

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the
Orange County Transportation Authority)

ANNUAL FINANCIAL
AND
COMPLIANCE REPORT

Year Ended June 30, 2023

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)

Audited Financial Statements
Year Ended June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Orange County Local Transportation Authority
Orange, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of the Orange County Local Transportation Authority (OCLTA), a component unit of the Orange County Transportation Authority (OCTA), as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise OCLTA's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of OCLTA as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OCLTA, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OCLTA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OCLTA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OCLTA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information for the Local Transportation Authority Special Revenue Fund, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise OCLTA's basic financial statements. The budgetary comparison schedule for the Local Transportation Authority Debt Service Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule for the Local Transportation Authority Debt Service Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2023 on our consideration of the OCLTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the OCLTA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OCLTA's internal control over financial reporting and compliance.


Crowe LLP

Costa Mesa, California
November 2, 2023

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
(unaudited)
For the Fiscal Year Ended June 30, 2023

As management of the Orange County Local Transportation Authority (OCLTA), we offer readers of the OCLTA's financial statements this narrative overview and analysis of the OCLTA's Measure M financial activities for the fiscal year (FY) ended June 30, 2023. We encourage readers to consider the information on financial performance presented in conjunction with the financial statements that begin on page 10. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total net position of the OCLTA was \$351,775 as of June 30, 2023. The net position of the OCLTA is restricted for transportation projects, debt service, and Environmental Mitigation Program.
- Net position decreased by \$39,426 during FY 2022-23. This decrease is primarily due to general and program expenses exceeding program revenues due to decrease in grants and contributions. In FY 2022-23, Measure M program expenses decreased by \$29,575 mainly related to decrease in I-405 Improvement Project expense. Sales tax revenue increased by \$14,226 compared to FY 2021-22 due to the economic recovery. In FY 2022-23, unrestricted investment earnings increased by \$47,915 or 205.2 percent resulting from favorable investment performance.
- OCLTA's governmental funds reported combined ending fund balances of \$960,753 reflecting a decrease of \$43,612 from the prior year. The decrease is primarily due to the decrease in grants and contributions offset by decrease in capital expenditures related to the I-405 Improvement project in the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the OCLTA's basic financial statements, which are comprised of three components including government-wide financial statements, fund financial statements and notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements. Because the OCLTA is a governmental activity of the Orange County Transportation Authority (OCTA), governmental funds are used to account for its Measure M program activities. The basic financial statements include only the activities of the OCLTA.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the OCLTA's finances using the accrual basis of accounting, in a manner similar to a private-sector business.

The statement of net position presents information on all of the OCLTA's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the OCLTA is improving or deteriorating.

The statement of activities presents information showing how the OCLTA's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements can be found on pages 10-11 of this report.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY Management's Discussion and Analysis

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with Measure M finance-related legal requirements. The OCLTA uses governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, governmental funds financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the OCLTA's near-term financing requirements.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. As a result, readers may better understand the long-term impact of the OCLTA's near-term financing decisions. Both the governmental funds balance sheet and related statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The OCLTA maintains two individual governmental funds which are considered to be major funds. Information is presented separately in the governmental funds balance sheet and in the related statement of revenues, expenditures and changes in fund balances for the OCLTA's major governmental funds.

The governmental funds financial statements and related reconciliations to governmental activities can be found on pages 12-15 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-29 of this report.

The OCLTA adopts an annual budget for its two funds. A budgetary comparison schedule has been provided for the LTA special revenue fund as required supplementary information on page 30 and the LTA debt service fund as other supplementary information on page 32 to demonstrate compliance with the annual appropriated budget.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
Management's Discussion and Analysis

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the OCLTA's financial position. At June 30, 2023, the OCLTA's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$351,775, a \$39,426 decrease from June 30, 2022. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the OCLTA's governmental activities.

Table 1
Orange County Local Transportation Authority
Net Position

	Governmental Activities	
	2023	2022
Current and other assets	\$ 1,103,465	\$ 1,159,627
Assets held for resale	15,965	15,965
Capital Assets, net	7,300	7,300
Total assets	1,126,730	1,182,892
Deferred outflows of resources		
Deferred charge on refunding	1,222	1,291
Current liabilities	130,023	123,526
Long-term liabilities	645,899	668,985
Total liabilities	775,922	792,511
Deferred Inflows of Resources		
Deferred inflows - leases	255	471
 Total net position	\$ 351,775	\$ 391,201

Total assets decreased by \$56,162, or 4.7 percent, from June 30, 2022. This decrease is primarily due to a decrease in receivable related to operating grants and condemnation deposits, also a decrease in cash and investments as a result of principal payments.

Total liabilities decreased by \$16,589, or 2.1 percent, from June 30, 2022. This decrease is primarily due to decreased long-term liabilities resulting from principal payments during the fiscal year.

Total net position from governmental activities decreased by \$39,426 or 10.1 percent. This decrease results from Measure M general and program expense exceeding program revenue, mainly due to decrease in grants and contributions.

**ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
Management's Discussion and Analysis**

**Table 2
Orange County Local Transportation Authority
Changes in Net Position**

	Governmental Activities	
	2023	2022
Revenues:		
Program revenues:		
Charges for services	\$ 1,257	\$ 1,370
Operating grants and contributions	60,105	193,741
General revenues:		
Sales tax	439,123	424,897
Unrestricted investment earnings (loss)	24,564	(23,351)
Other miscellaneous revenues (expenses)	(12)	548
Total revenues	525,037	597,205
Measure M program expenses	564,463	594,038
Change in net position	(39,426)	3,167
Net position – beginning	391,201	388,034
Net position – end of year	\$ 351,775	\$ 391,201

OCLTA expenses shown on the statement of activities consist of:

	Governmental Activities	
	2023	2022
Supplies and services	\$ 93,273	\$ 80,323
Contributions to other local agencies	102,306	96,816
Infrastructure	281,263	359,991
Interest expense	31,495	32,130
Contributions to other OCTA funds	56,126	24,778
Total expenses	\$ 564,463	\$ 594,038

Total revenues decreased by \$72,168, or 12.1 percent, from FY 2021-22. In FY 2022-23, the unrestricted investment earnings increased by \$47,915 or 205.2 percent resulting from favorable investment performance and sales tax revenues increased by \$14,226. This is, however, offset by the decrease in grants and contributions, which ultimately finance a significant portion of the OCLTA's net costs, by 133,636 or 69.0% percent from the prior year.

