Measure M
Taxpayers Oversight Committee

at the Orange County Transportation Authority
600 S. Main Street, Orange CA
Room 103/4
December 14, 2010
6:00 p.m.

AGENDA

1. **Welcome**
2. **Pledge of Allegiance**
3. **Approval of Minutes/Attendance Report for August 10, 2010**
4. **Approval of Minutes/Attendance Report for October 19, 2010**
5. **Chairman's Report**
6. **Action Items**
   A. Quarterly Measure M Revenue and Expenditure Report – September 2010
      1) Receive and File – Ken Phipps, Executive Director, Finance & Administration

   B. 2009 M2 Triennial Performance Assessment Report
      1) Receive and File – Wallace Walrod, OCBC/Stan Oftelie, Oftelie Company

7. **Presentation Items**
   A. M2 Plan of Finance
      Presentation – Kirk Avila, Treasurer, Finance & Administration

   B. M2 Signal Synchronization Program
      Presentation – Kia Mortazavi, Executive Director, Planning

   C. M2 Call for Projects
      Presentation – Kia Mortazavi, Executive Director, Planning

   D. Measure M Annual Hearing Planning
      Presentation – Alice Rogan, Community Relations Officer

8. **Growth Management Subcommittee Report**
9. **Audit Subcommittee Report**
10. **Committee Member Reports**
11. **OCTA Staff Update**
12. **Public Comments***
13. **Next Meeting Date – February 8, 2011**
14. **Adjournment**

*Public Comments: At this time, members of the public may address the Taxpayers Oversight Committee (TOC) regarding any items within the subject matter jurisdiction of the TOC, provided that no action may be taken on off-agenda items unless authorized by law. Comments shall be limited to five (5) minutes per person and 20 minutes for all comments, unless different time limits are set by the Chairman, subject to the approval of the TOC.

Any person with a disability who requires a modification or accommodation in order to participate in this meeting should contact the OCTA Clerk of the Board, telephone (714) 560-5676, no less than two business days prior to this meeting to enable OCTA to make reasonable arrangements to assure accessibility to this meeting.

Measure M
Taxpayers Oversight Committee Meeting

August 10, 2010
Meeting Minutes

Committee Members Present:
David Sundstrom, County Auditor-Controller, Chairman
Richard Egan, First District Representative
Diana Hardy, First District Representative
Howard Mirowitz, Second District Representative
Anh-Tuan Le, Second District Representative
Dowling Tsai, Third District Representative
Edgar Wylie, Third District Representative
John Stammen, Fourth District Representative
James Kelly, Fifth District Representative
Tony Rouff, Fifth District Representative

Committee Member(s) Absent:
Gregory Pate, Fourth District Representative

Orange County Transportation Authority Staff Present:
Will Kempton, CEO
Janice Kadlec, Public Reporter
Kia Mortazavi, Executive Director of Development
Alice Rogan, Community Relations Officer
Joe Toolson, Grade Separation Projects Program Manager

1. **Welcome**
   Chairman David Sundstrom began the meeting at 6:00 p.m. and welcomed everyone.

2. **Pledge of Allegiance**
   Chairman David Sundstrom led everyone in the pledge of allegiance.

3. **Approval of Minutes/Attendance Report for February 9, 2010**
   Chairman David Sundstrom asked if there were any additions or corrections to the June 15, 2010 minutes and attendance report. No one asked for corrections to the minutes and attendance report. A motion was made by Edgar Wylie and seconded by Anh-Tuan Le to approve the April 13, 2010 minutes and attendance report as presented. The motion passed unanimously.

4. **Chairman's Report**
Chairman David Sundstrom noted there were five new members to the Taxpayers Oversight Committee in attendance. He asked each member present to introduce themselves and give their background.

5. **Presentation Items**

A. **Welcome New Members/CEO Update**
Will Kempton introduced himself and gave his background. He said there are two things which made a sales tax program successful in the State of California. The first thing is there is a commitment to the voters to do specific things and to make sure the promises are kept. The second thing in making it successful is accountability; there is an oversight role, specifically the Taxpayers Oversight Committee (TOC).

Will Kempton highlighted some problems being dealt with because of the downturn in the economy. He indicated OCTA's revenues have been down as much as 17 percent two years ago and currently the revenues are only down one percent. OCTA is looking at a reduction of 40 percent less revenues for the M2 program, but feels we can still complete the program by adding a combination of State and Federal dollars along with other savings to make up the deficit. He complimented the OCTA Board and staff for taking early actions necessary (bus service reductions, work force layoffs, hiring and salary freezes, and union contract negotiations) in reacting to the situation in contrast to other agencies around the State who did not do this and are now looking at significant impacts to their programs.

Will Kempton touched on rebuilding efforts such as a Transit Study for Orange County, an organizational Strategic Plan, performance based compensation, and an improved Code of Conduct. He reported OCTA did very well in the recently completed three-year Federal Transit Administration. Coming up, OCTA will be posting their salaries and total compensation packages in order to be transparent and accountable to the public.

Chairman David Sundstrom added that Will Kempton will be posting his retirement benefit along with the rest of his compensation which is something not everyone is doing and complemented him on this.

Anh-Tuan Le said under the subject of Code of Conduct he asked Will Kempton to comment on agencies that are under resourced and cannot investigate thoroughly when there is misconduct or improprieties. This might make people afraid to report and also there is the fear of retaliation. Will Kempton said this is always a difficult issue, but he has an open door policy whenever this happens. OCTA has a new complaint "Hot Line" and recently received a complaint on the "Hot Line." It was investigated and he does not feel concerned OCTA is missing much in this area.

B. Early Action Plan Update

Kia Mortazavi gave an update of the Early Action Plan. Measure M2 was passed by the voters in 2006, and in 2007, the Early Action Plan was created to help get M2 projects in motion in anticipation to the sales tax going into effect in 2011. OCTA is three years into the program and on schedule in delivering the commitments made in 2007. There have been changes in the financial assumptions, but OCTA has been able to leverage over $805 million in outside funds as well as taking advantage of approximately $112 million in savings in favorable construction bids. OCTA is now in position to add new projects. Kia gave overview and update on the projects in each mode of the Early Action Plan – Freeways, Streets and Roads, Transit, and Environmental. Kia said as the start of M2 draws nearer (2011), new projects will be added to this plan, the title will be changed to Capital Action Plan, and it will be a five year program.

Tony Rouff asked who would approve any changes to the I-405. Kia Mortazavi said the OCTA Board of Directors will make the final decision on the best alternative. The I-405 is currently in the environmental stage and no decisions have been made. As part of this stage of the project, OCTA reaches out to the community to get their input and incorporates this into the final recommendation.

Howard Mirowitz asked if the public could make a recommendation on which streets should be prioritized for the Signal Coordination Program. Kia Mortazavi said the local agencies are now in charge of the program; therefore, people can talk to each individual city.

Chairman David Sundstrom said a grade crossing improvement program is under way in his neighborhood, but there is no signage indicating the program is a Measure M2 program. Kia Mortazavi said OCTA needs to do a better job getting this signage in place.

James Kelly asked if there are monthly transit passes available for purchase. Kia Mortazavi said yes there are monthly bus passes and monthly Metrolink passes available. OCTA is working on a program for a combined bus and Metrolink monthly pass, but it is not in effect as yet.

Howard Mirowitz said there is a management consultant working on the Grade Separation Projects whose contract is being used up faster than anticipated. Is this consultant going to be retained for the completion of the projects? Kia Mortazavi said this would be a separate procurement, but the reason this contract is being used up at a faster pace is because scope and workload has changed. When the M2 Early Action Plan went into effect in 2007, the Grade Separation projects were not part of the M2 program. An opportunity arose to pick up the seven Grade Separation projects and OCTA was able to add them. This is the beauty of using consultant resources because it enables OCTA to ramp up quickly and be in a position to deliver these projects.

Howard Mirowitz said in the Go Local Program, other than the two major projects in Santa Ana and Anaheim, there are a number of small project grants given out. What has been the outcome of these grants? Kia Mortazavi said the result of the grants was proposals for as many as 22 routes asking OCTA for more detailed planning. An example is the cities of Dana Point, San Juan Capistrano, and San Clemente worked together to put together a proposal for a shuttle system connecting the downtown areas in the communities with the Metrolink stations. The proposals were recommended for more detailed studies and should be completed in mid 2011. Alice Rogan said the TOC will be getting a more detailed overview and status report of the Go Local program in later this year.

Anh-Tuan Le said in the Transit mode of the Early Action Plan $56 million is designated. Is all of this going toward Metrolink and nothing for buses? Kia Mortazavi said none of this amount is for buses; the Go Local program has bus transit money available but currently the Go Local Program is in the planning stage. Anh-Tuan Le said in the study in the TOC material packet there were two definitions of "transit." One definition is Metrolink Rail and Go Local tie in planning, and another is the overall transit multi modal including buses and paratransit. Kia Mortazavi said specific to M2, M2 provides funding for senior mobility programs and help to ACCESS, but the focus of M2 was the expansion of Metrolink and expansion to the connection to Metrolink.

Anh-Tuan Le asked if he was correct in assuming a transit study would be all modes of transit – buses and modes not covered under Measure M. Kia said this was the first of the system wide studies and is focused on restructuring bus routes and what is the best way to serve and service the County with the reduced dollars as well as recognizing the investment in Metrolink, recognizing the spur lines – how can the two things be blended together to produce a better system. Anh-Tuan Le asked if it was foreseeable the study would come out with some options for funding which might alter the Measure M formula. Kia Mortazavi said no, the scope of the study does not include making recommendations to change Measure M

C. Combined Transportation Funding Programs (CTFP) Update

Kia Mortazavi gave an overview of the Combined Transportation Funding Program (CTFP). Under M1 and M2 OCTA makes grants available to local agencies. In addition to making money available to them on a quarterly basis, money is also made available on a competitive basis for the best regional projects. Kia reported on the end of the M1 CTFP which is currently 95 percent complete. For the five percent yet to be funded, the cities have until March 31, 2011 to award a contract and three years to complete.

James Kelly asked what would happen if these cities did not award the contracts by March 2011. Kia Mortazavi said the cities would lose their grants. James Kelly asked would money already given to them be returned. Kia said no money had been given to the cities. These cities can also reapply under M2.

D. Orangethorpe Grade Separation Projects Update

Joe Toolson gave an update on the Orangethorpe Corridor Grade Separation Projects. He highlighted the causes for the recent budget amendment increase of $173 million. The reasons for the overrun were:

- The initial estimates were based on preliminary design and did not reflect the full scope.
- The original bid reflected very low engineer estimates including structural elements and right-of-way acquisition.
- The Burlingame Northern Santa Fe (BNSF) Railroad's required "Shoo Fly" detours were not funded in the original estimates.
- A detour road needed to be added for Tustin Road.

OCTA identified $143 million in additional Federal funds for the program. The remaining funds were made up of State CMAQ funds and $28 million in M2 funds. Joe Toolson also explained the problems with sequencing on the project.

Howard Mirowitz said the staff report of this project sent to the TOC members identifies the original estimates for right-of-way acquisition for structured costs averaged $180 per square foot and ended up being $275 per square foot. When was the original estimate made? Joe Toolson said the original estimate was made in 2003/04. Kia Mortazavi said most of the original work was done by the City of Placentia and they were developing the project to lower the railroad tracks and one alternative was to do a grade separation.

As it turned out the project to lower the railroad tracks did not go through and when the State opportunity came along to fund grade separations, OCTA was able to use the Placentia's study information to secure the funds. Kia said when looking back there were a lot of things OCTA could not have known and the contingency was not adequate.

Howard Mirowitz asked if OCTA is confident the Federal funding estimate which is going from $29.6 million to $174.4 will happen. Kia Mortazavi said OCTA is confident. This is money OCTA had available for the West County Connectors project. One connector came in $40 million under budget and the other connector came in $50 million under budget. OCTA has made a commitment to the Board to use other sources of funding first before going to the Measure M.

Anh-Tuan Le asked if the CMAQ money being used for the budget amendment was being taken from another project. Kia Mortazavi said no, at this time there were no projects targeted for CMAQ money.

Anh-Tuan Le asked how much of the budget amendment is going toward the BNSF "Shoo Fly" which is essentially a third track. Kia Mortazavi said BNSF is planning a third track, but this project does not lay down a third track. Anh-Tuan Le asked what BNSF's timeline for a third track is. Joe Toolson said BNSF has segments of third track all along the line.

Anh-Tuan Le said his definition of a "Shoo Fly" is a temporary thing that will go away, but when he hears is talk about "Shoo Flies" connected together continuously to what extent are these permanent structures for the betterment of BNSF. Joe Toolson said when the project is done the "Shoo Flies" will be disconnected. BNSF does do work within their right-of-way and OCTA is required to make sure they are not doing something outside the scope of the project. Anh-Tuan Le asked if BNSF is putting some money into the "Shoo Flies." He said when "Shoo Flies" are built it can be determined to use either temporary standards or a long term program determined on the life cycle. Who is paying for them? Joe Toolson said the Code of Federal Regulations for railroad contributions requires a five percent contribution toward the project based on the theoretical cost of the project.

Anh-Tuan Le asked what Joe Toolson meant by the statement "the original estimates prepared by the cities were based on preliminary designs not accurately reflecting *structural elements."* Joe Toolson said as an example, the cities did not do a good job when estimating the cost of the "jug handle connections.". There were no easements identified, but when they went over this before construction, staff knew they would need to do things like tear down walls, relocate drainage systems, etc. - this adds extra cost to the project. The cities were also very general in things like lane and pavement width.

Kia Mortazavi said OCTA was working with the local agencies to complete the environmental study and some of these issues surfaced and were analyzed during the process to make sure the environmental document is consistent. Anh-Tuan Le asked if OCTA has caught everything now. Kia Mortazavi said yes, they feel they have caught everything now. Joe Toolson said for each of these changes, the area of study it is required to go back and validate or revalidate and OCTA works with FHWA to do this.

Kia Mortazavi said this is a very difficult and complex project. There are a total of seven grade separations very close to each other and trying to do them concurrently in a densely populated area is very difficult. It is complicated but he feels OCTA has a handle on it. Joe Toolson said the important thing is to get it into construction to take advantage of today's vigorous market.

6. **Growth Management Subcommittee Report**
Alice Rogan said the first meeting the Growth Management Subcommittee would be August 31, 2010. The members of the Subcommittee are:

1. Diana Hardy
2. Anh-Tuan Le
3. Edgar Wylie
4. Dowling Tsai
5. John Stammen
6. Tony Rouff

7. **Audit Subcommittee Report**
Alice Rogan said the next meeting of the Audit Subcommittee would be September 21, 2010. The members of the Audit Subcommittee are:

1. David Sundstrom
2. Howard Mirowitz
3. Gregory Pate
4. James Kelly
5. Rick Egan

8. **Committee Member Reports**
James Kelly asked what responsibility the TOC has to report to the voters if projects are lost due to the inability to provide funds because sales tax revenue has not come in as promised. Does the TOC need to have a communication plan? Alice Rogan said because M2 revenues have not yet been collected and work is being done to cover the expected 40 percent shortfall with other revenues, it is premature to assume the M2 program cannot be delivered. Chairman David Sundstrom said the M2 percentages are absolute, the projects are budgeted. Alice Rogan said at this, time, there are no projects in the plan that can be identified as unable to complete.

Howard Mirowitz said in the I-405 project between SR-55 and SR-605, there is one HOV lane proposed to be taken away and converted to a HOV Toll Lane, which is an impact to the public. Chairman David Sundstrom agreed this was not mentioned in the Measure. Alice Rogan said what is mentioned in the Measure is adding one general purpose lane and this is what will be delivered. Howard Mirowitz said the public would also lose one free HOV Lane when the HOV Lane is converted to a toll lane. Alice Rogan said at this time it has not been determined whether this HOV Lane will be free to drivers with 2+ or 3+ people in a car.

James Kelly said he was simply asking for clarification of do we have an obligation to notify the public or not. There seems to be a perception because of articles in the newspaper that needs to be clarified. Alice Rogan said there is a requirement to report to the public annually on the status of Measure M. The predicted revenue loss is a concern, but it is still unknown if any proposed project will not be completed. Kia Mortazavi said OCTA has 30 years to figure this out. When the Measure M program was put together it was not assumed any State or Federal funds would be used and OCTA knows it will have State and Federal funds to help with the program. Chairman

David Sundstrom said there is a 10-year M2 report required and this might be the point to make a statement. Until revenue has started to be collected, he would not be comfortable making any declarations.

John Stammen said California and the United States is in a major financial crunch. What kind of contingency plan should be made if one or two years out the sales tax revenues go down another 20 percent. Kia Mortazavi said the State Board of Equalization (SBOE) is predicting a 4.1 percent growth and OCTA is only conservatively planning a 1.1 percent growth. John Stammen said his observation is OCTA should have its "finger on the trigger" because at some time there may be a need to pick and choose which projects get funded. Alice Rogan said he is correct and when this happens, the amendment process starts for Measure M2. There is no need to do this yet.

Chairman David Sundstrom asked if OCTA is developing a contingency plan. Kia Mortazavi said one of the things OCTA had done is scaled down some programs. For example there were plans for an $80 million investment in the environmental mitigation of properties – it was scaled down to $55 million. The rail expansion service was scaled back from 76 trains to 56 trains and it was anticipated the roll out of this service for early September 2010 but it has been pushed back to March 2011 – part of this is cost issues and part demand. On the constructions projects all plans and approvals will be in place and the judgment will be made before they are advertised. On the other hand it is a buyers market.

Anh-Tuan Le said there are two items requiring OCTA's response to the Grand Jury. Alice Rogan said the OCTA Board approved the responses to the Grand Jury on Monday and copies were provided to the TOC members.

Howard Mirowitz said he was surprised the TOC's response to the Grand Jurors report on Santa Ana was not mentioned because we did exercise oversight.

Anh-Tuan Le said he listened to the OCTA Board Meeting on the subject of the Grand Jurors report and Director Pulido said he was going to respond. Does the TOC have the response yet? Alice Rogan said this will come from the City of Santa Ana and OCTA does not have the response yet. Anh-Tuan Le said he can only go by what was in the paper about the Grand Jury's report. Basically the finding was it was a flawed procurement, not following rules set at the outset, not following the Brown Act, and in violation of the city's code of ethics and conduct which specifically called for not following State and Federal rules.

Chairman David Sundstrom said he feels Santa Ana's response will shed some light on this situation. It can lead us to possible City Ordinances or lack of City Ordinances dealing with the procurement issue. The State has extremely strong procurement laws and regulations, the County not so much.

John Stammen asked Anh-Tuan Le if his concerns were for publicity for the TOC and ancillary issues addressed. Anh-Tuan Le said he was concerned about the function of the TOC role. John Stammen asked if he was aware of the Orange County Register's response from August 7, 2010 which talks about both Grand Jury Reports and gives credit to the TOC. No one was aware of this article and copies were made for the members.

Anh-Tuan Le said there was another Grand Juror report which talked about creating a new transit agency which would provide a transit system. OCTA's response denigrates this recommendation and by doing this it misses the whole point of providing a regional transit mobility system. Anh-Tuan Le challenged Kia Mortazavi's Development Department to look at the transit system in terms of the validity, equity, and sustainability which are all written in the Federal Guidelines for Transportation. To continue to outreach with old programs from 15 years ago is today's economy needs to be reassessed.

Kia Mortazavi said within the means available for transit OCTA should certainly take a look at transit countywide. Relative to reassessment, in preparing for M2 significant outreach took place in order to determine what the public wanted. Measure M2 is the result and was validated by carrying 70 percent of the vote. It is OCTA's job to deliver the plan. Anh-Tuan Le said freeways can be built but we are limited and times are changing and at sometime things need to be rethought; demand management and innovation services are going to be very important. Alice Rogan said there is no operations money in M1 or M2 for bus service and that reflects the will of the voters. Anh-Tuan Le said in spite of this he encouraged attention is paid to ARTIC and the Santa Ana Fixed Guideway; they will validate the need for regional transit.

