General Purpose Revenue Forecast

<u>Introduction</u>

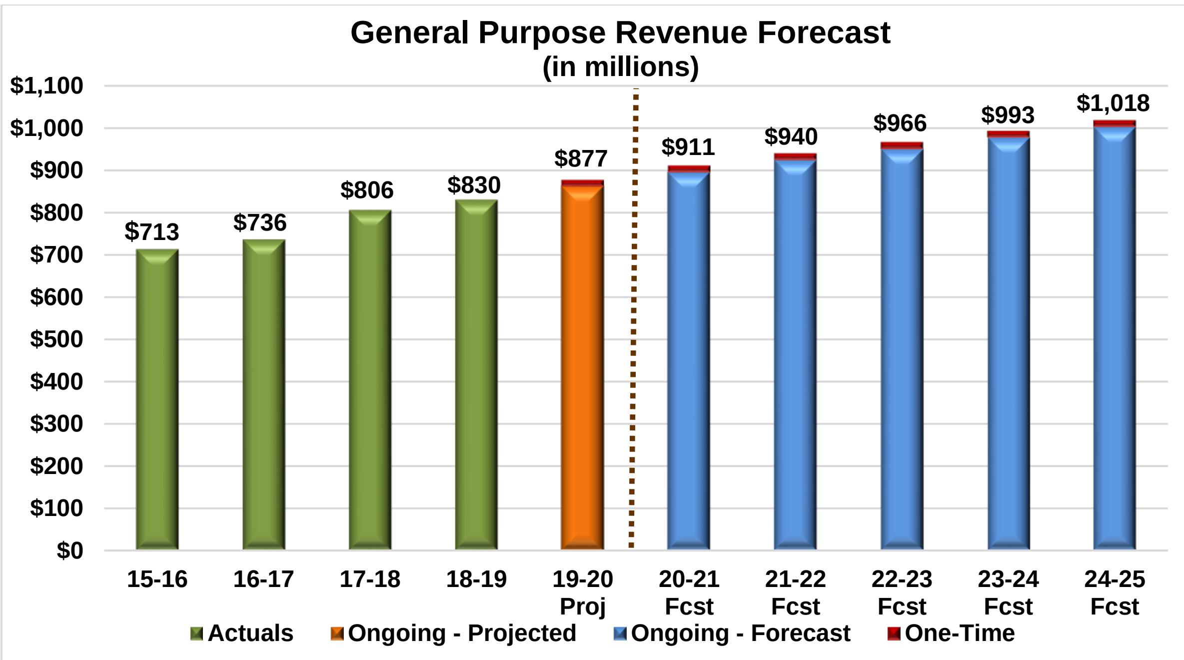
The General Purpose Revenue forecast is a critical component of the Strategic Financial Plan (SFP). The forecast provides projections for the portion of the budget over which the County has discretion. The General Purpose Revenue forecast includes projections for the following sources, which comprise approximately 98% of total ongoing General Purpose Revenues (listed from greatest to least) and 93% of all General Fund sources:

1. Property Taxes
2. Property Tax Administration Fees
3. Interest Earnings
4. Sales and Other Taxes
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 will be modified, if needed, during the FY 2020-21 annual budget development process.

