General Purpose Revenue Forecast

Introduction

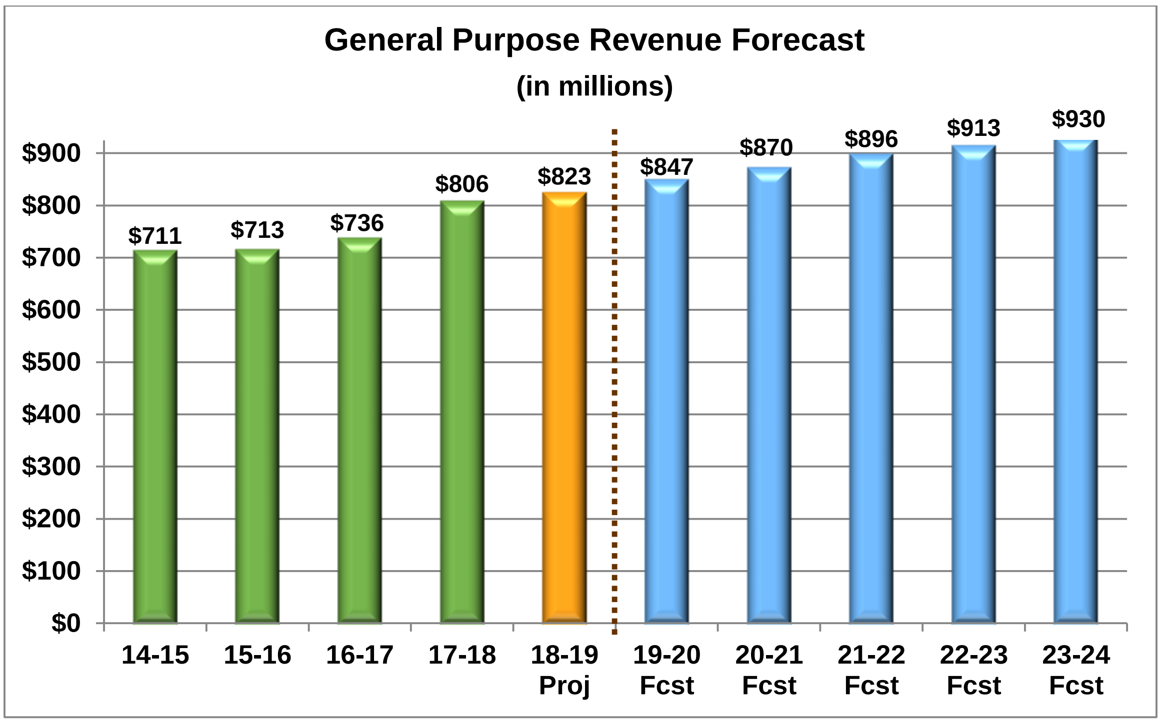
The General Purpose Revenue forecast is an important component of the Strategic Financial Plan (SFP) because it provides projections for the portion of the budget over which the County has discretion. The General Purpose Revenue forecast includes projections for the following sources, which comprise approximately 99% 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. Interest Earnings
6. Franchises and Rents

The County Executive Office (CEO) prepared the projections considering historical and current revenue and economic trends, forecasts from the Auditor-Controller and various governmental entities such as the Orange County Fire Authority and local economists (e.g. Chapman University 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 2019-20 annual budget development process.

