November 9, 2015

To: Members of the Board of Directors

From: Laurena Weinert, Clerk of the Board

Subject: Measure M2 Sales Tax Forecast

<u>Finance and Administration Committee Meeting of October 28, 2015</u>

Present: Directors Hennessey, Jones, Murray, Shaw, Spitzer, Steel, and Ury

Absent: Director Miller

Committee Vote

Following the discussion on this item, no action was taken on this receive and file information item.

Staff Recommendation

Receive and file as an information item.

Committee Discussion

At the October 28, 2015, Finance and Administration Committee meeting, the Committee directed staff to review the performance of the three universities as well as potential providers of economic forecasts on a 1-year, 3-year, and 5-year basis.

Staff will return to the Finance and Administration Committee once the review has been completed, in order to recommend how sales tax should be forecasted in the future.

ORANGE COUNTY TRANSPORTATION AUTHORITY

Measure M2 Sales Tax Forecast

Staff Report

October 28, 2015

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Subject: Measure M2 Sales Tax Forecast

Overview

The Orange County Transportation Authority contracts with three universities to provide a long-range forecast of taxable sales to project Measure M revenues. All three universities have recently updated their forecasts, and staff has incorporated this new information to develop a current long-range forecast of Measure M2 taxable sales.

Recommendation

Receive and file as an information item.

Background

In 2005, the Orange County Transportation Authority (OCTA) Board of Directors (Board) directed staff to forecast taxable sales in Orange County by averaging forecasts from three universities; Chapman University, University of California, Los Angeles, and California State University, Fullerton. Since that time, all three universities have provided annual updates to their forecasts each spring. In addition, OCTA has received final sales tax receipts for fiscal year (FY) 2014-15.

Discussion

All three universities have provided OCTA updated long-term forecasts through FY 2040-41. The blended growth rate for FY 2015-16 is projected to be 6.72 percent. As part of the budget process this year, the Board approved a more conservative growth rate of 5.68 percent for FY 2015-16. This growth rate was based on Chapman University's forecast, which was the most conservative growth rate of the three universities.

After establishing the FY 2015-16 growth rate, staff has utilized the blended growth rates from the universities for the remaining years in the Measure M2 (M2) period (FY 2016-17 through FY 2040-41). Utilizing this methodology yields total nominal M2 sales tax revenues of $15.6 billion (Attachment A).

Due to sales tax receipts coming in significantly below the three university forecasted growth rates over the past two fiscal years, the Board has directed staff to examine potential changes to the sales tax forecast methodology as part of the FY 2016-17 budget development process. Staff has begun the process of examining potential changes which include, taking a more conservative approach to the three university forecast and/or adjusting which entities provide the forecasts. Staff anticipates that any change in forecast methodology will be brought to the Board during the development of the FY 2016-17 budget.

Summary

OCTA has received updated sales tax forecasts from all three universities. The blended forecast projects that total nominal M2 sales tax revenues over the 30-year period of M2 is approximately $15.6 billion. The forecasted program revenue is consistent with forecasts received over the past few years that have ranged from $15.5 to $15.7 billion, therefore no adjustments to programs are anticipated based on the updated forecast. In addition, staff has begun the process of examining potential changes to the sales tax forecast methodology and anticipate that any change will be brought to the Board during the development of the FY 2016-17 budget.

Attachment

A. Orange County Transportation Authority M2 Sales Tax Revenue Forecast

Prepared by:

Sean Murdock
Director,
Finance and Administration
714-560-5685

Approved by:

Andrew Oftelie
Executive Director,
Finance and Administration
714-560-5649

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ORANGE COUNTY TRANSPORTATION AUTHORITY

