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. 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 2007. 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 2007 Strategic Financial Plan and runs through Fiscal Year (FY) 2017-18.

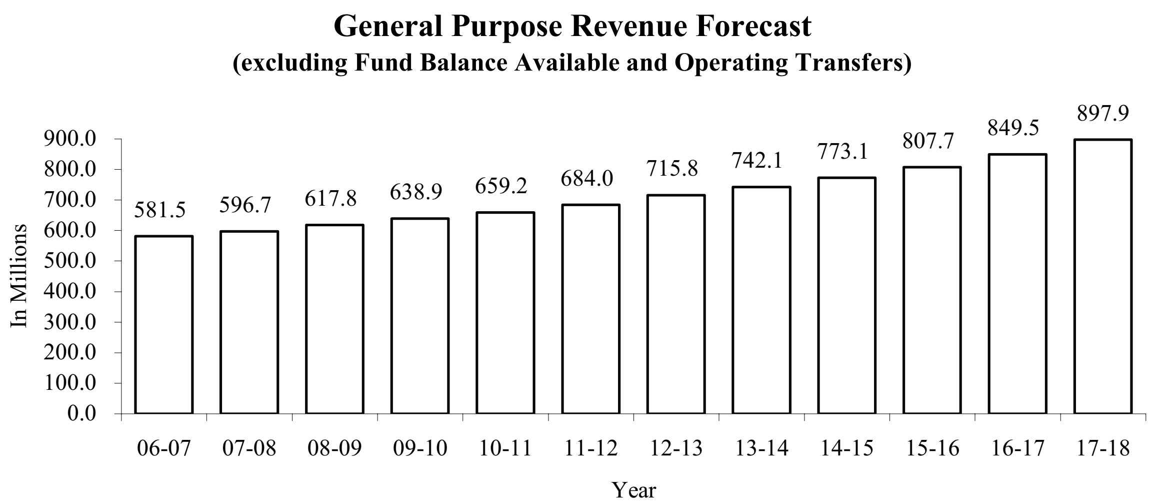
The County Executive Office (CEO) and Auditor-Controller staff forecast the balance of the General Purpose Revenues, comprised of operating transfers and one-time revenues. Operating transfers are revenues received from a fund outside the General Fund.

This year, due to continued uncertainty and decline in the local housing market after August 2007, the CEO revised Fullerton's property tax projections for FYs 08-09 to 12-13 in an effort to be more realistic in revenue estimation (see Figures 2a for growth rate projections and 2b for historical growth and five-year projections). The revised projections were based upon October 2007 available financing projections calculated by Auditor-Controller and evaluated against current market activity and other economic analysis by Fullerton (October 2007) and other economists/entities (Chapman, UCLA and OC Fire Authority) which all varied in direction (growth vs. decline) and magnitude of their respective projections. In addition, CEO also revised the FY 07-08 base for other general purpose revenue sources based upon the October 2007 available financing projections calculated by Auditor-Controller. Fullerton's ten-year forecast for those revenues were then recalculated using the new base and Fullerton's projected growth rates.

General Purpose Revenue Forecast

For FY 08-09, the estimated General Purpose Revenue, excluding operating transfers, one-time revenue and Fund Balance Available (FBA – defined as funding carried over from the previous year), is $617.8 million. Over the next five years, on-going revenue is forecasted to grow, on average, about 3.7%, reaching $715.8 million in FY 12-13 (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.

