General Purpose Revenue Forecast

Introduction

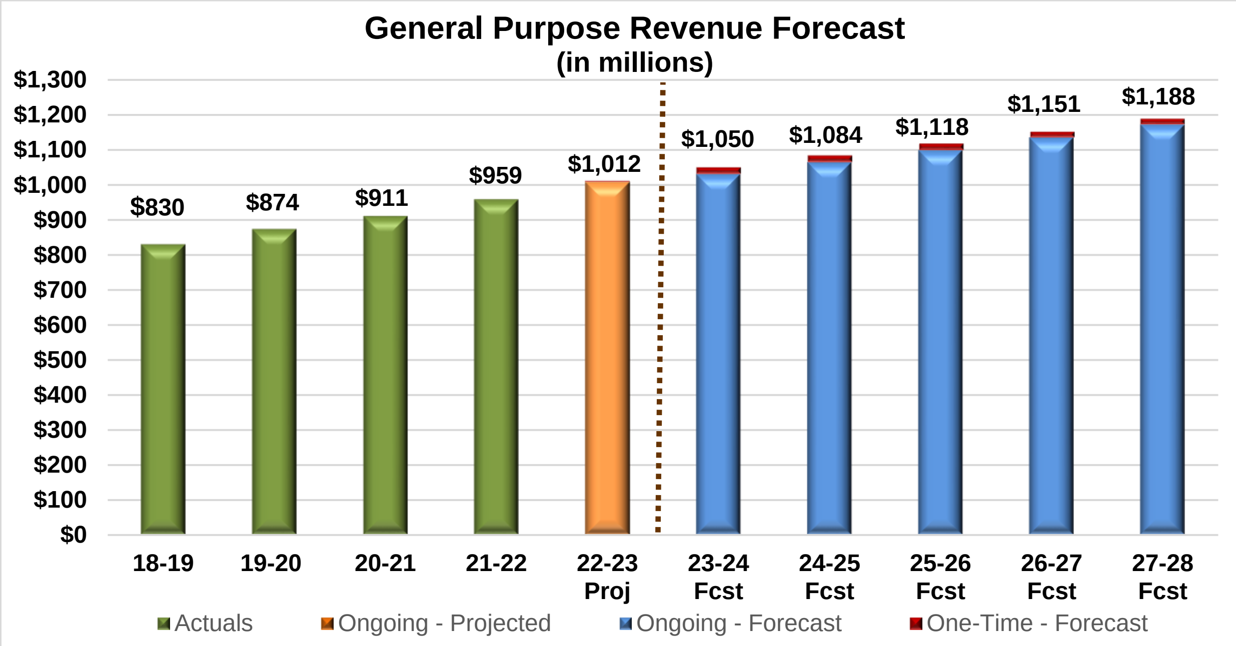
The General Purpose Revenue forecast is a critical component of the Strategic Financial Plan (SFP). The forecast provides projections for the portion of the budget over which the County has some discretion. The County uses approximately 88% of the General Purpose Revenue to meet its mandated services requirements that are not fulfilled by the state and federal governments such as match or maintenance of effort requirements for Community Services programs and operational expenses of the Public Protection and General Government Services departments. Forecasted General Purpose Revenues includes projections for the following sources, which comprise approximately 98% of total ongoing General Purpose Revenues (listed from greatest to least):

1. Property Taxes
2. Property Tax Administration Fees
3. Sales and Other Taxes
4. Interest Income
5. Miscellaneous Revenue
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 are monitored closely and may be modified, if needed, during the FY 2023-24 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 use of General Fund reserves, is projected at $1,012 million for FY 2022-23. Over the next five years, the ongoing revenue growth forecast, on average, is about 4% annually, and reaches $1.2 billion in FY 2027-28.