Measure M2 Sales Tax Forecast

Attachment A

Orange County Transportation Authority
M2 Sales Tax Revenue Forecast *

Fiscal Year	Chapman Forecast	Growth Rate	UCLA Forecast	Growth Rate	CSUF Forecast	Growth Rate	Blended Forecast	Blended Growth Rate
2010-11	61,756,868	6.50%	61,756,868	6.50%	61,756,868	6.50%	61,756,868	6.50%
2011-12	250,923,027	6.20%	250,923,027	6.20%	250,923,027	6.20%	250,923,027	6.20%
2012-13	266,384,076	6.16%	266,384,076	6.16%	266,384,076	6.16%	266,384,076	6.16%
2013-14	279,223,788	4.82%	279,223,788	4.82%	279,223,788	4.82%	279,223,788	4.82%
2014-15	291,118,722	4.26%	291,118,722	4.26%	291,118,722	4.26%	291,118,722	4.26%
2015-16	307,663,425	5.68%	307,654,265	5.68%	307,654,265	5.68%	307,657,319	5.68%
2016-17	325,065,789	5.66%	321,237,449	4.42%	330,237,417	7.34%	325,513,556	5.80%
2017-18	343,420,286	5.65%	333,736,873	3.89%	350,468,387	6.13%	342,509,278	5.22%
2018-19	360,904,646	5.09%	349,139,035	4.62%	368,456,219	5.13%	359,450,719	4.95%
2019-20	378,617,741	4.91%	365,304,202	4.63%	387,808,123	5.25%	377,171,804	4.93%
2020-21	396,483,371	4.72%	379,655,866	3.93%	406,089,012	4.71%	393,970,074	4.45%
2021-22	414,566,188	4.56%	395,960,130	4.29%	423,379,211	4.26%	411,190,535	4.37%
2022-23	433,073,638	4.46%	411,716,261	3.98%	441,622,264	4.31%	428,669,464	4.25%
2023-24	452,113,967	4.40%	429,417,368	4.30%	460,865,672	4.36%	447,321,357	4.35%
2024-25	471,740,091	4.34%	447,852,879	4.29%	480,482,498	4.26%	466,542,205	4.30%
2025-26	494,534,224	4.83%	465,058,410	3.84%	501,463,340	4.37%	486,821,748	4.35%
2026-27	517,406,272	4.62%	483,254,073	3.91%	523,079,878	4.31%	507,671,048	4.28%
2027-28	539,009,891	4.18%	503,130,991	4.11%	545,534,702	4.29%	528,961,619	4.19%
2028-29	561,682,978	4.21%	524,421,071	4.23%	568,523,038	4.21%	551,269,446	4.22%
2029-30	585,295,212	4.20%	546,795,291	4.27%	592,792,802	4.27%	574,678,574	4.25%
2030-31	609,890,188	4.20%	570,123,605	4.27%	617,760,865	4.21%	598,969,197	4.23%
2031-32	635,511,500	4.20%	594,911,099	4.35%	643,643,177	4.19%	624,402,247	4.25%
2032-33	662,203,672	4.20%	620,807,723	4.35%	670,667,478	4.20%	650,943,045	4.25%
2033-34	690,013,543	4.20%	647,831,633	4.35%	699,339,673	4.28%	678,776,918	4.28%
2034-35	718,988,421	4.20%	676,031,901	4.35%	729,286,683	4.28%	707,815,862	4.28%
2035-36	749,178,391	4.20%	705,459,733	4.35%	760,343,391	4.26%	738,040,731	4.27%
2036-37	780,634,471	4.20%	736,168,566	4.35%	791,941,780	4.16%	769,303,086	4.24%
2037-38	813,410,921	4.20%	768,214,162	4.35%	825,411,807	4.23%	802,070,376	4.26%
2038-39	847,562,468	4.20%	801,654,711	4.35%	859,876,076	4.18%	836,096,841	4.24%
2039-40	883,147,546	4.20%	836,550,934	4.35%	896,067,322	4.21%	871,660,039	4.25%
2040-41	690,169,488	4.20%	654,724,649	4.35%	700,891,681	4.29%	681,731,827	4.28%
Total	$ 15,811,694,811	4.70%	$ 15,026,219,360	4.52%	$ 16,033,093,241	4.75%	$ 15,618,615,396	4.66%

* Fiscal years 2010-11 through 2013-15 represent actual sales tax receipts. Forecasted revenue figures in nominal dollars.

ORANGE COUNTY TRANSPORTATION AUTHORITY

Measure M2 Sales Tax Forecast

Attachment A

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M2 Sales Tax Revenue Forecast *

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ORANGE COUNTY TRANSPORTATION AUTHORITY