James Kelly clarified the response to the Grand Jury Report on transit is OCTA is not going to implement because the recommendation is not warranted. Chairman David Sundstrom said that is correct, also replies to the Grand Jury are very limited and responses are very restrictive.

Edgar Wylie said he attended the SR-57 Opening and he congratulated OCTA on the job they did.

James Kelly said if any of the new members can go on some of the tours OCTA puts on for projects they should take advantage because it offers a great behind the scenes look at transportation projects.

9. **OCTA Staff Update**
Alice Rogan announced the dedication ceremony for the final M1 program on the I-5 will be September 28, at 1:30 P.M. in Buena Park.

10. **Public Comments**
No one from the public spoke.

11. Adjournment

The meeting adjourned at 8:40 p.m. The next meeting of the Taxpayers Oversight Committee will be held in October 12, 2010.

Taxpayers Oversight Committee
Fiscal Year 2010-2011
Attendance Record

X = Present   E = Excused Absence   * = Absence Pending Approval   U = Unexcused Absence   -- = Resigned

Meeting Date	13-Jul	10-Aug	14-Sep	19-Oct	9-Nov	14-Dec	11-Jan	8-Feb	8-Mar	12-Apr	10-May	14-Jun
Richard Egan		X										
Diana Hardy		X										
James Kelly		X										
Anh-Tuan Le		X										
Howard Mirowitz		X										
Gregory Pate		*										
Tony Rouff		X										
John Stammen		X										
David Sundstrom		X										
Dowling Tsai		X										
Edgar Wylie		X										

Absences Pending Approval

Meeting Date	Name	Reason
August 10, 2010	Gregory Pate	Business trip

Measure M
Taxpayers Oversight Committee Meeting

October 19, 2010
Meeting Minutes

Committee Members Present:
David Sundstrom, County Auditor-Controller, Chairman
Howard Mirowitz, Second District Representative
Dowling Tsai, Third District Representative
Edgar Wylie, Third District Representative
John Stammen, Fourth District Representative
James Kelly, Fifth District Representative
Tony Rouff, Fifth District Representative

Committee Member(s) Absent:
Diana Hardy, First District Representative
Richard Egan, First District Representative
Anh-Tuan Le, Second District Representative
Gregory Pate, Fourth District Representative

Orange County Transportation Authority Staff Present:
Jim Beil, Executive Director, Capital Programs
Jennifer Bergener, Director, Rail Program
Charlie Guess, Program Manager, Capital Programs
Kia Mortazavi, Executive Director of Development
Ken Phipps, Executive Director, Finance & Administration
Alice Rogan, Community Relations Officer

1. **Welcome**
   Chairman David Sundstrom began the meeting at 6:00 p.m. and welcomed everyone.

2. **Pledge of Allegiance**
   Chairman David Sundstrom led everyone in the pledge of allegiance.

3. **Approval of Minutes/Attendance Report for August 10, 2010**
   Approval of the August 10, 2010 meeting minutes and Attendance Report was tabled until the next meeting.

4. **Chairman's Report**
   Chairman David Sundstrom had nothing to report.

5. Action Items

A. Quarterly Measure M Revenue and Expenditure Report – June 2010

Ken Phipps gave a report on the Quarterly Measure M Revenue and Expenditure Report for June 2010. Ken reported sales tax revenues continue to increase.

A committee member observed for the last two quarters, the volatility levels have increased from 50 percent to 150 percent. Ken said the State gives advances on a monthly basis and in the last month of the quarter the State does a 'true-up' for the prior quarter – actuals versus advances.

A committee member asked what months do the 'true-ups" occur. Ken Phipps said as an example in the month of September sales taxes were advanced for July and actuals reconciled for the quarter ending June. The committee member asked if the State lets OCTA know what the actuals should have been for each month. Ken Phipps said there are no actuals for the month. What is received is an aggregate for the quarter.

Chairman David Sundstrom asked if the volatility hurts Measure M. Ken Phipps said it would be nice to get the money sooner but can understand why the State would want to hold on to it.

It was moved, seconded and passed unanimously to approve the Quarterly Measure M Revenue and Expenditure Report for June 2010.

B. Annual Eligibility Review Subcommittee 2010/11 Report

Ed Wylie, Chairman of the Annual Eligibility Review (AER) Subcommittee, said the six-member Subcommittee met and reviewed the Eligibility Packages which contained the Capital Improvement Programs (CIPs) of all the local agencies in Orange County that plan to use Measure M funds for their local streets and roads projects. The Subcommittee reviewed 362 projects contained in the CIPs. It was determined all the projects submitted in 2010/11 eligibility cycle were consistent with the Ordinance which uses the eligibility definition contained in Article 19 of the California Constitution. Few concerns were raised but everyone agreed unit cost determinations should be thoroughly evaluated to ensure the funding is spent more efficiently. The Subcommittee recommended local agencies evaluate unit costs as they relate to the project cost outlined in their CIP.

The AER Subcommittee found all local jurisdictions submitted the necessary documents required to meet the CIP eligibility requirements in the Ordinance for the Fiscal Year 2010/11 and recommended the TOC approve their findings and forward the approval to the OCTA Board of Directors for approval.

It was moved, seconded and passed unanimously to approve the findings of the AER Subcommittee and forward the recommendations the OCTA Board of Directors for approval.

6. Presentation Items

A. I-5 Gateway Project Completion

Charlie Guess gave an overview of the completion of the I-5 Gateway Project after four years of construction.

A committee member asked if OCTA was concerned about the rain and the freeway. Charlie said pumps were included in the construction to manage rain and as of that evening they were working very well.

Chairman David Sundstrom congratulated OCTA on the completion of a wonderful project. Alice Rogan said the Gateway project does put the exclamation mark on the end of a very successful Measure M1 Freeway Program.

Charlie Guess thanked all the TOC members who attended the site tours and dedication ceremony. A committee member said he attended some of the tours and it was a great opportunity to get first hand project information and if it comes up again for another project he will make a point of attending.

B. Rail Program Update

Jennifer Bergener presented the Quarterly Rail and Facilities Update. The report highlighted major project milestones and accomplishments along with any major schedule or budget changes.

Chairman David Sundstrom asked if the Steel Wheel Program going through Santa Ana would connect to the Pacific Electric (PE) Right-Of-Way (ROW). Jennifer said yes, the City of Santa Ana is leading a two-phased project. The first phase would connect to the municipal area and the second phase would connect to the PE ROW. The Southern California Association of Governments (SCAG) is currently studying what to do with the PE ROW. Chairman Sundstrom asked if this will affect the type of train used on this project. Jennifer said this would not affect the type of train used for this project.

Chairman Sundstrom asked how are the homeowners along the PE ROW were reacting to this project. Jennifer said SCAG is holding community meetings with businesses and residents along the PE ROW to gather their concerns. Also the cities of Garden Grove and Santa Ana are having a number of public outreach meetings. In addition to this the environmental process takes a hard look at noise impacts.

A committee member asked if the Irvine Grade Separation included Measure M funds. Jennifer said yes the project included local sales tax funds. The committee member said he did not see a sign notifying the public of this. Jennifer said she would make a note the sign should be posted. The committee member said it is very important all projects which include Measure M funds have signage notifying the public that Measure M dollars are being used.

C. Sales Tax Update

The Sales Tax update was included in the previously given June 2010 Quarterly Measure M Revenue and Expenditure Report.

D. State Budget/Project Budgets Update

Jim Beil gave an encapsulated review of the impacts of the recent State cash flow problems and the delay in the California State Budget approval has caused in some projects.

A committee member asked if all the projects delayed were Measure M projects. Jim said not all were Measure M projects. All projects he reported on were OCTA related, but some were funded with State Transportation Fund Project money.

Chairman David Sundstrom asked if any projects were canceled or experienced scope reductions as a result of the State Budget delay. Jim said projects were delayed but not canceled. Some people question why Gas Tax revenues did not continue to be distributed during the State budget crisis. The answer was the State Controller did not have budgetary authority to move this money into the State Highway Account.

E. Environmental Programs Update

Kia Mortazavi gave an update on the Measure M Environmental Programs. He focused on the open space and mitigation program and reported briefly on the Water Quality program.

A committee member said eventually the mitigation land is turned over to a management company. What does this transaction look like? Kia said OCTA is buying the land because it needs to do this for mitigation purposes for the Freeway Program. The management company is maintaining it in perpetuity. It will be deeded for public use as open space to a resource agency such as the State Parks Department, but it has to be governed by an agreement similar to how developers do open space preservation in exchange for development permits.

A committee member asked if there is a direct correlation between the property acquired and the type of Freeway program. Kia said yes. OCTA wants to make sure the types of habitat and wildlife impacted by the Freeway Program is what is being mitigated.

Chairman David Sundstrom asked if development potential is considered when land is being acquired for this program. Is land that could someday be paved or built upon being purchased and turned into permanent habitat? Kia said yes, but different properties have different characteristics. Some potential properties do have zoning for development and some properties are just designated open space. These factors are all involved in how the land is selected. The Environmental Program has a team of experts recommended by the State resources department, legal consultants who understand property acquisition, and an expert on structuring these types of agreements.

A committee member asked if there are guarantees against acquiring too much land. Kia said land acquisition was hard wired in the Ordinance at five percent of the Freeway Program and a dollar amount associated with this. At the time, the plan was put together it was based on the average cost of the freeway project used for mitigation.

Chairman David Sundstrom asked if OCTA mitigates by building up a land bank and then receives mitigation credits when building the Freeway. Kia said this is the concept of this program.

A committee member asked if an outreach program was being considered because many people will be asking why Measure M transportation money is being used for environmental purposes. Kia said so far OCTA's outreach has been focused on property owners, both environmental programs are featured on the OCTA website but perhaps more can be done. The committee member said the people who will raise the question are the drivers and he thought outreach should be done in this area.

A committee member said on the website the Orange County Great Park and the UCI Ecological Reserve are mentioned. Will M2 funds be used to acquire these properties? Kia said they were original applicants but he does not know whether they were proposed for Group 1 or Group 2. These properties in public ownership would be asking for restoration dollars not acquisition.

Alice Rogan said the M2 Ordinance requires a member of the TOC sit on the Environmental Oversight Committee (EOC) and asked if anyone would like to volunteer. James Kelly volunteered to be the TOC representative on the EOC.

7. **Annual Eligibility Review Subcommittee Report**
There was nothing further to report.

8. **Audit Subcommittee Report**
Chairman David Sundstrom said the Audit Subcommittee met earlier to discuss the Measure M2 Triennial Performance Assessment Report conducted by the Orange County Business Council. Chair Sundstrom said it was a great document and asked

all TOC members be copied on the document. The document contained some excellent suggestions on helping OCTA through the M2 process. Alice Rogan said a presentation of the final document will be presented to the TOC in December.

9. **Committee Member Reports**
   No further committee member reports were made.

10. **OCTA Staff Update**
    There were no further staff updates.

11. **Public Comments**
    There were no Public Comments.

12. **Next Meeting Date – December 14, 2010**

13. **Adjournment**

Taxpayers Oversight Committee
Fiscal Year 2010-2011
Attendance Record

X = Present E = Excused Absence * = Absence Pending Approval U = Unexcused Absence -- = Resigned

Meeting Date	13-Jul	10-Aug	14-Sep	19-Oct	9-Nov	14-Dec	11-Jan	8-Feb	8-Mar	12-Apr	10-May	14-Jun
Richard Egan		X		*								
Diana Hardy		X		*								
James Kelly		X		X								
Anh-Tuan Le		X		*								
Howard Mirowitz		X		X								
Gregory Pate		*		*								
Tony Rouff		X		X								
John Stammen		X		X								
David Sundstrom		X		X								
Dowling Tsai		X		X								
Edgar Wylie		X		X								

Absences Pending Approval

Meeting Date	Name	Reason
October 19, 2010	Richard Egan	Business trip
October 19, 2010	Diana Hardy	Out of town
October 19, 2010	Anh-Tuan Le	Business meeting
October 19, 2010	Gregory Pate	Business trip

Action Items

Measure M
Schedule of Revenues, Expenditures and Changes in Fund Balance
as of September 30, 2010

($ in thousands)	Quarter Ended Sept 30, 2010	Year to Date Sept 30, 2010 (A)	Period from Inception to Sept 30, 2010 (B)
Revenues:			
Sales taxes	$ 47,765	$ 47,765	$ 3,876,568
Other agencies share of Measure M costs			
Project related	6,199	6,199	412,987
Non-project related	-	-	614
Interest:			
Operating:			
Project related	-	-	1,052
Non-project related	2,039	2,039	258,272
Bond proceeds	-	-	136,067
Debt service	472	472	82,101
Commercial paper	-	-	6,072
Orange County bankruptcy recovery	-	-	42,268
Capital grants	1,814	1,814	160,062
Right-of-way leases	97	97	5,243
Proceeds on sale of assets held for resale	-	-	24,575
Miscellaneous:			
Project related	-	-	26
Non-project related	-	-	775
Total revenues	58,386	58,386	5,006,682
Expenditures:			
Supplies and services:			
State Board of Equalization (SBOE) fees	681	681	54,964
Professional services:			
Project related	91	91	189,343
Non-project related	83	83	32,230
Administration costs:			
Project related	410	410	19,818
Non-project related	1,691	1,691	85,499
Orange County bankruptcy loss	-	-	78,618
Other:			
Project related	23	23	1,551
Non-project related	96	96	15,831
Payments to local agencies:			
Turnback	4,687	4,687	567,132
Other	2,690	2,690	710,603
Capital outlay	2,417	2,417	2,019,145
Debt service:			
Principal payments on long-term debt	-	-	921,160
Interest on long-term debt and commercial paper	2,316	2,316	559,239
Total expenditures	15,185	15,185	5,255,133
Excess (deficiency) of revenues over (under) expenditures	43,201	43,201	(248,451)
Other financing sources (uses):			
Transfers out:			
Project related	(1,000)	(1,000)	(255,664)
Non-project related	-	-	(5,116)
Transfers in project related	-	-	1,829
Bond proceeds	-	-	1,169,999
Advance refunding escrow	-	-	(931)
Payment to refunded bond escrow agent	-	-	(152,930)
Total other financing sources (uses)	(1,000)	(1,000)	757,187
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	$ 42,201	$ 42,201	$ 508,736

See accompanying notes to Measure M Schedules

Measure M
Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)
as of September 30, 2010

($ in thousands)	Quarter Ended Sept 30, 2010 (actual)	Year Ended Sept 30, 2010 (actual)	Period from Inception through Sept 30, 2010 (actual)	Period from October 1, 2010 through March 31, 2011 (forecast)	Total
		(C.1)	*(D.1)*	*(E.1)*	*(F.1)*
Tax revenues:					
Sales taxes	$ 47,765	$ 47,765	$ 3,876,568	$ 126,153	$ 4,002,721
Other agencies share of Measure M costs	-	-	614	-	614
Operating interest	2,039	2,039	258,272	4,886	263,158
Orange County bankruptcy recovery	-	-	20,683	-	20,683
Miscellaneous, non-project related	-	-	775	-	775
Total tax revenues	49,804	49,804	4,156,912	131,039	4,287,951
Administrative expenditures:					
SBOE fees	681	681	54,964	1,173	56,137
Professional services, non-project related	83	83	23,369	1,194	24,563
Administration costs, non-project related	1,691	1,691	85,499	3,959	89,458
Operating transfer out, non-project related	-	-	5,116	-	5,116
Orange County bankruptcy loss	-	-	29,792	-	29,792
Other, non-project related	96	96	6,731	933	7,664
	2,551	2,551	205,471	7,259	212,730
Net tax revenues	$ 47,253	$ 47,253	$ 3,951,441	$ 123,780	$ 4,075,221
		(C.2)	*(D.2)*	*(E.2)*	*(F.2)*
Bond revenues:					
Proceeds from issuance of bonds	$ -	$ -	$ 1,169,999	$ -	$ 1,169,999
Interest revenue from bond proceeds	-	-	136,067	-	136,067
Interest revenue from debt service funds	472	472	82,101	2,695	84,796
Interest revenue from commercial paper	-	-	6,072	-	6,072
Orange County bankruptcy recovery	-	-	21,585	-	21,585
Total bond revenues	472	472	1,415,824	2,695	1,418,519
Financing expenditures and uses:					
Professional services, non-project related	-	-	8,861	-	8,861
Payment to refunded bond escrow	-	-	153,861	-	153,861
Bond debt principal	-	-	921,160	82,795	1,003,955
Bond debt interest expense	2,316	2,316	559,239	2,573	561,812
Orange County bankruptcy loss	-	-	48,826	-	48,826
Other, non-project related	-	-	9,100	-	9,100
Total financing expenditures and uses	2,316	2,316	1,701,047	85,368	1,786,415
Net bond revenues (debt service)	$ (1,844)	$ (1,844)	$ (285,223)	$ (82,673)	$ (367,896)

See accompanying notes to Measure M Schedules

Measure M
Schedule of Revenues and Expenditures Summary
as of September 30, 2010

Project Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through Sept 30, 2010	Reimbursements through Sept 30, 2010	Net Project Cost	Percent of Budget Expended
(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)
($ in thousands)										
Freeways (43%)										
I-5 between I-405 (San Diego Fwy) and I-605 (San Gabriel Fwy)	$ 952,789	$ 982,635	$ 810,010	$ 800,650	$ 181,985	$ 9,360	$ 858,739	$ 85,545	$ 773,194	95.5%
I-5 between I-5/I-405 Interchange and San Clemente	66,682	68,771	57,836	59,936	8,835	(2,100)	70,294	10,358	59,936	103.6%
I-5/I-405 Interchange	84,635	87,287	72,802	73,075	14,212	(273)	98,157	25,082	73,075	100.4%
S.R. 55 (Costa Mesa Fwy) between I-5 and S.R. 91 (Riverside Fwy)	56,424	58,191	44,511	50,225	7,966	(5,714)	55,366	6,172	49,194	110.5%
S.R. 57 (Orange Fwy) between I-5 and Lambert Road	28,212	29,096	24,128	22,759	6,337	1,369	25,617	2,859	22,758	94.3%
S.R. 91 (Riverside Fwy) between Riverside Co. line & Los Angeles Co. line	121,824	125,640	116,136	105,389	20,251	10,747	123,995	18,606	105,389	90.7%
S.R. 22 (Garden Grove Fwy) between S.R. 55 and Valley View St.	388,553	400,725	303,297	302,934	97,791	363	618,430	321,386	297,044	97.9%
Subtotal Projects	1,699,119	1,752,345	1,428,720	1,414,968	337,377	13,752	1,850,598	470,008	1,380,590	
Net (Bond Revenue)/Debt Service			309,585	309,585	(309,585)	-	240,015		240,015	
Total Freeways	$ 1,699,119	$ 1,752,345	$ 1,738,305	$ 1,724,553	$ 27,792	$ 13,752	$ 2,090,613	$ 470,008	$ 1,620,605	
%				42.6%					47.1%	
Regional Street and Road Projects (11%)										
Smart Streets	$ 149,026	$ 153,694	$ 151,303	$ 151,303	$ 2,391	$ -	$ 174,733	$ 11,739	$ 162,994	107.7%
Regionally Significant Interchanges	86,932	89,655	89,655	89,655	-	-	63,900	146	63,754	71.1%
Intersection Improvement Program	124,188	128,078	128,078	128,078	-	-	91,817	214	91,603	71.5%
Traffic Signal Coordination	62,094	64,039	64,039	64,039	-	-	54,044	1,247	52,797	82.4%
Transportation Systems Management and Transportation Demand Management	12,419	12,808	12,808	12,808	-	-	7,740	149	7,591	59.3%
Subtotal Projects	434,659	448,274	445,883	445,883	2,391	-	392,234	13,495	378,739	
Net (Bond Revenue)/Debt Service			2,391	2,391	(2,391)	-	1,854		1,854	
Total Regional Street and Road Projects	$ 434,659	$ 448,274	$ 448,274	$ 448,274	$ -	$ -	$ 394,088	$ 13,495	$ 380,593	
%				11.1%					11.1%	

