

Report to the



ORANGE COUNTY TRANSPORTATION AUTHORITY

for the

**FY07 – FY09 TRIENNIAL PERFORMANCE AUDIT OF
THE ORANGE COUNTY TRANSPORTATION AUTHORITY:
EXECUTIVE SUMMARY**

prepared by

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and



May 26, 2010

THE FY07-FY09 PERFORMANCE AUDIT OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY FOLLOWS STATE GUIDELINES FOR TDA AUDITS

- Triennial performance audits are a requirement for the continued receipt of State Transportation Development Act (TDA) funds for public transit under California Public Utilities Code (PUC) Section 99246.
- This performance audit is administered by the Orange County Transportation Authority (OCTA) and prepared by Booz Allen Hamilton Inc. in association with PMC. This report represents the State-mandated performance audits of OCTA as the Regional Transportation Planning Entity (RTPE) and as a transit operator. The audit covers the period from July 1, 2006 through June 30, 2009 (i.e., FY07-FY09).
- TDA performance audits of RTPEs and transit operators include:
 - Assessments of compliance with applicable sections of the California PUC.
 - Reviews of progress to implement prior audit recommendations.
 - Recommendations of opportunities to improve efficiency and effectiveness.
- In addition, RTPE performance audits provide assessments of the efficiency and effectiveness of the agency's regional transportation planning and TDA administration functions.
- Operator performance audits also review performance trends and functional area performance results.

OCTA IS BOTH THE REGIONAL TRANSPORTATION PLANNING ENTITY AND THE PRIMARY TRANSIT SERVICE PROVIDER FOR ORANGE COUNTY

- OCTA was established by state law on June 20, 1991 to consolidate the transportation planning and operating agencies within Orange County.
- OCTA works with federal, state, regional and local agencies to plan, fund, implement and maintain transportation programs and services throughout Orange County. It is responsible for providing coordinated, effective, and accountable multimodal transportation services within Orange County. These services include countywide bus and paratransit service, Metrolink rail service, the 91 Express Lanes, freeway, street and road improvement projects, motorist aid services, and regulation of taxi operations.
- As a transit agency, OCTA provides fixed route and demand response service in Orange County, for a service area that covers about 798 square miles and serves over 3 million residents in 34 cities and unincorporated areas:
 - Fixed route services include local, community/shuttle, intracounty express, StationLink (Metrolink rail feeder) and intercounty express routes.
 - OCTA also provides ACCESS service, which is complementary paratransit service for persons with disabilities that complies with the requirements of the Americans with Disabilities Act (ADA).

OCTA ADMINISTERS TRANSPORTATION FUNDING PROGRAMS, INCLUDING RENEWED MEASURE M (M2)

- As part of its administrative responsibilities, OCTA sets programming policies for nine federal, state and local funding sources, including the Local Transportation Fund (LTF) and the State Transit Assistance Fund (STA).
- During the audit period, OCTA allocated about \$415 million in TDA funds to eligible claimants and for allowable uses. Of the total, \$320 million were allocated for transit operations and capital programs. TDA allocations were approved on a timely basis and made funds available for administrative and planning activities as well as community and public transportation.
- In November 2006, voters approved the Renewed Measure M Transportation Investment Program (M2), extending the half-cent Measure M sales tax for another 30 years for freeway, streets and roads, transit, and environmental cleanup projects. OCTA administers the Measure M and M2 programs.
- Soon after M2 was approved, the Board requested a five-year Early Action Plan (EAP), to advance implementation of M2 programs in 2007-2012. The EAP identifies nine objectives to advance M2 implementation, including five projects to be under construction before revenues begin to be collected in 2011.

OCTA'S BIGGEST RECENT CHALLENGES HAVE RESULTED FROM FUNDING SHORTFALLS

- Largely as a result of the economic downturn, OCTA's funding picture changed substantially late in the audit period. In particular, sales tax revenues are down significantly, impacting the funding that is provided for transit by the TDA as well as key programs that are funded by M2. With the State's budget crisis, the State suspended State Transit Assistance (STA) funds, resulting in a loss of approximately \$95 million.
- In November 2009, the CEO reported that sales tax projections were 40% lower than originally anticipated. The first 12 months of M2 revenues are projected to be more than \$100 million less than 2005 nominal revenue estimates. Over the life of the program, sales tax revenue is projected to be \$14.3 billion lower than the 2005 estimate of \$24.3 billion. Early Action Plan objectives remain largely on schedule, but adjustments have been necessary and project delivery schedules and financial capacity are being re-evaluated.
- Federal transportation funding programs have also been impacted by the economy. The Congress has not passed legislation to renew SAFETY-LU, the primary source of federal transportation funding, which expired in September 2009.
- In transit operations, funding reductions have forced OCTA to increase fares, reduce service, lay-off staff, and stretch available resources to use them more efficiently.
- Economic conditions have not only impacted bus riders. Traffic volumes on the 91 Express Lanes, and associated toll revenues, were also down at the end of the performance audit period.

OCTA HAS ACQUIRED NEW FUNDING SOURCES AND REPRIORITIZED EXISTING FUNDING SOURCES

- The same month that Orange County voters approved M2, California voters passed Proposition 1B, a \$19.9 billion bond initiative to invest in transportation improvements. Over the last three years, OCTA has acquired \$686 million in Proposition 1B funding.
- OCTA obtained \$212 million in funding from the American Recovery and Reinvestment Act of 2009 (ARRA), including \$76 million for transit capital and operating assistance, \$1.2 million for rail, \$37 million for local projects, and \$97.8 million for highways.
- In June 2009, OCTA updated its state and federal programming policies contained in the Comprehensive Funding Strategy and Policy Direction, to recognize both these significant new funding sources and the revenue shortfalls that had materialized since the document was adopted in 2006. The objective of the update was to maximize the use of available funding within funding constraints to enable on-time, efficient project delivery, by:
 - Reprioritizing TDA Article 3 bicycle/pedestrian funds to make them available first to cover bus operations.
 - Expanding the eligible uses of CMAQ funds to include operating assistance for new and expanded rail and bus operations.
 - Prioritizing some Federal Section 5307 fund for bicycle/pedestrian improvements.