General Purpose Revenue Forecast

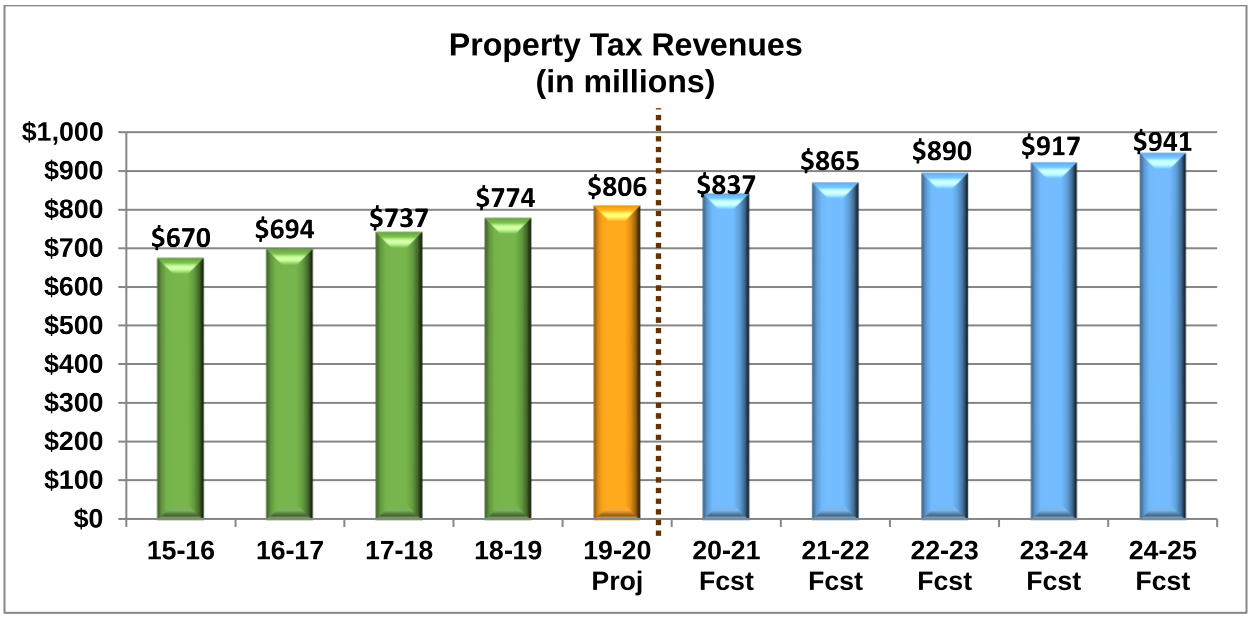
The estimated General Purpose Revenue, excluding Fund Balance Unassigned (FBU – defined as funding carried over from the previous year) and use of General Fund reserves, is projected at $877 million for FY 2019-20. Over the next five years, the ongoing revenue growth forecast, on average, is about 3% annually, and reaches over $1 billion in FY 2024-25.



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

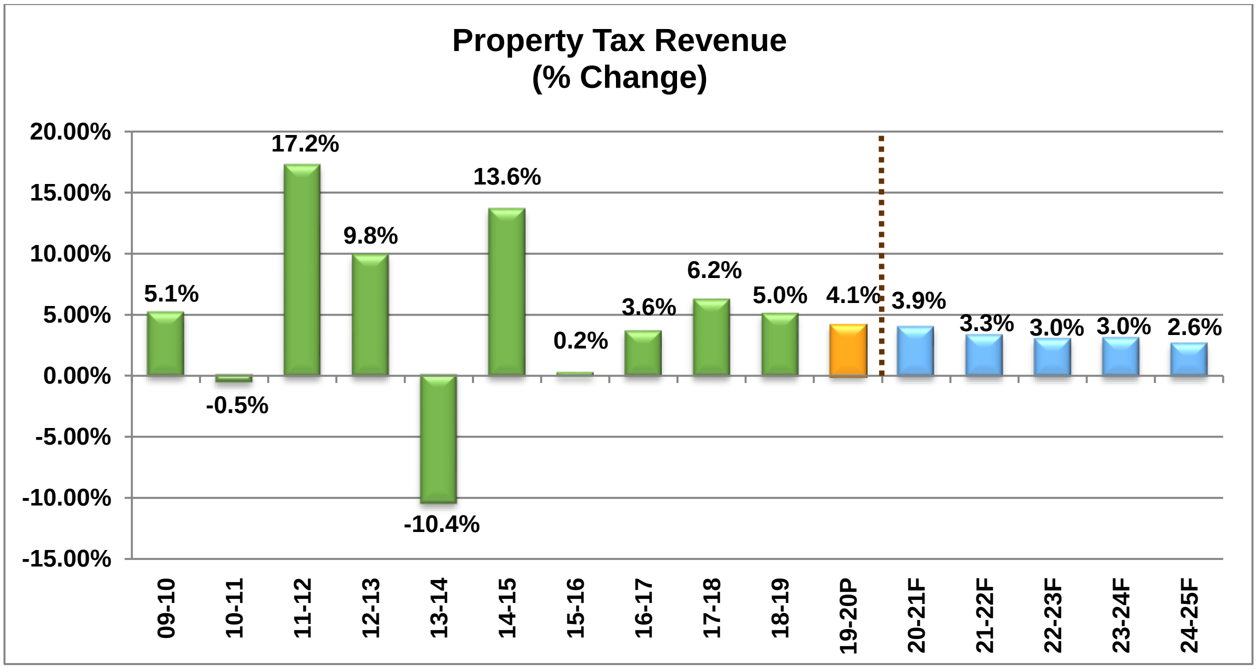
		One-Time Sources & Transfers In		
Fiscal Year	Ongoing	Teeter	OCERS	Total
2018-19	$ 830.1	$ 0.0	$ 0.0	$ 830.1
2019-20	861.8	15.2	0.0	877.0
2020-21	895.2	6.0	10.0	911.2
2021-22	923.6	6.0	10.0	939.6
2022-23	949.8	6.0	10.0	965.8
2023-24	977.4	6.0	10.0	993.4
2024-24	1,001.7	6.0	10.0	1,017.7

