GENERAL PURPOSE REVENUE FORECAST

Introduction

The General Purpose Revenue forecast is an important component of the Strategic Financial Plan (SFP) process because it provides projections for the portion of the budget that the Board of Supervisors has discretion over. The General Purpose Revenue forecast includes projections for the following sources which comprise approximately 96% of total General Purpose Revenues (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
8. Interest Earnings
9. Sales and Other Taxes
10. Property Tax Administration Fees
11. Franchises and Rents Revenue

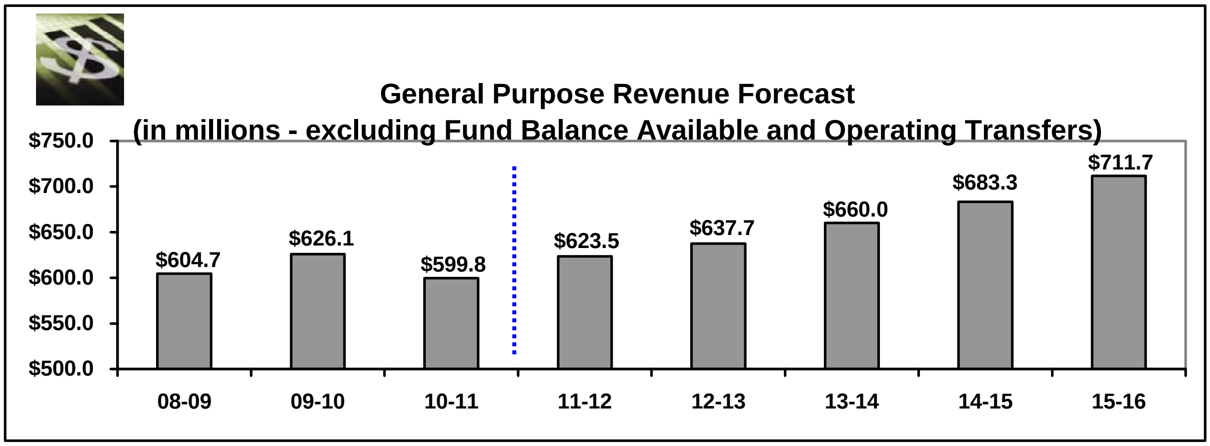
Miscellaneous revenues and Fund Balance Available (FBA) are also projected.

The County Executive Office (CEO) prepared the projections considering historical and current revenue and economic trends, forecasts prepared by the Auditor-Controller, and forecasts by other Counties, governmental entities such as the Orange County Transportation Authority and local economists (e.g. Chapman, Fullerton, and UCLA). Due to continued uncertainty in the economy and fluctuating Fiscal Year 2010-11 General Fund sources, the SFP projections will be monitored closely and modified if appropriate during the FY 2011-12 annual budget process.

Please note that in all of the following forecasts, FY 2010-11 represent estimates of current fiscal year receipts, based upon trends to date. FY 2011-12 through FY 2015-16 represent forecasted receipt trends.

General Purpose Revenue Forecast

For FY 2011-12, 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 projected at $623.5 million. Over the next four years, on-going revenue is forecasted to grow, on average, about 3.5%, reaching $711.7 million in FY 2015-16 (see following chart). This growth primarily results from the realization of small, incremental growth in property tax receipts, including additional property tax dollars related to the passage of Senate Bill 8 (SB8, Correa) in 2009. SB8 funding is fully allocated within the financing model.