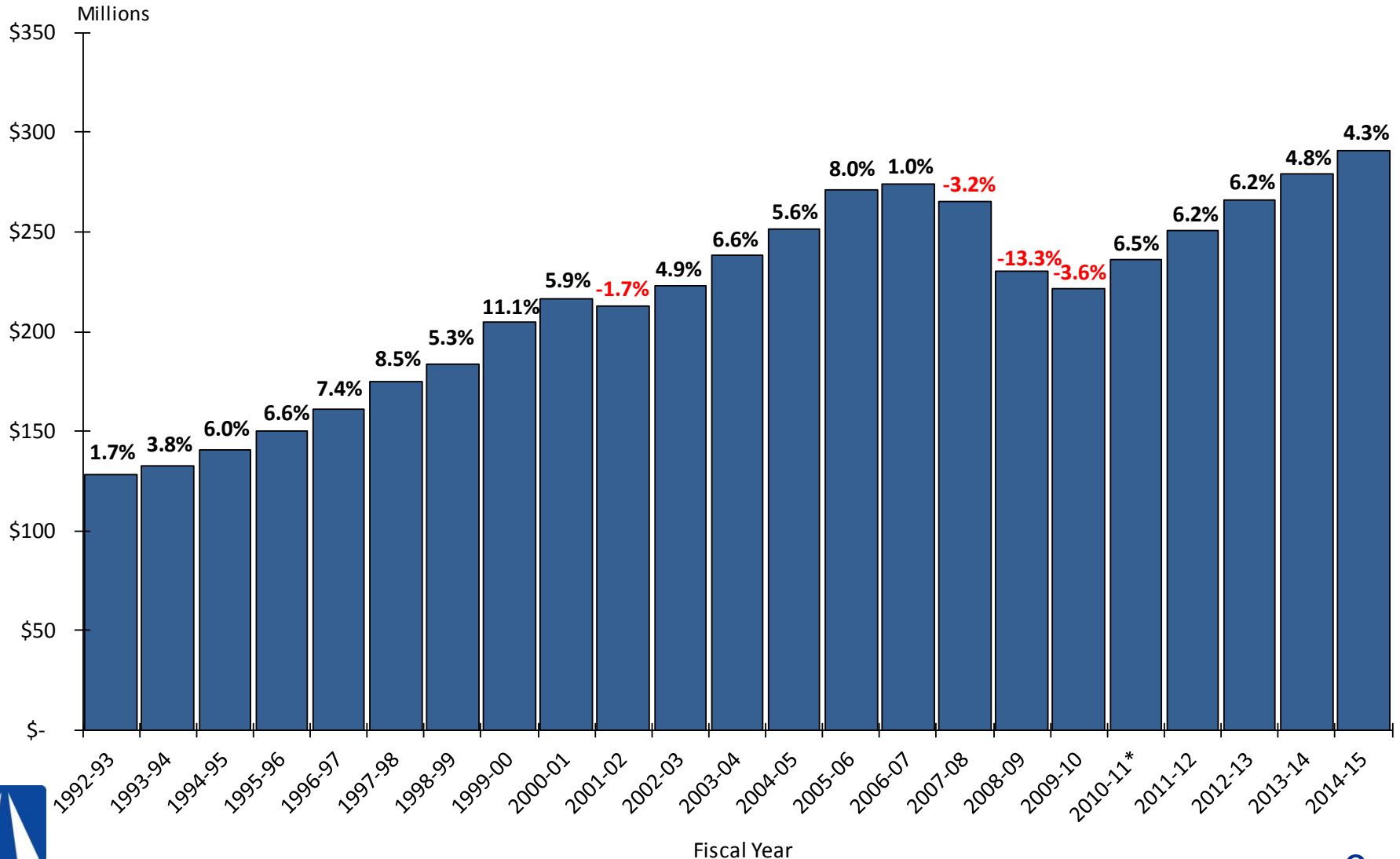# Measure M2 Sales Tax Forecast

PowerPoint

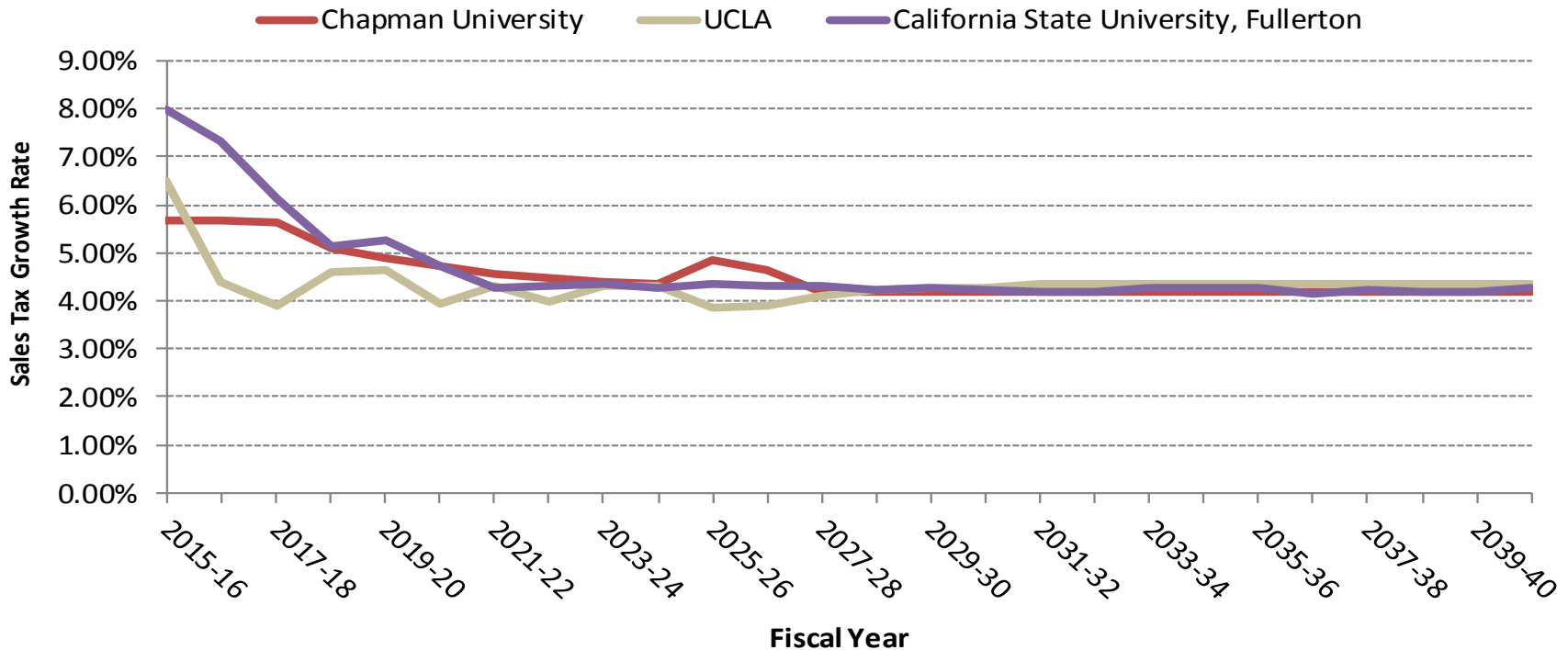# Measure M2 Sales Tax Forecast

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
    - UCLA – Anderson Forecast
    - California State University, Fullerton