Program expenses decreased by \$29,575 primarily due to decrease in expenses related to the I-405 Improvement Project.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
Management’s Discussion and Analysis

Financial Analysis of the OCLTA’s Funds

As of June 30, 2023, the OCLTA’s governmental funds reported combined ending fund balances of \$960,753, a decrease of \$43,612 compared to FY 2021-22. The majority of fund balances, 92.5 percent, are restricted for transportation projects funded by the Measure M Program. The remaining fund balances are restricted for the Environmental Mitigation Program and for debt service on M2 sales tax revenue bonds issued to accelerate funding for transportation projects.

OCLTA’s major governmental funds include the following significant changes:

- The LTA fund balance decreased by \$50,753 primarily due to excess of expenses and transfers to LTA Debt Service fund over the sales tax and contributions from other funds.
- The LTA Debt Service fund balance increased by \$7,141, due to the excess of investment earnings and transfers in from LTA fund over the required debt service payments.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2023, the OCLTA has \$7,300 net of accumulated depreciation invested in capital assets, including right-of-way improvements and machinery.

A summary of the OCLTA’s capital assets, net of depreciation is as follows:

	Governmental Activities	
	2023	2022
Right-of-way improvements	\$ 7,300	\$ 7,300
Machinery and equipment	21	21
Total capital assets	7,321	7,321
Less accumulated depreciation	(21)	(21)
Total capital assets, net	\$ 7,300	7,300

More detailed information about the OCLTA’s capital assets is presented in note 5 to the financial statements.

OCLTA has outstanding capital expenditure commitments; the most significant of which are \$193,162 for the I-5 Freeway Widening Construction Project, \$178,899 for the Regional Capacity Program, and \$134,093 for the I-405 Improvement Project.

Debt Administration

As of June 30, 2023, the OCLTA has \$590,235 in sales tax revenue bonds compared to \$610,170 as of the prior fiscal year.

The OCLTA maintains an “AA+” rating from Standard & Poor’s Corporation (S&P), an “AA+” rating from Fitch Ratings (Fitch) and an “Aa2” rating from Moody’s Investors Services (Moody’s) for its 2010 M2 Sales

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY Management's Discussion and Analysis

Tax Revenue Bonds. The 2019 M2 Sales Tax Revenue Bonds have an "AA+" rating from S&P and an "AA+" from Fitch.

Additional information on the OCLTA's long-term debt can be found in note 6 to the financial statements.

Economic and Other Factors

The OCLTA is responsible for administering Measure M, the half-cent transportation sales tax, which originally passed in 1990 and was delivered as promised to the residents of Orange County, with over \$4 billion invested in improvements to freeways, streets and roads and transit services. Measure M1 (M1) ended in March 2011, and collection of sales tax under Measure M2 (M2) began in April 2011. M2 was overwhelmingly approved by the voters of Orange County in 2006 because of the tangible results that were realized through M1. The passage of M2 has allowed for the continuation of transportation improvements through March 31, 2041. Allocation of M2 funds remains the same as the original M1 with 43 percent slated for freeway improvements, 32 percent for streets and roads, and 25 percent for transit projects and programs.

Although revenue collection for M2 projects did not begin until April 2011, OCTA began delivering projects early based on the five-year M2 Early Action Plan (EAP) adopted in 2007 and subsequent M2020 Plan adopted in 2012. Both delivery plans were developed to accelerate M2 freeway, streets and roads, transit, and environmental projects. In response to lower actual sales tax revenue, a new forecasting methodology was adopted in March 2016. This prompted the need to revisit the assumptions built into the M2020 plan. A new program/project delivery framework covering FY 2016-17 through FY 2025-26, called the Next 10 Plan, was adopted by the Board of Directors on November 14, 2016. The updated version of the Next 10 Plan was adopted by the Board of Directors in November 2022 and covers FY 2023 - FY 2032.

OCLTA anticipates that sales tax revenues for M2 will increase in FY 2023-24. Based on the forecast provided by MuniServices, LLC., sales tax revenue is estimated to increase by 2.6 percent for M2 in FY 2023-24. Sales tax for the M2 Program is estimated to be \$14.8 billion over the life of the measure.

The OCLTA adopted its FY 2023-24 annual budget on June 12, 2023. Approximately \$823.5 million in M2 funds are budgeted to improve transportation within Orange County. These funds will provide improvements to freeways and streets and roads throughout Orange County, as well as support rail and bus transit programs. These funds include \$376.8 million to make freeway improvements along State Route 55, Interstate 5, Interstate 405, State Route 91, and State Route 57. Approximately \$185 million is budgeted to improve streets and roads, including \$81.2 million to fund the Local Fair Share Program, \$56.4 million for the Regional Capacity Program, and \$47.2 million for Regional Traffic Signal Synchronization. In addition, the M2 transit budget consists of \$120 million in bus and rail projects, including \$49 million to continue the construction of the OC Streetcar project and \$45 million to support regional rail.

