



AGENDA

Finance and Administration Committee Meeting

Committee Members

Andrew Do, Chairman
Richard Murphy, Vice Chairman
Michael Hennessey
Steve Jones
Todd Spitzer
Michelle Steel

Orange County Transportation Authority
Headquarters
550 South Main Street
Board Room – Conf. Room 07
Orange, California

Wednesday, October 24, 2018 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.

Call to Order

Pledge of Allegiance

Committee Vice Chairman R. Murphy

1. Public Comments

Special Calendar

There are no Special Calendar matters.



Consent Calendar (Items 2 through 15)

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.

2. Approval of Minutes

Approve the minutes of the Finance and Administration Committee of October 10, 2018.

3. Fiscal Year 2018-19 Internal Audit Plan, First Quarter Update Janet Sutter

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2018-19 Internal Audit Plan on August 27, 2018. This update is for the first quarter of the fiscal year.

Recommendation

Receive and file the first quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2018-19 Internal Audit Plan as an information item.

4. Financial and Compliance Audits of Eight Measure M2 Comprehensive Transportation Funding Programs Projects Gabriel Tang/Janet Sutter

Overview

Audits have been completed of eight projects funded through the Measure M2 Comprehensive Transportation Funding Programs. Two recommendations were made to the City of Orange to improve compliance with procurement requirements and program guidelines.

Recommendations

- A. Receive and file financial and compliance audits of eight Comprehensive Transportation Funding Programs projects.
- B. Direct staff to follow up with the City of Orange on the status of implementation of two recommendations.



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5. **Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2018**
Gabriel Tang/Janet Sutter

Overview

The Internal Audit Department has completed an audit of investments for the period January 1 through June 30, 2018. 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, January 1 through June 30, 2018, Internal Audit Report No. 19-501, as an information item.

6. **ACCESS Service, Internal Audit Report No. 18-514**
Serena Ng/Janet Sutter

Overview

The Internal Audit Department has completed an audit of ACCESS services provided by MV Transportation, Inc. Based on the audit, the reservation and scheduling process, invoice approval procedures, and drug and alcohol program monitoring are adequate. However, improvements to contract amendment policies, calculation of call center hold-times, and monitoring of preventive maintenance, performance bond requirements, and farebox revenue reconciliations are recommended.

Recommendation

Direct staff to implement five recommendations provided in ACCESS Service, Internal Audit Report No. 18-514.

7. **Fiscal Year 2017-18 Fourth Quarter Budget Status Report**
Anthony Baruch/Andrew Oftelie

Overview

The Orange County Transportation Authority's staff has implemented the fiscal year 2017-18 budget. This report summarizes the material variances between the budget and actual revenue and expenses through the fourth quarter of fiscal year 2017-18.



7. (Continued)

Recommendation

Receive and file as an information item.

8. First Quarter Fiscal Year 2018-19 Procurement Status Report

Virginia Abadessa/Andrew Oftelie

Overview

The first quarter procurement status report summarizes the procurement activities for information purposes to the Orange County Transportation Authority Board of Directors. This report focuses on procurement activity from July 1 through September 30, 2018, that was approved by the Board of Directors during this period. The first quarter procurement status report also projects future procurement activity for the second quarter as identified in the fiscal year 2018-19 budget.

Recommendation

Receive and file as an information item.

9. Local Agency Investment Fund - September 2018

Jennifer Matano/Andrew Oftelie

Overview

The Orange County Transportation Authority invests a portion of its liquid portfolio in the State of California Local Agency Investment Fund. Each month, the State Treasurer's office publishes a report detailing the composition of the pool. The attached summary statements from the report are for the month ending September 30, 2018. The report has been reviewed and is consistent with the investment practices of the State Treasurer's Office.

Recommendation

Receive and file as an information item.



10. Orange County Treasurer's Management Report - September 2018
Jennifer Matano/Andrew Oftelie

Overview

The Orange County Transportation Authority invests a portion of its liquid portfolio in the Orange County Investment Pool. Each month, the Orange County Treasurer publishes a comprehensive report detailing the composition of the pool and the prevailing economic and market conditions. The attached Treasurer's Management Report for the Orange County Investment Pool is for the month ending September 30, 2018. The report has been reviewed and is consistent with the investment practices of the Orange County Treasurer.

Recommendation

Receive and file as an information item.

11. Orange County Transportation Authority Investment and Debt Programs Report - September 2018
Jennifer Matano/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 September 30, 2018. 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.



12. Amendment to Agreement for Renewable Natural Gas
Ron Rojas/Andrew Oftelie

Overview

On March 14, 2016, the Orange County Transportation Authority Board of Directors approved an agreement with Element Markets Renewable Energy, LLC, to provide renewable natural gas and consulting services for management of the Low Carbon Fuel Standard Program for a three-year initial term with two, two-year option terms. An amendment is required to increase the maximum obligation of the initial term to fund the cost of renewable natural gas, as well as to exercise the first option term.

Recommendations

- A. Authorize the Chief Executive Officer to negotiate and execute Amendment No. 6 to Agreement No. C-5-3636 between the Orange County Transportation Authority and Element Markets Renewable Energy, LLC, to increase the maximum obligation for the initial three-year term in the amount of \$2,000,000 to purchase renewable natural gas as fuel.
- B. Authorize the Chief Executive Officer to negotiate and execute Amendment No. 6 to Agreement No. C-5-3636 between the Orange County Transportation Authority and Element Markets Renewable Energy, LLC, to exercise the first two-year option term, in the amount of \$8,000,000, to provide renewable natural gas and consulting services for the management of the Low Carbon Fuel Standard Program. This will increase the maximum obligation of the agreement to a total contract value of \$18,060,000.

13. Amendment to Cooperative Agreement with the City of Laguna Beach for Public Transit Services
Sam Kaur/Andrew Oftelie

Overview

On August 26, 2013, the Orange County Transportation Authority Board of Directors approved a cooperative agreement with the City of Laguna Beach for the continued operation of public transit services. Board of Directors' approval is requested to amend the cooperative agreement to provide the City of Laguna Beach with additional funds due to an increase in federal allocation.



13. (Continued)

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Amendment No. 2 to Cooperative Agreement No. C-3-1705 between the Orange County Transportation Authority and the City of Laguna Beach, in the amount of \$119,735, for Federal Transit Administration funding, and to extend the current contract term an additional seven months through June 30, 2019. This will increase the maximum obligation of the cooperative agreement to a total contract value of \$869,735.

14. Property Insurance Policy Renewal

Al Gorski/Maggie McJilton

Overview

The Orange County Transportation Authority holds a property insurance policy with Zurich Insurance Company. This policy is scheduled to expire on December 1, 2018.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A40297, in the amount of \$550,000, to Marsh Risk and Insurance Services, Inc., to purchase property insurance on behalf of the Orange County Transportation Authority for the policy period of December 1, 2018 to December 1, 2019.

15. Measure M2 Sales Tax Forecast

Sam Kaur/Andrew Oftelie

Overview

The Orange County Transportation Authority contracts with MuniServices, LLC, and three universities to forecast Measure M2 taxable sales. MuniServices, LLC, and the three universities have provided updated forecasts, and staff has incorporated the new information into the annual update for the long-range forecast of Measure M2 taxable sales.

Recommendation

Receive and file as an information item.



Regular Calendar

16. **Approval of the 2018 Measure M2 Plan of Finance, Issuance of Measure M2 Bonds, Selection of Underwriting Team, and Bond Counsel Services Amendment**
Andrew Oftelie

Overview

Staff has completed an update to the Measure M2 Plan of Finance that identifies the program requirements over the next few years for the Measure M2 Program. The updated Measure M2 Plan of Finance highlights the need for the issuance of Measure M2 bonds to fund future expenditures. If a financing is approved, the selection of an underwriting team is recommended along with additional funds required for bond counsel services.

Recommendations

- A. Authorize the selection of Bank of America Merrill Lynch; Barclays Capital, Inc.; Citigroup Global Markets, Inc.; Goldman Sachs & Co.; J.P. Morgan Securities LLC; and Stifel, Nicolaus & Company, Inc., from the Orange County Transportation Authority's underwriting pool, to assist with the next Measure M2 bond offering.
- B. Authorize the selection of Bank of America Merrill Lynch and Citigroup Global Markets, Inc., from the Orange County Transportation Authority's underwriting pool, to serve as the senior underwriting manager and co-senior underwriting manager, respectively, for the next Measure M2 bond transaction.
- C. Authorize the Chief Executive Officer to execute Amendment No. 5 to Agreement No. C-5-3099 between the Orange County Transportation Authority and Nossaman LLP, in the amount of \$200,000, to provide bond counsel services for the Orange County Transportation Authority Sales Tax Revenue Bonds, Series 2019 transaction. The total contract amount will be \$527,250.
- D. Authorize the issuance of sales tax revenue bonds to finance the Measure M2 Program.
- E. Adopt the 2018 Measure M2 Plan of Finance, which identifies the Measure M2 project requirements over the next several years.
- F. Direct staff to pursue financing opportunities through the Transportation Infrastructure Innovation Act for Measure M2 projects.



