



October 14, 2020

To: Finance and Administration Committee
From: Darrell E. Johnson, Chief Executive Officer
Subject: 2020 Measure M2 Sales Tax Forecast

Overview

The Orange County Transportation Authority contracts with MuniServices, LLC and three universities to forecast Measure M2 taxable sales. Within the past six months, MuniServices, LLC and the three universities have each 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

Direct staff to determine the impacts of the updated forecast to Measure M2 programs and projects and return to the Board of Directors with options to address the decrease in projected sales tax revenue.

Background

On March 28, 2016, the Orange County Transportation Authority (OCTA) Board of Directors (Board) directed staff to forecast taxable sales in Orange County by 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.

Due to the significant decrease in forecasted taxable sales due to the coronavirus (COVID-19) pandemic, OCTA prepared a preliminary Measure M2 (M2) Sales Tax Forecast update that was presented to the Board in August 2020. OCTA received final tax receipts for fiscal year (FY) 2019-20 in September 2020, and has prepared the final 2020 M2 sales tax forecast update. OCTA staff has also incorporated updated forecasts for MuniServices, UCLA, and CSUF. Chapman's previous forecast remains unchanged.

Discussion

The 2020 M2 sales tax forecast was completed based on final sales tax receipts for FY 2019-20 and updated sales tax forecasts provided by MuniServices, CSUF, and UCLA. Despite final sales tax receipts for FY 2019-20 being higher than anticipated and updated forecasts, total anticipated sales tax available to support the M2 Program remained at \$11.6 billion over the 30-year period, which is consistent with the figure provided to the Board in August 2020.

Final sales tax receipts for FY 2019-20 came in at \$318 million, which was \$15 million higher than anticipated in August. It was originally anticipated that the impact of COVID-19 would result in an 8.8 percent decrease in sales tax for FY 2019-20, however economic activity was stronger than anticipated and the decrease was only 4.3 percent. In addition, The California Department of Tax and Fee Administration offered small business taxpayers with less than \$5 million in taxable annual sales, a 12-month, interest-free, payment plan for up to \$50,000, of sales and use tax liability. The payment plans must be paid in full by July 31, 2021, to qualify for zero interest. While deferral payments were permissible, MuniServices informed OCTA that only a small number of businesses took advantage of the one-year extension program and that the impact was minimal to FY 2019-20 sales tax receipts.

Despite better than anticipated sales tax receipts for FY 2019-20, total anticipated sales tax available to support the M2 Program remained at \$11.6 billion due to a more conservative forecast provided by MuniServices. MuniServices lowered the growth rate for each of the next three years by approximately 1.7 percent due to the uncertainty of any near-term stimulus programs, the potential of a second wave of COVID-19, vaccine schedule, and unemployment recovery. MuniServices anticipates unemployment and the correlated weak consumer confidence to remain a barrier to strong sales tax performance over the next few years and anticipates recovering to FY 2018-19 sales tax levels in FY 2023-24. The updates to the CSUF and UCLA forecasts were minor with both being more optimistic over the next two years. The changes in these forecasts did not impact the final M2 forecast given they occurred during the first five years of the forecast period, which is during the period MuniServices forecast is used.

The MuniServices forecast includes the period from FY 2020-21 through FY 2024-25. The average annual sales tax growth rate over that period based on the MuniServices forecast is 1.7 percent. The three-university average annual growth rate for the remaining years (FY 2025-26 through FY 2040-41) is 3.2 percent and the average annual growth rate over the entire forecast period is 2.9 percent.

Staff will continue to monitor the short- and long-term impacts of COVID-19 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 with the impacts over the coming months as the Next 10 Plan is updated.

Summary

OCTA has finalized sales tax receipts for FY 2019-20 and received updated sales tax forecasts from MuniServices, CSUF, and UCLA. It is anticipated that total sales tax available to support the M2 Program will be \$11.6 billion, which is consistent with the preliminary forecast provided to the Board in August 2020. This represents a year-over-year decline of \$1.8 billion (-13.5 percent) in forecasted sales tax when compared to last year's forecast. Staff will determine the impacts of the forecast to M2 programs and projects and return to the Board with those impacts over the coming months as the Next 10 Plan is updated.

Attachment

- A. Orange County Transportation Authority M2 Sales Tax Revenue Forecast – 2020

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