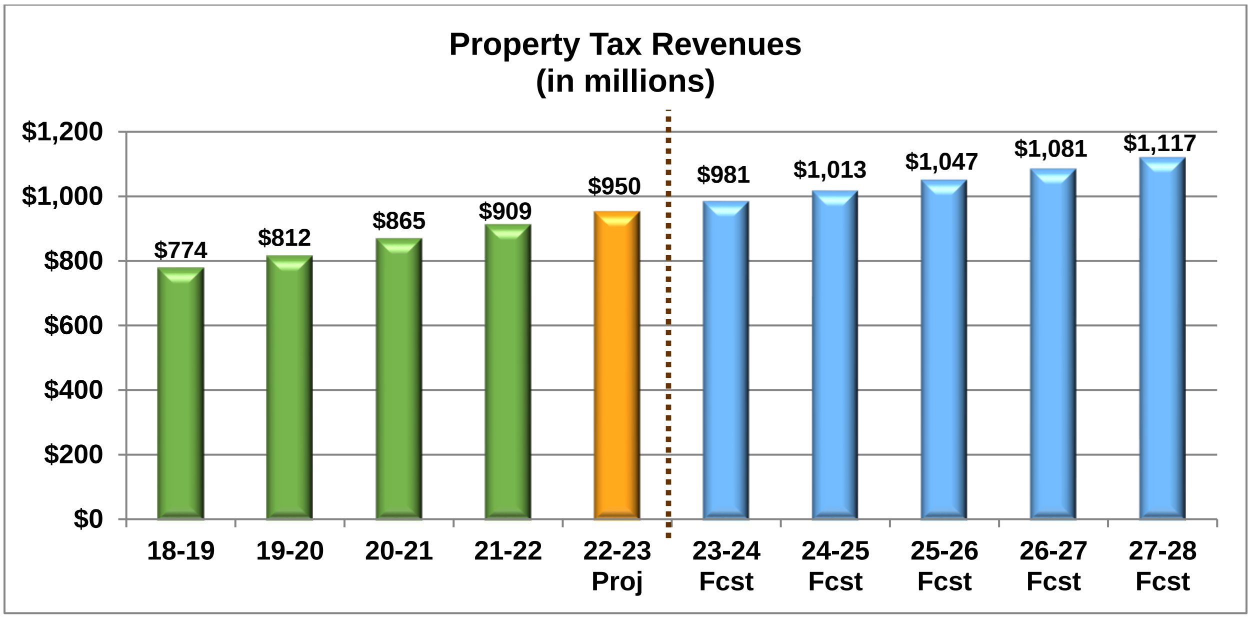


The following table provides detail of the ongoing and one-time revenue sources assumptions (in millions):

Fiscal Year	Ongoing	One-Time Sources & Transfers In: Teeter	OCERS	OC Animal Care Loan Repayment	Total
2021-22*	959.2	0.0	0.0	0.0	959.2
2022-23*	1,009.0	0.0	0.0	2.5	1,011.5
2023-24	1,031.4	6.0	10.0	2.5	1,049.9
2024-25	1,065.0	6.0	10.0	2.5	1,083.5
2025-26	1,099.3	6.0	10.0	2.5	1,117.8
2026-27	1,134.8	6.0	10.0	0.0	1,150.8
2027-28	1,171.5	6.0	10.0	0.0	1,187.5

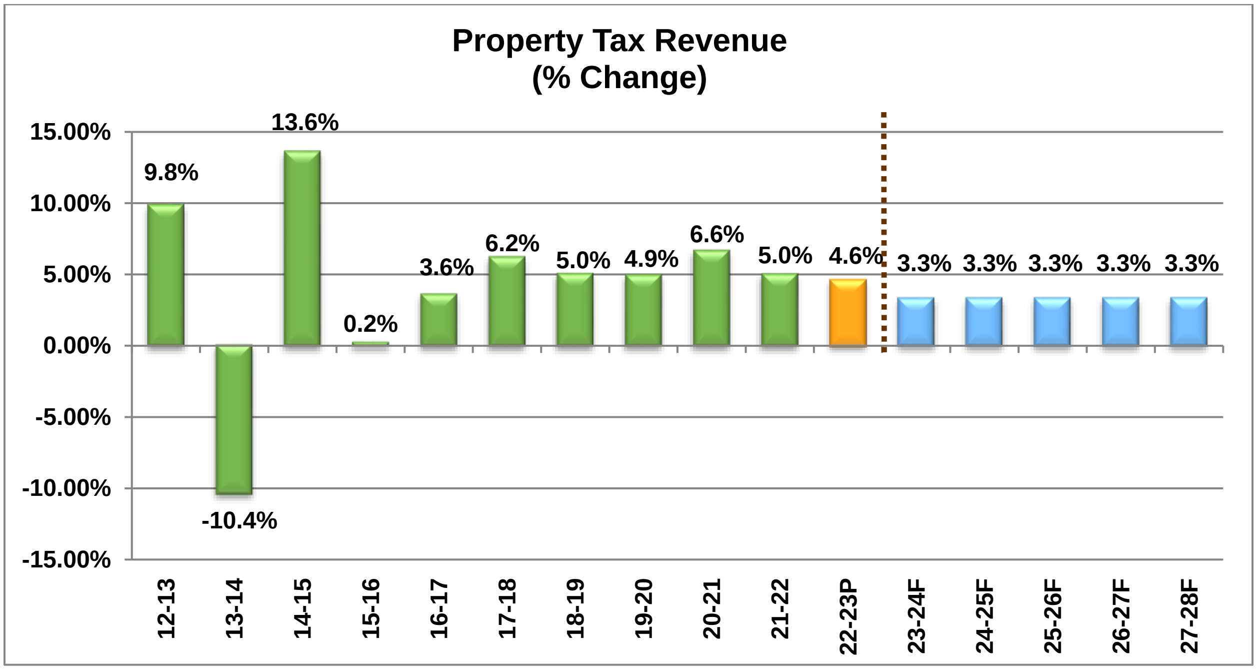
*** FY 2021-22 included use of $21.1M & FY 2022-23 includes use of $10M in OCERS reserves and the FY 2021-22 OC Animal Care repayment were budgeted in Miscellaneous, Budget Control 004, rather than with the General Purpose Revenue.**