Discussion Items

17. Chief Executive Officer's Report

18. Committee Members' Reports

19. Closed Session

There are no Closed Session items scheduled.

20. Adjournment

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, November 14, 2018**, at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.



Committee Members Present

Andrew Do, Chairman
Richard Murphy, Vice Chairman
Steve Jones
Michelle Steel

Committee Members Absent

Michael Hennessey
Todd Spitzer

Staff Present

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

Call to Order

The October 10, 2018 regular meeting of the Finance and Administration Committee was called to order by Committee Chairman Do at 10:34 a.m.

Pledge of Allegiance

Director Jones led in the Pledge of Allegiance.

1. Public Comments

No public comments were received.

Special Calendar

2. Investment Management Presentation

Andrew Oftelie, Executive Director of Finance and Administration, provided opening comments and introduced Sarah Meacham, Managing Director and Kyle Jones, Director from PFM Asset Management.

Ms. Meacham presented a PowerPoint presentation and highlighted the following areas:

- PFM Asset Management, LLC;
- Representative Transportation Clients;
- Investment Strategy for the Orange County Transportation Authority (OCTA), and;
- Portfolio Holdings Snapshot (as of 8/31/18).



2. (Continued)

Mr. Jones presented a PowerPoint presentation and highlighted the following areas:

- Current Market Themes;
- Current Economic Conditions;
- What We're Watching;
- United States Treasury Yield Curve Continues to Flatten as Rates Rise;
- Yield Environment Favors Shorter-Term Credit;
- Summary of Trade Activity;
- Historical Sector Allocation, and;
- Portfolio Performance.

A lengthy discussion ensued regarding the following:

- Budget deficit;
- Feds raising the interest rate;
- OCTA encountering rising construction costs;
- Reducing the mix of treasuries;
- Long-term interest rates;
- Avoiding the inverted yield curve;
- Economic factors, and
- Foreign demand.

Consent Calendar (Items 3 through 8)

3. Approval of Minutes

A motion was made by Committee Vice Chairman R. Murphy, seconded by Director Steel, and declared passed by those present, to approve the minutes of the Finance and Administration Committee of September 12, 2018.

4. Local Agency Investment Fund - August 2018

A motion was made by Committee Vice Chairman R. Murphy, seconded by Director Steel, and declared passed by those present, to receive and file as an information item.

5. Orange County Treasurer's Management Report - August 2018

A motion was made by Committee Vice Chairman R. Murphy, seconded by Director Steel, and declared passed by those present, to receive and file as an information item.



6. Orange County Transportation Authority Investment and Debt Programs - August 2018

A motion was made by Committee Vice Chairman R. Murphy, seconded by Director Steel, and declared passed by those present, to receive and file as an information item.

7. Microsoft Enterprise Agreement Renewal

A motion was made by Committee Vice Chairman R. Murphy, seconded by Director Steel, and declared passed by those present, to:

- A. Approve the selection of PCMG, Inc., to provide the Microsoft Enterprise renewal license for all of the Orange County Transportation Authority's Microsoft software.
- B. Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. C-8-1972 between the Orange County Transportation Authority and PCMG, Inc., in the amount of \$1,504,438, for the renewal of the Microsoft Enterprise Agreement for a three-year term.

8. State Transit Assistance Fund Claims for Fiscal Year 2018-19

A motion was made by Committee Vice Chairman R. Murphy, seconded by Director Steel, and declared passed by those present, to adopt Resolution No. 2018-125 to authorize the filing of State Transit Assistance Fund claims, in the amount of \$35,263,303, to support public transportation.

Regular Calendar

There were no Regular Calendar items scheduled.

Discussion Items

9. Sales Tax Update

Andrew Oftelie, Executive Director of Finance and Administration, provided a brief update on following:

- The California Department of Tax and Fee Administration (CDTFA) has taken over for the State Board of Equalization and is now handling the sales tax revenue.
- Final Sales Tax collection numbers for the Fiscal Year 2017-18 will be available in November 2018.



9. (Continued)

- Staff completed an estimate analysis with Muni-Services for Fiscal Year 2017-18 which shows a 4.1 percent growth.
- OCTA is still owed \$24 million, and staff will meet with the CDTFA next week to review the issues.

Committee Vice Chairman R. Murphy inquired on the controls of the CDTFA.

Mr. Oftelie responded that staff is not sure if this is a short-term or long-term issue. Once staff meets with the CTDFA more answers will be provided to the Finance and Administration Committee.

Darrell E. Johnson, Chief Executive Officer, (CEO), stated that OCTA anticipated some sales tax changes and once staff meets with the CDTFA, to address the revenue components, a report back will be provided to the Finance and Administration Committee.

10. Chief Executive Officer's Report

Mr. Johnson, CEO, reported on the following:

- He thanked the members for attending the OC Flex kick-off event held after the October 8th Board of Directors meeting.
- On October 15th, the OC Flex pilot program will be launched in Huntington Beach and Westminster, and on October 20th, in Laguna Niguel, Mission Viejo, and Aliso Viejo. Staff is continuing outreach efforts and will be at the Coast Vintage Market at Saddleback College on October 14th.
- On October 13th at 9:00 a.m., OCTA is hosting a hike at the Wren's View Preserve to give the public an opportunity to view the property.



10. (Continued)

- On September 27th, the Orange County Public Relations Society held its annual awards ceremony honoring the region's top public relations professionals and campaigns in various categories. OCTA's excellent outreach efforts were recognized with several awards including:
 - The top honor, for the Interstate 405 (I-405) Improvement Project groundbreaking event, and project interactive map/Waze integration.
 - An Award of Excellence for the I-405 Improvement Project construction safety coloring and activity book.
 - An Award of Excellence for the Santa Ana Community College Pass Program.

11. Committee Members' Reports

There were no Committee Members' reports.

12. Closed Session

There were no Closed Session items scheduled.

13. Adjournment

The meeting was adjourned at 11:16 a.m.

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, October 24, 2018**, 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

Andrew Do
Committee Chairman



October 24, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2018-19 Internal Audit Plan, First Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2018-19 Internal Audit Plan on August 27, 2018. This update is for the first quarter of the fiscal year.

Recommendation

Receive and file the first quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2018-19 Internal Audit Plan as an information item.

Background

The Internal Audit Department (Internal Audit) is an independent appraisal function, the purpose of which is to examine and evaluate the Orange County Transportation Authority's (OCTA) operations and activities to assist management in the discharge of its duties and responsibilities.

Internal Audit performs a wide range of auditing services that include overseeing the annual financial and compliance audits, conducting operational and contract compliance reviews, investigations, pre-award price reviews, and Buy America reviews. In addition, audits initiated by entities outside of OCTA are coordinated through Internal Audit.

Discussion

The OCTA Internal Audit Fiscal Year (FY) 2018-19 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the first quarter of the FY, Internal Audit issued the results of an audit of project management contracts related to the Interstate 405 Improvement Project. The audit found that while project management consultants were procured in compliance with policy and contract amendments were approved by the Board of Directors on multiple occasions, amendments were back-dated outside the limits outlined in procedures. Also, while cost estimates were submitted to support amendments to increase the contract maximum obligation, management did not validate all the listed labor rates. Internal Audit also identified excessive use of labor classifications and a lack of controls over labor rate increases for personnel billed within these classifications. Finally, Internal Audit identified concerns related to oversight of consultant staff time. Recommendations were made to address these conditions, and management agreed and indicated that additional controls would be implemented.

Internal Audit also issued results of an audit of warranty administration. Based on the audit, controls over identification, processing, and reporting of warranty claims are adequate; however, one recommendation was made to document procedures used to derive the value of warranty labor. Management agreed with the recommendation and indicated that a formal process will be implemented.

A required audit of the State Transportation Improvement Program Planning, Programming and Monitoring Program for Fiscal Year 2015-16, completed by the professional accounting firm of BCA Watson Rice LLP, found that project funds were used in conformance with Article XIX of the California State Constitution.

