

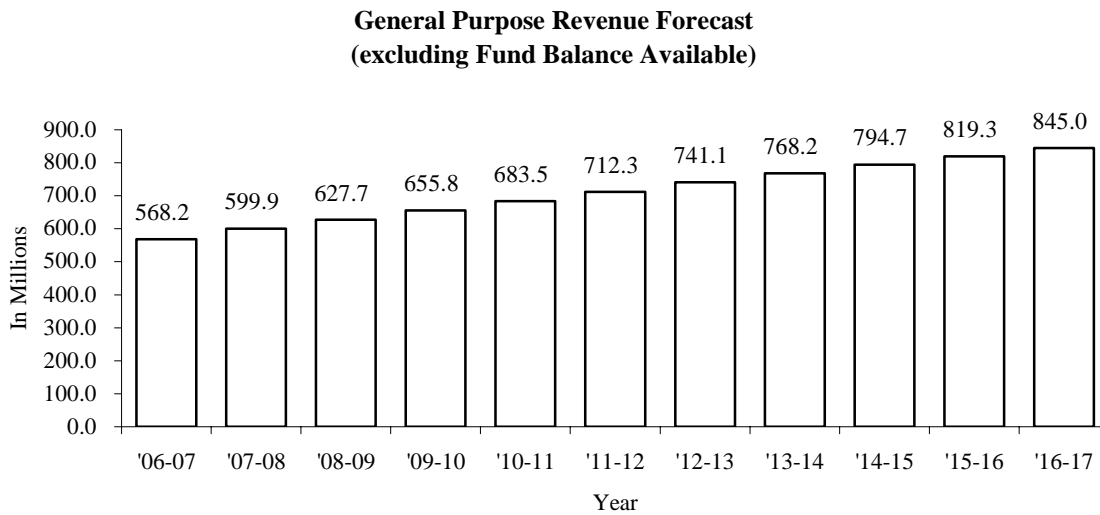
GENERAL PURPOSE REVENUE FORECAST

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, Drs. Adrian Flessig, Anil Puri and Mira Farka of the Institute of Environmental & Economic Studies at California State University, Fullerton (Fullerton) provided the County of Orange with an economic forecast and ten-year General Purpose Revenue forecast, updated August 2006. The General Purpose Revenue forecast includes projections on property tax, motor vehicle license fees, interest, sales and other taxes, property tax administration, franchises and rents, and miscellaneous revenues. The forecast is incorporated into the 2006 Strategic Financial Plan and runs through Fiscal Year (FY) 2016-17.

The County Executive Office (CEO) and Auditor-Controller staff forecast the balance of the General Purpose Revenues, comprised of operating transfers and one-time revenues. Operating transfers are revenues received from a fund outside the General Fund.

General Purpose Revenue Forecast

For FY 07-08, Fullerton 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 \$599.9 million. Over the next five years, on-going revenue is forecast to grow, on average, about 4.6%, reaching \$712.3 million in FY 11-12 (Figure 1).

Figure 1

Major Sources of General Purpose Revenue

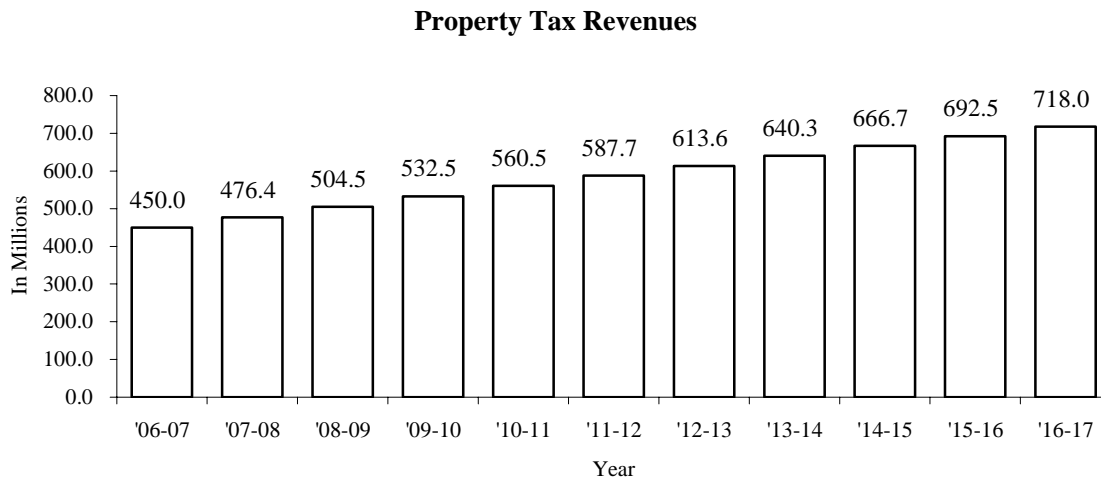
General Purpose Revenue includes the following sources (listed from greatest to least):

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

Fullerton estimates that more than ninety-five percent of General Purpose Revenues come from four sources: Property Taxes, Motor Vehicle License Fees, Miscellaneous Revenues and Interest.

