

#### **Committee Members**

Michael Hennessey, Chairman Richard Murphy, Vice Chairman Andrew Do Gene Hernandez Steve Jones Joe Muller Michelle Steel Orange County Transportation Authority Headquarters Conference Room 07 550 South Main Street Orange, California Wednesday, April 8, 2020 at 10:30 a.m.

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 (2) business days prior to this meeting to enable OCTA to make reasonable arrangements to assure accessibility to this meeting.

Agenda descriptions are intended to give members of the public a general summary of items of business to be transacted or discussed. The posting of the recommended actions does not indicate what action will be taken. The Committee may take any action which it deems to be appropriate on the agenda item and is not limited in any way by the notice of the recommended action.

All documents relative to the items referenced in this agenda are available for public inspection at www.octa.net or through the Clerk of the Board's office at the OCTA Headquarters, 600 South Main Street, Orange, California.

#### Guidance for Public Access to the Board of Directors/Committee Meeting

On March 12, 2020 and March 18, 2020, Governor Gavin Newsom enacted Executive Orders N-25-20 and N-29-20 authorizing a local legislative body to hold public meetings via teleconferencing and make public meetings accessible telephonically or electronically to all members of the public to promote social distancing due to the state and local State of Emergency resulting from the threat of Novel Coronavirus (COVID-19).

In accordance with Executive Order N-29-20, and in order to ensure the safety of the Orange County Transportation Authority (OCTA) Board of Directors and staff and for the purposes of limiting the risk of COVID 19, in-person public participation at public meetings of the OCTA will not be allowed during the time period covered by the above-referenced Executive Orders.

Instead, members of the public can listen to AUDIO live streaming of the Committee meeting by clicking the below link:

http://www.octa.net/About-OCTA/Who-We-Are/Board-of-Directors/Live-and-Archived-Audio/



Guidance for Public Access to the Board of Directors/Committee Meeting (Continued)

Public comments may be submitted for the upcoming Committee meeting by emailing them to boardofdirectors@octa.net.

If you wish to comment on a specific agenda Item, please identify the Item number in your email. General public comments will be addressed during the general public comment item on the agenda and read into the record. In order to ensure that staff has the ability to provide comments to the Committee Members in a timely manner, **please submit your public comments by 10:00 a.m. on Wednesday, April 8, 2020.** 

#### Call to Order

#### Roll Call

#### Pledge of Allegiance

Committee Chairman Hennessey

1. Public Comments

#### **Special Calendar**

2. Orange County Transportation Authority Financial Update Sean Murdock/Andrew Oftelie

Staff will present an update on OCTA's financial picture including current cash balances, reserve levels and debt programs. Jim Sarni from Payden & Rygel will provide a market overview.

#### Consent Calendar (Items 3 through 6)

All items on the Consent Calendar are to be approved in one motion unless a Committee Member or a member of the public requests separate action or discussion on a specific item.

#### 3. Approval of Minutes

Approval of the minutes of the Finance and Administration Committee meeting of March 11, 2020.



4. Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2019 Gabriel Tang/Janet Sutter

Jabriel Tang/Janet Su

#### Overview

The Internal Audit Department has completed an audit of investments for the period July 1 through December 31, 2019. Based on the audit, the Orange County Transportation Authority complied with its debt, investment, and reporting policies and procedures.

#### Recommendation

Receive and file Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2019, Internal Audit Report No. 20-509, as an information item.

5. Orange County Transportation Authority Investment and Debt Programs Report - February 2020 Robert Davis/Andrew Oftelie

#### Overview

The Orange County Transportation Authority has a comprehensive investment and debt program to fund its immediate and long-term cash flow demands. Each month, the Treasurer submits a report detailing investment allocation, performance, compliance, outstanding debt balances, and credit ratings for the Orange County Transportation Authority's debt program. This report is for the month ending February 29, 2020. The report has been reviewed and is consistent with the investment practices contained in the Investment Policy.

#### Recommendation

Receive and file as an information item.

6. Fiscal Year 2019-20 Second Quarter Budget Status Report Anthony Baruch/Andrew Oftelie

#### Overview

The Orange County Transportation Authority's staff has implemented the fiscal year 2019-20 budget. This report summarizes the material variances between the budget and actual revenues and expenses through the second quarter of fiscal year 2019-20.



#### 6. (Continued)

#### Recommendation

Receive and file as an information item.

#### **Regular Calendar**

7. 91 Express Lanes Update and Temporary Measures Kirk Avila/Darrell E. Johnson

#### Overview

Traffic volumes on the 91 Express Lanes have declined significantly over the past several weeks as a result of the coronavirus pandemic and California Governor Gavin Newsom's stay-at-home order. This report provides the latest information on traffic volumes and operations.

#### Recommendations

- A. Authorize the Chief Executive Officer to temporarily waive for a period of up to 90 days, 91 Express Lanes monthly account fees, contingent upon a similar approval from the Riverside County Transportation Commission.
- B. Authorize the Chief Executive Officer to temporarily modify for a period of up to 90 days the 91 Express Lanes Toll Policy to allow for the ability to remove automatic toll rates increases, if necessary.

#### **Discussion Items**

8. Fiscal Year 2020-21 Revised Budget Assumptions Victor Velasquez/Andrew Oftelie

> Staff is in the process of developing the fiscal year 2020-21 annual budget. In doing so, staff will be presenting revised revenue and expenditure assumptions for the committee's consideration.

#### 9. Chief Executive Officer's Report

#### **10.** Committee Members' Reports



#### 11. Closed Session

There are no Closed Session items scheduled.

#### 12. Adjournment

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, April 22, 2020,** at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.

# Orange County Transportation Authority Financial Update



# **Program Updates**

- Investments
- Measure M2 (M2)
- Bus
- Express Lanes Programs
  - 91 Express Lanes
  - Interstate 405 (I-405) Express Lanes

## Short-Term Portfolio Balance of \$1.6 Billion



### Cash Balance of \$2.1Billion



4

# M2 Program

- Sales tax collections
  - Fiscal Year (FY) 2018-19: \$331 million
  - FY 2019-20 (estimated): \$303 million
  - FY 2020-21 (forecast): \$290 million
- Historically strong debt service coverage and cash balances
  - Outstanding sales tax revenue bonds of \$627 million
  - Annual debt service of \$39 million
  - FY 2019 coverage ratio 8.8x
  - Cash balance of \$1.1 billion
  - Economic uncertainty of \$1.9 billion
- Future financing
  - No need for additional financing until FY 2022-23

### M2 Program: Sales Tax vs Debt Service



6

# Bus Program

- Sales tax collections
  - FY 2018-19: \$176 million
  - FY 2019-20 (estimated): \$161 million
  - FY 2020-21 (forecast): \$154 million
- Fixed-route ridership down 72 percent negatively impacting fare revenue
  - Current losses for fixed-route fare revenue of ~ \$2.5 million per month
- State Transit Assistance anticipated to decrease due to declining fuel usage
- Annual operating cost per year is ~ \$320 million

# Bus Program

- Coronavirus Aid, Relief, and Economic Security (CARES) Act \$155M
- Strong cash position
  - Board approved an increase in operating reserve from 45 days to 60 days
  - Operating reserve is currently \$107 million (120 days)
- No outstanding debt and no plans for future issuances
- Capital program remains funded

## 91 Express Lanes

- Toll revenue down 60 percent due to declining traffic volume
- Historically strong debt service coverage ratio
  - Outstanding toll road revenue bonds of \$92 million
  - Annual debt service of \$11 million
  - FY 2019 coverage ratio 4.6x (1.3x required)
- Strong cash position
  - Indenture required reserves fully funded at \$25 million
  - Unrestricted reserves total \$180 million
    - Includes internal capital fund (\$25 million), M2 Project Fund (\$57 million), and excess toll revenue reservice (\$98 million)

