General Purpose Revenue Forecast

Introduction

The General Purpose Revenue forecast is an important component of the Strategic Financial Plan (SFP) because it provides projections for the portion of the budget over which the County has discretion. The General Purpose Revenue forecast includes projections for the following sources which comprise approximately 97% of total General Purpose Revenues (listed from greatest to least):

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

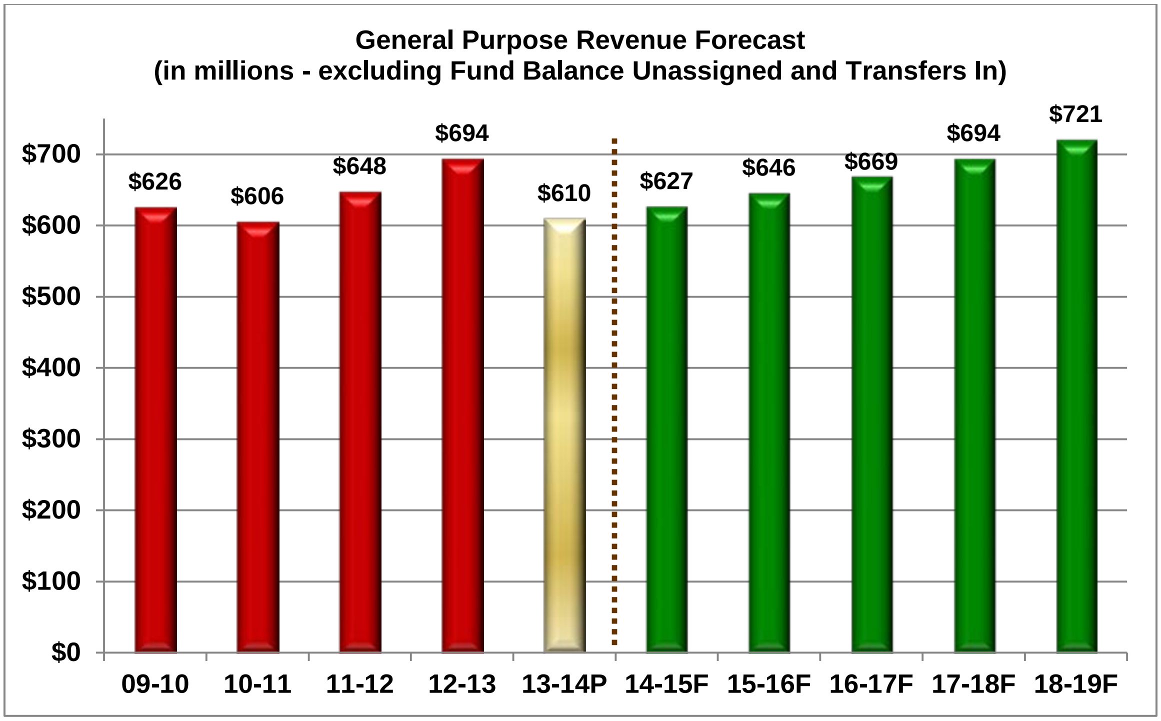
The County Executive Office (CEO) prepared the projections considering historical and current revenue and economic trends, forecasts prepared by the Auditor-Controller, and forecasts by governmental entities such as the Orange County Transportation Authority and local economists (e.g. Chapman, and UCLA). Due to continued uncertainty in the economy and volatility in General Fund revenue sources, the SFP projections will be monitored closely and modified if appropriate during the FY 2014-15 annual budget process.

Please note that in all of the following forecasts, FY 2013-14 represents estimates of current fiscal year receipts, based upon trends through September 2013. FY 2014-15 through FY 2018-19 represent forecasted receipt trends.

