



September 22, 2021

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: 2021 Measure M2 Sales Tax Forecast

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 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

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 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.

OCTA received final tax receipts for fiscal year (FY) 2020-21 in August 2021 and has prepared the final 2021 Measure M2 (M2) sales tax forecast update.

Discussion

The coronavirus (COVID-19) has presented a significant challenge to global and national economies. State and local governments across the United States issued orders for residents to self-quarantine and refrain from non-essential travel to slow the spread of the virus. The stay-at-home orders, the absence of

leisure and business travel into the region, and the closure of the Disneyland Resort, hotels, and other businesses led to significant layoffs in Orange County, especially in the leisure and hospitality sector.

After more than a year of economic downturn due to COVID-19, Orange County's economy is showing signs of emerging from the pandemic. As vaccinations have been made available, employees are starting to return to work and the unemployment rate has decreased to 6.4 percent as of June 2021 as businesses began rehiring. In addition, home prices are surging, travel has increased, and tourist attractions have reopened in phases after being closed for more than a year.

As a result of the improving Orange County economy, final M2 sales tax receipts for FY 2020-21 came in at \$345 million, which is the highest amount of M2 sales tax receipts received in any FY. The 2021 M2 sales tax forecast was completed incorporating the final sales tax receipts for FY 2020-21 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 \$13.2 billion over the 30-year period. This represents a year-over-year increase of \$1.6 billion (13.8 percent) in forecasted sales tax when compared to last year's forecast of \$11.6 billion.

The MuniServices forecast includes the period from FY 2021-22 through FY 2025-26. The average annual sales tax growth rate over that period based on the MuniServices forecast is 4.4 percent. The three-university average annual growth rate for the remaining years (FY 2026-27 through FY 2040-41) is three percent and the average annual growth rate over the entire forecast period is 3.4 percent.

While the economy continues to improve, the threat of the delta variant and potential new strains of COVID-19 remain. 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 2020-21 and incorporated 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 \$13.2 billion. This represents a year-over-year increase of \$1.6 billion (13.8 percent) in sales tax when compared to last year's forecast of

\$11.6 billion. 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 Delivery Plan is updated.

Attachment

- A. Orange County Transportation Authority M2 Sales Tax Revenue Forecast – 2021

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