### 91 Express Lanes: Revenue vs Debt Service



10

# I-405 Express Lanes

- Supported by \$629 million federal Transportation Infrastructure Finance and Innovation Act Loan
  - Interest rate of 2.91 percent
  - Loan terms will not change due to impact of COVID-19
  - Current draws on the loan total \$287 million
- Required Line of Credit
  - Outstanding amount of \$500 million
  - Annual fee of 36 basis points
  - Line of credit expires July 2021
- Construction continues

## **Rating Agencies**

- Rating agencies took action to address credit outlooks in the transportation sector amid COVID-19 disruptions
- Fitch placed five major transit agencies on negative watch
  - Also initiated a review of all toll road credits
- Standard & Poor's revised the transportation sector outlook to negative
- Moody's revised toll road outlook to negative from stable
- Fitch affirmed OCTA's 91 Express Lanes Rating at "A+" and the Rating Outlook continues to be "Stable"

## Next Steps

- Proactively reach out to rating agencies and investors
- Continue to assess impacts of COVID-19 to the debt and investment markets
- Utilize CARES Act funding to support the Bus and Metrolink Programs
- Continue to assess impacts of COVID-19 to OCTA's programs

# Payden&Rygel

LOS ANGELES | BOSTON | LONDON | MILAN

### ORANGE COUNTY TRANSPORTATION AUTHORITY

Finance & Administrative Committee Meeting

April 08, 2020

1

### Orange County Transportation Authority Executive Summary

#### As of March 31, 2020

#### **Portfolio Characteristics**

**Mandate:** Short maturity bond portfolio subject to California Government Code

Inception Date	February 2000
Portfolio Market Value	\$407 million
Average Duration	1.8 years
Average Portfolio Credit Quality	AA+
Average Yield-to-Maturity	1.1%

#### **Objectives**

- Safety of Principal
- Liquidity
- Total return consistent with the above objectives
- Diversification

#### **Benchmarks**

- Bank of America Merrill Lynch 1-3 year Treasury
- Bank of America Merrill Lynch 1-3 Government/Corporate, AAA-A



#### Market Value History Since Inception

### R

#### **OUR FIRM**

ESTABLISHED IN 1983 Los Angeles-based, offices in Boston, London, Milan

**OVER \$119 BILLION AUM** A fully-resourced – yet flexible – firm

#### ONE GOVERNANCE CENTER

Clients have direct access to business owners

#### **100% EMPLOYEE OWNED**

#### OUR CULTURE

GLOBAL PERSPECTIVE ON INVESTING Regardless of benchmark

**COLLABORATIVE APPROACH** Sharing best ideas, constructive debate

**EXCEPTIONAL RETENTION** of talented people and clients

#### ALIGNMENT OF INTERESTS Fully focused on our clients



- The longest economic expansion in U.S. history halted as COVID-19 spread globally. We now appear to be heading into a recession in the second quarter.
- Fixed income market behavior in March was driven by the need for liquidity. Selling pressure from de-risking strained bank balance sheets and bifurcated bond prices and intrinsic value.
- Corporate bond prices fell over the quarter energy, autos, and airline/travel bonds were hit hardest by the drop in economic activity. Mortgage-backed, asset-backed, and municipal bonds also experienced negative returns.
- However, a flight to quality drove U.S. Treasury prices higher, up 8.8%, the best quarterly performance since Q4 2008.
- In response, the Fed has stepped in to cut rates to nearly zero and purchase bonds on an unprecedented scale to stabilize the market.
- Looking ahead, we know that the markets will move beyond COVID-19 eventually, but when is anyone's guess. Near-term uncertainty can create longterm opportunities, supported by the aggressive moves by the Fed and Congress, low oil prices, and a historically resilient economy.



#### Treasury Yield Curve

5-Year Yields Across Fixed Income Sectors



### OCTA Key Investment Policy Guidance vs. California Code 53601 as of March 31, 2020

Permitted Investments	Max %	Maturity	Quality	California Code Allows:
US Treasuries, Agencies and Government Sponsored Enterprises	100%	5 Years	N/A	Same as California Code
Municipal Bonds	30%	5 Years	A-	Same as California Code
Commercial Paper	25%	270 Days	A1 / P1	Same as California Code
Medium Term Maturity Notes (IG Corporates)	30%	5 Years	A-	Same as California Code
Mortgage Pass-Through (MBS)	20% Combined Max 20%	5 Years	AA-	Same as California Code
Asset-Backed Securities (ABS)	Max 10%	5 Years	AA-	Code allows 20%
	Sector Limits	Shorter Maturity Profile	Emphasis to High Quality	OCTA Policy More Restrictive



\* Bank of America Merrill Lynch 1-3 year Treasury



#### Committee Members Present

Michael Hennessey, Chairman Richard Murphy, Vice Chairman Andrew Do Gene Hernandez Steve Jones Joe Muller Michelle Steel

#### Staff Present

Darrell E. Johnson, Chief Executive Officer Ken Phipps, Deputy Chief Executive Officer Laurena Weinert, Clerk of the Board Martha Ochoa, Assistant Clerk of the Board Gina Ramirez, Deputy Clerk of the Board James Donich, General Counsel OCTA Staff and Members of the General Public

### Committee Members Absent

None

#### Call to Order

The March 11, 2020, regular meeting of the Finance & Administration Committee was called to order by Committee Chairman Hennessey at 10:34 a.m.

#### Pledge of Allegiance

Director Steel led in the Pledge of Allegiance.

#### 1. Public Comments

Public comment was heard from:

<u>Kristine Ridge</u>, City of Santa Ana, City Manager, thanked staff for allowing the City of Santa Ana the opportunity to become compliant, and supports today's agenda Item 6.

#### **Special Calendar**

There were no Special Calendar matters.

#### Consent Calendar (Items 2 through 4)

#### 2. Approval of Minutes

A motion was made by Director Muller, seconded by Vice Chairman R. Murphy, to approve the minutes of the Finance and Administration Committee meeting of February 26, 2020.



### 3. Performance Audit of the Orange County Transportation Authority's Patch Management Program

A motion was made by Director Muller, seconded by Vice Chairman R. Murphy, and declared passed by those present, to direct staff to implement five recommendations provided in the performance audit of the Orange County Transportation Authority's Patch Management Program.

#### 4. Local Transportation Fund Claims for Fiscal Year 2020-21

A motion was made by Director Muller, seconded by Vice Chairman R. Murphy, and declared passed by those present, to adopt Orange County Transit District Resolution No. 2020-009 authorizing the filing of Local Transportation Fund claims in the amounts of \$165,118,625 to support public transportation and \$8,753,906 for community transit services.

#### **Regular Calendar**

5. Orange County Local Transportation Authority Measure M2 Maintenance of Effort, Agreed-Upon Procedures Report, City of Stanton, Year Ended June 30, 2019

Janet Sutter, Executive Director of Internal Audit, provided the findings, and highlighted the recommendation.

Director Hernandez inquired on the cost of the audit and who would be responsible for paying for it.

Ms. Sutter responded as part of the settlement agreement, the City of Stanton would pay for the cost of the audit.

A motion was made by Director Hernandez, seconded by Vice Chairman R. Murphy, and declared passed by those present, to direct staff to develop recommendation(s) for Board of Directors' action related to the status of the City of Stanton's Measure M2 eligibility.



### 6. Orange County Local Transportation Authority Measure M2 Maintenance of Effort, Agreed-Upon Procedures Report, City of Santa Ana, Year Ended June 30, 2019

Janet Sutter, Executive Director of Internal Audit, provided the findings and highlighted the recommendation.

A motion was made by Vice Chairman R. Murphy, seconded by Director Muller, and declared passed by those present, to direct staff to develop recommendation(s) for Board of Directors' action related to the status of the City of Santa Ana's Measure M2 eligibility.

#### Discussion Items

#### 7. Chief Executive Officer's Report

Darrell E. Johnson, Chief Executive Officer (CEO), reported on the following:

As a follow-up on today's agenda Items 5 and 6, both items will go forward to the Regional, Planning and Highways Committee and the Board of Directors (Board) to approve actions for each of the cities Measure M2 (M2) eligibility.