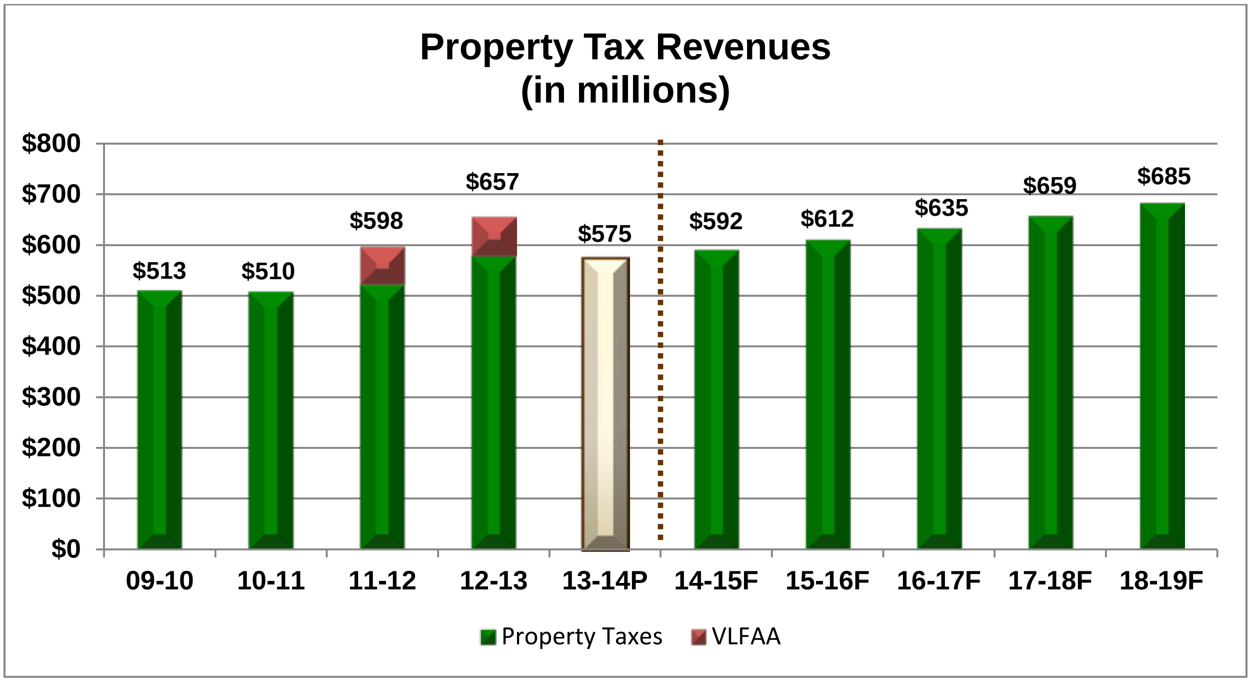
General Purpose Revenue Forecast

For FY 2014-15, the estimated General Purpose Revenue, excluding transfers in, one-time revenue, and Fund Balance Unassigned (FBU – defined as funding carried over from the previous year), is projected at $627 million. Over the next four years, on-going revenue is forecasted to grow, on average, about 3% annually, reaching $721 million in FY 2018-19. Projected growth in this Plan is lower than 2012 SFP projections due to the State sweep of the County's Vehicle License Fee (VLF) revenue.

(Note: In all of the following charts, division lines are inserted to highlight forecasted trends for the five SFP years. Please note that FY 2013-14 also reflects projected revenues. Actual receipts will not be known until after June 2014.)