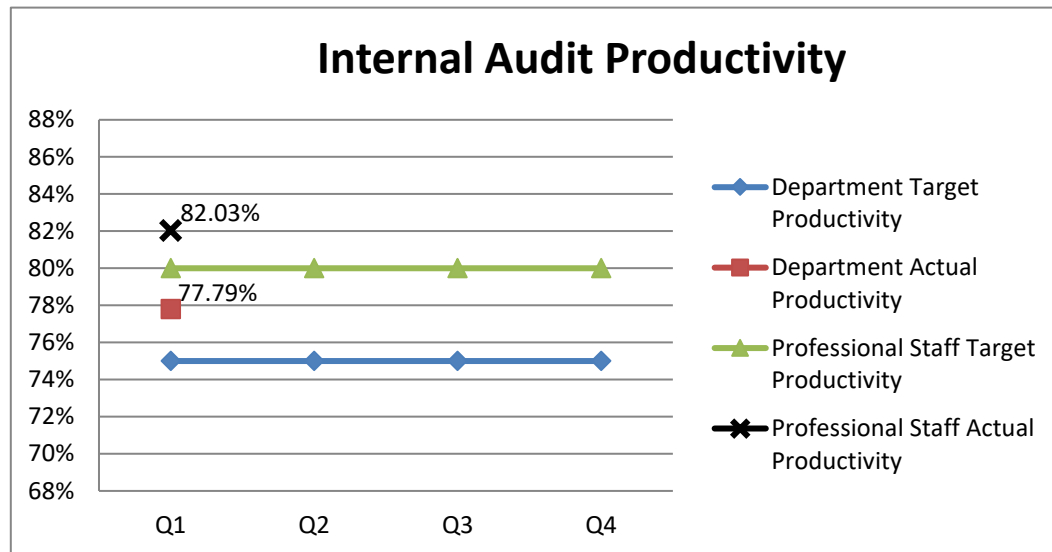
In addition to several ongoing audits, Internal Audit has procured the firm Kimley-Horn and Associates, Inc., to conduct the required State Triennial Performance Audits of OCTA, the Orange County Transit District, and Laguna Beach Municipal Transit Lines. These audits will commence in the coming weeks. In addition, Internal Audit is leading the procurement of an independent public accounting firm to perform annual financial audits and agreed-upon procedures reviews of OCTA and related agencies for the FYs ending June 30, 2019, 2020, and 2021.

Internal Audit Productivity

Internal Audit measures the productivity of the department by calculating a productivity ratio. The ratio, used broadly throughout the audit industry, measures the amount of time auditors spend on audit projects versus time spent on administrative duties. Productivity goals are established for both the professional staff and for the department as a whole. Because the Executive Director regularly participates in non-audit management activities such as planning and committee meetings, the department-wide target is set at

75 percent. The target for internal audit professional staff, not including the Executive Director, is 80 percent.

For the first quarter ended September 30, 2018, Internal Audit achieved productivity of 78 percent, and the professional staff achieved productivity of 82 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (Camm), and consistent with OCTA procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that Camm handled the procurement in a fair and competitive manner. Internal Audit also reviews prices proposed by architectural and engineering firms, and sole source contractors, to ensure that the prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. During the first quarter, Internal Audit issued results of two price reviews.

Fraud Hotline

During the quarter ended September 30, 2018, Internal Audit received eight reports through OCTA's Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaints, all eight reports were referred to management for disposition. As part of the administration of the hotline, Internal Audit maintains documentation of each complaint and its disposition.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended September 30, 2018, Internal Audit made initial contact within two business days.

Findings and Recommendations Tracking

At the request of the Finance and Administration Committee, unresolved audit recommendations are included with the quarterly updates to the Plan as Attachment B. Internal Audit includes the findings and recommendations generated internally, as well as those provided by regulatory auditors and OCTA's independent financial statement auditors.

During the quarter ended September 30, 2018, Internal Audit completed follow-up reviews of twelve unresolved audit recommendations. Nine recommendations had been appropriately addressed by management and were removed from the list (Attachment C). Three recommendations from the employee health benefits audit remain open to allow for implementation of new procedures. Follow-up of an additional two recommendations is in process at quarter end.

Five recommendations related to audits of the Interstate 405 Improvement Project project management contracts and warranty administration were added to the list. In addition, one recommendation resulting from follow-up of the contracted fixed-route operations audit was added to the list.

Summary

Internal Audit will continue to implement the Plan, report on performance metrics, follow-up on outstanding audit recommendations, and report progress on a quarterly basis.

Attachments

- A. Orange County Transportation Authority Internal Audit Department
Fiscal Year 2018-19 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Recommendations (Audit Reports Issued Through
September 30, 2018)
- C. Audit Recommendations Closed During First Quarter, Fiscal Year 2018-19

Prepared by:

A handwritten signature in dark ink, appearing to read "Janet Sutter", with a long horizontal flourish extending to the right.

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

**Orange County Transportation Authority
Internal Audit Department
FY 2018-19 Internal Audit Plan
First Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Over (Under)	Status (Date Issued)
Mandatory External Independent Audits							
Annual Financial Audits and Agreed-Upon Procedures Reviews	FY19-001 through FY19-004	Procure independent financial audit firm and coordinate and report on annual financial and agreed-upon procedures reviews for fiscal year 2018-19.	Financial	450	90	360	
State Triennial Audit	FY19-007	Procure independent audit firm and coordinate and report on the required State Triennial Performance audits of the Orange County Transportation Authority (OCTA), Orange County Transit District, and Laguna Beach Municipal Transit Lines.	Compliance	180	42	138	
Federal Triennial Audits	FY19-006	Coordinate and report on results of the required Federal Transit Administration's Triennial Review.	Compliance	80		80	
External Regulatory Audits	FY19-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	60	10	50	
Internal Audit Department Projects							
Risk Assessment and Annual Audit Plan	FY19-100	Preparation of the annual audit plan, quarterly updates to the audit plan, and periodic assessment of risk throughout the year, including monitoring the audit results of related entities.	Audit Plan and Updates	200	78	122	
Quality Assurance and Self-Assessment	FY19-101	Update of Internal Audit Policies & Procedures. Annual self assessment of the Internal Audit Department's (Internal Audit) compliance with Government Auditing Standards.	Quality Assurance	160	5	155	
Peer Review	FY19-104	Participate in peer reviews of other internal audit agencies in exchange for reciprocal credit towards required peer review of OCTA's Internal Audit. Report results of peer review to Finance and Administration Committee and the Board of Directors (Board).	Peer Review	120	4	116	
Fraud Hotline Activities	FY19-102	Administrative duties related to maintenance of the Fraud Hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	240	18	222	
Automated Workpaper Solution	FY19-103	System updates/training related to automated workpaper solution.	Workpaper System	40	5	35	
Internal Audits							
Clerk of the Board							
Board Compensation and Ethics Compliance	FY19-5XX	Review procedures and recordkeeping processes evidencing compliance with Assembly Bill 1234.	Compliance	180		180	
Express Lanes Program							
Master Custodial Agreement	FY19-5XX	Review and test activities related to the Master Custodial Agreement between OCTA, Riverside County Transportation Commission, and the Bank of the West for tracking and deposit of revenues and transponder deposits.	Compliance	300		300	
Human Resources and Organizational Development							
Recruiting and Employment	FY19-503	Review procedures, controls, and effectiveness of recruiting and employment operations.	Operational	300	10	290	
Construction Safety	FY19-5XX	Assess the adequacy of policies, procedures, and controls related to the Construction Safety Program function.	Operational	200		200	