James Donich, General Counsel, stated that not every jurisdiction is audited every year and the Board will request an audit for the cities of Stanton and Santa Ana every two years.

Coronavirus Update

- Staff is continuing to monitor the developing Coronavirus situation and following all guidelines and recommendations issued by the Centers for Disease Control (CDC) and the Orange County Health Care Agency (HCA).
- OCTA's multi-divisional task force is in direct contact with CDC and HCA, and staff recently met with an HCA representative.
- OCTA has communicated information to riders and employees and will continue to do so.
- Proactive cleaning efforts to safeguard health were highlighted.
- Staff will continue to keep the Board apprised of any new developments through weekly updates that will go out every Monday.



#### 7. (Continued)

Careers in Transportation Expo

- On March 10<sup>th</sup>, OCTA hosted the fifth annual Careers in Transportation Expo.
- OCTA had nearly 200 local high-school and college students in attendance to learn about careers in public transportation.

#### 8. Committee Members' Reports

Committee Chairman Hennessey acknowledged Ken Phipps, Deputy Chief Executive Officer, on his hard work and all he has done during his employment at OCTA.

#### 9. Closed Session

There were no Closed Session items scheduled.

#### 10. Adjournment

The meeting adjourned at 10:45 a.m.

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, April 8, 2020,** at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.

ATTEST

Gina Ramirez Deputy Clerk of the Board

Michael Hennessey Committee Chairman



#### April 8, 2020

То:	Finance and Administration Committee
From:	Darrell E. Johnson, Chief Executive Officer Janet Sutter, Executive Director
	Internal Audit

*Subject:* Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2019

#### Overview

The Internal Audit Department has completed an audit of investments for the period July 1 through December 31, 2019. Based on the audit, the Orange County Transportation Authority complied with its debt, investment, and reporting policies and procedures.

#### Recommendation

Receive and file Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2019, Internal Audit Report No. 20-509, as an information item.

#### Background

The Treasury Department (Treasury) is responsible for the management of the Orange County Transportation Authority's (OCTA's) Investment Portfolio (Portfolio). On December 31, 2019, the Portfolio's book value was approximately \$2.1 billion. The Portfolio consists of three managed portfolios: the liquid portfolio for immediate cash needs, a bond proceeds portfolio to meet Measure M2 transportation program needs, and the short-term portfolio for future budgeted expenditures. External investment managers administer the short-term portfolio, and OCTA's Treasurer manages the liquid assets portfolio. OCTA also has investments in debt service reserve funds for various outstanding debt obligations.

The Investment Policy (Policy) sets forth guidelines for all OCTA investments to ensure conformance with the California Government Code. The Policy outlines permitted investments, as well as diversification guidelines. The diversification limits ensure the Portfolio is not unduly concentrated in securities

### Investments: Compliance, Controls, and Reporting, July 1 *Page 2* through December 31, 2019

of one type, industry, or entity, thereby assuring adequate portfolio liquidity should one sector or company experience difficulties.

#### Discussion

OCTA's investment activities are reviewed on a semi-annual basis by the Internal Audit Department. The objective of the audit was to determine if OCTA complied with its debt, investment, and reporting policies and procedures for the period July 1 through December 31, 2019.

#### Summary

Based on the audit, OCTA complied with its debt, investment, and reporting policies and procedures.

#### Attachment

A. Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2019, Internal Audit Report No. 20-509

Prepared by:

indul 22

Gabriel Tang Principal Internal Auditor 714-560-5746

Approved by:

Janet Sutter Executive Director, Internal Audit 714-560-5591

### ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



### Investments: Compliance, Controls, and Reporting July 1 through December 31, 2019

Internal Audit Report No. 20-509 March 24, 2020



Performed by:Janet Sutter, CIA, Executive DirectorSerena Ng, CPA, Senior ManagerGabriel Tang, CPA, Principal Internal Auditor

**Distributed to:** Andrew Oftelie, Chief Financial Officer, Finance and Administration Sean Murdock, Robert Davis, Benjamin Torres, Maya Haddad

### **Table of Contents**

Conclusion	1
Background	1
Objectives, Scope, and Methodology	2

#### Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of investments for the period July 1 through December 31, 2019. Based on the audit, the Orange County Transportation Authority (OCTA) complied with its debt, investment, and reporting policies and procedures.

#### Background

#### Portfolio Management

The Treasury Department (Treasury) is responsible for the management of OCTA's Investment Portfolio (Portfolio). To accomplish this, Treasury uses the Clearwater treasury software system to monitor investments and investment manager performance.

On December 31, 2019, the Portfolio's book value was approximately \$2.1 billion. The Portfolio consists of three managed portfolios: the liquid portfolio for immediate cash needs, a bond proceeds portfolio to meet Measure M2 transportation program needs, and the short-term portfolio for future budgeted expenditures. External investment managers administer the short-term portfolio, and OCTA's Treasurer manages the liquid assets portfolio. OCTA also has investments in debt service reserve funds for various outstanding debt obligations. OCTA's Accounting Department (Accounting) is responsible for recording all debt and investment transactions, and for reconciling all bank and custodial accounts monthly.

#### Investment Policy

The Investment Policy (Policy) sets forth guidelines for all OCTA investments to ensure conformance with the California Government Code (CGC). The Policy outlines permitted investments as well as diversification guidelines. The diversification limits ensure the portfolio is not unduly concentrated in securities of one type, industry, or entity, thereby assuring adequate portfolio liquidity should one sector or company experience difficulties.

OCTA has provided the investment managers with a copy of the Policy and requires investment managers to invest their portfolios in accordance with the provisions of the Policy.

#### **Objectives, Scope, and Methodology**

The primary <u>objective</u> was to determine if OCTA complied with its debt, investment, and reporting policies and procedures.

Audit objectives included determining if:

- Internal controls over OCTA's investment activities were adequately designed;
- OCTA was in compliance with the Policy and CGC;
- Investment transactions were adequately supported; and
- OCTA was in compliance with investment requirements of debt issuances.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.<sup>1</sup> The components and principles that were evaluated as part of this audit are:

- Control Environment
  - OCTA demonstrates a commitment to integrity and ethical values.
  - Management establishes, with Board of Director (Board) oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
  - OCTA demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Risk Assessment
  - OCTA specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
  - OCTA identifies and assesses changes that could significantly impact the system of internal control.
- Control Activities
  - OCTA selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
  - OCTA selects and develops general control activities over technology to support the achievement of objectives.
- Information and Communication
  - OCTA obtains, or generates and uses relevant, quality information to support the functioning of other components of internal control.

<sup>&</sup>lt;sup>1</sup> See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at <u>http://www.gao.gov/products/GAO-14-704G</u>, for more information.

- Monitoring
  - OCTA evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Board, as appropriate.

The <u>scope</u> included investment transactions and investment-related controls for the period July 1 through December 31, 2019.

The methodology consisted of obtaining the most current Policy and Debt and Investment Management Manual, reviewing any personnel changes and corresponding updates to bank authorization signature cards, reviewing a judgmental sample of daily cash worksheets prepared by Accounting and Treasury staff, testing a judgmental sample of investments for compliance with the Policy, tracing a haphazard sample of investments from the bank statements to Clearwater, testing a judgmental sample of wire transfers for accuracy and proper authorization, and verifying the accuracy of the quarterly investment and debts reports provided to OCTA's Board. For daily cash report testing, repo-sweep testing, and wire transfer testing, Internal Audit judgmentally selected one transaction per month during the scope period. For Treasury software and computer data testing, Internal Audit haphazardly selected five securities per investment manager per quarter, resulting in a sample of 40 securities, and traced the securities from the statements to the Clearwater Daily Holding Reports. For guarterly report transaction testing, Internal Audit judgmentally selected 40 investments per guarter for coverage over different types of securities. Since the samples are non-statistical, any conclusions are limited to the sample items tested. The methodology also included Treasury's monitoring of the investment managers' compliance with the Policy, including obtaining acknowledgement of receipt of OCTA's Policy, and obtaining written descriptions of the compliance and control environment of the custodian.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



#### April 8, 2020

April 8, 2020	mil
То:	Finance and Administration Committee
From:	Darrell E. Johnson, Chief Executive Officer
Subject:	Orange County Transportation Authority Investment and Debt Programs Report - February 2020

#### **Overview**

The Orange County Transportation Authority has a comprehensive investment and debt program to fund its immediate and long-term cash flow demands. Each month, the Treasurer submits a report detailing investment allocation, performance, compliance, outstanding debt balances, and credit ratings for the Orange County Transportation Authority's debt program. This report is for the month ending February 29, 2020. The report has been reviewed and is consistent with the investment practices contained in the Investment Policy.

