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 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. Miscellaneous Revenue
3. Interest Earnings
4. Sales and Other Taxes
5. Property Tax Administration Fees
6. Franchises and Rents Revenue
7. Interest Earnings
8. Sales and Other Taxes
9. Property Tax Administration Fees
10. Franchises and Rents Revenue

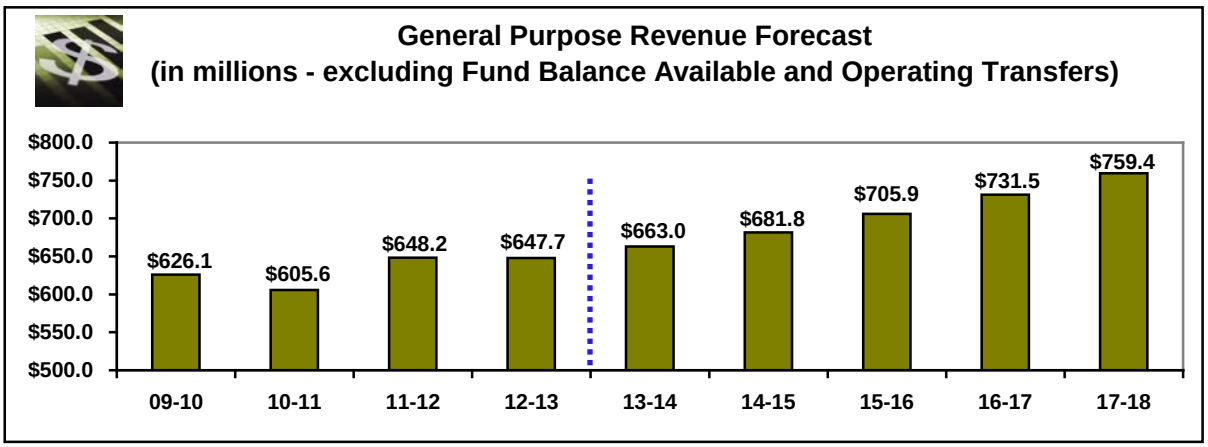
The County Executive Office (CEO) prepared the projections considering historical and current revenue and economic trends, forecasts prepared by the Auditor-Controller, and forecasts by other counties, governmental entities such as the Orange County Transportation Authority and local economists (e.g. Chapman, Fullerton, and UCLA). Due to continued uncertainty in the economy and volatility in General Fund revenue sources, the SFP projections will be monitored closely and modified if appropriate during the FY 2013-14 annual budget process.

Please note that in all of the following forecasts, FY 2012-13 represents estimates of current fiscal year receipts, based upon trends through September 2012. FY 2013-14 through FY 2017-18 represent forecasted receipt trends.

General Purpose Revenue Forecast

For FY 2013-14, 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 $663.0 million. Over the next four years, on-going revenue is forecasted to grow, on average, about 3.5%, reaching $759.4 million in FY 2017-18 (see following chart). This growth primarily results from the realization of incremental growth in property tax and sales tax receipts, additional property tax dollars related to the passage of Senate Bill 8 (SB8, Correa) in 2009, and inclusion of Vehicle License Fee Adjustment Amount (VLFAA) revenues ($73 million to $86 million annually over 5 years). The VLFAA revenues are currently disputed by the State and a pending lawsuit regarding these revenues is a major threat to the County's fiscal condition. Projected growth in this Plan is above 2011 SFP projections due to higher growth than previously projected for property taxes as well as the inclusion of the VLFAA revenues.

(Note: In all of the following charts, charts are divided to highlight forecasted trends for the five SFP years. Please note that FY 2012-13 also reflects projected revenues. Actual receipts will not be known until after June 2013)

