ORANGE COUNTY
BUSINESS COUNCIL

MEASURE M2 TRIENNIAL PERFORMANCE ASSESSMENT

Prepared for:

Orange County Transportation Authority

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TABLE OF CONTENTS

Executive Summary	**p. 2**
Triennial Performance Assessment Introduction	**p. 4**
Performance Assessment Background and Overview	**p. 6**
1) M2 Early Action Plan	**p. 17**
2) Plan of Finance	**p. 24**
3) Readiness and Market Capacity	**p. 36**
4) Outreach and Public Communications	**p. 41**
5) Taxpayer's Oversight Committee	**p. 45**
6) State Board of Equalization	**p. 51**
7) Environmental Oversight Committees	**p. 53**
8) Revenue Forecasting	**p. 59**
9) Project Controls	**p. 67**
10) Sampling of Change Orders	**p. 76**
11) Contractual Performance of Vendors	**p. 78**
12) Data Sources	**p. 79**
13) California County Transportation Sales Tax Measures	**p. 82**
14) Orange Freeway (SR-57) Case Study	**p. 87**

M2 TRIENNIAL PERFORMANCE ASSESSMENT

EXECUTIVE SUMMARY

On November 7, 2006, almost 70% of Orange County voters approved the renewal of Measure M, a 3-year one-half per cent sales tax to fund a list of specific transportation projects. The countywide vote continued a transportation improvement plan originally authorized by voters in 1990 and set to sunset in the first quarter of calendar year 2011. The Renewed Measure M (called M2) continues countywide investment in freeways, transit, and streets and roads until 2041.

The M2 program includes a variety of taxpayer safeguards, including the formation of a special Taxpayer's Oversight Committee, a requirement that M2 funds be held in a special transportation trust fund, and strict requirements limiting sales tax expenditures to specifically-detailed transportation projects. The voter-approved M2 ordinance also includes a safeguard calling for an independent outside performance assessment every three years.

This is the first M2 performance assessment, covering the period from November 8, 2006 to June 30, 2009. During this time period, no M2 sales tax revenues were collected. M2 sales tax collections do not begin until the second quarter of 2011. The OCTA Board of Directors approved a five-year Early Action Plan (EAP) in August of 2007 to jump-start the M2 program. Funded with a tax exempt commercial paper program, some internal borrowings, M1 funds and some state and federal dollars, the EAP established nine major objectives for the early years of the M2 program. Substantial progress has been made towards achieving the EAP's nine objectives, despite a difficult local and national economy that has led to a significant reduction in anticipated M2 revenues over a 30-year period.

The OCTA artfully balanced the reduced local sales tax revenues with increases in state and federal transportation dollars (most notably funds from the federal America Recovery and Reinvestment Act) to keep the Early Action Plan progressing smoothly, although the five-year program approved in August 2007 will not be completed until a second M2 performance assessment is conducted in June 2012. OCTA managed admirably to a constantly shifting economic environment resulting in declining sales tax actuals and projections, as well as significant impacts to state and federal budgets.

During the initial stages of the M2 era, the OCTA has taken positive steps to form key M2-required committees, including the Taxpayer Oversight Committee, the Environmental Oversight Committee and the Environmental Allocation Committee. New project control software has been introduced. Staffing has been re-organized to focus on M2 projects. A $400 million tax exempt commercial paper program was formed at lower than anticipated costs. In general, the OCTA's aggressive early steps have been successful. A series of M2 eligibility guidelines, and an M2 eligibility manual, have been prepared with the goal of making sure every city and the County of Orange have an uninterrupted flow of M2 local turnback funds when voter-approved M2 rules replace the old M1 rules in April of 2011.

The first months after M2's passage have spotlighted some significant future challenges. Reduced revenues and increasing costs may imperil some freeway projects, particularly the western stretch of Interstate 405 between Los Alamitos and State Route 55. Mindful of reduced revenues, the OCTA Board has taken a more deliberate approach in expanding high-frequency Metrolink rail transit services and launching the environmental mitigation program.

Since this assessment is being completed in the third quarter of 2010, many issues have extended beyond the June 30, 2009 project parameters described in the projects original Scope of Work. For example, many previous examinations of the Orange County Transportation Authority and the Measure M program have recommended creation of a focused Measure M Program Office. This program office was created in late 2009, outside of the parameters of this study. However, this assessment recognizes the formation of this office and includes it in this report. Similarly, in terms of the M2 Plan of Finance, expenditure data for the OCTA's Tax Exempt Commercial Paper Program is available through June 30, 2010, a year beyond the specific scope of this project. For this report, the freshest data available has been used to develop findings and recommendations.

Finally, because RFP 9-0885 for the first M2 assessment was issued after the close of the first assessment period and the award of contract was not made until 2010, there are unique circumstances that need to be considered. For example, a number of M2 reviews recommended creation of an M2 Program Office, an action that was not approved during the period of time covered by this assessment. However, the M2 Program Office was created before this assessment was completed and is recognized in this assessment, even if the timing of the OCTA action is not in strict conformance with the dates covered in the RFP 9-0885's Scope of Work.

Process suggestion about next M2 Triennial Performance Assessment:

To avoid this type of confusion in the future, the Request For Proposal for the Performance Assessment should be issued on or about June 30 of the third year of each assessment period. For the second Performance Assessment, the RFP should be issued by June 30, 2012. This prompt issuing of an RFP will allow a timely award of contract, a prompt review of M2 activities, and a fresh work product that allows a clear focus and appropriate array of topics for a sensible review that can benefit management and provide useful information and suggestions.

M2 Triennial Performance Assessment Introduction

The purpose of this report is to communicate the results of the Renewed Measure M (M2) triennial performance assessment. This assessment was undertaken by the Orange County Business Council (OCBC), an independent consultant, to evaluate the efficiency, effectiveness, economy and program results of the Orange County Transportation Authority (OCTA) in satisfying the provisions and requirements of the M2 Investment Summary, the Plan and the Ordinance.

This initial performance assessment of OCTA M2 examines the time period from November 8, 2006 through June 30, 2009. On November 7, 2006, the voters of Orange County approved, with 69.7 percent of the vote, a Renewed Measure M (M2) investment plan. The plan provides a revenue stream from April 2011 through April 2041 to fund a comprehensive program of transportation improvements that work in conjunction with, and are in addition to, the projects approved in the original Measure M (M1) investment plan that expires in April, 2011. M2 has an accompanying ordinance that provides for added safeguards.

The OCTA M2 program performance should build on, and benefit from, the experience OCTA gained in administering the M1 program. While M2 revenues will not be received until 2011, the OCTA Board of Directors approved an Early Action Plan so preparatory work on projects can begin, requiring several administrative functions to be adequately prepared for direct and indirect charges. At this point, the Early Action Plan is well established and will be updated or replaced for the next assessment cycle. According to the revised EAP adopted by the OCTA Board in June 2010, this will be an action item for the next review cycle, but not the current effort.

This performance assessment is designed to meet the *Safeguards of Use of Revenues* provision in Ordinance No. 3. The Investment Summary of the Plan mentioned in Ordinance No. 3 relates to page 31 of the voter's pamphlet, the "Measure M Investment Summary", that lists the 24 M2 projects/programs. Ordinance No. 3 states:

> *"A performance assessment shall be conducted at least once every three years to evaluate the efficiency, effectiveness, economy and program results of the Authority in satisfying the provisions and requirements of the Investment Summary of the Plan, the*

Plan and the Ordinance. A copy of the performance assessment shall be provided to the Committee."

OCBC conducted this initial Measure M2 triennial performance assessment as required by the Local Transportation Authority Ordinance No. 3 and outlined in RFP 9-0885 and the subsequent proposal, scope of work, and project work plan. In order to align future assessments with the OCTA fiscal year, this initial triennial performance assessment of M2 examines the period of November 8, 2006 through June 30, 2009. Subsequent performance assessment periods will span from July 1, 2009 through June 30, 2012 and then each subsequent three-year period.

This report represents the fulfillment of the above stated requirements.

Analysis relied primarily on documents from this period, and every effort was made to limit our findings to program performance during that time frame. However, because the assessment was conducted almost a year after the period ended, on-site analysis of management practices and procedures occurred in 2010. While it is unlikely that these procedures changed dramatically in the intervening year, the OCTA could consider conducting the assessment closer to the end of the three-year period in the future to better link the assessment to the desired time frame.

It is important to recognize that this report is not a performance *audit*, but is instead a performance *assessment.* The scope of our effort was focused on OCTA organizational performance and should not be considered an audit or evaluation/assessment of OCTA accounting controls. This assessment is specifically for the Renewed Measure M program (M2), and the scope of work is focused strictly and solely on OCTA's performance and appropriateness in delivery of M2 programs. The OCTA does carry out a triennial performance audit for the entire organization (most recently published in May 2010) as part of its State Transportation Development Act funding requirements. Matters involving accounting controls are handled under Internal Audit standards conformance.

Performance Assessment Background and Overview

Performance Assessment Definition:

"Assessment against a set of predetermined criteria of the economy, efficiency and effectiveness with which an organization carries out a particular activity or range of activities. Organizations may be set regular targets on particular aspects of their performance—financial returns, efficiency, quality of services supplied, etc.—against which their performance is monitored and evaluated. "

However, actions taken in this 2006-2009 time period set the stage for M2's short and long range future. This assessment attempts to put the M2 program in a broad context, recognizing economic changes and new state and federal transportation policies. Our team has also strived to set a foundation and framework for future M2 Triennial Performance Assessments.

Subsection 6 of Ordinance 3's Section 9 specifies the rules for the triennial performance assessment. This assessment covers the first 32 months of the Measure M program, from November 8, 2006 to June 30, 2009.

The body of this report is organized by the 11 Triennial Performance Assessment tasks outlined in the RFP Scope of Work. In combination with our review and analysis, they provide a comprehensive picture of how well OCTA has performed M2 activities and strategies thus far; whether OCTA procedures and policies adequately support successful implementation; and where improvements can be made.

1: M2 Early Action Plan (EAP)

2. M2 Plan of Finance

3: Readiness and Market Conditions Studies and Follow-up

4: Outreach and Public Communications

5: Taxpayer Oversight Committee

6: State Board of Equalization (SBOE)

7: Environmental Committees Program Oversight

8: Revenue Forecasting

9: Project Management Controls

10: Sampling of Change Orders

11: Contractual Performance of Vendors

Background

On November 7, 2006, 69.7 percent of all Orange County voters cast ballots authorizing the Renewed Measure M, a countywide ballot measure calling for a one-half per cent countywide transportation sales tax dedicated to funding a set of clearly defined transportation projects and programs.

It was the first time an Orange County transportation tax measure surpassed the 2/3 voter threshold since 1912.

The 30-year, voter-approved Renewed Measure M program builds on an earlier voter-approved transportation program, a successful countywide ballot proposition also called Measure M that was approved by a simple majority of voters in November of 1990. The original Measure M (called M1) is a 20-year transportation program which will sunset on March 31, 2011.

By voter-approved ordinance, Renewed Measure M (called M2), although adopted in 2006, does not begin sales tax collection until M1 sales tax collections end. No M2 sales tax revenue will be collected until April 1, 2011.

However, armed with strong voter support and a growing list of needed transportation projects, the Orange County Transportation Authority (OCTA) decided to advance freeway, transit, and road projects specified before M2 revenues were collected. These transportation projects were approved in August 2007 as the M2 Early Action Plan.

After considering a number of financial options to advance the Early Action Plan (EAP) projects, the OCTA Board of Directors approved a financing plan built on a $400 million tax-exempt commercial paper program on January 28, 2008. Within a week, a consortium of banks made money available to build the EAP projects.

Like M1, M2 has a series of safeguards to guide expenditure of locally-generated transportation sales tax dollars. According to the November 2006 voter's pamphlet, the safeguards are designed so "when new transportation dollars are approved, they should go for transportation and transportation alone. No bait and switch. No using transportation dollars for other purposes."

In the voter-approved ordinance, the OCTA was directed that, like M1, all M2 transportation sales tax revenues would be deposited in a special trust fund. Outside audits were required. An independent 11-member Taxpayers Oversight Committee was assigned to make sure M2 dollars were used only for voter-approved projects; and, different from M1, an additional level of oversight – a triennial performance assessment - was promised.

This is the first triennial performance assessment required by the voter-approved M2 ordinance. This report covers the period between November 8, 2006 – the day after voters approved M2 – and June 30, 2009.

During this 32-month period, the OCTA began winding down M1 and started gearing up for M2 and by adopting an Early Action Plan and Plan of Finance. The OCTA saw a significant drop in actual and anticipated sales tax revenues during this time frame and weathered a turbulent economy that shook M2's financial foundations.

During this transitional time, the OCTA also introduced a new M2 project management system, a new Chief Executive Officer, and a new Chief Financial Officer. The Authority also reorganized M2 project staff; lowered revenue expectations substantially; identified new funding sources for major projects; reset some priorities; and delivered some M2 projects prior to sales tax collection beginning in April 2011.

This performance assessment does not review all of the OCTA's activities during this period. Although mindful of cuts in the OCTA bus operations, the close-out of important M1 projects and a significant change in state transit priorities, this assessment focuses on how the M2 program performed during this transitional time in local, state and national transportation financing.

The centerpiece of this assessment is Early Action Plan and the Project Controls used to monitor the plan, the Plan of Finance and its $400 million commercial paper program, and a set of tasks identified in RFP 9-0885's Scope of Work). Within the context of this report, emphasis was placed on safeguarding M2 funds, using M2 funds in accord with the M2 Plan and ordinance, and reviewing M2 project controls.

The 30-year M2 program is in its earliest stages. In most instances, it is too early to completely evaluate preliminary outcomes. Timelines for the Five-Year EAP and this 32-month assessment do not match well, so success is not clearly definable, although OCTA is already ahead of schedule based on tax collections beginning in 2011. Similarly, the Plan of Finance, approved in 2008, is being redesigned in 2010 to meet changing financial realities.

However in some instances, actions taken in this 2006-2009 time period set the stage for M2's short and long range future. This assessment attempts to put the M2 program in a broad context, recognizing economic changes and new state and federal transportation policies. It also attempts to put the triennial assessment in a narrower context with a case study looking at a single project, improvements in State Route 57 (SR 57), and the impact national events have had on a large, complex freeway project.

During this early 32-month time frame, OCTA has take a number of management, financial, and project development steps to advance early and successful delivery of the M2 investment plan. These steps include:

- Developing an EAP to mobilize program delivery
- Updating project controls and systems to monitor the programs
- Implementing key M2 organizational requirements such as formation of the Taxpayers Oversight Committee and Environmental Committees
- Putting in place financing options to expedite project delivery
- Leveraging significant state and federal funding to fund early activities
- Implementing outreach and new communication methods to share M2 info and receive input
- Using private sector resources to get programs started on construction activity on M2 transit and freeway projects

In many ways, the SR 57 is a microcosm of how major transportation projects were being built during this assessment's time frame. The SR 57 project began before M2 was approved by voters, was included in the M2 voter pamphlet, underwent the design phase of project development during this assessment period, and then saw its financing mix change because of economic considerations and new funding opportunities. Timelines referred to in this assessment reflect the broad national context influencing M2 projects, key M2 activities and milestones, and the impact M2 and the national economy had on a single, high-profile Orange County transportation project.

The M2 Early Action Plan (EAP), first presented to the OCTA Board of Directors about four months after M2 was approved by Orange County voters, initially called for $250 million in M2 projects. The EAP portfolio was later expanded to $350 million in projects and about $50 million in anticipated costs of borrowing.

The initial EAP recognized that renewing M2 nearly four and a half years before the revenues became available was both an opportunity and a challenge.

An August 13, 2007 OCTA staff report explaining the ideas underpinning the EAP said acting to advance needed transportation projects could be achieved if appropriate funding could be found:

"This lead time enables significant project development work to be undertaken and projects to be delivered early, but only if sufficient funding is made available in a timely manner." Additionally, reports on readiness and market conditions by the Orange County Business Council pointed out that a strategy such as the EAP would take advantage of favorable market conditions and opportunities by accelerating projects through the EAP. Pay-as-you-go project funding is de-facto not possible for any M2 projects until after April 1, 2011. However, early action on M2 projects prior to April 1, 2011 can be undertaken using some combination of four principal funding sources:

1. Federal, state and local grants and/or matching funds
2. Unallocated M1 funds, in excess of what is needed to complete the M1 expenditure plan
3. Internal loans of qualifying non-M funds held by OCTA
4. Debt financing repaid by future M2 revenues"

Since the EAP was initially proposed, OCTA has chosen to pursue all four financing options for the first portion of a five-year EAP. This assessment focuses on the first stages of the 60-month EAP.

The projects initially recommended in the EAP action and presented to rating agencies are detailed in Attachment 1. It was estimated that $250 million in debt financing would be required to deliver these and other projects such as $14 million for streets and roads and $80 million for M2 initial environmental investments, as well as an additional $127 million from outside sources.

As the OCTA worked through its financing plans in 2007 and early 2008 and listened to the results of a public outreach program focused on city councils and citizen groups, an additional $100 million was added to the Early Action Plan. As suggested by the Board of Directors Finance and Administration Committee, and approved by the full Board, these projects were generally described as extensions to Metrolink, grade separations, and other unspecified projects, adding the $100 million increased the OCTA's borrowing plans to $400 million. Additionally, the OCTA set nine objectives for the five-year EAP.

Nine Key Objectives of the M2 EAP:

1. Complete the first major milestone – conceptual engineering – for every freeway project in the plan.

2. Start construction on five major M2 freeway projects on SR-91, SR-57 and I-5.

3. Enable every Orange County city and the county to meet eligibility requirements for M2 funds, including new pavement management and signal synchronization programs.

4. Award up to $165 million to cities and the county for signal synchronization and road upgrades.

5. Implement high-frequency Metrolink service within Orange County with associated railroad crossing safety and quiet zone improvements completed or under construction. Begin project development for at least five major grade separation projects to separate railroad tracks from major streets.

6. Award up to $200 million in competitive funding for transit projects.

7. Complete development work and allocate funds for transit fare discounts and improved services for seniors and person with disabilities.