#### Recommendation

Receive and file as an information item.

#### Discussion

of February 29. 2020, the Orange County Transportation As Authority's (OCTA) outstanding investments totaled \$2.1 billion. The portfolio is divided into three managed portfolios: the liquid portfolio for immediate cash needs, the short-term portfolio for future budgeted expenditures, and the bond proceeds portfolio to meet Measure M2 (M2) transportation program needs. In addition to these portfolios, OCTA has funds invested in debt service reserve funds for the 91 Express Lanes Program.

The weighted average book yield for OCTA's portfolio is 2.0 percent. The book yield measures the exact income, or interest, on a bond without regard to market price change. The yield is the income return on an investment, such as the interest received from holding a particular security. The yield is usually expressed as an annual percentage rate based on the investment's cost and market value.
#### Orange County Transportation Authority Investment and Debt Page 2 Programs Report – February 2020

OCTA's month-end balance in the Local Agency Investment Fund was \$10,805,564.73, with an average monthly effective yield of 2.0 percent. OCTA's month-end balance in the Orange County Investment Pool (OCIP) was \$19,482,912.91. For the month of January, the monthly gross yield for the OCIP was 2.0 percent. Yields for the month of February will be received in March.

On Wednesday, February 5, 2020, Standard & Poor's (S&P) downgraded the long-term debt rating of Merck & Company, Inc. (Merck), from AA to AA-, and placed the issuer on negative credit watch. The downgrade and credit watch placement follow Merck's announcement that it will spin off a large group of its smaller branded drugs, including its women's health products, various legacy brands, and the company's biosimilars business. Given the spin off will reduce the company's scale, diversity, and profitability and increase its reliance on the revenue from its top product, S&P moved to cut ratings by one notch. OCTA holds a medium-term note security position in Merck for \$1,250,000. As of February 29, 2020, the security meets the minimum requirements and continues to be held in OCTA's portfolio.

On Thursday, February 20, 2020, Moody's downgraded the long-term debt rating of Nissan to Baa1 from A3. OCTA holds three high quality AAA Nissan Auto/Lease asset-backed security positions, respectively 0.3 percent, 0.4 percent, and 0.6 percent of the portfolio. However, for asset-backed securities, receivables are sold via a legal concept called "true sale" into a bankruptcy-remote issuing trust, therefore isolated from the financial health of the issuer. There has been no negative price action on the asset-backed securities on news of the downgrade. The Treasurer reviewed the position and recommended the securities be held for the short-term. The Treasurer presented his recommendation to the Deputy Chief Executive Officer, who concurred.

OCTA's debt portfolio had an outstanding principal balance of \$1.0 billion as of February 29, 2020. Approximately 62 percent of the outstanding balance is comprised of M2 debt, nine percent is associated with the 91 Express Lanes Program, and 29 percent is for the Transportation Infrastructure Finance and Innovation Act Loan.

#### Summary

The Treasurer is submitting a copy of the Orange County Transportation Authority Investment and Debt Programs report to the Finance and Administration Committee. The report is for the month ending February 29, 2020.

#### Orange County Transportation Authority Investment and Debt Page 3 Programs Report – February 2020

#### Attachment

A. Orange County Transportation Authority Investment and Debt Programs – For the Period Ending February 29, 2020.

Prepared by:

Robert Davis Department Manager Treasury/Public Finance (714) 560-5675

Approved by:

Andrew Oftelie Chief Financial Officer Finance and Administration (714) 560-5649

#### Treasury/Public Finance Department's Report On

# Orange County Transportation Authority Investment and Debt Programs



Presented to the Finance and Administration Committee

> For The Period Ending February 29, 2020

### **INVESTMENT PROGRAM**

# **OCTA Investment Dashboard** 2/29/2020



# Securities that fall below OCTA's minimum credit quality requirements:

During the month of February, Moody's downgraded the long-term debt rating of Nissan to Baa1 from A3. OCTA holds three high quality AAA Nissan Auto/Lease asset backed security positions, respectively 0.3%, be held for the short-term. The Treasurer presented his recommendation to the Deputy Chief Executive 0.4% and 0.6% of the portfolio. The Treasurer reviewed the position and recommended the securities Officer who concurred.







Ŀ

# Investment Profile 2/29/2020

Portfolio / Managers	Depository	Role	Type of Investment	150	Amount Millions)
<u>LIQUID PORTFOLIO:</u> OCTA OCTA California State Treasurer Orange County Treasurer Subtotal OCTA Liquid Portfolio	BNY Mellon Bank of the West LAIF OCIP	Trustee Broker Custodian Custodian	Cash Cash Per LAIF Investment Policy Per OCIP Investment Policy	\$	85.5 35.0 10.8 19.5 <b>150.8</b>
<u>SHORT-TERM PORTFOLIO:</u> <u>Investment Managers</u> MetLife Investment Management Chandler Asset Management Payden & Rygel Investment Counsel PFM Asset Management Subtotal Short-Term Portfolio (Investmet	U.S Bank U.S Bank U.S Bank U.S Bank ent Managers)	Custodian Custodian Custodian Custodian	Per OCTA Investment Policy Per OCTA Investment Policy Per OCTA Investment Policy Per OCTA Investment Policy	\$	393.9 392.9 400.0 395.3 <b>1,582.2</b>
BOND PROCEED PORTFOLIO: OCTA OCTA OCTA Subtotal OCTA Bond Proceeds Portfolio	Bank of Nova Scotia BNY Mellon BNY Mellon	Custodian Trustee Trustee	Per Measure M2 Bond Indenture Per Measure M2 Bond Indenture Per Measure M2 Bond Indenture	\$	233.5 49.9 29.6 <b>313.1</b>
RESERVE FUNDS PORTFOLIO: 91 Express Lanes 2013 Ref. Bonds 91 Express Lanes 2013 Ref. Bonds Bank Deposits/Cash Subtotal OCTA Reserve Funds Portfolio	U.S Bank Bank of the West Bank of the West U.S Bank U.S Bank	Trustee Trustee Trustee Trustee Trustee	Commercial Paper Commercial Paper Commercial Paper U.S. Treasury Obligations U.S. Treasury Obligations	\$	11.4 10.5 3.1 0.0 0.0 0.1 <b>25.2</b>
TOTAL				\$	2,071.2

#### MetLife Investment Management 2/29/2020



PFM 2/29/2020



#### Chandler Asset Management 2/29/2020



Payden & Rygel 2/29/2020



#### Short-Term Portfolio 2/29/2020



#### **Orange County Transportation Authority** Short-Term Portfolio Performance

2/29/2020





	MetLife Investment Mgmt (ML)	Chandler Asset Mgmt (CAM)	Public Fin Mgmt <u>(PFM)</u>	Payden & Rygel (PR)	ICE/BAML 1-3 Yr Trsy (BAML 1-3)	BAML 1-3 Yr Gov/Corp (BAMLGC)
Feb-19	2.44%	2.54%	2.67%	2.62%	2.29%	2.46%
Mar-19	2.71%	2.97%	3.12%	3.11%	2.72%	2.94%
Apr-19	3.02%	3.26%	3.45%	3.32%	3.08%	3.27%
May-19	3.06%	3.58%	3.79%	3.71%	3.44%	3.61%
Jun-19	3.45%	4.10%	4.27%	4.17%	3.96%	4.16%
Jul-19	3.49%	4.01%	4.13%	3.99%	3.84%	4.04%
Aug-19	3.65%	4.50%	4.63%	4.50%	4.35%	4.52%
Sep-19	3.72%	4.48%	4.61%	4.41%	4.36%	4.52%
Oct-19	3.91%	4.73%	4.82%	4.62%	4.54%	4.74%
Nov-19	3.74%	4.40%	4.51%	4.33%	4.15%	4.40%
Dec-19	3.35%	3.89%	4.00%	3.85%	3.55%	3.83%
Jan-20	3.54%	4.06%	4.15%	4.11%	3.83%	4.04%
Feb-20	4.11%	4.73%	4.79%	4.78%	4.63%	4.75%

