncertainty regarding the potential future impact of El Toro on John Wayne, thereby permitting a higher transaction price.

The airlines are likely to oppose the sale, as they have other proposed privatizations. Their stated concern is that privatization would mean much higher charges to airlines, which would be borne by passengers, and that these passengers should not have to "pay twice" for an airport. This charge is unsupported by any evidence (and indeed the United Kingdom evidence shows that inflation-adjusted charges to airlines have gone down since privatization of the London airports; the airports have instead greatly expanded the number and size of retail concessions, and hence their concession revenues). Airlines are beginning to soften their opposition to privatization, however, and one (a division of American Airlines' parent firm) has even begun bidding on airport privatization projects.

Another likely concern is the potential of monopoly. What this neglects is that even after the development of El Toro, there would still be several competing airports within the relevant market: Los Angeles International in particular, but also Ontario and Long Beach. The ability of a firm to sustain "monopoly pricing" in such a competitive market is quite unlikely. Air travelers can easily drive to an alternative airport if they object to the prices being charged at the airports in Orange County. But if concern over this issue proved to be important, some degree of price regulation might be imposed contractually.

Airport privatization is the most challenging of the various asset sale possibilities facing Orange County. Because of the federal uncertainties, a concerted effort should be made to obtain the support of the County's congressional delegation for a removal-of-barriers measure that would: 1) transfer title (or a binding intent to do so) for El Toro to Orange County by the end of 1995; 2) have DoD assume all environmental cleanup liabilities for the El Toro property; and 3) enact the measure by Congressman David MacIntosh (R-Ind.) that would remove the grant repayment requirement from E.O. 12803 and codify its permission to use sale proceeds for various municipal purposes.

B. Correctional Facilities

As noted previously in Section III, Orange County owns and operates a number of correctional facilities. The central jail complex in the Civic Center in Santa Ana includes the Men's Jail, Women's Jail, and Men's Intake/Release Facility. Together, these facilities total 626,000 sq. ft. In addition, there are two other major facilities. One is the 100-acre James A. Musick Branch Jail and Honor Farm Facility in Irvine (which includes 62,000 sq. ft. of dormitories, administration buildings, and farm operations). The other is the 329-acre Joplin Youth Center/Rancho Potrero in Trabuco Canyon (which includes 48,000 sq. ft. of administration, dormitory, and shop buildings).

The private corrections industry does more than simply operate existing jail facilities under contract. One third of all privately operated correctional facilities are new jails or prisons that have been financed, designed, built, and are owned and operated by private firms under long-term franchise agreements, by which a county, state, or federal agency agrees to pay a fixed sum per inmate-day for all inmates it sends to the facility over the life of the agreement. Examples of privately owned correctional facilities include the minimum-security Mesa Verde Community Correction Facility in Bakersfield, California (for California

parolees), the Pinal County Detention Facility in Florence, Arizona (a medium-security facility for the U.S. Marshal's Service), and the Bay County Jail Annex in Panama City, Florida (an all-levels of security county jail facility).

At the Reason Foundation's request, one of the leading private corrections firms reviewed the above figures on the scale and scope of Orange County's correctional facilities. The firm's ballpark estimate of their value was $100 million. The County might well be able to sell these facilities to one or more professional corrections firms for a price in that range, subject to signing an operating agreement for a sufficiently long period (e.g., 20 years) for the company to recover its investment. The amount to be paid by the County per inmate-day (with an annual inflation adjustment) would be one of the selection factors, along with the purchase price. Generally speaking, the higher the purchase price, the higher the amount the company would have to charge per inmate-day, in order to recover its investment. Hence, the County would have to trade off its immediate need for cash against its desire to economize on operating costs over the term of the agreement.
Since Orange County does not currently possess the legal authority to contract out the operation of its jails, it almost certainly does not possess the legal authority to sell them to a private firm (although this point should be checked). Presumably, either the same proposed legislation that is seeking to modify Govt. Code 31000 or Gov. Pete Wilson's proposed constitutional amendment to remove barriers to privatization would be necessary in order for Orange County to sell its correctional facilities.