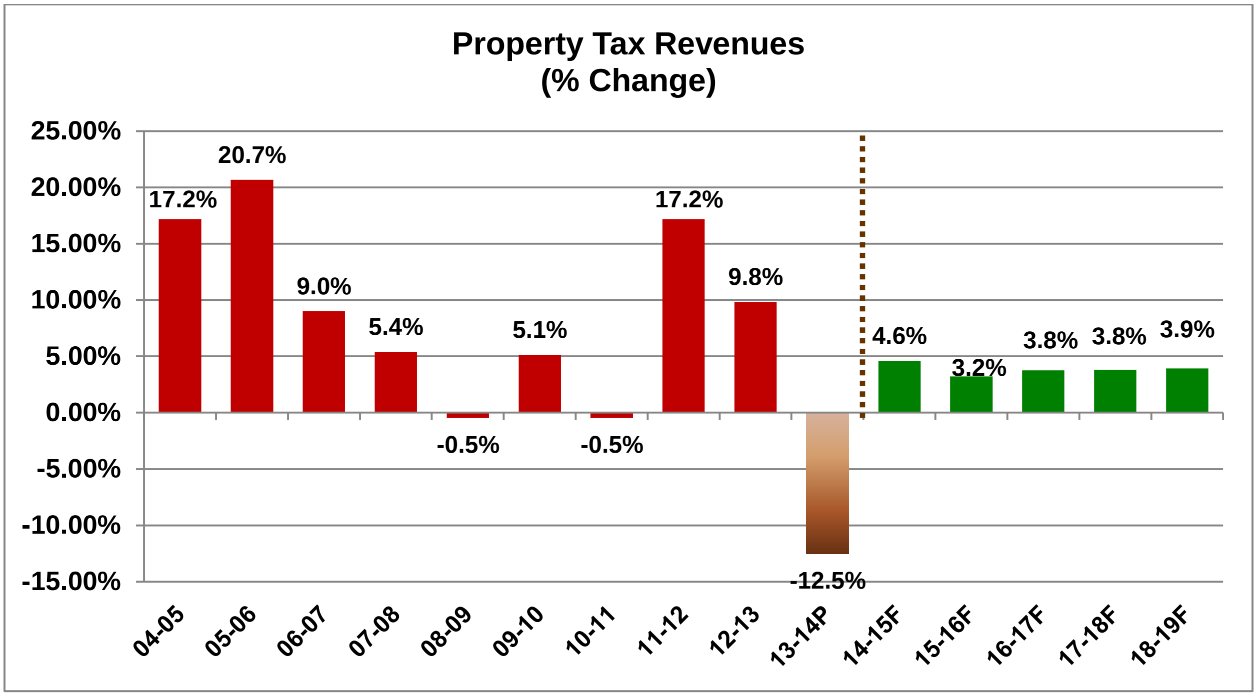


Property Taxes are the largest and most important source of General Purpose Revenues. Beginning in FY 2008-09 and through FY 2010-11, property taxes accounted for just over 82% of all General Purpose Revenues. As of November 2013, property taxes were forecasted to account for 94% of all General Purpose Revenues. The following chart illustrates the projected growth of property tax revenues over the forecasted period.



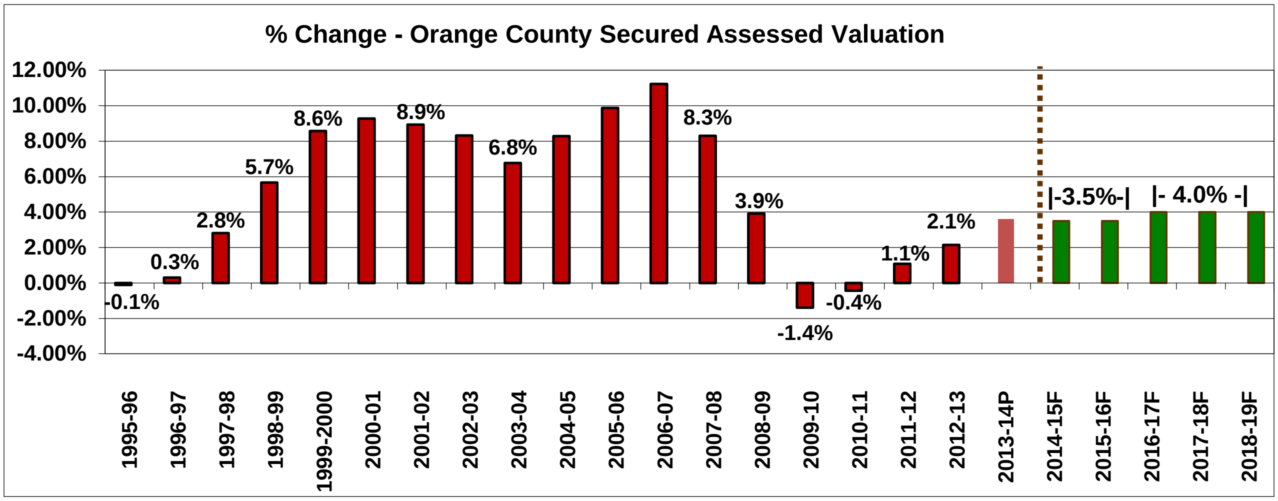
According to DataQuick, the housing market in Orange County presents a combination of ups and downs: the median sales price of homes is 19% higher than October 2012, but is little changed from September 2013; home-buying has picked up, but lower-cost markets have very little inventory; and sales are up from September 2013 numbers, but down about 5% from sales one year ago. The Orange County Assessor's Secured Roll Values for FY 2013-14 include an increase of 3.6%; and the S&P Case-Shiller Home Price Index reported a 22% increase in Los Angeles-Orange County home prices from August 2012 to August 2013.