# Short-Term Portfolio Performance 2/29/2020



Historical Yields Vs. The Bank of America Merrill Lynch (BAML) 1-3 Benchmarks

	MetLife Investment Mgmt (ML)	Chandler Asset Mgmt (CAM)	Public Fin Mgmt (PFM)	Payden Rygel (PR)	ICE/BAML 1-3 Yr Trsy (BAML 1-3)	BAML 1-3 Yr Gov/Corp (BAMLGC)
Feb-19	2.64%	2.62%	<u>(FFM)</u> 2.64%	2.68%	2.53%	<u>(BAMLGC)</u> 2.72%
Mar-19	2.51%	2.46%	2.44%	2.51%	2.32%	2.49%
Apr-19	2.47%	2.44%	2.44%	2.46%	2.30%	2.47%
May-19	2.35%	2.23%	2.21%	2.21%	2.02%	2.21%
Jun-19	2.12%	2.01%	2.00%	2.01%	1.80%	1.99%
Jul-19	2.15%	2.09%	2.09%	2.09%	1.95%	2.02%
Aug-19	1.81%	1.76%	1.75%	1.82%	1.59%	1.67%
Sep-19	1.80%	1.81%	1.83%	1.88%	1.69%	1.77%
Oct-19	1.69%	1.67%	1.68%	1.74%	1.57%	1.65%
Nov-19	1.73%	1.73%	1.77%	1.81%	1.65%	1.72%
Dec-19	1.74%	1.70%	1.75%	1.76%	1.60%	1.67%
Jan-20	1.46%	1.51%	1.50%	1.53%	1.39%	1.45%
Feb-20	1.13%	1.17%	1.15%	1.19%	0.95%	1.05%

#### **Investment Compliance**

2/29/2020

Portfolio Subject to Investment Policy					
	Dollar Amount	Percent Of	Investment Policy		
Short-Term/Liquid Portfolio	Invested	Portfolio	Maximum Percentages		
U.S. Federal Agencies & GSEs	\$ 889,193,469	51.3%	100%		
Municipal Debt	74,666,249	4.3%	30%		
Bankers Acceptances	S. C. Star Star Star	0.0%	30%		
Commercial Paper	15,317,683	0.9%	25%		
Negotiable Certificates of Deposit	20,838,327	1.2%	30%		
Repurchase Agreements	34,769,595	2.0%	25%		
Medium Term Maturity Notes	297,478,433	17.2%	30%		
Money Market/Mutual Funds	96,460,000	5.6%	20%		
Mortgage & Asset-Backed	198,078,296	11.4%	20%*		
Supranationals	21,133,064	1.2%	20%		
Local Agency Investment Fund	10,805,565	0.6%	\$ 65 Million		
Orange County Investment Pool	19,482,913	1.1%	10%		
Joint Powers Authority Pools		0.0%	10%		
Bank Deposits	279,278	0.0%	5%		
Variable & Floating Rate Securities	54,468,788	3.1%	30%		
Total Short-Term/Liquid Portfolio	\$ 1,732,971,660	100.0%			

\*Asset-backed securities, excluding mortgages, may not exceed 10 percent of the allocation

		Portfo	olio Subject to Inden	nture		
	Dollar Amount OC		DCTA	Indenture F	re Requirements	
Bond Proceeds Portfolio		Invested	Credit Quality	Term	Credit Quality	Term
Money Market Funds	\$	29,645,257	AAA/Aaa	45 days	Min. A2/A	Max. 4 years
Treasury Bills	\$	49,941,667	AAA/Aaa/AA+	30 days	Min. A2/A	Max. 4 years
Guaranteed Investment Contract		233,500,000	Aa2/AA-/A+	N/A	Min. A3/A-	N/A
Total Bond Proceeds Portfolio	\$	313,086,924				
Reserve Funds Portfolio						
Commercial Paper		25,010,856	P-1/F-1	30 days	Min. A-1/P-1	Max. 180 days
Bank Deposits		141,072				
US Treasuries Obligations		180	AAA/Aaa	30 days	Min. A2/A	Max. 5 years
Total Reserve Funds Portfolio	\$	25,152,108				
Total Portfolio Subject to Indenture	\$	338,239,031				
Portfolio Total	\$	2,071,210,692				

#### Negative Credit Watch 2/29/2020

<u>Manager / Security</u> PFM	Par Amount	Maturity	<u>S&amp;P</u>	<u>Moody's</u>	Fitch Ratings
<i>Pfizer Inc.</i> On June 17, 2019, S&P, and Fitch placed downgrade.	2,300,000 the long-term ratings	Various* s of Pfizer Inc. ur	AA- nder review	A1 for possible	A
Merck & Co. On February 5, 2020, S&P downgraded th issuer on negative credit watch.	1,250,000 e long term credit ra	2/10/2022 ting of Merck & 0	AA- Co., and pla	A1 ced the	A+

\*9/15/21 & 3/11/22

## **DEBT PROGRAM**

#### Total Outstanding Debt As of 2/29/20



#### TOTAL OUTSTANDING DEBT: \$1,005,375,000

#### Outstanding Debt As of 2/29/20

#### **Orange County Local Transportation Authority (OCLTA-M2)**

#### 2010 Series A Taxable Build America Bonds - Sales Tax Revenue Bonds

Issued:	\$ 293,540,000
Outstanding:	250,000,000
Debt Service FY 2020:	17,270,000
Pledged Revenue Source:	M2 Sales Tax Revenues
Ratings (Fitch/ Moody's/ S&P):	AA+/Aa2/AA+
Final Maturity:	2041
2019 M2 Sales Tax Bond Issued: Outstanding: Debt Service FY 2020: Pledged Revenue Source: Ratings (Fitch/ S&P): Final Maturity:	\$ 376,690,000 376,690,000 17,939,230 M2 Sales Tax Revenues AA+/AA+ 2041

#### 91 Express Lanes

#### 2013 OCTA 91 Express Lanes Refunding Bonds

Issued: Outstanding: Debt Service FY 2020: Pledged Revenue Source: Ratings (Fitch/ Moody's/ S&P): Final Maturity: \$ 124,415,000 91,685,000 10,798,325 91 Toll Road Revenues A+/A1/AA-2030

#### **405 Express Lanes**

#### 2017 TIFIA Loan

Outstanding: Accrued Debt Service FY 2020: Pledged Revenue Source: Ratings (Moody's): Final Maturity: \$ 287,000,000 \$ 13,267,846 405 Toll Road Revenues Baa2 2057

\*Final Debt Service Payment was made on February 18, 2020



#### April 8, 2020

*From:* Darrell E. Johnson, Chief Executive Officer

*Subject:* Fiscal Year 2019-20 Second Quarter Budget Status Report

All

#### Overview

The Orange County Transportation Authority's staff has implemented the fiscal year 2019-20 budget. This report summarizes the material variances between the budget and actual revenues and expenses through the second quarter of fiscal year 2019-20.

#### Recommendation

Receive and file as an information item.

#### Background

The Board of Directors (Board) approved the Orange County Transportation Authority (OCTA) Fiscal Year (FY) 2019-20 Budget on June 10, 2019. The approved budget itemized the anticipated revenues and expenses necessary to deliver OCTA's transportation programs and projects.

