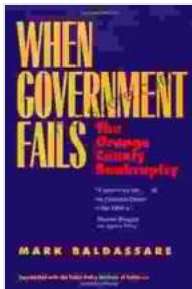


# When Government Fails: The Orange County Bankruptcy

The Orange County bankruptcy was the largest municipal bankruptcy in U.S. history. It occurred in December 1994, when the county filed for Chapter 9 bankruptcy protection with \$1.69 billion in debts.



## When Government Fails: The Orange County

**Bankruptcy** by Mark Baldassare

★★★★☆ 4.2 out of 5

Language : English

File size : 3734 KB

Text-to-Speech : Enabled

Screen Reader : Supported

Word Wise : Enabled

Print length : 320 pages

Lending : Enabled



The bankruptcy was the result of a series of missteps by county officials, who had invested heavily in high-risk investments in the 1980s and early 1990s. These investments, which were made through the county's Investment Pool, lost value as interest rates rose and the real estate market declined.

As the Investment Pool lost money, county officials tried to hide the losses by borrowing more money and using accounting gimmicks. This only made the situation worse, and by 1994, the county was on the verge of collapse.

The Orange County bankruptcy was a major embarrassment for the county and for the state of California. It also had a significant impact on the national economy, as it raised concerns about the financial stability of other local governments.

In the years since the bankruptcy, Orange County has rebounded and is now one of the wealthiest counties in the United States. However, the bankruptcy remains a cautionary tale about the dangers of government overreach and the importance of fiscal responsibility.

## **What Went Wrong?**

There were a number of factors that contributed to the Orange County bankruptcy, including:

- **High-risk investments:** The county invested heavily in high-risk investments, such as collateralized mortgage obligations (CMOs) and inverse floating rate notes (IFRNs). These investments lost value as interest rates rose and the real estate market declined.
- **Borrowing to cover losses:** As the Investment Pool lost money, county officials tried to hide the losses by borrowing more money. This only made the situation worse, as the county's debt burden increased.
- **Accounting gimmicks:** County officials also used accounting gimmicks to try to hide the losses in the Investment Pool. This included using swaps and other derivatives to create the appearance of gains.
- **Lack of oversight:** The Orange County Board of Supervisors failed to provide adequate oversight of the Investment Pool. This allowed county officials to make risky investments without proper scrutiny.

## **The Impact of the Bankruptcy**

The Orange County bankruptcy had a significant impact on the county, the state of California, and the national economy.

**County:** The bankruptcy forced the county to make deep cuts to its budget. This included layoffs, furloughs, and reductions in services. The bankruptcy also damaged the county's reputation and made it more difficult to attract new businesses and residents.

**State:** The Orange County bankruptcy raised concerns about the financial stability of other local governments in California. This led to increased scrutiny of local government finances and a number of new laws designed to prevent future bankruptcies.

**National:** The Orange County bankruptcy also had a significant impact on the national economy. It raised concerns about the financial stability of the municipal bond market and led to a decline in the value of municipal bonds.

## **Lessons Learned**

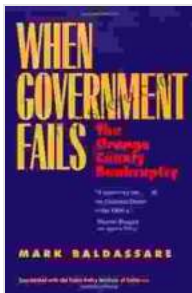
The Orange County bankruptcy is a cautionary tale about the dangers of government overreach and the importance of fiscal responsibility. It teaches us a number of lessons, including:

- **Invest wisely:** Governments should invest their money wisely and avoid high-risk investments.
- **Borrow responsibly:** Governments should borrow only what they can afford to repay.

- **Use sound accounting practices:** Governments should use sound accounting practices to accurately report their financial condition.
- **Provide adequate oversight:** Governments should provide adequate oversight of their financial operations to prevent risky investments and accounting gimmicks.

The Orange County bankruptcy was a major failure of government. It was the result of a series of missteps by county officials, who invested heavily in high-risk investments and tried to hide their losses. The bankruptcy had a significant impact on the county, the state of California, and the national economy.

The Orange County bankruptcy is a cautionary tale about the dangers of government overreach and the importance of fiscal responsibility. It teaches us a number of lessons that we can use to prevent future bankruptcies.



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