Measure M
Schedule of Revenues and Expenditures Summary
as of September 30, 2010

Project Description	Net Tax Revenues Program to date Actual	Total Net Tax Revenues	Project Budget	Estimate at Completion	Variance Total Net Tax Revenues to Est at Completion	Variance Project Budget to Est at Completion	Expenditures through Sept 30, 2010	Reimbursements through Sept 30, 2010	Net Project Cost	Percent of Budget Expended
(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)
($ in thousands)										
Local Street and Road Projects (21%)										
Master Plan of Arterial Highway Improvements	$ 155,324	$ 163,322	$ 163,322	$ 163,322	$ -	$ -	$ 109,777	$ 99	$ 109,678	67.2%
Streets and Roads Maintenance and Road Improvements	574,479	592,474	592,474	592,474	-	-	567,148	-	567,148	95.7%
Growth Management Area Improvements	100,000	100,000	100,000	100,000	-	-	82,722	431	82,291	82.3%
Subtotal Projects	829,803	855,796	855,796	855,796	-	-	759,647	530	759,117	
Net (Bond Revenue)/Debt Service							-		-	
Total Local Street and Road Projects	$ 829,803	$ 855,796	$ 855,796	$ 855,796	$ -	$ -	$ 759,647	$ 530	$ 759,117	
%				21.1%					22.1%	
Transit Projects (25%)										
Pacific Electric Right-of-Way	$ 19,120	$ 19,719	$ 15,000	$ 14,000	$ 5,719	$ 1,000	$ 16,753	$ 2,895	$ 13,858	92.4%
Commuter Rail	356,024	367,804	352,790	391,592	(23,788)	(38,802)	351,437	60,805	290,632	82.4%
High-Technology Advanced Rail Transit	433,384	446,960	428,715	410,688	36,272	18,027	209,936	21,276	188,660	44.0%
Elderly and Handicapped Fare Stabilization	20,000	20,000	20,000	20,000	-	-	20,000	-	20,000	100.0%
Transitways	159,332	164,323	146,381	126,606	37,717	19,775	162,651	36,765	125,886	86.0%
Subtotal Projects	987,860	1,018,806	962,886	962,886	55,920	-	760,777	121,741	639,036	
Net (Bond Revenue)/Debt Service			55,920	55,920	(55,920)	-	43,354		43,354	
Total Transit Projects	$ 987,860	$ 1,018,806	$ 1,018,806	$ 1,018,806	$ -	$ -	$ 804,131	$ 121,741	$ 682,390	
%				25.2%					19.8%	
Total Measure M Program	$ 3,951,441	$ 4,075,221	$ 4,061,181	$ 4,047,429	$ 27,792	$ 13,752	$ 4,048,479	$ 605,774	$ 3,442,705	

See accompanying notes to Measure M Schedules

BOARD COMMITTEE TRANSMITTAL

November 22, 2010

To: Members of the Board of Directors

From: Wendy Knowles, Clerk of the Board WK

Subject: Measure M2 Triennial Performance Assessment Status Report

Transportation 2020 Committee Meeting of November 15, 2010

Present: Directors Amante, Buffa, Campbell, Pringle, and Pulido
Absent: Directors Brown, Cavecche, and Dixon

Committee Vote

No action was taken.

Staff Recommendation

Receive and file as an information item.

OCTA

November 15, 2010

To: Transportation 2020 Committee

From: Will Kempton, Chief Executive Officer

Subject: Measure M2 Triennial Performance Assessment Report

Overview

Measure M2 requires a performance assessment be conducted every three years to evaluate the efficiency, effectiveness, economy, and program results of the Orange County Transportation Authority in satisfying the provisions and requirements of Ordinance No. 3. The first triennial performance assessment, covering the period of November 8, 2006 through June 30, 2009, has been completed and a report on the findings is presented.

Recommendation

Receive and file as an information item.

Background

On November 7, 2006, the voters of Orange County approved the Measure M2 (M2) Investment Plan (Plan) with a 69.7 percent vote. The Plan provides a revenue stream, from April 1, 2011 through April 30, 2041, to fund a broad range of transportation improvements that work in conjunction with, and are in addition to, the projects approved in the original Measure M (M1) that expires on March 31, 2011. M2 has an accompanying ordinance that provides for added safeguards. One of the key safeguards is a triennial performance assessment.

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 Taxpayers Oversight Committee." The Orange County Transportation Authority's (OCTA) General Counsel has opined that the ordinance became effective the day after the election, thus starting the clock on the three-year review period. The initial truncated period covers November 8, 2006 through June 30, 2009. Thereafter, the performance assessment period will span from July 1, 2009 through June 30, 2012 and then each subsequent three-year period.

Discussion

OCTA intends to build on the experience gained in administering the M1 Program to benefit the M2 Program. Also, while collection of M2 revenues will not begin until April 2011, the OCTA Board of Directors (Board) approved the M2 Early Action Plan (EAP) in August 2007 and preparatory work on projects has begun. Therefore, the centerpiece of the first M2 Triennial Performance Assessment is the development and implementation of the EAP and its nine objectives.

Consulting services were sought to conduct the initial triennial performance assessment. Following OCTA's procurement policies, in April 2010, a contract for $75,000 was awarded to the Orange County Business Council (OCBC) who also conducted the "M1 Assessment 1990 – 2005." The scope of work identified 11 tasks for the consultant to look at the following M2 start-up elements:

- M2 EAP
- M2 Plan of Finance
- Readiness and Market Conditions Studies and Follow-up
- Outreach and Public Communications
- Taxpayers Oversight Committee
- State Board of Equalization
- Environmental Committee Program Oversight
- Revenue Forecasting
- Project Management Controls
- Sampling of Change Orders
- Contractual Performance of Vendors

OCBC's work on the first triennial performance assessment has recently concluded. A copy of OCBC's report is attached for Board review (Attachment A). In general, the report finds that OCTA's aggressive early steps have been successful and that substantial progress has been made in achieving the EAP's nine objectives, despite the constantly shifting economic environment.

As part of the report, OCBC had 18 findings related to the execution of the elements outlined in the scope of work. The findings either commented on appropriateness of actions to date or provided recommendations for improvements. There were no major recommendations which would change the direction of OCTA's actions. While the assessment time period theoretically ended on June 30, 2009, OCBC did use information and referred to activities which took place more recently in order to provide a current context to some of the findings. The attached summary outlines the findings as well a staff response/action plan (Attachment B). These findings will be addressed during the next calendar year as M2 policies and procedures are developed and implemented. Staff will report back on the status of the action plan on an annual basis. In the future, OCBC recommends releasing the request for proposals for the M2 Triennial Performance Assessment immediately at the end of the fiscal year to allow a timely award of contract and a prompt review of M2 activities.

The Measure M Taxpayers Oversight Committee Audit Subcommittee reviewed the report at its October 19 meeting. The report and findings will be presented to the full Taxpayers Oversight Committee on December 14, 2010.

Summary

The M2 Triennial Performance Assessment, required by Ordinance No. 3, has recently been completed. While there were no significant findings, several recommendations for improvements were made. The report, along with a summary of the findings and responses/action plan, is presented for Board review.

Attachments

A. Measure M2 Triennial Performance Assessment
B. Response to OCBC – M2 Triennial Performance Assessment

Prepared by:

Alice T. Rogan

Alice T. Rogan
Community Relations Officer
714-560-5577

Approved by:

Kia Mortazavi
Executive Director, Planning
714-560-5741

ATTACHMENT A

ORANGE COUNTY BUSINESS COUNCIL

MEASURE M2 TRIENNIAL PERFORMANCE ASSESSMENT

Prepared for:

Orange County Transportation Authority

Prepared by:

Orange County Business Council

October 25, 2010

TABLE OF CONTENTS

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.

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 ɩanks 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 ·ebruary 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 he 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) <u>Differences between M1 COC and M2 TOC:</u>

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:

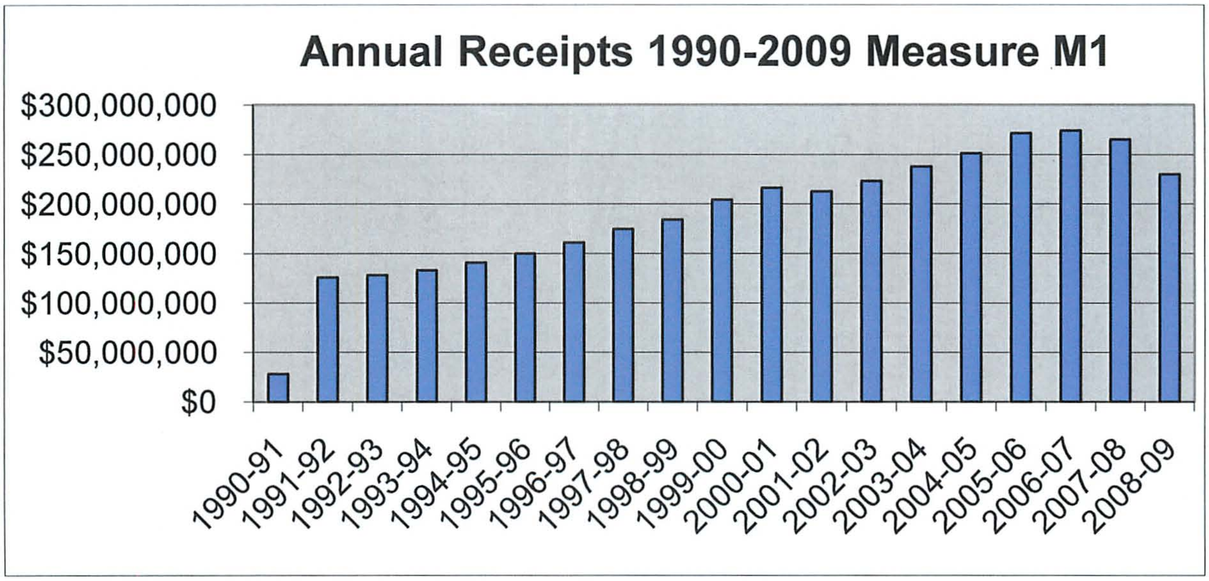
- The appropriate university economic forecasts
- Methods used by OCTA to translate these into tax revenue forecasts
- Any appropriate changes to the revenue forecasting process

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

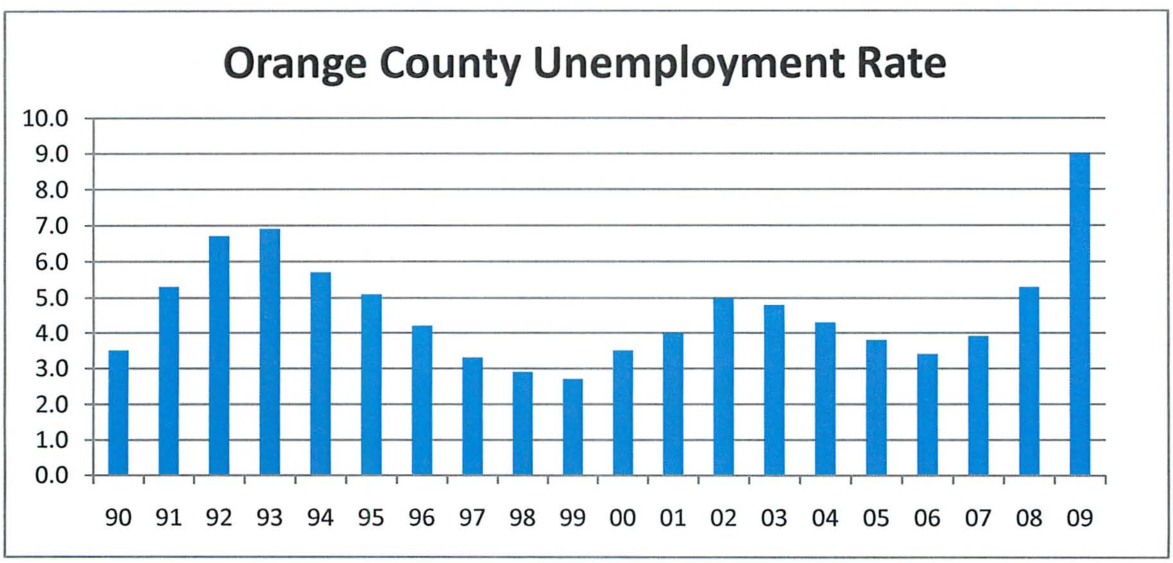
Background: Between the M1 program and renewed M2 program, OCTA changed its revenue forecasting approach, relying on a blend of three estimates (Chapman University, Cal State University Fullerton, and UCLA/Anderson School) rather than the former practice of using 95 percent of the Chapman University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

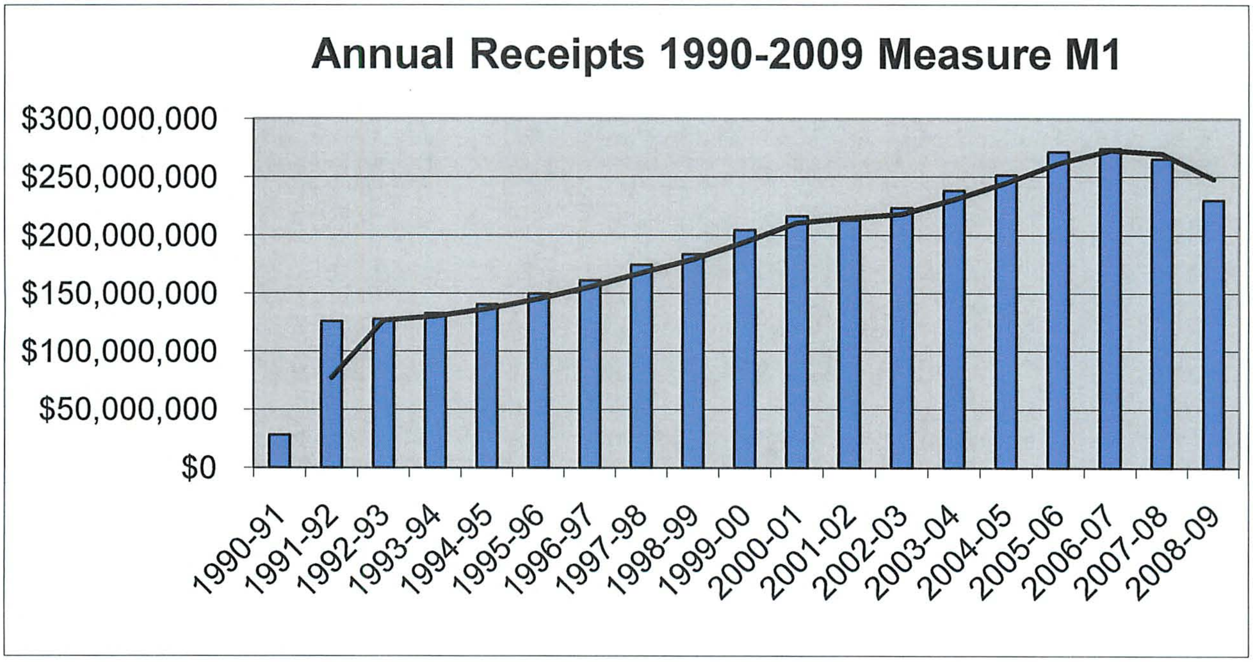


It was a period of steady growth with low year-over-year volatility, growing off of the deep recession that plagued Orange County in the early 1990s, M1's early baseline years. Unemployment was especially low and stable during significant periods of the M1 timeframe, leading to fairly stable revenue 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.

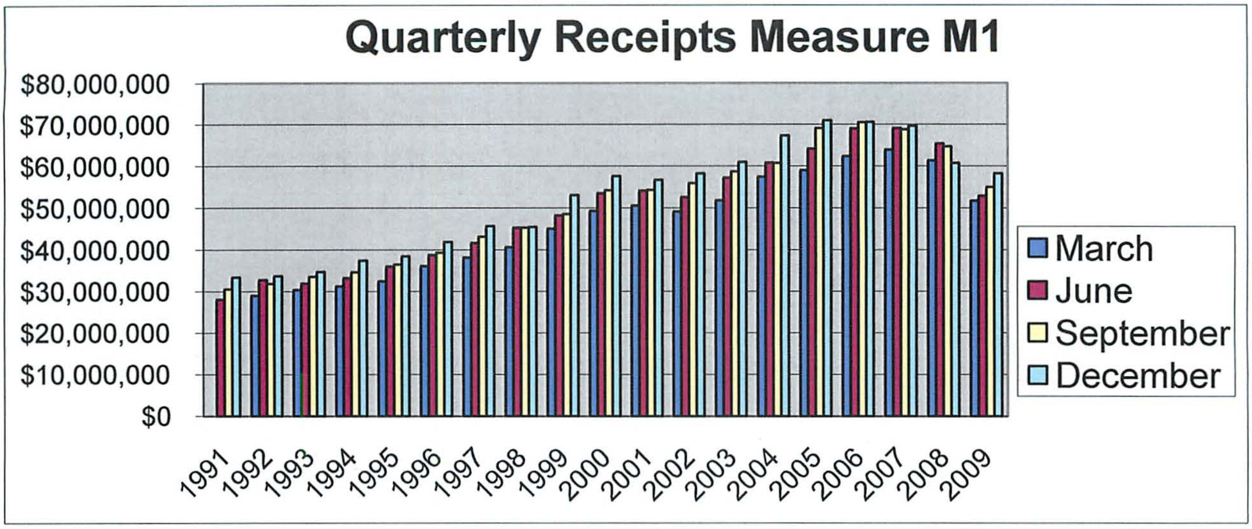


Due to its diversified industry cluster base, Orange County was even somewhat insulated to the dot.com downturn of 2000-2002 compared to other California counties. Because of low and predictable economic volatility, Chapman's M1 forecasts for OCTA sales tax revenue, even five years out, were fairly reliable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



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

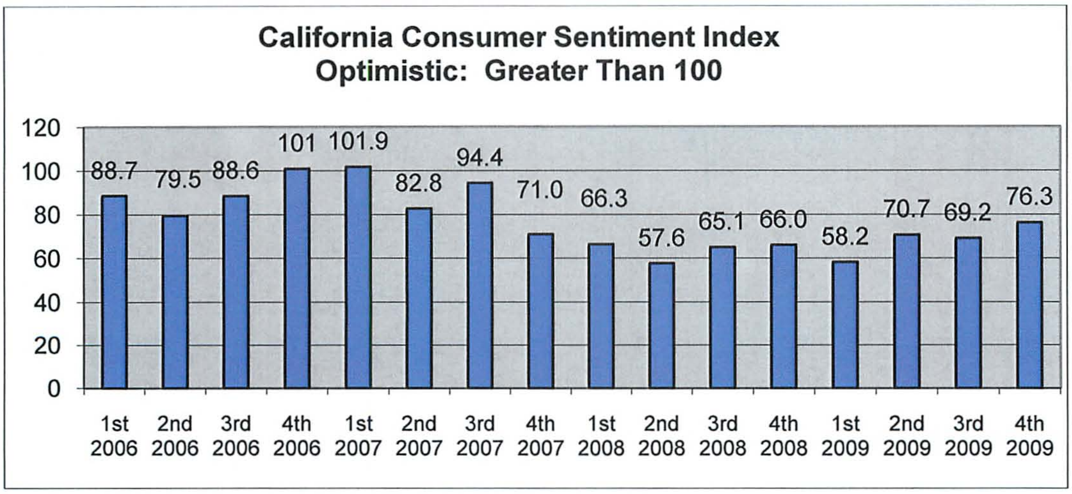
State:	Strength Ranking
California	1.00

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.