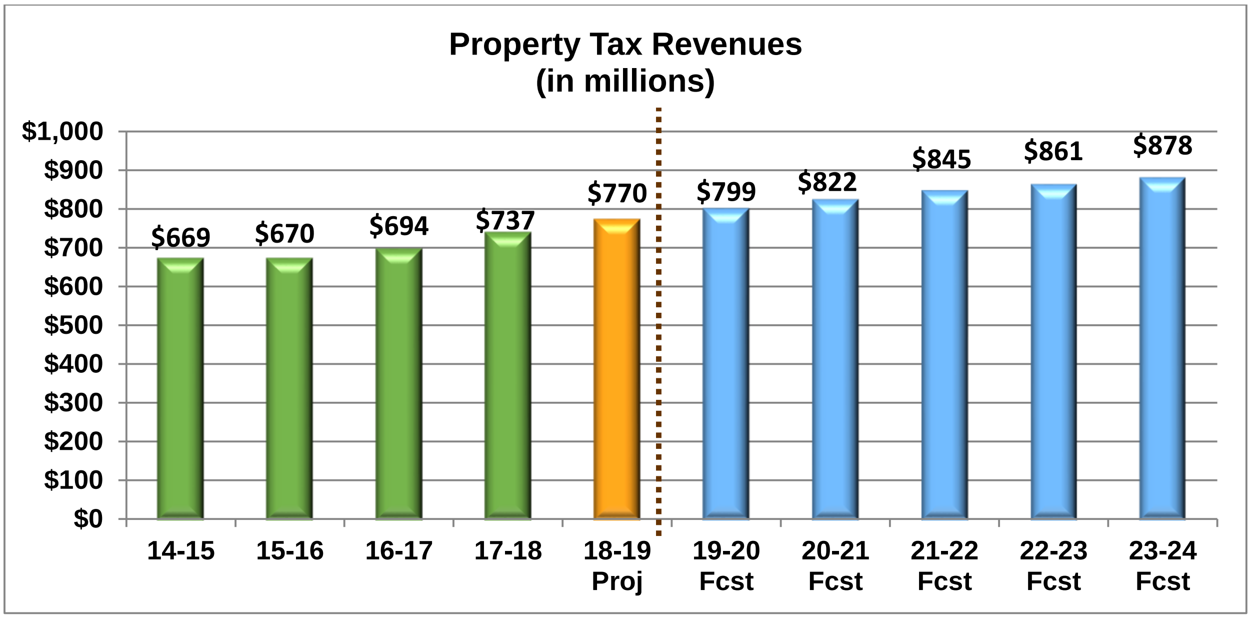
General Purpose Revenue Forecast

The estimated General Purpose Revenue, excluding Fund Balance Unassigned (FBU – defined as funding carried over from the previous year) and reserves, is projected at $823 million for FY 2018-19. Over the next five years, ongoing revenue is forecasted to grow, on average, about 2.5% annually, reaching $930 million in FY 2023-24.



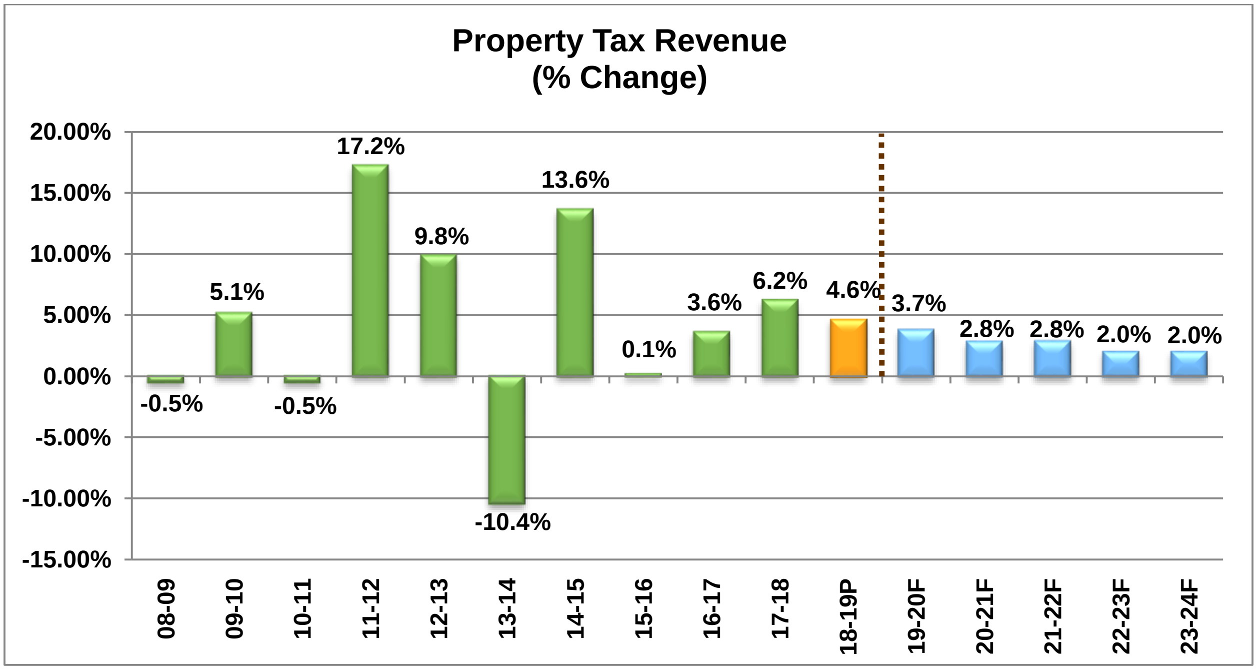
Note: All years exclude Fund Balance Unassigned and Reserves. Forecast years are highlighted after the division line and exclude transfers in. FY 2018-19 reflects projected revenues, and actual receipts will be available after June 2019.