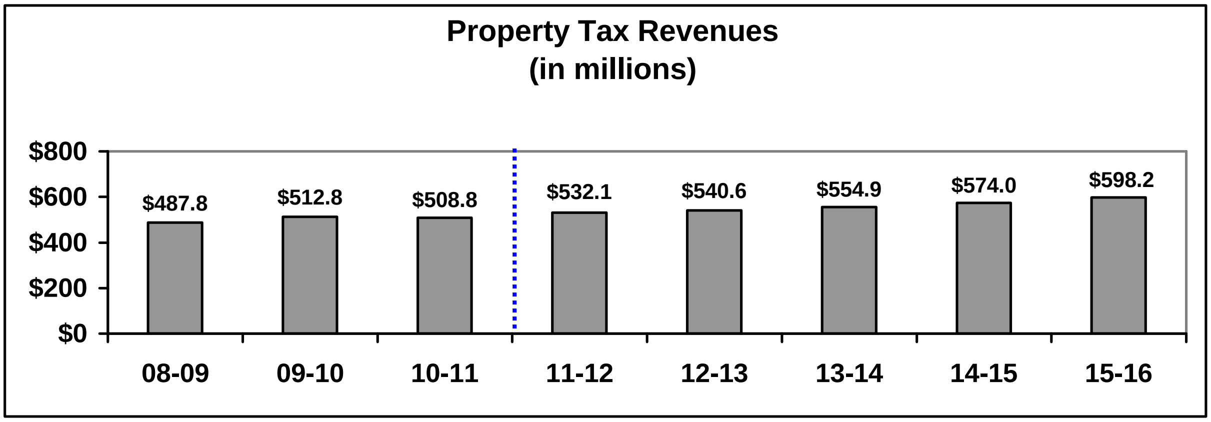


Property Taxes are the largest and most important source of General Purpose Revenues. In FY 2008-09 and FY 2009-10, property taxes accounted for just over 82% of all General Purpose Revenues. While current property values determine the amount of property tax revenues collected by the County, other factors determine the allocated amount of property tax revenue from the State that the County receives. For example:

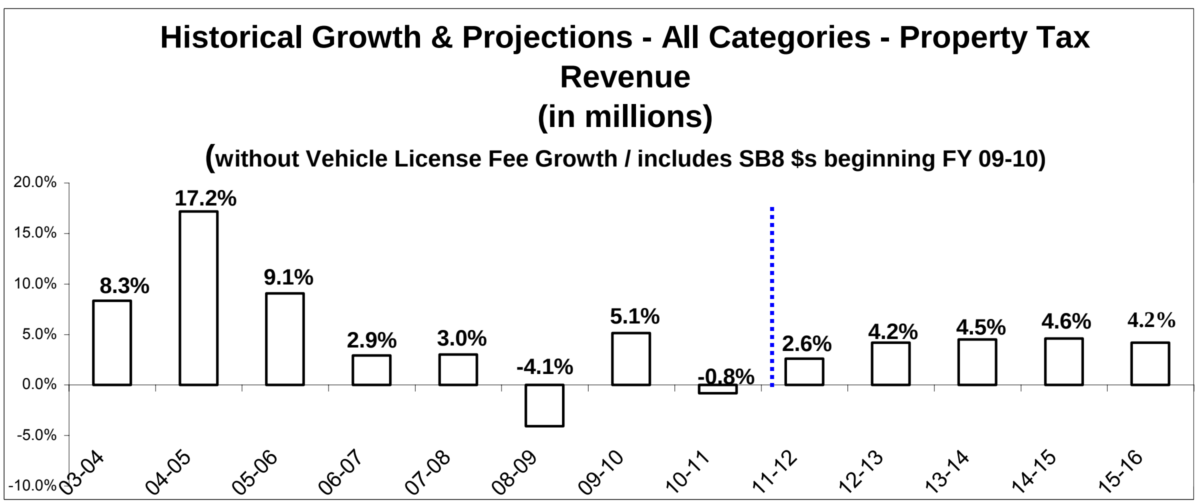
1. The Vehicle License Fee (VLF) backfill was eliminated and replaced with a dollar-for-dollar exchange in property tax revenue, approximately $169 million.

2. Senate Bill 8 (Correa) provides an ongoing supplement to property tax revenue of $35 million beginning in FY 2009-10, and increasing to $50 million in FY 2011-12.

The following chart illustrates the projected growth of property tax revenues over the forecasted period.