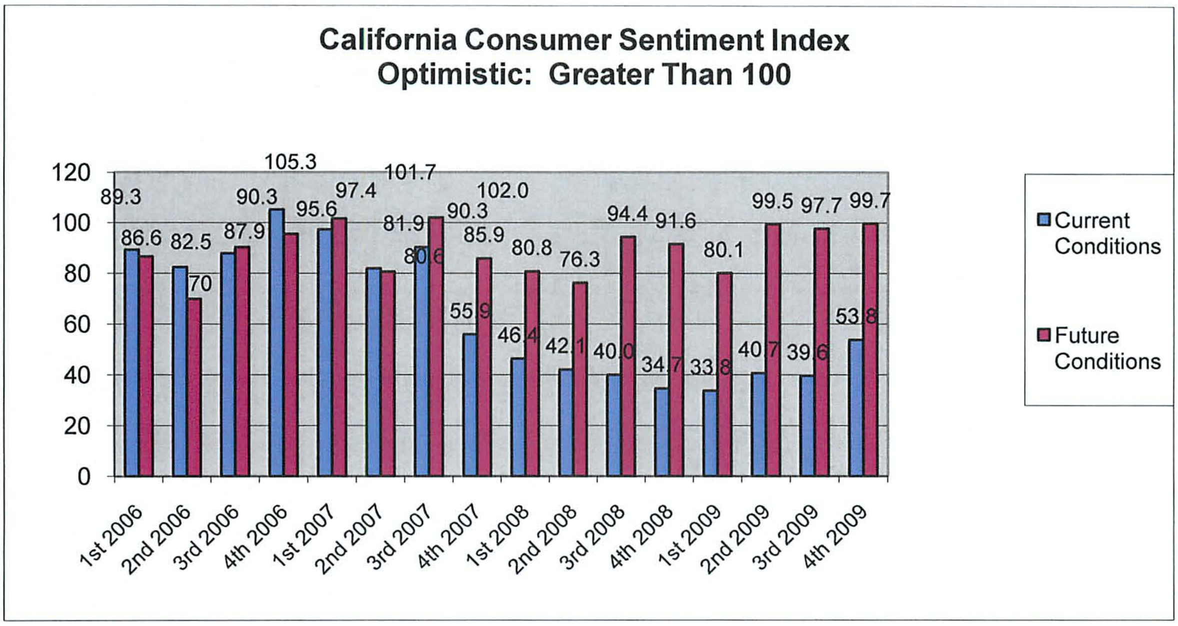
What the three universities were not able to predict was the worst economic downturn that Orange County, California, and the United States have respectively experienced since the Great Depression. There is no question that OCTA — like nearly every individual, business and public agency in the country — 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.

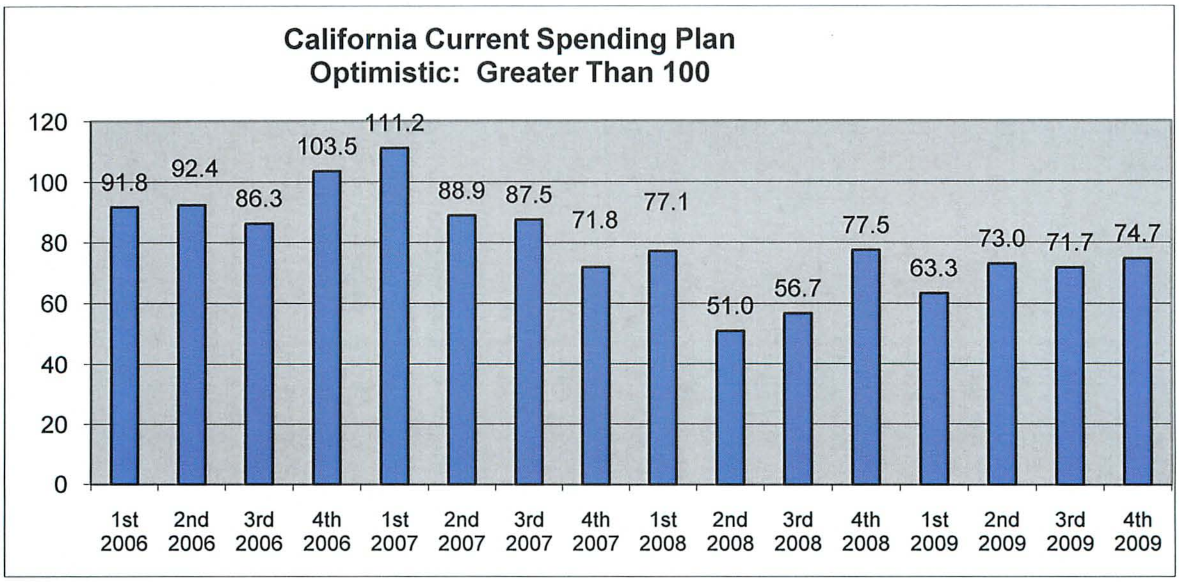
Consumer confidence has been hit particularly hard. Low consumer confidence also leads to a sharp drop in consumer discretionary spending, such as propensity to spend on travel, restaurant meals, and clothing, major sources of sales tax revenue.



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.

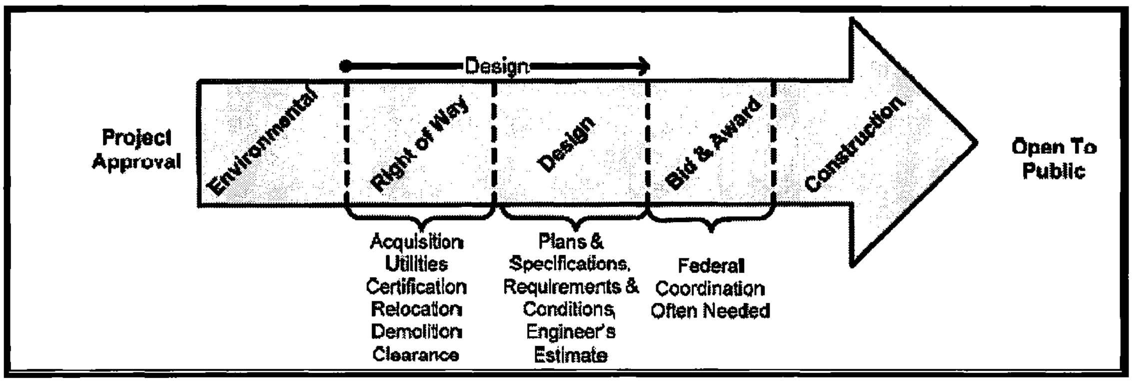
The impacts of dividing M2 internal oversight responsibilities between two OCTA divisions is uncertain, as is the role of Finance and Administration, the steward of OCTA M2 debt borrowings and revenue projections.

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
  - 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)
  - 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
  - project background, scheduling
  - funding, when and what
  - project controls reports
  - 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.

Los Angeles Metro:

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.

Riverside:

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.

San Bernardino:

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.

San Francisco:

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.

San Joaquin:

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.

ATTACHMENT B

	Summary of Findings	Response/Action Plan
	Process Suggestion About Next M2 Triennial Performance Assessment:	
1.	Request for proposals (RFP) for the M2 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.	*Staff concurs with this recommendation and will work with the Taxpayers Oversight Committee (TOC) and the Contracts Administration and Materials Management Department (CAMM) in the development of the scope of work and implementation of the procurement process in order to release the RFP in a more timely manner.*
	1.0 Early Action Plan (EAP)	
2.	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.	*The EAP was updated in July 2010 to account for revised revenue projections due to the economic downturn and additional funding sources.* *Staff will continue to monitor revenue projections in order to maintain schedules and determine the scale of programs and projects. Updates on the EAP will be provided on a quarterly basis with the M2 update.*
	2.0 M2 Plan of Finance	
3.	OCTA was fortunate to establish a Tax Exempt Commercial Paper (TECP) Program at the right time and secure extremely low Letter of Credit fees. Also, selecting a TECP Program from various financing alternatives appears to have been the right financing tool to accomplish the EAP, especially 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 Bond Anticipation Notes, Rolling Bond Anticipation Notes, and Capital Appreciation Bonds. 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 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.	*Staff concurs with this finding. At the time, the TECP Program was the appropriate financing tool for the EAP. All efforts in issuing debt for M2 include a thorough analysis of expenditure requirements and associated costs.*

4.	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 1% 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.	*Staff concurs appropriate time coding is key to tracking program costs. A training session for management will be conducted to better enforce staff time card coding. Also, distribution of the quarterly reports which monitor labor costs will be expanded as M2 ramps up.* *As part of M1, staff has closely monitored the 1% administrative salaries and benefits cap to ensure compliance with the ordinance. This practice shall also be applied in the administration of M2.*
5.	One key project in the "seeking new dollars" group – the construction of Project K/San Diego Freeway (I-405) widening between the Costa Mesa Freeway (SR-55) and the San Gabriel Freeway (I-605) – appears at this point to require substantial supplemental funding.	*In February 2010, the OCTA Board approved further assessment of additional project alternatives for the Project K/I-405 widening. The added alternatives include an express lane option to add a new general purpose lane and an express/toll facility. This alternative provides additional traffic relief as well as supplemental funding and can be accommodated generally within the existing ROW. A progress report on the project and findings to date will be presented to the Board in December 2010.*
	3.0 Readiness and Market Conditions Studies and Follow-up	
6.	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.	*Staff will continue to implement appropriate recommendations and initiatives as needed in the start up of M2.*
	4.0 Outreach and Public Communications	
7.	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.	*Staff will continue to improve how public input is incorporated in plans by including outreach findings as attachments, highlighting key findings in staff reports and working with project staff to address comments. The outreach reports will also be posted online.*
8.	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. 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. The San Diego Association of Governments' TransNet Dashboard snapshot allows for a single view of the overall program with the status of individual projects listed.	*Staff concurs with this key recommendation to improve the information available to the public on the OCTA website regarding the status of the M2 projects and programs and will be proposing a dashboard-type snapshot report be implemented as part of the fiscal year (FY) 2011-12 budget.* *Staff is currently investigating costs and resources necessary to deploy such a reporting tool.*

9.	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.	*Staff is working to improve M2 website content, navigation, and functionality. A new and improved M2 portal should be online by the end of FY 2010-11.*
	5.0 Taxpayers Oversight Committee	
10.	The transition from Citizens Oversight Committee to the Taxpayers Oversight Committee (TOC), as required by Ordinance No. 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 No. 3, and the EAP.	*Staff will continue to ensure TOC objectives adhere to the responsibilities outlined in Ordinance No. 3, Attachment C.*
	6.0 State Board of Equalization (SBOE)	
11.	OCTA should continue to monitor SBOE fees and, if the fees do not return to the 2006-2007 level of less than 1%, OCTA should engage the Self-Help Counties Coalition and seek legislation capping SBOE fees at one percent. The ongoing SBOE dispute, along with the status of the SBOE legislation, should be a part of subsequent M2 performance assessments.	*Staff will continue to monitor SBOE fees which are currently at 1.2% (September 2010), and engage the Self-Help Counties Coalition as necessary to seek legislation.* *Note: the M2 Investment Plan (p31) projected a 1.5% cost for the SBOE over the life of the program.*
	7.0 Environmental Committees Program Oversight	
12.	The Environmental Oversight Committee and Environmental Cleanup Allocation Committee were created as required by the voter-approved OCTA M2 Ordinance No. 3. The process whereby the committees were formed, convene, and communicate is appropriate. Both committees are well-positioned to advise the Board on the allocation of M2 funds for freeway environmental mitigation and streets and highway environmental cleanup respectively, as required by Ordinance No. 3.	*These committees have been instrumental in developing and recommending key policies to the Board (e.g., acquisition and restoration projects and a two-tiered funding program). Staff will continue to vet policy matters with these committees as outlined in Ordinance No. 3.*

8.0 Revenue Forecasting		
13.	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 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 actuals so that budgets based on revenue forecasting tools do not turn out to be too optimistic.	*OCTA is currently using a conservative forecast of 1.1% growth (based on SBOE projections from May 2009) through FY 2010-11.* *On a go-forward basis, OCTA is planning on returning to the blended 3 university forecast beginning in FY 2011-12 anticipating that with the end of the recession, there will be a return to a more stable and traditional economic climate. Staff will seek direction from the Finance and Administration Committee regarding using the blended forecast or a more conservative approach.* *The three-university blended forecast provides an independent, academic perspective in developing the forecast which is widely accepted in the business community.*
9.0 Project Management Controls		
14.	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.	*Staff believes the environmental review and project approval phase is appropriately positioned in the Capital Programs Division because during this phase, the scope, schedule, and cost of the project are defined. The present organizational structure ensures internal continuity from the environmental phase to eventual construction and project completion.* *Project approval documents that are the subject of environmental review include up to a 30% design effort, approval of technical design exceptions and can include decisions on early acquisition of right-of-way. Special emphasis will be placed on ensuring a smooth transition between divisions and communication of any changes from initial scoping documents produced in the Planning Division.*

15.	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 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 should be notified promptly.	*The distribution of monthly executive project summary progress reports which summarize actual and forecasted schedules, budgets, and funding sources will be expanded to include Executive Directors. In addition, as M2 rolls out, access to Primavera will be expanded on an as-needed basis.* *In terms of any deviations from baseline schedules, staff agrees an early notification protocol is important and will take steps to put a risk assessment and reporting system in place. Significant project risk issues will be highlighted as part of the M2 quarterly reports and/or Capital Project Delivery Department status reports.* *Also, staff intends to develop and implement a project change control procedure to consider changes to baseline schedules. The procedure will take into account at what point project schedules should be proposed to be adjusted and recommendations forwarded to the Board for approval.* *A critical step in reporting schedule information will be to set the expectations up front regarding definition of baseline schedules versus working schedules versus actual schedules. Publishing project status information as a dashboard type of system for process transparency will be coordinated with the dashboard development work related to the current strategic planning effort.*
16.	A more comprehensive review of the OCTA's internal invoice approval process, with emphasis on the roles of the Accounts Payable Department, CAMM, and project managers, should be undertaken, with the goal of maintaining strong and consistent internal controls.	*The current invoice review process is consistent with Board-directed policies which incorporate some level of redundancy as a "second set of eyes" asked for by the Board. While some redundancies with the Accounts Payable and Project Controls departments invoice review exist in the current process, they are appropriate and prudent to safeguard against potential errors. Staff will continue with existing procedures unless otherwise directed.*
	10.0 Sampling of Change Orders	
17.	Consider developing a more formal process for analyzing change orders, perhaps an internal review committee made up of OCTA executive staff for construction contract change orders over a certain threshold in terms of increased contract dollar size and scope values, perhaps $1,000,000.	*Staff will consider changes to the current process of analyzing construction contract change orders where OCTA is the implementing agency. The M1 Committee will review existing procedures and potential process adjustments.*
	11.0 Contractual Performance of Vendors	
18.	CAMM contract administration practices are consistent with the broader framework of OCTA M2 rules and practices and industry and government standards.	*Staff concurs.*

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

Presentation Items

OCTA

BOARD COMMITTEE TRANSMITTAL

October 25, 2010

To: Members of the Board of Directors

WK

From: Wendy Knowles, Clerk of the Board

Subject: Measure M2 Plan of Finance

Finance and Administration Committee Meeting of October 15, 2010

Present: Directors Brown, Buffa, Campbell, Cavecche, Hansen, and Moorlach

Absent: Director Bates

Committee Vote

This item was passed by all Committee Members present.

Committee Recommendations

A. Adopt the Orange County Transportation Authority Measure M2 Plan of Finance, which identifies the Measure M2 project requirements over the next three-years and discusses the Build America Bonds Program as an option for financing upcoming expenditures.

B. Authorize an issuance of sales tax revenue bonds by December 31, 2010, to fund Measure M2 expenditures in the freeway, transit, streets and roads, and environmental cleanup programs through fiscal year 2012-13.

OCTA

October 15, 2010

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer

Subject: Measure M2 Plan of Finance

Overview

Over the next few years, the Measure M2 Program will incur several hundred million dollars in program expenditures. These expenditures will exceed the amount of Measure M2 sales tax revenues projected to be collected during the same time period. Staff has completed a plan of finance which identifies the program requirements over the next three years and discusses financing alternatives for the Measure M2 Program.

Recommendations

A. Adopt the Orange County Transportation Authority Measure M2 Plan of Finance, which identifies the Measure M2 project requirements over the next three-years and discusses the Build America Bonds Program as an option for financing upcoming expenditures.

B. Authorize an issuance of sales tax revenue bonds by December 31, 2010, to fund Measure M2 expenditures in the freeway, transit, streets and roads, and environmental cleanup programs through fiscal year 2012-13.

Background

The Measure M2 (M2) Ordinance No. 3 expresses a preference for a pay-as-you-go project financing. Both M2 and the original Measure M1 (M1) ordinances permit debt financing under the proper conditions. In the case of the M1 Program, the benefits of the early action were obvious and tangible – projects cost less, traffic relief was delivered sooner, and the opportunity was created for additional projects to be delivered.

Given this history, the Orange County Transportation Authority (OCTA) approved the M2 Early Action Plan (EAP) to accelerate projects in

October 2007. Since M2 sales tax collections do not commence until April 1, 2011, OCTA implemented a $400 million tax-exempt commercial paper (TECP) financing program in 2008. The TECP program funded these program expenditures and paid investors with capitalized interest. OCTA has sold $100 million of TECP to date and spent approximately $86 million on project expenditures.

Discussion

The OCTA M2 Plan of Finance (Attachment A) has been updated to incorporate new financing mechanisms and options, as well as the M2 cash-flow requirements. The cash flows highlight the projected revenues and expenditures from fiscal year (FY) 2010-11 to FY 2012-13. A three-year window is used since Internal Revenue Service regulations state that issuers must have a reasonable expectation to spend bond proceeds during this time period. Long-term cash flows will be provided in the first quarter of 2011 in the comprehensive business plan.

The cash requirements for M2 are discussed below by program. M2 revenues are projected to total $14.4 billion for the 30-year period according to the latest 2010 forecast. These forecasted amounts are utilized in the cash flows.

Freeway Program

Cash expenditures for the freeway program through FY 2013 will total approximately $410.8 million. Projects funded with M2 revenues during this time period include:

Santa Ana Freeway (Interstate 5) - Pico to Pacific Coast Highway	$ 10.1 million
Interstate 5 (I-5)/ Ortega Highway Interchange	46.7 million
Orange Freeway (State Route 57) Northbound - Katella Avenue to Lincoln Avenue	30.7 million
State Route 57 (SR-57) Northbound - Orangethorpe Avenue to Yorba Linda Boulevard	45.2 million
SR- 57 Northbound - Yorba Linda Boulevard to Lambert Road	42.3 million
Riverside Freeway (State Route 91) Westbound – I-5 to SR-57	23.4 million
SR-91 – Tustin Avenue	18.9 million
SR-91– Costa Mesa Freeway (State Route 55) to Foothill/Eastern Transportation Corridor (State Route 241)	114.3 million
San Diego Freeway (Interstate 405) – SR-55 to San Gabriel Freeway (Interstate 605)	24.2 million
Freeway Environmental Mitigation	55.0 million
Total	$ 410.8 million

OCTA has been successful in obtaining other funding sources for these projects. Funds from the Corridor Mobility Improvement Account, State Transportation Improvement Program (STIP), 91 Express Lanes, and American Recovery and Reinvestment Act (ARRA) are estimated to provide approximately $294.4 million through FY 2013. The combination of other funding sources and M2 revenues will fund all freeway projects through FY 2013 with the exception of the freeway environmental mitigation expenditures. The freeway environmental mitigation program will require approximately $55 million for property acquisition and restoration activities. Attachment B lists the estimated costs and funding sources by year for the freeway program through FY 2013.

