# GENERAL PURPOSE REVENUE FORECAST

The General Purpose Revenue forecast is an important component of the Strategic Financial Plan (SFP) process because it provides forecasting on the portion of the budget that the Board of Supervisors has some discretion over. Each year, Drs. James Doti and Esmael Adibi of the A. Gary Anderson Center for Economic Research at Chapman University provide the County of Orange annually with an economic forecast and ten-year General Purpose Revenue forecast, revised in October 2004. The General Purpose Revenue forecast includes projections on property tax, motor vehicle license fees, interest, sales and other taxes, property tax administration and franchise and rents revenue.

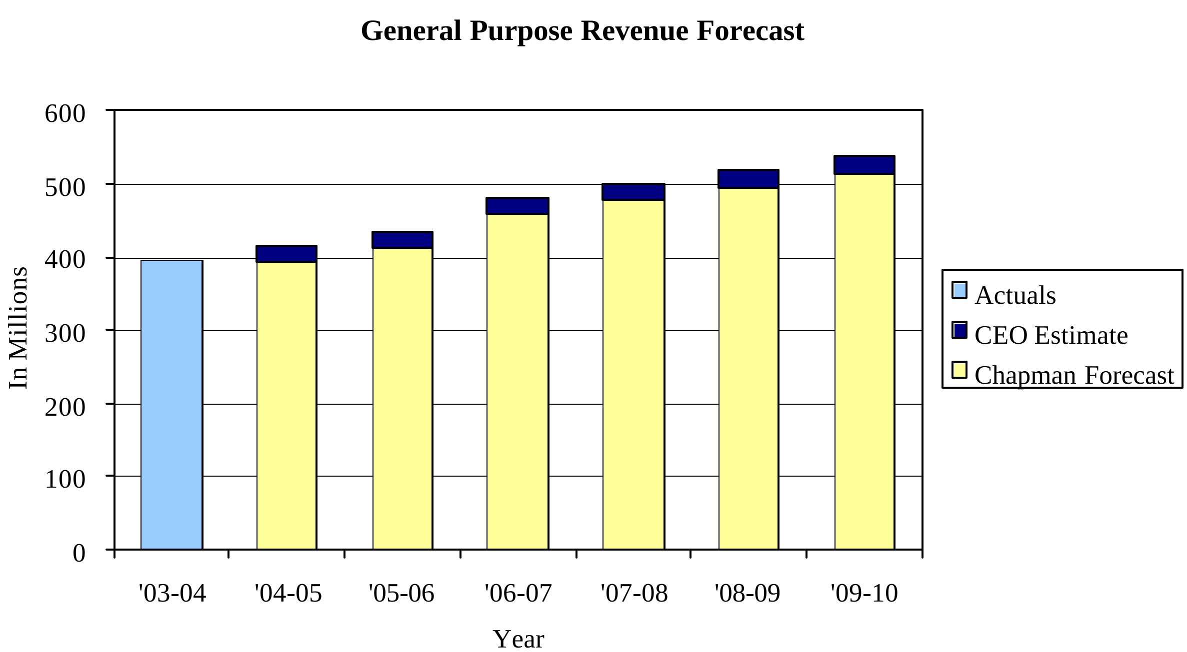
Based on the January 2005 Auditor-Controller's (A/C) First Available Financing Report (First AFR), the County is projecting *overall* General Purpose revenues (GPRs) projections to be greater than the Chapman Forecast. Therefore, the revenues displayed in the SFP will be based on the A/C's report. While the FY 05-06 information is obtained from the Auditor-Controller, the growth factor used in calculating overall revenues is derived from annual growth rate in the Chapman forecast. The rationale for this method, which Chapman has approved, is to take advantage of the Auditor-Controller's better GPR estimates while maintaining continuity with the Chapman model. The annual rates are as follows: 4.17% in 06-07; 4.03% in 07-08; 3.66% in 08-09; and 3.93% in 09-10.

The County Executive Office (CEO) and Auditor-Controller staff forecasts the balance of the General Purpose Revenues, comprised of miscellaneous, operating transfers and one-time revenues. Operating transfers are revenues received from a fund outside the General Fund, e.g. interest earned on the 1995 Refunding Recovery Bond Reserve is transferred (subject to bond covenants) to the General Fund on an annual basis.