8. Complete an agreement between OCTA and resource agencies detailing environmental mitigation of freeway improvements and commitments for project permitting. Begin allocation of funds for mitigation.

9. Complete program development for road runoff/water quality improvements; begin allocation of funds to water quality projects.

The nine objectives were presented to the Board of Directors in March 2007, approved in August of 2007 and were included in the 2009 Measure M Progress Report, *Fulfilling Promises. Building a Better Tomorrow.*

Outside the scope of this assessment, the OCTA Board of Directors approved an updated M2 Early Action Plan on July 26, 2010, adding seven additional projects to the plan and providing an update on progress toward achieving the EAP objectives. Attachment 1 is the June 2010 Measure M Early Action Plan Update.

Attachment 1: Projects Funded from EAP

The EAP will fund $211.1 million for freeway improvements and $71.1 million for transit. EAP funding for freeways assumes $126.9 million in external funding and $84.2 million in M2 funding.

Freeway Projects	Amount
State Route 91	
SR-91 Eastbound, SR-241 to SR-71	$71.3 M
SR-91, SR-55 to Weir Canyon	15.2 M
SR-91 Westbound, I-5 to SR-57	4.5 M
SR-91, SR-241 to Riverside Co. Line	3.5 M
SR-91, SR-57 to SR-55	1.9 M
State Route 57	
SR-57 Northbound, SR-91 to Lambert	$46.5 M
SR-57 Northbound, Katella to Lincoln	7.5 M
Interstate 5	
I-5 / Ortega Interchange	$32.0 M
I-5, SR-73 to El Toro "Y"	2.0 M
I-5, Pacific Coast Hwy to Pico	1.3 M
I-5, El Toro "Y" to SR-55	0.9 M
I-5, South Orange County Interchange	0.8 M
Interstate 55	
SR-55, I-5 to SR-22	0.5 M
SR-55, I-405 to I-5	0.5 M

Freeway Projects (cont.)	Amount
Interstate 405	
I-405, SR-55 to I-605	$6.6 M
I-405, I-5 to SR-55	1.1 M
Interstate 605	
I-605 Access Improvements	$0.3 M
Other Expenditures	
Administrative Costs	$9.0 M
Program Management Consultant	5.7 M

Transit Projects (cont.)	Amount
High Frequency Metrolink Service	$54.4 M
Transit Extensions to Metrolink	6.7 M
Convert Metrolink Stations to Regional Gateways	7.9 M
Expand Mobility Choices for Seniors and Disabled	0.1 M
Community Based Transit/Circulators	1.0 M
Safe Transit Stops	0.1 M
Program Support	0.8 M

Although the OCTA pursued a four-phased program to deliver the M2 EAP (seeking outside funding, tapping unallocated M1 funds, internal borrowing and debt financing), the Plan of Finance approved by the OCTA Board of Directors is centered on institutional borrowing that will be repaid with future M2 revenues.

The Plan of Finance was adopted after the OCTA staff recommended that the OCTA Board determine pay-as-you-go financing was not an available option for M2 projects and that the voter-approved Ordinance #3 allowed the Authority to use bond financing if “pay-as-you-go” financing was unfeasible. The Section 5 also allows the OCTA to issue debt “before, on or after the imposition of taxes.”

On November 9, 2007 – about a year after M2 was approved and after a detailed internal review of financing options – the OCTA Board adopted plans for a $400 million tax exempt commercial paper program to help finance an identified list of M2 transportation projects. The OCTA and its consultants were very familiar with tax exempt commercial paper programs that are generally similar to a credit card method of financing. The OCTA Finance and Administration team operated a $100 million program through much of the M1 program.

Initially, the M2 program was sized to meet the cash requirements of a $350 million EAP program. On January 28, 2008, staff said the $400 million program met the anticipated funding requirements in this way:

EAP Commercial Paper Program:

• Freeway Program	$ 164.2 M
• Transit Program	172.6 M
• Streets & Roads Program	14.4 M
Total Project Requirements	$ 351.2 M
▪ Commercial Paper Interest	48.8 M
Total Authorized Amount	$ 400.0 M

Staff stressed that the dollar amounts were estimates and could change over time, based on the overall economy, financing opportunities, and the timing of EAP projects. In the official February 1, 2008 offering Memorandum for Renewed Measure M Subordinate Sales Tax Revenue Commercial Paper Notes, the OCTA retained significant flexibility in how dollars made available through the commercial paper would be spent. According to the memorandum: “The Notes are being issued to finance a portion of the costs of certain transportation projects identified in the Renewed Measure M Transportation Investment Plan adopted by the Board of Directors of the Authority on July 24, 2006.” No specific projects were promised in the offering memorandum and no specific timelines were identified.

The Tax Exempt Commercial Paper (TECP) program was designed to provide the OCTA with maximum short-term flexibility so, as one Finance and Administration staffer said, “Money would not be a constraint in delivering M2 projects.”

1.0 M2 Early Action Plan (EAP)

OCTA has initiated actions and procedures to start multiple projects now even before funding from M2 has commenced (starting in 2011). Early action of the magnitude contemplated in the M2 EAP is not without risks, especially because of the severe economic downturn.

Methodology

The OCBC team:

- Examined the appropriateness of advancing projects vs. “pay as you go.”
- Assessed if the EAP was sufficiently defined to create a reasonable set of project initiation efforts.
- Assessed if an appropriate resource analysis to deliver the program was performed and what steps were taken to implement any recommendations.
- Evaluated OCTA’s approach, procedures and actions taken to implement and/or allocate funds to advance specific programs or projects.
- Assessed whether OCTA utilized an adequate and open public process in determining the projects that were included in the Early Action Plan.
- Reviewed and assessed the EAP, both the plan, all related documents, reports, and presentations, and their associated approaches, procedures, and processes.
- Reviewed subsequent steps taken to implement EAP recommendations and made any course corrections.
- Examined if the EAP plan, assumptions, and projections indicate if the ability to deliver the full 30-year M2 plan is compromised in light of economic realities that have taken place after passage of M2.

Key Questions Asked: How effective, appropriate, and realistic was OCTA’s effort in developing the M2 Early Action Plan? In light of new financial realities related to the economic downturn, has OCTA adapted appropriately its strategy regarding advancing projects vs. “pay as you go?”

Background: M2 builds upon a successful delivery of the original Measure M, which delivered even more than promised in the original voter pamphlet. A primary reason for the voters' willingness to renew Measure M was that they saw and experienced tangible, timely results through freeway and other transportation improvements. Most of Orange County's freeway system was improved, including a major overhaul of the Santa Ana Freeway (I-5) right through the heart of Orange County. Solid positive economic and business opportunities contributed to M1's success. Completing the bulk of the freeway program within 10 years contributed to the ability to add an entirely new project — widening the Garden Grove Freeway (SR-22) — to the list of M1 accomplishments.

Pay-as-you-go project funding is not possible for any M2 projects until after April 1, 2011. However, early action on M2 projects prior to April 1, 2011 can be undertaken using some combination of four principal funding sources: government grants/matching funds, excess unallocated M1 funds (which have also taken a hit during the recession), internal loans of qualifying non-M funds held by OCTA, and debt financing repaid by future M2 revenues. Debt financing should only be used if pay-as-you-go is deemed infeasible, if the costs of financing do not imperil delivery of the balance of the voter-approved M2 Investment Plan, and if there are good business reasons, such as those outlined in OCBC's assessment of market conditions. Nearly all M2 transit, roads and environmental programs have matching requirements, which will eventually leverage additional funds to deliver the EAP. However, the economic downturn has affected the availability of those dollars, especially at the state level, causing OCTA to turn to more complex mixes of funding and make some programs scalable.

Both the M1 and M2 work plans express strong preferences for pay-as-you-go financing, while permitting debt financing under certain conditions. With M1, early action was positive and beneficial:

1. Projects cost less, providing more "bang for the buck" and allowing for additional projects to be delivered
2. Traffic congestion was relieved quicker
3. Took advantage of one-time opportunities such as purchase of Pacific Electric right-of-way
4. Positioned OCTA to leverage state and federal grants

Because of this positive experience with M1 early action, the OCTA Board of Directors requested that OCTA staff prepare a five-year plan, covering the years 2007 to 2012, to advance the implementation of M2. A draft plan outlining the projects and programs with anticipated schedules and major milestones was approved by the Board of Directors and released in August 2007. Advancing projects through the M2 Early Action Plan (EAP) was designed to move key projects through the sometimes lengthy and unpredictable environmental and design process prior to the 2011 collection of sales tax revenue.

The M2 Early Action Plan is a five-year program covering all OCTA M2 activities between 2007 and 2012. The program is designed to begin before collection of M2 sales tax in April of 2011 and continues through the first 21 months of revenue collection. The OCTA Board of Directors released a draft of the Early Action Plan (EAP) on May 29, 2007 and, after receiving advice and comment, adopted the program August 13, 2007.

The M2 voter pamphlet represents the blueprint and promises of M2 to Orange County voters. The M2 EAP similarly commits to an ambitious and comprehensive set of objectives in the first five years of the plan. Subsequent work after Board adoption of the M2 EAP included detailed plans for the delivery of each project and/or program, including project or program scope, sequencing, milestones, cost estimates, cash flow and funding allocation. Both the Freeway Strategic Plan and Transit Strategic Plan were completed in 2007, but remain living documents as the economic downturn causes them to be constantly revisited. These strategic plan documents, along with subsequent quarterly updates and progress reports, are key benchmarks in our assessment of the process and progress made by OCTA to measure project and/or program development advancement.

Of course, our analysis of the internal and external factors that went into the ambitious EAP must reflect the impact of lower-than anticipated revenues. Changes in the Early Action Plan made after June 30, 2009 reflect reduced revenues and new economic assumptions. Many of these post-assessment period changes will be relevant to this discussion. The revised EAP added freeway projects, scaled back Metrolink service expansion, and scaled back environmental programs to address projected revenue shortfalls due to the unexpected economic downturn. It remains to be seen whether these are the final changes to the EAP or whether additional course correction may be necessary due to economic uncertainties.

The EAP includes action on every freeway project in M2, with actions ranging from preliminary project study reports to freeway construction. In 2009, the EAP listed progress on every element of M2, with a report that keyed progress to the letter description for the projects used in the M2 plan contained in the 2006 Voter's Pamphlet:

1.1 Freeways

Project A thru Project K (attached, pages 6 and 7 descriptions). These freeway status descriptions, taken from the 2009 report to voters, gives a good snapshot of all M2 freeway projects status.

The OCTA's efforts on Interstate 405 in west Orange County illustrate both the challenges facing the OCTA in delivering M2. Listed in the Voter's Pamphlet as Freeway Project K, the improvements between the I-605 in Los Alamitos and the Costa Mesa Freeway (SR-55) has a Measure M budget of $500 million, making it one of M2's premier freeway projects.

However, as the project has been more fully developed and has moved into environmental review, the costs of the 405 west project have increased to the $1.7 to $2.2 billion range, a far more expensive project than can be built in the next few years with a mix of state, federal, and M2 funds. Even with board direction to minimize all right-of-way takes by exploring narrower than standard lane widths and non-standard shoulders, building Project K may require innovative funding methods, including toll lanes or Express Lanes to aid in overall project funding.

Without additional funding from non-traditional sources, the OCTA cannot fund promised improvements on the western portion of Interstate 405.

1.2 Streets and Roads

In terms of Street and Roads Projects, the OCTA reported progress on traffic signal synchronization, saying, "During summer 2008, OCTA completed pilot signal synchronization projects along the Euclid Corridor and Oso Parkway/Pacific Park Drive in order to shape the final plan.

As of June 30, 2009, OCTA had not yet developed a countywide M2 traffic signal coordination plan. Funding for traffic signal synchronization came from sources other than M1 and M2, such as Prop 1B. The M2 ordinance-required adoption of a countywide signal synchronization program had not been adopted when the Oso Parkway Plan and Euclid Corridor pilot initiatives were completed and the 10 corridors selected, but were in the 2006 M1 plan used to develop the M2 plan and were ultimately adopted in July 2010.

Later in 2010, plans for a countywide traffic signal coordination plan — a plan for the traffic signal coordination master plan required under Attachment B, Section V. Allocation of Net Revenues, Street and Roads/Programs and Projects, and which must be added to the Master Plan of Arterial Highways — were adopted by the OCTA Board of Directors and forwarded to Orange County cities and the County of Orange as part of the M2 eligibility package. The package of actions needed to allow cities to receive M2 funds must be returned in sufficient time for the OCTA Board to declare jurisdictions M2 eligible.

1.3 Transit Projects

In November 2005, OCTA planned for a significant increase in Metrolink service, proposing to increase weekday service from 44 weekday trains per day to 76 weekday trains per day. However, reduced M2 operating revenue projections stalled this program, leading to plans to use M2 revenues to finance a more modest Metrolink expansion to 56 weekday trains per day.

Additionally, the OCTA and the Southern California Regional Rail Authority (the SCRRA or Metrolink) adopted plans to improve 50 rail crossings in Orange County to improve rail safety. Construction on the program began in August 2009, and is expected to take two years to complete.

OCTA is taking a primary construction role on several of the grade separation projects (5 out of 7); this is a somewhat new activity for the organization. During most of the M1 era, the OCTA contracted with partner agencies, most notably Caltrans and local jurisdictions, for right-of-way acquisition and construction management. In M2, the OCTA is taking a more expanded construction role such as it had with streets and roads projects and Orangethorpe Corridor Grade Separations, known as OC Bridges, through use of private sector services.

This new role is reflected in the reorganization of the Development Division into two major parts, a Planning Division and a Capital Programs Division. On most major projects, including M2 projects, the Planning Division will take a lead role for the initial scoping and project development efforts and then hand the project off to the Capital Programs Division when a project moves into the environmental assessment and design phases. Right-of-way acquisition will be handled on a project-by-project basis, often by the right-of-way section that was expanded when the EAP was approved.

1.4 Other M2 Projects

Other M2 projects, including environmental projects tied to water quality and freeway mitigation, have moved through the internal planning process. Staff resources have been allocated to these projects, but major expenses have not yet been made. The initial efforts have focused on development of relationships and master agreements with resource agencies as called for in the M2 Ordinance.

In December 2007, OCTA staff and Board members told rating agencies that about $350 million in M2 revenues would be used to fund projects in four areas. This was the anticipated five-year, $376 million funding plan (including $126 million in other funds but excluding interest) anticipated at that time:

Freeways Projects	$211.1 million
Freeway Environmental Mitigation	$80.0 million
Transit Projects	$71.1 million
Streets & Roads Projects	$14.4 million
Sub-total	**$376.6 million**
Other Funding Sources (Freeway)	(126.9 million)
Total Project Requirements	**$249.7 million**
Future Potential Projects (Including Grade Separations)	$100 million

In the 2010 Early Action Plan update and revision, these numbers were not revisited, but the total costs of all projects in the revised and expanded Early Action Plan were estimated to be $4.7 billion. M2 costs were not specified. Additional projects, including environmental documents for sections of Interstate 5, Interstate 405, and State Route 55, were added to the Early Action Plan. About $600 million in grade separation projects were added to the EAP. (Attachment 2 – chart from revised EAP)

Attachment B of Ordinance Number 3 deals generally with the allocation of M2 net revenues and provides the broad outline for major capital spending programs.

Policy guidance for freeway project funding, for example (Attachment B, Section B (Requirements), Subsection A-1 states clearly that "The Authority shall make every effort to maximize state and federal funds for Freeway Projects. Sub-section B uses nearly identical language in Sub-Section B -1, Transit Projects, saying, "The Authority shall make every effort to maximize state and federal funding for transit projects."

The practical application of these voter-approved policies is a serious effort by OCTA staff to protect M2 dollars by using other funds, whenever possible, to pay for major transportation projects. Once state and federal funds, and other OCTA-controlled funds, are exhausted, OCTA planning and programming staff turns to M2 funds to finance and build major capital projects.

Finding:

The earliest portions of the EAP covered by this assessment focus on getting projects ready for construction when M2 revenues commence. In some instances, the aggressive EAP schedules have for the most part been maintained despite the significantly lowered M2 revenue forecasts. Some anticipated M2 expenditures have not been made; however, other revenue sources such as federal American Recovery and Reinvestment Act (ARRA) funds became available and have been utilized to keep projects on track for the most part. At the same time the scope of the EAP was expanded early on to include development and delivery of OC Bridges grade separation projects.

The actions and procedures spelled out in the first EAP, and subsequent modifications, have been initiated and carried out in an appropriate and prudent manner by OCTA, especially in light of the challenging economic realities unexpected when M2 was designed, proposed, and passed by voters.

2.0 M2 Plan of Finance

The plan of finance was never intended to be a static document, especially during times of economic volatility such as this when sales tax revenues are down. Project costs, schedules, and revenue estimates need to be continuously monitored as circumstances change. OCBC's assessment examined whether OCTA's initial Plan of Finance was adequate to accomplish early action projects.

Methodology

The OCBC team examined and assessed the EAP plan of finance, reviewing:

- OCTA cost estimates for each EAP project and program;
- Adjustments made to cost and revenue estimates to year-of-expenditure values
- Revenue estimates for state, federal and other non-M2 revenue sources
- Financing options, including major risk factors, and the recommended preferred strategy
- OCTA's initial Plan of Finance to determine if it was sufficiently complete to accommodate the EAP projects
- OCTA's process and assessment of:
  - Available local, state and federal matching funds and grants
  - M1 reserves that could fund eligible M2 projects
  - Debt financing options, financing costs, and interest rate management strategies
- Any appropriate clarifications, expansions, or enhancements to make the Plan of Finance more useful and understandable

Key Question: Was OCTA's initial Plan of Finance adequate to accomplish early action projects?

Background: The M2 Plan of Finance provides key clues as to the appropriateness of the initial thinking behind the plan, as well as subsequent adjustments which have been made because of reduced revenue projections. An advantage of the economic downturn has been an overall reduction in consultant and construction costs. However, a careful analysis needed to be conducted to see if these lower-than-anticipated costs match lower-than-anticipated revenues. The EAP Plan of Finance ensures that M2 cash flow requirements from FY 2007-08 through FY 2011-12 for the EAP are met. Significant expenditures were anticipated in the EAP during this period for highway project development, design, right-of-way, and construction and the programming of road, transit and environmental funds.

