Section 6

Fiscal Sustainability:

Ensure fiscal health through prudent financial management and by protecting and leveraging available revenue sources.

Objectives:

- Financial Management
- Efficient Operations
- External Funding Maximized

Contents

I. Introduction

OCTA must address both current and future challenges confronting its capacity to fund long-term sustainable transportation solutions for the residents of Orange County. In recent years, OCTA's financial acumen and conservative fiscal management have been the underpinnings of its ability to weather the financial crisis better than many other agencies.

In the future, the need for prudent financial management of taxpayer dollars will be even greater as traditional funding sources for transportation projects are not expected to keep pace with growth in travel demand. Whether it will be a downward restructuring of state and federal funding or an increasing set of expenses associated with capital acquisitions and fuels cost, OCTA will likely face less stable and less generous funding in the foreseeable future.

As a careful and responsible steward of public funds, OCTA is positioning itself to deal effectively with new fiscal realities. It is expanding its commitment and capacity for disciplined, effective financial management practices and systems throughout the organization. At the same time, OCTA is maximizing operational efficiencies to reduce the cost of delivering capital projects, transit services and other transportation programs that fully meet user needs and expectations. To remain fully solvent, however, and help finance transportation programs and projects needed to meet growing future travel demands, OCTA must also strengthen its ability to attract federal and state funding as well as other external funds, including new grant revenue sources. Finally, to avoid unnecessary future costs it must implement asset management and maintenance programs.

The following spreadsheet summarizes the programs and projects which support the primary objectives of the Fiscal Sustainability Goal Area. High level overviews of each program are discussed in this section and if further information is required, the guiding documents web links are provided.

This section reviews OCTA programs which enhance fiscal sustainability and accomplish our objectives.

Goal Area Objectives	Programs Supporting Objectives	Projects Supporting Programs	Benefit	Service Level Improvement	Pg.#
Fiscal Sustainability: ***ensure fiscal health through prudent financial and resource management and by protecting and leveraging revenue sources.***					
Objective 1 - Financial Management *ensure OCTA's financial future through proper resources mobilization, prioritization of programs, the budgetary process, efficient management of resources and existing controls.*					
	Comprehensive Business Plan (CBP) *Financially constrained business planning tool providing a 20 year cash flow for programs and services*				
		Budget Policy	Adopted Annual balanced budget	*Subject to public hearings. *Expenses controlled at the Major Object Level. They are: - salaries and benefits - services and supplies - capital expenditures	226
		Position Control Policy	In combination with the annual budget, full-time equivalent (FTE) positions are approved by the Board.	FTE's do not exceed the level approved by the Board. Positions are filled at or below the salary grade approved by the Board.	226
		45-Day Working Capital Policy	Provides a 45-day fund reserve for transit operations.	Reserve fund is to protect against fluctuations in revenues and expenditures and/or changes in funding or major expense items.	226

Goal Area Objectives	Programs Supporting Objectives	Projects Supporting Programs	Benefit	Service Level Improvement	Pg.#
Objective 2- Efficient Operations *ensure that Division operations are efficient in terms of using as little resources as needed, and effective in terms of meeting customer requirements.*					
	Review and Compliance Programs				
		OCTA Financial Statements	Ensures accuracy of OCTA financial statements and schedules.	Annually, OCTA will seek an unqualified/unmodified opinion as to the accuracy of the financial statements and schedules. Results are delivered to the Board.	236
		State Triennial Performance Review	Review evaluates Transit Division's organizational effectiveness, efficiency, and economy of operation.	Measure performance against acceptable criteria and focus on management planning and control.	236
		Federal Triennial Review	Review determines compliance with the Federal Transit Administration's (FTA) Urbanized Area Formula Program.	Meet statutory and administrative requirements.	237
		Measure M1 and M2 compliance	Annual TOC hearings on the Measure M program ordinance compliance.	Always be in compliance with the Measure M Ordinance	236

Goal Area Objectives	Programs Supporting Objectives	Projects Supporting Programs	Benefit	Service Level Improvement	Pg.#
Objective 3 - External Funding Maximized *seek and maintain external funding sources to help finance transportation programs and projects*					
	State/Federal Obligation Authority (OA)				
		Program year OA	Federal government redistributes OA not used by other states to those who have or will achieve 100 percent delivery of OA.	OCTA must obligate 100 percent of its estimated OA by May 1.	237
	State/Federal Funding Sources and Amounts by Fiscal Year				
		Fiscal year state and federal funding applications	Receipt of the maximum amount of state/federal funding by project type.	Apply for and receive the maximum amount of state/federal funding for each eligible project.	237