**Orange County Transportation Authority
Internal Audit Department
FY 2018-19 Internal Audit Plan
First Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Over (Under)	Status (Date Issued)
Capital Programs							
Interstate 405 (I-405) Improvement Project: Project Management Contract	FY18-505	Assess and test contract compliance and oversight controls of project management services provided for the I-405 Improvement Project.	Compliance	40	19	22	
Interstate 5 (I-5) Improvements: Pacific Coast Highway (PCH) to San Juan Creek (SJC) Road	FY18-512	Assess adequacy of contract compliance, oversight, and reporting controls related to the I-5 Improvement Project between PCH and SJC Road.	Internal Control	240	261	(21)	
City of Orange Parking Expansion	FY19-5XX	Review of the Orange Parking Expansion project, including project administration, oversight controls, and contract compliance.	Internal Control	300		300	
Planning							
Comprehensive Transportation Funding Programs Projects	FY18-513	Review selected projects for compliance with Measure M2 Ordinance, policies, and procedures.	Compliance	100	313.5	(214)	
Operations							
Right-of-Way (ROW) Maintenance	FY19-502	Evaluate the ROW maintenance program and oversight controls and contract compliance related to the agreement for ROW maintenance.	Compliance	240	138	102	
Transit Operations							
Coach Operator Scheduling	FY19-5XX	Review the coach operator scheduling process, including use of the HASTUS application.	Operational	300		300	
ACCESS Service	FY18-514	Review and test compliance with key contract provisions, with consideration of program effectiveness and efficiency.	Operational	240	268	(28)	
Finance and Accounting							
Treasury	FY19-501	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	200	95	105	
Grant Closeouts	FY18-511	As-needed, required financial and compliance audits of grants at closeout to ensure propriety of expenditures.	Compliance	40	21	20	
Mobile Ticketing	FY19-504	Assess and test controls for mobile ticketing revenue collection and recording.	Internal Control	240		240	
Renewable Natural Gas Credits	FY19-5XX	Review and test compliance with the agreement with Element Markets for renewable gas credits.	Compliance	180		180	
Information Systems							
Patch Management	FY19-5XX	Assess the adequacy of the patch management program.	Operational	120		120	

**Orange County Transportation Authority
Internal Audit Department
FY 2018-19 Internal Audit Plan
First Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Over (Under)	Status (Date Issued)
Contract Administration and Materials Management (Camm)							
Price Reviews	PR19-XXX	Cost and price analyses as requested by OCTA's Camm Department.	Price Review	750	138	612	
Buy America	FY18-XXX	Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements.	Compliance	80		80	
Warranty Administration	FY18-510	Assess adequacy of controls in place for tracking and recording of warranty repairs and credits.	Internal Control	80	182	(102)	
External Affairs							
Bus Marketing	FY19-5XX	Review Bus Marketing program; assess and test oversight controls and contract compliance over contracts for bus marketing, public outreach, etc.	Compliance	240		240	
Unscheduled Reviews and Special Requests							
Unscheduled Reviews and Special Requests	FY19-5XX	Time allowed for unplanned audits, coordination of external agency audits, and requests from the Board and management.	Varies	240		240	
Monitoring Activities							
Measure M Taxpayer Oversight Committee (TOC)	FY19-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	60	6	54	
Metrolink Audit Activities	FY19-602	Obtain and review audit results of Metrolink activities	Non-Audit Service	40	1	39	
Bus Base Inspections	FY19-603	At the request of the Transit Division, participation on annual base inspection teams.	Non-Audit Service	40	27	13	
Follow-up Reviews							
Follow-up Reviews and Reporting	FY19-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-up	320	83	237	
Total Audit Project Planned Hours (A)				6,600	1,813	4,787	

Orange County Transportation Authority
Internal Audit Department
FY 2018-19 Internal Audit Plan
First Quarter Update

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Over (Under)	Status (Date Issued)
Internal Audit Administration							
Board and Committee Meetings				180	32	148	
Executive Steering and Agenda Setting Meetings				180	31	149	
Internal Audit Staff Meetings				150	17	134	
Other Administration				1,500	335	1,165	
Total Hours (B)				8,610	2,228	6,383	
Department Target Efficiency (A/B)				75%	78%		
Target Efficiency - Professional Staff				80%	82%		

Outstanding Audit Recommendations
Audit Reports Issued Through September 30, 2018

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status (for recommendations outstanding over 1 year)	Internal Audit Status
1/4/17	17-502	Finance and Administration (F&A)	Payment Card Industry/Data Security Standard (PCI-DSS) Compliance	Management should evaluate resources and controls to ensure full compliance and develop a proposal to achieve compliance and/or provide a reasonable approach moving forward. Management should implement oversight controls to assess the accuracy, timeliness, and sufficiency of Cofiroute USA's (Cofiroute) PCI DSS compliance information.	Sep-18	Management will take the following actions: (1) engage a third party PCI Security Assessor to perform Self-Assessment Questionnaires (SAQ) going forward; (2) assess the remediation items identified in the SAQ and address items that fall into existing security improvement efforts; (3) perform a yearly assessment of Cofiroute's PCI DSS compliance information; (4) undergo a review to determine if the Orange County Transportation Authority (OCTA) should take the steps necessary to become fully PCI compliant; (5) continue to allocate and prioritize resources to cybersecurity risks while addressing PCI compliance concerns. Update September 2018: Third-party PCI compliance was completed on September 27, 2018.	August 2017: Management has not achieved compliance or fully implemented an approach to address non-compliance. April 2018: Management plans to make appropriate changes to the environment and has targeted the 3rd quarter of 2018 to become PCI compliant. Internal Audit estimates progress towards completion is 10 percent. September 2018: In process
1/4/17	17-502	F&A	PCI-DSS Compliance	Management should implement procedures to ensure that quarterly network scans are performed and remediation efforts are identified and addressed accordingly. Management should also implement procedures for oversight and monitoring of Cofiroute's activities and incorporate their system scan results into submissions to American Express.	Sep-18	Management agrees with the Internal Audit Department's (Internal Audit) recommendation and will implement procedures to ensure quarterly network scans are performed. Management will also identify items to be remediated and implement them based on risk and cost. Management will allocate resources to perform periodic assessments of Cofiroute's PCI DSS compliance information. Update September 2018: All quarterly scans are completed and uploaded to Trustwave.com for storage and auditing purposes to establish that quarterly scans are being done. Semiannual reviews, an annual onsite visit, and quarterly scan reviews are done for Cofiroute. Trustwave.com is used to submit and store scans and Security Assessment Questionnaires.	Update August 2017: Quarterly scans are not performed and submitted as management continues to assign resources to areas of non-compliance. Update April 2018: Management has targeted the third quarter of 2018 to be compliant with PCI scanning and remediation requirements. Internal Audit estimates progress towards completion is 25 percent. September 2018: In process

Outstanding Audit Recommendations
Audit Reports Issued Through September 30, 2018

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status (for recommendations outstanding over 1 year)	Internal Audit Status
10/19/17	17-506	Human Resources and Organizational Development (HROD)	Employee Health Benefits	Management should develop and implement written procedures to ensure that all qualified Health Savings Account (HSA) enrollees receive their employer-paid contribution. Further, OCTA should make the required HSA contributions, plus reasonable interest, to the employees identified in the audit.	Oct-18	The contributions have been remediated and processed to the two employee HSA's. Reasonable interest will be calculated and deposited. As these transactions are processed as payroll earnings, benefits will work with payroll to establish written procedures. Update April 2018: A report has been created that will assist in auditing contributions for eligible participants. A written procedure will be established in collaboration with payroll. Update Oct 2018: Written procedures have been developed.	October 2018: To allow for implementation of these new procedures, Internal Audit will perform follow-up procedures in six months.
10/19/17	17-506	HROD	Employee Health Benefits	Management should develop a written policy and procedures for collection of premiums in arrears.	Oct-18	The participant that owed \$1,336.40 as of December 2016, has paid this amount to OCTA. Management will work on a written policy and procedure to collect unpaid medical premiums. Update April 2018: Management is working on a written policy and procedure to collect unpaid medical premiums. Update Oct 2018: Written procedures have been developed.	October 2018: To allow for implementation of these new procedures, Internal Audit will perform follow-up procedures in six months.
10/19/17	17-506	HROD	Employee Health Benefits	Management should seek Board of Directors (Board) member input and clarify the policy to address benefits eligibility for Board members that receive cash payments in-lieu of health benefits from the public entity they serve.	Oct-18	Management will consider revisions to the Fiscal Year 2018-2019 (FY19) Personnel and Salary Resolution (P&SR) to clarify the policy. The FY19 P&SR will be presented for Board approval in June 2018, along with the annual budget. Update April 2018: Management will consider revisions to the FY19 P&SR to clarify the policy. It will be presented for Board approval in June 2018, along with the annual budget. Update Oct 2018: The Board approved changes to P&SR, and changes were made to the Policy for Compensation, Benefits, Reimbursement of Expenses and Mandatory Training for Members of the Board of Directors.	October 2018: To allow for implementation of these new procedures, Internal Audit will perform follow-up procedures in six months.
7/12/18	18-505	Capital Programs	Interstate 405 (I-405) Improvement Project: Project Management Contracts	Internal Audit recommends that management validate labor rates to payroll registers for staff included in the cost estimates that are not part of the contract or amendment. In addition, new staff appearing on cost estimates should be added to the contract concurrently.	Jan-19	As a part of preparing amendments, procurement staff will validate labor rates of all proposed staff provided with the consultants' cost estimates using either payroll registers and/or a job offer letter issued to the personnel. Additionally, new staff appearing on cost estimates will be added to the contract if it is anticipated they will be working in this classification for six months or more.	Not yet due