Streets and Roads Program

Cash requirements for the Streets and Roads Program through FY 2013 will total approximately $310.1 million. Projects funded with M2 revenues during this time period include:

Regional Capacity Program	$ 194.9 million
Regional Traffic Signal Synchronization Program	20.9 million
Local Fair Share Program	94.3 million
Total	$ 310.1 million

Other funding sources will provide approximately $43.1 million through FY 2013 for these projects. The majority of the expenditures will be for the construction of railroad grade separations. Attachment C lists the estimated costs and funding sources by year for the streets and roads program through FY 2013.

Transit Programs

Cash expenditures for the Transit Program through FY 2013 will total approximately $309.2 million. Major projects funded with M2 revenues during this time period include:

High Frequency Metrolink Service	$ 67.2 million
Transit Extensions to Metrolink	55.8 million
Metrolink Gateways	158.8 million
Expand Mobility Choices for Seniors and Disabled	15.7 million
Community-Based Transit / Circulators	10.5 million
Safe Transit Stops	1.2 million
Total	$ 309.2 million

Other funding sources will provide approximately $74.5 million through FY 2013 for these projects. These sources include funds from M1, STIP, Proposition 116, and other federal funds. The majority of the expenditures during this time period will be for grade crossings and the Anaheim Regional Transportation Intermodal Center (ARTIC). Attachment D lists the estimated costs and funding sources by year for the Transit Program through FY 2013.

Environmental Cleanup Program

Cash expenditures for the Environmental Cleanup Program through FY 2013 are divided into two tiers, Tier 1 and Tier 2. Tier 1 expenditures are designed to mitigate the more visible forms of pollutants, such as litter and debris that collects on the roadways and in the catch basins (storm drains) prior to being washing into waterways and the ocean. Tier 1 expenditures are expected to be funded on a pay-as-you-go basis. Tier 2 expenditures consist of funding regional, potentially multi-jurisdictional, capital-intensive projects. The Tier 2 Program will require $9.5 million per year for four years beginning in FY 2012. Attachment E lists the estimated costs by year for the Environmental Cleanup Program through FY 2013.

Financing Options

Based upon the cash requirements described above, OCTA will either need to advance sales tax revenues through the financial markets by issuing debt, delaying the project expenditures to match the receipt of sales tax revenues, or using other OCTA funds. Delaying project expenditures could potentially increase the cost of the various projects. Using funds from OCTA's balance sheet is not a viable alternative since these funds are currently earmarked for other programs and services.

Advancing sales tax funds through a debt issuance offers a low cost option. OCTA currently has the TECP Program in place to advance M2 revenues and fund projects. However, the Letter of Credit that supports the TECP Program will expire in November 2011. By that date, OCTA will have to either pay down the outstanding TECP balance with M2 revenues, issue long-term debt to take out the TECP Program, or enter into a new Letter of Credit. Letter of Credit fees have increased significantly since the original program was established in 2008. Rates range from 100 to 125 basis points, which is four to five times higher than the current rate of 27 basis points.

Another option of advancing sales tax funds is through the issuance of long-term debt. Traditionally, long-term debt was issued by municipal agencies solely through the tax-exempt market. In February 2009, ARRA was signed into law. ARRA created the Build America Bonds (BABs) Program. BABs are taxable municipal bonds that carry special tax credits and federal subsidies for either the bond issuer or the bondholder.

The current BABs Program subsidizes debt service payments by 35 percent. The purpose of BABs is to reduce the cost of borrowing for state and local government issuers and governmental agencies. The program is only open to new issue capital expenditure bonds issued before January 1, 2011. BABs can provide states and localities with substantial savings on their borrowing costs versus traditional tax-exempt issuances.

Recommended Strategy

Staff recommends the Board of Directors (Board) advance M2 revenues through the issuance of sales tax revenue bonds to fund project expenditures. The programs to be funded include:

Freeway Program (Freeway Environmental Mitigation)		$ 55 million
Streets and Roads Program (Grade Separations)		120 million
Transit Program (Project T – ARTIC, High-Frequency Metrolink Service, Community-Based Transit Circulators)		120 million
Environmental Cleanup Program (Tier 2 Projects)		19 million
	Total	$ 314 million

The cash requirements of $314 million will fund project expenditures through FY 2013. In addition to the amounts listed above, staff recommends the Board authorize the restructuring of $75 million of the $100 million outstanding for the TECP program. The $75 million is eligible for restructuring if OCTA elects to issue BABs for the TECP program. OCTA can only refund amounts issued since the BABs program was enacted into law. The BABs was established in February 2009. Since February 2009, OCTA has issued $75 million in TECP.

Given the low levels of interest rates, OCTA can issue long-term debt now and lock in low interest rates for the $75 million as well as the new money issue of $314 million for a total issue size of approximately $389 million. If the Board approves the issuance of debt for the M2 Program, staff will evaluate integrating BABs into OCTA's debt structure. This includes a combination of tax-exempt bonds and taxable BABs to create the optimum structure.

Currently, the BABs program offers significant interest rate savings compared to a straight issuance of traditional tax-exempt bonds.

Anticipated Debt Cost

Cost of issuance expenses for debt issuances are paid at the closing of a financing transaction. These costs include legal fees, financial advisory fees, rating fees, setup costs, printing, and other miscellaneous expenditures. The estimated costs for an M2 debt issuance will total approximately $520,000. Interest costs are paid over the life of the debt instrument and add substantially to the total project costs. Staff will determine the exact cost of issuance and total debt service expenses and interest costs for a recommended debt issuance and provide those figures to the Board for approval.

Next Steps

If the Board approves the recommended strategy, staff will work with its financing team to develop the documents required for a transaction. Once completed, staff will submit the financing documents to the Board for final review and approval. A tentative schedule is provided below:

Finance and Administration Committee Meeting (Potential Approval of Debt Issuance)	October 15
Board of Directors Meeting (Potential Approval of Debt Issuance)	October 25
Development of Financing Documents	October/November
Finance and Administration Committee Meeting (Potential Approval of Draft Final Documents)	November 17
Rating Agency/Investor Presentations	Late November
Board Meeting (Potential Approval of Final Documents)	December 13
Bond Pricing	December 15
Transaction Closing	December 23

Summary

The Plan of Finance for Measure M2 projects is presented for approval by the Finance and Administration Committee and the Board of Directors.

Attachments

A. Orange County Transportation Authority Measure M2 Plan of Finance, October 2010
B. Freeway Mode Summary
C. Streets & Roads Summary
D. Transit Mode Summary
E. Environmental Cleanup Mode Summary

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ATTACHMENT A

Orange County Transportation Authority
Proposed Measure M2 Plan of Finance
October 2010

Introduction

The Measure M2 (M2) Transportation Investment Plan totals $11.86 billion (in 2005 dollars) in projects that are designed to reduce traffic congestion, strengthen the economy and improve the Orange County quality of life by upgrading key freeways, fixing major interchanges, maintaining streets and roads, synchronizing traffic signals countywide, building a visionary rail transit system and protecting Orange County from the street runoff that pollutes Orange County beaches.

The successful completion of the M2 Program is both a necessity to enhance the quality of life in Orange County as well as a management challenge based on many variables. The success of M2 will depend on the:

- Cost of future transportation improvements,
- Receipt of other revenue sources, as well as,
- Receipt of sales tax revenues based upon current projections.

Cost of Future Improvements: Due in large part to the 2008/2009 recession, OCTA has seen a significant decline in construction costs. The decline in construction costs has led to lower bid prices on several Early Action Plan (EAP) projects. The decline in construction costs is expected to partially offset the decline in the projected M2 sales tax revenues.

Receipt of Other Revenue Sources: OCTA is expected to receive funds from other revenue sources for several projects throughout the M2 Program. These funding sources include the Corridor Mobility Improvement Account, State Transportation Improvement Program, 91 Express Lanes, Measure M1 (M1) Program, American Recovery and Reinvestment Act (ARRA) funds, and other sources. A significant drop or delay in projected receipts of other revenue sources could create potential challenges for the successful delivery of M2 Projects.

Receipt of Sales Tax Revenues based upon Current Projections: OCTA has retained Chapman University, California State University Fullerton, and the University of California at Los Angeles to provide M2 sales tax projections. The most recent forecasts were received in April/May 2010 from the three universities. The current forecast estimates the M2 Program will generate $14.4 billion in nominal dollars. The average annual compound growth of the three projections from 2011 through 2041 was 4.36 percent.

The M2 sales tax revenues will be allocated as follows:

- 1.5 percent of gross sales tax receipts to the State Board of Equalization (SBOE)
- 2 percent of gross sales tax receipts for environmental cleanup
- 1 percent of sales tax receipts for oversight and annual audits
- Net sales tax receipts will be allocated as follows:
    - 43 percent freeway projects
    - 32 percent streets and roads
    - 25 percent transit

The M2 Ordinance No. 3 states that pay-as-you go financing is preferred. The ordinance does not modify, repeal, or supersede Ordinance No. 2 from the M1 Program. Section 5 in Ordinance No. 3 authorizes bond financing and places no limit on the par amount outstanding. It also states that bonds may be issued "at any time before, on, or after the imposition of taxes" net of the SBOE fee and the 2 percent for environmental mitigation.

M2 Early Action Plan

Orange County voters are eager to see OCTA duplicate the success of the accelerated project delivery process utilized by M1. With the leadership of OCTA's Board of Directors (Board), immediately after the M2 election, staff began to analyze the M2 Transportation Investment Plan for projects and programs that could be attractive candidates for accelerated delivery.

The Transportation 2020 Committee directed the preparation of a five-year plan, covering the years of 2007 to 2012, to advance the implementation of M2. A Draft Early Action Plan outlining the projects and programs that could be advanced along with the anticipated schedules and major milestones was approved by the OCTA Board of Directors and released on May 29, 2007. Input was actively sought from key city officials and stakeholders, and recommendations on financing and budget needs were added before approval of the Final Early Action Plan by OCTA's Board on August 13, 2007.

The EAP presents a blueprint for early action on the M2 Transportation Investment Plan for the five-year period from 2007 through 2012. That blueprint commits to meeting the following nine objectives in the next five years:

1. Complete the first major milestone, conceptual engineering, for every freeway project in the plan; ensuring that all projects are eligible for matching funds and ready to enter into environmental review, design and construction.
2. Start construction on five major M2 freeway projects on Riverside Freeway (State Route 91), Orange Freeway (State Route 57), and Santa Ana Freeway

(Interstate 5) valued at $445 million. Two other projects will also be under construction at the San Diego Freeway (Interstate 405)/Garden Grove Freeway (State Route 22) and Interstate 405 (I-405)/San Gabriel Freeway (Interstate 605) interchanges, valued at $400 million and paid for by Proposition 1B and federal funds.

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 a 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.
6. Award up to $200 million in competitive funding for transit projects.
7. Complete development work and allocate funds for transit care discounts and improved services for seniors and persons 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.

Early Action Plan Approved Capital Expenditures

In 2007, staff was directed to proceed with the implementation of the EAP, beginning with the development of a financial strategy for how best to fund the early implementation of the M2 projects. The EAP-approved projects include capital expenditures for the period before M2's collection start date as well as capital expenditures for after the start of M2.

2007 Early Action Plan TECP Financing Program

The EAP approved accelerating M2 expenditures for freeway projects, transit projects, and streets and roads projects in FY 2008 through FY 2011. Based on the 2007 Plan of Finance, OCTA did a thorough analysis of short-term financing vehicles. The goal of the analysis was to select the short-term financing with the lowest projected cost and highest amount of flexibility. OCTA selected tax-exempt commercial paper (TECP) to be repaid with M2 sales tax revenues collected after April 1, 2011.

OCTA selected JP Morgan as its M2 TECP dealer and negotiated a $400 million letter of credit (LOC) to support the M2 TECP Program with Dexia Bank, JP Morgan, Bank of America and BNP Paribas. OCTA's first M2 TECP issuance was on February 7, 2008 for $25 million. OCTA has sold a total of $100 million of M2 TECP. The average M2 TECP rate for the EAP program has been 0.87 percent.

The amount of M2 TECP that has been sold is less than OCTA anticipated. The lower issuance amount can be attributed to OCTA aggressively seeking additional grant funding and a competitive construction market.

Although the expiration of the current LOC assumes that OCTA would take *out* the M2 TECP with long-term bonds in 2011, OCTA could negotiate a new, smaller LOC and complement a M2 long-term financing with an ongoing TECP Program similar in scope to the M1 TECP Program.

2010 Request for Proposals for Underwriting Services

OCTA issued a request for proposal (RFP) in March 2010 for underwriting services. The RFP contained questions about the issuance of long-term M2 bonds as well as questions about the 91 Express Lanes bonds invested in the Orange County Investment Pool that must be reinvested in December 2010. OCTA received 18 proposals.

After a thorough review, OCTA selected 12 firms as managing underwriters. Bank of America Merrill Lynch received the highest score and was named as the senior managing underwriter for OCTA's next bond sale. However, staff recommended that OCTA should review the selection of a senior managing underwriter for each future issue. Goldman Sachs, Barclays, and JP Morgan received the next three highest scores.

- Bank of America Merrill Lynch
- Barclays
- Citi
- Jeffries & Co.
- Morgan Stanley
- Siebert Branford & Shank
- Goldman Sachs
- JP Morgan
- E.J. De La Rosa & Co.
- Loop Capital Markets
- RBC Capital Markets
- Stone & Youngberg

Plan of Finance Goals

The goal of the Plan of Finance is to establish OCTA's objectives for the near term M2 financing as well as for the long-term financing program. The establishment of clear, measurable objectives is a prerequisite to the formulation of a Plan of Finance strategy to accomplish those objectives. Objectives include:

- Achieving the lowest possible borrowing cost;
- Taking advantage of today's historic low long-term interest rates;
- Achieving certain policy objectives;
- Accelerating project delivery in order to maximize congestion relief;
- Maximizing future financial management flexibility; and

- Assuming a minimal amount of risk.

Financing Challenges and Opportunities: OCTA must refinance the interim M2 TECP before the LOC expires in November 2011 or negotiate a new LOC.

OCTA faces interest rate risk for the required M2 TECP refinancing between now and November 2011. If short-term interest rates increase between now and November 2011, this would raise OCTA's M2 borrowing cost and reduce OCTA's capacity to fund M2 projects. OCTA is therefore exposed to the risk that any potential increase in short-term interest rates would limit future M2 bonding capacity.

In addition to the M2 TECP refinancing risk, OCTA currently has a significant amount of EAP and Anaheim Regional Transportation Intermodal Center (ARTIC) capital expenditures that can be financed today. The attached cash flows highlight the cash requirements for the freeway, streets and roads, transit, and environmental cleanup programs through FY 2013.

Bond yields in the taxable and tax-exempt markets have declined to all-time lows during the summer of 2010. Staff has analyzed two long-term funding alternatives; taxable Build America Bonds (BABs) and traditional tax-exempt sales tax revenue bonds.

Many capital market participants predict an increase in interest rates in 2011. OCTA could issue long-term sales tax revenue bonds in 2010 in order to take advantage of the historically low interest rate environment, hedge against future interest rate increases, and benefit from the current BABs subsidy of 35 percent, which may be eliminated December 31, 2010.

BABs: BABs are taxable municipal bonds that carry special tax credits and federal subsidies for either the bond issuer or the bondholder. BABs were created by the American Recovery and Reinvestment Act that United States President Barack Obama signed into law on February 17, 2009.

The purpose of BABs is to reduce the cost of borrowing for state and local government issuers and governmental agencies. The issuer's interest cost on taxable bonds is reduced by 35 percent direct federal subsidy. Despite the fact that the interest on BABs is taxable, OCTA must satisfy all the Internal Revenue Service (IRS) rules applicable to tax-exempt financing in order to the interest subsidy, including the limits on private use, arbitrage limitations and rebate.

Although bills have been introduced to extend the BABs program, the program is only open to new issue capital expenditure bonds issued before January 1, 2011. Market participants have speculated that Congress may reduce the current direct federal subsidy from 35 percent to 30 percent or 25 percent.

BABs Size Considerations: It is worth noting that issuance size matters to some BABs buyers. Several key BABs investors will not devote significant time to credit review unless a BABs financing is a "benchmark" size of at least $250 million.

BABs Call Option Considerations: A primary decision for OCTA is whether to issue BABs with a "make-whole" optional call feature common in the taxable market or a more traditional tax-exempt market optional 10-year call. While both options should be considered, it is important to note that there is a significantly smaller group of buyers who will buy BABs with a par call.

BABs Amortization Considerations: Given today's flat yield curve and the preference of taxable investors to buy long-maturity term bonds, a "back-loaded" maturity structure has significant advantages. By issuing a "back-loaded" maturity structure now when rates are historically low and while there is still a 35 percent subsidy, OCTA may ultimately lower its aggregate borrowing costs by issuing more of its future debt with shorter maturities, where rates are generally lower and less likely to increase as dramatically.

Current Market Conditions: OCTA would achieve the lowest cost of capital by issuing tax-exempt bonds from 2011 to 2017 and issue taxable BABs thereafter. However, it should be noted that the yield curve can shift and that the optimum combination of tax-exempt bonds and taxable BABs can only be achieved at pricing.

Negative Arbitrage in a 2010 Construction Fund: Although long-term interest rates are at historically lows, so are interest rates for short-term investments suitable for the deposit of bond proceeds. Therefore, OCTA would likely experience less income on its bond proceeds than it pays in debt service.

OCTA's Financing Options.

1) Continue Issuing M2 TECP Until November 1, 2011: OCTA can fund the EAP and M2 costs through the continued issuance of TECP.

Advantages

- Minimizes accrued interest and/or eliminates negative arbitrage: Draw proceeds on an "as needed" basis.
- Uses low cost variable rate debt: Historically, variable rate yields have been lower than fixed-rate yields.

Disadvantages

- LOC renewal risk: The current LOC expires in November 2011 and must be renewed. Today's LOC costs are significantly higher than the current LOC.

- Market risk: The take-out of the M2 TECP with permanent financing at a future date may occur at higher interest rates.
- Administrative requirements: Requires the solicitation of a bank liquidity facility and on-going management of the program by staff.
- Does not take advantage of historically low interest rates, BABs investor preference for "back-loaded" debt, and the current 35 percent federal interest rate subsidy through December 31, 2010.

2) Traditional Tax-Exempt Sales Tax Revenue Bonds: Tax-exempt rates are near historic lows.

Advantages
- Locks-in permanent rates: Ability to lock-in fixed interest rates for the life of the first M2 financing.
- Investor acceptance of capitalized interest until April 1, 2011.

Disadvantages
- BABs have lower interest rates net of the 35 percent interest rate subsidy after 2020

3) BABs Sales Tax Revenue Bonds: Taxable rates are at historic lows and the BABs include a subsidy equal to 35 percent of the taxable interest cost.

Advantages
- Locks-in permanent rates: Ability to lock-in fixed interest rates for the life of the first M2 financing.
- Investor acceptance of capitalized interest until April 1, 2011.
- BABs investor preference for "back-loaded" maturity structure in today's flat yield curve.
- Presents new, diversified investor base for OCTA bonds.

Disadvantages
- Traditional tax-exempt sales tax revenue bonds currently have lower yields than BABs for short-term maturities.

4) Hybrid Combination of Tax-Exempt and BABs Sales Tax Revenue Bonds: Tax-exempt and BABs are both at historically low rates. However, a combination of tax-exempt bonds and taxable BABs may achieve the lowest cost of capital.

Advantages
- Locks-in permanent rates: Ability to lock-in fixed interest rates for the life of the first M2 financing.
- Investor acceptance of capitalized interest until April 1, 2011.
- BABs investor preference for "back-loaded" maturity structure in today's flat yield curve.

- o Presents new, diversified investor base for OCTA bonds.
- o Market-driven combination of tax-exempt bonds and BABs may achieve lowest cost of capital.

<u>Disadvantages</u>

- o BABs have increased investor support for "benchmark size" offering of $250 million or more.