II. Long-Term Financial Planning

"In an effort to ensure long-term sustainability of transportation programs and services, OCTA developed a Comprehensive Business Plan (CBP). The CBP is a financially constrained business planning tool providing a 20-year cash flow for each of OCTA's transportation programs and services as the baseline for developing the annual budget. The plan details a comprehensive, multi-modal approach ensuring financial viability for each of OCTA's programs and developed consistent with the goals of OCTA's Strategic Plan and Long-Range Transportation Plan."[1]

A. Relevant Financial Policies

OCTA utilizes several financial policies in guiding day-to-day operations and ensuring long-term financial sustainability. While there are overriding agencywide financial policies, some financial policies are program-specific. A brief description of the major financial policies follows:

1. Budget Policy

OCTA's Budget Policy articulates that an annual budget will be prepared in accordance with the CBP, will be subject to a public hearing, and expenses will be controlled at the "Major Object" level. The three Major Objects for expenses at OCTA are: 1) salaries and benefits; 2) services and supplies; and 3) capital expenditures.

2. Position Control Policy

OCTA's Position Control Policy includes the control, maintenance, and reporting of OCTA's annual allocation of full-time equivalent (FTE) positions as approved by the Board. The Position Control Policy ensures that OCTA does not actively employ more FTEs than approved by the Board and ensures that positions are filled at or below the salary grades approved in the annual budget.

3. OCTD 45-Day Working Capital Policy:

The CBP requires a 45-day working capital reserve fund for transit operations. This reserve fund is in place to accommodate normal fluctuations in revenues and expenditures and protects against significant changes in funding or major expense items.

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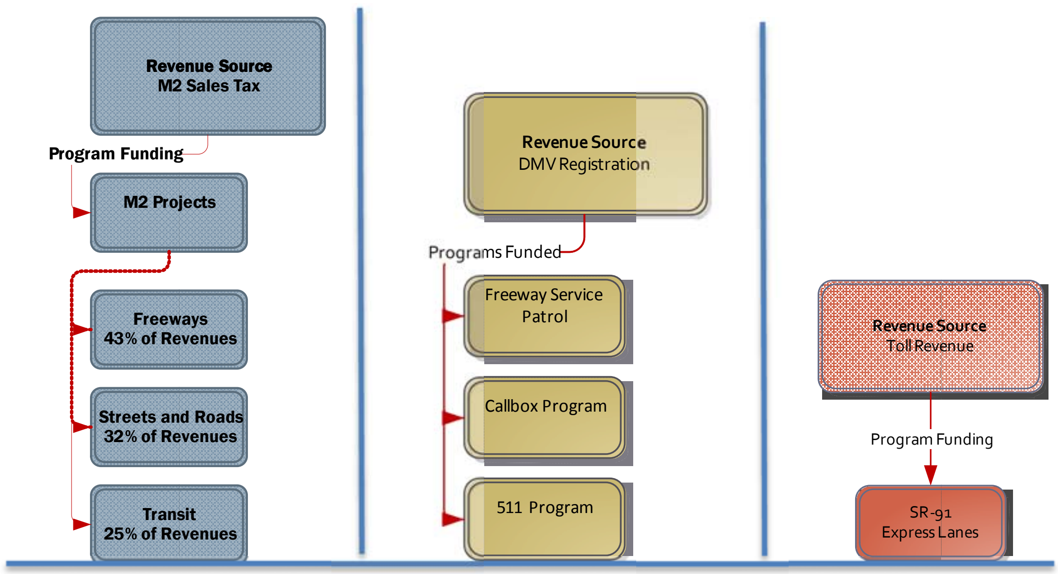
[1] Comprehensive Annual Financial Report, 2012, pg. vii

III. Sources of Revenue and Programs they Fund

The graphic below depicts OCTA revenue sources and the intended purpose they are to fund. Annually, OCTA develops a balanced budget for the upcoming fiscal year. The budget details the expected sources and uses of funds. The Board adopts the budget before the beginning of each fiscal year. During the fiscal year, all major budget revisions are presented to the Board for consideration and adoption. On a quarterly basis, financial results are presented to the Board, including all significant variances between actual performance and budget in the areas of revenue, staffing, operating expenditures, and capital expenditures."[2]