Property Taxes are the largest and most important source of General Purpose Revenues. From FY 2006-07 to FY 2010-11, property taxes accounted for approximately 80% of all General Purpose Revenues. As of November 2018, property taxes were forecasted to account for almost 94% of all General Purpose Revenues. The following chart illustrates the projected growth of property tax revenues over the forecasted period.



In Orange County, housing prices are still on the rise, with a 4.2% median sales price increase year-over-year in September 2018, as reported by CoreLogic. Total homes sold in Orange County decreased by 23.6% in September 2018 from the prior year. The Orange County Assessor's Secured Roll of Values for FY 2018-19 includes an increase of 6.23%.

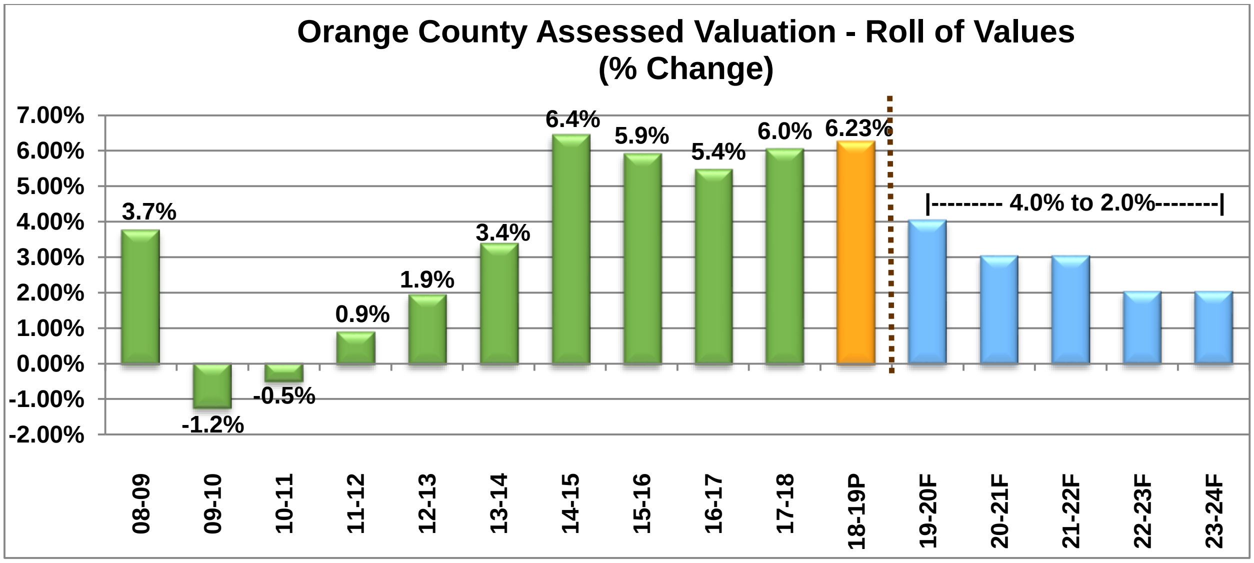
The following chart illustrates the history of property tax revenue growth rates.