- Sales tax for M2 Program forecasted to be $15.6 billion based on updated forecasts
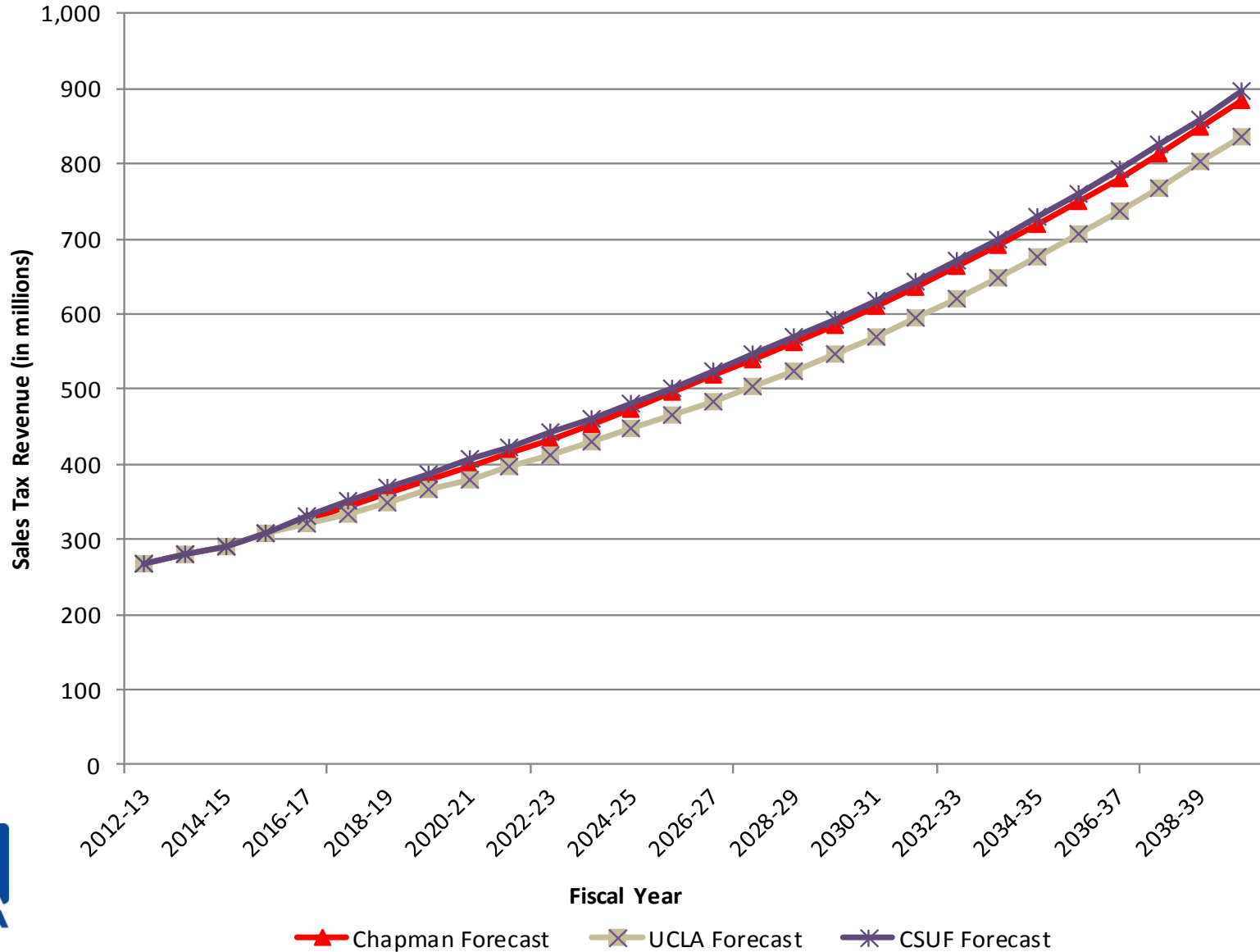
Historical Measure M Sales Tax Revenues

* FY 2010-11 represents a combination of Measure M1 (three quarters of the year) and Measure M2 (one quarter of the year) sales tax revenues

3

Long Term Growth Rate Forecasts

	1-Year Rate FY 2016	Average 3-Year Rate FY 2016-2018	Average 5-Year Rate FY 2016-2020	Average 10-Year Rate FY 2016-2025	Average Long Term Rate FY 2016-2041	Sales Tax Forecast * ($ Billions)
Chapman University	5.68%	5.66%	5.40%	4.95%	4.53%	$ 15.8
UCLA	6.51%	4.94%	4.81%	4.49%	4.35%	$ 15.1
California State University, Fullerton	7.98%	7.15%	6.37%	5.37%	4.68%	$ 16.4

Annual Sales Tax Revenue Forecast By University

5

Discussion of Options Going Forward

- Continue with the Three University Forecast as-is

- Take a more conservative approach to the Three University Forecast
  - Use 90% - 95% of the blended rate
  - Use the most conservative forecast

- Adjust the entities that provide the forecasts
  - Other options include:
    - California Economic Forecast
    - Beacon Economics
    - California Lutheran University
    - California State University, Long Beach

Sales Tax Revenue Forecasts Based on More Conservative Options

100% of Three University Rate	1-Year Rate FY 2016	Average 3-Year Rate FY 2016-2018	Average 5-Year Rate FY 2016-2020	Average 10-Year Rate FY 2016-2025	Average Long Term Rate FY 2016-2041	Sales Tax Forecast * ($ Billions)
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95% of Three University Rate	1-Year Rate FY 2016	Average 3-Year Rate FY 2016-2018	Average 5-Year Rate FY 2016-2020	Average 10-Year Rate FY 2016-2025	Average Long Term Rate FY 2016-2041	Sales Tax Forecast * ($ Billions)
Chapman University	5.40%	5.38%	5.13%	4.70%	4.30%	$ 15.3
UCLA	6.18%	4.69%	4.57%	4.26%	4.13%	$ 14.7
California State University, Fullerton	7.58%	6.79%	6.05%	5.10%	4.45%	$ 15.8

90% of Three University Rate	1-Year Rate FY 2016	Average 3-Year Rate FY 2016-2018	Average 5-Year Rate FY 2016-2020	Average 10-Year Rate FY 2016-2025	Average Long Term Rate FY 2016-2041	Sales Tax Forecast * ($ Billions)
Chapman University	5.11%	5.10%	4.86%	4.45%	4.07%	$ 14.8
UCLA	5.86%	4.44%	4.33%	4.04%	3.91%	$ 14.3
California State University, Fullerton	7.18%	6.43%	5.73%	4.84%	4.21%	$ 15.3