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

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

Figure 2

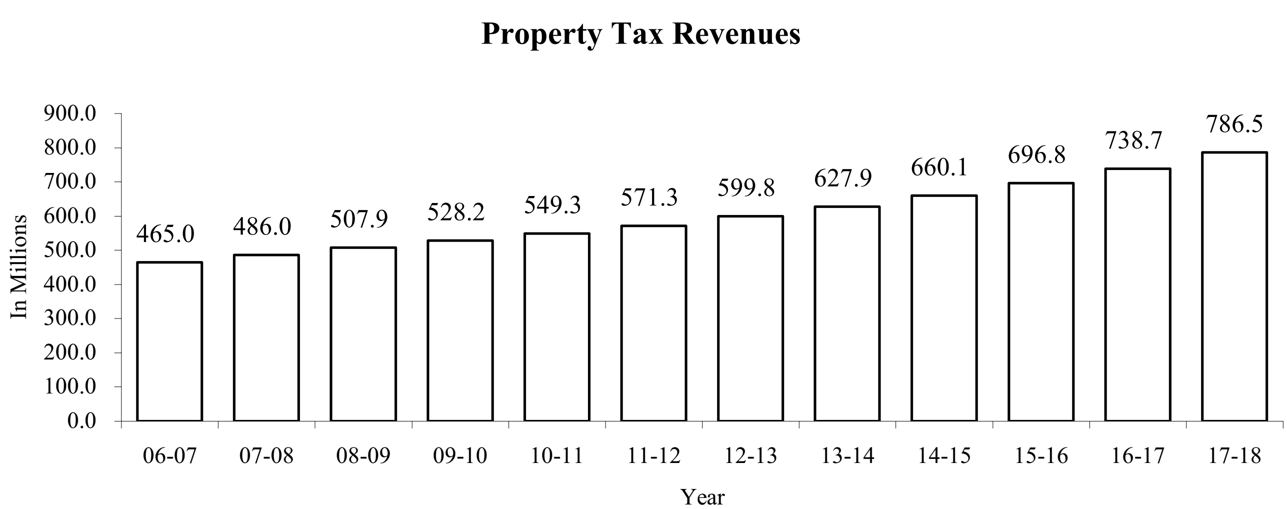


Figure 2a illustrates the history of property tax revenue growth rates. Please note that the CEO revised rates in FY 08-09 through FY 12-13 begin at 4.5% growth, drop to 4.0%, and remain level until FY 12-13 when growth is projected to rise to 5.0%. Fullerton's August forecast projected FY 08-09 growth at 6.14% with gradual increases until FY 11-12. At that point, Fullerton projected rates to start declining with a growth rate of 5.81% by FY 12-13.

Figure 2a

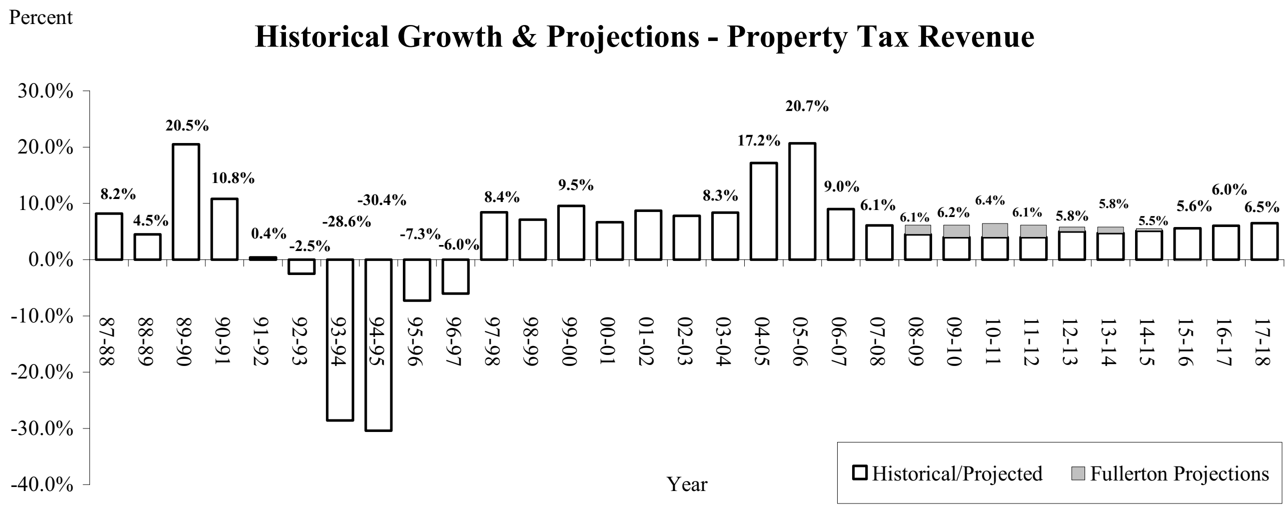
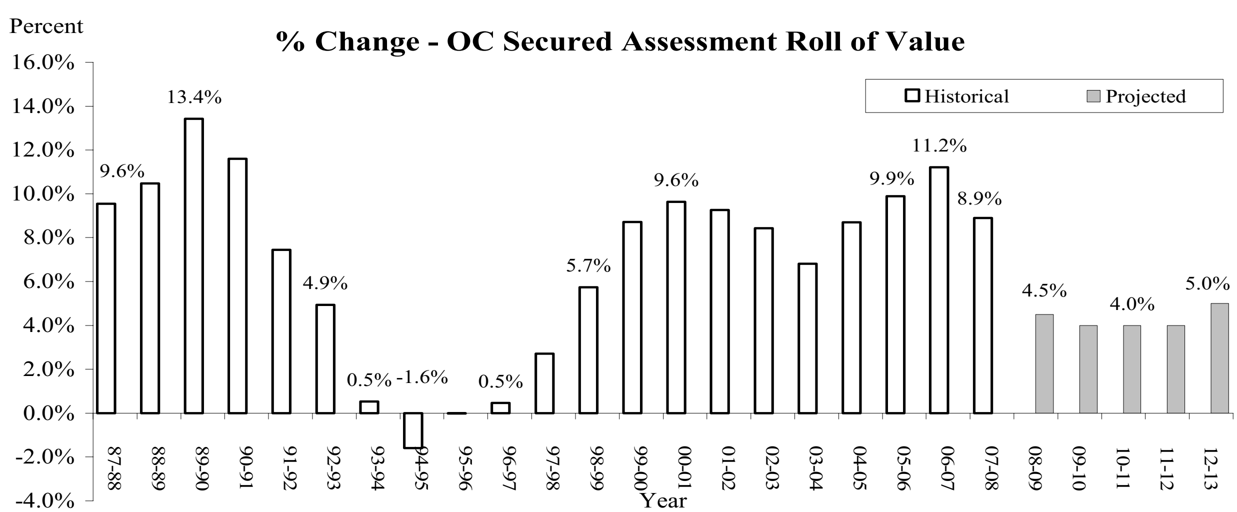