Sources of Revenues and Programs they Fund

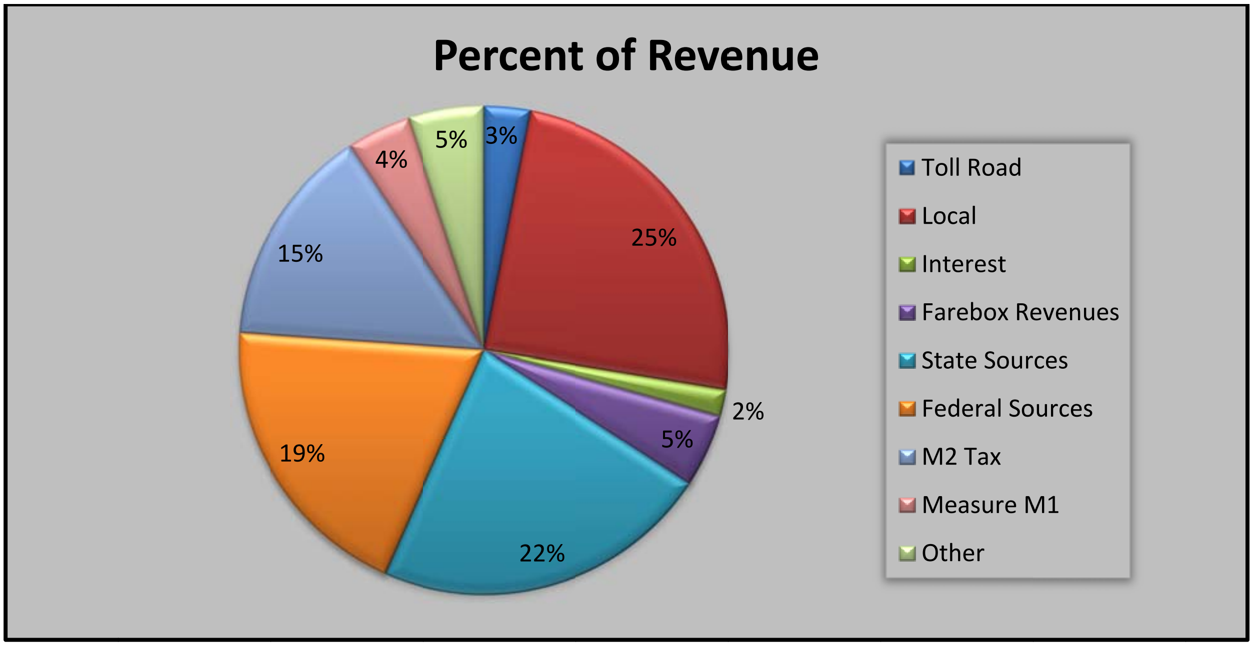


Grants: State and federal grants are generally program and project specific.
Note: See section "Sources of Funds" for a definition of each of the revenue sources listed

[2] Comprehensive Annual Financial Report, 2012, pg. vii

IV. Sources of Funds

The chart labeled "Percent of Revenue" shows the percentage amount of budgeted revenue for fiscal year 2013-14. "Total sources of funds are a combination of $954.1 million in revenue and the planned use of $299.6 million in reserves for a total of $1,253.7 million. "[3] Funding sources come from three areas: 1. Local operating revenues, 2. State sources, and **3**. Federal sources. From year to year, the percent of each funding source may vary slightly.



A. Definitions of Fund Sources

1. Toll Road

The SR-91 Toll Road Fund is an enterprise fund that supports the operational and capital functions of the 91 Express Lanes.

2. Local Funding Sources

Local funding sources are recurring local (operating) revenues OCTA expects to receive for each fiscal year. The list and definition of each revenue source is as follows:

a) Local Transportation Fund (LTF)

The LTF was established in 1971 through the Transportation Development Act (TDA) and is derived from a one-quarter percent state sales tax collected in Orange County. LTF revenues are used only for public transit and provide funding for a variety of transportation services including regional transportation planning, bus stop improvements, fixed-route bus operations, and paratransit services.