Outstanding Audit Recommendations
Audit Reports Issued Through September 30, 2018

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status (for recommendations outstanding over 1 year)	Internal Audit Status
7/12/18	18-505	Capital Programs	I-405 Improvement Project: Project Management Contracts	Internal Audit recommends management comply with procedures on the effective dating of amendments.	Jan-19	Management acknowledges that the procedures as written for back dating letter amendments need to be revised. The procurement department will update the Procurement Manual to agree with current practices.	Not yet due
7/12/18	18-505	Capital Programs	I-405 Improvement Project: Project Management Contracts	Internal Audit recommends that management develop and implement appropriate controls to ensure labor classifications are only used as intended and all labor rates are held to contract escalation limits. Invoices should be monitored to ensure staff working steadily on the project are added to the contract in a timely manner.	Jan-19	Management agrees with the recommendation to develop and implement controls regarding the use of labor classifications. Staff that works, or is proposed to work, on a continuous basis for a period of 6 months or more will be added as named personnel to the contract. Labor classifications will continue to be utilized for staff working temporarily on the project. Additionally, management will require that consultants receive approval from OCTA's project manager in writing prior to adjusting the salary of individuals within labor classifications at a rate greater than the contractually allowable escalation rate for named personnel.	Not yet due
7/12/18	18-505	Capital Programs	I-405 Improvement Project: Project Management Contracts	Internal Audit recommends management address the extent to which OCTA managers should be involved in initiating promotions of consultant staff. In addition, the procurement department should process amendments in accordance with requests or reject requests if there is disagreement about the requested action. Regarding the sub-consultant staff, management should implement controls to ensure only hours worked are billed. At a minimum, management should require approval of timesheets by Mott MacDonald (MM) supervisory staff.	Jan-19	Management will instruct staff not to request any promotions of consultant staff. With respect to processing amendments as requested by project managers, procurement staff will continue to conduct the due diligence on all requisitions and review each request for clarity and reasonableness. Clarifications and/or concurrence will be sought from project managers prior to executing contract amendments. Management will require approval of timesheets by MM supervisory staff as recommended. Reimbursements to OCTA for hours billed but confirmed as not worked will be obtained. The sub-consultant employee referred to has been removed from this assignment and is in the process of being removed from the contract. MM will review timesheets signed and certified by all sub-consultant personnel who work full-time at OCTA offices and will agree to the level of effort and performance of duties by the sub-consultant.	Not yet due

Outstanding Audit Recommendations
Audit Reports Issued Through September 30, 2018

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status (for recommendations outstanding over 1 year)	Internal Audit Status
8/22/18	18-510	F&A	Warranty Administration	Management should formalize procedures for developing warranty claim values and maintain documentation to support the labor rates and labor hour estimates used.	Feb-19	Management will establish a formal process for internal and external repairs and utilize internal labor rates established by OCTA's Financial Planning and Analysis Department.	Not yet due
9/12/18	17-508 Follow-up	F&A	Contracted Fixed-Route Operations Follow-up	The required amount for the performance bond for the First Transit, Inc. contract had been entered incorrectly in the Insurance Tracking Services, Inc. (ITS) tracking system. Internal Audit recommends that the Contracts Administration and Materials Management Department (CAMM) check ITS' input of the required amount for performance bonds for non-construction contracts with bond requirements.	Mar-19	CAMM agrees with the recommendation and is verifying that all the bond and insurance information is complete and accurate and a monitoring process is developed. CAMM has set a deadline of October 31 to complete this review and have a monitoring process in place.	Not yet due

**Audit Recommendations Closed During
First Quarter, Fiscal Year 2018-19**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Management Response
1/15/18	18-503	Finance and Administration (F&A)	Purchasing Cards	Management should implement controls to ensure compliance with procedures or consider revising procedures to allow certain employees, who purchase food items on a regular basis, to do so without executive approval on each receipt.	Management agrees to revise the Business Expenses Policy to include modifications to the current procedure. The modifications will be as follows: Require executive approval on each receipt for food item purchases, except for food purchased by the Clerk of the Board (COB) for Board of Directors and Committee meetings and new employee orientation conducted by Human Resources and Organizational Development. Modifications to the Business Expenses Policy will be completed by March 31, 2018. Update August 2018: The Business Expenses Policy was revised to modify when authorization of an executive is needed or not needed to purchase food.
1/15/18	18-503	F&A	Purchasing Cards	Four of the 24 designated approving officials are not department managers or directors, as required by procedures. Internal Audit recommends management replace these approving officials with either a department manager or a director, or revise procedures to reflect intended practices.	Management has reviewed the recommendation and agrees to update the Purchasing Card User Guide Policies and Procedures to include section managers as approving officials. The Purchasing Card User Guide Policies and Procedures will be updated and posted on OCTA Today no later than January 31, 2018. Update August 2018: The Purchasing Card User Guide Policies and Procedures has been revised to include section managers as approving officials.
1/15/18	18-503	F&A	Purchasing Cards	The purchasing card administrator should enhance oversight procedures to include analysis of transaction activity and review of any transactions exceeding \$2,500.	The purchasing card administrator will enhance oversight procedures to include analysis of all cardholder's monthly transaction activity exceeding \$2,500. Update August 2018: The recommendation was closed; however, an additional recommendation was made during the follow-up, as detailed below.
8/15/18	18-503 Follow-up	F&A	Purchasing Cards Follow-up	Internal Audit made three additional observations regarding the review of purchasing card transactions that exceed the \$2,500 single transaction limit: (1) A written first strike warning was not issued to a cardholder identified as having violated the transaction limit. (2) Transactions to purchase webinars, online, or local training were not identified as violations because the transactions were deemed to be "travel-related". (3) The purchasing card administrator does not document the date that the review of transaction exceeding \$2,500 is performed.	Update October 2018: The supplemental recommendations have been implemented.

**Audit Recommendations Closed During
First Quarter, Fiscal Year 2018-19**

3/6/18	18-504	Capital Programs	Cooperative Agreement with Metrolink for the Control Point Fourth Project	Internal Audit recommends management review with Metrolink staff the process for procuring contractors for Orange County Transportation Authority (OCTA) projects to ensure compliance with regulatory guidelines and best practices.	Management agrees. Metrolink should follow its internal policies and procedures to solicit requests for proposals to issue a Contract Task Order (CTO) from their on-call bench of consultants or contractors to obtain competitive proposals. Additionally, Metrolink should document how a CTO is determined to be the most appropriate procurement method and include records of negotiation. Metrolink also needs to verify the proposed work is allowable in the scope of work for the contract. OCTA will follow-up with Metrolink on OCTA projects to inquire how services will be procured prior to procurement activities. Update September 2018: Management has implemented procedures to be actively involved in the CTO selection process. Management has also updated the language on future cooperative agreements with Southern California Regional Rail Authority.
4/16/18	18-506	Transit	Fleetwatch Fluid Management System	To enhance controls over access to Fleetwatch, Internal Audit recommended management reduce the number of administrators and power users in the system and implement procedures for periodic review of user access rights	Management agreed to develop procedures and will re-evaluate the current number of administrators and power users in the system. Update October 2018: The number of administrators has been reduced to four, and there are no longer any power users. In addition, the policy now includes a procedure to perform an annual review of the administrative access rights and an annual review of the master list of users authorized to fuel.
5/3/18	18-508 Brown Act	COB	Brown Act Compliance	Management should provide additional training to staff and/or enhance procedures to ensure agendas are posted in a timely manner.	Management has implemented enhanced checklist procedures and provided staff training to ensure compliance. Update September 2018: COB has implemented an enhanced checklist and provided training at a staff meeting.
8/30/17	17-508	F&A	Contracted Fixed-Route Operations	Internal Audit recommends that Contracts Administration and Materials Management (CMM) develop procedures for monitoring of performance bond requirements and certificates of insurance to ensure that performance bonds are appropriately adjusted with amendments and insurance requirements are met.	CMM concurs with this recommendation and has taken steps proactively to review and track bond and insurance documentation for compliance to ensure contract requirements are met. OCTA's Risk Management Department recently procured insurance brokerage services and the scope of work includes a requirement for insurance review and certificate tracking system for all contracts. OCTA will seek to include an additional feature related to monitoring bond value adjustments as an enhancement to this service. Update April 2018: Management has been working with the provider to set up the new system to review and track bond and insurance documentation for compliance; however, not all documents have been loaded into the system. Update September 2018: The recommendation was closed; however, an additional recommendation was made during the follow-up, as detailed in Attachment B.
3/12/18	N/A	Planning & Transit	Measure M City Audits: Local Fair Share and Senior Mobility Program, Year Ended 2017	Observations were made relating to the classification of maintenance of effort expenditures, indirect charges not properly supported, errors in reporting of amounts on required activity reports and annual expenditure reports, and service contractor procurement. Internal Audit recommends management follow-up with the cities to ensure corrective action has been taken.	Management will follow-up with the cities to ensure appropriate actions have been taken to address observations. Update July 2018: Staff has followed up with the cities and obtained letters addressing the observations.