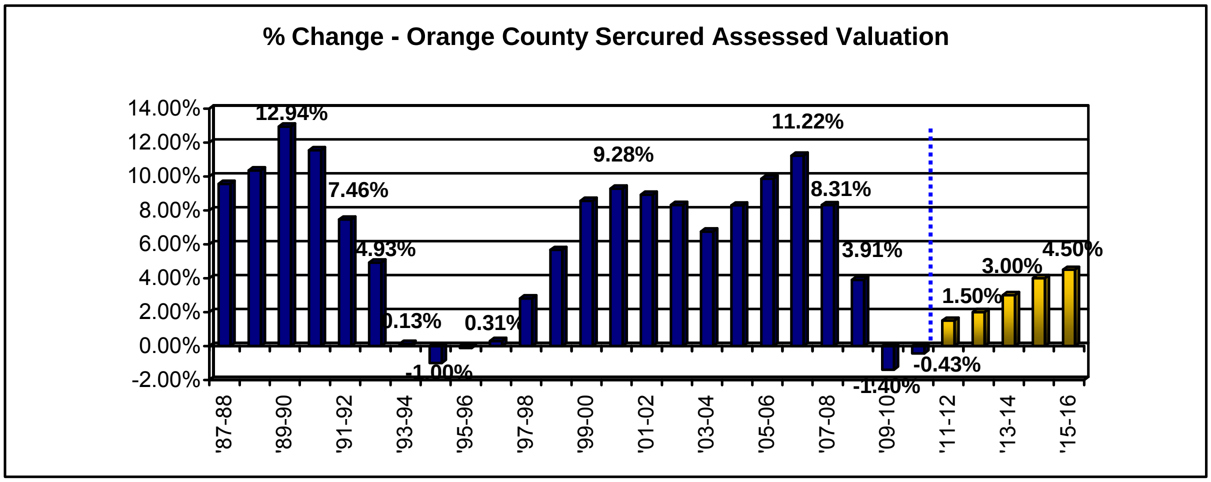


The chart below illustrates the history of property tax revenue growth rates. Please note that the CEO revised rates in FY 2009-10 through FY 2014-15 begin at 1.1% growth and grow slightly until FY 2014-15 when growth is projected to rise to 5.5%.



Note: FY 2009-10 growth would have been a negative 2.05% without $35M SB8 dollars

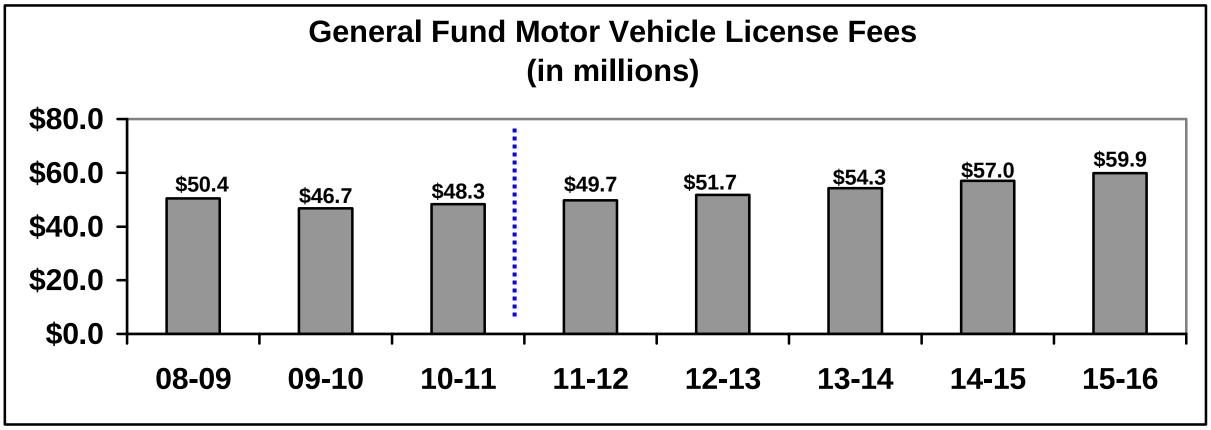
The following chart illustrates the history of the percent change in the Orange County Secured Assessment Roll of Value as calculated per the change in the annual secured roll value based upon the annual press release by the Assessor Department. Change in value for FY 2011-12 through FY 2015-16 represents projections.