Although the OCTA is using four separate funding sources (seeking outside funding, tapping unallocated M1 funds, internal borrowing and debt financing) to deliver the Early Action Plan, staff reports and public discussions of the OCTA Plan of Finance for the most part have focused on debt financing and debt instruments. In most instances, the OCTA's Plan of Finance discussion has been confined to the OCTA's Tax Exempt Commercial Paper program.

OCTA Ordinance No. 3, Section 5 (Bonding) states that "Pay-as-you-go" financing "is the preferred method of financing transportation improvements and operations under the Ordinance. However, the Authority may use bond financing as an alternative method if the scope of the planned expenditures makes "pay-as-you-go" financing unfeasible." Section 5 of Ordinance No. 3 also allows the OCTA to issue bonds at any time "before, on or after the imposition of taxes."

On November 9, 2007, about a year after M2 was approved, three months after the Early Action Plan was approved and more than three years before any M2 sales taxes are collected, the OCTA Board of Directors approved a $400 million interim Plan of Finance. According to a December 13, 2007 report to rating agencies, the plan was designed to support $350 million of interim project expenditures expected to be funded before 2011. Additional dollars were needed for interest, fees, and expenses payable prior to receipt of M2 dollars.

2.1 Tax Exempt Commercial Paper Program

To accelerate the M2 projects before M2 revenues were received, the November 9 OCTA staff report identified "a tax-exempt commercial paper program as the preferred method of funding Early Action Plan projects."

The proposed Plan of Finance, according to an earlier October 2007 report, was designed to accelerate "…freeway projects, transit projects and street and roads projects in FY 2008 through FY 2011. These accelerated M2 projects can be funded today and repaid with M2 sales tax revenues collected after April 1, 2011, if OCTA capitalizes (or borrows) the interest payments necessary to pay investors before April 1, 2011 and provides for a long-term take-out financing for investors. The EAP-approved Measure M expenditures cannot be funded on a pay-as-you-go basis since M2 funds will not be received until fiscal year 2011."

A number of EAP financing options, including internal borrowing, were reviewed before OCTA staff recommended a tax exempt commercial paper (TECP) program as the centerpiece of the agency's debt financing program. This chart summarizes the OCTA's internal review of options.

Financing Alternative for EAP:

Financing Options	Considerations	Viable
Forward Delivery Bonds	• Currently no market for 3.5 year forward	No
Convertible Capital Appreciation Bonds	• CABs product through 2011 with set conversion to current bonds in 2011 • Costly and difficult market	No
BANs with Capitalized Interest	• Multiple long-term projects requiring additional long-term debt issues allow compliance with IRS requirement that maximum capitalized interest period is limited to 3 years or 1 year after "in service date" of project • Does not require credit enhancement	Yes
Capital Appreciation Bonds (CABs)	• Interest accretes through 2011 • Difficult and more expensive to market • May require credit enhancement	Yes
"Rolling" BANs	• Fund capitalized interest from subsequent not issuance • Interest rate risk when BANs rollover • Does not require credit enhancement	Yes
"Rolling" TECP	• Fund capitalized interest from additional issuance of TECP • Interest rate risk when TECP roll over • Requires credit enhancement and liquidity	Yes

Estimated dollar costs of specific options were not priced individually for comparison purposes in the summary material presented to the OCTA Board, but all financing alternatives profiled were estimated to be in the 3.5 to 3.8 percent annual range. Issuing and closing costs — including fees for brokers, rating agency fees, lawyer fees and some bank fees — are not included in the interest costs. Some of these additional costs are capitalized and were paid for with funds from the commercial paper program. Some TECP charges will be collected for the life of the program.

After reviewing options, four financial alternatives were given detailed consideration:

- A single 3.5 year Bond Anticipation Note (BAN)
- Capital Appreciation Bonds (CABs)
- Rolling tax-exempt commercial paper (TECP)
- Rolling BANs

After determining that pay-as-you go financing was not feasible and responding to favorable market conditions, OCTA staff recommended the TECP program option. This recommendation was made in part because all M2 accelerated expenditures had not been finalized; the OCTA was experienced in operating a similar, but smaller, M1 tax-exempt commercial paper program; and the TECP would provide the OCTA with financial flexibility. Additionally, OCTA staff said TECP was a debt instrument that could be designed, priced, and put in place very quickly.

Based on market conditions and results from other counties pursuing debt financing in this late 2007 to early 2008 period, the initial costs of the OCTA TECP program were very attractive. A comparison with other California transportation issuers paints the OCTA TECP program in a favorable fashion.

In fact, interest rates have been far less than the 3.5 to 3.8 percent rates anticipated in October 2007. Rates fluctuate, but, as of June 30, 2009, OCTA was paying about 1.4 percent interest on the TECP program. When “all-in” costs of issuing the debt are calculated, including paying bank stand-by fees on unused portions of the line-of-credit and other costs, OCTA’s actual cost of borrowing is less than 2 percent for the first 16 months of the 45-month program.

The OCTA's action in winning Wall Street approval of a TECP program in a volatile marketplace, while securing an all-in cost that was less than anticipated, is a substantial achievement.

The OCTA developed and sold the TECP program in a turbulent environment. "With interbank markets across advanced economies becoming clogged in early August 2007, there was clear evidence of a flight to quality by investors," wrote one later review of the marketplace during this era. "For example, the gold spot price, which is often used as a crude measure of storage of value, started its continuous increase in early August 2007 from $660 per ounce and reached its peak of $1002 around the Bear Stearns rescue by JP Morgan and the Fed's announcement of the Primary Credit Dealer Facility on 16 March 2008. In addition, there was a strong demand for 10-year US Treasury notes as a "safe haven," and yields almost halved between the onset of the crisis in August 2007 and the Bear Stearns and Lehman episodes. The bid-ask spread deviated frequently from its usual pattern. The flight to quality was also accompanied by a flight to liquidity. With liquidity evaporating in many asset-backed securities, liquidity spirals occurred with both market and funding liquidity being significantly impaired."

In this difficult market, the OCTA, with a financial reputation fortified by the Authority's actions during the Orange County bankruptcy and strengthened by the equally influential reputation of the Orange County economy's ability to generate sales tax revenue, allowed the OCTA to provide nervous investors with a secure landing spot in their flight to quality and liquidity. In a rapidly-evolving marketplace, the OCTA was able to win approval for a TECP program with an "all-in" cost substantially lower than was initially anticipated while other deals, from other parts of California, were unable to match the OCTA overall success.

Costs of borrowing are only one part of the Plan of Finance equation. The amount borrowed also is a key variable in determining overall OCTA projects costs. Throughout the process of examining debt financing options, OCTA finance staff emphasized that the Authority would have to pay a reasonable premium to have significant amounts of money available to pay for M2 project costs; the actual cost of the premium would be determined in the marketplace.

In 2008, based on projected M2 EAP needs and preliminary schedules, OCTA staff recommended a three-year, nine-month TECP program be sized at $300 million with about $250 million earmarked for projects and about $50 million set aside for interest payments, setting up and maintaining the program.

However, the costs and scheduled costs for the M2 projects were fluid and dynamic at the end of 2007 and early 2008. In a December 13, 2007 report to rating agencies, OCTA staff acknowledged the need for a Plan of Finance that “reflected an evolving political and economic environment.”

Interest about building seven railroad grade separation projects was not initially covered in the EAP, but became a part of the evolving political and economic environment. Intrigued by anticipated low costs of borrowing, the OCTA’s Finance and Administration committee increased the size of the staff-recommended tax exempt commercial paper program by $100 million to $400 million on October 24, 2007.

On November 9, 2007 the OCTA Board approved the $400 million tax-exempt commercial paper program, selected JP Morgan and Lehman Brothers to serve as broker-dealers for the program, and authorized request for proposals from banks to provide issuing and paying agent services. Although Lehman Brothers was selected to serve as a remarketing agent on the TECP, it did not participate in developing or implementing the TECP program. No M2 TECP fees were paid to Lehman Brothers.

In 2008, the OCTA Board selected Dexia Credit Local, Bank of America, BNP Paribas and JP Morgan Chase as OCTA’s Letter of Credit providers. The commercial paper program was fully authorized January 28, 2008 by Board Resolution No. 2008-07. Three days later, a February 1, 2008 Offering Memorandum for Renewed Measure M Subordinate Sales Tax Revenue Commercial Paper Notes was issued. Funds became available February 7, 2008.

The OCTA M2 interim Plan of Finance moved through the local and Wall Street approval processes during what was later called, in the widely-quoted words of Federal Reserve Chairman Alan Greenspan, a period of “irrational exuberance” in the credit market. On October 2007, the Dow Industrial Index peaked at 14,198. Interest rates for tax-exempt commercial debt were very low. However, the market changed dramatically during this period, a change symbolized by the September 15, 2008 bankruptcy of Lehman Brothers, a $600 billion failure called the largest bankruptcy filing in United States history.

During this period, as interest rates declined, investment banks began to place greater emphasis on fees and other charges.

For example, in the M1 TECP program, no stand-by fees were charged. To explain the M1 commercial paper program, OCTA staff said it was roughly equivalent to a credit card with a $100 million credit limit. Interest was paid only when something was purchased with the M1 commercial paper program. No fees were paid on the unused M1 balance. The municipal market practices had changed by the time M2 bank bids were received in January, 2008

The investment group led by Dexia bid 27 basis points (0.27 per cent) for the utilized portion of the $400 million OCTA TECP program and 14.5 basis points (0.145 per cent) for the unutilized portion of the Letter of Credit (LOC). The OCTA's M1 TECP program did not have a fee for the unutilized portion of the LOC because the market did not require it at that time.

In reviewing TECP bids, staff determined the Dexia group's bid as the best one received, partially because another competitive bid from KBC bank of Nova Scotia, the runner-up for the OCTA business, offered a slightly lower rate on used dollars (26.5 basis points compared to the Dexia group's 27 basis point bid), but wanted to be paid 18.5 basis points (0.185 per cent) for the unutilized portion of the LOC. After a careful analysis, OCTA staff said the Dexia group was the low bidder on the $400 million LOC.

In retrospect, the Dexia selection saved the OCTA hundreds of thousands of dollars. Fees for Letter of Credit (LOC) services increased shortly after the establishment of OCTA's LOC program. It was common to see increases in fees in the range of 150 to 175 basis points. If OCTA had delayed establishing the TECP program by two to three months, the increased cost to the M2 program would have been significant. Those savings, however, must be balanced with questions over the sizing of the TECP program and charges on the unutilized portion of the commercial paper program.

Market practices by leading financial institutions had changed since M1 to include fees on unused funds. Therefore, the new 14.5 basis point charge on the unutilized balance in the M2 program translates directly into additional dollars for financing being paid by the M2 program. Annually, the new cost of having $100 million in unused dollars is $145,000. For every $100 million in TECP dollars that are unused throughout the three year, nine month program, the cost to M2 will be about $544,000.

By June 30, 2009, the end of the period covered by this report, $36.5 million in project expenses was paid for out of the $400 million tax exempt commercial program. By March 31, 2010, the TECP program financed $68 million in M2 expenditures. Lower than anticipated revenues slowed down and contracted the Metrolink and environmental programs. These dollar amounts are much lower than estimated expenditures, leaving a much larger than anticipated unused TECP balance. In some cases other funding sources were used that became available, such as ARRA, amounting to approximately $805 million in non-M2 funding. In some cases, such as the SR-57, the actual expenses were higher than anticipated for that line item due to shortfalls in anticipated M1 revenues.

Measure M2

Tax-Exempt Commercial Paper Program

Description	Expenses thru 6/30/2009	Projected Expenses thru 6/30/2009	Comments
I-5 El Toro Y to SR-55	22,028		
I-5 South of El-Toro Y	534,239	1,300,000	Projections assumed Project Study Report cost of $2 million. Actual Study cost $955k
I-5 South Interchanges/Ortega Hwy	91,928	2,900,000	Design and ROW work being funded through STIP rather than M2-TECP
SR-55	36,988	800,000	Projection assumed funding for two studies. One study is complete and second study under way
SR-57	13,015,330	1,600,000	$11.6 million of M2 substituted for lower than expected M1 revenues
SR-91 I-5 to SR-57	1,279,238	1,000,000	Environmental document under way
SR-91 SR-57 to SR-55	500,867	1,300,000	Preliminary engineering being completed in two phases rather than initial single Project Study Report
SR-91 SR-55 to RCL	478,936	2,200,000	Project Study Report and Environmental document being completed as part of the RCTC 91 Corridor Improvement Project
I-405 SR-55 to I-605	354,396	2,100,000	PSR completed and EIR work underway funded with federal grants
I-405 I-5 to SR-55	595		
Freeway Environmental Mitigation	127,862	40,000,000	Program delivery rate and scope adjusted to allow time for policy development and to account for 40% lower M2 projections
Regional Traffic Synchronization Program	31,798		
Grade Separations	2,974,661		Orangethorpe Corridor projects were initiated after M2 EAP adoption due to availability of one-time state funding grant
High Frequency Metrolink Service	14,853,250	26,000,000	Program roll out delayed to allow access to Prop 116 funding
Transit Extensions to Metrolink		700,000	Program development funded with M1 Go-Local funds

Convert Metrolink Station to Regional Gateways		1,300,000	Program development work funded with M1 Go-Local and federal funds
Expand Mobility Choices for Senior and Disabled		35,000	Program development work deferred to address changes in fixed-route service due to state funding cuts
Community Based Transit /Circulators		380,000	Program development work deferred to address changes in fixed-route service due to state funding cuts
Safe Transit Stops		40,000	
Other Expenses	375,427	5,800,000	
Interest Charges &Fees	1,841,304		
Total	$36,519,442	$87,455,000	

Although the OCTA still has more than a year to drawdown remaining TECP funds, in hindsight it appears the sizing of the TECP program at $400 million was excessive. The cost of having too large a commercial paper program is visible in the costs of unused dollars. By June 30, 2009, this charge was about $740,000. By March 31, 2010, the full charge for unutilized funds had grown to about $1.1 million.

Part of the growth in the costs of the unused TECP balance can be traced to the Board decision to add $100 million to the program in October 2007. Part of the growth in these costs for unused funds was related to the OCTA taking a more conservative spending approach as sales tax revenues dropped. Additionally, TECP dollars were not fully utilized because other major project funding sources were becoming available. When the TECP program ends in April 2011, a clearer assessment of the full costs of the unused TECP dollars and the decision on sizing of the TECP program can be made.

2.2 Internal Borrowing

Besides M2 expenses charged to the TECP program, the OCTA has used some internal borrowing to finance M2 expenses. Certain M2 expenditures incurred were not allowed under the commercial paper program.

Initially, OCTA's October 2007 analysis of funding options rejected internal borrowing as an option, saying "OCTA's internal investment balances are currently yielding over five per cent and the financing options considered cost approximately 3.5 to 3.8 per cent."

For the hundreds of millions anticipated to be expended on the EAP, internal borrowing was not seen as a viable option. However, because of changing market conditions, since indirect costs are not eligible for payment using TECP funds and because the yield on some OCTA investments dropped, some internal borrowing for M2 projects has been used.

As of June 30, 2008, the OCTA has borrowed $2.36 million from its internal Orange County Unified Transportation Trust (OCUTT) for M2 purposes. The largest M2 cost charged to OCUTT was an $883,704 payment to the County of Orange for the November 2006 election. A summary of all M2-related costs charged to OCUTT is in the Attachment 3.

OCUTT funds have been used to pay administrative expenses that generally cannot be charged directly to projects. The one percent is a limitation on OCTA administrative salaries and benefits costs, not all administrative costs. These in-direct costs are generally overhead costs that would be paid out of the one per cent administrative costs allowed under Section7 (Administration) of the M2 enabling ordinance. The OCTA plans to repay the OCUTT fund out of future M2 revenues or out of a future debt financing program.

Additionally, M2 project expenses in the TECP program were $36.5 million through June 30, 2009, while the overall administrative costs were $2.3 million. The limitation on administrative expenses is one percent of revenues (sales tax plus interest) on OCTA administrative salaries and benefits only, not one percent of expenditures. The one percent limitation does not include other administrative costs such as election costs and lease allocations.

2.3 Using unspent M1 funds and seeking new dollars

Since M2 was approved by voters, the OCTA has received substantial funds from outside agencies, including funds from Proposition 1B for signal synchronization, road improvements and grade separations. Freeway projects have received federal dollars through the American Recovery and Reinvestment Act. M1 dollars continue to be used on local street and road projects and select freeway projects. Because the provisions in Section 7 (Administration) require OCTA staff to carefully code salaries and benefits to projects and to strictly adhere to the voter-approved cap on M2 administrative expenses, card coding issues should be monitored carefully in the future.

For example, the 2007 EAP assumed availability of $22 million of M1 funds for the SR-57 project. To implement this action, OCTA processed an amendment to the M1 expenditure plan to accommodate use of funding for the SR-57 project. However, in response to the slowdown in the economy and the related decline in sales tax receipts, OCTA took subsequent action to adjust this assumption and modify the strategy to rely on the M2 TECP program to fund the SR-57 project development and construction funding.

In July 2010, OCTA staff presented the M2 EAP summary calling for $4.7 billion in project expenditures. The revised EAP program (Attachment 4) anticipates blending funds from many sources to construct the recommended projects. The mix of funds in each project will change based on the availability of local sales tax dollars as well as state and federal funds. If state and federal funds do not materialize, greater emphasis will be placed on using reduced M2 project dollars.

Finding #1:

OCTA was fortunate to establish a TECP program at the right time and secure extremely low LOC fees. Also, selecting a TECP program from the various financing alternatives appears to have been the right financing tool to accomplish the EAP, especially in given the slowdown in the expenditure of M2 funds. Going forward, the overall M2 funding program should continue to consider other sources such as Term BANs, Rolling BANs, and CABs. Additionally, because of changes in the banking and financial industry, fees and charges, like new costs for unused balances in the TECP program, will be more commonplace. As the OCTA moves towards a new M2 debt financing program, special focus should be placed on both the necessary size of a borrowing and the costs of fees and charges above the costs of historically low interest rates.