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 2019, property taxes were forecasted to account for almost 93% 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 have declined, with a year-over-year 2.3% decrease in the median sales price for newly built and existing homes in September 2019, as reported in the Orange County Register on October 31, 2019, using data compiled by DQ News. As a whole, Orange County sales volume increased by 13.1% from the prior year. The Orange County Assessor's Secured Roll of Values for FY 2019-20 includes an increase of 5.6%.

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

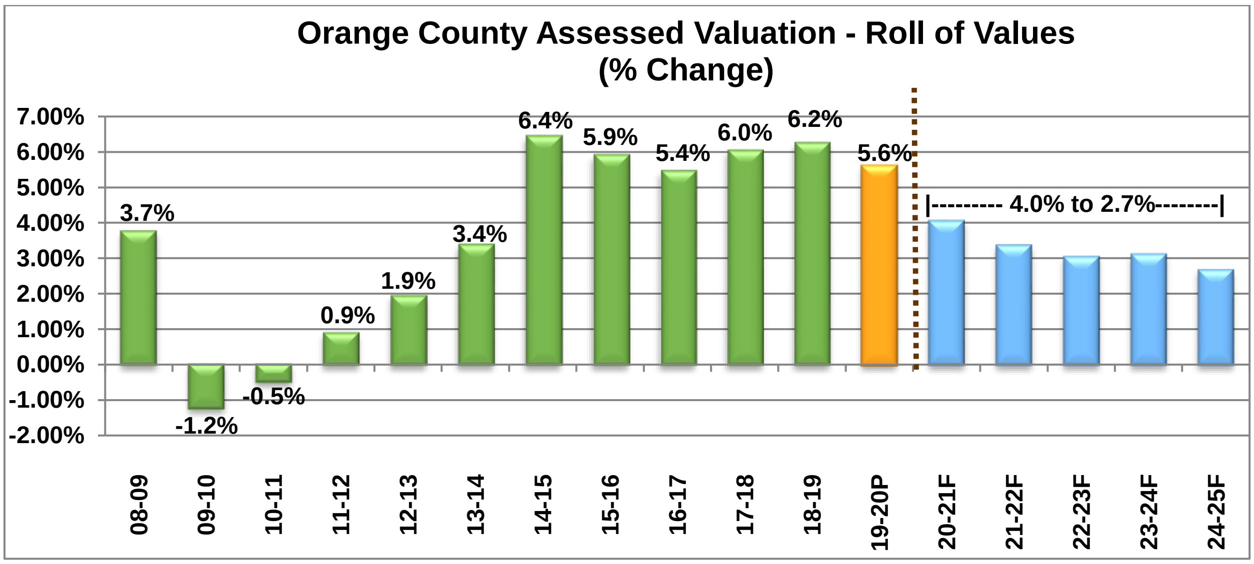


The percentage changes shown in the chart above demonstrate wide property tax variances from FY 2009-10 through FY 2016-17, and the following table provides explanations:

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
2014-15	+ 13.6%	+ 5.7%	Gross % includes one-time Teeter Penalty Tax Loss Reserves of $46.7 million

Fiscal Year	Gross % Change	Adjusted % Change	Variance Explanation
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.



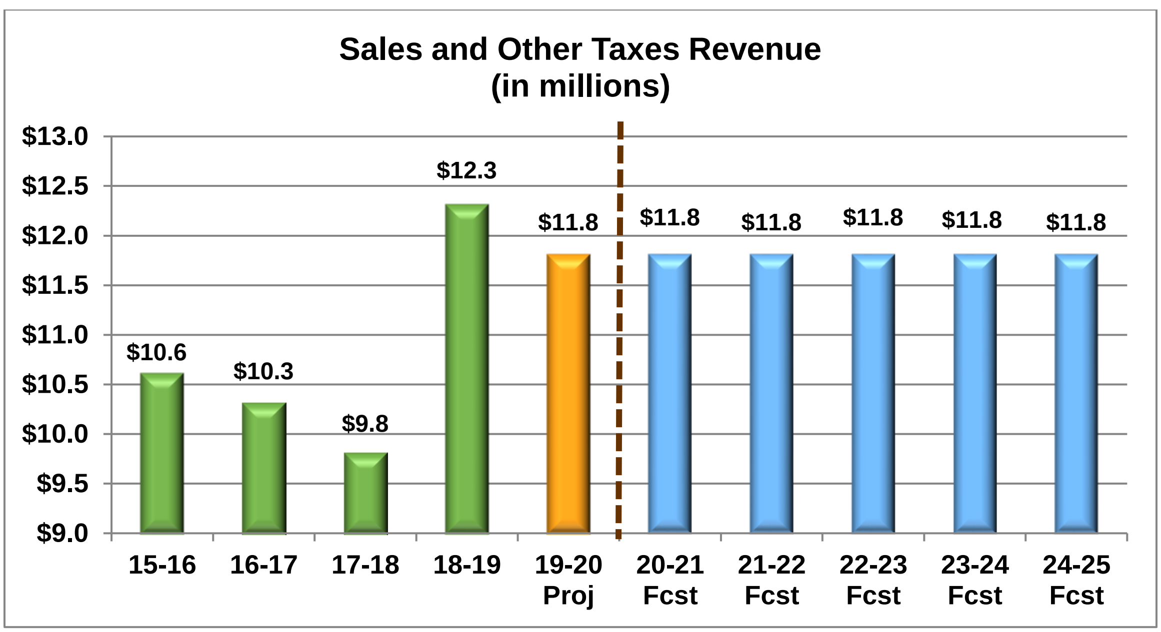
Projections for FY 2020-21 through FY 2024-25 were developed early in the SFP process and incorporated review of economic trends and data. The current SFP projects growth in secured revenue of 5.1% and unsecured revenue of 2.9% in FY 2019-20. The Assessed Roll of Values is potentially affected by new construction, the current commercial market climate, and economic impacts from unemployment, financing, and foreclosures.

Property Tax Administration Fees revenue ranges from $24.5 million to $26.6 million annually in the forecast period, averaging 2.9% 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, 2019 was 329 days. Interest income for FY 2019-20 is estimated to be somewhat higher than FY 2018-19 assuming that cash balances remain relatively static. However, there is some risk in the projections as there have been three short-term rate reductions since July 2019 in the benchmark Federal Funds interest rate established by the Federal Open Market Committee (FOMC). Projected interest income over the five years of the Plan grows by 1.34% per year based on estimates provided by the Treasurer-Tax Collector which is still below the most recent FOMC -rate range of 1.50% to 1.75%.

