OCTA

*April 14, 2021*

***To:*** Finance and Administration Committee

For

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

***Subject:*** Fiscal Year 2020-21 Proposed Comprehensive Business Plan

## *Overview*

The Orange County Transportation Authority's Comprehensive Business Plan is a strategic business tool utilized to ensure the financial viability of Orange County Transportation Authority programs and services. The plan assists the Orange County Transportation Authority in implementing its strategic goals and objectives within the framework of sound business practices and demonstrates the financial feasibility of all programs and services over a 20-year horizon.

## *Recommendation*

Approve the Fiscal Year 2020-21 Proposed Comprehensive Business Plan.

## *Background*

The Comprehensive Business Plan (CBP) is updated annually as part of Orange County Transportation Authority's (OCTA) annual financial calendar to ensure the financial feasibility of OCTA's programs and services. The foundation of the CBP rests upon Board of Directors' (Board) direction and the input provided from each division within OCTA. Prior Board action coupled with divisional input are the basis for operating, capital, and revenue assumptions. Input from the divisions is also utilized to formulate program direction and revenue and expenditure assumptions for each project and/or program. These assumptions are then analyzed over the long term based on a variety of economic assumptions.

Though the CBP lays the foundation for future financial planning and demonstrates the financial feasibility of programs and services over a 20-year horizon, it does not authorize staff to enter into any contracts nor does it appropriate any funds. Decisions stemming from discussions related to specific programs and projects or associated funding appropriations are subject to future

Board approval through the annual budget process or through specific Board action.

Although the CBP is updated internally every year to establish internal budget targets and ensure the financial feasibility of OCTA's programs and services, it is typically presented to the Board every other year for adoption.

***Discussion***

Since Board approval of the fiscal year (FY) 2018-19 CBP, OCTA has faced unprecedented circumstances with the onset of the coronavirus (COVID-19) pandemic. COVID-19 has unexpectedly altered the trajectory of the economy and has led to significant impacts to funding sources that support OCTA's programs and services. Sales tax and fare revenue are among the most substantially impacted revenue sources, both in the immediate FY and beyond. Tight budget controls, conservative long-range planning measures, as well as federal supplemental funding, have ensured the FY 2020-21 CBP is fiscally responsible and that OCTA's core goals and objectives can be met over a 20-year horizon.

The CBP is divided into six programs as follows: Bus Program, Rail Program, Measure M2 (M2), 91 Express Lanes, Motorist Services, and Non-Program Specific Projects. Key revenue and expense assumptions, as well as risk factors for each program are outlined below:

Bus Program

Based on current revenue and expenditure assumptions, the Bus Program remains sustainable over the next 20 years. The Bus Program has been significantly impacted by COVID-19 including large decreases in its primary revenue source, which is the Transportation Development Act (TDA) sales tax. TDA sales tax funds approximately half of the cost of bus operations. COVID-19 has also significantly impacted ridership and fare revenue, which have currently reached only 50 percent of pre-COVID-19 levels. To help offset the significant decrease in revenue, OCTA has adjusted service levels to align with the current reduced demand and is utilizing the federal supplemental funding, which has been provided to offset the impacts of COVID-19. This funding has provided relief for the Bus Program and will enable OCTA to increase service in the future based on demand and public health considerations.

Key assumptions and ongoing risks for the Bus Program include:

Key Assumptions

- Increase service hours from the current level of 1.2 million hours up to 1.45 million hours based on demand and public health considerations
- Average long-term growth rate for TDA sales tax of 2.8 percent based on the Board-approved sales tax forecasting methodology
- Continued receipt of federal and state funding to support both operating and capital expenditures
- Boarding's to stabilize in FY 2022 and grow slowly over time
- Fare increases every ten years with the next scheduled in FY 2027, which would be 14 years from the prior fare increase in FY 2013
- Cost of paratransit service is managed with annual trip growth of 1.1 percent
- Useful life of large bus fleet of 18 years

Ongoing Primary Risks

- Softening of TDA sales tax growth could impact future service levels
- Uncertainty of ongoing ridership demand could impact fare revenue and service productivity
- Larger-than-anticipated growth in the cost to operate paratransit service would reduce funds available for fixed-route service
- Zero-emissions bus market does not mature, and the cost remains significantly higher than the current cost of a compressed natural gas bus
- Federal and state funding levels for transportation are impacted resulting in a decline in funding, which could impact service levels

Rail Program

Despite challenges from COVID-19, the Rail Program remains sustainable over the next 20 years. Revenue losses due to COVID-19 have been offset with federal supplemental funding and sustained lower service levels. Ongoing weekday service levels are anticipated to 41 weekday trains, which is a reduction from pre-pandemic levels of 51 weekday trains. Weekend trains are anticipated to remain at 16 over the 20-year horizon.