Contacting the OCLTA's Management

This financial report is designed to provide a general overview of the OCLTA's finances for all those with an interest in the OCLTA's finances and to demonstrate OCLTA accountability for the money it receives. Questions related to any of the information provided in this report or requests for additional information should be addressed to the Finance and Administration Division of the Orange County Transportation Authority, 550 South Main Street, P.O. Box 14184, Orange, California 92863-1584.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Statement of Net Position
June 30, 2023

<i>(amounts expressed in thousands)</i>	Governmental Activities
Assets	
Cash and investments	\$ 427,620
Receivables:	
Interest	4,864
Operating grants	13,054
Other	921
Due from other OCTA funds	8,701
Due from other governments	105,602
Condemnation deposits	16,065
Lease receivable	260
Note receivable	1,979
Restricted investments	523,688
Other assets	711
Assets held for resale	15,965
Capital assets, net:	
Depreciable	7,300
Total Assets	1,126,730
Deferred Outflows of Resources	
Deferred charge on refunding	1,222
Total Deferred Outflows of Resources	1,222
Liabilities	
Accounts payable	84,723
Accrued interest payable	12,662
Due to other OCTA funds	514
Due to other governments	31,970
Unearned revenue	137
Other liabilities	17
Noncurrent liabilities:	
Due within one year	20,920
Due in more than one year	624,979
Total Liabilities	775,922
Deferred Inflows of Resources	
Deferred inflows - leases	255
Total Deferred Inflows of Resources	255
Net Position	
Investment in capital assets	7,300
Restricted for:	
Transportation projects	289,484
Debt service	31,303
Environmental Mitigation Program	23,688
Total Net Position	\$ 351,775

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Statement of Activities
Year Ended June 30, 2023

<i>(amounts expressed in thousands)</i>	Program Revenues			Net Revenues (Expenses) and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Program revenues:				
<u>Governmental activities</u>				
Measure M program	\$ 564,463	\$ 1,257	\$ 60,105	\$ (503,101)
General revenues:				
Sales tax				439,123
Unrestricted investment earnings				24,564
Other miscellaneous expenses				(12)
Total general revenues				463,675
Change in net position				(39,426)
Net position - beginning				391,201
Net position - ending				\$ 351,775

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Balance Sheet - Governmental Funds
June 30, 2023

<i>(amounts expressed in thousands)</i>	LTA	LTA Debt Service	Total OCLTA
Assets			
Cash and investments	\$ 401,558	\$ 26,062	\$ 427,620
Receivables:			
Interest	4,774	90	4,864
Operating grants	13,054	—	13,054
Other	921	—	921
Due from other OCTA funds	16,359	—	16,359
Due from other governments	100,451	5,151	105,602
Condemnation deposits	16,065	—	16,065
Note receivable	1,979	—	1,979
Restricted investments	523,688	—	523,688
Other assets	711	—	711
Total Assets	1,079,560	31,303	1,110,863
Liabilities			
Accounts payable	84,724	—	84,724
Due to other OCTA funds	8,757	—	8,757
Due to other governments	31,970	—	31,970
Unearned revenue	138	—	138
Other liabilities	17	—	17
Total Liabilities	125,606	—	125,606
Deferred Inflows of Resources			
Unavailable revenue - grant reimbursements	21,082	—	21,082
Unavailable revenue - reimbursements from others	3,422	—	3,422
Total Deferred Inflows of Resources	24,504	—	24,504
Fund Balances			
Nonspendable:			
Condemnation deposits	16,065	—	16,065
Other assets - prepaids	711	—	711
Restricted for:			
Transportation projects	888,986	—	888,986
Debt service	—	31,303	31,303
Environmental Mitigation Program	23,688	—	23,688
Total Fund Balances	929,450	31,303	960,753
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,079,560	\$ 31,303	\$ 1,110,863

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2023

(amounts expressed in thousands)

Amounts reported for governmental activities in the Statement of Net Position (page 10) are different because:

Total fund balances (page 12)		\$ 960,753
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		7,300
Lease receivables are not financial resources and, therefore, are not reported in the funds.		260
Assets held for resale are not financial resources and, therefore, are not reported in the funds.		15,965
Earned but unavailable revenue is not available to liquidate current liabilities and, therefore, is reported as a deferred inflow of resources in the funds.		24,504
Interest payable on bonds outstanding is not due and payable in the current period and, therefore, is not reported in the funds.		(12,662)
Deferred outflows of resources related to deferred charge on refunding are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		1,222
Deferred inflows of resources related to leases are not due and payable in the current period and, therefore, are not reported in the funds.		(255)
The effect of elimination entries of internal balances, and therefore, are not reported in the funds.		587
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds payable	\$ (590,235)	
Plus unamortized bond issuance premium	<u>(55,664)</u>	<u>(645,899)</u>
Net position of governmental activities (page 10)		<u><u>\$ 351,775</u></u>

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2023

<i>(amounts expressed in thousands)</i>	LTA	LTA Debt Service	Total OCLTA
Revenues			
Sales tax	\$ 439,123	\$ —	\$ 439,123
Contributions from other agencies	65,058	—	65,058
Contributions from other OCTA funds	12,467	—	12,467
Investment earnings	17,974	8,698	26,672
Miscellaneous	1,711	—	1,711
Total revenues	536,333	8,698	545,031
Expenditures			
Current:			
General government:			
Supplies and services	93,273	—	93,273
Transportation:			
Contributions to other local agencies	102,306	—	102,306
Contributions to other OCTA funds	56,126	—	56,126
Capital outlay	282,054	—	282,054
Debt service:			
Principal payments on long-term debt	—	19,935	19,935
Interest	—	34,949	34,949
Total expenditures	533,759	54,884	588,643
Excess (deficiency) of revenues over (under) expenditures	2,574	(46,186)	(43,612)
Other financing sources (uses)			
Transfers in	2,963	56,290	59,253
Transfers out	(56,290)	(2,963)	(59,253)
Total other financing sources (uses)	(53,327)	53,327	—
Net change in fund balances	(50,753)	7,141	(43,612)
Fund balances - beginning	980,203	24,162	1,004,365
Fund balances - ending	\$ 929,450	\$ 31,303	\$ 960,753

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2023

(amounts expressed in thousands)

Amounts reported for governmental activities in the Statement of Activities (page 11) are different because:

Net change in fund balances - total governmental funds (page 14) \$ (43,612)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (19,203)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. This amount is the net effect of these differences in the treatment in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal repayments	\$ 19,935	
Change in accrued interest	372	
Amortization of premium and deferred charge on refunding	3,082	23,389

Change in net position of governmental activities (page 11) \$ (39,426)

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Notes to The Financial Statements
Year Ended June 30, 2023
(in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

In November 1990, Orange County voters approved the Revised Traffic Improvement and Growth Management Ordinance, known as Measure M. This implemented a one-half of one percent retail transaction and use tax to fund a specific program of transportation improvements in Orange County. The Orange County Local Transportation Authority (OCLTA) is responsible for administering the proceeds of the Measure M sales tax program. The original Measure M Program (M1) commenced on April 1, 1991 for a period of 20 years.