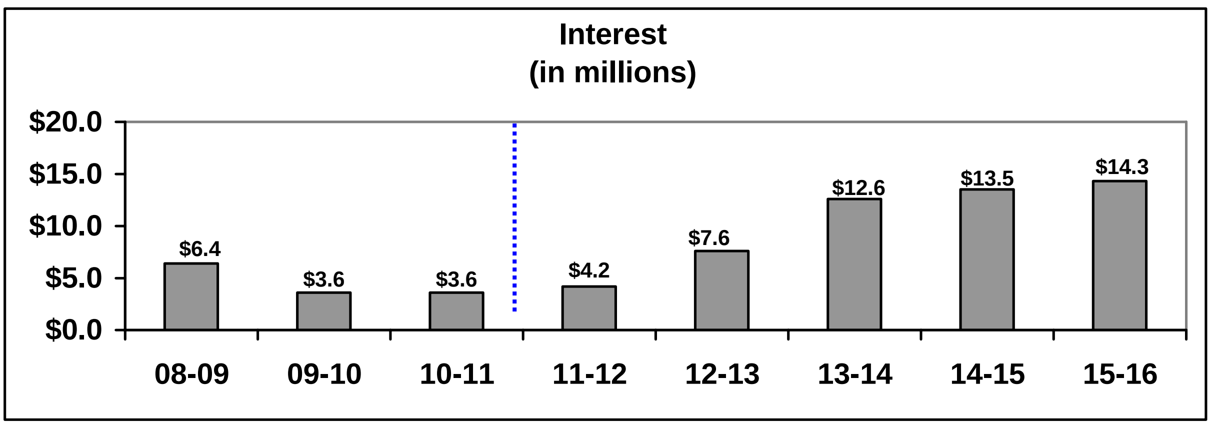
Projections for FY 2011-12 through FY 2015-16 were developed early in the SFP process and in conjunction with review of current economic trends, surveys of other, similar Counties, and data compiled by economists. The Orange County Tax Assessor recently released preliminary growth projections for the July 2011 Assessed Roll of Values. The release projects growth of the total roll (secured and unsecured) at +/- 1%. The current SFP forecast projects secured revenue growth of 1.5% and no growth in unsecured receipts. The projections for secured are optimistic compared to the Assessor's recent release and may require downward adjustment during the budget process. Continued potential impacts to the Assessed Roll of Values relate to new construction, the current commercial market climate, economic impacts from unemployment, financing and foreclosures. These potential impacts are cause for caution.

Motor Vehicle License Fee (VLF) revenue is the second most important source of General Purpose Revenue, comprising an average of approximately 7% of total General Purpose Revenue during the plan years. 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 the 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 remain relatively flat during the first five years of the forecast period and then begin a gradual decline.

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. VLF projections are presented in the following chart:

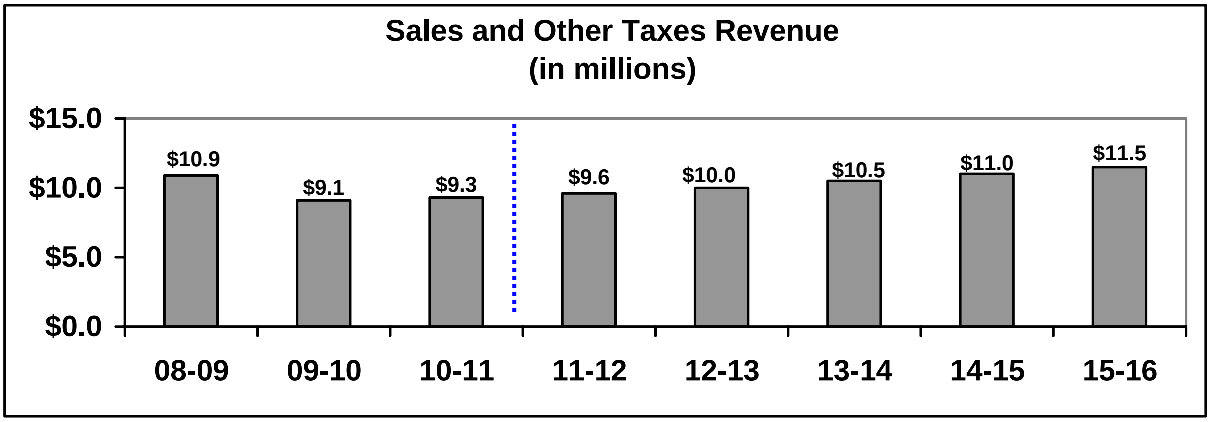


Interest is earned on certain County funds invested by the Treasurer-Tax Collector in strict accordance with the Investment Policy Statement. The average maturity of the County's investments is 90 days and interest rates are based upon 90-Day United States Treasury Bills. Interest for FY 2010-11 is estimated to remain flat at $3.6 million and is projected to grow slowly the remaining years of the plan in anticipation of more stable cash balances and an anticipated increase in yield rates. See the following chart for projections:



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.

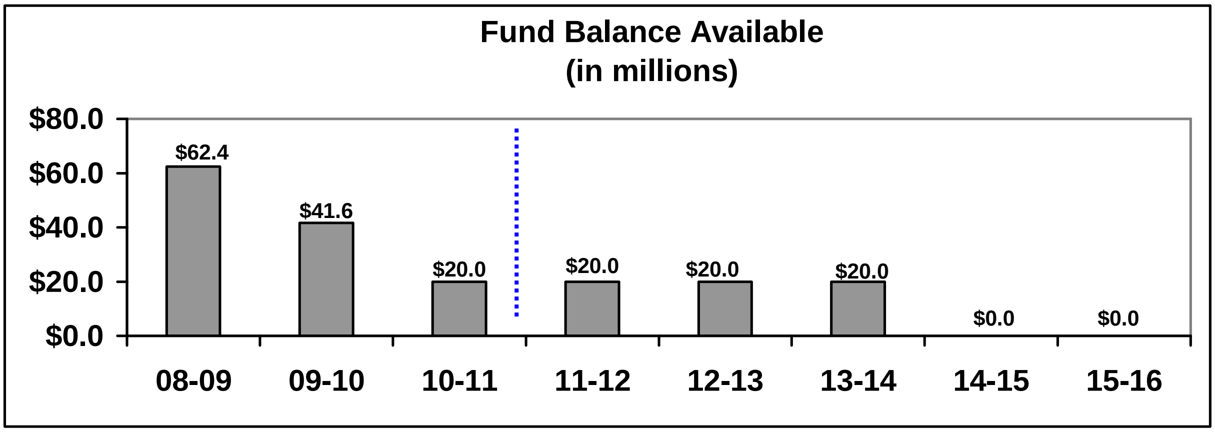
The County sales tax revenue (see chart) does not incorporate the half-cent tax levied for Public Safety. The Public Safety Sales Tax is distributed separately and is restricted for public safety uses. Sales and Other Taxes revenue on average comprise less than 2% of total General Purpose budgeted revenues.



Fund Balance Available (FBA) is the final component accounted for in the revenue forecast. If all revenues and expenditures occurred as planned in the annual budget, the FBA would be zero. However, in reality there are variances in projections of revenues and expenditures that result in a positive or negative balance that can be carried forward to the next fiscal year. Over the last four years, FBA has trended downward, consistent with periods of declining economic activity and expected as Departments are faced with decreasing funding sources to maintain current levels of operations.

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 generally are re-budgeted with FBA. Where Non-General Fund FBA is not tied to specific projects, it is available as one-time money to fund new items or augment reserves. As approved by the Board with the adoption of the FY 2010-11 Annual Budget, any positive year-end General Fund FBA is transferred to Strategic Reserves.

As illustrated in the following chart, due to continued declines in growth, the CEO is projecting a more conservative FBA forecast of $20 million over the first three years of the forecast period, declining to $0 by FY 2014-15.



Conclusion:

Net General Purpose revenue growth is projected beginning in FY 2011-12; however, growth rates remain low, and in initial fiscal years, projections still remain below prior peak experience. Revenue growth will not keep up with projected growth in expenditures.