Figure 2b illustrates the history of the percent change in the Orange County Secured Assessment Roll of Value as calculated per the change in the annual secured roll value based upon annual press release by the Assessor Department. Projections for FY 08-09 and beyond have been estimated by the CEO.

Figure 2b

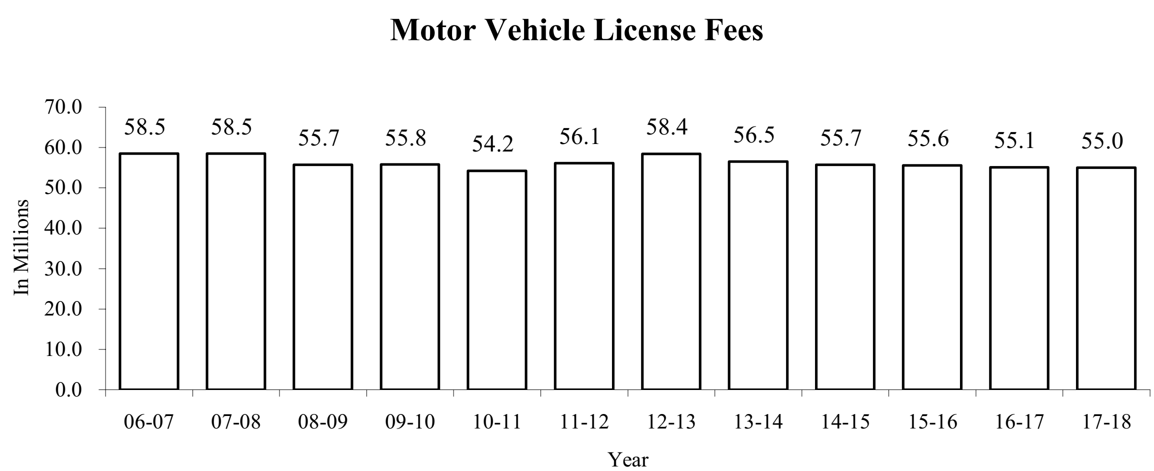


It is important to remember that any swings, positive or negative, in property values will impact property tax revenues, consequently affecting the County's discretionary revenues.

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 bankruptcy related debt service payment. Over the forecast period, VLF revenue is projected to fluctuate between +/- 4% annually.

