GENERAL PURPOSE REVENUE FORECAST

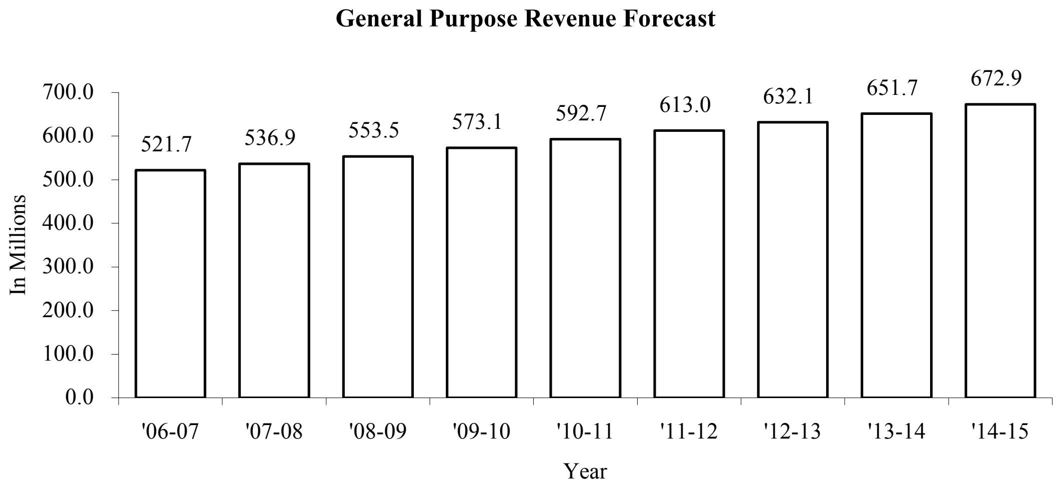
The General Purpose Revenue forecast is an important component of the Strategic Financial Plan (SFP) process because it provides forecasting on the portion of the budget that the Board of Supervisors has discretion over. This year, Dr. Esmael Adibi of the A. Gary Anderson Center for Economic Research at Chapman University provided the County of Orange with an economic forecast and ten-year General Purpose Revenue forecast, updated as of October 2005. 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. The forecast is incorporated into the November 2005 Strategic Financial Plan through Fiscal Year (FY) 2014-15.

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.

General Purpose Revenue Forecast

For FY 06-07, Chapman estimates General Purpose Revenue, excluding operating transfers, one-time revenue and Fund Balance Available (FBA – defined as funding carried over from the previous year), at $521.7 million. Over the next five years, on-going revenue is forecast to grow, on average, about 4.2%, reaching $592.7 million in FY 10-11 (Figure 1).

Figure 1



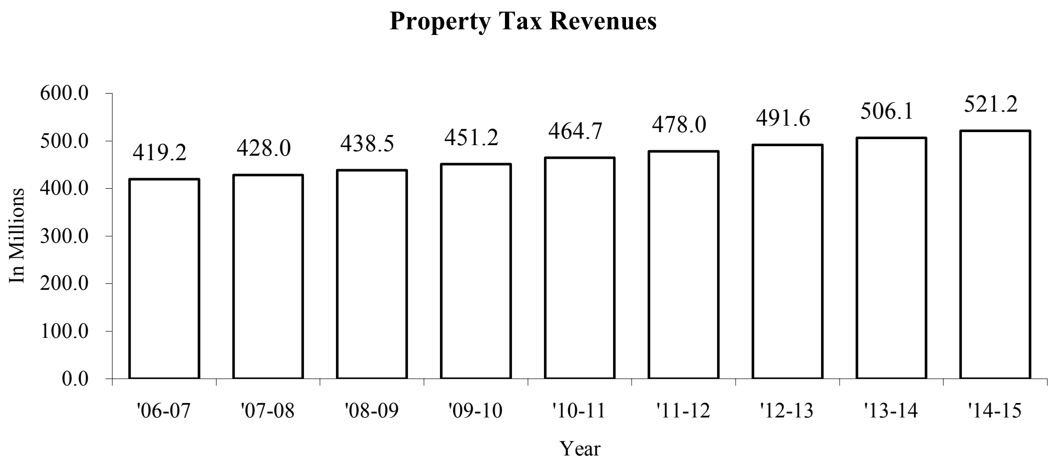
Major Sources of General Purpose Revenue

General Purpose Revenue includes the following sources (listed from greatest to least):

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

Chapman estimates that more than ninety-five percent of General Purpose Revenues come from five sources: Property Taxes, Motor Vehicle License Fees, Interest, Property Tax Administration and Sales & Other Taxes. Figure 2 illustrates the projected growth of property tax revenues over the forecasted period.