The percentage changes shown in the chart above demonstrate wide property tax variances from FY 2009-10 through FY 2013-14, and are explained in the following table:

Fiscal Year	Gross % Change	Adjusted % Change	Variance Explanation
2009-10	+ 5.1%	- 2.1%	Gross % includes SB8 funds of $35 million
2010-11	- 0.5%	- 0.5%	Gross % includes SB8 funds of $35 million
2011-12	+ 17.2%	- 0.2%	Gross % includes SB8 funds of $50 million and VLFAA retention of $73.5 million
2012-13	+ 9.8%	+ 12.1%	Gross % includes SB8 funds of $50 million and VLFAA retention of $75.0 million
2013-14	- 10.4%	+ 10.7%	Adjusted % change assumes exclusion of VLFAA revenue impacts

The following chart illustrates historical percentage changes in the Assessment Roll of Values based on the Orange County Assessor's annual press release. The chart also exhibits projected increases in the secured roll over the forecasted period.



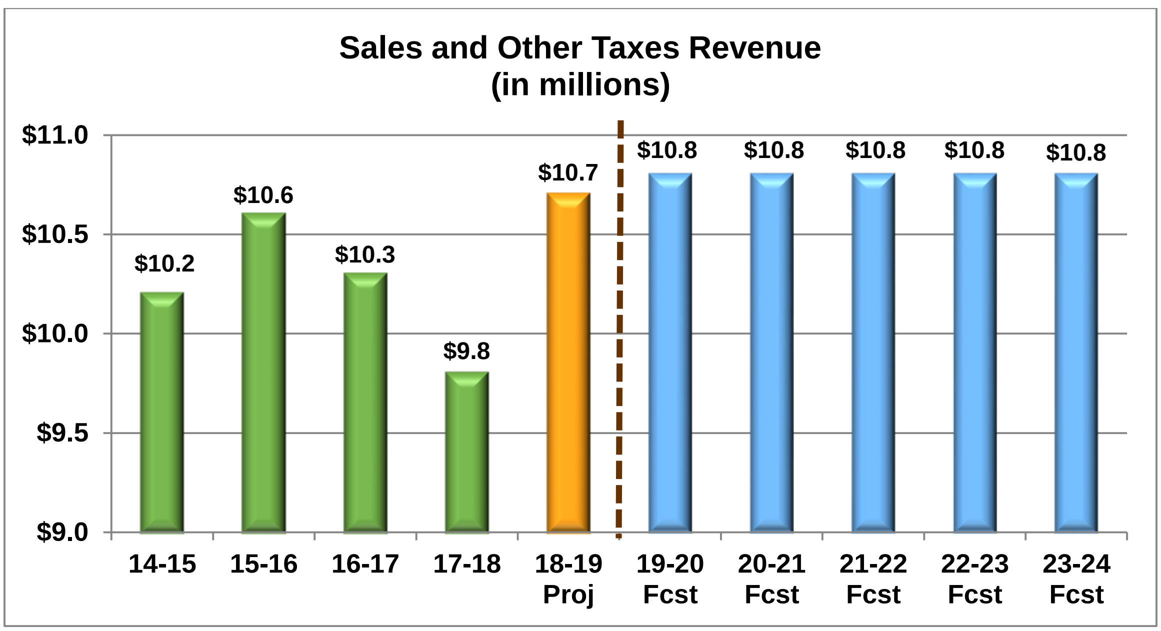
Projections for FY 2019-20 through FY 2023-24 were developed early in the SFP process and incorporated review of economic trends and data. The current SFP projects growth in secured revenue of 5.7% and unsecured revenue of 3.3% in FY 2018-19. The Assessed Roll of Values is potentially affected by new construction, the current commercial market climate, and economic impacts from unemployment, financing, and foreclosures.

Property Tax Administration Fees revenue ranges from $21 million to $23 million annually in the forecast period, averaging 2.6% of total Property Tax Revenue.

Interest income is earned on certain County funds invested by the Treasurer-Tax Collector in compliance with criteria in the Investment Policy Statement approved annually by the Board of Supervisors. The weighted average maturity of the County's investments as of September 30, 2018 was 357 days. Interest income for FY 2018-19 is estimated to be higher than FY 2017-18 due to the fact that there have been seven short-term rate increases totaling 1.75% since November 2016 in the benchmark Federal Funds interest rate established by the Federal Open Market Committee (FOMC). FY 2019-20 is also expected to have an increase in interest income once the last of the short-term interest rates by the FOMC are incorporated into the portfolio as investments mature. Thereafter, if cash balances remain stable, interest income would be expected to remain flat unless the FOMC continues to raise short-term interest rates.