Finding #2:

Because the provisions in Section 7 (Administration) require OCTA staff to carefully code salaries and benefits to projects and to strictly adhere to the voter-approved cap on M2 administrative expenses, time card coding issues should be monitored carefully in the future. Future assessments should review the OCTA's full compliance with M2's one per cent administrative cap. Charges to administration and overhead should be carefully monitored in the future and OCTA employees should be monitored in making sure they charge their labor costs appropriately.

Finding #3:

One key project in the “seeking new dollars” group – the construction of Project “K”/I-405 widening between SR-55 and I-605 – appears at this point to require substantial supplemental funding.

3.0 Readiness and Market Conditions Studies and Follow-up

In 2008, OCTA engaged Parsons Brinckerhoff (PB) to conduct an “Organizational Readiness and Capacity Assessment”, and OCBC to evaluate “Readiness and Absorption Capacity” and a “Market Conditions Analysis”, to assess the competitive environment for labor and materials. Based upon these studies, OCTA put together a list of steps and activities to address the recommendations arising from each. The OCBC team assessed how and whether OCTA addressed these recommendations, succeeded in implementing the recommendations identified by the studies, and determined reasonable accomplishment dates for each recommendation.

Methodology: The OCBC team reviewed and analyzed the Readiness and Market Study reports, staff reports, presentations, and conducted staff interviews. Reports and their specific recommendations were examined and the progress made through the assessment period identified.

Key Question: How successfully has OCTA implemented recommendations identified by the Readiness and Market Condition Studies?

Background: The M2 EAP process identified that sales tax measures in surrounding counties, State infrastructure spending, and global pressures could result in increased competition and costs for human and commodity resources needed to deliver transportation projects. These outside elements could potentially increase competition for transportation infrastructure construction and related services, and drive up labor and materials costs. Another key concern was the capacity of local jurisdictions, internal OCTA staff capacity, state agencies such as Caltrans, and federal agencies to effectively manage the increased workload.

In order to determine whether the EAP could meet its goals, given these external factors, OCTA hired several consultants to research and analyze the Plan’s ability to meet its goals within budget and on time. Three studies were prepared related to organizational capacity and readiness and market conditions.

In general, all three studies found no fatal flaws in the current OCTA M2 EAP, but saw room for improvement in many areas. The consultant teams found that OCTA has the basic components in place for successful delivery of the M program; that market conditions and readiness support the EAP's aggressive schedule; and OCTA has the fundamental essentials to meet its operations and program delivery schedule.

The Organizational Readiness and Capacity Assessment found that improvements could be made in the areas of program management, delivery procedures, document management, internal reporting, human resource management, and strategic planning. Overall the report recommended a better integrated program that made use of standard procedures across all projects, and improved internal communication, while attracting and retaining talented staff. The OCBC reports also found M2 and the EAP adequate, but recommended improved collaboration with partners and regulatory agencies; specifically adding coordinator positions to liaise with key agencies, ensure good communication, and facilitate timely action.

Based upon these studies, OCTA put together a list of steps and activities to address the recommendations arising from each. The following tables, prepared by OCTA staff, illustrate this effort and the progress made through June 2009 and June 2010 on addressing the recommendations. This assessment sought to determine how successfully the OCTA has implemented the consultant recommendations identified in Readiness and Market Condition Studies.

	Parsons Brinkerhoff Recommendations	**6/09 Status**	**Comments**	**6/10 Status**	**Comments**
1	Create a Program Management Office (PMO)	In progress	PMO charter complete; internal committee being explored	In progress	PMO Office integrated into Planning Division. Internal Committee in place; structure and operating procedures being developed
2	Adopt universal project delivery procedures	In progress	Specific procedures exist for Development projects and for procurement process. Procedures are being reviewed to ensure they are complementary to each other.	In progress	Procedures in place for all M2 major projects; scope to be expanded to include M2 transit & future non-M2 capital projects
3	Implement a document management system	In progress	The Development Division has implemented a document management system for highway & rail capital expansion projects. Data	In progress	M:drive being created; software options being explored (transitioning to e-control document

			Classification Study ($100k) completed.		management system). Internal task force formed
4	Enhance in-house reporting of actual project costs	In progress	The Development Division maintains & distributes a project job key listing; M2 codes established. Increased effort is needed to ensure all staff are applying correct job codes to assigned activities	In progress	Monthly report of staff charges prepared and distributed to managers to track charges. Staff training being developed to ensure correct coding on time sheets.
5	Design and implement an agency-wide training program	In progress	The Highways Department has developed a Program Management Academy but no agency-wide project management program exists.	In progress	HR assessing training needs
6	Assure that HR is involved in strategic implementation which includes a recruiting program for M2	In progress	An Executive Director has been added and the HR function has been consolidated.	Complete	Key positions have been filled
7	Develop an agency-wide strategic plan	In progress	Should leverage work being done on CBP, EAP & M2 strategic plans being developed	In progress	Began process in summer 2010; consultant on board. Target completion 12/2010
8	Hold a management retreat to build commitment and mutual support for delivery of M2	Complete	Done 11/25/08		
9	Review internal process for Board items	Complete	New staff report templates approved by Board		
10	Consider eliminating Board approval of RFPs/IFBs	Complete	Approved by Board Feb 2010 (Board chose to continue to receive RFP's over $1M, by-passing committees)		
11	Review contract approval thresholds	Complete	Approved by Board Feb 2010 (Raised threshold from $100,000 to $250,000)		
12	Consider eliminating contract amendment approach	Complete	Approved by Board Feb 2010 (Chose to apply same thresholds as contract approvals)		
13	Clarify Board policy on -call contracts and task orders	Complete	Approved by Board Feb 2010 (CAMM procedures manual clarified)		

OCBC Recommendations	6/09 Status	Comments	6/10 Status	Comments
Consider funding a position at the Army Corps of Engineers	In Progress	Exploring options	In Progress	Negotiating an agreement to expedite evaluation of permits for freeway projects consistent with M2 freeway mitigation program
Consider funding a position at the State Fish and Game agency	In Progress	Exploring options	In Progress	In negotiations; have pending agreement for funding staffing for completion of HCP/NCCP contingent on Fish and Game authorizing an unfilled position
Consider funding a contracted position at the San Diego Regional Water Quality Board	In Progress	Staffing needs pending completion of cooperative agreements	In Progress	In partnership with TCA, negotiating a position
Consider funding entity travel and related attendance expenses at OCTA meetings	Complete	Considered, but not implemented		
In collaboration with Caltrans District 12, aggressively engage ROW and Environmental consultants	Complete	Majority of environmental services under contract; engaging specialty services for ROW (i.e. appraisals to support Caltrans acquisition process)		
Consider funding a permanent OCTA position dedicated to coordinating entity relationships	In Progress		Complete	Considered, but not implemented
Address contracted consultant Quality Assurance and Quality Control issues with Caltrans	Complete	The Highways Department has an independent quality assurance program for its consultant work		
Consider expansion of joint location efforts of "Corridor" project teams with Caltrans	Complete	Considered on a project by project basis; West County Connectors will have joint location project team		
Partner with other entities on education and training programs geared towards engineering	In Progress	Outreach efforts with local universities under way	In Progress	

Assessment: It is difficult to gauge OCTA action on consultant recommendations during the assessment period, given the limited response time. However, we can examine whether action was initiated on recommendations contained in the readiness and market conditions reports.

By June 2009, OCTA had successfully implemented six of the 13 PB recommendations, and the remaining seven were progressing. One additional PB recommendation has been completed by June 2010. By June 2009, OCTA had successfully completed four of the nine OCBC recommendations, and the remaining five were progressing. One additional OCBC recommendation has been completed by June 2010. These activities and accomplishments indicate that OCTA took the recommendations seriously and made efforts to address them appropriately.

Finding:

During the time period of our assessment, OCTA was making good progress towards implementing recommendations and initiatives arising from both the Readiness and Market Conditions studies.

4.0 Outreach and Public Communications

Effective outreach and public communications were key to both the M1 and M2 campaigns. Marketing tools used in M1 have been the backbone of the M2 communication programs. This assessment examined M2 programs by:

- Identifying what steps were taken to communicate activities related to the EAP development, Plan of Finance Development and project activities
- Determining if reasonable measures are being utilized and whether changes are necessary.

Methodology: The OCBC team reviewed and analyzed staff reports, outreach publications, media coverage, presentations, meeting agendas and minutes, and conducted staff interviews:

- Reviewed OCTA communication activities related to the Early Action Plan development, Plan of Finance development and project activities
- Assessed performance of communication activities

Key Question: What steps has OCTA taken to communicate activities related to the Early Action Plan development, Plan of Finance development and project activities?

Background: The Renewed Measure M (M2) was passed by almost 70 percent of Orange County voters in November 2006, in large part because of successful public engagement since the 1990 adoption of the original Measure M. The public was kept informed about the status of transportation projects funded by M1 dollars and was able to provide feedback, and the OCTA successfully communicated the significant achievements of the program over the past 20 years.

Successful public outreach and communication are vital components of any effective publicly-financed program. Taxpaying voters are interested in assuring that the measures they approve at the ballot box translate into real benefits and that program management is transparent. Decisions made by agencies involved in spending public money ought to be open to public scrutiny and comment, and such agencies should communicate plans or goals to the public.

Thanks to an intensive campaign, M2 voters in Orange County understood that:

- Investments in local transportation improvements help preserve Orange County's quality of life and positive business climate
- Orange County must continue to take care of itself rather than rely on Sacramento or Washington D.C. to solve its transportation problems
- Stringent safeguards were built into the M2
- “Promises made” in M1 were “Promises kept”

Assessment and Findings: Analysis here focused on outreach and communication efforts for the first two-and-a-half years after voters passed Renewed Measure M in late 2006. In particular, efforts to engage the public in the Early Action Plan development process, Plan of Finance development, and to communicate the status of subsequent Early Action Plan transportation project activities, seeking to determine whether these outreach efforts were adequate and contributed to a transparent program that communicated openly, and was receptive to public comment.

This assessment examines whether OCTA public outreach and communication actions related to the M2 EAP, Plan of Finance, and project-specific activities, during the assessment period, were appropriate.

OCTA began the M2 EAP Outreach to local government and community stakeholders involved in the development of the Renewed Measure M Investment Plan (M2) shortly after its approval by the voters in November 2007. The principal message of these briefings was the need to plan for the increased workload that accompanied the close out of the current M1, what the passage of M2 meant for Orange County, as well as the development of the M2 Early Action Plan. In January 2007, OCTA staff began meeting with city and community groups, including city councils, chambers of commerce and transportation, business and development/engineering associations. All stakeholders were encouraged to provide suggestions and comments on the Early Action Plan.

In all, some 70 presentations to city councils and community/business organizations were conducted. In addition to presentations, the Early Action Plan was also posted on the OCTA website with a field for the public to provide feedback. This effort continued through the OCTA Board's approval of the Plan and then transitioned from presentations seeking input to informing stakeholders about what is included in the Final Early Action Plan. In addition, significant upgrades are planned for the OCTA website to provide improved access to status and progress on implementing Renewed Measure M and the Early Action Plan.

1. Early Action Plan: Outreach and communication, both during the planning process for the EAP and for the individual transportation projects described therein, was extensive. OCTA staff conducted numerous outreach presentations at meetings with stakeholders, including local governments, public agencies, and various advocacy groups and organizations. Opportunity for comment was available at these meetings and presentations, and a significant effort was made to contact interested members of the public to solicit comment via mail, public notices, and the OCTA website.

The Early Action Plan process was initiated shortly after M2 passed at the ballot box in November of 2006. Public outreach for the EAP began in January 2007 and by August 2007 over seventy presentations had been given, primarily to local governments, public agencies, and interested organizations.

Public outreach was appropriate during the initial assessment period, with many opportunities for interested stakeholders to participate and provide input. Communication during this planning phase was also extensive, but there are several areas that could be enhanced:

1. Communication of how public input is incorporated into the planning process
2. Overall program status reporting in a snapshot/indicator format
3. The M2 web portal could be further refined

Finding 1:

While there was consistent and thorough updates on important events to both internal boards and committees and to external stakeholders, communication on how public input is addressed and incorporated in plans for the overall program could be improved. Better tracking and summary reports of public input can help make the program more transparent and maintain trust with voters.

Finding 2:

M2 and the EAP are complex programs that are constantly adapting to a changing environment to fulfill promises made to voters. Quarterly and annual reports on the status of

M2 EAP projects do provide updates, but could provide a shorter report card style fact sheet, and make better use of graphics or tables, to communicate the overall status of the program. The OCTA has prepared fact sheets for components of the M2 program such as the environmental committee and individual transportation projects, and also utilizes scheduling software that has excellent reporting capabilities, that could be used as a model for this purpose. Including an overall program snapshot on the website is a communication strategy that other transportation agencies have used. SANDAG's TransNet Dashboard snapshot allows for a single view of the overall program with the status of individual projects listed.

2. Project-Level Outreach and Communication:

In contrast to big picture program activities, project-level outreach and communication focuses on the details of specific projects funded by Renewed Measure M. Opportunity for public participation in the planning and implementation of projects is also required for the environmental assessment process and to allow for comment on the impacts of transportation infrastructure and services on residents in adjacent communities.

Finding 3:

The newly designed M2 portal on the OCTA website does an effective job of getting users to project-specific information. Overall M2 program information is less readily available. Linking of documents could be improved, as well as better document management and access. Reports are not easily accessed on the website. The M2 document library on the website could be better organized and linked. A stand-alone site may be easier to navigate.

5.0 Taxpayer Oversight Committee

An important component of the taxpayer safeguards built into M2, the Taxpayer Oversight Committee (TOC) was designed to insure integrity to voters and taxpayers of Orange County through oversight and safeguards. The committee upholds the integrity of the measure by monitoring and reviewing all M1 and M2 expenditures. The OCBC team assessed the process by which the TOC was formed and whether its activities are consistent with its objectives.

Methodology: The OCBC team reviewed meeting minutes, reports, correspondence and otherwise ascertained that all elements of TOC roles and responsibilities were fulfilled (i.e. annual certification from chair).

- Inventoried differences between the M1 Citizens Oversight Committee and the M2 Taxpayer Oversight Committee
- Assessed the process by which the TOC was formed and convened

The assessment studied differences between M1 and M2, the process whereby the TOC was formed, and the activities undertaken by the newly formed committee during the assessment period. This analysis relied on a review of the M2 voter pamphlet; Ordinance 3; Early Action Plan; TOC regular meeting agendas minutes, presentations, and staff reports; review of annual public hearing minutes; and OCTA staff interviews.

Key Question: Is the TOC successfully performing its roles and responsibilities?

Background: The TOC has the responsibility to oversee that the strict taxpayer safeguards in the M2 Transportation Investment Plan are delivered as promised to the voters. Auditor-Controller David Sundstrom is, by ordinance, chairman of the TOC. M2 expenditures must be annually reviewed and certified by the TOC Chairman/Auditor Controller. TOC also regularly reviews independent audits and examinations conducted of the spending and implementation of M2.

OCTA staff administering the M2 program, and managing its many projects, are accountable to the committee. Staff submits various reports on the status of the overall program, the individual transportation projects it funds, and external factors with potential impacts on the success of the program's implementation. In addition, the committee reviews program-related documents and comments from participating municipalities, state and federal agencies, interest groups, and individuals. Assessments and audits designed to measure the performance of the program are also evaluated by the committee, and the committee upholds the integrity of the measure by monitoring and reviewing M2 expenditures on a macro basis.

Assessment: Our assessment examined whether the process by which the TOC was formed was appropriate, and whether its activities are consistent with its objectives.

1) Differences between M1 COC and M2 TOC:

The Citizens Oversight Committee (COC) was formed in 1990 to provide oversight of the public tax dollars that were used to finance the original Measure M program (M1). For Renewed Measure M (M2), the OCTA made several changes to the composition and responsibilities of the committee. These changes are relatively minor and the fundamental character and purpose of the committee appears to remain unchanged. Perhaps most noticeable to the public is a name change to "Taxpayers Oversight Committee." The change is appropriate as it better reflects the reliance of the program on Orange County sales tax.

The most significant change to the composition of the committee is the addition of two membership positions, bringing the total membership to 11. This change balances the membership by requiring an equal number of members (two) from each of the five OCTA Supervisorial Districts. Previously, at least one, but no more than two, members were from each district. In addition to the ten district representatives, the County Auditor-Controller is the assigned chair of the committee. The following table details the differences between the original and renewed Measure M.

Differences Between M1 and M2		
	M1 - Citizens Oversight Committee	M2 - Taxpayer Oversight Committee
Responsibilities	Review local Growth Management Plans and Capital Improvement Plans.	Review documents from eligible jurisdictions, including: Congestion Management Plan; Mitigation Fee Program; Expenditure Report; Traffic Signal Synchronization Plan; and Pavement Management Plan.
		Review a triennial performance assessment of the OCTA's M2 program.

Membership	Nine members with at least one, but no more than two, from each OCTA Supervisorial District, plus the elected County Auditor/Controller as Chairperson.	Eleven members, with two from each of the five Supervisorial Districts, plus the elected County Auditor/Controller as Chairperson.

2. Process by which the committee was re-formed for M2 was appropriate:

The changes to the M1 Citizens Oversight Committee mentioned above necessitated a transition to the M2 Taxpayers Oversight Committee. Two membership positions were added, putting into action the committee member appointment process. The OCTA contracted with the Orange County Grand Juror's Association to form a Membership Recommendation Panel that reviewed applications and recommended candidates to the Citizen's Oversight Committee. This transition process was conducted appropriately and as required by Ordinance 3.