On November 7, 2006, Orange County voters approved the renewal of Measure M for a period of 30 more years from April 1, 2011 to March 31, 2041. Renewed Measure M (M2) allocates funds to freeway, street and road, transit, and environmental improvements.

On June 20, 1991, under the authority of Senate Bill 838, the Orange County Transportation Authority (OCTA) was formed as a special district by merging several agencies and funds, including the OCLTA, a component unit of the OCTA. Accordingly, the OCLTA's financial activities are included with the financial activities of the OCTA for financial reporting purposes.

The OCTA governing board (Board) consists of 17 voting members and one non-voting member and also serves as the OCLTA governing board. Measure M requires that an 11-member Taxpayer's Oversight Committee (TOC) monitor the use of Measure M funds and ensure that all revenues collected from Measure M are spent on voter-approved transportation projects.

These financial statements include only the activities of the OCLTA, a component unit of the OCTA. These financial statements are not intended to present the activities of the OCTA.

Basis of Presentation

The OCLTA's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Government-wide Statements: The statement of net position and the statement of activities report information of the OCLTA. The effect of significant interfund activity has been removed from these statements. The OCLTA provides only governmental activities which are supported principally by sales tax.

The statement of activities demonstrates the degree to which the OCLTA Measure M program expenses are offset by program revenues. Program expenses include direct and indirect expenses, which are identifiable with Measure M. Interest expense related to the sales tax revenue bonds is reported as a direct expense of the Measure M program. The borrowings are considered essential to the creation or continuing existence of the Measure M program. For the fiscal year ended June 30, 2023, interest expense of \$31,494 was included in Measure M program costs. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by Measure M; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of the Measure M program. Taxes, investment earnings, and other items are not reported as program revenues and instead are reported as general revenues.

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Notes to The Financial Statements

Year Ended June 30, 2023

(in thousands)

Fund Financial Statements: The fund financial statements provide information about the OCLTA's governmental funds. The OCLTA considers all of its Measure M funds as major governmental funds, comprised of the following:

- *Local Transportation Authority (LTA) Fund* - This special revenue fund accounts for revenues received and expenditures made for the implementation of the Orange County Traffic Improvement and Growth Management Plan. Financing is provided by a one-half percent sales and use tax assessed for 20 years pursuant to Measure M, which became effective April 1, 1991, and was renewed for an additional 30 years from April 1, 2011 to March 31, 2041. The Measure M ordinance requires that sales tax revenues only be expended on projects included in the ordinance. A decision to use the revenues for any other purpose must be put to the voters in another election.
- *LTA Debt Service Fund* - This fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the OCLTA.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the OCLTA considers revenues to be available if they are collected within 90 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred; however, principal and interest expenditures on long-term debt of governmental funds are recorded only when payment is due.

Those revenues susceptible to accrual are sales tax collected and held by the state at year-end on behalf of the OCLTA, intergovernmental revenues and interest revenue. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the OCLTA; therefore, revenues are recognized based upon the expenditures incurred and availability criteria met. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible-to-accrual criteria are met.

Cash and Investments

The OCLTA maintains cash and investments in a pool with other OCTA cash and investments and in accordance with the Investment Policy (Policy) originally adopted by the Board on May 8, 1995, and most recently amended July 1, 2022. The Policy complies with, or is more restrictive than, the California Government Code (Code). Separate investment manager accounts are maintained for the proceeds of bond issues, with the earnings for each bond issue accounted for separately. Pooled cash and investment earnings are allocated based on average daily dollar account balances.

OCTA holds investments that are measured at fair value on a recurring basis. OCTA categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical

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Notes to The Financial Statements

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(in thousands)

assets; Level 2 inputs are inputs - other than quoted prices included in Level 1 - that are observable including quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active; Level 3 inputs are unobservable inputs.

OCLTA participates in the OCTA comingled investment pool which invests in U.S. government and U.S. agency securities, medium term notes, repurchase agreements, variable and floating rate securities, mortgage and asset-backed securities, and corporate notes which are carried at fair value based on quoted prices of similar assets. In addition, OCLTA invests in money market and mutual funds and participating interest-earning investment contracts with a remaining maturity of one year or less at purchase date, which are carried at amortized cost which approximates fair value.

The Policy requires that assets in the portfolio consist of the following investments, with maximum permissible concentrations based on book value, and may be more restrictive than applicable state statutes for the following investment types: OCTA notes and bonds, U.S. treasuries, federal agencies, municipal debt, banker's acceptances, commercial paper, negotiable certificates of deposit, repurchase agreements, medium-term notes, money market and mutual funds, mortgage or asset-backed securities, supranationals, Local Agency Investment Fund (LAIF), Orange County Investment Pool (OCIP), investment pools, variable and floating rate securities, bank deposits and derivatives.

Investment of debt proceeds held by trustees are governed by provisions of the indentures for each obligation, rather than the general provisions of the California Government Code or OCTA's investment policy. The investment of these debt proceeds is in accordance with the Permitted Investments section and applicable account restrictions outlined in the indenture of each debt obligation. Under certain indentures, guaranteed investment contracts are allowed.

In addition, OCTA has restricted investments held by the California Community foundation (CCF). The amount invested in the CCF investment pool is a restricted asset as approved for funding by the OCTA Board of Directors in October of 2014. The CCF is headquartered in Los Angeles, California. CCF is a community foundation and holds a 501(c) 3 status, which meets California State Government Code requirements for community foundations. Legislation providing for OCTA to use a qualified organization to hold and manage the endowment is provided in Government Code §§65965-65968. An investment committee is responsible for oversight of the foundation's investment pools. The Endowment Pool is a diversified pool invested for long- term growth and appreciation while providing a relatively predictable stream of distributions that keeps the pace with inflation over time. The pool includes a mix of asset classes including equities, fixed income, hedge funds and real assets. The target asset allocation is approximately 50% equities, 22% fixed income, 14% hedge funds and 14% real assets.