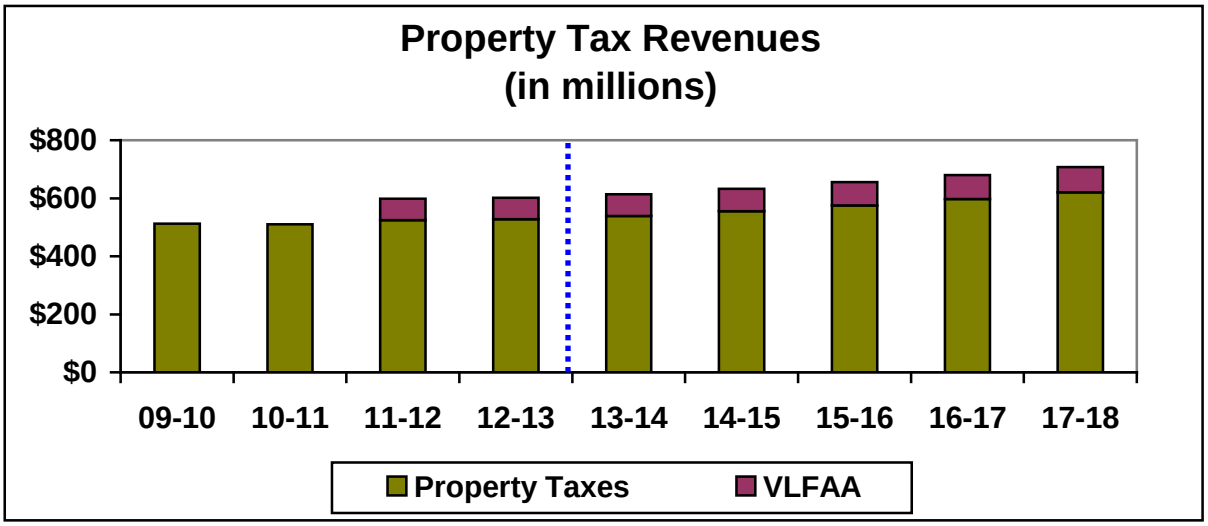


Property Taxes are the largest and most important source of General Purpose Revenues. Beginning in FY 2008-09 and through FY 2010-11, property taxes accounted for just over 82% of all General Purpose Revenues. As of November, FY 2012-13, due to the inclusion of the VLFAA revenues, property taxes were forecasted to account for just over 91% 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.

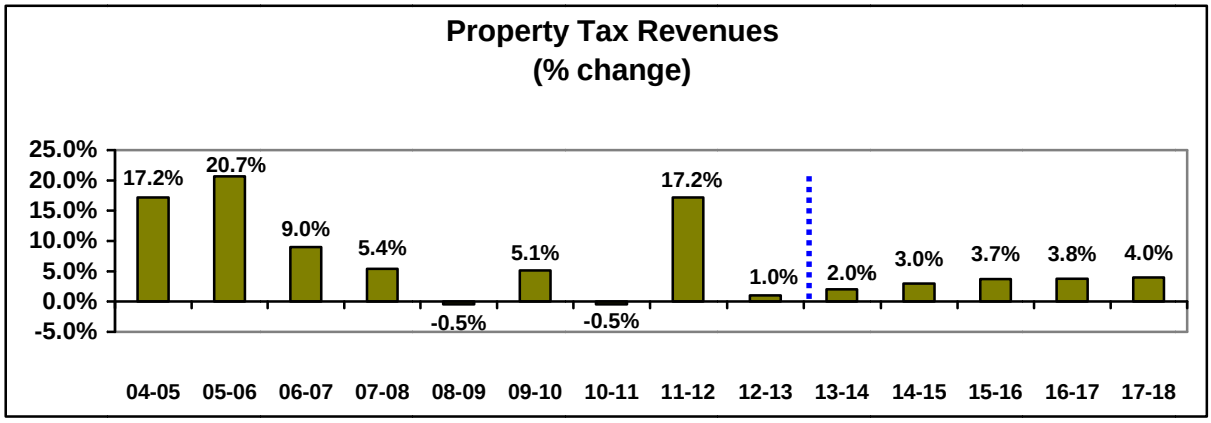
2. Senate Bill 8 (Correa) provides an ongoing supplement to property tax revenue of $35 million which began FY 2009-10, and increased to $50 million in FY 2011-12 and each year thereafter.