Committee Structure			
Ordinance Section	Requirements	Status	Appropriate?
Attachment C: Section II	The TOC shall be governed by eleven members	As of 8/2007 there were eleven members:	Yes
	There shall be two members from each supervisorial district	There are two from each district (see below)	Yes
	District 1	1. Narinder Mahal 2. Charles Smith	Yes
	District 2	1. Gilbert Ishizu 2. Brooks Corbin	Yes
	District 3	1. Merlin Henry 2. Greg Moore	Yes
	District 4	1. Rose Coffin 2. Frederick Von Coelin	Yes
	District 5	1. Richard Gann 2. James Kelly	Yes
	The Auditor-Controller shall be a member and chair of the	David Sundstrom	Yes

	committee		
	Members may not be an elected or appointed official	There are no elected or appointed officials	Yes
	Each member shall be appointed for a term of no more than three years	Terms are three years	Yes
	No person shall serve as a member in excess of six consecutive years	Maximum service is six years	Yes
	Any member with three unexcused absences shall be removed	This requirement is monitored	Yes

Appointment of Members			
Ordinance Section	Requirements	Status	Appropriate?
Attachment C: Section III	OCTA shall contract with the OC Grand Juror's Association to form a Membership Recommendation Panel	GJAOC has formed the panel	Yes
	The Membership Recommendation Panel shall have five members	There are five members	Yes
	The Panel shall solicit, collect and review applications for candidates	The panel fulfilled these duties	Yes

3. <u>Committee's actions are consistent with its objectives:</u>

A review of meeting minutes, correspondence and reports revealed that the committee takes its role seriously and works to ensure strong oversight of Renewed Measure M and the Early Action Plan.

In terms of carrying out oversight of the M2 EAP, many of the M2-related documents from eligible jurisdictions that the committee is required to review were not completed during the assessment period. However, it appears that the committee is well positioned and ready to review these plans and programs once they are available. Many members transitioned from the M1 Citizen's Oversight Committee and brought their experience and expertise to the newly formed Taxpayer's Oversight Committee.

Financial oversight of the program was achieved during the assessment period with the committee carrying out the required annual audit and holding OCTA staff accountable to delivering EAP projects on time and schedule. In terms of public participation, the committee held annual public hearings to allow for feedback on the program.

The following table summarizes the required duties and responsibilities of the committee and how they are being carried out.

TOC Duties and Responsibilities			
Ordinance Section	Requirements	Status	Appropriate?
Attachment C: Section IV	The committee shall review the following documents submitted by each Eligible Jurisdiction		
	1. Congestion Management Program	N/A	N/A
	3. Mitigation Fee Program	N/A	N/A
	2. Expenditure Report	N/A	N/A
	4. Local Traffic Signal Synchronization Plan	N/A	N/A
	5. Pavement Management Plan	N/A	N/A
	The committee shall conduct yearly audits and an annual public hearing to determine if OCTA is proceeding in accordance with the plan	Annual public hearings were held	Yes
	The committee shall receive a performance assessment conducted by the Authority every three years	Not applicable. First assessment period.	Yes

Finding:

The transition from Citizens Oversight Committee to the Taxpayer Oversight Committee, as required by Ordinance 3, was completed in an appropriate manner. Subsequent committee activity during the assessment period was consistent with the committee objectives as described to taxpayers in the pre-vote information pamphlets, Ordinance 3, and the EAP.

6.0 State Board of Equalization (SBOE)

The SBOE acts as OCTA's collection agent for the tax funded revenue. The OCBC team reviewed the official requirements of the tax collection/distribution agreement and the existence and detail of the agreement.

Methodology: The OCBC team reviewed the official requirements of the tax collection/distribution agreement and report on the existence and detail of the agreement.

Key Question: Are the requirements, processes, and agreements with the State Board of Equalization sufficient for when collection activities begin in 2011?

Background: The cost of collection is set by statute. As required by law, an estimated 1.5 percent of the sales taxes generated must be paid to the California State Board of Equalization for collecting the one-half cent sales tax that funds the Renewed Measure M Transportation Investment Plan. Tax collection matters can be subsequently considered with items such as sales tax, but are not relevant to this effort until collection activities begin in 2011.

Assessment: The State Board of Equalization, by statute, charges the OCTA to collect transportation sales tax revenues. The SBOE fee is up to 1.5 percent of all M2 sales tax revenue. In 2005-06, the SBOE annual fee was almost $4.2 million.

The OCTA and other agencies have, in past years, unsuccessfully lobbied to reduce the percentage rate charged by the SBOE. Over time, the OCTA has objected to the size of this fee, arguing that the SBOE is overcharging for services provided. Legislative attempts to lower the SBOE fees for M1 failed. However, the OCTA legislative efforts helped convince the Self-Help Counties Coalition to challenge the SBOE fee schedule, leading to a negotiated agreement where the SBOE agreed to lower their fees to 1 percent, beginning in fiscal year 2006-2007.

For the OCTA, the reduction in SBOE fees between 2005-2006 and 2006 -2007 was $1.63 million. However, in recent years, transportation sales tax fees collected by the SBOE have been increasing, while M1 revenues have been decreasing (Attachment XX). Estimated SBOE fees were almost 1.2 percent of transportation sales tax revenues collected in 2009-2010, with a trend towards increased SBOE fees increases in the years leading up to M2 revenue collections.

Finding:

The OCTA should continue to monitor SBOE fees and, if the fees do not return to the 2006-2007 level of less than 1 percent, the OCTA should engage the Self-Help Counties Coalition and seek legislation capping SBOE fees at 1 percent. The on-going SBOE dispute, along with the status of the SBOE legislation, should be a part of subsequent M2 performance assessments.

7.0 Environmental Committees Program Oversight

M2 contains environmental tasks and provisions that were not a part of M1. The purpose of the *Environmental Oversight Committee* is to make recommendations to the Board of Directors on the allocation of environmental freeway mitigation funds and monitor the implementation of a master agreement between OCTA and state and federal resource agencies. The *Environmental Cleanup Allocation Committee* is designed to make recommendations to the Board of Directors on the allocation of funds for water quality improvements.

Methodology: The OCBC team reviewed and assessed ordinances, reports, meeting agendas, meeting minutes, correspondence, and conducted interviews, and followed up with relevant OCTA staff members in order to:

- Assess the appropriateness of the process by which the two committees were formed and convened
- Review and examine meeting minutes, correspondence, and other pertinent reports to assess if the requirements and responsiveness of both committees are being fulfilled consistent with their stated duties and responsibilities as appropriate

Key Question: How appropriate was the process by which the environmental committees were formed and how well are they carrying out their duties and responsibilities?

Background: M2 includes two new environmental funding programs that were not a part of the original M. Since the passage of M1 in 1990, the environmental impacts caused by transportation infrastructure construction and use are better understood and public policy to mitigate these impacts has become increasingly rigorous. Responding to this greater focus on preserving environmental quality, Renewed Measure M created two environmental programs:

1) The Freeway Mitigation and Resource Protection Program is funded with at least five percent of the total freeway budget and seeks to create and implement mitigation strategies for freeway project.

2) The Environmental Cleanup Program is designed to assist local agencies with efforts that clean up highway and street runoff and help projects meet Clean Water Act standards with a funding allocation of two percent of annual M2 revenues

In the original Voter materials and Ordinance No. 3, the estimated allocation based upon percentage allocations was a total of $243.5 million (at least 5 percent of net freeway program revenue) designated to mitigate the environmental impacts of freeway improvements through the Mitigation and Resource Protection Program and $237.2 million (two percent of gross revenues from the Measure M2 Transportation Investment Plan) to provide a competitive grant process through the Environmental Cleanup Program to help local agencies clean up highway and street runoff and meet Clean Water Act standards. However, responding to changing market and economic conditions, the December 2009 EAP update lowered the EAP allocations to be spent on M2 environmental programs.

Assessment: This assessment examined whether the process by which the two committees were formed, and carry out their duties and responsibilities, was appropriate during the initial assessment period. Both programs were launched in the fall of 2008 with the creation of two oversight committees to make recommendations to the OCTA Board of Directors on how each program is to be designed and implemented. The Environmental Oversight Committee makes recommendations to the Board of Directors on the allocation of environmental freeway mitigation funds and monitors the implementation of a master agreement between OCTA and state and federal resource agencies. The Environmental Cleanup Allocation Committee makes recommendations to the Board of Directors on the allocation of funds for water quality improvements.

The two environmental committees have been formed, a significant number of meetings have been held, and both are working towards setting goals, funding allocations and guidelines, and strategies. This is also an area where the “pay-as-you-go” question should be discussed and overall eligibility of municipalities must be reviewed. Concern over land acquisition strategies must be informed by questions of future land ownership and on-going maintenance and operations costs.

1. Environmental Oversight Committee:

<u>Background:</u> Renewed Measure M (M2) includes a Freeway Environmental Mitigation program related to mitigation of the environmental impacts associated with the 13 freeway projects created by M2. OCTA Ordinance No. 3, dated July 24, 2006, Attachment B, Section II: A (5) describes the financing of “Programmatic Mitigation for Freeway Projects”. The Ordinance was

approved by Orange County voters on November 7, 2006. The program requires the OCTA to produce a Master Agreement between the OCTA and state and federal agencies, and fund and monitor its implementation.

One of the requirements of the Master Agreement is that the OCTA appoint an Environmental Oversight Committee (EOC) to make recommendations to the OCTA Board of Directors on how M2 mitigation funds should be allocated. These funds are no less than five percent of net revenues allocated for M2 freeway projects. The EOC will also monitor the implementation of a master agreement between OCTA and state and federal resource agencies.

Committee formation: The assessment of whether the process whereby the committee was formed was appropriate involved comparing the voter-approved guidelines for the committees to the actual committee formation and charter. The following table provides details of this assessment.

Environmental Oversight Committee Formation			
Ordinance Section	**Requirements**	**Status**	**Appropriate?**
Attachment B: Section II, A(5(v))	Appointment by the Authority of an Environmental Oversight Committee	Committee formed 11, 2007	Yes
	The EOC shall consist of no more than twelve members	The EOC has 12 members	Yes
	At least one member shall be from the OCTA	Patricia Bates; Gregory T. Winterbottom	Yes
	At least one member shall be from Caltrans	Sylvia Vega	Yes
	At least one member shall be from a state resource agency	Erinn Wilson (California Department of Fish and Game) Debbie Townsend (California Wildlife Conservation Board)	Yes

	At least one member shall be from a federal resource agency	Jonathan Snyder (U.S. Fish and Wildlife Service)	Yes
	At least one member shall be from an environmental NGO	Dan Silver (Endangered Habitats League)	Yes
	At least one member shall be from the public	Melanie Schlotterbeck (Measure M Support Groups)	Yes
	At least one member shall be from the Taxpayer Oversight Committee	Rose Coffin	Yes

Committee Actions: The Environmental Oversight Committee is tasked with developing an inventory of the potential environmental impacts of the M2-related freeway projects and a list of recommended mitigation opportunities. A thorough analysis of the impacts, mitigation opportunities and the interrelationship between impacts and mitigation opportunities will help define how the funds will be allocated.

Environmental Oversight Committee Actions		
Action	**Status**	**Appropriate?**
Development of criteria for mitigation potential of properties	**Underway as of September 2008**	**Yes**
Master Agreement between OCTA, USFWS, CDFG and Caltrans	**Draft MOU approved in March 2009**	**Yes**
Planning Agreement for Natural Community Conservation Planning and Habitat Conservation Plan	**Draft agreement between OCTA and CDFG. 300K approved in March 2009 for CDFG to prepare NCCP and HCP**	**Yes**

2. Environmental Cleanup Allocation Committee:

Renewed Measure M (M2) includes an Environmental Cleanup Program to meet federal Clean Water Act water quality standards for street and highway projects created by M2. OCTA Ordinance No. 3, dated July 24, 2006, Attachment B, Section VII describes the financing of the program. The Ordinance was approved by Orange County voters on November 7, 2006. The program requires the OCTA to create an Allocation Committee to make recommendations to the Board of Directors on the processes and procedures of environmental cleanup funding allocations.

Funding for the Environmental Cleanup Program is provided by an allocation of two percent of gross M2 sales tax revenues. The goal of the program is to protect Orange County beaches from transportation-generated pollution, or "urban runoff," and improve watershed and marine environmental quality.

Committee Formation: The process by which the committee was formed was appropriate. It involved comparing the voter-approved guidelines for the committees to the actual committee formation and charter. The following table provides the findings of this assessment.

Environmental Oversight Committee Formation			
Ordinance Section	**Requirements**	**Status**	**Appropriate?**
Attachment B, Section VII	The Allocation Committee shall not include any elected public officer.	There is no elected public officer on the committee.	Yes
	The committee shall have 12 voting members.	The ECAC has 12 voting members.	Yes
	One voting representative from the County of Orange	Mary Anne Skorpanich	Yes
Attachment B, Section VII	Five voting representatives from cities, with one voting representative from cities in each supervisorial district	1. Joe Parco (Santa Ana, District 1) 2. John Bahorski, City Manager (Cypress, District 2) 3. Gene Estrada (Orange, District 3) 4. Dick Wilson (Anaheim, District 4) 5. Tim Casey (Laguna Niguel, District 5)	Yes
	One voting representative from Caltrans	Hector Salas	Yes
	Two voting representatives from water or wastewater public entities	Karen Baroldi (Orange County Sanitation District) Tom Rosales (South OC Wastewater Authority)	Yes
	One voting representative from the development industry	Satoru Tamaribuchi (The Irvine Company)	Yes

	One voting representative from the scientific or academic community	William Cooper (UC Irvine)	Yes
	One voting representative from private or non-profit organizations involved in environmental and water quality protection/enforcement issues	Garry Brown (Orange County CoastKeeper)	Yes
	The committee shall have two non-voting members.	There are 2 non-voting members	Yes
	One non-voting representative of the Santa Ana Regional Water Quality Control Board	Mark Adelson	Yes
	One non-voting representative from the San Diego Regional Water Quality Control Board	Chad Loflen	Yes

Committee Activities: The Environmental Cleanup Allocation Committee (Allocation Committee) is responsible for developing the Cleanup Program and making funding recommendations to the Board. Since November 2007, the Allocation Committee has been meeting on a monthly basis and working hard to develop criteria for the allocation of grants to municipalities to fund projects that control transportation-generated water pollution. By the end of the assessment period, the Allocation Committee was working to develop a grant funding approach, anticipating completion and funding approval by the end of 2010.

Finding:

The Environmental Oversight Committee and Environmental Cleanup Allocation Committee were created as required by the voter-approved OCTA Ordinance No. 3, Renewed Measure M. The process whereby the committees were formed, convene, and communicate is appropriate. Both committees are well-positioned to advise the Board of Directors on the allocation of M2 funds for freeway environmental mitigation and streets and highway environmental cleanup respectively, as required by OCTA Ordinance No. 3.

8.0 Revenue Forecasting

The economic and tax revenue environment in which OCTA operates has been turned upside down by the severe recession of the last three years. OCBC assessed the manner in which OCTA finance staff has responded in light of the significant economic and tax revenue declines.

Methodology

The OCBC team assessed the scope and appropriateness of OCTA's efforts to forecast revenues by examining the following questions:

(1) Have the forecasting techniques been reasonable and have the techniques been updated to recognize changed economic conditions?

(2) How has OCTA reacted to the economic realities in using the economic forecasts?

(3) Do results imply that changes should be made in the way OCTA forecasts revenues?

Specific activities conducted by the team included reviewing, analyzing and assessing:

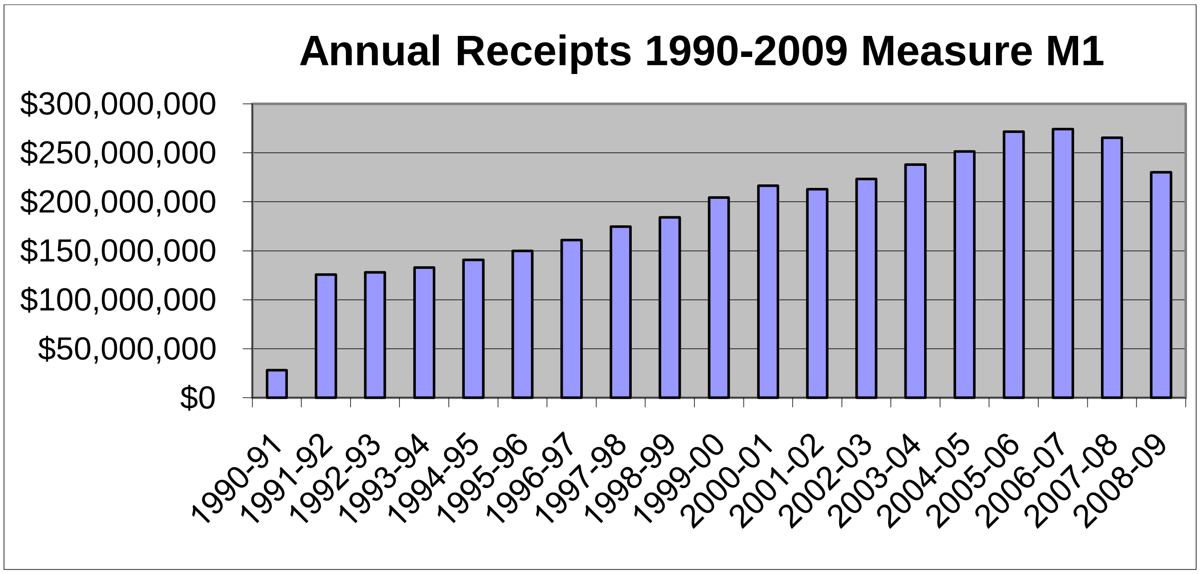
- The appropriate university economic forecasts
- Methods used by OCTA to translate these into tax revenue forecasts
- Any appropriate changes to the revenue forecasting process

Key Question: Has OCTA successfully implemented methods to accurately forecast revenues during this time of economic uncertainty and volatility?