* Based on actuals through FY 2014-15 and forecast rates thereafter

ORANGE COUNTY TRANSPORTATION AUTHORITY
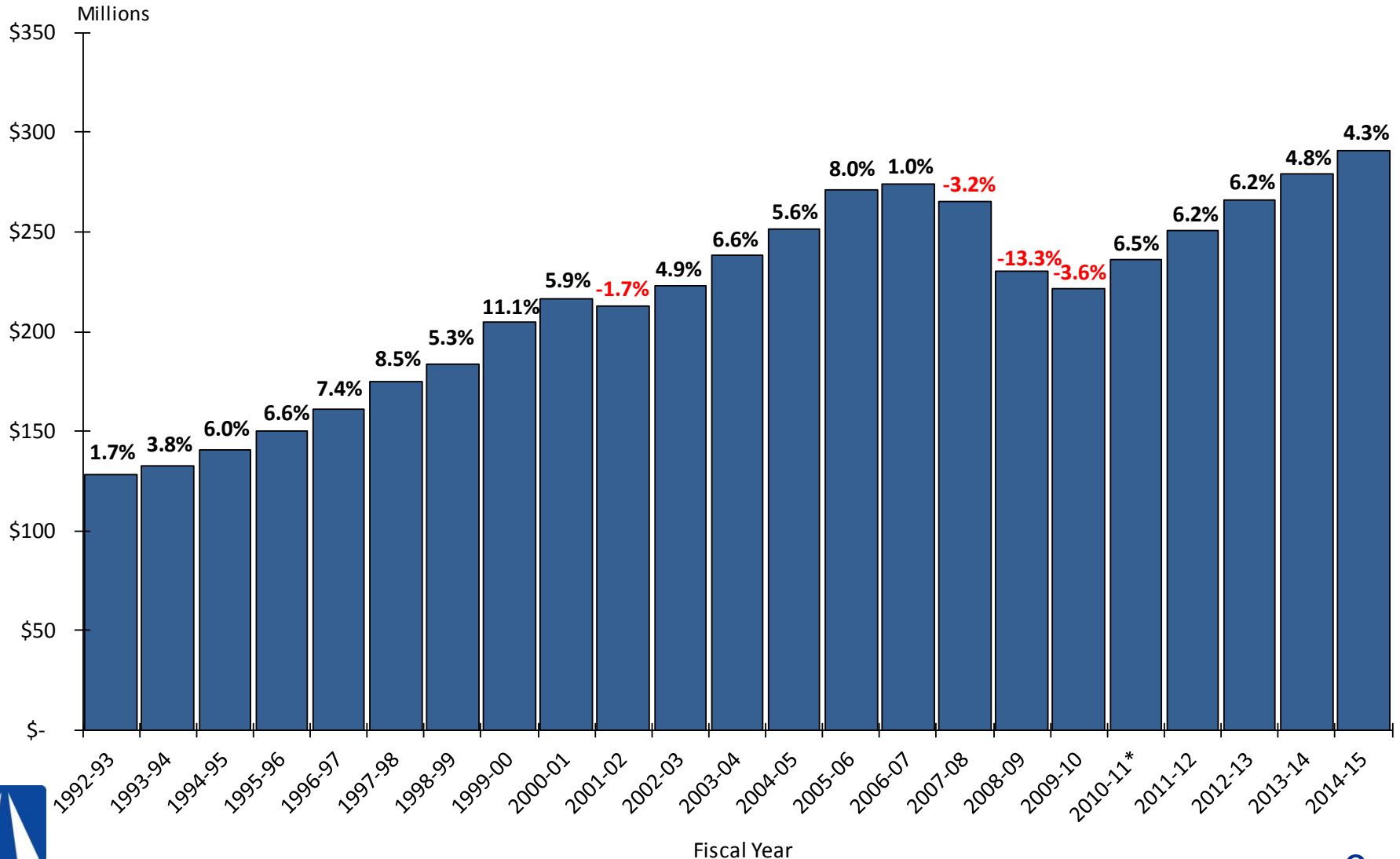
Measure M2 Sales Tax Forecast