The strongest objection to selling these facilities is likely to be the idea that it is somehow improper to delegate this public safety responsibility to a for-profit firm. Several points should be kept in mind in this regard. First, where jails are privatized, the judicial system continues to make the decisions on who gets sentenced to jail and how much time they serve. These decisions are never made by the private contractor. Second, privatized correctional facilities can be required by contract to achieve accreditation by the American Correctional Association—which involves meeting (and continuing to meet) stringent standards covering security and control, food service, sanitation and hygiene, education and work programs, inmate rights, etc. Corrections expert Charles Logan points out that less than 20 percent of state and federal prisons and less than one percent of local jails meet these standards,[11] whereas most privatized facilities are required by contract to meet them. As of June 30, 1994, 48 of the 78 privately operated jails and prisons (62 percent) either had achieved or were in the process of applying for ACA accreditation. Third, the track record of privatized corrections, operating under contract or franchise with local, state, or federal government, has been excellent. It is this positive record of performance, as well as the cost savings, that has led to the steady growth of the private corrections industry.

As in many privatizations, another concern is the potential of mass layoffs of current public employees. The sale could be made conditional on the winning bidder offering jobs to all current correctional employees, as is becoming common practice in privatizations of both services and facilities.

C. Landfills

Orange County currently owns four landfills, ranging in activity from 900 tons/day to 5,000 tons/day. Total throughput is approximately 3.5 million tons/year, and the tipping fee (amount charged to dump trash) is approximately $22/ton. The landfills have a long-term capacity of 160 to 180 million tons, which equates to between 45 and 50 years. The tipping fee is well below market levels; San Diego County's uncompetitive tipping fees are as high as $75/ton, which has led to San Diego-area trash being shipped through Orange County to lower-priced landfills in Lancaster in Los Angeles County. Orange County currently prohibits the disposal of out-of-county trash in its landfills.

In 1993 the National Solid Wastes Management Association estimated that about 50 percent of all U.S. landfills were privately owned. According to *Solid Waste Digest*, the four largest private owners are the national solid waste firms of Browning Ferris (BFI), Laidlaw, Sanifill, and WMX Technologies (Waste Management). Among the privately owned landfills in Southern California are the Bradley Landfill in the San Fernando Valley (WMX), Azuza Western Landfill in Azuza (BFI), BKK Landfill in Los Angeles (BKK), Sunshine Canyon in Granada Hills (BFI), Simi Valley Landfill (WMX), and Lancaster Landfill (WMX).

Orange County's landfills could be sold to one or more private firms, to operate in the Southern California landfill market. Their value would be increased if the County were to rescind its ban on out-of-county waste and permit the tipping fee to rise to market levels. We assume the current market price would be in the vicinity of $30/ton, in order to compete with the Los Angeles-area landfills in serving San Diego-area customers; those customers currently pay $12/ton to transport their waste to landfills like Lancaster and a $15–20 tipping fee.

There is no standard formula for computing the value of a landfill. It is a function of such factors as the permitted capacity, potential capacity (site acreage), type of waste, site technology, environmental compliance, potential liabilities, and both current and projected tipping fees. In addition, most private firms would prefer to pay an up-front price (down payment) and the balance over the useful life of the facility, in the form of a royalty to the County based on a percentage of the tipping fee. The larger the up-front payment, the smaller the royalty would be.

Assuming a throughput of 3.5 million tons/year for 45 years, one possible formula suggested by a leading solid-waste firm would be a $50-million down payment and a royalty of 10 percent of the tipping fee. Assuming a $30/ton tipping fee, that would be $3/ton. The total royalties over the 45-year period would be $472.5 million. The normal practice would be to discount this revenue stream to present value, using an appropriate interest rate to take into account the time value of money. If we assume the tipping fee increases each year by the amount of the annual consumer price increase (CPI), and also use the CPI as the discount rate, the present value equals the $472.5 million. Adding the $50-million down payment, the total implied value of the landfills would be $522 million.

If the County asked for the entire price to be paid in a lump sum up-front, the total might well be lower. Since the private firm would probably have to borrow a significant portion of the purchase price at an interest rate higher than the CPI, it would not be willing to pay as much up-front as the above present-value calculation implies. Nonetheless, it is useful as a first approximation of the magnitude of the landfills' value.

It is not entirely clear if the County currently has the legal authority to sell the landfills; this needs to be researched. If there are current bonds associated with the landfill, their covenants must be checked to ascertain if they must be redeemed or made defeasible in the event of a change of ownership. (As noted previously, the federal tax-exempt status of the bonds, if any, can be retained under IRS Rev. Proc. 93-17.) If the County is contractually required to pay off the bonds, that would reduce the amount of the proceeds that could be used for replacing the County's lost principal.

