



Committee Members Present

Michael Hennessey, Chairman
Andrew Do
Gene Hernandez
Steve Jones
Michelle Steel

Staff Present

Darrell E. Johnson, Chief Executive Officer
Ken Phipps, Deputy Chief Executive Officer
Laurena Weinert, Clerk of the Board
Gina Ramirez, Deputy Clerk of the Board
Cassie Trapesonian, Assistant, General Counsel
OCTA Staff and Members of the General Public

Committee Members Absent

Richard Murphy, Vice Chairman
Donald P. Wagner

Call to Order

The June 26, 2019 regular meeting of the Finance and Administration (F&A) Committee was called to order by Committee Chairman Hennessey at 10:34 a.m.

Pledge of Allegiance

Director Jones led in the Pledge of Allegiance.

1. Public Comments

No public comments were received.

Special Calendar

**2. Taxable Sales Forecast - University of California at Los Angeles
Anderson Forecast - Jerry Nickelsburg, PhD, Senior Economist, and
William Yu, PhD, Economist**

Andrew Oftelie, Chief Financial Officer (CFO), provided a brief biography and introduced Dr. Jerry Nickelsburg, PhD, Senior Economist and Dr. William Yu, PhD, Economist from the University of California, Los Angeles (UCLA) Anderson Forecast.

Dr. Yu provided a PowerPoint presentation as follows:

- United States (U.S.) Economy is Growing at 3%;
- Real Gross Domestic Product Growth Slowing-Recession Risk in Late 2020;

2. (Continued)

A discussion ensued regarding the following:

- Past recession patterns.
- Inverted yield curve as a predictor of a recession in the next eight to ten months.
- Brick and mortar shopping is shifting to online shopping which leads to imbalance.

Director Do inquired on the change in the forecast from this year versus last year.

Dr. Nickelsburg stated there were three principle reasons for the forecast change, and highlighted the following:

- First: The sustained increase in investment that was promised with the tax cut did not appear.
- Second: More investment was pulled back from 2019 and 2020 than expected which means the expectation for investment is lower.
- Third: The difference between those two forecasts is the international economy is weaker than expected.

Dr. Yu continued the PowerPoint presentation as follows:

- Payroll Employment Growth Leveling Off;
- As Compensation Growth Approaches 4%;
- Inflation Runs Modestly Above 2%;
- How do Trade Tensions Impact Our Imports and Exports?;
- U.S. Imports: Declined the Most – Oil & Gas and Computer & Electronic Products;
- U.S. Imports: Increased the Most – Transportation Equipment;
- U.S. Exports: Declined the Most – Metals & Agricultural Products;
- U.S. Exports: Increased the Most – Oil & Gas;
- Top 10 Imports from China in Decline;
- The Impact of New Tariffs on Mexico;
- U.S. Metro Payroll Job Growth;
- Orange County Sector Payroll Job Growth;
- Where are We in the Housing Cycle?;
- Real Housing Price in Orange County and U.S. Business Cycle;
- Real Home Prices are Declining in Some Cities;
- Zillow's Median Home Value Index in April 2019;
- California's Federal Income Tax Gross Receipts Increased by 3.7% in 2018;

2. (Continued)

- California's Number of Federal Income Tax Returns Increased by 2% in 2018;
- Inflation on Housing and Medical Care is Higher Than That of Most Taxable Sales Goods;
- California Forecast;
- Orange County Nominal Taxable Sales Growth Forecast, and
- Conclusions.

A robust discussion ensued regarding:

- Federal Reserve looking at data retrospectively and independent of political views as opposed to looking at forecasted data;
- The UCLA point forecast map shows a slow-down at the end of 2019 and beginning of 2020;
- Education and health services, on average, the wage in that sector is relatively low;
- Leisure and hospitality tend to be on average a low-income sector;
- Real estate market is soft nationally;
- Sales of new and existing homes have decreased;
- Changes in living situations where people are living with parents, grandparents, or parents living with their children;
- Mobility is more difficult due to unemployment, or people wanting to stay close to family and friends;
- How the housing supply has been impacted by large homeless population in Orange County and the increased need to build affordable housing;
- Replacing housing stock with high-rise apartments or condos;
- How population of the state relates since each state is different; and
- Trade tensions between United States and China.

Director Steel inquired on how this all relates to sales tax in Orange County.

Dr. Nickelsburg responded that the forecasting is a slower economic growth rate of the U.S. economy through 2020, and 12 to 13 percent of that will feed down to Orange County. Additionally, UCLA reviews factors that might influence the economy such as changes in the tax law.



Consent Calendar (Items 3 and 4)

3. Approval of Minutes

A motion was made by Director Hernandez, seconded by Director Do, and declared passed by those present, to approve the minutes of the Finance and Administration Committee meeting of June 12, 2019.

4. Construction Safety Program, Internal Audit Report No. 19-506

A motion was made by Director Hernandez, seconded by Director Do, and declared passed by those present, to direct staff to implement two recommendations provided in Construction Safety Program, Internal Audit Report No. 19-506.

Regular Calendar

5. Orange County Transportation Authority Investment and Debt Programs Report - May 2019

Due to time constraints, this item was deferred to the Wednesday, July 10, 2019 Finance and Administration Committee meeting.

Discussion Items

6. Chief Executive Officer's Report

Darrell E. Johnson, Chief Executive Officer, reported that at the June 12th Finance and Administration Committee meeting, staff reported on some of the abnormalities in the reporting of the sales tax collections from the California Department of Tax and Fee Administration (CDTFA). He stated that staff has been working with CDTFA and asked Andrew Oftelie, CFO, to provide an update.

Mr. Oftelie, CFO, reported at the last F&A Committee meeting, staff reported a sharp decline in the third quarter sales tax collections. He also stated given the large discrepancy, the reported amounts may not be correct, and staff is continuing to work with the CDTFA. Additionally, OCTA did receive the April collections which included some collections from the prior period, and staff will report any updates to the F&A Committee.



6. (Continued)

Director Steel inquired on the forecasts from 2015 & 2016 which showed an eight percent growth.

Mr. Oftelie stated the universities were more optimistic than what was happening with the economy. He theorizes that there was some growth not being captured because the universities did not properly consider the impact of online sales, and OCTA was losing some collections.

Director Do requested staff to provide the historical forecasts from Muni-Services and all three universities to the Committee members and also place the information online.

7. Committee Members' Reports

There were no Committee Members' Reports.

8. Closed Session

There were no Closed Session items scheduled.

9. Adjournment

The meeting adjourned at 12:05 p.m.

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, July 10, 2019**, at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.

ATTEST

Gina Ramirez
Deputy Clerk of the Board

Michael Hennessey
Committee Chairman