M2 Plan of Finance Recommendation

Based on current market considerations, OCTA staff believes a hybrid combination of tax-exempt and BABs sales tax revenue bonds offers the most attractive financing option for the M2 program. In today's markets, the hybrid combination has compelling benefits for OCTA:

- **Hybrid Structure:** The hybrid structure lets OCTA optimize the best combination of tax-exempt and taxable BABs rates to achieve the lowest cost of capital.
- **Locks-In Historic 2010 Low Rates:** Today's tax-exempt and taxable rates are near historic lows.
- **The Back-Loaded Maturity Structure Is a Hedge Against Rising Rates:** OCTA may ultimately lower its aggregate borrowing costs by issuing more of its future debt with shorter maturities, where rates are lower and less likely to increase as dramatically.
- **Timing:** A BABs issuance in 2010 locks in the current 35 percent federal interest rate subsidy for the life of M2. Although the BABs subsidy program may be extended beyond the current December 31 expiration date, the current interest subsidy may be significantly reduced.
- **TECP Is Complementary:** The current $400 million TECP LOC expires in November 2011. OCTA can design a smaller, less expensive TECP program to compliment the M2 bonds.

Conclusion

The Plan of Finance will be reviewed on an ongoing basis. Market changes and revisions in sales tax collections may affect the current strategy. As such, any changes to the strategy of the Plan of Finance will be submitted to the Board of Directors for approval.

ATTACHMENT B

FREEWAY MODE
Summary

	FISCAL YEAR ENDING JUNE 30,	2010	2011	2012	2013	Total 2011-13
	BEGINNING BALANCE	**0.00**	**7.26**	**36.88**	**86.73**	**130.88**
	Revenues					
	Sales Tax Revenue	0.00	23.02	98.12	104.20	225.35
	Other Revenues	0.00	83.92	101.31	109.19	294.42
	Interest	0.00	0.05	0.37	1.08	1.51
	Tax-Exempt Commercial Paper Proceeds	43.00	0.00	0.00	0.00	0.00
	Taxable Commercial Paper Proceeds	0.00	0.00	0.00	0.00	0.00
	Bond Proceeds	0.00	87.25	0.00	0.00	87.25
	Total Revenue	43.00	194.25	199.80	214.48	608.53
	Project Expenditures					
A	Santa Ana Freeway (I-5) - Costa Mesa Fwy (SR-55) to "Orange Crush" (SR-57)	0.01	0.00	0.00	0.00	0.00
B	Santa Ana Freeway (I-5) - Costa Mesa Fwy (SR-55) to El Toro "Y" Area	0.72	0.00	0.00	0.00	0.00
C	San Diego Freeway (I-5) Improvements South of the El Toro "Y"	5.45	1.43	3.22	5.44	10.10
D	Santa Ana Freeway / San Diego Freeway (I-5) Interchange Upgrades	0.18	13.21	15.43	18.04	46.67
E	Garden Grove Freeway (SR-22) Access Improvements	0.00	0.00	0.00	0.00	0.00
F	Costa Mesa Freeway (SR-55) Improvements	0.36	0.00	0.00	0.00	0.00
G	Orange Freeway (SR-57) Improvements	18.84	27.57	43.13	47.48	118.18
H	Riverside Freeway (SR-91) - Santa Ana Fwy (I-5) to Orange Fwy (SR-57)	2.17	3.26	6.07	14.09	23.42
I	Riverside Freeway (SR-91) - Orange Fwy (SR-57) to Costa Mesa Fwy (SR-55)	0.66	7.53	9.89	1.43	18.85
J	Riverside Freeway (SR-91) - Costa Mesa Fwy (SR-55) to Orange/Riv Co Line	0.81	42.84	34.69	36.70	114.24
	San Diego Freeway (I-405) - San Gabriel Freeway (I-605) & SR-55	5.07	6.11	6.67	11.42	24.20
	San Diego Freeway (I-405) - Costa Mesa Fwy (SR-55) & Santa Ana Fwy (I-5)	0.01	0.00	0.00	0.00	0.00
M	San Gabriel (I-605) Freeway Access Improvements	0.00	0.00	0.00	0.00	0.00
	Program Management Consultant	0.00	0.00	0.00	0.00	0.00
	Environmental Mitigation	1.02	30.00	25.00	0.00	55.00
	Support Costs	0.00	0.00	0.00	0.00	0.00
	Total Expenditures	35.31	131.95	144.11	134.61	410.67
	Debt Service	0.43	0.43	5.84	5.84	12.11
	Principal TECP Retirement	0.00	32.25	0.00	0.00	32.25
	ENDING BALANCE	**7.26**	**36.88**	**86.73**	**160.76**	**284.37**

ATTACHMENT C

TREETS & ROADS MODE
ummary

FISCAL YEAR ENDING JUNE 30,	2010	2011	2012	2013	Total 2011-13
BEGINNING BALANCE	**0.00**	**3.80**	**81.19**	**30.46**	**115.46**
Revenues					
Sales Tax Revenue	0.00	17.13	73.02	77.54	167.70
Other Revenues	0.00	13.00	8.06	22.03	43.09
Interest	0.00	0.03	0.81	0.38	1.22
Tax-Exempt Commercial Paper Proceeds	22.00	0.00	0.00	0.00	0.00
Taxable Commercial Paper Proceeds	0.00	0.00	0.00	0.00	0.00
Bond Proceeds	0.00	136.50	0.00	0.00	136.50
Total Revenue	22.00	166.66	81.89	99.96	348.51
Project Expenditures					
O Regional Capacity Program	17.87	60.77	73.40	60.70	194.87
P Regional Traffic Signal Synchronization Program	0.11	2.14	9.13	9.69	20.96
Q Local Fair Share	0.00	9.64	41.08	43.62	94.33
Total Expenditures	17.98	72.55	123.60	114.01	310.17
Debt Service	0.22	0.22	9.03	9.03	18.27
Principal TECP Retirement	0.00	16.50	0.00	0.00	16.50
ENDING BALANCE	**3.80**	**81.19**	**30.46**	**7.38**	**119.04**

TRANSIT MODE
ummary

FISCAL YEAR ENDING JUNE 30,	2010	2011	2012	2013	Total 2011-13
BEGINNING BALANCE	**0.00**	**5.23**	**98.26**	**38.02**	**141.50**
Revenues					
Sales Tax Revenue	0.00	13.39	57.05	60.58	131.02
Other Revenues - Project T	0.00	40.27	19.11	0.00	59.38
Other Revenues - Project R	0.00	13.39	1.70	0.00	15.08
Interest	0.00	0.04	0.98	0.48	1.50
Tax-Exempt Commercial Paper Proceeds	35.00	0.00	0.00	0.00	0.00
Taxable Commercial Paper Proceeds	0.00	0.00	0.00	0.00	0.00
Bond Proceeds	0.00	146.25	0.00	0.00	146.25
Total Revenue	35.00	213.33	78.84	61.06	353.23
Project Expenditures					
R High Frequency Metrolink Service	29.42	50.28	16.92	0.00	67.20
S Transit Extensions to Metrolink	0.00	0.11	27.89	27.79	55.79
T Convert Metrolink Stations to Regional Gateways	0.00	40.53	72.66	45.65	158.84
U Expand Mobility Choices for Senior and Disabled	0.00	1.61	6.84	7.27	15.72
Community Based Transit / Circulators	0.00	1.07	4.56	4.85	10.48
Safe Transit Stops	0.00	0.12	0.50	0.53	1.16
Support Costs	0.00	0.00	0.00	0.00	0.00
Total Expenditures	29.42	93.71	129.38	86.09	309.18
Debt Service	0.35	0.35	9.70	9.70	19.75
Principal TECP Retirement	0.00	26.25	0.00	0.00	26.25
ENDING BALANCE	**5.23**	**98.26**	**38.02**	**3.28**	**139.55**

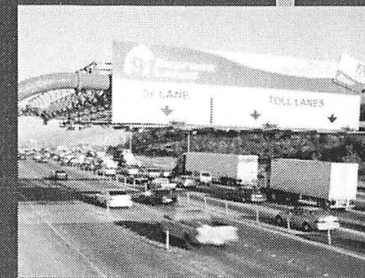
ENVIRNMENTAL CLEANUP MODE

Summary

FISCAL YEAR ENDING JUNE 30,	2010	2011	2012	2013	Total 2011-13
BEGINNING BALANCE	**0.00**	**0.00**	**18.87**	**10.25**	**29.12**
Revenues					
Sales Tax Revenue	0.00	1.12	4.78	5.07	10.97
Other Revenues	0.00	0.00	0.00	0.00	0.00
Interest	0.00	0.00	0.19	0.13	0.32
Tax-Exempt Commercial Paper Proceeds	0.00	0.00	0.00	0.00	0.00
Taxable Commercial Paper Proceeds	0.00	0.00	0.00	0.00	0.00
Bond Proceeds	0.00	19.00	0.00	0.00	19.00
Total Revenue	0.00	20.12	4.97	5.20	30.29
Project Expenditures					
Tier 1 Programs	0.00	0.00	2.84	2.36	5.20
Tier 2 Programs	0.00	0.00	9.50	9.50	19.00
Other Programs	0.00	0.00	0.00	0.00	0.00
Total Expenditures	0.00	0.00	12.34	11.86	24.20
Debt Service	0.00	1.25	1.25	1.25	3.75
ENDING BALANCE	**0.00**	**18.87**	**10.25**	**2.34**	**31.47**

PowerPoint

Presentation



Measure M2 Plan of Finance

Background

- Measure M2 Early Action Plan approved in October 2007
- $400 million tax-exempt commercial paper (TECP) program established in February 2008
- Issued $100 million in TECP to date

OCTA

TECP Program

- Variable rate short-term debt
- Supported by letter of credit
  - Expires November 2011
- Three options prior to expiration
  - Secure new letter of credit
  - Pay off TECP debt with M2 sales tax revenues
  - Refund TECP program with fixed-rate long-term debt

OCTA

Financing Requirements

Freeway Program Environmental Mitigation	$	55	million
Streets and Roads Program Grade Separations	$	120	million
Transit Program Project T - ARTIC High-Frequency Metrolink Service Transit Extensions to Metrolink	$	120	million
Environmental Cleanup Program Tier 2 Projects	$	19	million
Total	$	314	million

OCTA

Financing Options

- Conventional tax-exempt debt
- Build America Bonds (BABs)
  - Allows state and local governments to sell taxable bonds and receive 35% subsidy from the Treasury
  - Established in February 2009
  - Over $129 billion of BABs issued to date
  - Generates substantial savings at the long end of the yield curve

OCTA

Financing Options

	Conventional Tax-Exempt	Build America Bonds
Size	$ 392.0	$ 392.0
Yield	3.77%	3.39%
Annual Debt Service	$23.9 M per year	$22.5 M per year

OCTA

Recommendations

- Refund $75 million of TECP program before December 31, 2010
- Authorize an issuance of sales tax revenue bonds by December 31, 2010 for M2 projects

OCTA

Next Steps

Board of Directors Meeting (Potential Approval of Debt Issuance)	October 25
Development of Financing Documents	October/November
Finance and Administration Committee Meeting (Potential Approval of Draft Final Documents)	November 17
Rating Agency/Investor Presentations	Late November
Board Meeting (Potential Approval of Final Documents)	December 13
Bond Pricing	December 15
Transaction Closing	December 23

OCTA

BOARD COMMITTEE TRANSMITTAL

November 22, 2010

To: Members of the Board of Directors

WK

From: Wendy Knowles, Clerk of the Board

Subject: Measure M2 Project P (Regional Traffic Signal Synchronization Program) Funding Guidelines

Transportation 2020 Committee Meeting of November 15, 2010

Present: Directors Amante, Buffa, Campbell, Pringle, and Pulido
Absent: Directors Brown, Cavecche, and Dixon

Committee Vote

This item was passed by all Committee Members present.

Committee Recommendations

A. Approve the Project P (Regional Traffic Signal Synchronization Program) funding guidelines for eligible signal synchronization projects.

B. Authorize staff to issue a call for projects for Project P for ten corridor projects, in an amount not to exceed $10,000,000.

Orange County Transportation Authority
550 South Main Street / P.O. Box 14184 / Orange / California 92863-1584 / (714) 560-OCTA (6282)

OCTA

November 15, 2010

To: Transportation 2020 Committee

From: Will Kempton, Chief Executive Officer

for

Subject: Measure M2 Project P (Regional Traffic Signal Synchronization Program) Funding Guidelines

Overview

Measure M2 includes competitive grant funding programs for local streets and roads projects. These programs include Measure M2's Project P (Regional Traffic Signal Synchronization Program). The funding guidelines for Project P are presented for approval.

Recommendations

A. Approve the Project P (Regional Traffic Signal Synchronization Program) funding guidelines for eligible signal synchronization projects.

B. Authorize staff to issue a call for projects for Project P for ten corridor projects, in an amount not to exceed $10,000,000.

Background

Measure M2 (M2) Project P is a competitive grant program that provides funding for regional signal synchronization projects. Project P, in combination with matching funds, provides a funding source for multi-agency, corridor-based signal synchronization along Orange County streets and roads. Funding guidelines for the competitive signal synchronization program have been developed consistent with M2 Ordinance No. 3 and were presented to the Orange County Transportation Authority (OCTA) Transportation 2020 Committee (Committee) on October 18, 2010. The Committee directed staff to revise the selection criteria for eligible projects and to decrease the project funding caps based on the Committee discussion.

Discussion

Project P funding guidelines are meant to provide procedures necessary for Orange County agencies to apply for transportation funding for the M2 competitive Regional Traffic Signal Synchronization Program (Program). The Program funds the synchronization of traffic signals across jurisdictional boundaries in addition to operational and maintenance funding.

With the Program, local agencies will be subject to similar requirements to Measure M and must abide by additional policies established in accordance with the M2 Ordinance (Attachment A). In addition, the funding guidelines are designed to meet the following objectives for Project P: synchronize traffic signals across jurisdictions, synchronize signals on a corridor basis reflecting existing traffic patterns, and monitor to regularly improve synchronization. The Program targets over 2,000 intersections across Orange County for coordinated operations.

The guidelines (Attachment B) address project eligibility requirements, eligible activities, funding assumptions, and selection criteria for eligible projects. The key components of the guidelines are summarized below.

Project Eligibility Requirements

The goal of Project P is to provide regional signal synchronization on a corridor basis regardless of jurisdictional boundaries. To be eligible for funding as part of Project P, a project must be part of the Regional Signal Synchronization Master Plan. Priority synchronization corridors will receive higher ranking for funding. Corridors on the Master Plan of Arterial Highways (MPAH) can also compete provided the corridors are consistent with local signal synchronization plans.

All M2 eligible Orange County cities and the County of Orange may participate in this Program. Projects are to be administered through a single lead agency. Local cities are encouraged to administer projects, although cities have the option of having OCTA assist in the implementation. The California Department of Transportation (Caltrans) may participate and its facilities are also eligible for funding as part of this Program, but Caltrans cannot receive funding as a lead agency.

Eligible Activities

Projects must result in field-implemented signal synchronization timing along corridors and may include design, engineering, construction, and management components. Projects must consist of a corridor along the signal synchronization network, priority corridor network, or the MPAH. Projects may also include additional components along the corridor to mitigate certain conditions for signal synchronization. The following are the eligible activities as part of the Program:

1. Develop, implement, and monitor signal synchronization timing
2. New or upgraded detection
3. New or upgraded communication systems
4. Communication and detection support
5. Intersection/field system modernization and replacement
6. Minor signal operational improvements such as emergency vehicle preemption and transit signal priority equipment, etc.
7. Traffic management and traffic operations centers
8. Real-time traffic actuated operations and demonstration projects

These eligible activities were developed in accordance with Project P goals.

Funding Assumptions

Project P will make an estimated $270 million (2009 dollars) available over the 30-year course of M2. Agencies will be required to provide a minimum of 20 percent matching funds or labor (or a combination of both) for eligible project activities. A project cap of $20,000 per signal or $40,000 per project corridor mile (whichever is higher) has been established. This funding cap is based on experience with implementation of prior signal synchronization projects, local agency input, and discussion with members of the Committee.

Selection Criteria for Eligible Projects

Specific selection criteria patterned after the initial Measure M will be used to evaluate competitive Program project applications. Emphasis is placed on furthering the overall goal of multi-jurisdictional, corridor-based signal synchronization. A total of 100 points are possible. Points are awarded based on the following categories.

1. Vehicle Miles Traveled (VMT)
   This category can contribute up to 20 points of the total score of a project. Points are awarded for the VMT along the project corridor length. Projects with longer lengths or higher traffic volumes will receive more points relative to projects with shorter lengths or lower traffic volumes.

2. Benefit Cost Ratio
   This category can contribute up to 15 points of the total score of a project. Points are awarded for the benefit cost ratio of a project. Benefit cost ratio is calculated by VMT divided by cost. Projects that benefit greater amount of traffic with a lower project cost will rate higher relative to those that benefit less traffic at a higher cost.

3. Project Characteristics
   This category can contribute up to ten points of the total score of a project. Points are awarded for including multiple eligible activities as part of the project. Projects that include more components will benefit relative to those with less components.

4. Transportation Significance
   This category can contribute up to ten points of the total score of a project. Points are awarded to a project based on the corridor being on the priority corridor network or the signal synchronization network.

5. Maintenance of Effort
   This category can contribute up to five points of the total score of a project. Points are earned for a commitment to operate the project signal synchronization timing for a defined period of time beyond three years.

6. Project Scale
   This category can contribute up to ten points of the total score of a project. Scoring is divided into two parts. Points are awarded to a project based on the ratio of signals being retimed to the length of the corridor. Points are also awarded based on the percent of the total corridor signals being retimed as part of the project.

7. Number of Jurisdictions
   This category can contribute up to 20 points of the total score of a project. Points are awarded for those projects that include multiple agencies relative to those projects that include a single agency.

8. Current Project Readiness
   This category can contribute up to five points of the total score of a project. Points are awarded based on the start date of the project. Projects with earlier start dates benefit compared to projects with later start dates.

9. Funding Over-Match
   This category can contribute up to five points of the total score of a project. Points are awarded for projects that offer a higher match rate relative to a minimum match rate of 20 percent as required by M2.

The above provides a snapshot of the selection criteria from eligible projects. Additional details including the number and makeup of the scoring categories is provided in Attachment C.

Summary

M2 provides for signal synchronization competitive funding to enhance street operations and to reduce congestion. The funding guidelines will serve as the mechanism OCTA uses to administer the Program. Staff is seeking approval of Project P funding guidelines and authorization to issue a call for projects for Project P for three corridor projects.

Attachments

A. Requirements Established by Orange County Local Transportation Authority Ordinance No. 3
B. Project P (Regional Traffic Signal Synchronization Program) Funding Guidelines
C. Project P Selection Criteria for Eligible Projects

Prepared by:

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Approved by:

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ATTACHMENT A

Requirements Established by Orange County Local Transportation Authority Ordinance No. 3

Regional Traffic Signal Synchronization Program

Project P

Regional Traffic Signal Synchronization Program

Description:
This program targets over 2,000 signalized intersections across the County for coordinated operation. The goal is to improve the flow of traffic by developing and implementing regional signal coordination programs that cross jurisdictional boundaries.

Most traffic signal synchronization programs today are limited to segments of roads or individual cities and agencies. For example, signals at intersections of freeways with arterial streets are controlled by Caltrans, while nearby signals at local street intersections are under the control of cities. This results in the street system operating at less than maximum efficiency. When completed, this project can increase the capacity of the street grid and reduce the delay by over six million hours annually.

To ensure that this program is successful, cities, the County of Orange and Caltrans will be required to work together and prepare a common traffic signal synchronization plan and the necessary governance and legal arrangements before receiving funds. In addition, cities will be required to provide 20 percent of the costs. Once in place, the program will provide funding for ongoing maintenance and operation of the synchronization plan. Local jurisdictions will be required to publicly report on the performance of their signal synchronization efforts at least every three years. Signal equipment to give emergency vehicles priority at intersections will be an eligible expense for projects implemented as part of this program.