The balanced budget as originally approved by the Board in June was \$1.525 billion. Sources of funds were comprised of \$1.16 billion in current FY revenues and \$365.4 million in use of prior year designations. Uses of funds were comprised of \$1.44 billion of current FY expenditures and \$82.7 million of designations.

The Board approved one amendment through the second quarter, increasing the expense budget by \$4.5 million. This increased the budget to \$1.53 billion as summarized on Table 1 on the following page.

#### Fiscal Year 2019-20 Second Quarter Budget Status Report

#### Table 1 - Working Budget

Date	Description	Amount*
7/1/2019	Adopted Budget	\$1,525,194
7/22/2019	Contracted Fixed-Route Service Agreement	4,521
	Total Working Budget	\$1,529,715

\*in thousands

#### Discussion

Staff monitors and analyzes revenues and expenditures versus the working budget. This report provides a summary level overview of staffing levels and explanations for material budget-to-actual variances within each pertinent OCTA program. The OCTA programs included are Bus, Commuter Rail, 91 Express Lanes, Motorist and Taxi Services, and Measure M2 (M2). A visual dashboard summary of this report is provided in Attachment A.

Unless indicated on an individual chart, the general color pattern used is outlined below:

- Gray Budget
- Green Within budget
- Yellow Within five percent variance of budget
- Red Over five percent variance of budget

#### Staffing

Total salaries and benefits underran the budget by \$2.7 million. This is primarily due to vacancies OCTA-wide, with the largest vacancy percentages in the maintenance (7.4 percent) and administrative (6.7 percent) groups at the end of the quarter.



#### Sales Tax Receipts

The charts below provide a FY snapshot for both the Local Transportation Authority (LTA) M2 Program and Local Transportation Fund (LTF) Bus Program sales tax revenues against the budget. LTA sales tax receipts of \$173.8 million were \$5.4 million lower than the budget. LTF sales tax receipts of \$90.3 million were \$2.2 million lower than the budget. It is anticipated that California Department of Tax and Fee Administration catches up on sales tax receipts for the second quarter, that the underrun will decrease, and actuals will approach the budget.



Bus Program operating revenue of \$139 million underran the budget by \$2.6 million, primarily due to lower than anticipated LTF sales tax revenue. Bus Program operating expenses of \$126.7 million underran the budget by \$1.6 million, primarily due to fuel costs. Compressed natural gas fuel underran due to a lower unit cost than anticipated, and hydrogen fuel and gasoline underran due to lower miles driven than anticipated. Hydrogen fuel is used in ten buses, which were all anticipated to be in service beginning in July 2019; however, three of the buses did not begin service until October 2019, due to the hydrogen fueling station not being fully operational until late in the first quarter. Gasoline is used for ACCESS, the on-demand paratransit service, and less miles were driven than forecasted.

#### Fiscal Year 2019-20 Second Quarter Budget Status Report

Capital Revenue			Capital Expense		
\$13.6M	\$9.2M YTD Budget	\$233.1M Annual Budget	\$8.7M	\$9.2M YTD Budget	\$233.1M Annual Budget

Bus Program capital revenue of \$13.6 million overran the budget by \$4.4 million, primarily due to prior FY state grant revenue received in the current FY for the purchase of ten hydrogen fuel cell electric buses and hydrogen fueling infrastructure. California Air Resources Board grant revenue associated with the bus purchase was budgeted in a prior FY, but received in the current FY based on corresponding expenditures. Capital expenses of \$8.7 million underran the budget by \$0.5 million, primarily due to a longer than anticipated procurement. The purchase of a portable hoist and wheel alignment machine for the Santa Ana maintenance base was originally scheduled to take place in the second quarter, but will now occur in the second half of the FY (\$0.3 million). Projects to improve customer amenities at OCTA bus stops and to revitalize bus platforms and canopies at the Fullerton Transportation Center are underway. However, outstanding invoices are impacting the underrun. Once invoices are received, expenses are anticipated to align with budgeted amounts by the end of the FY.



Rail Program operating revenue of \$21.1 million overran the budget by \$0.6 million, primarily due to higher than anticipated earnings on investments. Operating expenses of \$15.6 million underran by \$4.8 million, primarily due to the quarterly operating subsidy payment to Southern California Regional Rail Authority (SCRRA) for OCTA's annual portion of the Metrolink operations. This underrun is due to an operating surplus and a credit for preventative maintenance funds drawn down directly by SCRRA. Therefore, the subsidy provided by OCTA was less than anticipated. As a result, this underrun is expected to remain for the rest of the FY.

Capital Revenue	Capital Expense	
\$8.4M	\$43.6M \$1.0M	\$43.6M
▼ \$1.2M YTD Budget	Annual Budget	Annual Budget

Rail Program capital revenue of \$8.4 million overran the budget by \$7.2 million primarily due to the timing of grant funds and city contributions for

construction of the Orange Transportation Center Parking Structure project. These funds were budgeted in prior FYs corresponding to expenses but received in the current FY. Capital expenses of \$1 million overran the budget by \$0.5 million due to the timing of construction phase expenses for the Laguna Niguel to San Juan Capistrano passing siding project. At the time of budget development, staff estimated expenses to take place in the second half of the FY. However, due to schedule adjustments, invoices were received and paid in the first half of the FY. This overrun will be resolved by the end of the FY when the budget aligns with actuals.



Annual Budget

The 91 Express Lanes Program operating revenue of \$22.1 million overran by \$0.8 million, primarily due to fees collected for toll violations and account minimums. Revenue from these fees are variable in nature and therefore difficult to forecast. Operating expenses of \$7.7 million underran by \$3.5 million, primarily due to as-needed expenses associated with toll road account servicing, legal services, and equipment repair/maintenance. The toll road operating contract contributed \$0.7 million to the underrun due to a reduction in services under the contract. The vendor will not be managing the electronic toll and traffic management system as originally anticipated, as that service will now be part of a separate contract.

Capital Revenue		Capital Expense			
\$9.6M	\$9.6M YTD Budget	\$38.1M	\$0.1M	\$9.6M_YTD Budget	\$38.1M
		Annual Budget			Annual Budget

Capital revenue for the 91 Express Lanes of \$9.6 million was received in line with the budget. Capital expenses of \$0.1 million underran by \$9.5 million, due to contract execution timing for the Back-Office System and Customer Service Center project. A contract anticipated to be executed by the second quarter will instead be executed in the third quarter.

Annual Budget



Motorist Services Program revenue of \$8.1 million overran the budget by \$4.7 million, primarily due to state contribution funds for Freeway Service Patrol (FSP). The funds for operating the service were budgeted in a prior FY, but received in the current FY. Expenses for the program of \$3.1 million underran the budget by \$0.3 million, due to lower fuel cost for contracted tow service for the FSP Program. Fuel cost for this program is variable, and due to lower fuel costs, invoices received were lower than anticipated.



Measure M2 Program

Total expenses for the M2 Program of \$100.1 million underran the budget by \$81.5 million, primarily due to lower than anticipated project payment requests from the cities for the Regional Capacity Program, Regional Traffic Signal Synchronization Program, and Environmental Cleanup Program. Also contributing to the underrun is lower utilization of right-of-way capital and support expenses for the Interstate 5 South County Improvement project and the Interstate 405 Improvement Project.





#### Summary

Overall, revenue of \$478.9 million overran the budget by \$63.3 million, primarily due to grant revenue budgeted in a prior FY, but received in the current FY for the purchase of hydrogen fuel cell electric buses, construction of the Orange Transportation Center Parking Structure project, and construction of the Raymond Avenue and State College Boulevard grade separation projects in the City of Fullerton. The overrun was partially offset with underruns of LTA sales tax receipts (\$5.4 million) and LTF sales tax receipts (\$2.2 million). Services and supplies expenses of \$183.8 million underran the budget by \$69.3 million, primarily due to an underrun in the Metrolink operating subsidy and contributions to local agencies based on lower than anticipated project payment requests for Regional Capacity Program, Regional Traffic Signal Synchronization Program, Environmental Cleanup Program, and Community-Based Transit/Circulator Program. Capital expenses of \$51.8 million underran the budget by \$70.7 million, primarily due to construction and construction support services for the Interstate 5 South County Improvement project, the Interstate 405 Improvement Project, and the 91 Express Lanes Back Office System and Customer Service Center project. Salaries and benefits of \$83.8 million underran the budget by \$2.7 million, due to vacancies.