[3] OCTA Fiscal Year 2012-14 Budget, pg., 14

b) Advertising

Revenue received from advertising through the transit system.

c) Property Tax

Property taxes are allocated to OCTA from the County based upon a percentage of real property taxes levied by the County.

d) Department of Motor Vehicles; California Service Authority for Freeway Emergencies (SAFE)

OCTA provides motorist aid call boxes through the SAFE program. A $1 annual fee is collected per vehicle registration by the Department of Motor Vehicles for the program.

e) State Transit Assistance Fund (STAF)

The STAF, created by the California Legislature in 1971, provides a second source of funds for transportation planning and mass transportation purposes. The primary source of revenue to STAF is a portion of gasoline sales and diesel fuel tax revenue that is appropriated annually by the State Legislature. These revenues may be used for capital and operating expenditures related to public transportation.

3. Interest Income

"It is projected that OCTA will earn $22 million in interest income on its investment portfolio in FY 2013-14. The majority of funds available for investment are earmarked for M1 projects, M2 projects Metrolink Service Expansion Program (MSEP) capital improvements, and Measure M2 Bond Debt Service, which is the interest earnings associated with Build America Bonds. Interest earnings are projected at a conservative rate of 1.5 percent."[4]

4. Farebox Revenues

"These revenues are derived from passenger fares generated from fixed route bus service and paratransit service, including senior and disabled fare subsidies. Farebox revenues represent one of the primary sources used by OCTA to offset the costs of bus service."[5]

5. State Funding Sources

a) Proposition 116

Proposition 116 authorizes general obligation bond issue of $1,990,000.00 to provide funds principally for passenger and commuter rail systems, with limited funds available for public mass transit guideways, paratransit vehicles, bicycle and ferry facilities, and the railroad technology museum. Proposition 116 allocates certain amounts to specified state and local entities through a grant program administered by the California Transportation Commission. Proposition 116 requires matching of funds from local entities. Proposition 116 also appropriates money from state General Fund to pay off bonds.

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[4] OCTA Fiscal Year 2012-14 Budget, pg., 14

[5] OCTA Fiscal Year 2012-14 Budget, pg., 14

b) Proposition 1B (Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006)

Proposition 1B authorizes the state to sell about $20 billion of general obligation bonds to fund transportation projects to relieve congestion, improve the movement of goods, improve air quality, and enhance the safety and security of the transportation system. Listed below are other programs funded under Proposition 1B:

(1) Corridor Mobility Improvement Account (CMIA)

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by voters as Proposition 1B on November 7, 2006, includes $4.5 billion in program funding to be made available to the Corridor Mobility Improvement Account (CMIA). Upon appropriation in the annual Budget Bill by the Legislature, CMIA funds are made available to the California Transportation Commission, for allocation for performance improvements on the state highway system or major access routes to the state highway system.

The CMIA presents a unique opportunity for the state's transportation community to provide demonstrable congestion relief, enhanced mobility, improved safety, and stronger connectivity to benefit travelers.

(2) Highway-Railroad Crossing Safety Account (HRCSA)

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B on November 7, 2006, provides $250 million for high-priority grade separation and railroad crossing safety improvements.

(3) State-Local Partnership Program (SLPP)

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B on November 7, 2006, authorized $1 billion in funding to the State-Local Partnership Program (SLPP), upon appropriation by the Legislature, for allocation by the California Transportation Commission over a five-year period to eligible transportation projects nominated by an applicant transportation agency. The Bond Act required a dollar for dollar match of local funds for an applicant agency to receive state funds under the program.

(4) Trade Corridor Improvement Fund (TCIF)

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B on November 7, 2006, includes $2 billion, upon appropriation in the annual Budget Bill by the Legislature, made available to the California Transportation Commission for infrastructure improvements along federally designated "Trade Corridors of National Significance," in California and along other corridors with high volumes of freight movement.

(5) Traffic Light Synchronization Program (TLSP)

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B on November 7, 2006, included $250 million program funding for traffic light synchronization projects and other technology-based improvements to improve safety, operations and the effective capacity of local streets and roads. The Traffic Light Synchronization Program (TLSP) is funded through monies deposited in the Highway Safety, Rehabilitation, and Preservation Account.

c) State Transportation Improvement Program (STIP)

The STIP is a multi-year capital improvement program of transportation projects on and off the State Highway System, funded with revenues from the Transportation Investment Fund and other funding sources. STIP programming generally occurs every two years.

d) Planning, Programming, and Monitoring (PPM)

Under the STIP, every Regional Transportation Improvement Plan (RTIP) may add new programming for PPM in 2009-10 and 2010-11, subject to the PPM 1 percent and 5 percent limitations.