Cost:
The estimated cost of developing and maintaining a regional traffic signal synchronization program for Orange County is $453.1 million.

passages, is not included.

Q. "Project Final Report": certification of completion of a project funded with Net Revenues, description of work performed, and accounting of Net Revenues expended and interest earned on Net Revenues allocated for the project.

R. "Regional Capacity Program": capital improvement projects to increase roadway capacity and improve roadway operation as described in the Plan.

S. "Regional Traffic Signal Synchronization Program": competitive capital and operations funding for the coordination of traffic signals across jurisdictional boundaries as included in the Traffic Signal Synchronization Master Plan and as described in the Plan.

T. "Revenues": All gross revenues generated from the transactions and use tax of one-half of one percent (1/2%) plus any interest or other earnings thereon.

U. "State Board of Equalization": agency of the State of California responsible for the administration of sales and use taxes.

V. "Street and Road Project": the planning, design, construction, improvement, operation or maintenance necessary for, incidental to, or convenient for a street or road, or for any transportation purpose, including, but not limited to, purposes authorized by Article XIX of the California Constitution.

W. "Traffic Forums": a group of Eligible Jurisdictions working together to facilitate the planning of traffic signal synchronization among the respective jurisdictions.

X. "Traffic Signal Synchronization Master Plan": an element of the MPAH to promote smooth traffic flow through synchronization of traffic signals along designated street routes in the County.

Y. "Transit": the transportation of passengers by bus, rail, fixed guideway or other vehicle.

Z. "Transit Project": the planning, design, construction, improvement, equipment, operation or maintenance necessary for, or incidental to, or convenient for transit facilities or transit services.

AA. "Watershed Management Areas": areas to be established by the eligible cost if the Eligible Jurisdiction does not use any Net Revenues as part of the funds for the local match.

2. Allocations shall be determined pursuant to a countywide competitive procedure adopted by the Authority. Eligible Jurisdictions shall be consulted by the Authority in establishing criteria for determining priority for allocations.

B. Regional Traffic Signal Synchronization Program.

1. Traffic Signal Synchronization Master Plan.

The Authority shall adopt and maintain a Traffic Signal Synchronization Master Plan, which shall be a part of the Master Plan of Arterial Highways. The Traffic Signal Synchronization Master Plan shall include traffic signal synchronization street routes and traffic signals within and across jurisdictional boundaries, and the means of implementing, operating and maintaining the programs and projects, including necessary governance and legal arrangements.

2. Allocations.

a. Allocations shall be determined pursuant to a countywide competitive procedure adopted by the Authority. Eligible Jurisdictions shall be consulted by the Authority in establishing criteria for determining priority for allocations.

b. The Authority shall give priority to programs and projects which include two or more jurisdictions.

c. The Authority shall encourage the State to participate in the Regional Traffic Signal Synchronization Program and Authority shall give priority to use of transportation funds as match for the State's discretionary funds used for implementing the Regional Traffic Signal Synchronization Program.

3. An Eligible Jurisdiction shall contribute matching local funds equal to twenty percent (20%) of the project or program cost. The requirement for matching local funds may be satisfied all or in part with in-kind services provided by the Eligible Jurisdiction for the program or project, including salaries and benefits for employees of the Eligible Jurisdiction who perform work on the project or programs.

4. An Eligible Jurisdiction shall issue a report once every three years regarding the status and performance of its traffic signal synchronization activities.

5. Not less than once every three years an Eligible Jurisdiction shall review and revise, as may be necessary, the timing of traffic signals included as part of the Traffic Signal Synchronization Master Plan.

6. An Eligible Jurisdiction withdrawing from a signal synchronization project shall be required to return Net Revenues allocated for the project.

C. Local Fair Share Program.

The allocation of eighteen percent (18%) of the Net Revenues for Local Fair Share Program projects shall be made to Eligible Jurisdictions in amounts determined as follows:

1. Fifty percent (50%) divided between Eligible Jurisdictions based on the ratio of each Eligible Jurisdiction's population for the immediately preceding calendar year to the total County population (including incorporated and unincorporated areas) for the immediately preceding calendar year, both as determined by the State Department of Finance;

2. Twenty-five percent (25%) divided between Eligible Jurisdictions based on the ratio of each Eligible Jurisdiction's existing Master Plan of Arterial Highways ("MPAH") centerline miles to the total existing MPAH centerline miles within the County as determined annually by the Authority; and

3. Twenty-five percent (25%) divided between Eligible Jurisdictions based on the ratio of each Eligible Jurisdiction's total taxable sales to the total taxable sales of the County for the immediately preceding calendar year as determined by the State Board of Equalization.

VI. <u>ALLOCATION OF NET REVENUES; TRANSIT PROGRAMS/PROJECTS</u>.

A. Transit Extensions to Metrolink.

1. The Authority may provide technical assistance, transportation planning and engineering resources for an Eligible Jurisdiction to assist in designing Transit

Project P (Regional Traffic Signal Synchronization Program) Funding Guidelines

Overview

The Regional Traffic Signal Synchronization Program (Program) will provide local agencies funding for multi-jurisdictional signal synchronization program projects along corridors throughout Orange County. The goal of the Program is to relieve traffic congestion, increase travel speeds, reduce delay, and decrease emissions.

Projects funded through the Program must meet specific criteria in order to compete for funding through this Program. Funded projects are selected on a competitive basis.

Objectives

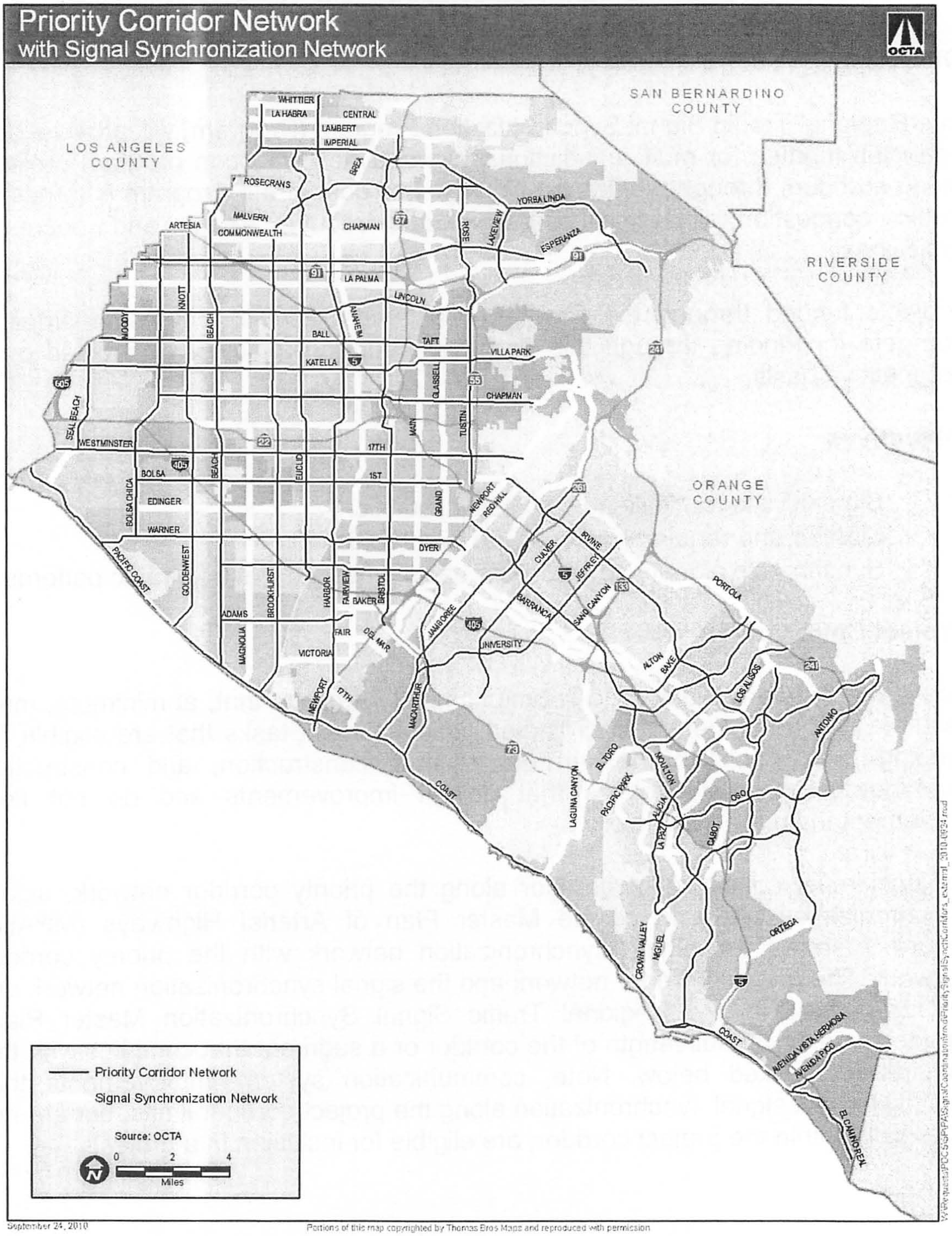
- Synchronize traffic signals across jurisdictions
- Monitor and regularly improve the synchronization
- Synchronize signals on a corridor basis reflecting existing traffic patterns

Project Definition

Local agencies are required to submit complete projects that, at minimum, must result in field-implemented coordinated timing. Project tasks that are eligible for funding can consist of design, engineering, construction, and construction management. Partial projects that design improvements and do not field implement them are ineligible.

Projects must consist of a corridor along the priority corridor network, signal synchronization network, or the Master Plan of Arterial Highways (MPAH). Figure 1 shows the signal synchronization network with the priority corridor network. The priority corridor network and the signal synchronization network are further defined in the Regional Traffic Signal Synchronization Master Plan. Projects can be the full length of the corridor or a segment that complies with the requirements listed below. Note, communication system improvements that directly benefit signal synchronization along the project corridor limits, but are not physically within the project corridor, are eligible for inclusion in a project.

FIGURE 1: Signal Synchronization Network with Priority Corridor Network



September 24, 2010

Portions of this map copyrighted by Thomas Bros Maps and reproduced with permission

Eligible Activities

The primary purpose of the Program is to provide funding for projects that develop and maintain corridor-based, multi-jurisdictional signal synchronization along corridors throughout Orange County. All projects funded by this Program must be corridor-based and have a signal coordination component that includes the following:

- Signal Coordination (new or 3+ years since funded)
  - Developing and implementing signal synchronization timing and parameters
  - Monitor (minimum quarterly/maximum monthly) and regularly improve the signal synchronization timing and parameters for a duration of three years or more after project signal timing is implemented
  - "Before" and "after" studies for the project using travel times, average speeds, green lights to red lights, average stops per mile, and green house gases

In addition to developing optimized signal timing, a project may include other improvements as long as they contribute to the goal of multi-agency signal synchronization of corridors throughout Orange County. These improvements are restricted to the signal synchronization project limits, with the exception of communications that are installed from a central location to the project corridor. All improvements must be designed to enhance the specific project. The following are a list of potentially eligible items as part of a signal coordination project:

- New or upgraded detection (new or 6+ years since funded)
  - Upgrade detection along the signal synchronization corridors to ensure necessary conditions for signal synchronization: inductive loops, video detection, other types of detection systems

- New or upgraded communication systems (new or 6+ years since funded)
  - Contemporary communication system improvements (e.g. Ethernet)
  - Replacement fiber optic or copper cabling for network communication
  - Software and hardware for system traffic control
  - Control and monitoring interconnect conduit (including upgrades or replacement of existing systems)

- Communications and detection support (maximum three years)
  - Monitor, maintain, and repair communication and detection along synchronized corridors to ensure necessary conditions for signal synchronization including interconnect and communications equipment

- Intersection/field system modernization and replacement (new or 6+ years since funded)
  - Traffic signal controller replacement of antiquated units
  - Controller cabinet replacements that can be shown to enhance signal synchronization
  - Closed circuit television (CCTV)

- Minor signal operational improvements (new)
  - Emergency vehicle preempt (signal equipment only)
  - Transit signal priority (signal equipment only)
  - Channelization improvements required for traffic signal phasing but not requiring street construction
  - Traffic signal phasing improvements that will improve traffic flow and system performance including protective permissive left turns
  - Improvements to comply with new federal or state standards for traffic signal design as related to signal synchronization

- Traffic management center (TMC)/traffic operations centers (TOC) and motorist information (new or 6+ years since funded)
  - New TMCs or TOCs (any project funded under this category must be planned or built to be center-to-center communication "ready" with nearby agencies and/or OCTA)
  - Upgrades to existing TMCs or TOCs (any project funded under this category must be planned or built to be center-to-center communication "ready" with nearby agencies and/or OCTA)
  - Motorist information systems (up to 10 percent of total project costs)

- Real-time traffic actuated operations and demonstration projects (new or 6+ years since funded)
  - Adaptive traffic signal systems

In addition, expenditures related to the design of systems, permitting, and environmental clearance are eligible for funding.

Ineligible Expenditures

- Isolated traffic signal improvements
- Traffic hardware (pole, mast arms, lights, electrical, signs, etc.)
- Regular signal operation and maintenance (such as replacement of light bulbs)
- Display equipment
- Feasibility studies
- Relocation of utilities
- Battery backup systems
- Right-of-way

Funding Estimates

The streets and roads component of Measure M2 (M2) is to receive 32 percent of net revenues, 4 percent of which are allocated for Project P or the Program. The Program will make an estimated $270 million (2009 dollars) available over the course of the 30-year M2 Program. Programming estimates are developed in conjunction with a call for projects cycle corresponding to concurrent funding agreements with all local agencies.

The Program targets over 2,000 intersections across Orange County for coordinated operations. Because of the limited amount of funds available for Project P, project cap of $20,000 per signal or $40,000 per project corridor mile included as part of each project (whichever is higher) has been established for the initial call for projects.

Selection Criteria

Specific selection criteria will be used to evaluate competitive program project applications. Emphasis is placed on furthering the overall goal of multi-jurisdictional, corridor-based signal synchronization.

<u>Vehicle Miles Traveled (VMT)</u>: Centerline length of segment(s) proposed for the synchronization corridor multiplied by the existing average daily traffic (ADT) for the proposed segment(s) length. For instance, for a three-mile segment with one-mile interval ADT data at of 200 vehicles, 300 vehicles, and 400 vehicles, the VMT would be calculated as

> 200 vehicles * 1 mile + 300 vehicles * 1 mile + 400 vehicles * 1 mile = 900 vehicle miles.

VMT should be calculated by the smallest segments on which the city typically collects ADT data. (maximum: 20 points)

<u>Benefit Cost Ratio</u>: Existing VMT divided by total project cost (including unfunded phases). (maximum: 15 points)

<u>Project Characteristics:</u> Points are awarded based on the type and relevance of the proposed project. For instance, points accumulate if a signal synchronization project is combined with improvements as defined in the "Eligible Activities" section above. (maximum: 10 points)

<u>Transportation Significance</u>: Points are earned based on the corridor being on the priority corridor network or the signal synchronization network. (maximum: 10 points)

Maintenance of Effort: Points are earned for a commitment to operate the project signal synchronization timing for a defined period of time beyond three years. (maximum: 5 points)

Project Scale: Points are earned for including more intersections along priority corridor network, signal synchronization network, or MPAH as part of the project. (maximum: 10 points)

Number of Jurisdictions: Points are earned for including multiple jurisdictions as part of the project. (maximum: 20 points)

Current Project Readiness: Points are earned based on the start date of the project. (maximum: 5 points)

Funding Over-Match: The percentages shown apply to match rates above a jurisdiction's minimum match requirement. M2 requires a 20 percent local match for Program projects. Project over-match is limited to dollar match only. (maximum: 5 points)

Application Process

Project allocations are determined through a competitive application process administered by OCTA. Local agencies seeking funding must complete a formal application and provide supporting documentation that will be used to evaluate the project proposal as outline below.

1. Complete application
   a. Funding needs by phase and fiscal year
   b. 20 percent matching funds type, source, and description
   c. Lead agency Option 1 (default – local agency) or Option 2 (OCTA)
   d. Lead and supporting agencies names
   e. Supporting technical information
   f. Project development and implementation schedule
   g. Environmental clearances and other permits
   h. Any additional information deemed relevant by the applicant

2. Allocations subject to funding agreements

A call for projects for the funding cycle will be issued as determined by the OCTA Board of Directors (Board). Complete project applications must be submitted by the established due dates to be considered eligible for consideration.

Applications will be reviewed by OCTA for consistency, accuracy, and concurrence. Once applications have been completed in accordance with the Program requirements, the projects will be scored, ranked, and submitted to the

Technical Steering Committee, Technical Advisory Committee, and the Board for consideration and funding approval. OCTA reserves the right to evaluate submitted project costs for reasonableness as part of the review and selection process and suggest potential revisions to make the cost more appropriate.

Minimum Eligibility Requirements

All M2 eligible Orange County cities and the County of Orange may participate in this Program. Caltrans facilities are eligible for this Program, but Caltrans cannot act as the lead agency. Agencies will be required to provide a minimum of 20 percent matching funds for eligible projects (see definition of matching funds below).

The goal of Project P is to provide regional signal synchronization on a corridor basis regardless of jurisdictional boundaries. To facilitate this goal, to be eligible for funding through this Program, a project must meet the following requirements:

1. Be on a corridor that is part of the priority corridor network, signal synchronization network, or the MPAH. The project must be consistent with Local Signal Synchronization Plans and support the Regional Traffic Signal Synchronization Master Plan goals of signal synchronization that is corridor-based, multi-jurisdictional, and emphasizes local control.

2. Be multi-jurisdictional and have documented support from all participating jurisdictions (local cities, County of Orange, or Caltrans) and a minimum of 20 signals, or cover a distance of five miles

   or

   Include at minimum three jurisdictions, have documented support from all participating jurisdictions (local cities, County of Orange, or Caltrans), and a have a minimum intersection density of five intersections per mile with a minimum of five signals

   or

   If within a single jurisdiction, include the full length of the priority corridor, signal synchronization network corridor, or MPAH corridor

Matching Funds

Local agencies along the corridor are required to provide minimum match funding of 20 percent for each project. As prescribed by Ordinance Number 3, this includes local sources, Measure M turn-back, and other public or private sources (herein referred to as a "dollar match"). Additionally, this also can potentially include in-kind services provided by local agency staff. In-kind services are defined as those actions that local agencies will do in support of the project including labor (calculated by number of hours multiplied by staff hourly wage including benefits) and new signal system investment related to improved signal synchronization. Examples of labor include, but are not limited to, implementation of intersection or system timing parameters, review of timing documentation, meeting participation, conducting or assisting in before/after studies, and other similar efforts. Allowable signal system investment would be improvements that are "eligible activities" per the funding guidelines, which can be shown to improve signal synchronization and would not include any prior investments made by the agency. The specific matching requirement by project category type is listed below:

Project category	**Type of matching allowed**
Signal coordination	In-kind or dollar match
New or upgraded detection	In-kind or dollar match
New or upgraded communications systems	In-kind or dollar match
Communications and detection support	In-kind or dollar match
Intersection/field system modernization and replacement	In-kind or dollar match
Minor signal operational improvements	In-kind or dollar match
Traffic management center/traffic operations centers and motorist information systems	Dollar match only
Real-time traffic actuated operations and demonstration projects	Dollar match only

In-kind services are subject to audit.

Other Application Materials

Supporting documentation will be required to fully consider each project application. In addition to the funding plan described above, local agencies will be required to submit the following materials:

Lead Agency: Lead agency for the project must be identified: local agency or OCTA.

Participating Agencies: All participating agencies must be identified.

Council Approval: A Council Resolution or Minute Order action authorizing request for funding consideration with a commitment of project match funding (local sources) must be provided with the project application from all participating agencies.

Project Support: If proposed project has completed initial planning activities (such as project study report or equivalent, environmental impact report, or design), evidence of approval should be included with the application. Satisfactory evidence includes project approval signature page, engineer-stamped site plan, or other summary information to demonstrate completion or planning phases. The applicant will be asked for detailed information only if necessary to adequately evaluate the project application.