#### Attachment

A. FY 2019-20 Second Quarter Budget Status Summary

Prepared by:

Anthony Baruch Section Manager, Financial Planning and Analysis (714) 560-5332 Approved by:

Andrew Oftelie Chief Financial Officer, Finance and Administration (714) 560-5649



#### ATTACHMENT A





#### April 8, 2020

То:	Finance and Administration Committee				
From:	Darrell E. Johnson, Chief Executive Officer				
Subject:	91 Express Lanes Update and Temporary Measures				

#### Overview

Traffic volumes on the 91 Express Lanes have declined significantly over the past several weeks as a result of the coronavirus pandemic and California Governor Gavin Newsom's stay-at-home order. This report provides the latest information on traffic volumes and operations.

appl

#### Recommendations

- A. Authorize the Chief Executive Officer to temporarily waive for a period of up to 90 days, 91 Express Lanes monthly account fees, contingent upon a similar approval from the Riverside County Transportation Commission.
- B. Authorize the Chief Executive Officer to temporarily modify for a period of up to 90 days the 91 Express Lanes Toll Policy to allow for the ability to remove automatic toll rates increases, if necessary.

#### Discussion

The coronavirus (COVID-19) pandemic represents a significant challenge to both the global economy and to toll road facilities. State and local governments across the United States have issued orders for residents to self-quarantine and refrain from non-essential travel in an effort to slow the spread of the virus. These efforts have caused the economy to slow and have resulted in severe traffic declines well in excess of peak losses during the global financial crisis in 2008. Managed-lane facilities throughout the country have experienced year-over-year commuter traffic declines of about 60 to 70 percent. The 91 Express Lanes are no different, experiencing traffic declines of approximately 70 percent when compared to the same period last year.

The following graphs highlight the number of average daily trips (first chart is for the westbound direction and the second is for the eastbound direction) on the

#### 91 Express Lanes Update and Temporary Measures

91 Express Lanes in Orange County during the month of March 2020. The graphs illustrate the gradual decline of traffic during the month.



3/11/2020 31312020 31512020 31712020 31912020 3/13/2020 3/15/2020 3/17/2020 3/19/2020 3/21/2020 3122020 312312020 312512020 313112020 312712020 3/29/2020 The table below compares traffic volumes in Orange County by day during the week of March 22 through March 28, 2020, with average daily traffic volumes from March 2019. During March 2019, traffic volumes averaged approximately 50,000 per day. For the week provided in March 2020, traffic volumes averaged approximately 15,000, which represents about a 70 percent decline from last year's average figures.

10,000 5,000 0

#### 91 Express Lanes Update and Temporary Measures

	March 2019	Week of	
	Average Daily	March 22 - 28, 2020	
	Traffic	Average Daily Traffic	Percent Decline
Sunday	35,214	4,376	87.6%
Monday	50,296	16,510	67.2%
Tuesday	52,390	16,542	68.4%
Wednesday	51,851	16,059	69.0%
Thursday	54,940	16,854	69.3%
Friday	58,142	17,016	70.7%
Saturday	46,914	7,217	84.6%

As a result of the lower traffic volumes, toll revenues have also declined by approximately 60 percent in Orange County, and calls into the customer service center have decreased by 40 percent since mid-March 2020. Operational activities in the Anaheim and Corona locations continue to function with a combination of remote workers and core staff located at the facilities. Core essential functions include aiding stranded motorists through customer assistance patrols (similar to freeway service patrol), providing incident management services and dispatching emergency vehicles through the traffic operations center, and responding to customer service and violation calls at the customer service center.

#### Actions to Date

With less traffic on the 91 Express Lanes, some violation and collection temporarily efforts have been halted by the Orange Countv Transportation Authority (OCTA) and the Riverside County Transportation Commission (RCTC). These include pausing outbound collection calls, not sending collection notices, and stopping the transmission of violation files to the collection agency. These violations will remain outstanding until the temporary mandates have been lifted. The temporary maximum of new violations will be at \$55 per violation versus the current amount of \$190. Violation files will remain at Cofiroute (provider of operating services to OCTA and RCTC) and not be transferred to the collection agency until further notification by OCTA and RCTC. Representatives at Cofiroute and the collection agency will still be servicing calls for those individuals that want to pay for the violations. This temporary pause for these measures was implemented with the understanding that many individuals may find it difficult to pay for violations at this time.

#### Additional Authorizations Requested

In July 2018, the Board of Directors (Board) adopted changes to the 91 Express Lanes account plans and policies as a result of the mandated changes to 6C (sticker transponder) technology by January 2019. The new plans incorporated lower monthly account maintenance fees since the cost to procure the sticker transponders were significantly lower than the prior Title 21 transponders. In late 2019, the transition to new transponders and the conversion to the new account plans began. The transition and account conversions are anticipated to continue until fall 2020.

Many accounts that incur monthly fees have not been converted as of the end of March 2020. As such, they are being charged a monthly account maintenance fee since they are not using the 91 Express Lanes during this mandated stay-at-home period. Given this situation, staff is recommending that OCTA's Chief Executive Officer (CEO) have the authorization to temporarily waive these account maintenance fees for a period of up to 90 days. This requires OCTA Board approval, as well as approval from the RCTC Board since this is a revenue stream that is shared between each agency. RCTC's Board will be considering the matter at its April 8, 2020 Commission meeting. The anticipated revenue loss for OCTA is projected at approximately \$200,000 per month. If the stay-at-home mandate is lifted and traffic volumes return to a normal state, the monthly account maintenance fees will be reinstated by the CEO.

In addition to the waiver of account maintenance fees, staff is also recommending the authorization for OCTA's CEO to temporarily modify the 91 Express Lanes Toll Policy (Policy) with respect to toll adjustments, specifically toll rate increases. The Policy adjusts toll rates up or down based upon traffic volumes recorded on the 91 Express Lanes each quarter. Given that traffic volumes have decreased, it is not anticipated that toll increases will be triggered over the next quarterly period. However, the Policy also includes a cost-of-living adjustment (COLA) for July 1 of each year. An automatic two percent increase will be applied to hours that have not had any toll rate changes during the past fiscal year. Staff is seeking the ability to forgo this COLA adjustment on July 1, 2020, if the current economic conditions persist through the end of the fiscal year. Not implementing the July 1 COLA is estimated to cost \$350,000. This is a conservative estimate and is based upon previous traffic levels. Since traffic volumes are considerably less in the current environment, the revenue loss would likely be less. The CEO would notify the Board if the COLA is not implemented ten days prior to July 1.

Debt Service Payments and Reserves

The 91 Express Lanes currently has \$91.7 million in outstanding debt and the debt matures in 2030. Interest payments are due to investors every February 15 and August 15, and principal payments are made every August 15. The next debt service payment will occur on August 15, 2020, in the amount of \$8.7 million.

OCTA is allowed to transfer excess toll revenues from the indenture-required operating account into non-restricted reserves twice a year. Most recently on February 16, 2020, OCTA transferred funds toward non-restricted project reserves. The balance in the indenture-required operating account totals \$10.6 million as of February 29, 2020. This balance increases and decreases each month based upon total revenues being deposited and operating expenses being paid. In the past, the net positive cash flow (revenues over expenses) has totaled approximately \$3.5 million per month. Given the lower traffic and volumes and revenues, the indenture-required operating account is anticipated to grow at a much slower rate over the next several months.