October 24, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Financial and Compliance Audits of Eight Measure M2
Comprehensive Transportation Funding Programs Projects

Overview

Audits have been completed of eight projects funded through the Measure M2 Comprehensive Transportation Funding Programs. Two recommendations were made to the City of Orange to improve compliance with procurement requirements and program guidelines.

Recommendations

- A. Receive and file financial and compliance audits of eight Comprehensive Transportation Funding Programs projects.
- B. Direct staff to follow up with the City of Orange on the status of implementation of two recommendations.

Background

Measure M2 includes a number of competitive grant programs that provide funding for regional streets and roads projects. These programs allocate funds through a competitive process and target projects that improve traffic flow by considering factors such as the degree of congestion relief, cost effectiveness, and project readiness, among other factors. The Comprehensive Transportation Funding Programs (CTFP) serves as the mechanism the Orange County Transportation Authority uses to administer transit, as well as local streets and roads, funding programs.

The Fiscal Year 2017-18 Internal Audit Plan included CTFP project audits. The Internal Audit Department (Internal Audit) conducted audits of eight projects closed during the period April 1, 2016 through March 31, 2018.

Discussion

Selection of Projects

Internal Audit obtained from the Planning Division a listing of all projects closed from April 1, 2016 through March 31, 2018. From this population, Internal Audit selected eight projects for audit.

Statistics for the population of projects closed and the sample selected for audit are as follows:

Total allocation amounts of projects in population:	\$ 71,275,037
Total allocation amounts of projects selected for audit:	21,762,967
Percentage selected for audit:	31%

The objectives of the audits were to determine whether the projects were completed in accordance with program guidelines, applications, and agreements; costs charged to the project were eligible, reasonable, and allocable; records and documentation were adequately maintained; jurisdictions complied with competitive contracting requirements; and adequate accounting and cash management procedures were employed.

Auditor Findings and Recommendations

The City of Orange (City) was provided \$136,00 in funding under the Safe Transit Stops Program for the construction and installation of seven bus shelters. The City procured the bus shelters from a vendor without competition and did not document their decision to utilize local agency forces to install the bus shelters, as required by program guidelines. Internal Audit recommended that, in the future, the City implement controls to ensure procurements fully comply with requirements and advise City staff of program guidelines requiring documentation of the decision to utilize local agency forces on these projects. The City agreed and indicated that improvements will be made to ensure documentation is maintained to evidence compliance with requirements. See Attachment A.

Audits of selected projects by the cities of Anaheim, Costa Mesa, Fullerton, Irvine, La Habra, and Tustin, and by the County of Orange were also performed.

No recommendations were made related to these audits. See Attachments B, C, D, E, F, G, and H.

Summary

Audits have been completed of eight projects funded through the CTFP. Internal Audit made two recommendations to the City of Orange.

Attachments

- A. Comprehensive Transportation Funding Programs, City of Orange, Safe Transit Stops Program, Orange Safe Transit Stop Improvements, Project, Project No. 14-ORNG-STS-3752
- B. Comprehensive Transportation Funding Programs, City of Anaheim, Arterial Capacity Enhancements Program, Brookhurst Street Widening, Project No. 11-ANAH-ACE-3502
- C. Comprehensive Transportation Funding Programs, City of Costa Mesa, Environmental Cleanup Program, Industrial Way Water Quality and Storm Drain Improvement Project, Project No. 13-CMSA-ECP-3675
- D. Comprehensive Transportation Funding Programs, City of Fullerton, Regional Traffic Signal Synchronization Program, Placentia Avenue Signal Synchronization, Project No. 12-FULL-TSP-3611
- E. Comprehensive Transportation Funding Programs, City of Irvine, Environmental Cleanup Program, Peters Canyon Wash Channel Water Capture and Reuse Pipeline Project, Project No. 13-IRVN-ECP-3677
- F. Comprehensive Transportation Funding Programs, City of La Habra, Intersection Capacity Enhancements Program, Whittier Boulevard and Beach Boulevard Intersection Improvements, Project No. 14-LHAB-ICE-3717
- G. Comprehensive Transportation Funding Programs, City of Tustin, Arterial Capacity Enhancements Program, Warner Avenue Extension Project, Project No. 13-TUST-ACE-3659
- H. Comprehensive Transportation Funding Programs, County of Orange, Arterial Capacity Enhancements Program, La Pata Phase I, Project No. 12-ORCO-ACE-3596

Prepared by:



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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Comprehensive Transportation Funding Programs

City of Orange Safe Transit Stops Program Orange Safe Transit Stop Improvements Project Project No. 14-ORNG-STS-3752

October 8, 2018



Performed by: Gabriel Tang, CPA, Principal Internal Auditor
Janet Sutter, CIA, Executive Director

Distributed to: Adriann Cardoso, Department Manager, Planning
Joseph Alcock, Christina Moore

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
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**ORANGE COUNTY TRANSPORTATION AUTHORITY
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Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of the Orange Safe Transit Stop Improvements Project (Project) of the City of Orange (City), Project Number 14-ORNG-STS-3752, awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP).

Based on the audit:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported.
- The City did not comply with municipal ordinance requirements for sole source purchase of bus shelters and did not comply with CTFP guidelines requiring documentation of the decision to utilize local agency forces rather than a contractor for installation of the bus shelters.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed, and the final report submitted, within the timeframes dictated by CTFP guidelines.

Background

Safe Transit Stops Program

OCLTA provided funding to the City for construction and installation of bus shelters under Project No. 14-ORNG-STS-3752, as part of the Safe Transit Stops Program (Program). The Project provided bus shelters for seven bus stops and costs incurred totaled \$136,532. The Program has no matching requirement. The Project began on September 8, 2015, and was completed on June 15, 2016.

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Objectives, Scope, and Methodology

The objectives were to determine whether:

1. Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the City met the required Project match, as applicable.
2. The City complied with competitive contracting requirements.
3. The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project and Measure M2 funds were tracked separately within the accounting system.
4. The Project was completed, and the final report submitted, within the timeframes dictated by CTFP guidelines.
5. Records and documentation related to the Project were adequately maintained.

The scope is limited to the Project. The methodology included the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to verify evidence of competitive bid procedures.
3. We identified fund accounting procedures used by the City to account for Project revenues and expenditures.
4. We reviewed Project financial records for all payments from the Orange County Transportation Authority to determine that proper accounting and cash management procedures were followed.
5. We obtained a detailed listing of Project expenditures from the general ledger and determined whether the City met the required Project match, if applicable. We tested all material expenditures and a haphazard sample of three payroll periods for in-house labor charges, representing 66 percent of all labor charges. For the expenditures tested, we determined whether the expenditures were properly supported, approved, recorded, and in compliance with the contract and CTFP guidelines. Since the in-house labor sample was non-statistical, conclusions are limited to the sample items tested.

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6. For construction phase work performed by local agency forces, we determined if the decision that local agency forces could perform the work more cost effectively or timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for compliance with CTFP guidelines, and we reviewed to ensure that excess parcels acquired with Program funds were properly accounted for and any net proceeds from disposal of these parcels were returned in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed documentation of the Project start date and completion date to determine whether the Project was completed within the three-year timeframe required by CTFP guidelines, or whether there was evidence of approval for an extension to the timeframe. We reviewed the final report date to determine that the City submitted the final report to OCLTA within 180 days of the Project completion date as required by CTFP guidelines.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

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Detailed Results

Our audit disclosed the following:

Failure to Comply with Procurement Policy

The City procured bus shelters from a vendor without competition and did not comply with the municipal code governing sole source materials purchases.

Separate Project Fund

The City recorded costs of the Project in the Reimbursable Capital Projects Fund (Fund 550).