The purpose of the agreement between CCF and OCTA is to provide for the establishment of a fund within the CCF to receive and hold M2 Environmental Mitigation Program contributions made by OCTA during the endowment funding period for use in establishing the permanent endowment pursuant to the conservation plan. OCTA is the beneficiary of the fund and, therefore, has reported a restricted asset in the financial statements.

The CCF shall hold, administer, invest, and reinvest the fund in accordance with the CCF's proposal and the objectives set forth in the Scope of Work of the Request for Proposal, each of which is incorporated into the agreement by reference, and in compliance with all applicable state and federal laws, including, but not limited to, Sections 65965, 65966, 69667, and 65968 of the California Government Code and the Uniform Prudent Management of Institutional Funds Act, California Probate Code Section 18501 et seq. The agreement shall remain in place in full force and effect through December 31, 2029.

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Notes to The Financial Statements

Year Ended June 30, 2023

(in thousands)

The fair value of OCTA's investment in this pool is reported in the accompanying financial statements at amounts based upon OCTA's pro-rata share of the fair value provided by the CCF for the entire CCF portfolio (in relation to the amortized cost of that portfolio).

Due To/From Other OCTA Funds

During the course of operations, numerous transactions occur between individual funds involving goods provided or services rendered and transfers of revenues from funds authorized to receive the revenue to funds authorized to expend it. Outstanding interfund balances are reported as due to/from other funds. Any residual balances outstanding between the Measure M Program governmental activities and other OCTA funds are reported in the government-wide financial statements as due to/from other OCTA funds.

Contributions To/From Other OCTA Funds

Transfers between OCLTA and other OCTA funds are reported as program expenses and revenues in the statement of activities and as revenues and expenditures in the statement of revenues, expenditures and changes in fund balances.

Administrative Services Costs

OCTA allocates indirect costs related to administrative services from certain funds to benefiting funds. For fiscal year 2022-23, \$26,262 of administrative services were charged to the OCLTA and are reported as general government expenditures in the statement of revenues, expenditures and changes in fund balances and as program expenses in the statement of activities.

Leases

OCLTA adopted GASB Statement No. 87, Leases, for the fiscal year ended June 30, 2022. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. OCLTA is a lessor for a noncancellable lease of land. OCLTA recognizes a lease receivable and a deferred inflow of resources in the government-wide financial statements.

At the commencement of a lease, OCLTA initially measures the lease receivables at the present value of payments expected to be received during the lease term. Subsequently, the lease receivables are reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivables, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how OCLTA determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts. OCLTA uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivables is composed of fixed payments from the lessee.

OCLTA monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivables and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivables.

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Notes to The Financial Statements

Year Ended June 30, 2023

(in thousands)

For the year ended June 30, 2023, the lease receivable and deferred inflow of resources associated with these leases were \$260 and \$255, respectively. OCLTA recognized lease revenue of \$216 during the fiscal year.

Remaining receivables associated with these leases are as follows:

Year ending June 30,	Principal	Interest	Total
2024	\$ 69	\$ 4	\$ 73
2025	70	3	73
2026	71	2	73
2027	37	—	37
2028	1	—	1
2029-2033	4	1	5
2034-2038	6	1	7
2039-2040	3	—	3
Total	\$ 260	\$ 12	\$ 272

Assets Held for Resale

OCLTA holds title to property in connection with the purchase of rights-of-way for infrastructure not held by OCLTA. These assets are reported as assets held for resale in the governmental activities column in the government-wide financial statements except in cases in which OCLTA has entered into a sales contract prior to the issuance of the financial statements. In these cases, the assets held for resale are reported in the governmental funds financial statements. Proceeds received will be reimbursed to the fund in which the initial expenditure was recorded.

Capital Assets

Capital assets including right-of-way improvements, and machinery and equipment, are reported in the government-wide financial statements. Capital assets are defined by the OCLTA as assets with an initial, individual cost of more than \$5 and a useful life exceeding one year. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the acquisition date. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized.

Freeway construction and certain purchases of right-of-way property, for which title vests with the California Department of Transportation (Caltrans), are included in capital outlay. Infrastructure consisting primarily of freeway construction and right-of-way acquisition is not recorded as a capital asset in those instances where the OCLTA does not intend to maintain or operate the property when complete.

Right-of-way improvements, which consists of a parcel where the OCLTA is the ground lease holder, is not being depreciated. Machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

Asset Type	Useful Life
Machinery and equipment	3-10 years

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Notes to The Financial Statements

Year Ended June 30, 2023

(in thousands)

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element; deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

OCLTA has one item reported as deferred outflow of resources. This item is the deferred charge on refunding, which results from the difference in the carrying value of refunded debt and its reacquisition price. This item is reported in the government-wide statement of net position. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. OCLTA has one type of deferred inflow, unavailable revenue which occurs only under a modified accrual basis of accounting. Accordingly, the item is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for grant reimbursements and reimbursements from others. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Debt

In the government-wide financial statements, long-term debt is reported as a liability in the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts in the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Contributions to Other Local Agencies

Contributions to other local agencies primarily represent sales tax revenues received by the OCLTA and disbursed to cities for competitive projects, the local fair share program, and the senior mobility program, and to other agencies for projects which are in accordance with the Measure M ordinance.

Net Position

In the government-wide financial statements, net position represents the difference between assets plus deferred outflow of resources and liabilities plus deferred inflow of resources and is classified into three categories:

- *Net investment in capital assets* - This balance reflects the net position of the OCLTA that is invested in capital assets, net of related debt. This net position is generally not accessible for other purposes.
- *Restricted net position* - This balance represents net position that is not accessible for general use because use is subject to restrictions enforceable by third parties. The OCLTA government-wide

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(in thousands)

statement of net position reports net position restricted for transportation projects funded by the Measure M Program, debt service, and Environmental Mitigation Program.

- *Unrestricted net position* – This balance represents the net position that is available for general use.

Fund Balances

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the OCLTA is bound to honor constraints on the specific purposes for which amounts can be spent.