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



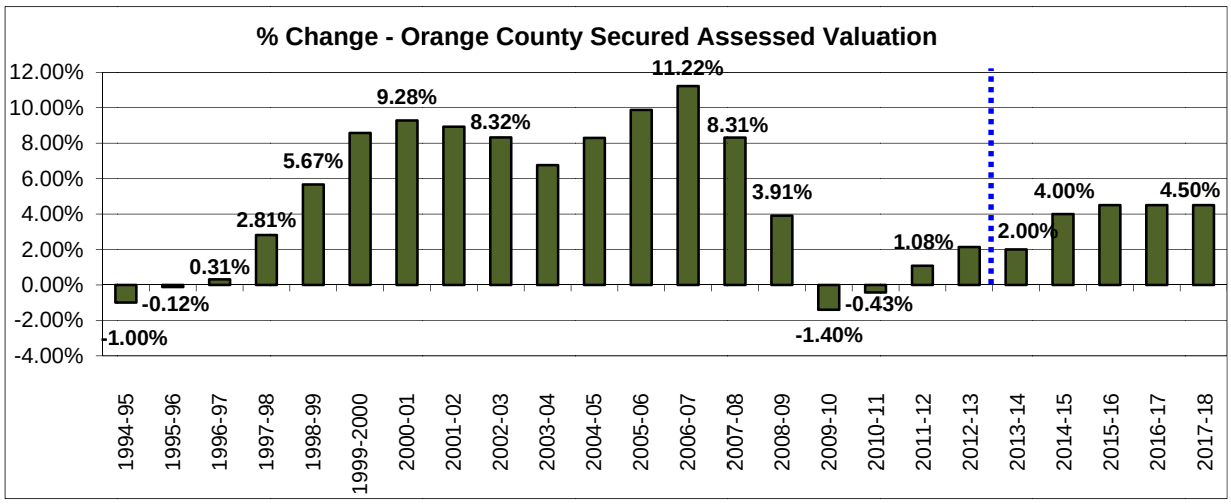
Due to the inclusion of VLFAA, the property tax revenue projected in the 2012 SFP is greater than what was anticipated in the 2011 plan. Although the housing market is recovering slowly, there has been growth in sales and prices for 2012 compared to 2011. The Orange County Assessor's Secured Roll Values for FY 2012-13 include an increase of 2.14% and the S&P Case-Shiller Home Price Index reported a 4% increase in Los Angeles-Orange County home prices from September 2011.

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 be 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 based upon the annual press release by the Assessor Department. Change in value for FY 2012-13 through FY 2014-15 represents projections.



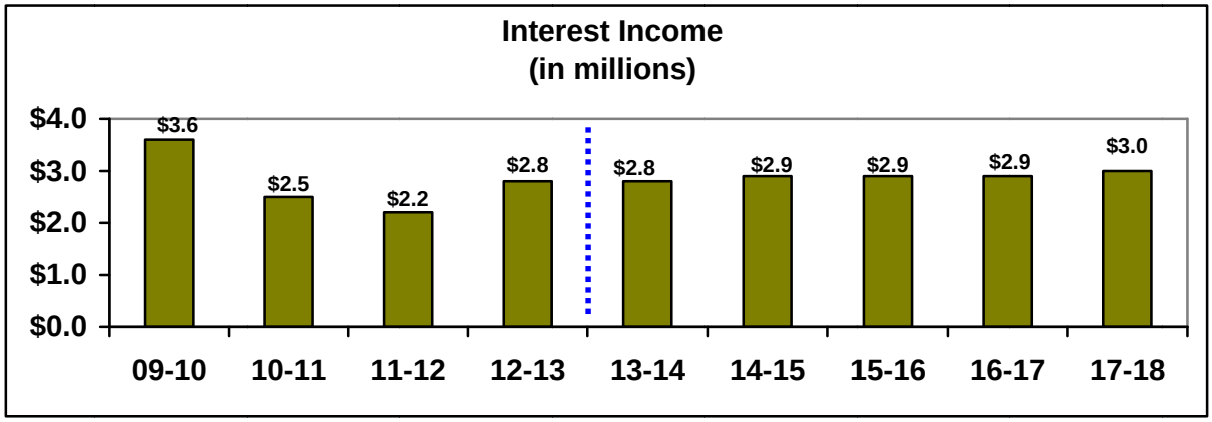
Projections for FY 2012-13 through FY 2017-18 were developed early in the SFP process and in conjunction with review of current economic trends, surveys of other, similar Counties, and data compiled by economists. The Orange County Tax Assessor recently released preliminary growth projections for the July 2013 Assessed Roll of Values. The release projects growth of the total roll (secured and unsecured) at +/- 1.0%. The current SFP forecast projects secured revenue growth of 2.14% and unsecured revenue decline of -1.8%. 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 was the second most important source of General Purpose Revenue, comprising an average of approximately 7% of total General Purpose Revenue during the plan years. 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 continued to receive some of its VLF revenue to make the bankruptcy related debt service payment. In July 2011, the state balanced part of the state budget shortfall by reallocating $49.5 million of Orange County VLF receipts for other state purposes.