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 2022, 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 continued to rise, with a year-over-year 9.1% increase in the median sales price for newly built and existing homes in August 2022, as reported in the California Association of Realtors August Home Sales and Price Report on September 16, 2022. However, as a whole, Orange County sales volume decreased by 30.2% from the prior year which is not projected to negatively impact overall property tax revenues. The Orange County Assessor's Secured Roll of Values for FY 2022-23 includes an increase of 6.4%.

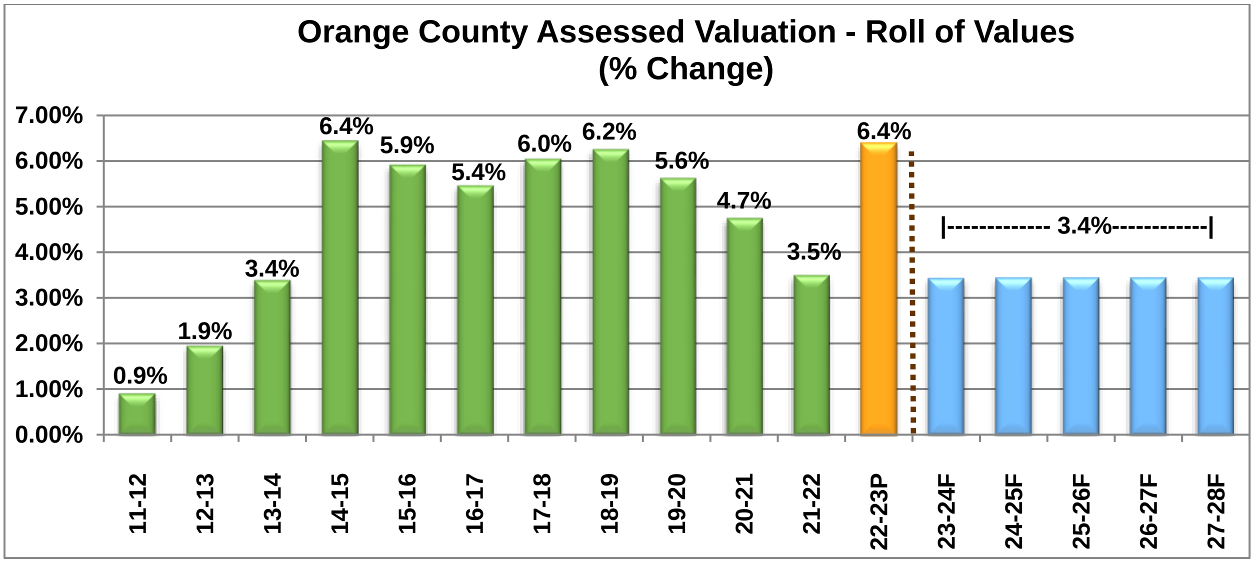
The following chart illustrates the history of property tax revenue growth rates as well as forecasts for the five years of the SFP.



The percentage changes shown in the chart above demonstrate wide property tax variances from FY 2012-13 through FY 2016-17, and the following table provides explanations:

Fiscal Year	Gross % Change	Adjusted % Change	Variance Explanation
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
2014-15	+ 13.6%	+ 5.7%	Gross % includes one-time Teeter Penalty Tax Loss Reserves of $46.7 million
2015-16	+ 0.2%	+ 5.8%	Gross % includes a net decrease of $35.0 million due to prior year and current year one-time Teeter Penalty Tax Loss Reserves adjustments
2016-17	+ 3.6%	+ 5.4%	Gross % includes a decrease of $11.6 million in prior year one-time Teeter Penalty Tax Loss Reserves adjustments

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.