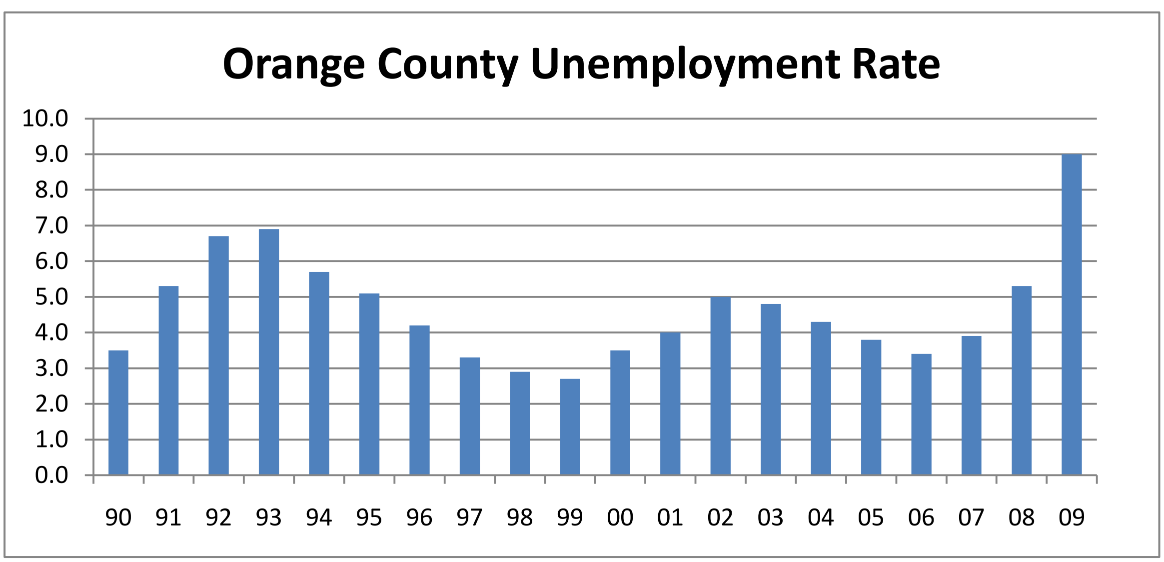
Background: Between the M1 program and renewed M2 program, OCTA changed its revenue forecasting approach, relying on a blend of three estimates (Chapman University, Cal State University Fullerton, and UCLA/Anderson School) rather than the former practice of using 95 percent of the Chapman University estimate.

Of course, the economic and tax revenue world in which OCTA operates has significantly changed due to the severe recession of the last three years. OCBC examined both the former and current approaches; compared the three forecasts individually: the Chapman/Cal State Fullerton/UCLA blended estimate performance versus the old Chapman-only method versus actual results; and assessed the manner in which OCTA finance staff responded in light of these significant economic and tax revenue changes. We also considered any additional measures that may be necessary as to how OCTA handles this crucial subject for the current and future performance and delivery of M2.

Assessment: Before M2 revenue forecasts were developed, OCTA's experience with revenue forecasting during M1 (1991-2006) coincided with a period that was overall an unusually stable period of steady positive economic and employment growth (and therefore sales tax revenue) in California, especially for Orange County.

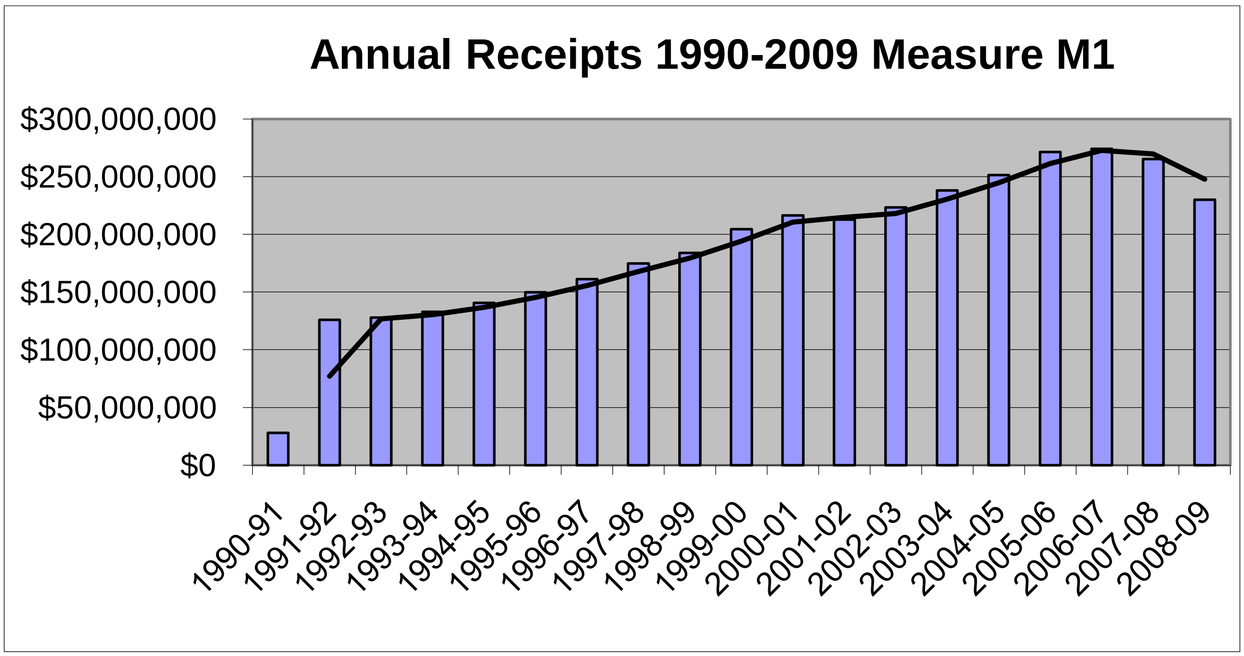


It was a period of steady growth with low year-over-year volatility, growing off of the deep recession that plagued Orange County in the early 1990s, M1's early baseline years. Unemployment was especially low and stable during significant periods of the M1 timeframe, leading to fairly stable revenue trends. For example, from January 1997 through December 2000 unemployment ranged from 2.2 - 4.0 percent and from January 2005 through December 2007, unemployment stayed in a range of 3.1 - 4.2 percent.

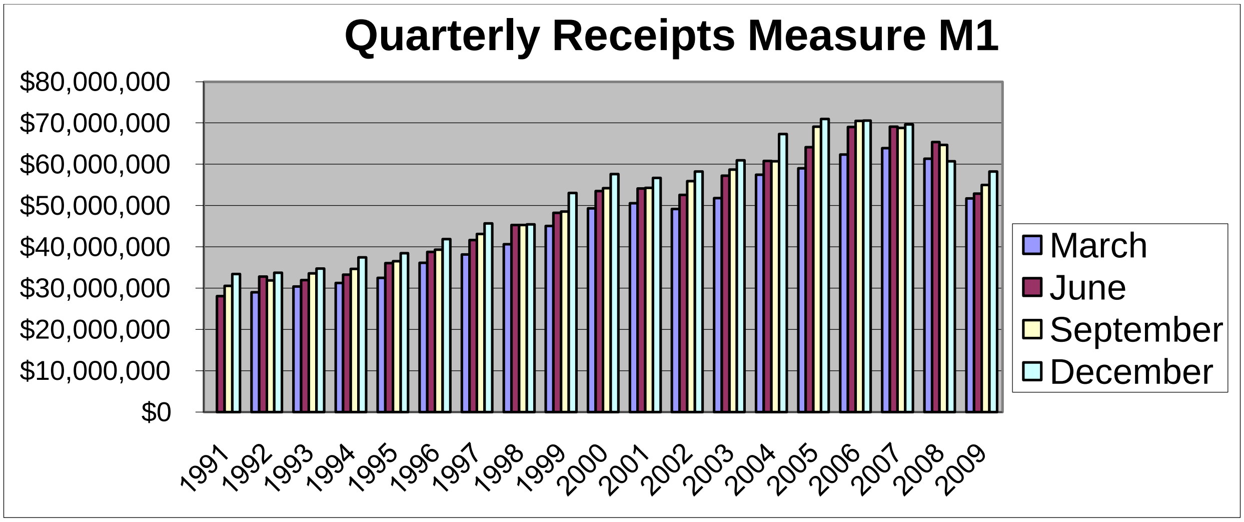


Due to its diversified industry cluster base, Orange County was even somewhat insulated to the dot.com downturn of 2000-2002 compared to other California counties. Because of low and predictable economic volatility, Chapman's M1 forecasts for OCTA sales tax revenue, even five years out, were fairly reliable and accurate, as were Cal State Fullerton's and UCLA's Anderson School forecasts during these time periods.

Assessment: With the onset of the unexpected and unprecedented financial crisis of 2007-2009, Orange County and OCTA experienced a sharp plunge in sales tax revenues for the first time since passage of the original M1 in 1990.



Orange County entered this prolonged, severe recession earlier than most counties and states due to a concentration of subprime and Alt-A mortgage lender employers. The accelerating layoffs in the financial service subsequently had ripple effects on the related local construction and development industries and finally throughout the Orange County economy. From November 2006 through June 2009, the period of this assessment, Orange County's unemployment rate rose from 3.4 percent to 9.4 percent.



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This is reflected in data from the 2010 California Retail Survey, which summarizes the relative strength indices for each county retail market in California from 2005-2010. The "relative strength index" is calculated by dividing the five-year compound annual growth rate of retail sales for each county by the comparable statistic for the entire California market. For example, if County A had a five-year compound annual growth rate for retail sales of five percent and the statewide growth figure was four percent, the resulting relative strength index for County A would be 1.25. This index tells us that County A has been growing 25 percent faster than the statewide norm.

The column to the left ranks the relative strength indices for each of California's 58 counties. Mariposa County tops the list, with an index of 2.84. In other words, Mariposa retail sales have grown at a rate that is 184 percent higher than the statewide norm over the past five years. Conversely, the weakest performing county during the five-year period was Sierra, with an index of -0.24. Formerly one of the highest sales tax growth rate counties in California, Orange County, while having one of the relatively lower unemployment rates during this time period, ranked 31 out of 58 California counties in terms of retail sales strength.

Relative Strength Indices for California's 58 Counties

Rank	County	Relative Strength Rankings
1	Mariposa	2.84
2	Madera	2.64
3	Tehama	2.39
4	Imperial	2.35
5	Kern	2.24
6	San Francisco	2.15
7	Inyo	2.12
8	Napa	2.11
9	Alpine	2.10
10	Tulare	2.04
11	Kings	1.99
12	Yolo	1.85
13	Mono	1.77
14	Siskiyou	1.70
15	San Bernardino	1.67
16	Del Norte	1.58
17	Mendocino	1.52
18	Santa Clara	1.43
19	Trinity	1.43
20	Glenn	1.41
21	Riverside	1.41
22	Merced	1.39
23	El Dorado	1.27
24	Humboldt	1.25
25	Los Angeles	1.12
26	Colusa	1.08
27	Fresno	1.01

Rank	County	Relative Strength Rankings
28	Plumas	0.99
29	San Luis Obispo	0.94
30	Nevada	0.93
31	Orange	0.93
32	Placer	0.90
33	Lake	0.89
34	Sutter	0.85
35	San Mateo	0.81
36	Butte	0.81
37	Modoc	0.79
38	San Diego	0.65
39	Alameda	0.64
40	Lassen	0.63
41	Calaveras	0.63
42	Shasta	0.59
43	Yuba	0.58
44	Marin	0.53
45	San Joaquin	0.51
46	Stanislaus	0.51
47	Contra Costa	0.45
48	Santa Barbara	0.44
49	Ventura	0.41
50	Monterey	0.38
51	Solano	0.35
52	Santa Cruz	0.30
53	Sonoma	0.20
54	Amador	0.17
55	Tuolumne	0.15
56	Sacramento	0.13
57	San Benito	-0.22
58	Sierra	-0.25

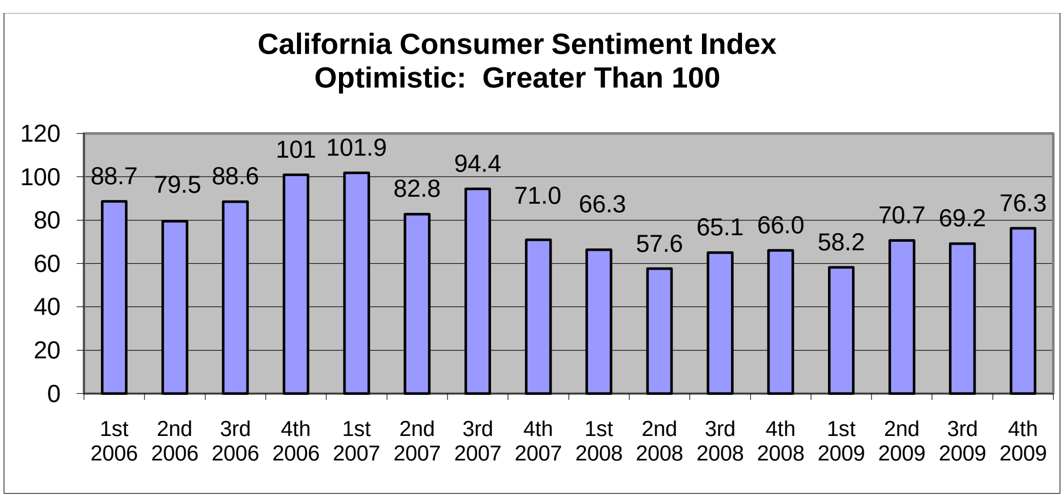
State:	Strength Ranking
California	1.00

Even though Chapman's forecast proved adequate for projecting M1 revenues, for the M2 program OCTA prudently and conservatively expanded its revenue forecasting toolkit from relying on one economic forecast (Chapman) to a blended approach of three university forecasts – Chapman, Cal State Fullerton, and UCLA's Anderson School forecast. Such a blend is bound to smooth out differences in the forecasts and expands the number of data points available to OCTA. M2 projections were developed using a blended economic forecast from Chapman University, Cal State Fullerton and UCLA – the same respected institutions commonly accepted and used in the Orange County and Southern California private sector for economic projections. In 2005, the three universities predicted an average growth in sales tax of five percent per year for the 30-year M2 time period.

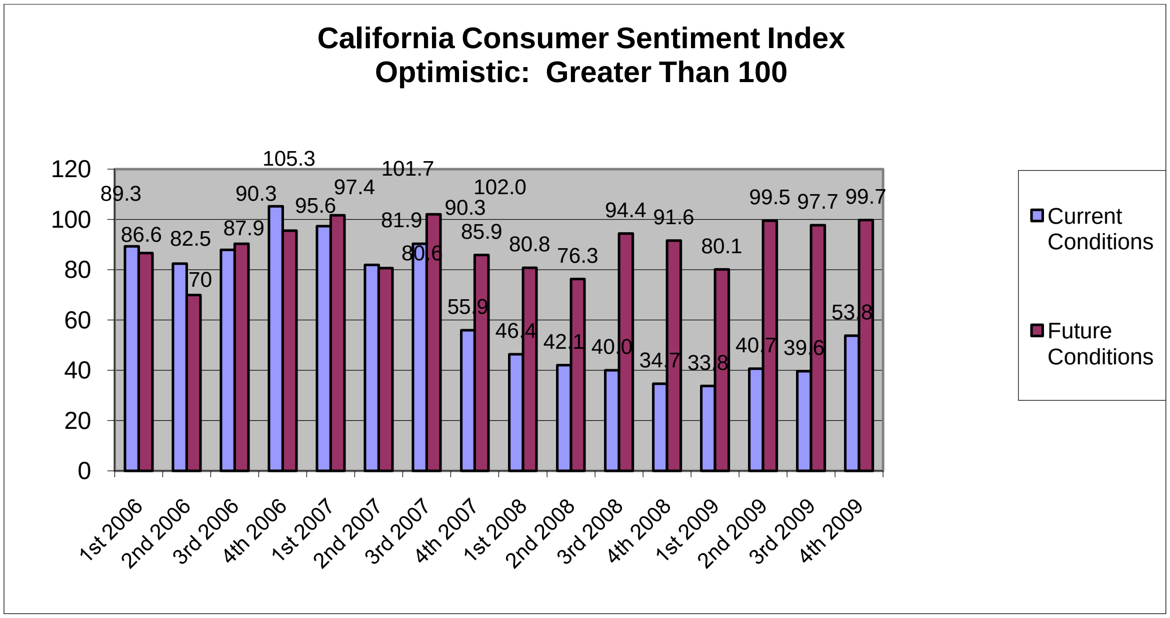
What the three universities were not able to predict was the worst economic downturn that Orange County, California, and the United States have respectively experienced since the Great Depression. There is no question that OCTA — like nearly every individual, business and public agency in the country — has been significantly impacted by plunging economic activity, layoffs and rising unemployment, asset values plummeting, and most importantly retail sales dropping precipitously. Starting in 2008, real per capita and household incomes in Orange County fell for the first time since the Great Depression.

During the unprecedented downturn, sales tax revenue projections based on the blended average of the three forecasts have generally proven to be too optimistic during this severe recessionary period. Each of the individual forecasts has proven to be too optimistic as well. The forecasts are based upon general econometric models that are best used for overall trend and direction of employment and gross regional product projections, rather than single point estimates of consumer spending and taxable sales.

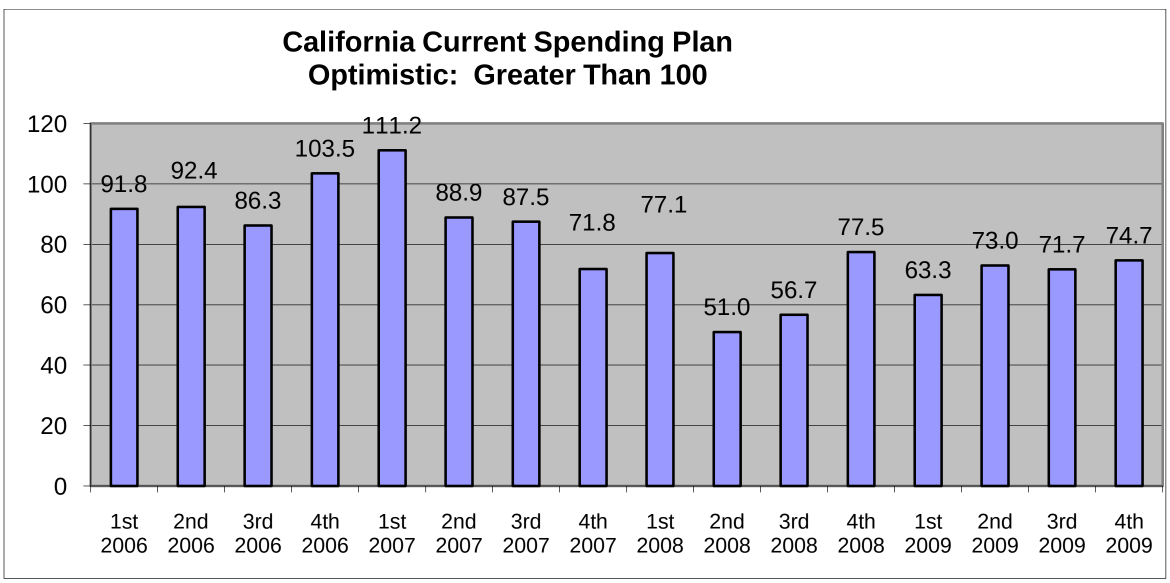
Consumer confidence has been hit particularly hard. Low consumer confidence also leads to a sharp drop in consumer discretionary spending, such as propensity to spend on travel, restaurant meals, and clothing, major sources of sales tax revenue.