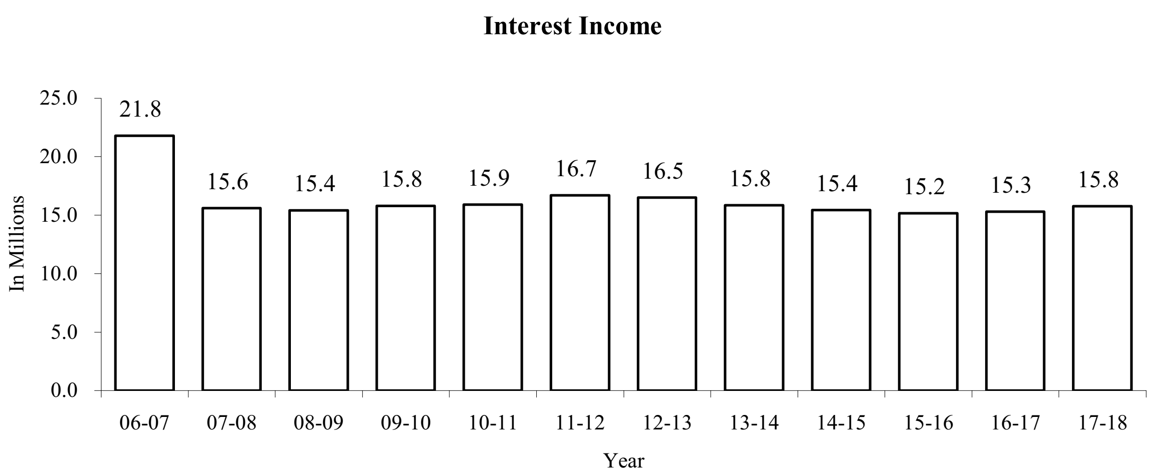
In 2005, the County refinanced the 1995 Recovery Bonds (now called 2005 Recovery Bonds) and 1996 Recovery COPS (now called 2005 Lease Revenue Bonds) and is now responsible for paying debt service directly to the bond trustees. Subsequently, the VLF "intercept" required on the 1995 Recovery Bonds by the 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 3



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 $15.6 million and will remain relatively flat with an annual average growth rate of less than 1.0% over the ten-year period, partly due to an anticipated decrease in yield rates and decreases in fund balance available (Figure 4).

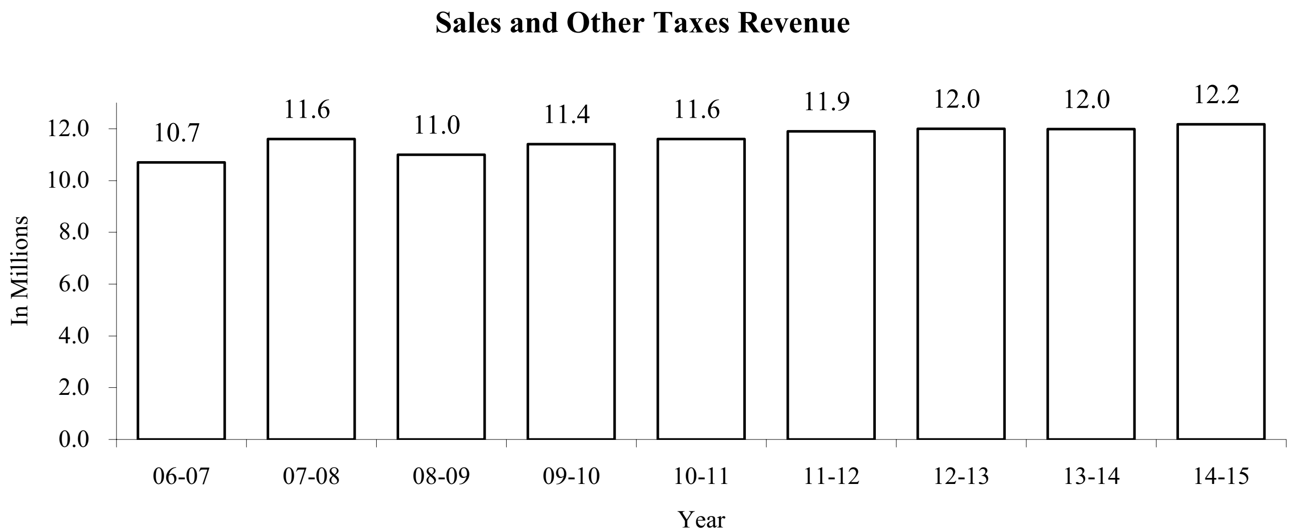
Figure 4



Sales & Other Taxes 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 and Other Taxes revenue comprise almost 2% of total General Purpose budgeted revenues for FY 07-08.