PowerPoint

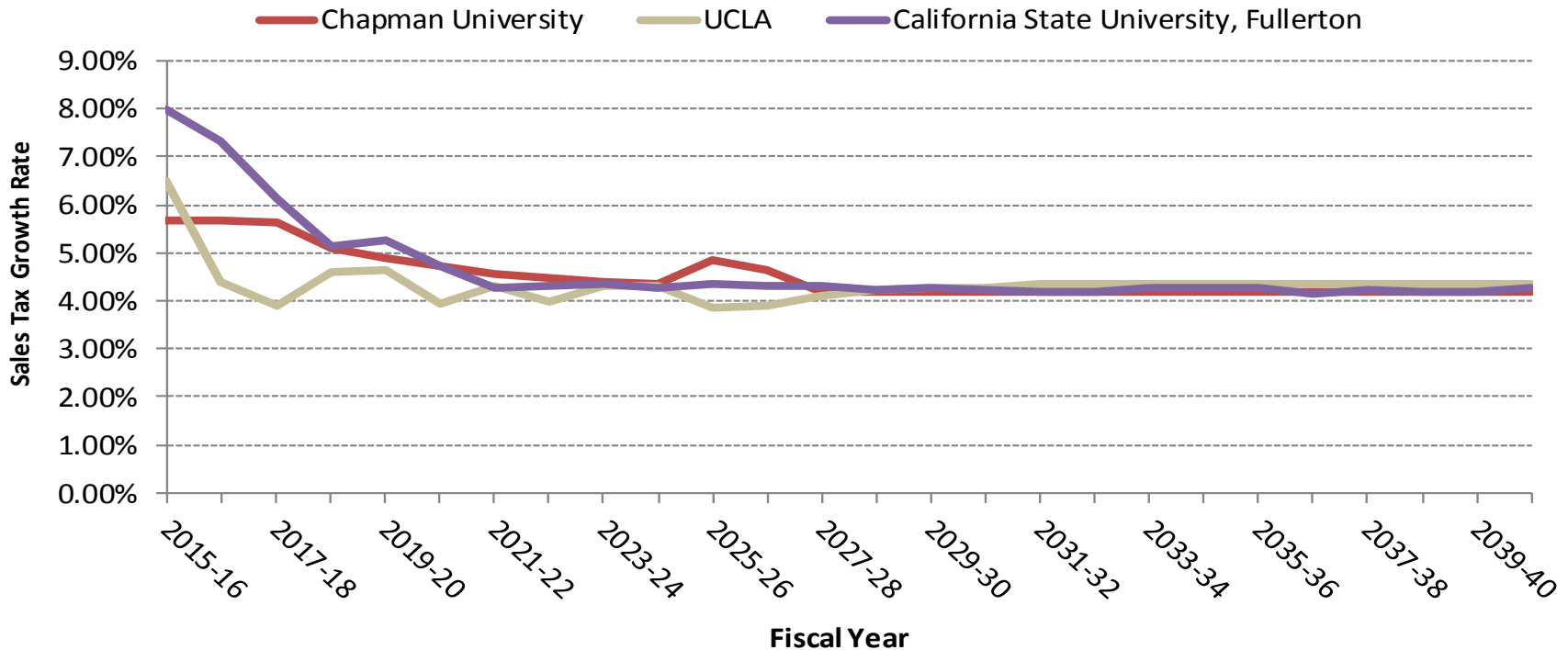# Measure M2 Sales Tax Forecast

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
    - UCLA – Anderson Forecast
    - California State University, Fullerton

- Sales tax for M2 Program forecasted to be $15.6 billion based on updated forecasts
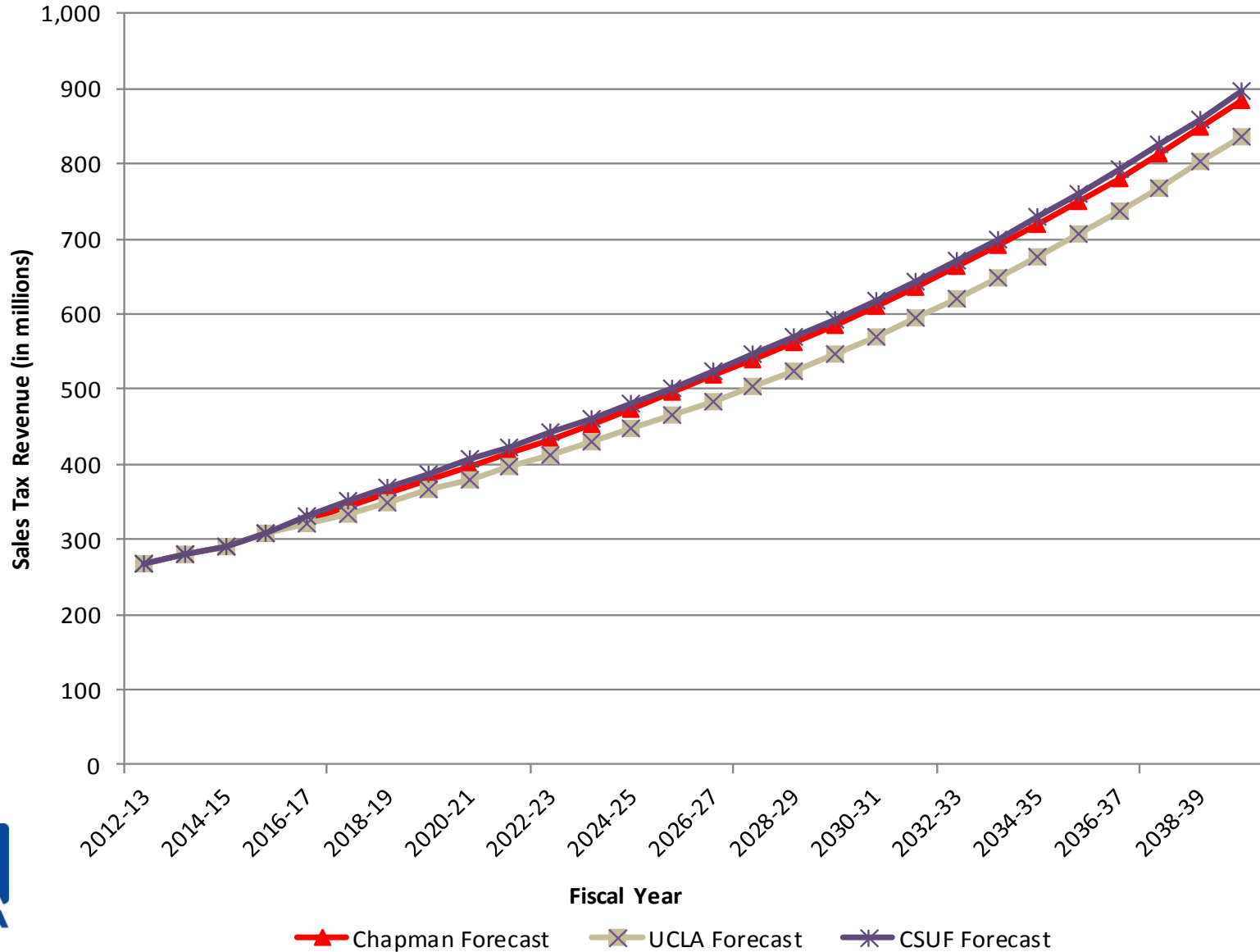
Historical Measure M Sales Tax Revenues