## General Purpose Revenue Forecast

For FY 04-05, the First AFR estimates General Purpose Revenues, budgeted at $542.9 million, to reach $560.2 million. For FY 05-06, the First AFR estimates General Purpose Revenues at $434.6 million, excluding Fund Balance Available (defined as funding carried over from the previous year). For the remaining years, revenues are projected at $480.7 million (06-07), $499.8 million (07-08), $517.8 million (08-09) and $537.8 million in (09-10).

Figure 1



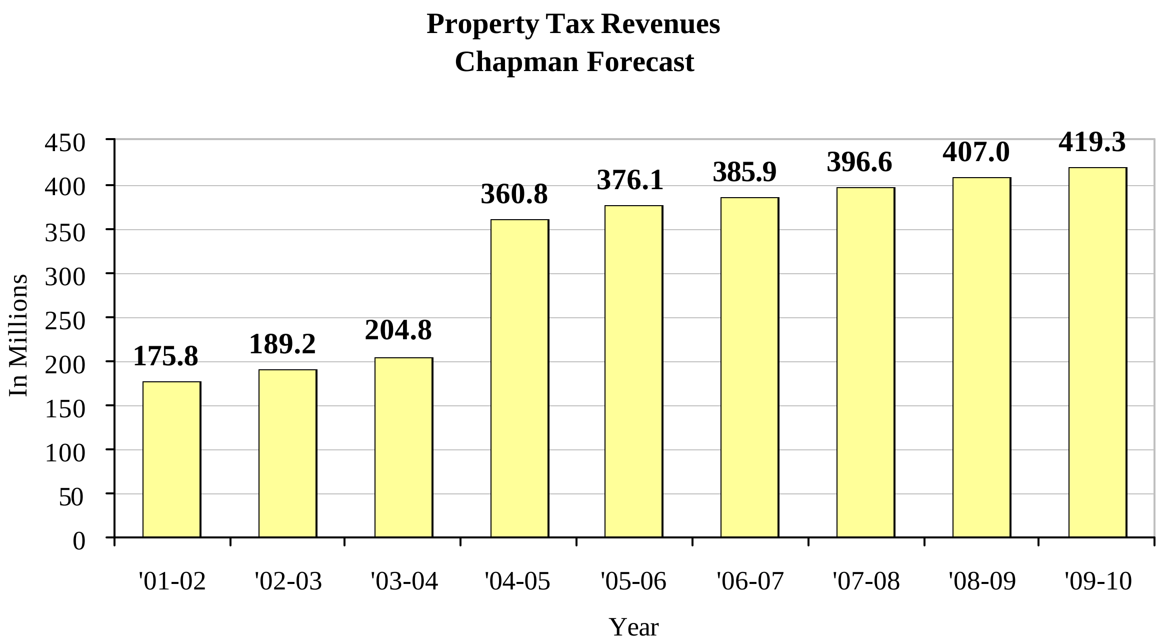

## Major Sources of General Purpose Revenue

General Purpose Revenue includes the following sources (listed from highest to lowest):

1. Property Taxes
2. Motor Vehicle License Fees
3. Interest Earnings
4. Sales and Other Taxes
5. Property Tax Administration Fees
6. Franchise and Rents Revenue
7. Miscellaneous Revenue

Based on the First AFR, ninety-seven percent (97%) of General Purpose Revenues come from four sources: Property Taxes, Motor Vehicle License Fees, Interest, Property Tax Administration and Sales & Other Taxes. This summary will discuss some of these revenue sources, beginning with Property taxes, the largest contributor to the General Purpose Revenues. Figure 2 illustrates the projected growth of property tax revenues by Chapman.

Figure 2




Property taxes are the largest source of General Purpose Revenues. For 05-06, property taxes will account for 87% of all General Purpose Revenues, based upon the First AFR. The passage of the FY 04-05 state budget brought about changes in local governments financing, affecting the County's property tax revenues. The following highlights these changes.