OCTA has three indenture required reserve funds that are fully funded and total approximately \$25 million. Over the past several years, OCTA has transferred excess toll revenues into a few non-restricted reserves. There are three non-restricted reserves: a capital reserve (\$24.9 million), a project reserve for Measure M2 Project I and J (\$57.2 million), and an excess revenue reserve (\$97.7 million). After deducting the amounts earmarked for projects, the excess revenue reserve has approximately \$82 million available to fund future operating and debt service payments for the 91 Express Lanes. If traffic volumes continue to decline further or if the stay-at-home mandate remains in place for a longer time period, OCTA has the financial capability to fund operating and debt service payments for time

#### Next Steps

If approved by the OCTA and RCTC Boards, the account maintenance fees will be waived commencing April 1, 2020. If the current conditions persist beyond 90 days, staff will return to the Board in late June 2020 with an update and potentially request an extension of this temporary measure.

The next debt service payment is scheduled for August 15, 2020. There are enough funds on hand to make the payment.

OCTA will continue to hold conference calls with the rating agencies regarding the operational status of the 91 Express Lanes. These calls provide OCTA with the opportunity to update interested parties on the most recent traffic volumes, revenues, and operating activities.

#### 91 Express Lanes Update and Temporary Measures

#### Summary

A status on 91 Express Lanes finances and operations is provided for review. In addition, staff is requesting Board of Directors' approval for authorization for the Chief Executive Officer to implement temporary measures related to the ongoing operations of the 91 Express Lanes.

#### Attachment

None

Prepared by:

Kirk Avila General Manager Express Lanes Programs (714) 560-5674



# 91 Express Lanes Update and Temporary Measures



- Traffic volumes and toll revenues have decreased significantly as a result of the coronavirus pandemic (70 and 60 percent respectively)
- Call volumes to the customer service center have declined by 40 percent
- Core functions continue to operate:
  - Traffic operations center
  - Customer assistance patrols
  - Customer call center

# **Recent Traffic Volumes**



3
#### **Traffic Volume Comparison to March 2019**



4

#### **Temporary Measures Taken to Date**

- Closed customer walk-in center in Corona until further notice
- Stopped the transmittal of violation files to the third-party collection's agency
- Paused outbound collection calls
- Stopped sending collection notices

#### **Temporary Board Authorizations Requested**

- Waiving monthly customer account maintenance fees
  - Also contingent upon Riverside County Transportation Commission approval

• Modification to the 91 Express Lanes Toll Policy to allow for the removal of the cost of living adjustment for July 1, 2020, if needed

### Outstanding Debt

- Current outstanding balance totals \$91.7 million in fixed-rate debt with a final maturity in 2030
- Annual debt service is approximately \$10.8 million per year for the next 10 years
- Next debt service payment totals \$8.7 million and is on August 15, 2020
- Bond Indenture requirements
  - Interest and principal payments made every February 15<sup>th</sup> and August 15<sup>th</sup>
  - Maintain a 1.3 times debt service coverage ratio each fiscal year

#### Reserves in Place as of February 29, 2020

- Indenture-required reserves are fully funded
  - Debt service reserve fund (\$11.4 million)
  - Operating reserve fund (\$3.1 million)
  - Major maintenance reserve fund (\$10.5 million)
- Non-restricted reserves
  - Internal capital fund (\$24.9 million)
  - Measure M2 project fund (\$57.2 million)
  - Excess toll revenue fund (\$97.7 million)

#### **Board Recommendations**

- Authorize the Chief Executive Officer to temporarily waive for a period of up to 90 days, 91 Express Lanes monthly account fees, contingent upon a similar approval from the Riverside County Transportation Commission
- Authorize the Chief Executive Officer to temporarily modify for a period of up to 90 days the 91 Express Lanes Toll Policy to allow for the ability to remove automatic toll rates increases, if necessary

- Seek Board of Directors and Riverside County Transportation Commission approval to temporarily waive monthly account maintenance fees effective April 1, 2020
- Evaluate the need to impose the cost of living adjustment scheduled for July 1, 2020
- Pay \$8.7 million in debt service on August 15, 2020
- Continue to provide updates to the Board of Directors

# Fiscal Year 2020-21 Revised Budget Assumptions OCTA



#### FY 2020-21 Budget Timeline



## Major Programs

- Measure M2
  - Freeway
  - Streets and Roads
  - Transit

- Transit
  - Bus Program
  - Rail Program
    - Metrolink
    - OC Streetcar

• 91 Express Lanes

### Measure M2 Program Assumptions

- Sales Tax Revenue
  - Pre-Coronavirus (COVID-19) forecast of \$345 million based on MuniServices forecasted growth rate of 2.4 percent
  - Revised forecast of \$290 million based on MuniServices revised rate of negative 4.3 percent
- Expenditures No changes
  - Freeway Mode expenditures primarily driven by right-of-way, design, and construction efforts for the I-405 Improvement, South County I-5 Improvement, and SR-55 Improvement projects
  - Streets and Roads Mode expenditures driven by contributions to the cities to support the Local Fair Share, Regional Capacity, and Traffic Signal Synchronization programs
  - Transit Mode expenditures primarily to support Metrolink operations and construction of the OC Streetcar

#### **Bus Program Revenue Assumptions**

- Operating Revenue
  - Pre-COVID-19 forecast of \$179 million based on MuniServices forecasted growth rate of 2.5 percent
  - Revised forecast of \$154 million based on MuniServices revised rate of negative 4.3 percent
  - Pre-COVID-19 fare revenue projected at \$47 million
  - Revised fare revenue projection \$40 million
  - Coronavirus Aid Relief and Economic Security (CARES) Act to offset change in revenues
- Capital Revenue No changes
  - Federal grants for bus purchases \$135 million
  - Road Repair and Accountability Act to support rehabilitation and replacement of capital estimated to increase by \$0.2 million from the current year to \$5.9 million

### **Bus Operations Expenditure Assumptions**

- Fixed-Route Service
  - Revenue hours consistent with current year budget of 1.6 million revenue hours
- Paratransit Service
  - Total trips forecasted to decrease by 2 percent to 1.7 million driven by demand
  - Trips comprised of ACCESS primary and supplemental service, same-day taxi service, and special agency service
- Microtransit Service
  - Continuation of OC Flex service with 23,640 revenue hours

#### Rail Program Revenue Assumptions

- Metrolink Operating Revenue
  - Measure M2 High Frequency Metrolink Service
    - Pre- COVID-19 estimated at \$23 million; revised \$19 million
    - Federal Transportation Administration (FTA) grants estimated at \$8.5 million
    - CARES Act to offset change in revenues
- Metrolink Capital Revenue
  - FTA grants providing approximately \$13 million to support rehabilitation and replacement of capital

### Rail Program Expenditure Assumptions

- Metrolink Operating Expenditures
  - Sustain current service levels of 74 trip
  - Operating subsidy to increase by 3.9 percent to \$31.6 million
    - Metrolink will directly draw down \$8.5 million in OCTA FTA Section 5307 grants
    - OCTA operating budget subsidy of \$19 million
    - CARES Act to offset change in revenues
- Metrolink Capital Expenditures
  - Anaheim Canyon Metrolink Station
  - Irvine Station

### 91 Express Lanes Program Assumptions

#### • Revenue

- Toll revenue: Decrease from \$54.4 million in current year budget to \$32.7 million driven by 10.9 million trips
- Non-toll revenue: Decrease from \$6.1 million in current year budget to \$2.3 million
- Expenditure
  - Primary operating cost consists of the Cofiroute contract estimated at \$7 million
  - Contribution to SR-91 Riverside Freeway improvements between SR-55 and SR-57 (M2 Program Project I) of \$29.7 million and SR-91, SR-241 to SR-71 (Project J) \$12.1 million

### Next Steps

- Preview Budget Workshop Presentation Finance and Administration Committee April 22
- Budget Workshop Presentation Board of Directors
  May 11
- Committee meetings and one-on-one meetings with Board Members May 11-June 7
- Public Hearing Preview Finance and Administration Committee May 27
- Public Hearing Board (public hearing and approval)
  June 8
- Back-up Public Hearing Board (public hearing and approval) June 22