The classifications used in the governmental fund financial statements are as follows:

- *Nonspendable* – amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact. As of June 30, 2023, OCLTA reported nonspendable balance for condemnation deposits and other assets - prepaids.
- *Restricted* – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. As of June 30, 2023, OCLTA reported restricted fund balance for transportation projects, debt service, and Environmental Mitigation Program.
- *Committed* – amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board, as the highest level of decision-making authority, has the ability to commit fund balances through the adoption of a resolution. These committed amounts cannot be used for any other purpose unless the Board removes or modifies the use through the adoption of a subsequent resolution.
- *Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. This classification also includes residual amounts assigned for specific projects. The Board establishes and modifies assignments of fund balance through the adoption of the budget and subsequent budget amendments. The Board retains the authority to assign fund balance.

When both restricted and unrestricted resources are available for use, it is the OCLTA's policy to use restricted resources first and then unrestricted resources as they are needed. When using unrestricted fund balance amounts, the OCLTA applies the default established by GASB 54, whereby the committed amounts would be reduced first followed by the assigned amounts.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures during the reporting period. As such, actual results could differ from those estimates.

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Year Ended June 30, 2023

(in thousands)

2. CASH AND INVESTMENTS

Cash and investments are comprised of the following at June 30, 2023:

Investments:

With OCTA Commingled Investment Pool	\$ 600,307
With Trustee	327,313
With CA Community Foundation	23,688
Total Cash and Investments	\$ 951,308

Total deposits and investments are reported in the financial statements as:

Unrestricted Cash and Investments	\$ 427,620
Restricted Cash and Investments	523,688
Total Cash and Investments	\$ 951,308

As of June 30, 2023, OCLTA had the following investments:

Investment	Fair Value	Interest Rate	Maturity Range	Weighted Average Maturity (Years)
OCTA Commingled Investment Pool	\$ 600,307	*	*	*
Money Market Funds **	327,313	4.94% - 5.00%	7/1/23	.003
CA Community Foundation Investment Fund	23,688	N/A	N/A	N/A
Total Investments	\$ 951,308			

* Refer to the OCTA Annual Comprehensive Financial Report for information related to the OCTA Commingled Investment Pool.

** Money market funds and commercial paper are measured at amortized cost which approximates fair value.

The Portfolio Weighted Average Maturity is 1.826 years.

As of June 30, 2023, OCLTA had \$600,307 invested in the OCTA's Commingled Investment Pool (CIP). Refer to the OCTA's Annual Comprehensive Financial Report for details on valuation techniques and fair value hierarchy, interest rate risk, variable rate notes and custodial credit risk. Deposits and withdrawals in OCTA's CIP are made on the basis of \$1.00 (absolute dollars) and not fair value. Accordingly, the OCLTA's investment in OCTA's CIP at June 30, 2023 is uncategorized, not defined as Level 1, Level 2, or Level 3 input.

As of June 30, 2023, OCLTA had \$23,688 invested in the CA Community Foundation (CCF) investment fund. The amount invested is valued using significant unobservable inputs and, therefore, classified as Level 3. Unobservable inputs used by CCF include the foundations own assumptions, market comparable rates, capitalization and occupancy rates.

Credit Risk

The Policy sets minimum acceptable credit ratings for investments from any of the three NRSROs: Standard & Poor's (S&P), Moody's Investor Service (Moody's), and Fitch Rating's (Fitch).

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Notes to The Financial Statements

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(in thousands)

For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F1 (Fitch), while an issuer of long-term debt shall be rated no less than an "A" by an NSRSO.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2023 (NR means Not Rated, US means obligation of the United States (U.S.) government or obligations explicitly guaranteed by the U. S. government):

Investment	S&P	Moody's	% of Portfolio
OCTA Commingled Investment Pool	NR	NR	63.11 %
Money Market Funds	AAA	Aaa	34.40 %
CA Community Foundation Investment Fund	NR	NR	2.49 %
			100.00 %

3. DUE FROM/TO OTHER GOVERNMENTS

Amounts due from other governments as of June 30, 2023 in the fund financial statements are \$105,602 which comprised of \$100,451 of sales taxes and project reimbursements, and \$5,151 representing the interest receivable on Build America Bonds.

Amounts due to other governments as of June 30, 2023 are \$31,970 for transportation projects.

4. RELATED PARTY AND INTERFUND TRANSFERS

Related party transactions

As of June 30, 2023, OCLTA has \$16,359 receivable from other OCTA funds which is related to OC Streetcar, SR-91 Improvement Project, and I-405 Improvement Project.

As of June 30, 2023, OCLTA owes \$8,757 to other OCTA funds as follows:

	Amount	Description
General Fund	\$ 314	Placentia Rail Station and ARTIC
General Capital Project	7,930	OC Streetcar project
OCTD	504	M2 fare stabilization and Stationlink Svcs - Rail Feeder
OC Streetcar	9	OC Streetcar project
Total	\$ 8,757	

Contributions from Other OCTA Funds

During fiscal year 2022-23, OCLTA received \$12,467 which is comprised of \$453 from OCTD and \$12,014 from the 91 Express Lanes Fund for freeway improvements.

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Notes to The Financial Statements

Year Ended June 30, 2023

(in thousands)

Contributions to Other OCTA Funds

During fiscal year 2022-23, OCLTA made contributions to the following funds:

- \$44,322 to the General Capital Projects Fund for the OC Streetcar Project
- \$747 to the OC Streetcar Fund for the OC Streetcar Project
- \$11,057 to the OCTD Fund for La Habra service, iShuttle, Commuter Rail, Fare Stabilization and Senior Mobility Program

Interfund Transfers

During fiscal year 2022-23, the LTA Fund transferred \$56,290 to the LTA Debt Service Fund for debt service payments. Additionally, the LTA Debt Service Fund transferred \$2,963 in excess interest earnings to the LTA Fund.