6. Federal Funding Sources

Each fiscal year, OCTA receives state and federal funds. Funding is based on the project specifications. The following is a list, with definitions, of the various funding OCTA applies for each year:

a) Congestion Mitigation Air Quality (CMAQ)

The Congestion Mitigation and Air Quality Improvement (CMAQ) program was established with an authorization level of $6 billion. The CMAQ program supports surface transportation projects and other related efforts that contribute to air quality improvements and provide congestion relief.

b) Regional Surface Transportation Program (RSTP)

The RSTP provides flexible funding that may be used by states and localities for projects that preserve and improve the transportation system consistent with regional priorities. The funds may be utilized on any federal-aid highway, including the national highway system, bridge projects on any public road, transit capital projects, and intracity and intercity bus terminals and facilities.

c) Federal Transit Administration (FTA) Section 5307 - Urbanized Area Formula Capital Grant Program

FTA Section 5307 - Urbanized Area Formula Funding program (49 U.S.C. 5307) provides federal resources to urbanized areas. An urbanized area is an incorporated area with a population of 50,000 or more that is designated as such by the U.S. Department of Commerce, Bureau of the Census. This program specifically provides funding for transit capital and operating assistance in urbanized areas and for transportation related planning.

d) FTA Section 5309 - Discretionary Capital Grant Program

FTA Section 5309 - Discretionary Capital Grant is a transit capital investment program (49 U.S.C. 5309) and provides capital assistance for three primary activities:

(1) New Fixed-Guideway Systems: (New Starts Program and Small Starts)

"The New Starts program provides funds for construction of new fixed-guideway systems or extensions to existing fixed-guideway systems. The Small Starts program provides funds to capital projects that either:

- Meet the definition of a fixed-guideway for at least 50 percent of the project length in the peak period or

- Corridor-based bus projects with 10 minute peak/15 minute off-peak headways or better while operating at least 14 hours per weekday. The Federal assistance provided or to be provided under Section 5309(e) must be less than $75 million and the project must have a total capital cost of less than $250 million, both in year of expenditure dollars.”[6]

(2) New and Replacement Buses and Facilities: (Bus and Bus Related Facilities program, Section 5309)

“The Bus and Bus Related Equipment and Facilities program (Bus program) provides capital assistance for new and replacement buses, related equipment, and facilities. It is a discretionary program to supplement formula funding in both urbanized and rural areas.”[7]

(3) Modernization of existing rail systems: (Fixed-Guideway Modernization program)

“Rail Fixed-Guideway Systems are categorized as any light, heavy, or rapid rail system, monorail, inclined plane, funicular, trolley, or automated guideway that:

- Is not regulated by the Federal Railroad Administration; and
- Is included in FTA's calculation of fixed-guideway route miles or receives funding under FTA's formula program for urbanized areas (49 U.S.C. 5336); or
- Has submitted documentation to FTA indicating its intent to be included in FTA's calculation of fixed-guideway route miles to receive funding under FTA's formula program for urbanized areas (49 U.S.C. 5336).”[8]

7. Local Transportation Authority (LTA) Measure M2 Tax

Also known as Measure M2 was passed in November 2006 by 70 percent of Orange County voters to continue with transportation investments funded by the local half cent sales tax for another 30 years. The funds are allocated to Orange County cities and the County of Orange to maintain and improve local streets and roads, along with transit fare reductions for seniors and persons with disabilities.

8. Revenue Reserves

OCTA sets aside reserve revenue for future capital and service requirements. Two funding sources are utilized for reserve revenue, Measure M1 and Other.”[9]