There might be public concerns over the loss of public control over waste flows, or of unequal treatment of haulers other than those of the new owner, if the landfills were privatized. One way to deal with these concerns would be to have the Integrated Waste Management Department (IWMD) manage the “gate”—i.e., handling tip fee collection and billing. The IWMD could also continue to have environmental audit

authority. In fact, privatization ought to lead to stronger environmental protection, for two reasons. First, there will be an arms-length relationship between IWMD as regulator and the new landfill owner (as opposed to IWMD in effect regulating itself). Second, state law requires private-sector landfills to set aside funds to cover post-closure costs for 30 years—but the public sector is exempted from this requirement.

D. Surplus Lands

The County's most recent Real Property Inventory lists as “Excess Property” only five parcels totaling about eight acres, mostly unsalable flood-control parcels.

However, the GSA/Real Estate division is currently exploring the potential salability of a number of other parcels which for one reason or another have been found to be not needed. As indicated in Table 4, these total 107.3 acres and have an estimated market value of $30.4 million.

GSA/Real Estate has also identified two of the County's seven park sites as potentially surplus, the Forrest Paull site and a 30-acre parcel originally intended to be joined with the Santiago Oaks park. Both are valued based on adjacent residential use, totaling $9 million. Together with the properties discussed above, the sale of all these surplus parcels could yield over $39 million.

Orange County should also consider whether it is the owner of more total park and wilderness land than is really necessary. Listed in the County's Real Property Inventory are 23 local parks (including, for some reason, the Leisure World Globe on 0.18 acres), totaling 273 acres. There are also 18 official regional parks, totaling over 18,000 acres. Some of these are relatively undeveloped wilderness parks, while others are intensively developed with sports and recreational facilities (such as Mile Square Park).

Table 4

Potentially Salable Surplus Properties			
Site	Acres	Est. Value ($ millions)	Use
Harbor-Ball	11.0	$4.5	Residential
OCHA bldg.	1.1	0.8	n/a
801C Broadway	0.3	0.2	n/a
Whittaker St.	0.9	0.7	Residential
Homer St. Bldg.	1.2	0.5	n/a
Westminster Civic Ctr.	3.1	2.3	Commercial
Santa Ana Blvd.	0.5	0.2	Commercial
San Juan Hot Spr.	44.2	0.6	Recreational
Fruit St. Complex	17.0	7.4	Light Industrial
S. Co. Reg. Civic Ctr.	25.0	12.0	Commercial
Chestnut Ave.	3.0	1.2	Storage
	107.3	$30.4	
Underdeveloped Park Sites			
Forrest Paull	3.4	$1.9	Residential
Santiago Oaks	30.0	7.1	Residential
		$9.0	

While the County Environmental Management Agency does enter into leases with concessionaires for individual services within parks, it might be time to consider the long-term lease or even sale (with appropriate deed restrictions) of some of these facilities. Wilderness-type parks might be operated more sensitively by environmental organizations such as the Nature Conservancy (which own and preserve many such areas). Heavily recreation-oriented parks might be sold or leased to recreation-oriented firms, again with appropriate deed restrictions or lease provisions to retain them in recreational use.

There are several other undeveloped park sites which the County might consider selling, given its extensive parks inventory. The 23rd Street/ Newport site of 6.6 acres, if worth as much in residential use as the Forrest Paull site, could bring $3.7 million. Two much larger sites, Peters Canyon (360 acres) and Talbert Park (137 acres), if worth as much per acre as the Santiago Oaks 30-acre parcel, would yield $85 million and $34 million, respectively. (These sites are *not* included in our estimates of asset-sale proceeds.)

VI. EXPANDING THE PROPERTY TAX BASE

One of the benefits of all the asset sales discussed in this report, at least when the buyers are in the private sector, is that the properties once sold would be put onto the property tax rolls, thereby expanding the property tax base. This is a way of increasing the revenue derived from the property tax (which has been shrinking in recent years) without increasing residents' taxes.

Two of the largest types of asset which have not yet been considered are the water and wastewater systems. Currently owned and operated by independent water and sanitation districts, these facilities are excellent candidates for privatization. They are already commercial-type businesses, and there are many potential well-qualified buyers who are already in the water and wastewater businesses. While the sale of these facilities would not generate cash for the General Fund, the sales would make whole the bondholders of those districts, while expanding the tax base of the entire county.

A. Water Districts

Orange County is served by a number of independent water districts. Many of them are too small to be economical, but the five largest—Irvine Ranch, Santa Margarita, Moulton Niguel, El Toro, and Los Oleas—provide the majority of the county's water.

One of these, Santa Margarita, is already (pre-bankruptcy) the subject of a buyout offer from California-American Water Co. (Cal-Am), an investor-owned water utility. Cal-Am has offered some $300 million to buy the physical facilities of the district. In order for the transaction to take place, the California Public Utilities Commission must grant the company a Certificate of Public Convenience and Necessity, and the Local Agency Formation Commission (LAFCO) must grant a citizens' petition to dissolve the District. Both of these processes are under way, although the outcome cannot be predicted at this time.