5. CAPITAL ASSETS

Capital assets activity for the OCLTA governmental activities for the year ended June 30, 2023 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Right-of-way improvements	\$ 7,300	\$ —	\$ —	\$ 7,300
Total capital assets, not being depreciated	7,300	—	—	7,300
Capital assets, being depreciated:				
Machinery and equipment	21	—	—	21
Total capital assets, being depreciated	21	—	—	21
Less accumulated depreciation for:				
Machinery and equipment	(21)	—	—	(21)
Total accumulated depreciation	(21)	—	—	(21)
Total capital assets, being depreciated, net	—	—	—	—
Total governmental activities capital assets, net	\$ 7,300	\$ —	\$ —	\$ 7,300

6. LONG-TERM DEBT

Sales Tax Revenue Bonds

On December 9, 2010, OCLTA issued \$293,540 in M2 Sales Tax Revenue Bonds, 2010 Series A (Taxable Build America Bonds) and \$59,030 in 2010 Series B (Tax-Exempt Bonds), to finance and refinance the costs of certain transportation projects located in Orange County, to restructure the Tax Exempt Commercial Paper (TECP) Program, and to fund capitalized interest and costs of issuance related to the 2010 Series Bonds. Pursuant to the bond indenture for the 2010 Series Bonds, a reserve fund is not

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(in thousands)

required. The transaction closed on December 23, 2010. A total of \$75,000 was used to refund outstanding TECP.

On February 12, 2019, OCLTA issued \$376,690 in M2 Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2019 (the "Series 2019 Bonds"), i) to finance the costs of certain transportation projects located in Orange County, consisting of the general purpose lanes of I-405 Improvement Project; ii) to refund and defease \$43,540 of the 2010 Series A Bonds, which resulted in gross cumulative cash flow savings of approximately \$2,867 and net present value cumulative savings of approximately \$2,584; and iii) to fund costs of issuance related to the Series 2019 Bonds. Pursuant to the bond indenture for the Series 2019 Bonds, a reserve fund is not required. The transaction closed on February 26, 2019.

The OCLTA's outstanding debt obligations related to M2 Sales Tax Revenue Bonds contain a provision that in an event of default, bondholders have the right to sue in order to force the OCLTA to cure the event of default, which may result in finance related consequences.

A summary of the bonds outstanding is as follows:

	2010 Series A (Taxable Build America Bonds)	2019 Series B (Tax-Exempt Bonds)	Total
Issuance date	12/9/10	2/12/19	
Original issue amount	\$ 293,540	\$ 376,690	\$ 670,230
Original issue premium	—	69,342	69,342
Net Bond Proceeds	\$ 293,540	\$ 446,032	\$ 739,572
Issuance costs	\$ 1,905	\$ 970	\$ 2,875
Interest rates	5.56%-6.91%	3.00%-5.00%	
Maturity range	2021-2041	2021-2041	
Final maturity	2041	2041	
Bonds outstanding	\$ 250,000	\$ 340,235	\$ 590,235
Plus unamortized premium	—	55,664	55,664
Total	\$ 250,000	\$ 395,899	\$ 645,899

Annual debt service requirements on the sales tax revenue bonds as of June 30, 2023, are as follows:

Year Ending June 30,	Principal	Interest
2024	\$ 20,920	\$ 33,952
2025	21,950	32,906
2026	23,630	31,722
2027	24,755	30,334
2028	25,935	28,881
2029-2033	149,455	120,084
2034-2038	188,445	72,175
2039-2041	135,145	16,049
Total	\$ 590,235	\$ 366,103

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Year Ended June 30, 2023

(in thousands)

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2023, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Measure M program activities:					
Sales tax revenue bonds	\$ 610,170	\$ —	\$ (19,935)	\$ 590,235	\$ 20,920
Unamortized premium	58,815	—	(3,151)	55,664	—
Total Measure M program activities long-term liabilities	\$ 668,985	\$ —	\$ (23,086)	\$ 645,899	\$ 20,920

Pledged Revenue

OCLTA has debt issuances outstanding that are repaid and secured by the pledging of certain revenues. For the year ended June 30, 2023, debt service payments in relation to the pledged gross revenue net of the local fair share program and other expenses as required by the debt agreement, are indicated in the following table:

Description of Pledged Revenue	Annual Amount of Net Pledged Revenue	Annual Debt Service Payments	Pledged Revenue Coverage
Measure M2 Net Sales Tax Revenue	\$ 349,480	\$ 54,884	6.37

Line of Credit (Direct Borrowing)

On July 26, 2017, OCTA and the Department of Transportation Build America Bureau Credit Programs Office (Bureau) executed a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan of up to \$628,930 for eligible project costs for the I-405 Improvement Project. The Bureau required OCTA to secure a \$900,000 line of credit secured by future M2 debt issuances to be committed at the time of closing on the TIFIA loan. The OCTA Board of Directors selected Bank of America N.A. (BANA) to provide a \$900,000 line of credit to meet the Bureau's requirement.

The line of credit was structured in two commitment tranches, the 2019 Credit Agreement, in an amount of \$400,000 and the 2021 Credit Agreement, in an amount of \$500,000. The 2019 Credit Agreement terminated in 2019. The 2021 Credit Agreement was amended, effective June 29, 2020, changing the expiration to June 28, 2021, and reducing the commitment fee from 36 basis points to 34 basis points. In lieu of maintaining the line of Credit, OCTA established and funded accounts under OCTA's Custody Account Agreement with approximately \$500,000 therefore eliminating the requirement to maintain the 2021 Credit Agreement.

In connection with the rate reset of OCTA's 2017 TIFIA Loan (2021 TIFIA Loan), which occurred on September 9, 2021, OCTA prepaid the amount of funds drawn to date on the 2017 TIFIA Loan, plus accrued interest, totaling \$314,000 (Prepayment), to the United States Department of Transportation to close the transaction. OCTA secured a \$315,000 bridge loan from BANA to fund the Prepayment. The bridge loan was secured by executing the First Amendment to the Amended and Restated 2021 Credit Agreement (Agreement). The bridge loan was repaid on September 30, 2021, utilizing proceeds from the \$662,820 Bonds Anticipation Notes (BAN 2021 Series) issued on September 29, 2021. OCTA issued the BAN 2021 Series as a short-term financing vehicle during the construction of the I-405 Improvement Project to create flexibility by cost-effectively delaying draws on and repayment of the 2021 TIFIA Loan

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
Notes to The Financial Statements

Year Ended June 30, 2023

(in thousands)

until one year beyond substantial completion. The refunding did not result in a difference between the reacquisition price and the net carrying amount of the old debt. The transaction resulted in a reduction of debt service payments of \$274,577 over three fiscal years and an economic gain (difference between the present values of the debt service payments of the 2021 TIFIA Loan and BAN 2021 Series) of \$240,265.