Short term consumer sentiment (current and 12-month outlook) experienced a particularly hard hit as households began to understand the depth and severity of the recession, and worried about whether one or both of the wage earners would lose employment. Additionally, the severe impacts on Orange County housing values, a large source of funds for consumer spending in the period from 1999-2005, soon added to consumer woes and led to consumer sentiment spiraling to unprecedented low levels, finally hitting a bottom in the 4th quarter of 2008 and 1st quarter of 2009.



Declining consumer confidence was especially evident in sales of big-ticket consumer durables such as car sales, appliances, major electronics, another significant source of sales tax revenue.



Like the rest of the country, OCTA has had to adjust to a new economic reality. Under these very trying and unusual circumstances, and against a backdrop of profound uncertainty in our economic and financial systems not seen since the 1930s, OCTA responded by adjusting estimates to bring them in-line with deteriorating actual revenues. They also modified both base year and long-term growth assumptions with related adjustments in services, capital outlays, and administrative costs. M2 is now anticipated to bring in approximately 60 percent of the original $24.3 billion.

Findings: Our assessment finds that OCTA Finance and Executive staff have responded appropriately to a very challenging and fluid/dynamic sales tax environment that resulted from the economic downturn. Projections and actuals provided by the California Department of Finance (DOF) and the California State Board of Equalization (SBOE) have proven to be more accurate during the downturn, and OCTA staff has prudently shifted to relying more on the DOF and SBOE projections and actual revenue receipts. Finally, OCTA staff has kept the OCTA Board and OCTA committees informed as sales tax revenues deteriorated, providing them with the tools to make necessary policy decisions to proactively respond to reduced revenues. Key M2 stakeholder groups were also informed.

Going forward, OCTA staff should continue to work closely with the three universities to try and bring their forecasts more in line with actuals. Because of the unprecedented nature of this downturn, and the critical importance of revenue forecasting to delivery of the M2 program, OCTA should seek outside advice from strategic partners and consultants to undertake a thorough review of the academic forecasts and their inputs, models, and assumptions. Until this is accomplished, OCTA should continue to conservatively rely on SBOE and DOF actual so that budgets based on revenue forecasting tools do not turn out to be too optimistic.

9.0 Project Management Controls

Proper and effective project management controls are crucial to any organization operating successfully. The 2008 Parsons Brinckerhoff (PB) study found that uniform policies and procedures for managing the Measure M program and its projects (as distinct from OCTA's procurement and contracting procedures) were not in place for all aspects of the Measure M program or non-Measure M projects.

Methodology: The OCBC team assessed the extent to which the OCTA has developed and implemented clear and concise project controls. Our team inventoried any changes between M1 and M2 and followed with an examination of the review process:

- Evaluated current OCTA project controls
- Evaluated internal control of approval of invoices
- Evaluated to what extent OCTA has accomplished clear and concise project controls beginning with development of program management procedures, including the appropriate split of roles between the project managers, finance and Contracts Administration and Materials Management (CAMM) for approvals (i.e. approval of invoices)
- Reviewed current performance measurements and specific measurements to be tracked and reported to the TOC
- Considered further additions or enhancements to the potential management controls to enable further a broader review scope including reporting frequency, formats, and general content

Key Question: To what extent has the OCTA developed and implemented clear and concise project controls?

Background: While it will likely be the next review cycle before procedures and processes developed by local municipalities will be advanced sufficiently for audit review, tools and procedures are now being adopted to enable OCTA to better review program management as projects are deployed.

The 2008 PB study found that: “Uniform policies and procedures for managing the Measure M program and its projects (as distinct from OCTA’s procurement and contracting procedures) are not in place for all aspects of the Measure M program or non-Measure M projects…outside of the Measure M highway program, project status is not reported in a consistent manner across the agency. For example, there are excellent project controls reports for the highway projects, but minimal project controls support for the transit capital projects….Uniform policies and procedures for managing the Measure M program and its projects (as distinct from OCTA’s procurement and contracting procedures) are not in place for all aspects of the Measure M program or non-Measure M projects.”

In response to these findings, OCTA staff has been making regular program delivery status reports to the OCTA committees on a regular basis for highway, rail, and streets and roads programs, although the integration of project controls procedures for all M2 capital projects should be continually pursued.

“A key control measure involves city and county progress reports on pavement management and signal synchronization; both projects involve significant financial impact for M2 and for the municipalities. As they are deployed, the OCTA team should adopt tools and procedures to better automatically review program management.”

One of the earliest goals of M1 was to deliver major projects on time and under budget. For M2, the OCTA staff and the Taxpayer Oversight Committee both have emphasized that they want to build – and improve – on past successes.

The OCTA has attempted to strengthen M2 internal project controls by changing its staff organizational structure; upgrading and better defining project management tools; and forming an internal Program Management Office and an internal M2 Program Management Advisory Committee.

However, the impact of internal staff organization, including a split in the M1 Development Division’s project delivery responsibilities between two new OCTA divisions, Capital Programs and Planning, is uncertain. With project control staff assigned to the new Capital Programs Division and the M2 Program Management Office assigned to the Planning Division, careful coordination will be needed for all projects to be successfully monitored across division lines of responsibilities.

9.1 Change in M1 Development Division structure

In early 2010, outside of the purview of this assessment, OCTA management reorganized its Development Division, dividing responsibilities into a new Capital Programs Division and a new Planning Division.

The new Capital Programs Division was assigned responsibilities for all capital projects, including M2 freeway, bus/rail transit projects and other OCTA Capital Projects. All existing project management staff, including staff charged with project oversight responsibilities, was assigned to this division, with the expressed management goal of ensuring that uniform project management procedures are applied to all OCTA capital projects.

The new Planning Division was assigned the M2 Program Office and, according to the Management Response to the Booz Allen Hamilton/PMC Performance Audit Report, was assigned "to monitor the overall M2 accomplishments and compliance as well as provide oversight of activities related to the M2 Program and coordinate required reports. Initially, the Program Office will be supported through contract professional services and staff resources from each division as necessary. As the M2 Program is better defined once collection of revenue begins April 2011, the resource needs of the Program Office will be reassessed and adjusted as appropriate."

Although the recommendations for an M2 Program Office were included in recommendations from Parsons Brinckerhoff, LMS Consulting and Booz Allen Hamilton/PMC, no manager of the M2 Program Management Office had been hired by the end of July 2010. In addition to his other duties, the Executive Director of Planning was serving as Manager of the M2 Program Office.

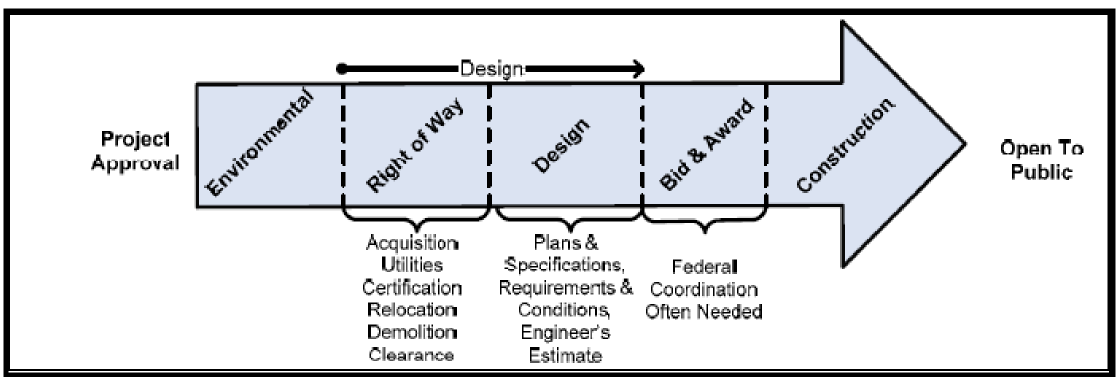
The impacts of dividing M2 internal oversight responsibilities between two OCTA divisions is uncertain, as is the role of Finance and Administration, the steward of OCTA M2 debt borrowings and revenue projections.

To clarify these roles, the Deputy Chief Executive Officer, has convened a Program Management Advisory Committee to review the policies, tools, and processes needed to ensure the success of M2 projects. Initially, the Director of Planning has taken the lead role in staffing this permanent internal committee.

The committee, recommended in a variety of studies since 2007, is in its earliest stages and cannot yet be assessed or evaluated for effectiveness.

However, the split of duties now puts all early M2 actions – planning, project reports, preliminary funding, programming responsibilities and project approval (up to environmental clearances) – in one division and all other M2 project management duties in another division. The advantages and disadvantages of this dual management alignment are yet to be defined.

In general, OCTA senior management foresees that the Capital Programs Division will receive a handoff of project responsibility from the Planning Division at the completion of scoping and conceptual engineering phase. The Capital Programs Division will be responsible for controlling costs and maintaining project schedule until a project is completed. Independent project management staff to oversee project managers, the Project Controls group, is placed in the new Capital Programs Division. Figure 1 illustrates the Capital Programs Division responsibilities graphically:



To illustrate the effectiveness of the program and OCTA responsiveness in the face of a declining economy and shifting funding mix, we conducted a case study on the SR-57 which is included as an appendix in this report, taking a single project through the process from thought to construction, beginning before M2 passes when the SR-57 was part of a feasibility study.

The split in duties between the Capital Programs Division and planning division also cannot be assessed at this time. Placing both Project Controls staff and Project Managers in the Capital Division, rather than placing all project oversight in the new Program Management Office, should be re-visited in the future as a method of providing internal M2 checks and balances.

Finding #1:

Placing environmental review in construction, and not planning, impacts the effectiveness of monitoring early M2 project definition efforts by the Capital Programs Division's Project Controls group, and the smoothness of project transition between divisions should be revisited when the duties of the M2 program office duties are reviewed.

9.2 M2 Project Management Controls

The OCTA has a Project Management Control Department now reporting to the Executive Director of the Capital Programs Division. For M1, this group reported to the Director of Development and controlled costs and schedules for a project from inception through completion of construction.

In 2008, the OCTA Development Division developed a Program Management Procedures Manual to support the delivery of the M2 program and the Early Action Plan. The manual defined the objectives of the capital improvement program, as well as the roles and responsibilities of the Highway Project Delivery group. This group has the goal of monitoring projects from preliminary engineering through project completion. The manual includes focused areas on managing projects, assuring quality, understanding risk and managing documents.

The precepts specified in the Program Management Procedures Manual were the subject of internal staff training and are used in regular meetings among staff responsible for major M2 highway projects. The manual also guides development of major rail projects.

The manual sets out five key measures of success for M2 project delivery:

- Establishing a comprehensive implementation plan
- Defining project improvements within available funding limits
- Completing projects within budget and schedule goals
- Keeping the Board, senior staff, and the public informed on project progress
- Establishing a fair and open procurement process

The manual emphasizes the OCTA strategy of maintaining a small, capable, core project management staff, augmented by consultants in a supporting role:

“The availability of adequate private industry resources to support the M2 program will be challenging given the competing demands of other transportation sales tax programs in Southern California, ‘the manual states.” An active effort to expand industry capacity in engineering and construction will need to be fostered by the Authority (OCTA), Caltrans and other regional agencies to meet these demands. A fair, open and streamlined procurement must be maintained by the Authority to help capture private industry support for our projects.”

Monitoring consultants, as well as monitoring costs and project schedules, is the responsibility of the Project Control group. The group oversees how a project is administered, including schedule control, cost control, progress reporting and project changes.

In M1, Project Controls used an Excel-based project management system. For M2, the OCTA has shifted to Primavera P6 Web Version 6.2. Primavera is widely considered the state-of-the-art program for managing portfolios of large capital projects. In Southern California, Primavera is used by Caltrans and the San Diego Association of Governments (SANDAG), among others, to monitor large portfolios of major capital projects.

Primavera features a colorful dashboard display used to indicate project status at a glance. To make Primavera information more user-friendly, OCTA developed a high-level custom designed dashboard interface accessible to M2 project managers and their supervisors. This custom interface dashboard information is divided into four portlets, showing an individual project, Gantt chart (or project schedule and critical path), project statistics, project reports and a project narrative.

Project statistics, for example, details cost variances (forecast versus current budget) and schedule variances (current schedule versus baseline project completion expectation). Green, yellow and red dots appear next to key statistics, indicating a project is under budget, on forecast, slightly over budget forecast, on time, slightly behind schedule or three months or more behind schedule.

DRMcNatty & Associates of Mission Viejo, a Primavera-authorized representative, assisted OCTA staff in implementing the Primavera cost database structure, designing the interface, and deploying the web-based application.

A key element of the OCTA project management system is the Project Master Schedules. The Project Master Schedule is used to deliver a project in a timely manner by monitoring and reporting progress, analyzing delays and reporting solutions to project issues. The master schedule outlines critical project activities from the inception of the project to construction competition.

Working with the projects managers and others, the Project Controls group is responsible for the initial development and maintenance of the project master schedule. Project managers and others provide data on projects, but only Project Controls staff may modify the Project Master Schedule. Thirty OCTA staff members have access to the Primavera system and its project management material; only Project Control staff may modify the material. In other words, some OCTA staff may read the Primavera reports, but only Project Control staff may write or change schedules or cost data. The exception to this general rule is the project narrative portlet on the Primavera dashboard, where a Project Manager may provide information on upcoming issues or concerns.

The Primavera schedules now being used to monitor M2 projects had not been developed when the OCTA borrowed $400 million in February of 2008. Instead of the dates and schedules used in Primavera, rough estimates incorporating industry typical timeframes were used.

When the more refined Primavera schedules and cost figures were developed, the initial rough estimates were dropped without explanation to the senior staff or the OCTA Board of Directors. The new dates, always generalized, appeared on the OCTA website and in OCTA informational materials without explanation. In many cases, the rough project estimates were ambitious, throwing off the synchronization of the anticipated drawdown of the Tax Exempt Commercial Paper Program and actual project needs. Because TECP dollars have been drawn down at a slower rate, M2 dollars spent on stand-by charges have increased, primarily because of delays in the M2 Environmental programs and use of Prop 116 funds to pay for M2 rail capital projects.

Of the 30 employees with access to the Primavera dashboard, all are within the Capital Programs and Planning Division except the Deputy CEO. The Deputy CEO has access to the program from his prior duties as head of the rail division. The CEO does not have access to the Primavera data, nor did previous Deputy CEOs.

Finding #2:

Although some senior staff expressed a strong desire to have access to Primavera data and reports, Development Division project management staff has resisted sharing unfiltered data internally, choosing instead to provide regular project summaries to other divisions. Project Management staff believes this allows better management of consultants, allows project staff to be more candid in the narrative segments, and improves overall project management. Others believe the close control of the project schedule and cost data hinders communication between project controls staff and other OCTA departments and on occasion allows the project management team to paint too rosy a picture of schedule and cost problems.

The Primavera project management program uses a simple red-light, yellow- light, green-light system as a visual representation of project status at any given moment. This red-yellow-green system should also be used as a more broadly-based, OCTA-wide early warning system on project status.

If a project has a yellow warning designation, for example, OCTA senior staff should be promptly notified of a potential problem. If a project moves into the red, a broader notification, including the OCTA Board of Directors and the TOC should be made aware, along with commentary on remedial steps planned to get the project on-budget and on-schedule. If the Executive Director of Capital Programs believes a schedule problem will require a re-thinking of the overall project schedule or cost figures in either of the yellow or red areas, key senior staff and the OCTA Board of Directors should be notified promptly.

9.3 Approval of Invoices

In general, the M2 program follows the OCTA's internal process for approval of invoices: an invoice is sent to the OCTA Accounts Payable department (and frequently copies to a Project Manager) for payment for services rendered. Accounts Payable asks the Project Manager to review the invoice for consistency with an approved contract. In terms of M2 and M1 projects, Accounts Payable has a second review of the invoice by Project Controls staff before an invoice is paid.

The invoice approval process has been the subject of some internal discussion at the OCTA, with some concerns raised about internal checks and balances and the time it takes to approve payments to vendors. Some believe Accounts Payable should be assigned to review invoices against a contract, others believe a review by the project manager is sufficient. A third viewpoint is that the review of specific M2 invoices by Project Control staff is an unnecessary redundancy that slows payment to vendors without adding value to the approval process.

Finding #3:

A more comprehensive review of the OCTA's internal invoice approval process, with emphasis on the roles of Accounts Payable, CAMM and Project Managers, should be undertaken, with the goal of maintaining strong and consistent, internal controls.

10.0 Sampling of Change Orders

Because of the initial nature of this performance review and the timing in terms of being early in the process in terms of the volume of contracts and agreements and early in the overall duration of most contracts, the OCBC team's assessment was confined to a small sample that focused mainly on professional service contracts. While it is still early in the processing cycle, the OCBC team selected contracts and agreements to determine the appropriateness, reasonableness and justification for change orders.

Methodology: The OCBC team evaluated the appropriateness of the process by which were determined, review, and approved**:**

- Selected representative contracts and agreements
- Evaluated the appropriateness, reasonableness and justification for change orders
- Assessed the review and approval process for change orders

Key Question: Have M2 change orders been appropriate, reasonable and justified?

Background: Because M2 has only recently been adopted, our assessment was only able to sample a small number of change orders that focused on professional service contracts. With this small sample, the OCBC team reviewed and assessed the reasonableness and justification underlying the orders themselves.

Assessment:

As a part of the Early Action Plan's financing decisions, fewer M2 dollars were used to finance freeway and transit projects than was initially anticipated. The limited number of projects funded with the Tax Exempt Commercial Paper program was substantially less than had been predicted in 2008 and 2009.