Figure 2

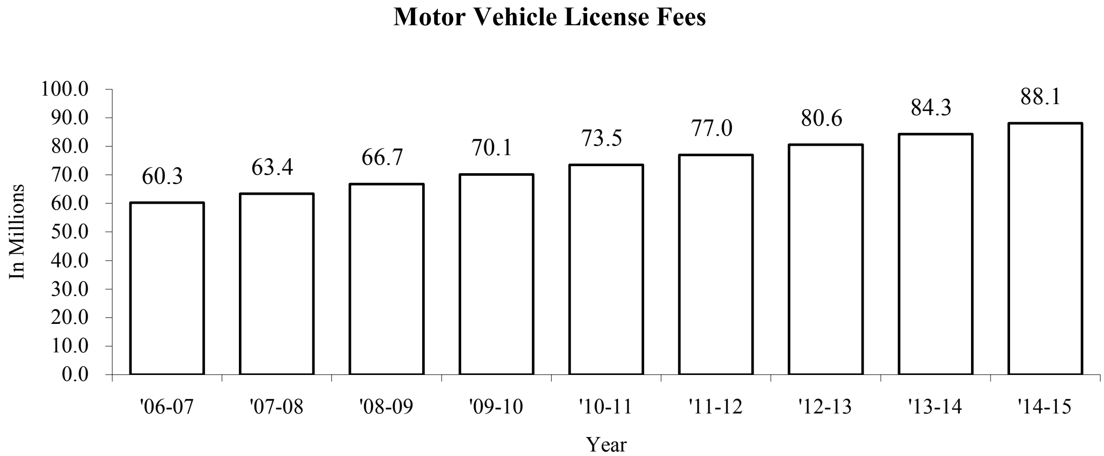


Property Taxes are the largest source of General Purpose Revenues. For FY 06-07, property taxes will account for over 80% of all General Purpose Revenues. Passage of the FY 04-05 State budget brought about changes in local governments financing, affecting the County's property tax revenues. The following 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 $169 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 $1.6 million. The local sales tax rate will be restored when the bonds are repaid.
3. To balance the State budget in FY 04-05, local governments shifted $1.3 billion in property taxes for two years. The remaining payment in FY 05-06 of Orange County's share was $27.7 million.

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.

Figure 3

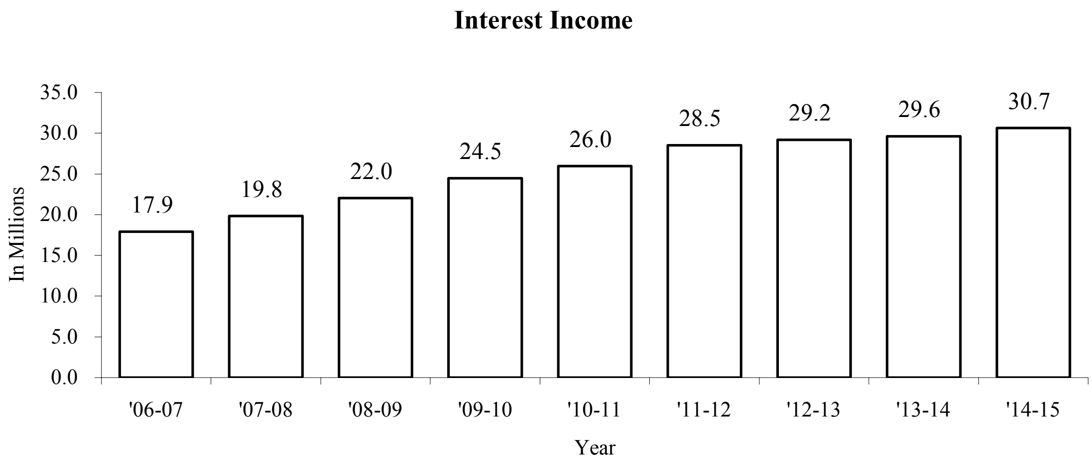


Motor Vehicle License Fee (VLF) revenue is the second most important source of General Purpose Revenue, comprising over 11% of the total for FY 06-07 (Figure 3). Over the five-year SFP period, VLF revenue is estimated to grow from $60.3 million to $73.5 million.

Effective FY 04-05, the State enacted major changes related to VLF revenue. First, the VLF rate, the annual VLF charged by the Department of Motor Vehicles (DMV) to car and truck owners, was reduced to 0.65%. Second, 74.9% of the VLF revenue, net the State Controller's administrative costs, is allocated to realignment programs. Of the remaining 25.9% the State deducts for DMV administrative costs then allocates funding to Orange County. The remaining balance is apportioned to the cities.