[6] http://www.fta.dot.gov/12304_3559.html

[7] http://www.fta.dot.gov/grants/13094_3557.html

[8] http://www.fta.dot.gov/grants/13093_3558.html

[9] OCTA Fiscal Year 2013-14 Budget, pg., 15

V. Uses of Funds

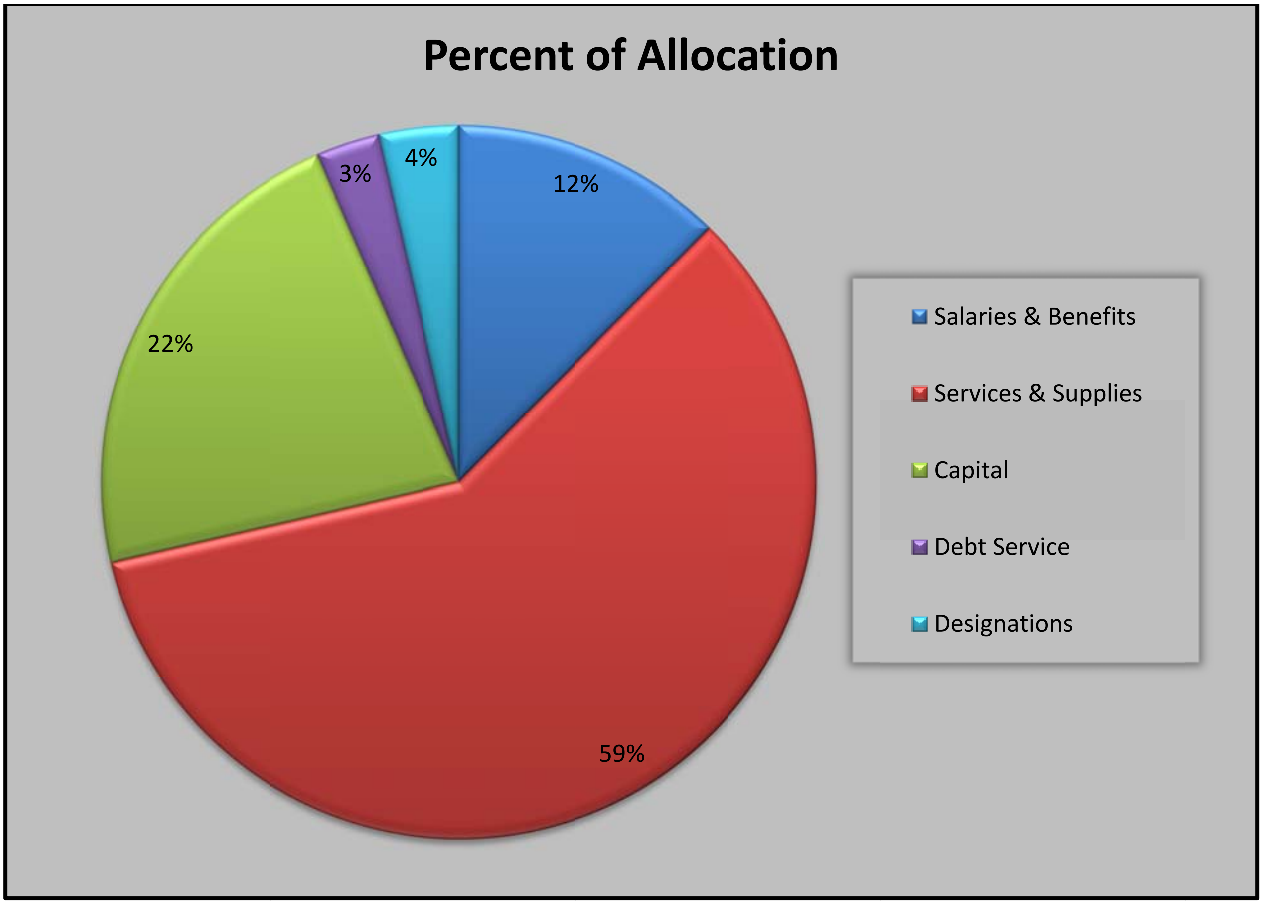
Uses of funds are usually allocated to five categories which are listed below. For FY 2013-14, the percent allocations are represented in the pie chart below.

A. Salaries and Benefits

Salaries and benefits include the cost of salaries and employee benefits.

B. Services and Supplies

"These items include appropriations for the purchase of services (e.g., engineering, design, legal and audit services) and supplies (e.g., fuel, office supplies, training, and travel). These services and supplies also fund contributions to other agencies for the M2 Local Fair Share, Anaheim Regional Transportation Intermodal Center, M2 Regional Capacity Program grant payments, Environmental Mitigation Program, Metrolink Service Expansion program and on-going operations, M1 Turnback and Combined Transportation Funding program, MSEP, and Rolling Stock."[10]



[10] OCTA Fiscal Year 2013-14 Budget, pg., 15

C. Capital & Fixed Assets

"This category of expenses includes all capital equipment purchases ($5,000 minimum and an initial useful life in excess of one year), vehicle procurements, freeway and capital construction projects, and right-of-way acquisitions. The majority of capital investments over the next five years will be made in the following projects: grade separation projects, bus procurements, environmental mitigation, SR-57 Northbound Freeway projects, and SR-91 Freeway projects."[11]