The following chart illustrates the history of property tax revenue growth rates:



Note: FY 2009-10 growth would have been a negative 2.05% without receipt of $35M SB8 dollars, FY 2011-12 growth would have been 2.8% without allocation of $73.5M VLFAA revenue, and FY 2012-13 growth would have been negative without SB8 and VLFAA dollars.

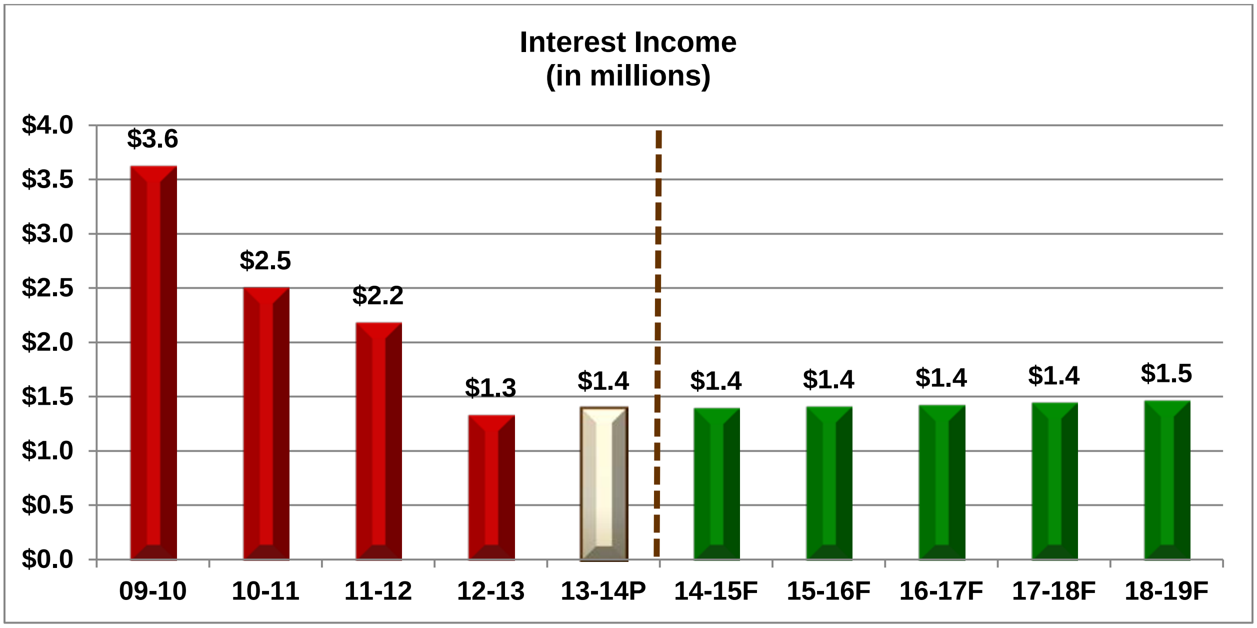
The following chart illustrates the history of the percent change in the Orange County Secured Assessment Roll of Value as calculated per the change in the annual secured roll value which is based upon the annual press release by the Assessor Department. Change in value for FY 2013-14 represents projections.