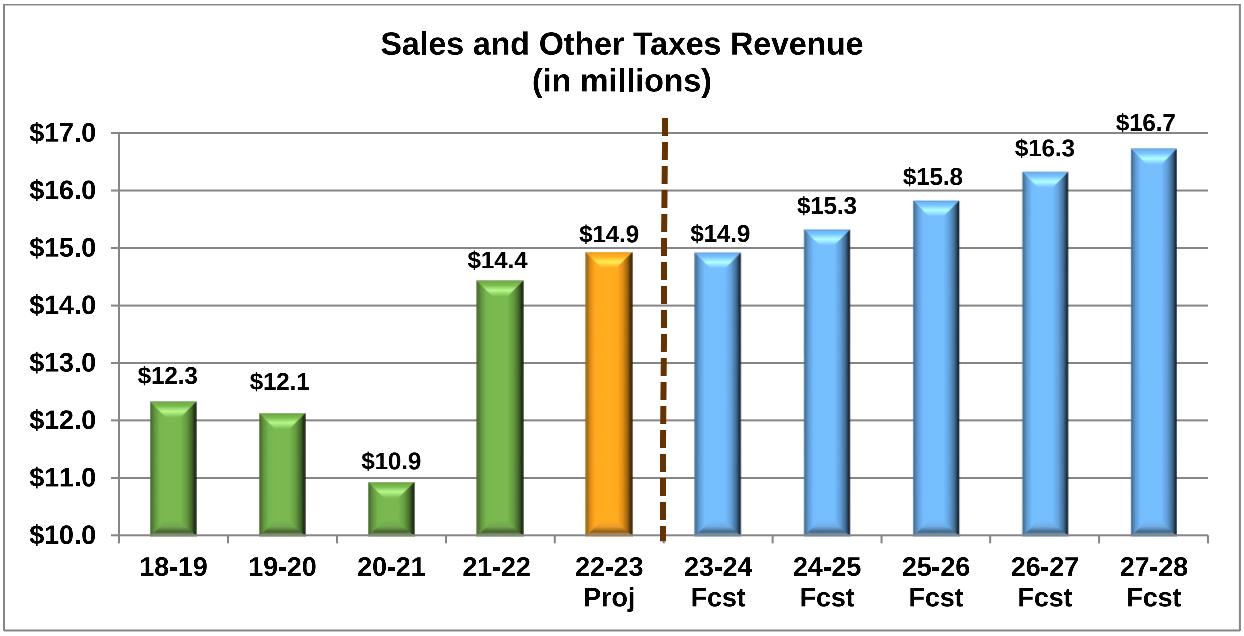
Projections for FY 2023-24 through FY 2027-28 were developed early in the SFP process and incorporated review of economic trends and data. The current SFP projects growth in secured revenue of 6.5% and unsecured revenue of 1.7% in FY 2022-23. The Assessed Roll of Values is potentially affected by new construction, the current commercial market climate, and economic impacts from unemployment, financing, and foreclosures.

Property Tax Administration Fees revenue ranges from $22.4 million to $24.7 million annually in the forecast period, averaging 2.3% of total Property Tax Revenue.

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, below trend growth in the economy.