Key assumptions and ongoing risks for the Rail Program include:

Key Assumptions

- Sustain lower weekday service levels of 41 weekday trains, which is a reduction from pre-pandemic service levels of 51 weekday trains
- Maintain 16 weekend trains
- M2 sales tax remains the long-term funding source for operations
- Continued federal funding, which is primarily used for capital improvements
- Moderate annual growth in the Metrolink operating subsidy

Ongoing Primary Risks

- Softening of M2 sales tax growth could impact future service levels
- Uncertainty of ongoing ridership demand could impact fare revenue, service productivity, and the ongoing operating subsidy
- Federal funding levels for transportation are impacted resulting in a decline in funding, which could impact the capital program

M2 Program

COVID-19 has impacted M2 sales tax revenues with an updated sales tax forecast of $11.6 billion over the life of the program. This represents a reduction of $1.8 billion in sales tax revenue over pre-COVID-19 estimates. Despite the reduction in sales tax, there remains sufficient financial capacity within the program to continue to improve freeways, streets, and roads, as well as fund multiple transit programs throughout Orange County and meet the commitments made to the voters. Assumptions within the CBP for the M2 Program are consistent with the 2020 Next 10 Delivery Plan and Board action regarding project funding.

Key assumptions and ongoing risks for the M2 Program include:

Key Assumptions

- M2 Program sales tax of $11.6 billion
- $3.6 billion in external revenues to support projects
- One additional bond issuance of $575 million in 2023
- Utilization of 91 Express Lanes excess revenue to fund two State Route 91 (SR-91) freeway projects
- Minimum cash balance of $183 million through 2040
- Cash balance of $82 million at the end of the program

- Economic uncertainty built into the freeway mode to help mitigate against future impacts to the program

Ongoing Primary Risks

- Softening of M2 sales tax growth would impact funding available for M2 projects
- Cost increases for capital projects
- State and federal priorities continue to shift, which could affect future external funding opportunities for the M2 Freeway Program

91 Express Lanes

The 91 Express Lanes continues to meet the stated objectives of maximizing throughput in the corridor while meeting all financial commitments over the 20-year period. Though COVID-19 has impacted revenues, the 91 Express Lanes continue to meet its obligations and to generate excess toll revenue to support transit and freeway improvements along the 91 corridor. Future SR-91 corridor capital improvements are consistent with the Board-approved SR-91 Implementation Plan. Due to a decrease in toll revenue as a result of COVID-19, it is anticipated that the 91 Express Lanes will require a bond issuance of $120 million to support the cost of two M2 freeway projects in the SR-91 corridor.

Key assumptions and ongoing risks for the 91 Express Lanes Program include:

Key Assumptions

- Average annual growth in toll revenue of 4.2 percent
- Debt used to acquire the express lanes to be repaid in FY 2031
- Utilization of 91 Express Lanes excess revenue and bond revenue to support two M2 freeway projects along the SR-91 corridor
- Future capital improvements along the corridor consistent with the SR-91 Implementation Plan

Ongoing Primary Risks

- Economic recession negatively impacting traffic volume
- Additional capacity added to the corridor negatively impacting traffic volume

Motorist Services

The Motorist Services Program consists of the Service Authority for Freeway Emergencies (SAFE) Program. SAFE includes the Freeway Service Patrol (FSP), Freeway Call Box Program, and Southern California 511. These programs are funded from a variety of revenue sources including funds from the State Highway Account, vehicle registration fees, SB 1 (Chapter 5, Statutes of 2017), and the M2 Program. Based on current revenue and expenditure assumptions, it is anticipated that the Motorist Services Program will be sustainable over the 20-year horizon of the CBP. Potential risks primarily consist of any impacts to funding from the State Highway Account or SB 1. The impacts to the FSP Program could be mitigated by the contributions of the M2 Program, however using M2 Program funds to backfill funding would limit the ability to expand the FSP Program in the future.

Non-Program Specific Projects

The majority of significant freeway, street and roads, and transit projects are funded primarily through the M2 Program. OCTA has also committed to a handful of projects not funded through the M2 Programs. These projects are generally funded through local, state, and federal sources and include the Vanpool and Rideshare Programs, Active Transportation Program, Bicycle and Pedestrian Facilities, and Bicycle Safety Program. The sustainability of these programs is subject to continued state and federal funding opportunities. OCTA will continue efforts to maximize the amount of state and federal funds received to support these programs into the future.

***Summary***

The CBP strives to provide the OCTA Board with an effective business planning tool for ensuring the financial feasibility of OCTA's programs and services. The FY 2020-21 Proposed CBP documents the financial feasibility of OCTA to deliver its programs and services as promised to the public over a 20-year horizon.

***Attachment***

A. Proposed Comprehensive Business Plan Fiscal Year 2020-21

**Prepared by:**

Victor Velasquez
Department Manager,
Financial Planning & Analysis
714-560-5592

**Approved by:**

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