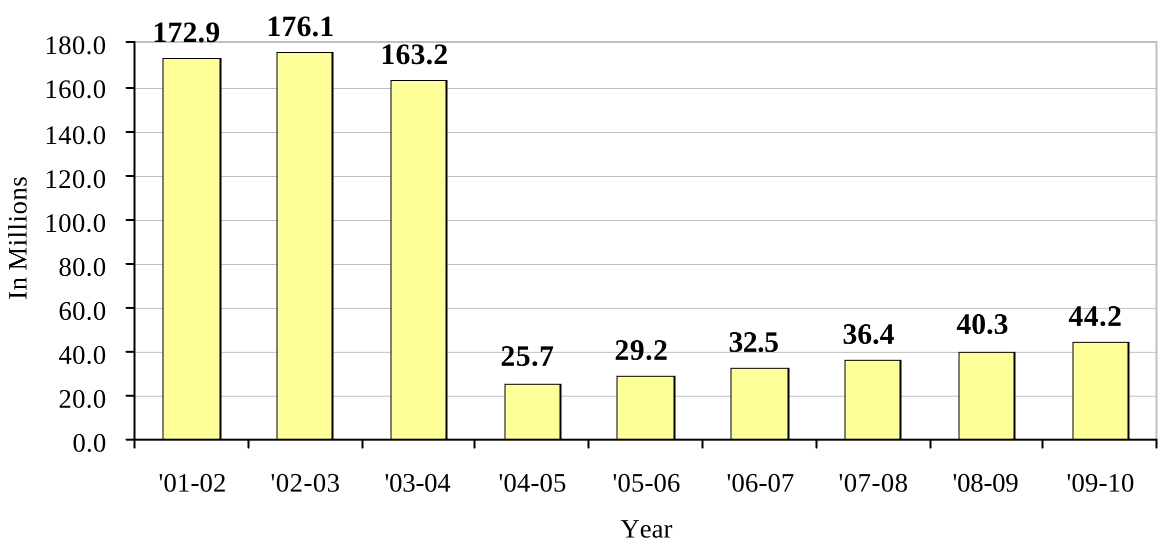
1. The Vehicle License Fee (VLF) backfill was eliminated and replaced with a dollar-for-dollar exchange in property tax revenue, approximately $150 million.

2. County sales tax revenue was reduced by 25% to pay for the state's recovery bonds. In exchange, the county will receive a dollar-for-dollar in property tax revenues, about $1.5 million. The local sales tax rate will be restored when the bonds are repaid.
3. To balance the state budget in 04-05, local governments shifted $1.3 billion in property taxes for two years. Orange County's share is $27.7 million per year, for FY 04-05 and 05-06.

It is important to remember that any swings, positive or negative, in property values will impact property tax revenues, consequently affecting the County's discretionary revenues.

