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[Once Bankrupt Orange County Borrows to Pay Bill Others Shirk.]

California's Orange County, which went bankrupt in 1994 after losing derivative bets, is resorting to a less aggressive financial tactic to save money. And it's for something many governments neglect: The annual bill to the employees' pension fund.

The county Thursday sold $334 million in taxable pension-obligation bonds that mature in June 2017. Unlike typical pension debt, which reinvests borrowed money for decades in hope of turning a profit, the short-term securities will allow it to receive a discount by making its full retirement contribution up front.

The county's decision to make good on its pension promises stands in contrast to governments such as Chicago or New Jersey, which are dealing with soaring debts after years of shortchanging their funds. It's also part of the county's effort to repair an image once sullied by its then-record bankruptcy. Last month, Standard & Poor's raised its rating one step to AA+, the second-highest level and the best for the county since 2000.

"We put that behind us," said Suzanne Luster, the county's public finance director, about the bankruptcy, which ended in 1997. "The board since that time and the financial management have been very conservative. We've made tremendous strides in our continued recovery."

Orange County, home to Disneyland and 3 million residents, is benefiting from a strong economy, driven by the tourism, life-science and high-tech industries, S&P said. Officials have built up reserves, put together five-year plans and monitor its investments, the New York-based ratings company said.

In the offering, the securities maturing in June 2017 were priced for a top yield of 1.2 percent, about 0.45 percentage point more than benchmark debt, according to data compiled by Bloomberg. The debt is graded AA by S&P, one step lower than the county's overall rating.

The county has made its required pension payments in full since 2006, bond documents show, and has relied on short-term borrowings to do so early every year since 2011. By making the retirement contribution in full this month, instead of every two weeks for a year, the county would save about $17 million, Luster said.

Eleven of 15 employers in the pension fund opted to pay their contributions early for the last fiscal year, according to the Orange County Employees Retirement System.

Orange County differs from other municipalities that have issued bonds to pay retirement obligations because of that incentive, said Mark Wuensch, senior fixed-income analyst in New York at Principal Global Investors, which manages $6 billion in munis.

"In general, I'm not a huge proponent of borrowing to pay your debts. In this case it's warranted," he said. "They have an actual cost savings by doing this."

The county also has taken steps to shift some of the pension costs to its workers, he said. “They’re going in the right direction,” said Wuensch.

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