Lead Agency

This Program is administered through a single lead agency: a local city or OCTA.

Local Agency Lead: If a local city is the lead agency, then only the lead agency will receive payments in accordance to the Comprehensive Transportation Funding Guidelines regarding payment for costs related to project for optimized signal timing development, capital improvements, planning, and related design. Payments will be disbursed consistent with M2 guidelines regarding payment. The lead agency is responsible for reimbursing other agencies as part of the effort. Additionally, the lead agency is also responsible for ensuring that all agencies participating in the project provide the 20 percent match.

OCTA Lead: If OCTA is the lead agency, then OCTA will be responsible for all costs related to project for optimized signal timing development, capital improvements, planning, and related design. OCTA will be responsible for ensuring that all agencies participating in the project provide the 20 percent match.

Special Project P Certification

The Combined Transportation Funding Program (CTFP) Guideline includes provisions for payment for projects under M2. Project P requires additional provisions beyond those specified in the CTFP Guidelines. Specifically, Project P eligible activities will require certification of completion to be presented at the time of the semi-annual review. A template of the certification document will be provided at a later date.

Project Cancellation

Projects deemed infeasible will be cancelled and further expenditures will be prohibited (except where necessary to bring the current phase to a logical conclusion).

Cancelled projects will be eligible for re-application upon resolution of issues that led to original project termination.

Audits

All M2 payments are subject to audit. Local agencies must follow established accounting requirements and applicable laws regarding the use of public funds. Failure to submit to an audit in a timely manner may result in loss of future funding. Misuse or misrepresentation of M2 funding will require remediation which may include repayment, reduction in overall allocation, and/or other sanctions to be determined. Audits shall be conducted by OCTA Internal Audit Department or other authorized agent either through the normal annual process or on a schedule to be determined by the OCTA Board.

Data Compatibility

All count data collected as part of any funded project shall be provided to OCTA in one of the two following digital formats: 1) NDS/Southland Car Counters style excel spreadsheet; or 2) JAMAR comma separated value style text file. Any count data provided to OCTA shall be consistent with one of these two formats. The data shall then be able to be loaded into the OCTA Roadway Operations and Analysis Database System (ROADS). Any data files containing numeric intersection or node identifiers shall use the same node identification (ID) numbers as is stored in the ROADS database. OCTA shall provide a listing of intersections and corresponding unique node ID numbers. Each count data file shall adhere to the following file naming or csv. As an example, a turning movement count file for the intersection of Harbor Boulevard and Wilson Street in Costa Mesa would be given the filename CostaMesa_Harbor-Wilson_4534.csv.

All traffic signal synchronization data collected and compiled as part of any funded project for both existing (before) and final optimized (after) conditions shall be provided to OCTA in Synchro version 6 csv Universal Traffic Data Format (UTDF) format and version 7 combined data UTDF format. This data shall include the network layout, node, link, lane, volume, timing, and phase data for all coordinated times. All such data shall be consistent with the OCTA ROADS database.

Project P Selection Criteria for Eligible Projects

Vehicle Miles Traveled (VMT) (20 points)

VMT	
250,000 or above	20
200,000 to 249,999	15
150,000 to 199,999	10
100,000 to 149,999	6
50,000 to 99,999	3
49,999 or below	1
	20

Calculation: $(ADT_1 * D_1) + (ADT_2 * D_2) ...+ (ADT_n * D_n)$ = Total Project VMT

Note: n equals the number of roadway segments

Benefit Cost Ratio (15 points)

Total Project Cost (information only)

$ (capital) *(No Points)*

VMT / Project Cost	
0.81 or above	15
0.71 to 0.80	12
0.61 to 0.70	8
0.51 to 0.60	4
0.41 to 0.50	1
0.40 or below	0
	15

Project Characteristics (10 points)

Signal coordination	5
Communication and detection support	3
TMC/TOC and motorist information	2
New or upgraded communication systems	1
New or upgraded detection	1
Intersection/field system modernization and replacement	1
Minor signal operational improvements	1
Real-time traffic actuated operations and demonstration projects	1
	10

Add all elements included as part of submitted project
Up to a maximum of 15 points

Transportation Significance (10 points)

Corridor Type	
Priority Corridor	10
Signal Synchronization Network Corridor	5
	10

Maintenance of Effort (5 points)

A Commitment to Operate Signal Synchronization for a Defined Period of Time	
6 years or more	5
4 to 5 years	3
3 years	0
	5

Project Scale (10 points)

Signals Being Retimed per Mile	
5 or above	5
4.0 to 4.9	4
3.0 to 3.9	3
2.0 to 2.9	2
1.9 or below	1
	5

Calculation: number of signals coordinated divided by the project length (in miles)

AND

Percent of Corridor Signals Being Retimed	
90% or above	5
80% to 89%	4
70% to 79%	3
60% to 69%	2
50% to 59%	1
	5

Calculation: number of signals coordinated divided by total number of signals along the full corridor length

Number of Jurisdictions (20 points)

Total Number of Involved Jurisdictions	
5 or above	20
4	16
3	12
2	8
	20

OR

% of Priority Corridor Jurisdictions Involved	
100%	20
75% to 99%	12
50% to 75%	6
	20

Current Project Readiness (5 points)

Estimated Project Start	
Within 12 months	5
Within 24 months	3
Within 36 months	1
	5

Funding Over-Match (5 points)

Funding Over-Match	
50% or above	5
40%-49%	4
35%-39%	3
30%-34%	2
25%-29%	1
	5

ADT - Average daily traffic
MPAH - Master Plan of Arterial Highways
TMC/TOC - Traffic management center/traffic operations center

BOARD COMMITTEE TRANSMITTAL

November 8, 2010

To: Members of the Board of Directors

WK

From: Wendy Knowles, Clerk of the Board

Subject: Measure M2 Comprehensive Transportation Funding Program – 2010 Regional Capacity Program Annual Call for Projects

Highways Committee Meeting of November 1, 2010

Present: Directors Bates, Cavecche, Glaab, Hansen, Mansoor, Nelson, and Pringle
Absent: Director Dixon

Committee Vote

This item was passed by all Committee Members present.

Director Mansoor was not present to vote on this matter.

Committee Recommendations

A. Approve the addition of Section V, "2010 Call for Projects – Regional Capacity Program" to the Comprehensive Transportation Funding Program guidelines.

B. Authorize staff to issue the annual call for projects for the Regional Capacity Program for approximately $56 million.

OCTA

November 1, 2010

To: Highways Committee

From: Will Kempton, Chief Executive Officer

Subject: Measure M2 Comprehensive Transportation Funding Program – 2010 Regional Capacity Program Annual Call for Projects

Overview

Measure M2 includes competitive capital grant programs for local streets and roads projects including the countywide Regional Capacity Program. On March 22, 2010, the Orange County Transportation Authority Board of Directors approved the Comprehensive Transportation Funding Program guidelines which included the Measure M2 Regional Capacity Program. Staff was directed at that time to return with funding estimates and a schedule for the first Regional Capacity Program (Project O) call for projects. The funding estimates and guidelines are included for review and approval.

Recommendations

A. Approve the addition of Section V, "2010 Call for Projects – Regional Capacity Program" to the Comprehensive Transportation Funding Program guidelines.

B. Authorize staff to issue the annual call for projects for the Regional Capacity Program for approximately $56 million.

Background

Measure M2 (M2) includes a number of competitive grant programs that provide funding for transit as well as local streets and roads projects. On March 22, 2010, the Orange County Transportation Authority (OCTA) Board of Directors (Board) approved the guidelines for the Comprehensive Transportation Funding Program (CTFP), which serves as the mechanism OCTA will use to administer the Regional Capacity Program (RCP). In addition to the approval of the guidelines, the Board directed staff to develop detailed funding estimates as well as an amendment to the guidelines that would facilitate the issuance of the first annual RCP call for projects (call).

Discussion

Staff has subsequently prepared a fund estimate and schedule to facilitate the issuance of the first annual call under the RCP which will be incorporated into the existing guidelines (Attachments A and B). In addition, staff has also developed programming capacity estimates consistent with the estimated revenues through June 2014. A summary of the recommended programming for the 2010 call is provided below by fiscal year (FY).

FY		Estimated RCP Programming	
FY2011-12		26,800,000	*
FY2012-13		17,190,000	
FY2013-14		12,070,000	
Total	$	56,060,000	

** Includes revenue from partial year (FY 2010-11)*

Under the RCP, OCTA anticipates issuing an annual call with a three-year funding cycle. The first year of each cycle will distribute 100 percent of expected revenues, the second year 75 percent, and the third year 50 percent, less prior call programming commitments. The partial allocation of funding for years two and three ensures programming capacity for year one of the future annual calls.

In an effort to maintain the previously estimated funding levels presented to the Board in March 2010, staff is proposing to leverage unprogrammed Measure M1 (M1) CTFP funds as well as Proposition 1B State-Local Partnership Program (SLPP) funds as part of this call. The unprogrammed M1 CTFP funds are approximately $10 million. This capacity has become available due to project cancellations and, consistent with prior Board direction, will be included in the 2010 call. Additionally, SLPP funds will be allocated for RCP projects as part of this call for construction phase allocations of $2 million or more. The precise amount of SLPP funding to be programmed as part of the call will be finalized based on the number of applications submitted for projects that can comply with SLPP requirements. It is estimated that approximately $10 million - $12 million in SLPP funds will be made available. Projects utilizing SLPP funds will be subject to the specific SLPP requirements and guidelines. These guidelines require additional reporting over and above the documentation expected as part of the use of M2 funds.

Therefore, for projects receiving SLPP funding, OCTA will provide consultant services to assist in the gathering and preparation of the required supporting documentation. These services will be made available at no cost to the local agency. RCP eligible projects include arterial capacity enhancements, intersection capacity enhancements, and freeway arterial/street transitions.

With Board approval, staff anticipates sending out letters of notification to the local agencies regarding the call by November 11, 2010. The project application submittal deadline would be January 28, 2011. Staff, in conjunction with the Technical Advisory Committee, would score the applications based on the selection criteria in the CTFP guidelines and would return with programming recommendations for final Board approval in June 2011. Programming allocations would be effective July 1, 2011, with the start of FY 2011-12.

The call would be taking place concurrent with the first M2 eligibility cycle. Any programming recommendations that are approved by the Board would be contingent on the local agencies being found eligible for M2 net revenues.

Summary

The Comprehensive Transportation Funding Program Regional Capacity Program provides for intersection and arterial improvements to enhance street operations and to reduce congestion. The Comprehensive Transportation Funding Program has been updated to facilitate the issuance of the first Regional Capacity Program call for projects valued at approximately $56.06 million. The Comprehensive Transportation Funding Program guideline amendment is being presented for review and approval. Once the amendment is approved by the Orange County Transportation Authority Board of Directors, staff will issue the complete Comprehensive Transportation Funding Program guidelines manual with the inclusion of Section V: 2010 Call for Projects – Regional Capacity Program.

Attachments

A. Table of Contents
B. Section V: 2010 Call for Projects – Regional Capacity Program

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Section V: 2010 Call for Projects – Regional Capacity Program

The 2010 Call for Projects (call) will be the first annual call for Project O – the Regional Capacity Program (RCP) – under M2. Through the various funding sources – to be detailed below – this call will provide approximately **$56 million** for streets and roads improvements across Orange County.

Funding will be provided for the three RCP funding programs (ACE, ICE, and FAST) as detailed in Chapter 7 of this manual. Chapter 7 details the specific program's intent, eligible project expenditures, ineligible project expenditures, and additional information that may be needed when applying for funds. Each section should be read thoroughly before applying for funding. Application should be prepared for the program that best fits the proposed project.

For this initial call, OCTA shall program projects for a three year period, based upon the current estimate of available funds. For specifics on the funding policies that apply to this call, refer to the Program Precepts as found in Section IV of this manual.

Applications

In order for OCTA to consider a project for funding, applications will be prepared by the local agency responsible for the project implementation. OCTA shall require agencies to submit applications for the 2010 call for projects by **5:00 p.m. on Friday, January 28, 2011**. Late submittals will not be accepted.

The agency must submit the application and any supporting documentation via OCFundtracker as outlined in Chapter 9 (page 9-1). Detailed evaluation criteria for the ACE, ICE, and FAST programs can be found in Chapter 7 of this manual.

Application Review Process

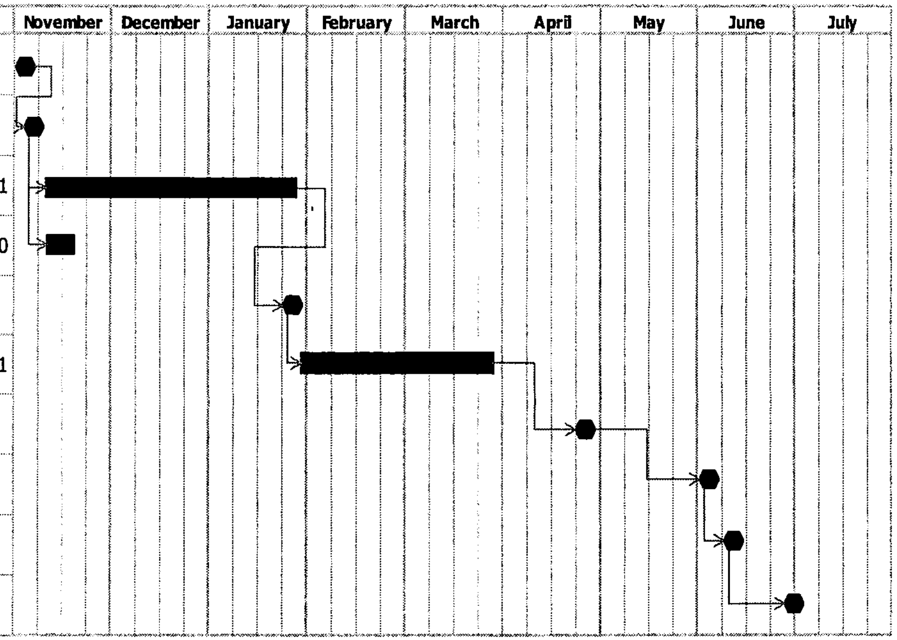
Once applications are reviewed and ranked, a recommended funding program will be developed by OCTA staff. These programming recommendations will be presented to the TAC for review and comment. The TAC approved programming recommendations will then be presented to the OCTA Highways Committee and Board of Directors (Board) for review and final approval.

Local agencies awarded funding will be notified what projects have been funded and from what sources after the Board takes action. The entire application/approval schedule is illustrated in Exhibit V-1.

Exhibit V-1

Call for Projects - Application/Approval Schedule

Description	Start	Finish
Board approval of funding estimates and direction to issue a call	11/8/2010	
Authority issues formal call, requests project applications	11/9/2010	
Application preparation by local agencies	11/10/2010	1/28/2011
Comprehensive Transportation Funding Program call workshops *(1-day workshop x 3)*	11/16/2010	11/18/2010
Application submittal deadline	1/28/2011	
Application review by OCTA	1/31/2011	3/25/2011
TAC approval of allocation recommendations	4/27/2011	
Highways Committee approval	6/6/2011	
Board of Directors approval	6/13/2011	
Agencies eligible to receive payment of Fiscal Year 2011-12 programming	7/1/2011	



M2 Project O Funding

In an effort to maintain the previously estimated funding levels, unprogrammed M1 CTFP funds as well as Proposition-1B State-Local Partnership Program (SLPP) formula shares will be used to supplement the available M2 Project O funding for this call.

State-Local Partnership Program Requirements

For the 2010 call, SLPP funds will supplement the available M2 revenues. As part of this call, any construction phase award through this call for **$2 million or more** will automatically include SLPP funds. Projects utilizing SLPP funds will be subject to the specific SLPP requirements and guidelines, which differ from the requirements for M2 funding as detailed in this manual. These are enumerated below.

1. *Additional Application Requirements:* All project submittals that are requesting $2 million or more for the construction phase of the project must complete and attach the Project Programming Request form along with the CTFP submittal in the OC Fundtracker system.

2. *Procurement Requirements*: For procurement requirements information, see Chapter 15 and 16 of the California Department of Transportation (Caltrans) Local Assistance Procedures Manual (LAPM). The local agency is responsible to comply with all local, state, and if applicable, federal requirements for procurement.

3. *Timely Use of Funds Requirements*: **Construction contracts cannot be awarded prior to California Transportation Commission (CTC) allocation or Letter of No Prejudice (LONP) approval.** Once a project is allocated by the CTC, it will have six months from the date of allocation to award a contract. If a LONP is approved the implementing agency must begin reporting on contract award within 4 months of the CTC approval.

4. *Required Contracts:*

   a) Master agreement between agency and OCTA which incorporates SLPP requirements.

   b) Caltrans Master agreement and Caltrans program supplement between OCTA and Caltrans.

   c) Construction Contracts (unless work is being carried out by the City directly).

OCTA and the local agencies will work together to ensure the appropriate contracts are in place and are in compliance with timely use of funds requirements.

5. *Invoicing Requirements*: Invoicing Caltrans for the SLPP projects will be carried out by OCTA. The requirements for the SLPP projects are the same as the State Transportation Improvement Program (STIP) and state reimbursement project requirements. The general requirements are listed below.

   a) Exhibit 5-F on Agency letterhead. Located on page 5-41 of the LAPM

   b) Caltrans Program Supplement.

   c) SLPP Project Baseline Agreement, which may require local agency authorization in addition to OCTA's authorization

   d) CTC allocation and confirmation of allocation on the CTC vote list.

   e) Master agreement between the agency and OCTA incorporating state requirements and the Caltrans Program Supplement requirements.

   f) Verification that the project has been included in the Federal Transportation Improvement Program (FTIP).

   g) Documentation of expenditure including copies of invoices and local agency cancelled checks.

OCTA will require this back up documentation from the local agency in order to submit invoices to Caltrans. For more information on invoicing requirements, see Caltrans Local Assistance Programming Manual Chapter 5.

6. *Quarterly Reports*: Implementing agencies with SLPP funded projects must submit quarterly reports to Caltrans. Under these guidelines, projects are required to include:

   a) Description of scope of work.

   b) Updates on estimated project costs.

   c) Updates on schedule.

   d) Any variances in scope, schedule or cost from the Caltrans Baseline Agreement and any required corrective corrections that have been taken or will be taken.

The CTC and Caltrans will review the progress reports to ensure that projects are executed in a timely fashion and remain within the original scope and budget of the project. If project scope, costs, and schedule changes, the implementing agency must provide a plan for minimizing the change. If cost requirements increase the implementing agency must down scope the project to remain within budget, or identify additional funding sources. The local agency will be required to submit reports to Caltrans with copies to OCTA.

7. *Final Delivery Report*: In addition to semiannual reports, a final report must be filed within six months of the project becoming operable. This should include:

   a) Scope of completed project.

   b) Final costs as compared to approved project budget.

   c) Duration of completion compared to approved schedule.

   d) Performance outcomes derived from project compared to outcomes in project agreement.

The local agencies will be required to submit the final report to Caltrans with copies to OCTA.

8. *Project Inclusion in FTIP*: OCTA will work with the local agency to list each project individually in the FTIP or to develop a group listing for CTFP/SLPP funded projects.

9. *Auditing Requirements*: SLPP projects will require two audit reports conducted by Caltrans:

   a) Semi-final audit report within 6 months of the final delivery report.

   b) Final audit report within 12 months after the final delivery report.

Please see the Caltrans Local Assistance SLPP Accountability Implementation Plan for more information.

State-Local Partnership Program Reporting Assistance

The additional requirements enumerated above represent an increase to the reporting expected as part of the use of M2 funds. Therefore, for projects allocated SLPP funding, OCTA will provide consultant services to assist in the gathering and preparation of the required documentation. These services will be made available at no cost to the agency.