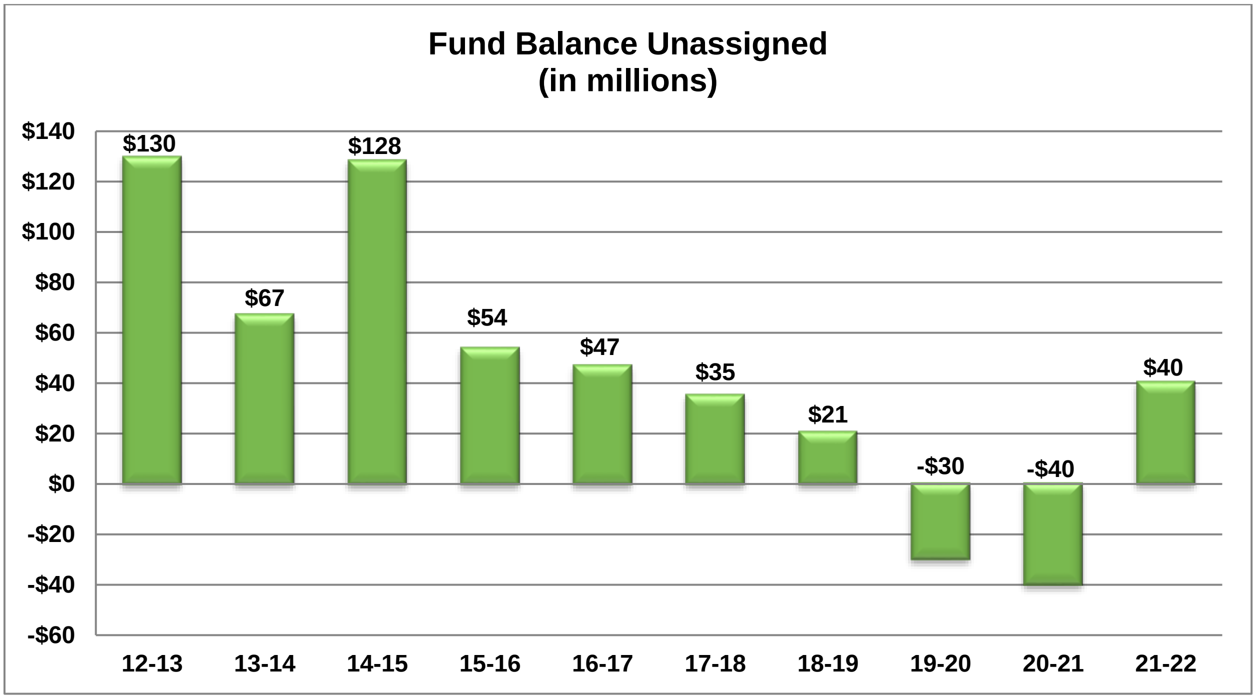


Interest income is earned on public funds County funds invested by the Treasurer-Tax Collector in compliance with criteria in the Investment Policy Statement approved annually by the Board of Supervisors. The duration of these pooled investments as of September 30, 2022 was 0.63 years (230 days). Interest income yields for FY 2022-23 have significantly increased from last fiscal year due to the Federal Open Market Committee (FOMC) sharply raising short-term interest rates from 0.00% to 4.00% as of November 2, 2022 and have also caused the yield curve to invert. The FOMC anticipates additional rate increases in calendar year 2022 and 2023. Based on the current FOMC rate range of 3.75% to 4.00% and no new rate increases, the apportionment yield for FY 2022-23 is forecasted to be 1.80% and a higher apportionment yield forecast for FY 2023-24. However, if short-term rates continue to rise as anticipated by the FOMC, the yield is expected to further rise in both this and next fiscal year.

Other General Fund Sources include transfers in from the Teeter debt service fund (Teeter), OC Animal Care Center loan repayment and use of OCERS Investment Account reserves. In FY 2022-23, the County budgeted transfers in primarily from the Teeter fund and OC Animal Care Center loan repayment at $6 million and $2.5 million, respectively. Over the five years of the SFP, projections of annual transfers in from the Teeter fund are $6 million per year, while projections of annual transfers in for the OC Animal Care Center loan repayment are $2.5 million per year through FY 2025-26. In addition, the County General Fund can draw from the OCERS Investment Account reserves toward the cost of retirement. The actual draw was $10 million in FY 2022-23 and is projected at $10 million per year for all five years of the SFP beginning with FY 2023-24; however, actual use of the OCERS Investment Account reserves is determined annually and contingent upon earning sufficient investment returns, without impacting the principal balance.

Fund Balance Unassigned (FBU) is the final component accounted for in the revenue projection for FY 2022-23. 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 recorded as increases or decreases to obligated fund balance. In FYs 2012-13 and 2014-15, receipt of one-time revenues positively affected the FBU balances. However, since FY 2015-16 FBU balances have been on a downward trajectory falling from $54 million in FY 2015-16 to $21 million in FY 2018-19 as costs of doing business outpace revenue growth and departments are unable to achieve prior levels of savings. In FY 2019-20 and FY 2020-21, due to the COVID-19 pandemic FBU was a negative $30 million and $40 million respectively, necessitating a draw from contingency and budget stabilization reserves to balance the General Fund. In FY 2021-22, through responsible fiscal management, strategic planning and prudent allocation of resources, FBU closed with a positive balance of $40 million, which was transferred to the Budget Stabilization Reserve to meet Government Finance Officers Association recommended target for FY 2022-23.

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 projects 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

The County's 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. The County uses approximately 88% of the General Purpose Revenue to meet its mandated services or provide required funding to meet state and federal grant and allocation requirements.