Figure 5

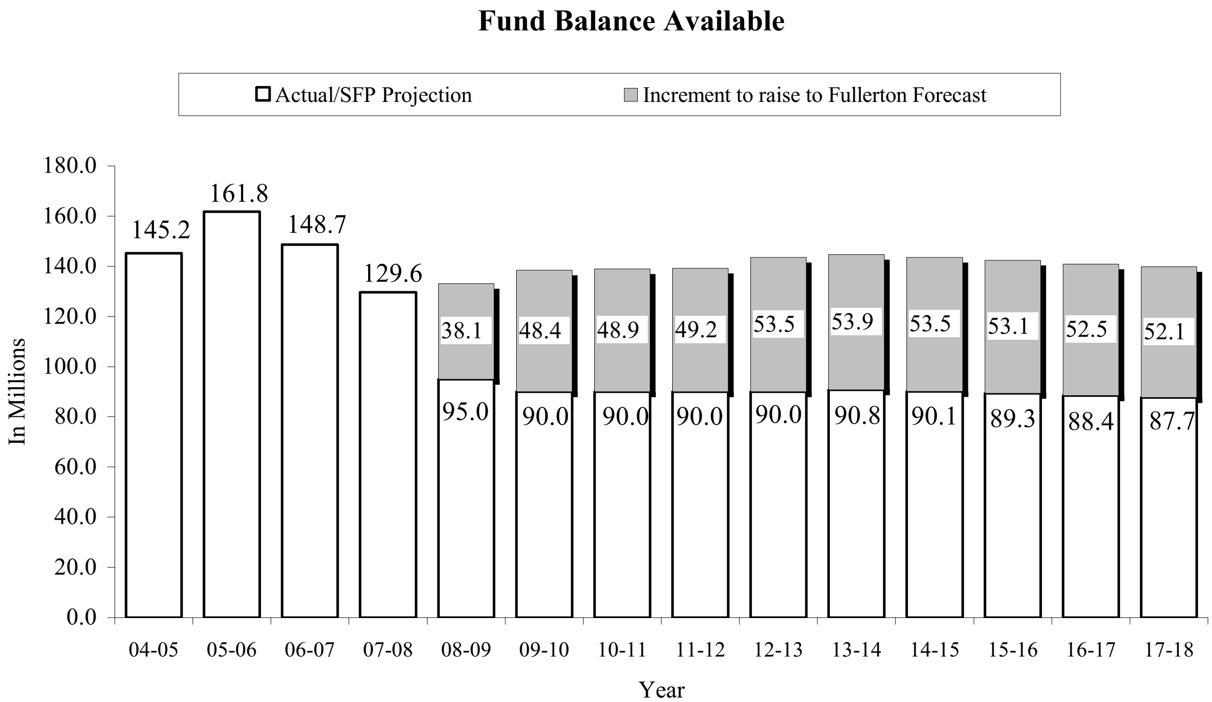


The final component accounted for in the revenue forecast is **Fund Balance Available** (FBA), a funding source that is carried over from the end of the previous fiscal year. It represents revenues available from all funding sources to finance the budget after deducting all reserves and designations.

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. While the CEO has opted a more conservative approach for forecasting FBA ($95 million in FY 08-09 and the use of $90 million for future years) Fullerton estimates that FBA will be $133 to $145 million over the forecast period.

Figure 6


Fund Balance Available
Actual/SFP Projection
Increment to raise to Fullerton Forecast
180.0
160.0
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
In Millions
145.2
161.8
148.7
129.6
38.1
48.4
48.9
49.2
53.5
53.9
53.5
53.1
52.5
52.1
95.0
90.0
90.0
90.0
90.0
90.8
90.1
89.3
88.4
87.7
04-05
05-06
06-07
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12-13
13-14
14-15
15-16
16-17
17-18
Year