* FY 2010-11 represents a combination of Measure M1 (three quarters of the year) and Measure M2 (one quarter of the year) sales tax revenues

3

Long Term Growth Rate Forecasts

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Annual Sales Tax Revenue Forecast By University

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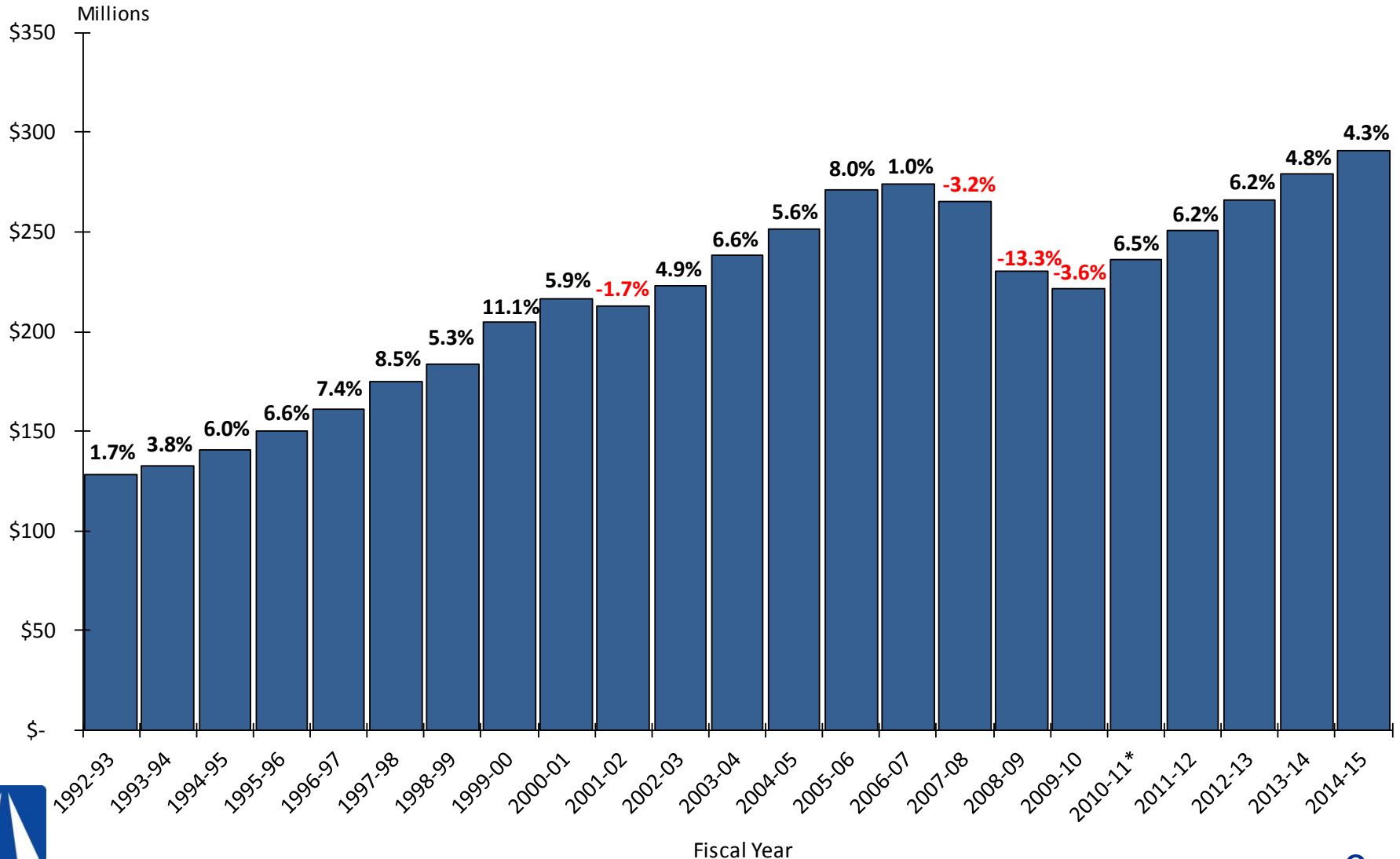
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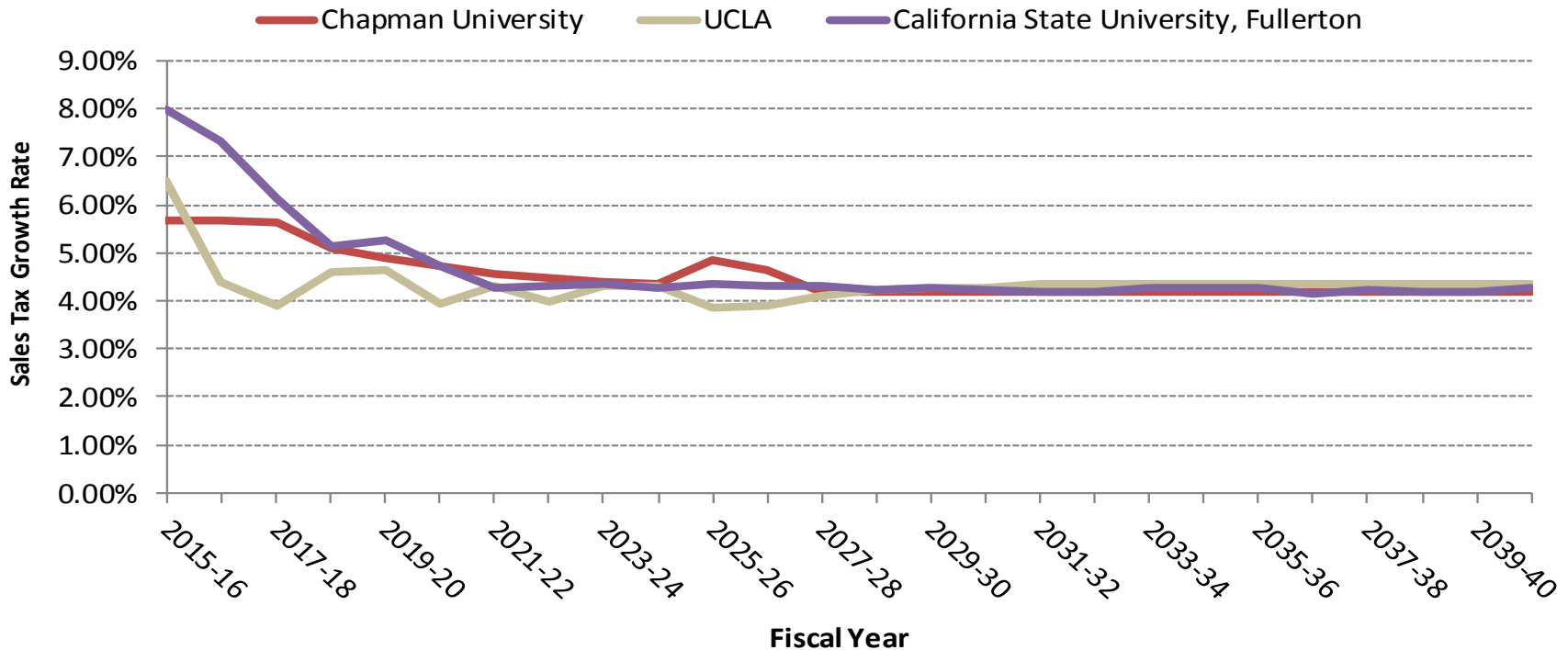
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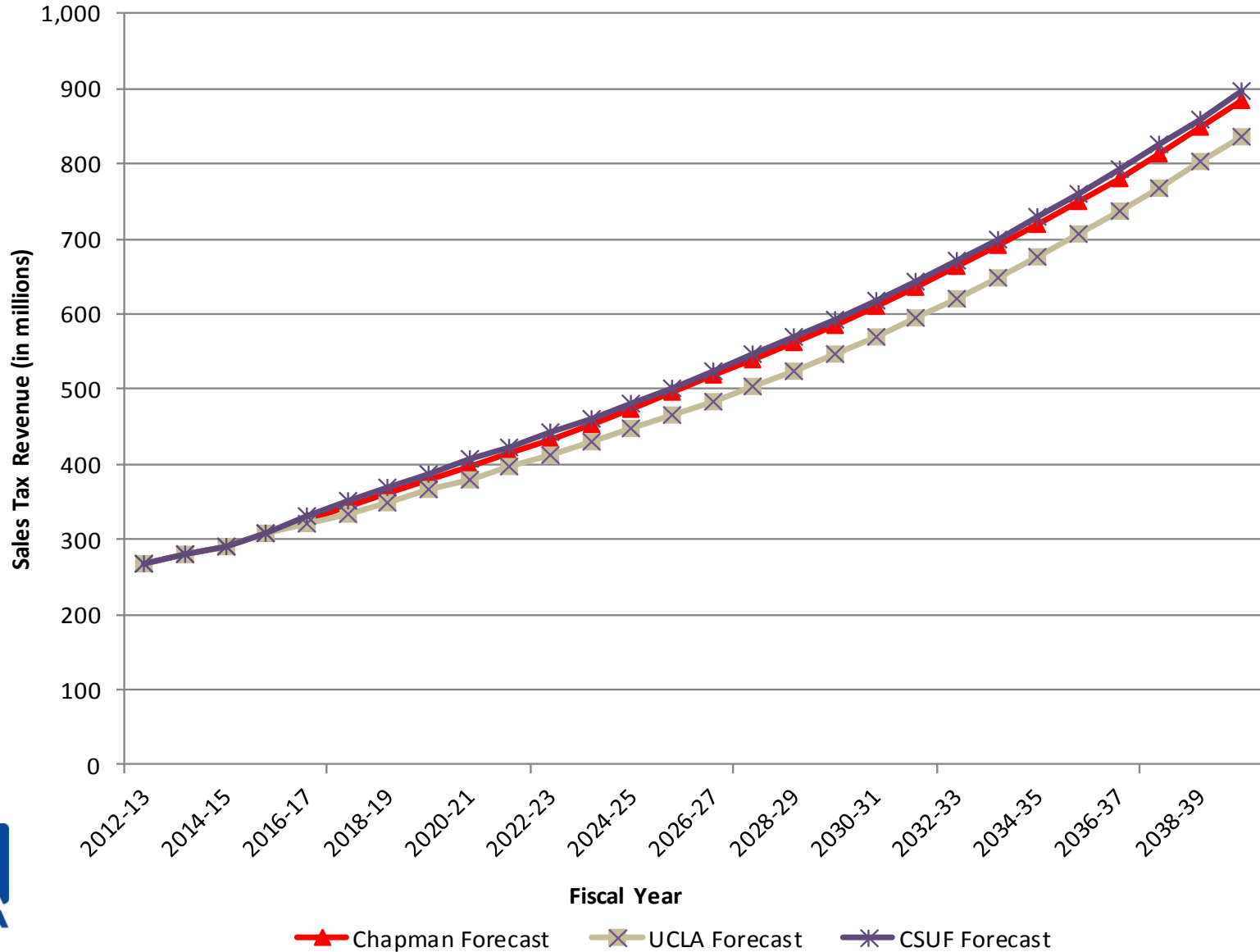
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