Accounting and Cash Management Procedures

The City established adequate controls to ensure that Project funds were used only for approved Project costs and were tracked separately within the accounting system.

Project Costs

The City incurred costs totaling \$136,532 for the Project, which was fully funded with CTFP funds. We found that haphazardly sampled costs charged to the Project were reasonable, allocable, eligible, and adequately supported.

Use of Local Agency Forces

The City did not prepare documentation to justify the decision to utilize local agency forces to perform installation of the bus shelters, as required by CTFP guidelines. The guidelines state that agencies must document that local agency forces could perform the work more cost effectively or timely than a contractor.

Right-of-Way Acquisition

No right-of-way was acquired for the Project.

Project Completion

The Project began on September 8, 2015, and was completed on June 15, 2016, which is within the three-year timeframe dictated by CTFP guidelines. The final report was submitted to OCLTA on September 15, 2016, which was within 180 days after Project completion.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
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Comprehensive Transportation Funding Programs
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October 8, 2018**

Audit Comments, Recommendations, and Management Responses

Procurement Without Competition

The City procured bus shelters from a vendor without competition.

The City's municipal code 3.08.290 states that competitive bidding procedures may be waived with the approval of the City Manager and with certification in writing to the City Council that the materials are offered by only one vendor, or when only one vendor is able to supply the materials within the timeframe and/or under the terms and conditions which reasonably meet the needs of the using department.

The staff report provided to City Council indicates that a quote was obtained from the vendor "...in order to maintain the quality and appearance of bus shelters...", but does not clearly assert that a sole source is required because only one vendor is able to supply the materials within the timeframe and/or under the terms and conditions that reasonably meet the needs of the City. Rather, the staff report acknowledges that the City had previously sought competitive bids to provide and install the bus shelters.

Recommendation 1:

Internal Audit recommends the City implement controls to ensure procurements fully comply with requirements.

City Management Response:

In the future, the City will implement controls that will ensure sole source procurements are thoroughly documented.

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Lack of Documentation for use of Local Agency Forces

The City did not prepare documentation to justify the decision to utilize City staff to perform installation of the bus shelters. CTFP guidelines state that agencies must document the decision to use local agency forces because they could perform the work more cost effectively or timely than a contractor.

Recommendation 2:

Internal Audit recommends the City advise responsible staff involved in CTFP projects of requirements for documenting and supporting decisions to utilize local agency forces for construction phase work.

City Management Response:

The City will advise responsible staff involved in CTFP projects of requirements for documenting and supporting decisions to utilize local agency forces for construction phase work, and will make every effort to ensure similar decisions are properly documented in the future.

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Comprehensive Transportation Funding Programs

City of Anaheim Arterial Capacity Enhancements Program Brookhurst Street Widening Project No. 11-ANAH-ACE-3502

October 8, 2018



Performed by: Gabriel Tang, CPA, Principal Internal Auditor
Janet Sutter, CIA, Executive Director

Distributed to: Adriann Cardoso, Department Manager, Planning
Joseph Alcock, Christina Moore

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
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Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of the Brookhurst Street Widening Project (Project) of the City of Anaheim (City), Project Number 11-ANAH-ACE-3502, awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP).

Based on the audit:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the City met the required Project match.
- The City adhered to competitive bidding requirements for the selection of contractors under the Project.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed within the timeframe dictated by CTFP guidelines.
- The City established and maintained a separate cost center for the Project.
- The City submitted the final report to OCLTA within 180 days of the Project completion date as required by CTFP guidelines.

Background

Arterial Capacity Enhancements Program

OCLTA provided funding for construction under the Arterial Capacity Enhancements Program (Program), Project No. 11-ANAH-ACE-3502. The Project was to widen Brookhurst Street from Ball Road to Katella Avenue. Costs incurred for the Project totaled \$9,165,209, of which \$2,963,136 was funded by the CTFP and \$6,202,073 was funded by the City and other sources. The Project began on June 11, 2013, and was completed on March 21, 2016.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
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Objectives, Scope, and Methodology

The objectives were to determine whether:

1. Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the City met the required Project match, as applicable.
2. The City complied with competitive contracting requirement.
3. The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project and were tracked separately within the accounting system.
4. The Project was completed, and the final report submitted, within the timeframe dictated by CTFP guidelines.
5. Records and documentation related to the Project were adequately maintained.

The scope is limited to the Project. The methodology included the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to verify evidence of competitive bid procedures.
3. We identified fund accounting procedures used by the City to account for Project revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detailed listing of Project expenditures from the general ledger and determined whether the City met the required Project match, as applicable. We tested a haphazard sample of 15 expenditures, representing 25 percent of Project costs. For the expenditures tested, we determined whether the expenditures were properly supported, approved, recorded, and in compliance with the contract and CTFP guidelines. Since the sample was non-statistical, conclusions are limited to the sample items tested.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
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October 8, 2018**

6. For construction phase work performed by local agency forces, we determined if the decision that local agency forces could perform the work more cost effectively or timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for compliance with CTFP guidelines, and we reviewed to ensure that excess parcels acquired with Program funds were properly accounted for and any net proceeds from disposal of these parcels were returned in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed documentation of the Project start date and completion date to determine whether the Project was completed within the three-year timeframe required by CTFP guidelines, or whether there was evidence of approval for an extension to the timeframe. We also reviewed the final report date to determine that the City submitted the final report to OCLTA within 180 days of Project completion, as required by CTFP guidelines.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Anaheim
October 8, 2018**

Detailed Results

Our audit disclosed the following:

Compliance with Competitive Contracting Requirements

We reviewed documentation provided by the City evidencing that competitive contracting requirements were complied with.

Separate Project Fund

The City recorded costs of the Project in the Measure M2 Competitive Fund (Fund 274).

Accounting and Cash Management Procedures

The City established adequate controls to ensure that Project funds were used only for approved Project costs and were tracked separately within the accounting system.

Project Costs

The City incurred costs totaling \$9,165,209 for the Project. The Project funding consisted of CTFP funds of \$2,963,136, and \$6,202,073 from the City and other sources. We found that haphazardly sampled costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the required 25 percent Project match was met.

Use of Local Agency Forces

No construction phase work was performed by local agency personnel.

Right-of-Way Acquisition

No right-of-way was acquired for the Project.

Project Completion

The Project began on June 11, 2013, and was completed on March 21, 2016, which is within the three-year timeframe dictated by CTFP guidelines. The final report was submitted to OCLTA on August 3, 2016, which is within 180 days after Project completion.

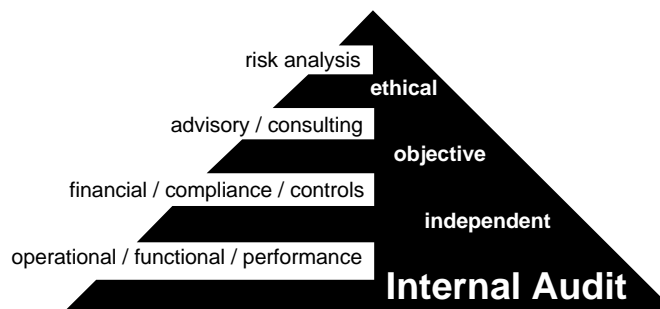
ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Comprehensive Transportation Funding Programs

City of Costa Mesa Environmental Cleanup Program Industrial Way Water Quality and Storm Drain Improvement Project Project No. 13-CMSA-ECP-3675

October 8, 2018



Performed by: Gabriel Tang, CPA, Principal Internal Auditor
Janet Sutter, CIA, Executive Director

Distributed to: Adriann Cardoso, Department Manager, Planning
Joseph Alcock, Christina Moore

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Costa Mesa
October 8, 2018

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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Costa Mesa
October 8, 2018**

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of the Industrial Way Water Quality and Storm Drain Improvement Project (Project) of the City of Costa Mesa (City), Project Number 13-CMSA-ECP-3675 awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP).

Based on the audit:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the City met the required Project match.
- The City adhered to competitive bidding requirements for the selection of contractors under the Project.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed within the timeframe dictated by CTFP guidelines.
- The City established and maintained a separate cost center for the Project.
- The City submitted the final report to OCLTA within 180 days of the Project completion date as required by CTFP guidelines.