Should the sale occur, the dissolution of the district would be governed by the Cortese-Knox Local Government Reorganization Act, which applies to every government entity in the county in the event that its entire function is subject to termination or transformation. This law requires that the purchase price for the assets of such an entity be sufficient to redeem or defease the existing bonds, and requires LAFCO to determine the purchase price. Should there be any additional proceeds beyond what is required for the bondholders, they are distributed to the jurisdictions in which the facilities are located. (Thus, the County government would receive any net proceeds only to the extent that any facilities were in unincorporated areas.)

The five largest water districts' facilities are estimated to be worth some $1.5 billion, extrapolating from the price offered for Santa Margarita. If this $1.5 billion worth of facilities were added to the tax base, they would generate an additional $19 million per year in property taxes. Estimated values for the smaller water districts are not available, but if the five large ones were to be privatized, the new private water utilities would have strong motivation to seek to purchase the smaller facilities, so as to consolidate them into larger, more cost-effective systems. (The Orange County Grand Jury has called attention to the inefficiency of numerous small water districts.)

LAFCO should be supportive of buyout offers for these water districts. Their privatization would make the districts' bondholders whole, would hasten the needed consolidation of uneconomical small districts into more cost-effective units, and would protect water users from unwarranted costs via PUC regulation of water rates (current rates are determined solely by the district boards, without any external regulatory oversight).

Some citizens may be concerned about potentially higher costs under private ownership, given the exemption from taxation of water districts' property, bond interest, and corporate income. Yet the LAFCO filing in the Santa Margarita case makes a compelling argument for the offsetting efficiencies of private ownership—efficiencies in operations, in construction, and in raising capital. The LAFCO and PUC filings also guarantee no rate increases for the first three years, with all future rate increases subject to PUC approval.

There are no legal or regulatory barriers to the privatization of water districts in California. In fact, as noted, there are well-established procedures for bringing about such transactions.

B. Sanitation District/Wastewater Plants

The nine County Sanitation Districts operate two wastewater treatment plants with a combined capacity of 231 million gallons per day. These plants serve 2.1 million of the county's 2.6 million people (with the

balance being served by those water districts which also provide wastewater treatment, such as the Santa Margarita district). Some 23 cities are served by these facilities, which include 825 miles of trunk sewers.

Table 5

Estimated Asset Sale Proceeds	
	$ Millions
County Government	
Sale & Leaseback - Office Buildings	$259
Properties Leased to Others	67
Airports (John Wayne & El Toro)	250–500
Correctional Facilities	100
Landfills	261–522
Surplus Lands	40
COUNTY TOTAL	$977–1,488
Other Agencies	
5 Largest Water Systems	$1,500
County Sanitation Districts Wastewater Systems	1,000
OTHER AGENCY TOTAL	$2,500

The book value of these facilities is just over $1 billion (i.e., slightly more than three times the value of the Santa Margarita water district's facilities, which are currently the subject of a buyout offer). It is quite likely that were they to be offered for sale, private water and wastewater firms would be interested in bidding to acquire and operate them. The procedure for such sales would be similar to that described previously for water districts. The initial use of the proceeds would be to pay off any outstanding bonds. But to the extent that these wastewater plants have been partially funded by federal grants, the next claim on proceeds might be to repay the federal government an amount equal to the remaining (net of depreciation) value of those facilities constructed using the federal funds, in accordance with the provisions of E.O. 12803, (as discussed previously in connection with John Wayne Airport). Should those repayment provisions be eliminated by Congress or via a revision of the Executive Order, then any remaining proceeds would be payable to the jurisdictions in which the facilities are located.

There appears to be significant scope for reducing the cost of operations of these wastewater plants via privatization. Indianapolis recently privatized the operation and management of its two wastewater treatment plants via a five-year contract arrangement. The capacity of those two plants, at 245 million gallons per day, is slightly higher than that of the two Orange County plants. But whereas the Orange County plants are staffed by 664 employees, the Indianapolis plants have been operated with 338; under privatized management, they will need only 205 employees. This suggests that up to two-thirds of current labor costs could ultimately be saved via privatization of Orange County's wastewater plants.

C. Impacts of County Asset Sales and Sale/Leasebacks

Table 5 summarizes the various asset sales discussed in this report. Gross proceeds from the first six items would total between $977 million and $1.5 billion. To the maximum extent possible, the County should seek to have all existing tax-exempt bonds on these properties continued as tax-exempt under IRS Revenue Procedure 93-17. This would permit most or all of these proceeds to be used to cover losses on the County's investment pool.