<u>Figure 3</u>

**Motor Vehichle License Fees**
**Chapman Forecast**

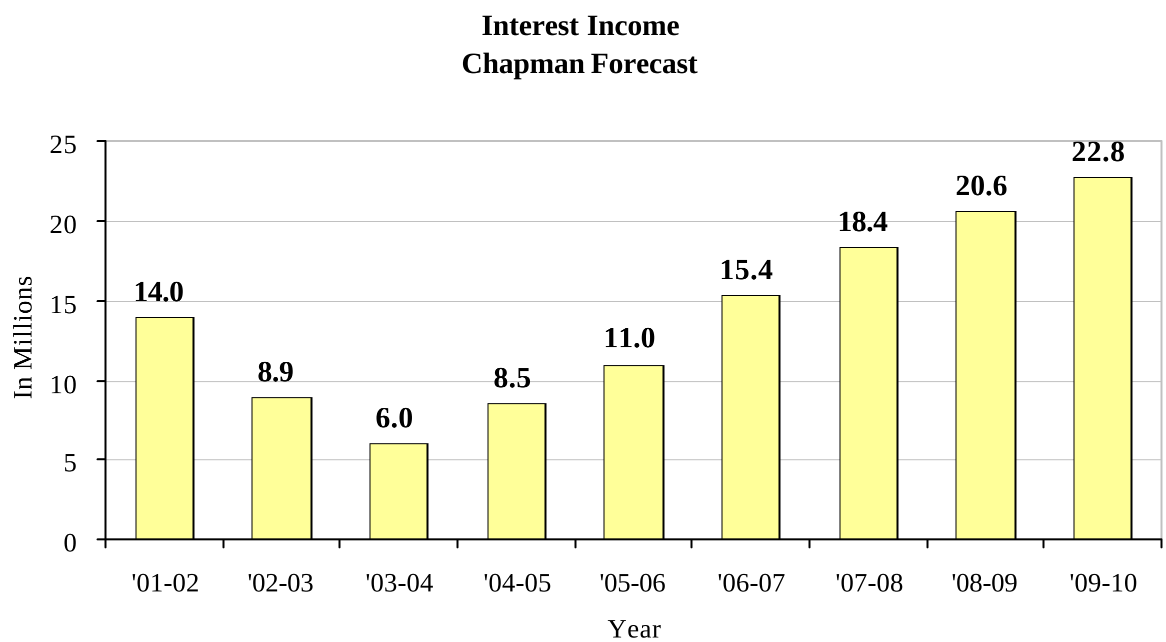



For FY 05-06, Vehicle License Fee (VLF) revenue will contribute less to General Purpose Revenues. The Auditor-Controller estimates VLF to be $28.3 million, over six percent (6%) of the total. The cause for the change dates back to October 2003, when the Governor, by Executive Order, reduced by two-thirds, to 0.65%, the annual Motor Vehicle License Fees charged by the California Department of Motor Vehicles to car and truck owners. The State, however, subsequently restored all of the County's annual VLF by back-filling from the State

General Fund and will continue to do so in the future. VLF revenue, along with growth in a portion of the State Sales Tax, is the source of Realignment Revenue (not shown here) that is a major source of funding for the County's Social Services and Health Care Agencies.

Currently about $28.3 million in Vehicle License Fees that would otherwise come to the County from the State, are intercepted by the State Controller and remitted directly to the trustee bank to pay a portion of the annual debt service on the 1995 Refunding Recovery Bonds. The County's VLF is also pledged to the 1996 Recovery Certificates of Participation. This current year, about $18 million of VLF revenue will be used to pay a portion of the debt service on the 1995 Recovery bonds.

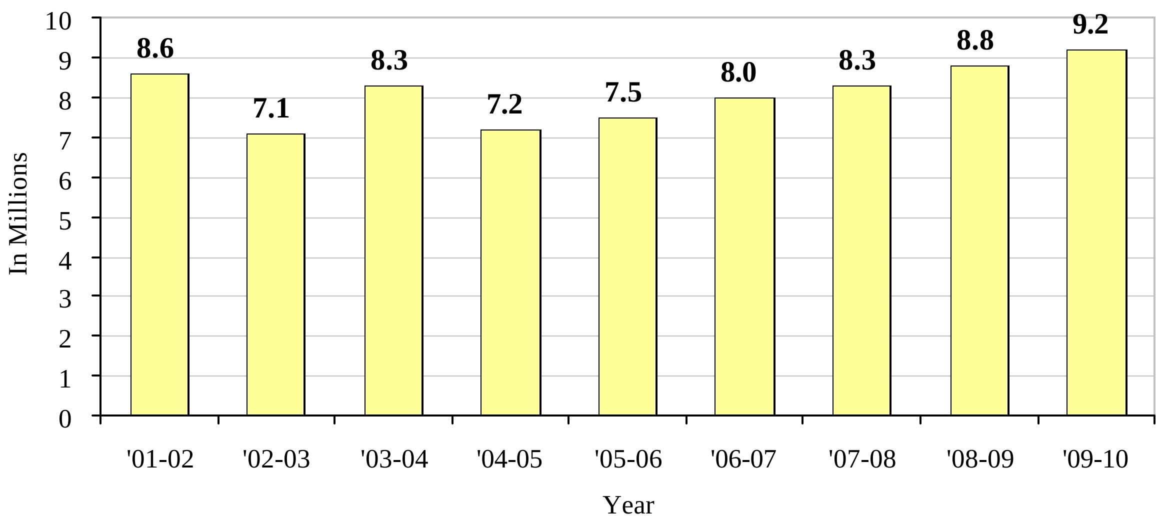
Figure 4




Interest is earned on certain County funds invested by the Treasurer-Tax Collector in strict accordance with the Investment Policy Statement. The average maturity of the County's investments is 90 days and interest rates based on 90-Day United States Treasury Bills. Interest for the FY 05-06 is projected by the Auditor-Controller at $15 million, $4 million above Chapman's estimate (see Figure 4) and comprises approximately 3.5% of total General Purpose Revenue for FY 05-06.