On December 15, 2022, given significant shifts in the U.S. Treasury yield curve, OCTA requested a disbursement from the Bureau, which was used to legally defease the 2021 BANs, by funding a defeasance escrow using U.S. Treasury securities. No amount is outstanding under the BAN 2021 Series at June 30, 2023.

7. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The OCLTA has various long-term outstanding contracts that extend over several years and rely on future years' revenues. Total commitments at June 30, 2023 were \$819,719, the majority of which relate to the expansion of Orange County's freeways and road systems.

Federal Grants

The OCLTA receives federal grants for transportation projects and other reimbursable activities which are subject to audit by the grantor agency. Although the outcome of any such audits cannot be predicted, it is management's opinion that these audits would not have a material effect on the OCLTA's financial position or changes in financial position.

8. EFFECT OF NEW PRONOUNCEMENTS

GASB Statement No. 91

In May 2019, GASB issued Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement was effective for OCTA's fiscal year ending June 30, 2022, but was postponed by one year per GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 94

In March 2020, GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement is effective for OCTA's fiscal year ending June 30, 2023. The implementation of this Statement did not have a material effect on the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
Notes to The Financial Statements

Year Ended June 30, 2023

(in thousands)

GASB Statement No. 96

In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users (governments). The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 99

In April 2022, GASB issued Statement No. 99, Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 100

In June 2022, GASB issued Statement No. 100, Accounting Changes and Error Corrections. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. OCLTA has not determined the effect of this Statement.

GASB Statement No. 101

In June 2022, GASB issued Statement No. 101, Compensated Absences. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. OCLTA has not determined the effect of this Statement.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Required Supplementary Information
Budgetary Comparison Schedule - LTA Fund (Budgetary Basis)
Year Ended June 30, 2023

<i>(amounts expressed in thousands)</i>	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Sales tax	\$ 417,196	\$ 417,196	\$ 439,123	\$ 21,927
Contributions from other agencies	139,851	139,851	86,000	(53,851)
Contributions from other OCTA funds	35,862	35,862	12,467	(23,395)
Investment earnings (loss)	10,766	10,766	17,974	7,208
Miscellaneous	1,052	1,052	1,711	659
Total revenues	604,727	604,727	557,275	(47,452)
Expenditures:				
Current:				
General government - supplies and services	199,429	199,364	148,859	50,505
Transportation:				
Contributions to other local agencies	167,940	163,944	102,315	61,629
Contributions to other OCTA funds	51,894	51,894	56,126	(4,232)
Capital outlay	528,678	528,678	345,237	183,441
Total expenditures	947,941	943,880	652,537	291,343
Excess (deficiency) of revenues over (under) expenditures	(343,214)	(339,153)	(95,262)	243,891
Other financing sources (uses):				
Transfers in	5,857	5,857	2,963	(2,894)
Transfers out	(54,884)	(54,884)	(56,290)	(1,406)
Proceeds from sale of capital assets	2,000	2,000	—	(2,000)
Total other financing sources (uses)	(47,027)	(47,027)	(53,327)	(6,300)
Net change in fund balance	\$ (390,241)	\$ (386,180)	\$ (148,589)	\$ 237,591

Reconciliation to GAAP:

Net change in fund balance (budgetary basis)	\$ (148,589)
Less: Estimated revenues for encumbrances outstanding at June 30	20,942
Add: Current year encumbrances outstanding at June 30	<u>118,778</u>
Net change in fund balance (GAAP basis)	<u><u>\$ (50,753)</u></u>

See accompanying notes to the required supplementary information.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Notes to Required Supplementary Information
Year Ended June 30, 2023
(in thousands)

1. Budgetary Data

The OCLTA establishes accounting control through formal adoption of an annual operating budget for the LTA and the debt service governmental funds. The budget is prepared in conformity with accounting principles generally accepted in the United States (GAAP) except for multi-year contracts, for which the entire amount of the contract is budgeted and encumbered in the year of execution. The adopted budget can be amended by the Board to increase both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Division heads are authorized to approve appropriation transfers within major objects subject to approval by the Finance and Administration Division. Major objects are defined as Salaries and Benefits, Supplies and Services and Capital Outlay. Supplies and Services includes Contributions to Other Local Agencies, Debt Service and Transfers. Appropriation transfers between major objects require approval of the Board. Accordingly, the legal level of budgetary control, that is the level that expenditures cannot exceed appropriations, for budgeted funds, is at the major object level for the budgeted governmental funds. A Fourth Quarter Budget Status Report, June 2023 is available from the OCTA Finance and Administration Division. With the exception of accounts which have been encumbered, appropriations lapse at year end.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Other Supplementary Information
Budgetary Comparison Schedule - LTA Debt Service Fund (Budgetary Basis)
Year Ended June 30, 2023

<i>(amounts expressed in thousands)</i>	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Investment earnings	\$ 5,857	\$ 5,857	\$ 8,698	\$ 2,841
Total revenues	5,857	5,857	8,698	2,841
Expenditures:				
Debt service:				
Principal payments on long-term debt	19,935	19,935	19,935	—
Interest on long-term debt	34,949	34,949	34,949	—
Total expenditures	54,884	54,884	54,884	—
Deficiency of revenues under expenditures	(49,027)	(49,027)	(46,186)	2,841
Other financing sources:				
Transfers in	54,884	54,884	56,290	1,406
Transfers out	(5,857)	(5,857)	(2,963)	2,894
Total other financing sources	49,027	49,027	53,327	4,300
Net change in fund balance	\$ —	\$ —	\$ 7,141	\$ 7,141

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Orange County Local Transportation Authority (OCLTA), a component unit of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise OCLTA's basic financial statements, and have issued our report thereon dated November 2, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCLTA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCLTA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCLTA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCLTA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crowe LLP

Costa Mesa, California
November 2, 2023