D. Debt Service

"Funds in this category are used to account for the accumulation of resources for, and payment of, OCTA's long-term debt obligations, including principal, interest, and related costs."[12]

E. Designation of Funds

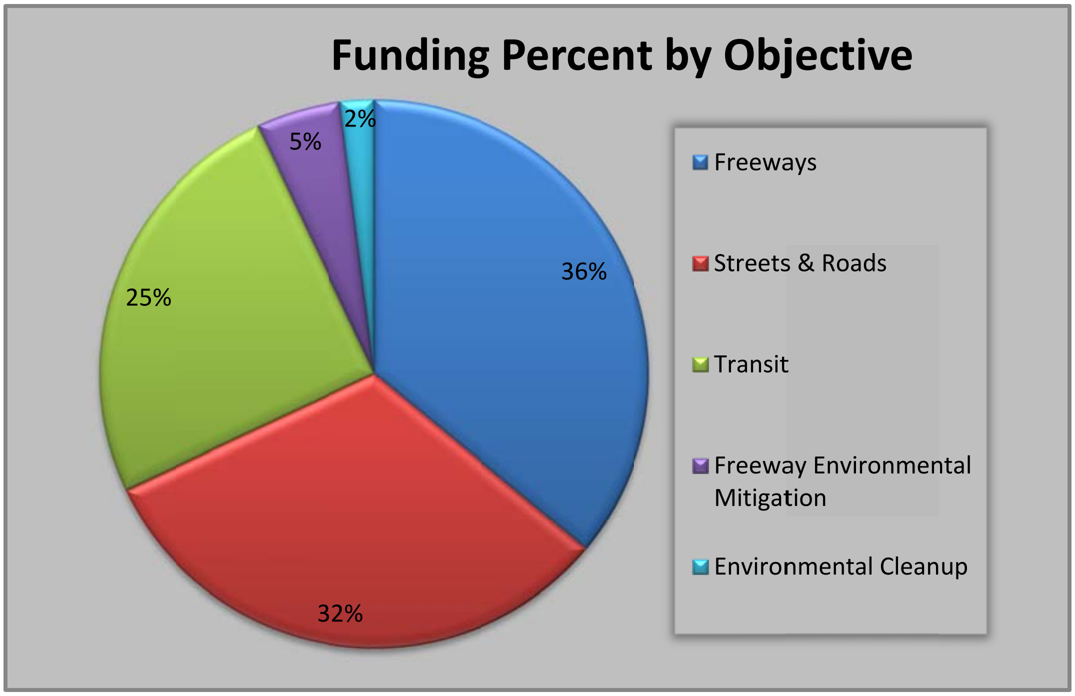
"Funds in this category are set aside for future use, i.e., future bus purchases and future capital projects."[13]

[11] OCTA Fiscal Year 2013-14 Budget, pg., 16

[12] OCTA Fiscal Year 2013-14 Budget, pg., 15-16

[13] OCTA Fiscal Year 2012-14 Budget, pg., 16

VI. M2020 Funding Breakdown



A. Freeways

Orange County freeways will receive 43 percent of net M2 revenues. The revenues include 5 percent funding allocated to the Freeway Environmental Mitigation Program and 2 percent to the Environmental Cleanup Program.

B. Street and Road Improvements

Orange County has more than 7,300 lane miles of streets and roads, many in need of repair and rehabilitation. M2 will allocate 32 percent of net revenues to streets and roads. These funds will help fix potholes, improve intersections, synchronize traffic signals countywide, and make the existing network of streets and roads safer and more efficient.

C. Transit

Orange County's rail and bus service will receive 25 percent of M2 net revenues. These funds will be used to add transit extensions to the Metrolink corridor, reduce bus fares for senior citizens and persons with disabilities, and establish local bus circulators.

VII. Fiscal Sustainability Strategies

A. Comprehensive Business Plan (CBP)

The CBP is a business planning tool used to assist OCTA in implementing its strategic goals and objectives. "[14] OCTA takes a conservative approach in preparing a balanced budget annually. "The CBP lays the foundation for the annual budget process and is consistent with the OCTA Strategic Plan, M2020 Plan, and the Long Range Transportation Plan.