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.

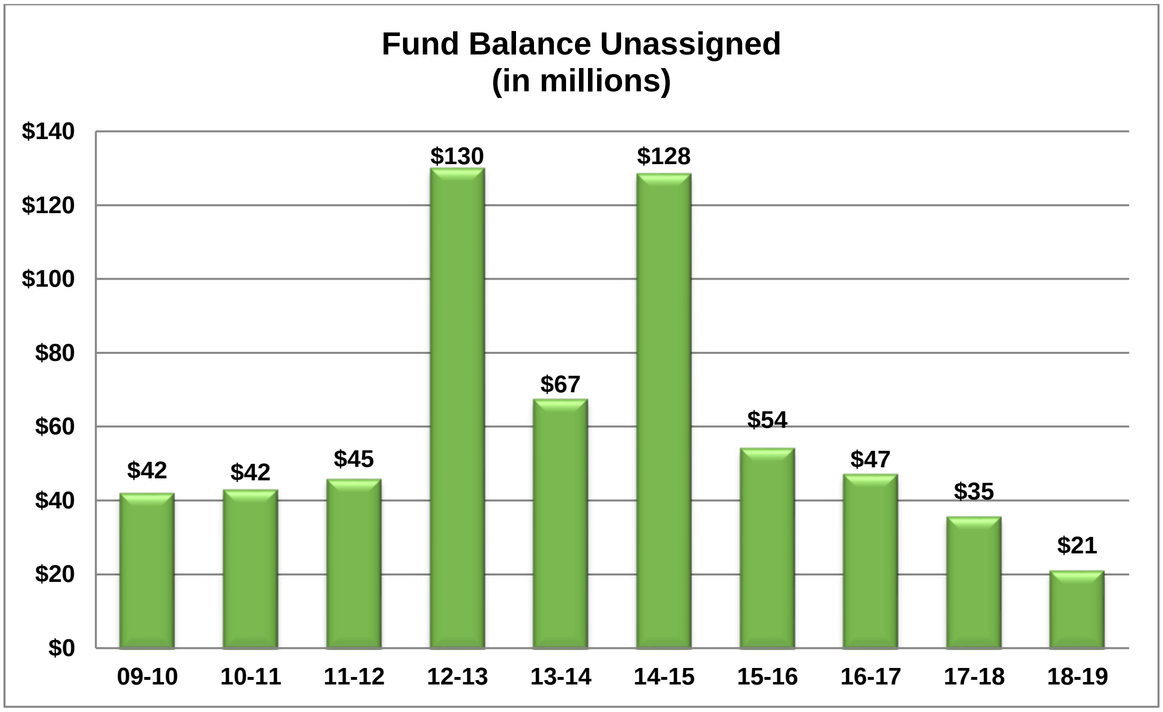
The County's sales tax revenue does not incorporate the half-cent tax levied for Public Safety. The Public Safety Sales Tax is distributed separately and is restricted for public safety uses. Sales and Other Taxes revenue on average comprise less than 2% of total General Purpose budgeted revenues. Forecasted sales tax revenues take into consideration the continued slow, moderate growth in the economy.



Other General Fund Sources include transfers in from the Teeter debt service fund (Teeter) and use of OCERS Investment Account reserves. In FY 2019-20, the County budgeted transfers in from the Teeter fund of $15.2 million including $9.2 million for the Sheriff-Coroner Intake Release Center modifications. Over the five years of the Plan, projections of annual transfers in from the Teeter fund are $6 million per year. In addition, the County General Fund can draw from the OCERS Investment Account reserves toward the cost of retirement and the projected draws are $10 million per year for all five year of the Plan beginning with FY 2020-21.

Fund Balance Unassigned (FBU) is the final component accounted for in the revenue projection for FY 2019-20. 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. FBU balances for FYs 2009-10 through 2011-12 were relatively stable and consistent. 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.

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

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.