Projections for FY 2013-14 through FY 2018-19 were developed early in the SFP process and in conjunction with review of current economic trends and data compiled by economists. The current SFP forecast projects secured revenue growth of 3.6% and unsecured revenue decline of -1.7% in FY 13-14. Potential impacts to the Assessed Roll of Values relate to new construction, the current commercial market climate, and economic impacts from unemployment, financing, and foreclosures.

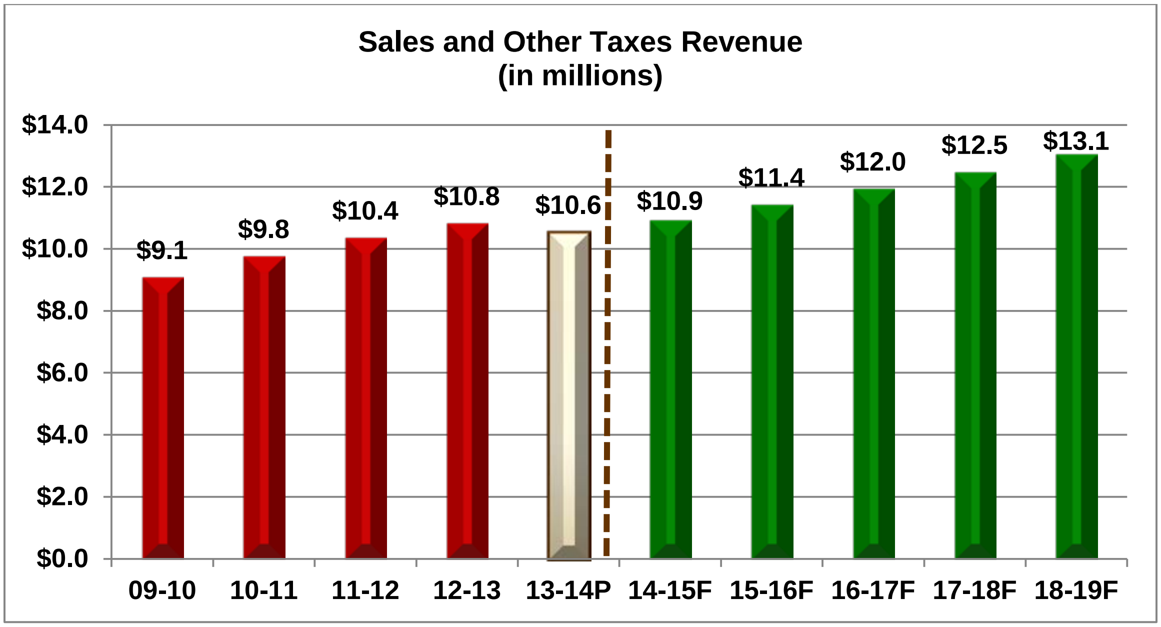
Property Tax Administration Fees revenue was the second highest source of General Purpose Revenue, comprising an average of approximately 2.5% of total General Purpose Revenue during the plan years.