OCTA IS RESPONSIBLE FOR REGIONAL TRANSPORTATION PLANNING, INCLUDING THE LONG RANGE TRANSPORTATION PLAN

- Orange County's current long range transportation plan (LRTP), *New Directions: Charting the Course for Orange County's Future Transportation System*, was adopted in 2006. The 25-year plan guides transportation investments using goals and strategies based on growth forecasts, travel demand models, revenue forecasts, and policy direction. It includes both constrained and unconstrained programs of projects. The LRTP helped set the stage for passage of Renewed Measure M in November 2006. One of the major components of the LRTP is a description of projects to be funded by the initiative and the impacts of those projects.
- Because the LRTP provides input to SCAG's Regional Transportation Plan, it is updated on a four-year cycle. The Development Division has initiated work on the next LRTP, which will be required to address SB 375 requirements to integrate transportation, land use, and housing planning with a strategy for reducing greenhouse gas emissions.
- Other planning studies conducted during the performance audit period include:
 - The South County Major Investment Study (MIS), which defined a Locally Preferred Strategy (LPS) to improve mobility in south Orange County.
 - The OC/LA Intercounty Transportation Study, which identified transportation needs in the border area, coordinated cross-border planning and developed transportation improvements to enhance cross-border connections.
 - The Central County MIS was initiated, for a part of the county where travel demand is outpacing transportation capacity. The study will define a locally preferred strategy to guide transit, street and freeway enhancements in this area.

TRANSIT OPERATIONS EXPERIENCED BOTH ACHIEVEMENTS AND CHALLENGES DURING THE AUDIT PERIOD

- Ridership peaked in FY07 and has fallen 6.3% since then, despite record-setting ridership in October 2008. Ridership was impacted by a strike of OCTA operators and mechanics in July 2007, fluctuations in employment and gas prices, and the January 2009 fare increase.
- In response to revenue shortfalls, OCTA has reduced service each quarter since June 2008, by a total of almost 394,000 hours, or 20%. Service reduction strategies have included some route eliminations, frequency reductions that have maintained geographic coverage, and route restructuring to make some routes more productive.
- In addition to layoffs tied to service reductions, 46 administrative positions are scheduled to be eliminated by June 2010. The FY10 budget also includes wage and hiring freezes for administrative employees, eliminates merit increases, and reduces paid holidays. OCTA has also deferred capital projects (e.g., cancellation of an order of 30-foot buses) and utilized Federal stimulus dollars to support operations.
- Despite service reductions, OCTA maintained the effectiveness of the fixed route services. Boardings on fixed route services increased and boardings per hour improved from 33.6 to 34.0. OCTA also controlled costs and held the growth in cost per hour to only 5.3%.
- In addition to cutting costs by reducing service, OCTA recognized the need for a wholesale reevaluation of its transit services and the way they are delivered. During FY11, OCTA will undertake a systemwide transit study to further evaluate and restructure its transit services by developing a plan for cohesive, efficient, effective and sustainable service.

OCTA IS IN COMPLIANCE WITH PUC REQUIREMENTS, MADE PROGRESS IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS, AND HAS ADEQUATE MANAGEMENT CONTROLS

- **Compliance with PUC Requirements** – OCTA is in compliance with applicable PUC requirements. Opportunities to improve compliance with these requirements are included in the audit recommendations.
- **Progress to Implement Prior Audit Recommendations** – OCTA has implemented 31 of 39 prior audit recommendations. Implementation is on-going on one recommendation regarding facility security and is carried over as a recommendation of this audit. OCTA has not implemented three recommendations related to project management; this audit includes a recommendation pertaining to project management that incorporates open issues from the prior audit. OCTA has chosen not to implement four recommendations and the auditors concur in these decisions.
- **Management Control and Reporting** – OCTA's mission and values are articulated in key documents such as the budget and Comprehensive Business Plans, and staff report regularly on financial and operational performance results. Although there is not an organization-wide strategic plan to ensure staff are working consistently toward the same goals and to guide decision-making, some divisions have developed business plans that incorporate the mission statement, including the Transit Division's Strategic Transit Plan. In addition, the CEO is committed to developing a strategic plan for the entire organization.

PERFORMANCE AUDIT RECOMMENDATIONS ARE OFFERED FOR OCTA'S CONSIDERATION

- As an outcome of the performance audit, seven recommendations are offered for OCTA's consideration:
 1. OCTA's TDA Guidelines should:
 - a. Clarify reporting requirements for Article 4.5 claims and the required evaluation and findings.
 - b. Provide more complete information about the Bicycle and Pedestrian Facilities (BPF) program and the availability of Article 3 funds.
 - c. Require TDA Article 4 claimants to provide updates to prior audit recommendations as part of their annual TDA claim submittals.
 - d. Be reviewed, updated, and distributed to TDA claimants annually.
 2. Closely monitor transit system performance as service levels are reduced.
 3. Seek opportunities to control fixed route operating costs.
 4. Improve Transit performance reporting.
 5. Conduct post-procurement evaluations of new vehicles and technologies.
 6. Proceed with plans to develop an agencywide strategic plan.
 7. Ensure that OCTA is structured and staffed to deliver the M2 program.
- These recommendations are discussed in Chapter VI – Recommendations of the FY07-FY09 OCTA Performance Audit report. OCTA's management responses to the performance audit recommendations are also included in that section.