The lower portion of Table 5 lists the projected gross proceeds from the sale of the facilities of the five largest water systems and the sanitation districts' wastewater facilities, totaling $2.5 billion. Under California's Cortese-Knox act, the proceeds from these sales must be used first to pay off these facilities' outstanding bonds, with any remaining proceeds distributed to the jurisdiction in which the facilities are located. Neither the County nor the various cities would be likely to receive much in the way of net proceeds from these sales.

But all of the asset sales listed in Table 5 would lead to an expansion of the County's overall property tax base of between $3.5 and $4 billion, as summarized in Table 6. This, in turn, would generate between $44 million and $50.5 million per year in net new property tax revenues. Based on the most recent allocation of property tax funds among the various jurisdictions, this would provide up to $28 million per year to school districts, $8.6 million to special districts, $3.5 million to redevelopment agencies, $6.1 million to cities, and $4.5 million to the County.

Table 6

Expanded Property-Tax Base		
		$ Millions
County Asset Sales		$977–1,488
District Asset Sales		2,500
TOTAL ADDED TO TAX BASE		$3,477–$3,988
NEW ANNUAL REVENUES		$44–50.5
Added Annual Property Tax Revenues		
	Fraction	Amount ($ millions)
County	9%	$4.0–4.5
Cities	12%	$5.3–6.1
Redevelopment Agencies	7%	$3.1–3.5
Special Districts	17%	$7.5–8.6
Schools	55%	$24.2–27.8

VII. AGENDA FOR ACTION

Orange County can resolve its fiscal crisis via the techniques outlined in this report. To make full use of all of these recommendations, the County will need to have the state legislature and the Congress remove certain legal barriers. While efforts to remove those barriers should be launched immediately, the County can take many of the proposed actions using its current authority, and in the near term.

The reductions in County workforce and the 10-percent reduction in employee compensation, yielding annual savings of $173 million, could be implemented immediately, bringing the operating budget within the bounds of current County revenue sources.

Some of the proposed asset sales could be implemented within the next four months. In particular, the $67 million in sales of properties leased to others could be carried out within this time frame, providing a down payment on recovering lost principal from the investment pool. The sale and leaseback of office buildings ($259 million) and sale of surplus lands ($40 million) would probably take four to eight months, yielding another $300 million. The sale or lease of the landfills could also be accomplished within this time frame, yielding somewhere between $261 and $522 million.

If the County can quickly get state legislation enacted to give it privatization authority equivalent to that of a charter county, then it could also either sell or contract out the operation of its correctional facilities. If such legislation does not pass, then these actions (and contracting out food services and janitorial services) will have to await the implementation of a county charter.

Privatizing the airports, as noted previously, is the most complex of the asset-divestiture transactions. The County should quickly test the market for such a transaction by issuing an informal Request for Strategies to private firms in the airport business. In anticipation of the results indicating strong interest and meaningful dollar amounts (in the vicinity of $250–500 million or above), County officials should mobilize the congressional delegation to clarify federal policy on airport privatization, via either legislation or administrative action, to clear the way for pursuing this approach.

Finally, to lay the basis for the redesigned County government that should emerge from this crisis, the County should begin drafting a county charter for submission to the voters at the earliest possible election opportunity. The charter should include the position of a county executive officer (CEO), as recommended by Supervisor Roger Stanton, and should reflect the general principles outlined in his restructuring memo of January 2, 1995.[12]

In developing the charter, its drafters should take care to learn from the experience of America's most innovative cities and counties. Many of them have already gone through serious efforts to rightsize their governments. As noted in a recent Reason Foundation report, a roadmap to rightsizing government should include these six key strategies:[13]

- *Competition* between in-house and outside enterprises, on a regular, institutionalized basis.
- *Activity-based costing*, to ensure that officials know what it actually costs to deliver each unit of service.
- *Entrepreneurial, performance-based budgeting* which rewards managers for increased cost-effectiveness, rather than for increasing the size of their budgets.
- *Focusing on core businesses*, by divesting noncore enterprises to private firms and/or nonprofit entities.
- *Reengineering*, to radically redesign work processes, often using new technology.
- *Reorganizing work structures*, including major reform of traditional hierarchies and civil service.

The present crisis has given Orange County a unique opportunity, as Peter Drucker puts it in a recent article, to "*really* reinvent government."[14] Business, community, and government leaders should take full advantage of this opportunity.

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