

Sales Tax Forecast Methodology

Background

- Chapman University Forecast
 - Since inception of Measure M (M1) in 1991
- Three University Forecast
 - Since development of Measure M2 (M2)
 - Average of three forecasts
 - Chapman University (Chapman)
 - University of California, Los Angeles (UCLA)
 - California State University, Fullerton (CSUF)
- OCTA has historically used the same growth rate to forecast both sales taxes

Forecasted Sales Taxes

- Local Transportation Authority (LTA) sales tax
 - Local ½ cent sales tax
 - Generates approximately \$300M per year
 - Funds the M2 Program
- Transportation Development Act (TDA) sales tax
 - Statewide ¼ cent sales tax
 - Generates approximately \$160 million per year
 - Primary source of funding for bus operations

Concerns With Current Methodology

- Forecast performance has varied
 - Not accurate during the 3 years of the recession
 - Very accurate for the first 3 years after the recession
 - Sales tax receipts underperforming forecasted rates since FY 2014
- Relationship between growth rates for LTA and TDA
 - With few exceptions growth in TDA has been close to or outperformed growth in LTA
 - The past 2.5 years growth in TDA has been less than LTA
 - Trend may be due to structural differences between sales taxes and may continue into the future

Evaluated Options

- Received forecasts from two additional sources, which were Beacon Economics and MuniServices
- Beacon Economics
 - Generally consistent with Chapman though less optimistic in short term and more optimistic in long-term

Fiscal Year	Chapman	UCLA	CSUF	Beacon
2016 - 2021	5.3%	4.7%	6.1%	5.0%
2022 - 2041	4.3%	4.3%	4.3%	4.5%
2016 - 2041	4.5%	4.3%	4.7%	4.6%
M2 Program Revenue *	\$15.8	\$15.2	\$16.4	\$15.8

* M2 Program revenue in billions from 2011 - 2041

Evaluated Options (cont.)

- MuniServices provided OCTA with an LTA forecast in the fall of 2012
- Forecast has been accurate

Fiscal Year	Forecast Rate	Actual Rate	Variance
2013	7.1%	6.2%	-0.9%
2014	4.7%	4.8%	0.1%
2015	4.3%	4.3%	0.0%
2016 *	3.5%	3.3%	-0.2%
2017	3.2%		
2018	3.0%		

* Represents fiscal year-to-date actuals through September 2015

MuniServices Performance

- MuniServices fall of 2012 LTA forecast has been more accurate than others
- Fall of 2015 LTA forecast is more optimistic than fall of 2012
 - Forecast FY 2016 growth of 4.1%
 - Receipts of 3.3% through December 2015
 - Chapman most conservative university at 5.7%
- Provided fall of 2015 TDA forecast
 - Forecast FY 2016 growth of 3.1%
 - Receipts of 2.7% through December 2015

Recommended Changes to Methodology

- Use independent sales tax growth rate forecasts for LTA and TDA sales taxes
- For LTA sales tax forecasting, use MuniServices, LLC forecast for the first 5 years and the three university average for the remaining years
- For Transportation Development Act sales tax forecasting, use MuniServices, LLC forecast for the first 5 years and the proportional growth of the Transportation Development Act sales tax relative to the growth of the Local Transportation Authority sales tax based on MuniServices, LLC forecasts applied to the three university average annual growth rate for the remaining years
- Implement the change in methodology with the development of the fiscal year 2016-17 OCTA budget

Next Steps

- Change in methodology will result in reduction in forecasted LTA and TDA sales tax revenue
 - Estimated LTA sales tax revenue available to support the M2 Program will decrease from \$15.8 BN to \$15.0 BN
 - Estimated TDA sales tax revenue available to support the bus program will decrease from \$8.4 BN to \$6.7 BN
- Staff has been directed to update the M2020 Plan and Comprehensive Business Plan