Figure 2 illustrates the projected growth of property tax revenues over the forecasted period.

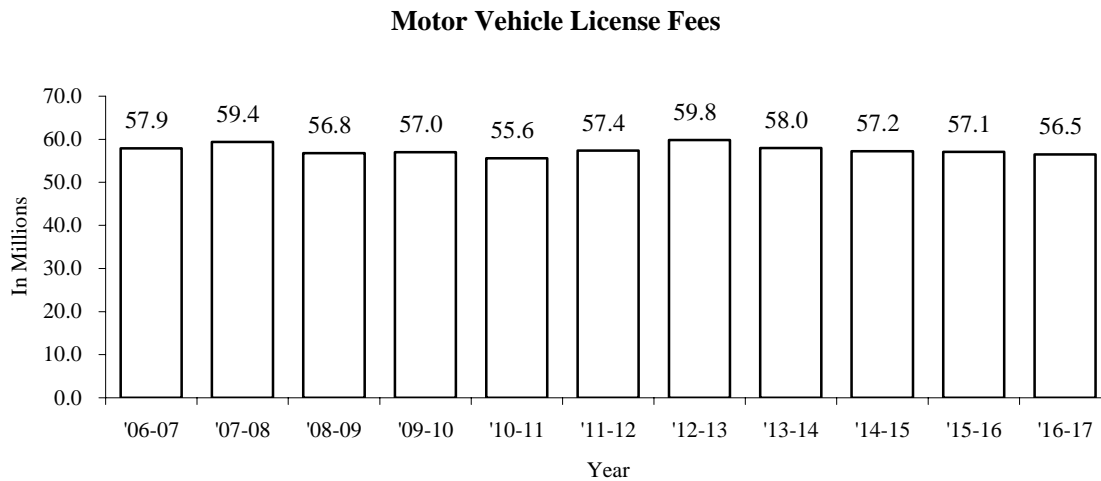
Figure 2



Property Taxes are the largest and most important source of General Purpose Revenues. For FY 07-08, property taxes will account for almost 80% of all General Purpose Revenues. While current property values determine the amount of property tax revenues collected by the County, other factors determined the allocated amount of property tax revenue the County receives. For example:

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. Orange County's share over the two-year period was \$55.4 million.

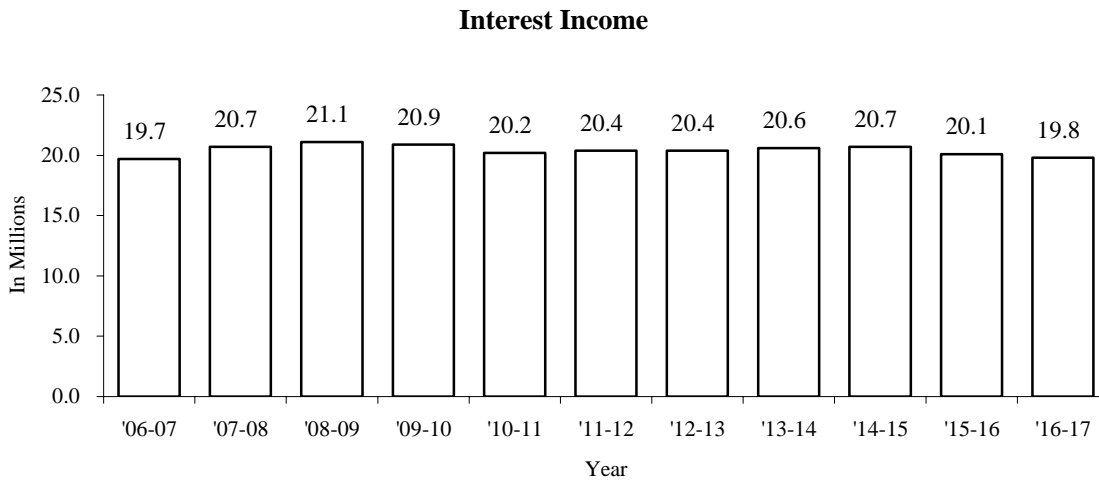
It is important to remember that any swings, positive or negative, in property values will impact property tax revenues, consequently affecting the County's discretionary revenues.

Figure 3

Motor Vehicle License Fee (VLF) revenue is the second most important source of General Purpose Revenue, comprising almost 10% of the total for FY 07-08 (Figure 3). Orange County is the only California county to receive VLF revenue. As a result of the Property Tax-VLF funding swap described in the Property Tax section, the VLF allocation to counties was eliminated. However, because a portion of VLF revenue was intercepted at that time for bankruptcy debt service to bond trustees, Orange County continues to receive VLF revenue to make the debt service payment. Over the forecast period, VLF revenue is projected to fluctuate between +/- 4% annually.

