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INTRINSIC VALUE/BY ROGER LOWENSTEIN

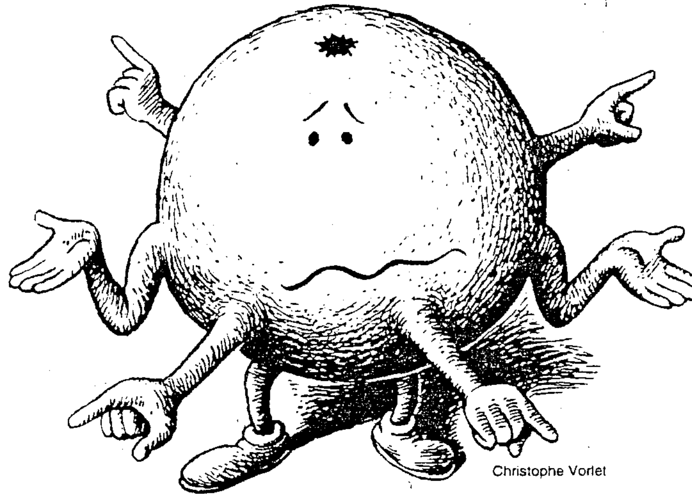
As Orange County Blames Others, Guess Where Latest Report Points

Orange County has been finding plenty of people to blame for its festering crisis. In a recent report, though, a blue-ribbon panel comes up with one culprit that seems to have escaped the county's notice: its own officials and citizens.

The report, written by a special committee of the California state Senate that took testimony from dozens of witnesses, draws a blistering picture of recklessness at various levels of Orange County's government. The findings could hardly be timelier. Just last week, people close to Orange County were telling this newspaper that the county was preparing to sue its outside auditor KPMG Peat Marwick for as much as $3 billion, for allegedly failing to warn that the county's investment fund was in trouble.

Such action would follow an Orange County pattern of deflecting responsibility to outsiders. Already the county has "rolled over" (in effect, defaulted on) $800 million owed to bondholders and others. Its voters have rejected a sales-tax boost aimed at repaying their debts. It has sued Merrill Lynch & Co., its broker. And with that suit bogged down, it is grabbing for the pockets of its accountant.

By contrast, the Senate report blames the county's 1994 bankruptcy filing, mostly, on Orange County insiders and "a breakdown of the established governmental process in Orange County."



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The bipartisan state-Senate committee, which got help from an advisory board of local executives, detects the seeds of the crisis in a voter antitax revolt that pinched local resources. These same voters, the report notes, wanted to maintain growth in county services, prompting county officials to pressure Robert Citron, then treasurer, to increase the yield on the investment fund. And Mr. Citron complied. By making risky bets in the bond market, and by inflating his speculative wagers with $12.5 billion of borrowed money, he was able to supply 35% of the county's locally generated revenue (only 25% came from property taxes). In effect, the county was relying on a government-run hedge fund—and a lot of folks knew it.

Though the strategy was risky, county officials tried to suppress talk about it. According to the report, the county auditor's reports and audits were marked "Not for Board Agenda"—meaning not for public discussion by the county's elected board of supervisors. The board meekly complied, approving bond issues to sustain Mr. Citron's speculative borrowing without a peep. Moreover, audits of the investment portfolio were sent to a limited number of people—excluding many public entities, such as schools, that were actually investing in the fund.

Having bankrolled Mr. Citron's speculations, the board forgot to remind Mr. Citron to provide it with monthly updates on how the fund was doing—a task specified by law.

Then, in 1994, when serious questions were raised about the fund, numerous officials were apparently at lunch. The board of supervisors, which had authority over the fund, failed to investigate it. The county auditor, Steven Lewis, raised only cursory questions. And Mr. Citron, who has since pleaded guilty to felony charges, lied about the fund's exposure.

John Moorlach, a private citizen who ran against Mr. Citron, was able to figure out that the fund was risky, and said so. "Public officials . . . should have been able to do the same," the report says. But the schools, cities and others putting public money in the fund didn't do the work Mr. Moorlach did.

The committee scrutinized Peat Marwick's role but didn't fault it. It gave a wrist slap to Merrill Lynch, which warned Mr. Citron that his strategy was risky but continued to sell him high-wire investments anyway. It was harsher on credit-rating services Standard & Poor's and Moody's Investors Service, for failing to warn investors.

But most of the fault is put at the county's door—as is clear from the committee's sizzling recommendations. With the outlook for debt repayment muddy, the report urges Sacramento to ponder a role for the state, possibly putting Orange County into receivership and stripping local officials of power, as was done to New York City in the 1970s. It urges Gov. Pete Wilson, who has distanced himself from his deadbeat fiefdom, to get more involved.

Some people see Orange County's distress as a symptom of the general citizenry's outrage with "big government." But this argument warrants scrutiny. Orange County, after all, could have closed its public parks and forgone teaching French; it opted, instead, for reckless financing of same. By analogy, its flight from creditors brings to mind a restaurant diner who declines to pay for a meal because he overate.

In fact, the county got the full buffet of government services it desired. The continuing crisis and legal wrangling is merely over who will pay for that well-digested meal. Will it be the county's accountants, brokers, creditors, and other deep-pocket bystanders—or Orange County itself?