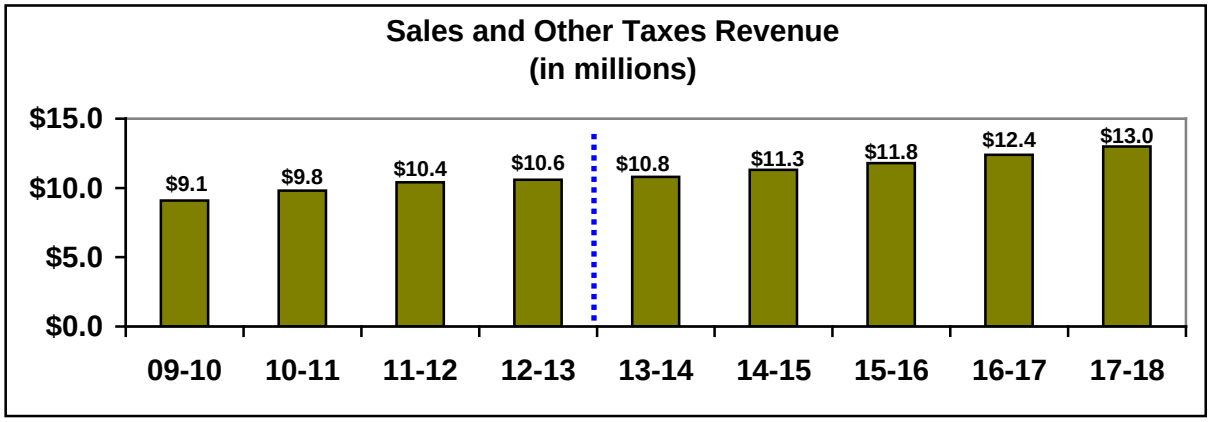
The state had the authority to reallocate the County's VLF; however, the County believes the reallocation of the County's VLF by the state triggers the exchange of additional allocation of property taxes to the County as required by R&T 97.70. The County's Auditor-Controller made this allocation of property tax in lieu of VLF (referred to as VLFAA), and the County has included this revenue in the SFP. The State is challenging the County's interpretation of R&T 97.70 and the pending lawsuit regarding these revenues poses major threat to the County's fiscal condition.

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 2012-13 is estimated to remain flat at $2.8 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.

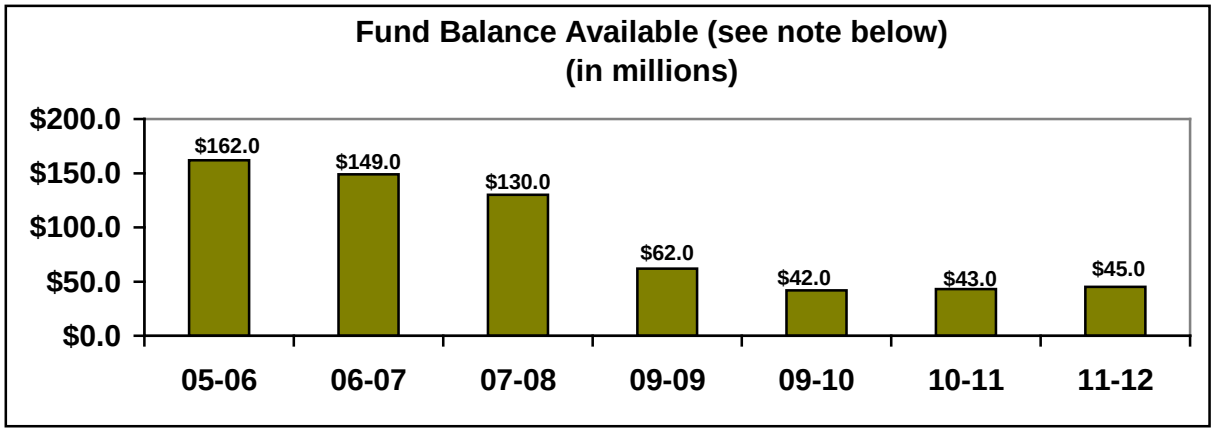
The County's sales tax revenue (please see the following chart) does not incorporate the half-cent tax levied for Public Safety. The Public Safety Sales Tax is distributed separately and is restricted for public safety uses. Sales and Other Taxes revenue on average comprise less than 2% of total General 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 are 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 County is projecting an FBA forecast of $0 for all five years of the forecast period.



Note: Since FY 2010-11, FBA balances have been allocated in part, or in whole, to General Fund Strategic Priority Reserves per policy adopted by the Board with the 2010 SFP.

Conclusion:

General Purpose Revenues are projected to remain level in the current fiscal and increase modestly over the five years of the SFP. Beginning with FY 2013-14, growth is expected to be at low to moderate rates and well below prior peak experience during the 2000 to 2007.