The CBP summarizes OCTA's programs and outlines annual goals and objectives as directed by the Board of Directors. The Finance and Administration (F&A) Division uses financial modeling, divisional input and review, and a study of economic influences and programmatic needs to ensure the financial viability of each of OCTA's programs when building the CBP. The CBP provides the financial framework for OCTA projects and programs and is updated annually.

B. OCTA Financial Statements

Each year, an independent audit will be conducted on OCTA's financial statements and schedules, and on the 91 Express Lanes Fund Financial Statements for Board review. At the end of each calendar year, OCTA will seek an unqualified/unmodified opinion as to the accuracy of the financial statements and schedule presentations. The results of the opinions will be delivered to the Board by the F&A Division with the Comprehensive Annual Financial Report.

C. Measure M1 and M2 Compliance

Measure M, Orange County's one-half cent sales tax for transportation, passed in 1990 and renewed in 2006, calls for an oversight committee to serve as a watchdog over the program. As required by the Measure M Ordinance, the TOC conducts an annual public hearing. Committee members report on recent activities and receive comments from members of the public on the implementation of Measure M for the previous year. The TOC determines if OCTA is proceeding in accordance with Measure M requirements and ordinances which include the M1 Countywide Traffic Improvement and Growth Management Plan and the M2 Transportation Ordinance and Investment Plan. OCTA's strategy is to always be in compliance with the Measure M Ordinance.

D. State Triennial Performance Review

OCTA's last State Triennial Performance Review was concluded in 2013. The next review will be conducted in 2016. The audit reviews OCTA's activities as a regional transportation planning entity and the Orange County Transit District (OCTD) as a transit operator. It includes a review of OCTA's administration and management, claimant relationships, planning and regional coordination activities, marketing and transportation alternatives, and grant application and management.

The performance audit is a systematic process of evaluating the organization's effectiveness, efficiency, and economy of operation under management control. The objectives of the audit are to provide a means for evaluating an organization's performance and to enhance performance by making recommendations for improvement. The audit measures performance against acceptable criteria and focuses on management's planning and control system. In addition, the audit evaluates the adequacy of the organization's systems and the degree of compliance with established policies and procedures.

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[14] OCTA Comprehensive Business Plan 2012-13, pg., 5

E. Federal Triennial Review

OCTA's last Federal Triennial Performance Review was concluded in late 2013. The next review will be conducted in 2016. "The Federal Triennial Review is one of the Federal Transit Administration's (FTA) management tools for examining grantee performance and adherence to current FTA requirements and policies. Mandated by Congress in 1982, the triennial review occurs once every three years. It examines how recipients of Urbanized Area Formula Program funds meet statutory and administrative requirements, especially those that are included in the Annual Certifications and Assurances that grantees submit. The review currently examines 23 areas. In addition to helping evaluate grantees, the review gives FTA an opportunity to provide technical assistance on the latest FTA requirements and aids FTA in reporting to the Secretary, Congress, other oversight agencies, and the transit community on the Urbanized Area Formula Program."[15]

F. State/Federal Obligation Authority (OA) by Program Year

The federal government requires states to obligate federal funds by September 30 of each year or lose the funding or obligation authority (OA). To ensure timely use of available funding, OCTA prepares an annual obligation plan to obligate 100 percent of state/federal funds in the programmed year.

The State of California annually receives Congestion Mitigation and Air Quality Improvement Program (CMAQ) and Regional Surface Transportation Program (RSTP) apportionments from the Federal Highway Administration. OCTA receives a share of the apportioned funds, approximately $42 million in CMAQ and $33 million in RSTP funds, to fund regional projects. The best way to maximize CMAQ and RSTP apportionments is through the full and complete obligation of the available federal apportionment every year. In order to preserve federal funding, OCTA has developed a fiscal year federal OA Plan designed to position OCTA to use OA that is not used by other states, through a process known as "August Redistribution." This occurs when the federal government redistributes OA not used by other states to those who have or will achieve 100 percent delivery of OA.

In order to be eligible to receive August redistribution, OCTA must obligate approximately $72.028 million in federal funds to projects or 100 percent of its estimated OA by May 1.

G. State/Federal Funding Sources and Amounts by Fiscal Year

OCTA receives State and Federal funds each fiscal year based on the type of projects OCTA is carrying out. When undertaking projects throughout the County, from Bike Programs to Traffic Light Synchronization, OCTA seeks to obtain the maximum amount of state, federal, and grant monies possible to help with the funding obligations.

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[15] http://www.fta.dot.gov/grants/12897.html