By the end of the focus period for this project, about $30 million out of a $400 TECP million M2 program had been tapped.

Because fewer M2 dollars were used, fewer M2 change orders were brought to the Contracts and Materials Management (CAMM) portion of the OCTA Finance and Administration Division for action.

In most cases, change orders on projects once planned for M2 dollars were paid for with M1 dollars and federal dollars, including projects funded by the 2009 American Recovery and Reinvestment Act (ARRA), a bill designed to spur economic recovery and trigger investment in long term growth.

Because ARRA focused on "shovel-ready" projects – like the State Route 57 project – projects which could have relied on M2 funds instead were paid for with funds from other sources. In most instances, these projects using funds other than M2 relied on the CAMM procedures in place for M1 and other funding sources.

Because fewer M2 dollars were spent, fewer M2 change orders – even fewer than had been estimated when the Scope of Work for the M2 assessment was designed – were processed.

Most of the M2 modifications were very minor in nature, typically consisting of changes in the duration of contract. However, while no deficiencies were found during our assessment, our review does suggest that there currently is no standard, formal process for analyzing change orders, but rather each is handled in an individual manner.

Finding:

Consider developing a more formal process for analyzing change orders, perhaps an internal review committee made up of OCTA executive staff for change orders over a certain threshold in terms of increased contract dollar size and scope value, perhaps $1,000,000.

11.0 Contractual Performance of Vendors

The OCBC team compared performance of vendors to standards employed by the Director of CAMM to determine if OCTA has consistent M2 procurement and purchasing actions and to assess if CAMM contract administration practices have been equivalently applied to be consistent with the broader OCTA rules and practices.

Methodology and Activities: The OCBC team reviewed CAMM's existing procedures, analyzed M2 procedures, and assessed if there are any differences by:

- Comparing vendor performance to ensure consistent M2 procurement and purchasing actions
- Assessing if CAMM contract administration practices are consistent with the broader framework of OCTA M2 rules and practices.

Key Question: Has vendor performance met standards established by the Director of CAMM and have standards been equivalently applied to be consistent with broader OCTA rules and practices?

Background: Parsons Brinckerhoff's 2008 "Organizational Capacity and Readiness" report on the M2 EAP found that "it is not clear if OCTA's detailed procedures for procurement and contract administration are appropriate for ensuring that the procurement process is not only transparent and fair, but is consistent, predictable and allows the organization to implement its programs in a timely and efficient manner."

OCBC conducted a brief review of CAMM existing procedures and contract administration practices, which all seemed appropriate. After discussions with the CAMM director, the Executive Director of Finance and Administration, and the triennial assessment project staff, on the number of M2 contracts approved and M2 change orders submitted prior to June 30, 2009, focus on M2 change orders was set aside and greater emphasis was placed on other elements of this assessment.

Finding: CAMM contract administration practices are consistent with the broader framework of OCTA M2 rules and practices and industry and government standards.

B. Data Sources Reviewed and Analyzed

Documents Reviewed:

Task 1 – M2 EAP

- ✓ EAP
- ✓ 8/13/07 Staff Report
- ✓ 11/09 Staff Report

Task 2 – M2 Plan of Finance

- ✓ Staff Reports related to the M2 Plan of Finance

Task 3 – Readiness & Market Studies and Follow-up

- ✓ RFP Staff Reports
- ✓ Reports
- ✓ Follow-up Staff Reports/Power Point Presentation
  Link to documents: http://www.ocya.net/m2readiness.aspx

Task 4 – Outreach & Public Communications

- ✓ Sample of M2 Website/screen shots
- ✓ Annual Reports
- ✓ Quarterly Reports

Task 5 – TOC

- ✓ Staff Report Changing COC to TOC
- ✓ Updated By-laws, Mission Statement & Responsibilities
- ✓ Annual Certifications (FY's 07, 08, 09)
- ✓ Minutes, TOC Staff Reports

Task 6 – SBOE

- ✓ Staff Reports and financial reports related to SBOE

Task 7 – Environmental Committees Program Oversight

- ✓ Committees' Charters
- ✓ Legal Guidelines
- ✓ Agenda packets through 6/09

Task 8 – Revenue Forecasting

- ✓ Staff Reports related to OCTA's efforts to forecast revenues
- ✓ Chapman, CSUF, and Anderson School forecasts

Task 9 – Project Management Controls

- ✓ Program Management Controls
- ✓ Projects Status Report
- ✓ Procedures
- ✓ Eligibility Guidelines
    - o On OCTA Website under agendas – March 22, 2010, Measure M2 Comprehensive Transportation Funding Program Guidelines

Task 10 – Sampling of Change Orders

- ✓ List of M2 Contracts (F17)
    - o Finance, Development, Outreach

Task 11 – Contractual Performance of Vendors

- ✓ CAMM Contract Administration Practices
- ✓ CAMM Procurement and Purchasing Procedures
- ✓ Any other items which can help the consultant compare the performance of vendors to standards employed by the Director of CAMM to determine if the Authority has consistent M2 procurement and purchasing actions

Additional Items Provided

- ✓ Ballot Card
- ✓ Voter Pamphlet
- ✓ PM Academy binder
- ✓ Staff reports and other materials authorizing the M2 commercial paper program
- ✓ Funding assumptions for TECP; Drawdown
- ✓ Revisions to the Early Action Plans
- ✓ Communications with the Attorney General's Office on M2
- ✓ Committee and Board actions on cities and county government M2 eligibility issues
- ✓ Staff reports related to contracts
- ✓ SR-57 documents
    - o project background, scheduling
    - o funding, when and what
    - o project controls reports
    - o outreach efforts
- ✓ M2 Charges to OCUTT (CAP Analysis)

Interviews Conducted:

Appendix - Staff Interviews

Darrell Johnson, Deputy Chief Executive Officer

Kia Mortazavi - Executive Director of Development

Ken Phipps - Executive Director, Finance and Administration

Kirk Avila - Treasurer and General Manager of 91 Express Lane

Ellen Burton - Executive Director, External Affairs

Alice Rogan - Community Relations Officer

Kurt Brotcke - Director, Strategic Planning

Dan Phu - Section Manager, Project Development

Andrew Oftelie - Manager, Financial Planning and Analysis

Norbert Lippert - Section Manager, Project Controls

Virginia Abadessa - Director, Contracts Administration and Materials Management

California County Transportation Sales Tax Measures:

Since the mid-1980s, voters in twenty California counties have approved local measures that increase county sales tax to pay for important local transportation projects.

These measures have provided an important and stable source of funding, collectively generating several billion dollars of revenue each year.

There are a number of features of these measures that make them accountable to the taxpayer, which has made them increasingly popular. First, the measures are ballot-driven and require direct voter approval. Second, revenues generated by the measures finance projects within the same county, allowing voters to experience their benefits directly. Third, almost all measures have a limited term, further providing a sense of accountability. Finally, measures specifically identify the transportation improvements to be financed.

Orange County has a transportation sales tax measure called Measure M (M1). This measure has been in place since 1990, and was renewed in 2006. This Renewed Measure M (M2) will begin collecting revenues in 2011.

For comparison purposes, the following tables describe transportation sales tax measures that were passed, renewed, or were set to expire at a similar time period to the Orange County Measure M.

California counties that succeeded in passing/renewing their transportation sales tax measures from 2004-2008:

County	First Passed	Renewed
Contra Costa		2004
Fresno		2006
Imperial		2008
Los Angeles		2008
Madera		2006
Marin	2004	
Orange		2006

Sacramento		2004
San Bernardino		2004
San Diego		2004
San Francisco		2003
San Joaquin		2006
San Mateo		2004
Sonoma	2004	
Tulare	2006	

California counties that had transportation sales tax measures that were expiring in the 2008-2012 time period that were renewed:

County	Expired	Renewed
Contra Costa	2008	2004
Imperial	2008	2008
Los Angeles	2010	2008
Madera	2010	2006
Orange	2010	2006
Riverside	2008	2002
Sacramento	2008	2004
San Bernardino	2009	2004
San Francisco	2009	2003
San Joaquin	2010	2006
San Mateo	2008	2004

Debt Financing Programs: Many local transportation agencies in California have used debt financing to support accelerated delivery of sales tax funded transportation programs and to provide contingency funding to keep projects on schedule in the event of unforeseen cost or funding impacts.

<u>Los Angeles Metro:</u>

LA Metro has not had to use Commercial Paper to finance 30/10 to date. Measure R does not have a CP program, but can use CP funds from Prop A and C.

<u>Riverside:</u>

RCTC issued $110 million through May 2008 that was refinanced in the 2008 bond issue. Another $137 million was issued through September 2009, of which $53,716,000 was refinanced with the 2009 bond issue. That left a balance of $83,284,000, which is still outstanding as of today. There have not been any additional issuances after September 2009. So, in total, RCTC issued $247 million in commercial paper over the life of the CP program.

<u>San Bernardino:</u>

Subsequent to the approval of the Strategic Plan, SANBAG issued a $250 million short term note, most of which was used to purchase State Proposition 1B bonds that are, in turn, to be used by the state to help fund selected SANBAG transportation projects. It is anticipated that this note will be rolled into a long bond in approximately 2012, and additional bonding may be considered at that time, depending on project delivery schedules. One of the requirements is that the revenue allocation for each individual Measure I program that uses bonding must be able to handle its own debt service over the 30-year life of Measure I.

<u>San Francisco:</u>

Favorable rates for existing $150 million in outstanding commercial paper allowed SFCTA to avoid issuing long-term debt during the first five years of Prop K.

<u>San Joaquin:</u>

The SJCOG Board authorized the issuance of $210 million in Bond Anticipation Notes (BAN’s) to fund the Measure K Renewal Early Action Program and continued project delivery to complete the current Measure K. Lehman Brothers and JP Morgan served as co-dealers with

Public Financial Management serving as financial advisor and Nossaman, Guthner, Knox and Elliott providing bond counsel services.

The BAN structure was adopted as a result of the mortgage/credit crisis that made it extremely difficult to obtain the necessary letter of credit for the originally planned commercial paper authorization increase.

Under the BAN structure, SJCOG, acting as the San Joaquin County Transportation Authority, issues notes pledging to the note holders that by a specific date, April 1, 2011, SJCOG will issue additional bonds to repay their principle investment. In return for the use of the funds, between now and April 1, 2011, SJCOG will make semi-annual interest payments to the note holders at the rate of 3.18 percent. The total interest cost over three years will be $19.4 million.

On May 7, 2008, the BAN’s were priced and orders taken. The BAN’s were priced at 3.18 percent in three coupon tranches of five, four and 3.125 percent. The net result of the premiums and discounts is that SJCOG only needed to issue $203,355,000 in bonds to receive $211,089,159.00 in proceeds. On the morning of the BAN’s pricing, the robust marketing of Lehman Brothers and JP Morgan generated nearly $428 million in orders which helped to keep the price of the bonds at a minimum. On May 21, 2008, the transaction closed.

Debt financing programs of California counties that had transportation sales tax measures expiring 2008-2012 that were renewed.

County	Sales Tax Program	Separate Early Action Plan	Debt Financing	Amount	Commercial Paper Issued To-Date
Contra Costa	Measure J	None	No Information		
Imperial	Measure D	None	No Information		
Los Angeles	Measure R	Yes (30/10 Plan)	Commercial Paper	Prop A: 350M Prop C: 150M	Have not had to use Commercial Paper to finance 30/10 projects or other Measure R projects to-date.
Riverside	Measure A	None	Commercial Paper	247M	RCTC issued $247 million in commercial paper over the life of the CP program.
Sacramento	Measure A	None	Revenue Bonds	65 percent of total program gross sales tax revenues	No information ($491 million through 2009 estimated in 2007 Plan of Finance)
San Bernardino	Measure I	None	Short-term Bond	250M	SANBAG issued a $250 million short term note.
San Francisco	Proposition K	None	Commercial Paper	150M	SFCTA avoided issuing debt during the first five years of Prop K.
San Joaquin	Measure K	Yes (Early Action Program)	Bond Anticipation Notes	210M	SJCOG issued $203,355,000 in bonds to receive $211,089,159.00 in proceeds.

Orange Freeway (SR-57) Case Study:

Background: The Triennial Assessment of Renewed Measure M (M2) is intended to examine the M2 program as a whole and assess whether it is being managed efficiently, effectively, and in accordance with the Early Action Plan (EAP) and Ordinance No. 3. There are over 20 projects or programs identified within the EAP, falling under four categories, each having their own unique characteristics and history. It is beyond the scope of this assessment to present a detailed analysis of each individual project in the EAP; however, a case study approach can provide a focused analysis of project level controls and highlight OCTA response to external factors during the assessment period.

The State Route 57 project was chosen because of its maturity and the fact that it highlights the challenges that many EAP projects faced.

SR-57 Project History: In March 2001, Caltrans, working cooperatively with OCTA staff under the OCTA's Freeway Chokepoint Program, conducted an Operations Enhancement Study (OES) of SR-57 between the I-5/SR-22/SR-57 interchange and the Los Angeles County border. This study recommended adding a northbound lane from Orangethorpe Ave. to Lambert Rd. to reduce northbound delay by 20 percent, and provide significant transportation benefits within the corridor and the regional freeway network. Some of these benefits include improved goods movement and fewer mobile source pollutants from reducing idling. The OES recommendations provided the initial parameters for what became the SR-57 Northbound Widening Project.

The project began with a Project Study Report (PSR) that was initiated in 2003. A PSR evaluates the feasibility of alternatives and includes conceptual design, a preliminary environmental assessment report and refined cost estimates. The purpose of the report is to provide sufficient information to assist governing entities in deciding if the project should proceed to the next phase, as well as allowing for application for funding of the future phases of the project. In 2005, the OCTA and CALTRANS agreed on the parameters and outcome of the project with the Project Approval/Environmental Document phase. By November 2007, a year after Renewed Measure M was passed at the ballot box, the SR-57 project had been included in the M2 Early Action Plan, the environmental assessment process was completed, and the finished Project Study Report was approved.

Shortly thereafter, the project design phase was initiated. The project design and construction was split into two segments for competitive bidding reasons. The two segments are from Orangethorpe Ave. to just north of Yorba Linda Blvd, south segment. The north segment is from just north of Yorba Linda Blvd. to Lambert Road. Two separate design contracts were let out by OCTA to complete the design phase. The design phase was completed in December 2009 for the south segment and February 2010 for the north segment. The projects construction phase bid documents are prepared by Caltrans and the projects were advertised in May 2010. The construction bid opening took place in mid-July 2010 for both segments. The construction contract was awarded in August 2010. Construction is underway.

Funding Sources: Initially, the project plan called for a total of $140 million dollars in equal funding from state and local sources. The Corridor Mobility Improvement Account (CMIA) provided $70 million, as did the M2 Commercial Paper program. This initial funding mix would soon change as the economy slowed and was impacted by falling projections for M2 sales tax revenues as well as federal stimulus funding.

<u>M1</u>: $22 million was anticipated at that point because of positive variances projected in M1 revenues.

<u>CMIA:</u> Proposition 1B was approved by California voters on November 7, 2006, and is also known as The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. The Act includes a $4.5 billion program of funding to be deposited in the Corridor Mobility Improvement Account (CMIA). The funds in the account are allocated by the California Transportation Commission for performance improvements on the state highway system or major access routes to the state highway system.

<u>M2 Commercial Paper:</u> In November 2007, the OCTA Board of Directors approved the establishment of a Tax-Exempt Commercial Paper program (TECP). The TECP is a

short-term loan to be paid back by future M2 sales tax revenues and is used to fund the accelerated implementation of the M2 projects outlined in the EAP.

Funding Changes: The economic downturn had important consequences for the M2 program. In early 2009, the American Recovery and Reinvestment Act (ARRA) was passed in an effort to stabilize the U.S. economy via fiscal stimulus. The Act provided public funding for projects that kept or created jobs, helped spur economic activity, and provided good long term investment. On March 9, 2009, the OCTA Board of Directors authorized staff to pursue ARRA grants and established guiding principles for implementation. In terms of the M2 program, these guidelines give EAP projects highest priority.

The OCTA applied for ARRA funds and was granted $97.5 million for freeway projects. Although the SR-57 project was not eligible for ARRA funding, it received additional CMIA funds from the SR 91 project, which did receive ARRA money. CMIA funding for SR-57 almost doubled as a result, while M2 funding was halved. This example demonstrates how OCTA staff effectively managed changing funding sources to consistently keep the project on schedule.

OCTA staff were diligent in their efforts to explore all available funding options and pursue ARRA funds for eligible projects. The state funds made available due to the use of ARRA money were then transferred to finance high priority projects outlined in the M2 Early Action Plan, in accordance with the Board's wishes. One of the primary beneficiaries of this shifting of CMIA funds was the SR-57 project. The addition of CMIA funds for EAP projects reduced the amount of M2 dollars needed.

In sum, the OCTA was able to efficiently and effectively keep the SR-57 project on track despite significant and unpredicted events that heavily impacted funding.

Scheduling & Program Controls: Despite the fact that the Renewed Measure M program is in the early stages of implementation, the OCTA has already managed to put in place program controls and management practices that do a good job of keeping EAP projects on schedule and within budget. The SR-57 project provides a good example of this.

A review of program controls – including schedule control, cost control, and progress reporting – revealed that the OCTA has a robust program control system to manage the delivery of M2 funded transportation projects.

In order to control the cost and schedule of the overall EAP and its individual projects, OCTA uses software to manage project-level budget and schedule information. Automated scheduling software is used to pull together the large amount of data from individual tasks and track it against project milestones. A risk indicator built into the software alerts staff if calculations indicate that parameters, such as completion date, will be exceeded. The indicator feature could be used more effectively to enhance program controls and program communication.

Public Outreach: Providing opportunities for public participation in the project planning process is a key component of the M2 program and a requirement of many state and federal policies. The SR-57 project involved significant outreach efforts to solicit comments from stakeholder groups and individual members of the public. These involved presentations, publications and meetings to educate and inform attendees on project goals and objectives. In addition, press releases and web-based updates were used to keep those interested abreast of the project schedule, budget, and noteworthy events with impacts on project delivery.