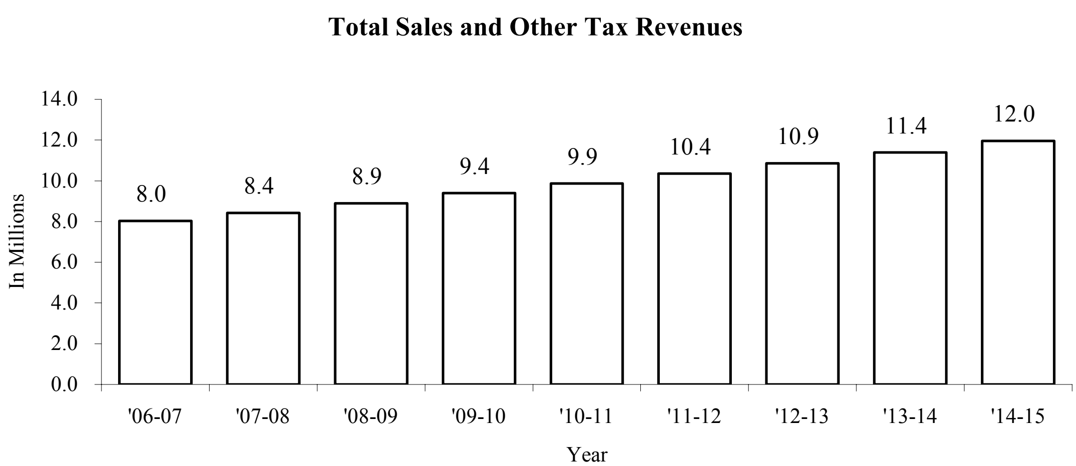
In 2005, the County refinanced the 1995 Recovery Bonds (now called 2005 Recovery Bonds) and 1996 Recovery COPS (now called 2005 Lease Revenue Bonds) and is now responsible for paying debt service directly to the bond trustees. Subsequently, the VLF "intercept" required on the 1995 Recovery Bonds by the State was removed as part of the bond refinancing and Orange County directly receives the remaining 25.9% VLF allocation.

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 FY 06-07 is projected at $17.9 million and estimated to grow an average of 5% per year over the ten-year period (Figure 4).

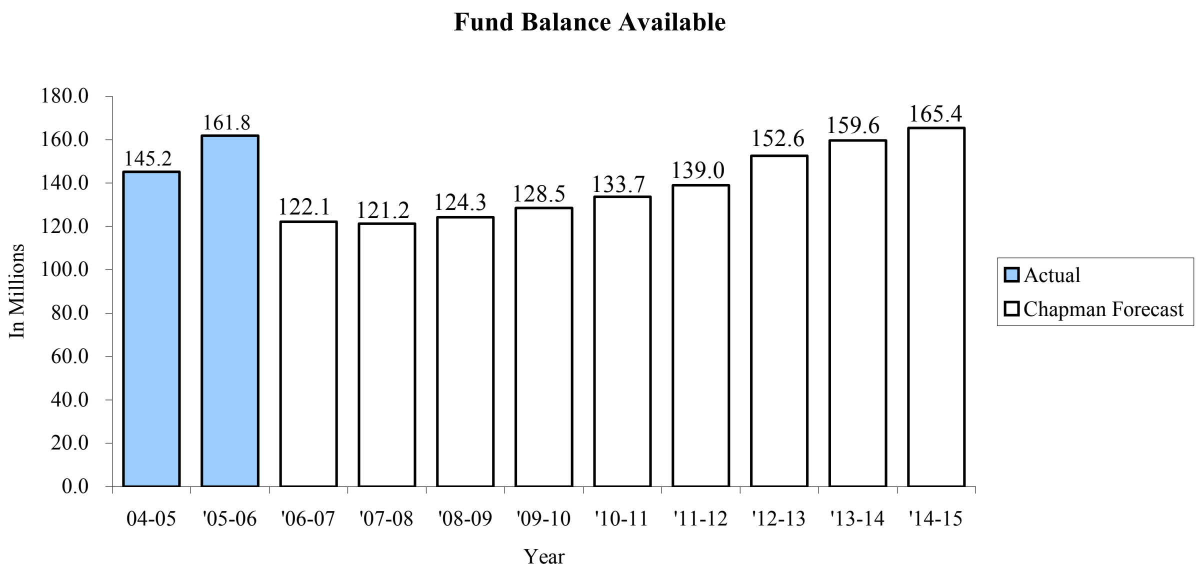
Figure 5



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 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 1.5% of total General Purpose Revenues for FY 06-07 or $8 million.

Figure 6



The final component that is accounted for in the revenues is **Fund Balance Available** (FBA), 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 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. Where FBA is not tied to specific projects, it is available as one-time money to fund new items or to augment reserves. The Board of Supervisors approved allocation of the FY 05-06 FBA on November 22, 2005 in the First Quarter Budget Report. For FY 05-06, FBA came in at $161.8 million. For the remaining years of the SFP, Chapman estimates FBA at $120-135 million.