Figure 5

**Sales & Other Tax Revenues**
**Chapman Forecast**

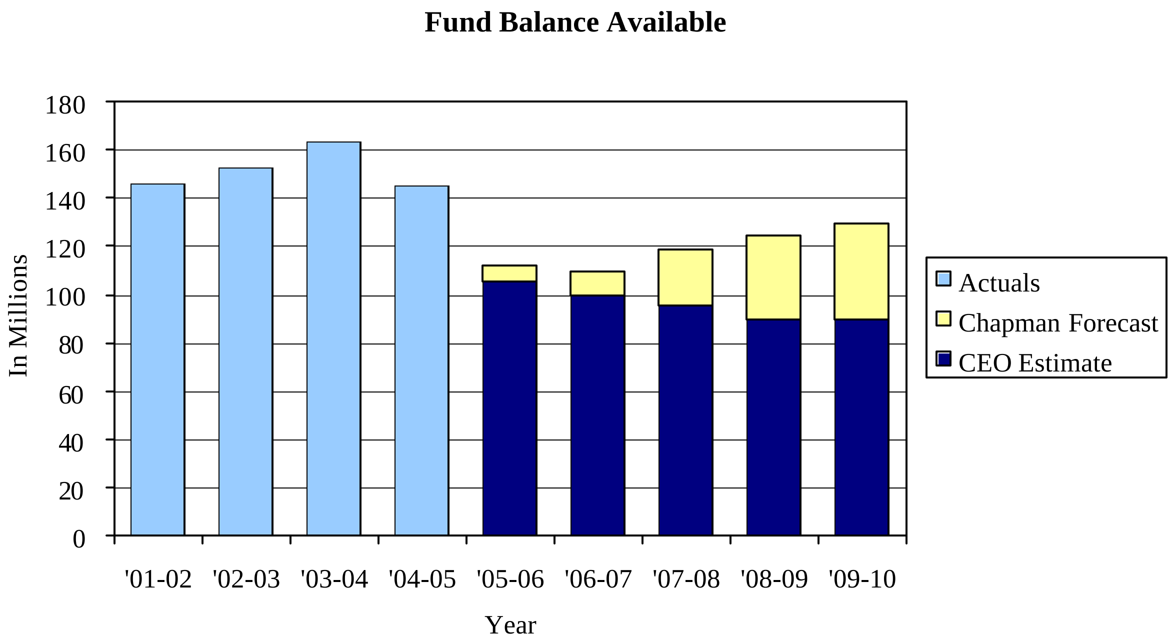



Sales Tax revenue is derived from the collection and distribution of the local portion of the State Sales Tax in the unincorporated County areas, as well as aircraft tax revenues and transient occupancy tax revenues. Sales tax is levied on purchases and certain leases that occur in the unincorporated areas of the County. Exemptions to the sales tax generally include food for home consumption, prescription drugs and electricity.

The County sales tax revenue included in Figure 5 above does not incorporate the half-cent tax levied for Public Safety. The Public Safety Sales Tax is distributed separately and is restricted for public safety uses. Sales Tax revenues comprise about 2% of total General Purpose Revenues for FY 05-06, about $8.8 million.

The final component that is accounted for in the revenues is Fund Balance Available (FBA), which is a funding source that is carried over from the end of the previous fiscal year. It represents revenues available from all funding sources to finance the budget after deducting all

Figure 6




reserves and designations. If all revenues and expenditures occurred as planned in the annual budget, the FBA would be zero. However, in reality there are under- and over-estimations of revenues and expenditures that result in a balance that can be carried forward to the next fiscal year.

Often a portion of the carryover occurs because planned projects, e.g. construction projects, matched with funding in a given fiscal year are delayed into the following fiscal year. These delayed projects are re-budgeted with FBA, which provides the primary source of funding. Where FBA is not tied to specific projects, it is available as one-time money to fund new items or to augment reserves. The estimated FY 05-06 Strategic Priority Reserves in the General Fund, approximately $60.5 million, was created from FBA.

For the FY 05-06, the Strategic Financial Plan is estimating FBA to be $105 million, based upon calculations using the last five years of actual FBA levels. The County's FBA estimates are anticipated to decline annually by $5 million, leveling off at $90 million, as expenses are allowed to grow at a modest 3% rate beginning in FY 06-07.