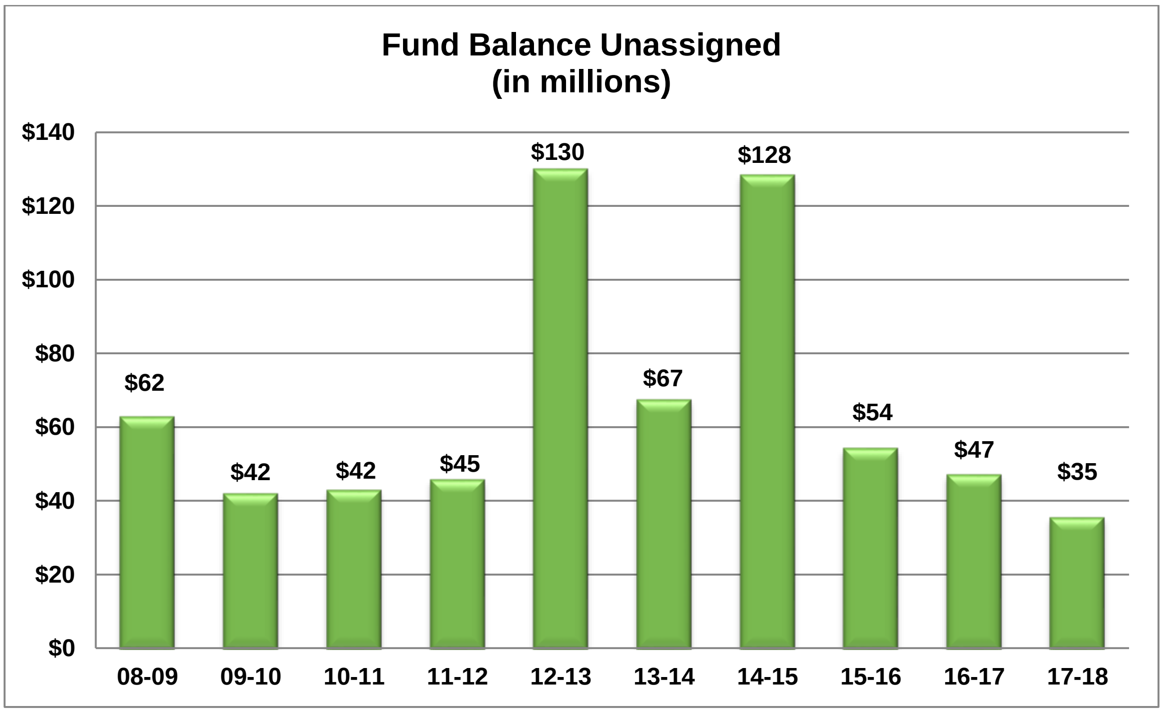
Sales & Other Taxes revenue is mostly comprised of sales and other taxes from unincorporated county areas, as well as aircraft tax revenues. Sales tax is levied on purchases and certain leases that occur in unincorporated county areas. Use tax is also collected on items purchased for business use and 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. Forecasted sales tax revenues take into consideration the continued slow, moderate growth in the economy. Of particular note is the decrease in sales tax revenue between FY 2015-16 and FY 2016-17 due primarily to elimination of the "Triple Flip," which ended the revenue exchange established with Revenue and Taxation Code Section 6201.5 effective December 31, 2015.



Fund Balance Unassigned (FBU) is the final component accounted for in the revenue projection for FY 2018-19. If 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. FBU trended downward beginning FY 2008-09 consistent with periods of declining economic activity and expected as departments were faced with decreasing funding sources to maintain existing levels of operations. Ongoing FBU continues to be consistent with FY 2008-09 through FY 2011-12 amounts except for receipt of one-time revenues that positively impacted FBU in FYs 2012-13 and 2014-15.

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



Note: In FY 2012-13, total FBU of $130 million less State payback, budgeted reserve draw, and one-time RDA revenue leaves net FBU of $29 million. FY 2014-15 FBU includes $47M in one-time Teeter-related revenue and a $49M one-time SB90 reimbursement from the State.

Conclusion

General Purpose Revenues are projected to grow in the current fiscal year and increase slightly over the five years of the SFP. Growth is expected to be moderate and below prior peak experience.