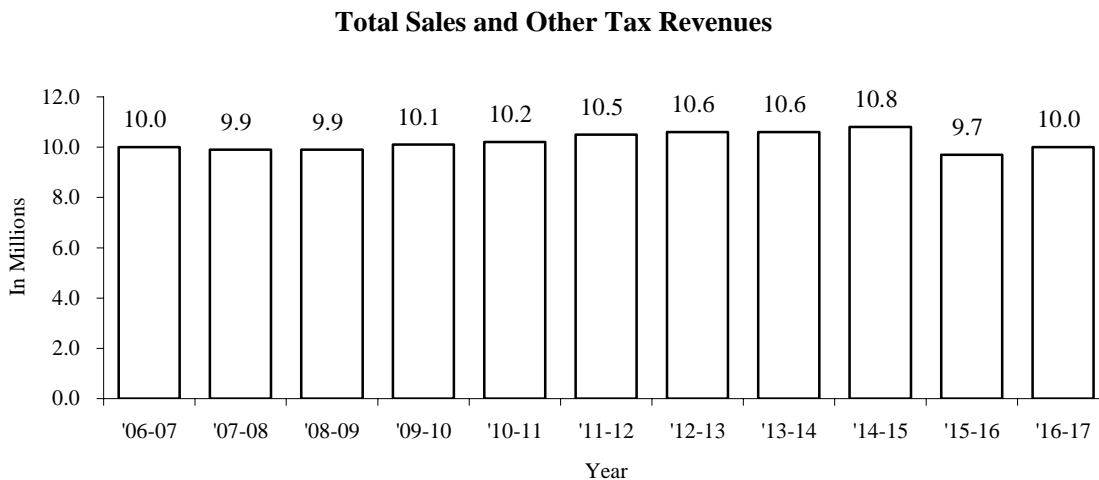
In 2005, the County refinanced the 1995 Recovery Bonds (now called 2005 Recovery Bonds) and 1996 Recovery COPS (now called 2005 Lease Revenue Bonds) and is now responsible for paying debt service directly to the bond trustees. Subsequently, the VLF “intercept” required on the 1995 Recovery Bonds by the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

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 07-08 is projected to be \$20.7 million and will remain relatively flat with an annual average growth rate of 0.08% over the ten-year period (Figure 4).

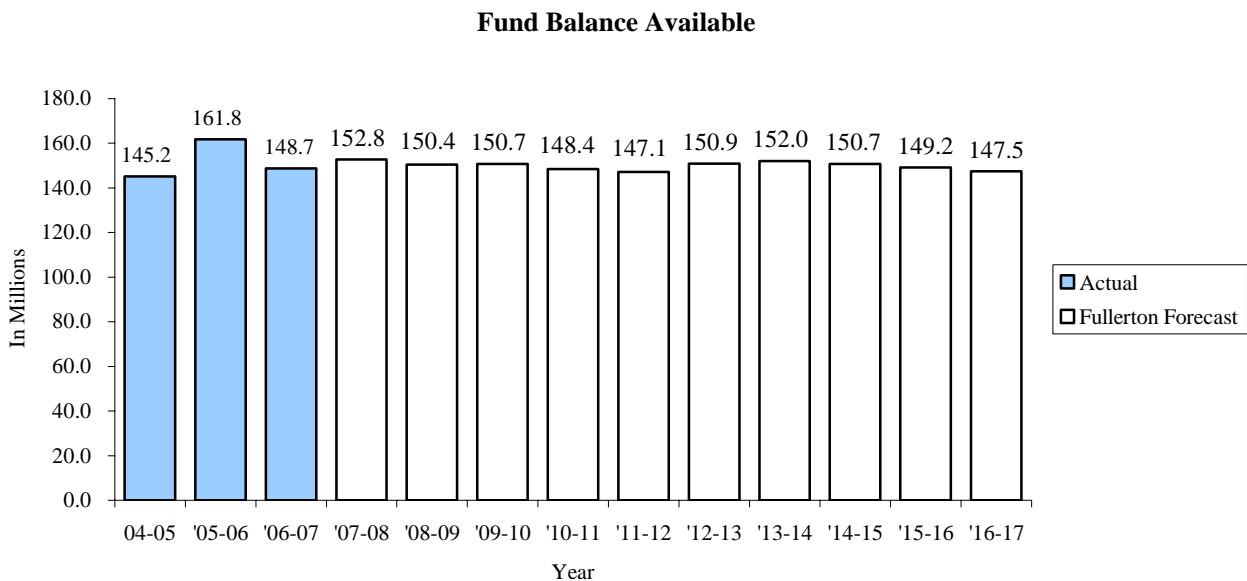
Figure 5



Sales Tax revenue is comprised of sales and other taxes from 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. Use tax is also collected on items purchased for business use and on taxable property purchased without paying California tax if the use of the property is not for resale. Exemptions to the sales tax generally include food for home consumption, prescription drugs and electricity.

The County sales tax revenue (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 1.65% of total General Purpose Revenues for FY 07-08 or \$9.9 million and will increase as much as 3% per year over the ten year period.

Figure 6



The final component accounted for in the revenue forecast 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 the allocation of \$148.7 million in FY 06-07 FBA on November 14, 2006 in the First Quarter Budget Report. Fullerton estimates that FBA will be between \$147 to \$153 million over the forecast period.