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 2013-14 is estimated to remain flat at $1.4 million and is projected to grow slowly during 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:



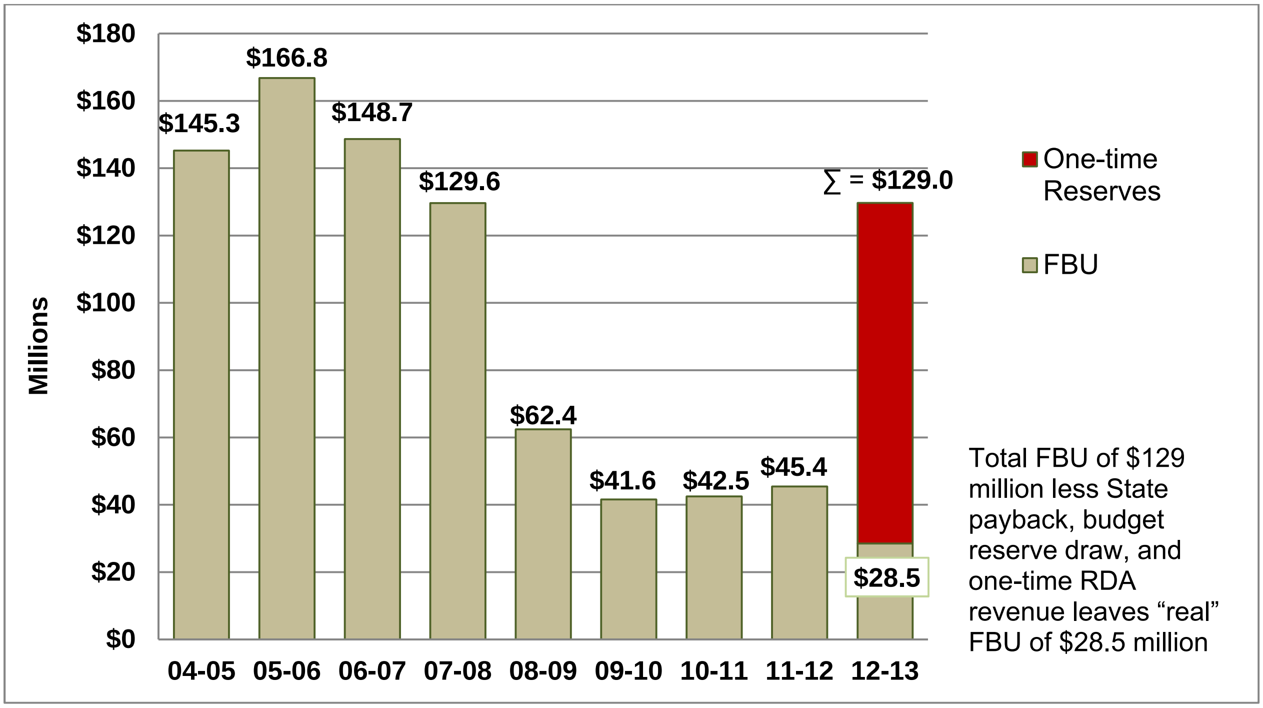
Sales & Other Taxes revenue is comprised of sales and other taxes from the unincorporated county areas, as well as, aircraft tax revenues and transient occupancy tax revenues. Sales tax is levied on purchases and certain leases that occur in the unincorporated areas of the County. Use tax is also collected 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's sales tax revenue 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 Unassigned (FBU) is the final component accounted for in the revenue projection for FY 2013-14 and is based upon the budgeted draw from reserves to balance the budget. If all revenues and expenditures occurred as planned in the annual budget, FBU would be zero. However, variances in projections of revenues and expenditures result in positive or negative balances that are recorded as increases or decreases to obligated fund balance. Over the last four years, FBU 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.

As approved by the Board with the adoption of the FY 2010-11 Annual Budget, any positive year-end General Fund FBU is transferred to Obligated Fund Balance Assigned for Operations - Strategic Plan. Due to continued declines in growth, the County is projecting an FBU forecast of $0 for all five years of the forecast period.



Conclusion

General Purpose Revenues are projected to decline in the current fiscal year and increase modestly over the five years of the SFP. Beginning with FY 2014-15, growth is expected to be low to moderate and well below prior peak experience.