



September 14, 2022

To: Finance and Administration Committee
From: Darrell E. Johnson, Chief Executive Officer
Subject: 2022 Measure M2 Sales Tax Forecast

A handwritten signature in blue ink, appearing to read "Darrell E. Johnson", is written over the "From:" line of the header.

Overview

The Orange County Transportation Authority contracts with MuniServices, LLC and three universities to forecast Measure M2 taxable sales. MuniServices, LLC and the three universities have provided updated forecasts and staff has incorporated the new information into the annual update for the long-range forecast of Measure M2 taxable sales.

Recommendation

Receive and file as an information item.

Background

On March 28, 2016, the Orange County Transportation Authority (OCTA) Board of Directors (Board) directed staff to forecast Measure M2 (M2) taxable sales utilizing MuniServices, LLC (MuniServices) forecasted taxable sales growth rates for the first five years of the forecast period, and average growth rates based on forecasted taxable sales from three universities: Chapman University (Chapman), California State University, Fullerton (CSUF), and University of California, Los Angeles (UCLA), for the remaining years.

OCTA received final tax receipts for fiscal year (FY) 2021-22 on August 24, 2022, and has prepared the final 2022 M2 sales tax forecast.

Discussion

Orange County's economy continued to emerge strongly in FY 2021-22 from the pandemic. The unemployment rate in Orange County decreased to 2.9 percent in June 2022, compared to 6.9 percent in June 2021. Between June 2021 and June 2022, the total non-farm employment increased by 78,800 jobs, or 4.9 percent. The most substantial increase in Orange County was in the leisure

and hospitality sector adding 37,600 jobs followed by professional and business services sector adding 10,600 jobs.

Orange County continued to make a corresponding strong bounce back in sales tax receipts as well. Final M2 sales tax receipts for FY 2021-22 reached \$425 million, which is the highest amount of M2 sales tax receipts received in any FY. The 2022 M2 sales tax forecast was completed incorporating the final sales tax receipts for FY 2021-22 and the updated sales tax forecasts provided by MuniServices, CSUF, Chapman, and UCLA. The new forecast projects sales tax available to support the M2 Program to be \$15 billion over the 30-year period. This represents a year-over-year increase of \$1.8 billion (13.6 percent) in forecasted sales tax when compared to last year's forecast of \$13.2 billion.

The MuniServices forecast includes the period from FY 2022-23 through FY 2026-27. The average annual sales tax growth rate over that period based on the MuniServices forecast is 4.1 percent. The three-university average annual growth rate for the remaining years (FY 2027-28 through FY 2040-41) is 3.3 percent and the average annual growth rate over the entire forecast period is 3.5 percent.

While the economy continues to improve, there are other variables that must be continuously monitored including other coronavirus variants, gas prices, inflation, interest rates, supply chains, and the Ukraine war impact. Staff will continue to monitor the short- and long-term impacts of these variables on M2 sales tax revenues. Staff will also determine the impacts of the updated M2 sales tax forecast to M2 programs and projects and return to the Board in November 2022 with an updated Next 10 Delivery Plan and Comprehensive Business Plan.

Summary

OCTA has finalized the 2022 M2 sales tax forecast. The 2022 M2 sales tax forecast incorporates final sales tax receipts for FY 2021-22 and updated sales tax forecasts from MuniServices, CSUF, Chapman, and UCLA. It is anticipated that total sales tax available to support the M2 Program will be \$15 billion. This represents a year-over-year increase of \$1.8 billion (13.6 percent) in sales tax when compared to last year's forecast of \$13.2 billion. Staff will determine the impacts of the forecast to M2 programs and projects and return to the Board in November 2022 with an updated Next 10 Delivery Plan and Comprehensive Business Plan.

Attachment

- A. Orange County Transportation Authority M2 Sales Tax Revenue Forecast – 2022

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