Background

Environmental Cleanup Program

OCLTA provided funding for construction under the Environmental Cleanup Program (Program), Project No. 13-CMSA-ECP-3675. The Project was to install an underground detention/infiltration facility within an open grass field south of Anaheim Avenue and 19th Street. Costs incurred for the Project totaled \$3,428,267, of which \$2,056,961 was funded by the CTFP and \$1,371,306 was funded by the City. The Project began on June 17, 2014, and was completed on February 12, 2016.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Costa Mesa
October 8, 2018**

Objectives, Scope, and Methodology

The objectives were to determine whether:

1. Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the City met the required Project match, as applicable.
2. The City complied with competitive contracting requirements.
3. The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project and were tracked separately within the accounting system.
4. The Project was completed, and the final report submitted, within the timeframe dictated by CTFP guidelines.
5. Records and documentation related to the Project were adequately maintained.

The scope is limited to the Project. The methodology included the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to verify evidence of competitive bid procedures.
3. We identified fund accounting procedures used by the City to account for Project revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detailed listing of Project expenditures from the general ledger and determined whether the City met the required Project match, as applicable. We tested a haphazard sample of ten expenditures, representing 61 percent of total Project costs. For the expenditures tested, we determined whether the expenditures were properly supported, approved, recorded, and in compliance with the contract and CTFP guidelines. Since the sample was non-statistical, conclusions are limited to the sample items tested.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Costa Mesa
October 8, 2018**

6. For construction phase work performed by local agency forces, we determined if the decision that local agency forces could perform the work more cost effectively or timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for compliance with CTFP guidelines, and we reviewed to ensure that excess parcels acquired with Program funds were properly accounted for and any net proceeds from disposal of these parcels were returned in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed documentation of the Project start date and completion date to determine whether the Project was completed within the three-year timeframe required by CTFP guidelines, or whether there was evidence of approval for an extension to the timeframe. We also reviewed the final report date to determine that the City submitted the final report to OCLTA within 180 days of Project completion, as required by CTFP guidelines.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Costa Mesa
October 8, 2018**

Detailed Results

Our audit disclosed the following:

Compliance with Competitive Contracting Requirements

We reviewed documentation provided by the City evidencing that competitive contracting requirements were complied with.

Separate Project Fund

The City recorded costs of the Project in the Drainage Fund (Fund 209) and Measure M2 Fund (Fund 415).

Accounting and Cash Management Procedures

The City established adequate controls to ensure that Project funds were used only for approved Project costs and were tracked separately within the accounting system.

Project Costs

The City incurred costs totaling \$3,428,267 for the Project. The Project funding consisted of CTFP funds of \$2,056,961, and \$1,371,306 from the City. We found that haphazardly sampled costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the required 40 percent Project match was met.

Use of Local Agency Forces

No construction phase work was performed by local agency personnel.

Right-of-Way Acquisition

No right-of-way was acquired for the Project.

Project Completion

The Project began on June 17, 2014, and was completed on February 12, 2016, which is within three years, as dictated by CTFP guidelines. The final report was submitted to OCLTA on April 1, 2016, which is within 180 days after Project completion.

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Comprehensive Transportation Funding Programs

City of Fullerton Regional Traffic Signal Synchronization Program Placentia Avenue Signal Synchronization Project No. 12-FULL-TSP-3611

October 8, 2018



Performed by: Gabriel Tang, CPA, Principal Internal Auditor
Janet Sutter, CIA, Executive Director

Distributed to: Adriann Cardoso, Department Manager, Planning
Joseph Alcock, Christina Moore

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Fullerton
October 8, 2018**

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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Fullerton
October 8, 2018**

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of the Placentia Avenue Signal Synchronization Project (Project) of the City of Fullerton, Project Number 12-FULL-TSP-3611, awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP).

Based on the audit:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the City met the required Project match.
- The City adhered to competitive bidding requirements for the selection of contractors under the Project.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed within the timeframe dictated by CTFP guidelines.
- The City established and maintained a separate cost center for the Project.
- The City submitted the final report to OCLTA within 180 days of the Project completion date as required by CTFP guidelines.

Background

Regional Traffic Signal Synchronization Program

OCLTA provided funding for construction and engineering under the Regional Traffic Signal Synchronization Program (Program), Project No. 12-FULL-TSP-3611. The Project was to coordinate traffic signals on Placentia Avenue between State College Boulevard in the City of Anaheim, and State College Boulevard in the City of Brea. Costs incurred for the Project totaled \$419,402, of which \$335,522 was funded by the CTFP and \$83,880 was funded by the City and other sources. The initial phase of the Project began on December 18, 2012, and was completed on January 29, 2016. The final phase of the Project began on May 6, 2014, and was completed on July 22, 2016.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Fullerton
October 8, 2018**

Objectives, Scope, and Methodology

The objectives were to determine whether:

1. Costs charged to the Project were reasonable, allocable, eligible, and adequately supported and the City met the required Project match, as applicable.
2. The City complied with competitive contracting requirements.
3. The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project and were tracked separately within the accounting system.
4. The Project was completed, and the final report submitted, within the timeframe dictated by CTFP guidelines.
5. Records and documentation related to the Project were adequately maintained.

The scope is limited to the Project. The methodology included the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to verify evidence of competitive bid procedures.
3. We identified fund accounting procedures used by the City to account for Project revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detailed listing of Project expenditures from the general ledger and determined whether the City met the required Project match, as applicable. We tested a haphazard sample of ten expenditures, representing 56 percent of all Project costs. For the expenditures tested, we determined whether the expenditures were properly supported, approved, recorded, and in compliance with the contract and CTFP guidelines. Since the sample was non-statistical, conclusions are limited to the sample items tested.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Fullerton
October 8, 2018**

6. For construction phase work performed by local agency forces, we determined if the decision that local agency forces could perform the work more cost effectively or timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for compliance with CTFP guidelines, and we reviewed to ensure that excess parcels acquired with Program funds were properly accounted for and any net proceeds from disposal of these parcels were returned in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed documentation of the Project start date and completion date to determine whether the Project was completed within the three-year timeframe required by CTFP guidelines, or whether there was evidence of approval for an extension to the timeframe. We also reviewed the final report date to determine that the City submitted the final report to OCLTA within 180 days of Project completion, as required by CTFP guidelines.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Fullerton
October 8, 2018**

Detailed Results

Our audit disclosed the following:

Compliance with Competitive Contracting Requirements

We reviewed documentation provided by the City evidencing that competitive contracting requirements were complied with.

Separate Project Fund

The City recorded costs of the Project in the Capital Project Fund (Fund 74).

Accounting and Cash Management Procedures

The City established adequate controls to ensure that Project funds were used only for approved Project costs and were tracked separately within the accounting system.

Project Costs

The City incurred costs totaling \$419,402 for the Project. The Project funding consisted of CTFP funds of \$335,522, and \$83,880 from the City and other sources. We found that haphazardly sampled costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the required 20 percent Project match was met.

Use of Local Agency Forces

No construction phase work was performed by local agency personnel.

Right-of-Way Acquisition

No right-of-way was acquired for the Project.

Project Completion

The initial phase of the Project began on December 18, 2012, and was completed on January 29, 2016, which is within the five-year timeline approved for the Project. The final report was submitted to OCLTA on July 12, 2016, which is within 180 days after Project completion.

The final phase of the Project began on May 6, 2014, and was completed on July 22, 2016, which is within the three-year timeframe dictated by CTFP guidelines. The final report was submitted to OCLTA on December 15, 2016, which is within 180 days after Project completion.

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Comprehensive Transportation Funding Programs

City of Irvine Environmental Cleanup Program Peters Canyon Wash Channel Water Capture and Reuse Pipeline Project Project No. 13-IRVN-ECP-3677

October 8, 2018



Performed by: Gabriel Tang, CPA, Principal Internal Auditor
Janet Sutter, CIA, Executive Director

Distributed to: Adriann Cardoso, Department Manager, Planning
Joseph Alcock, Christina Moore

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Irvine
October 8, 2018

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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Irvine
October 8, 2018**

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of the Peters Canyon Wash Channel Water Capture and Reuse Pipeline Project (Project) of the City of Irvine (City), Project Number 13-IRVN-ECP-3677, awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP).

Based on the audit:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the City met the required Project match.
- The City adhered to competitive bidding requirements for the selection of contractors under the Project.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed within the timeframe dictated by CTFP guidelines.
- The City established and maintained a separate cost center for the Project.
- The City submitted the final report to OCLTA within 180 days of the Project completion date as required by CTFP guidelines.

Background

Environmental Cleanup Program

OCLTA provided funding for construction under the Environmental Cleanup Program (Program), Project No. 13-IRVN-ECP-3677. The Project was to divert nuisance groundwater and surface water flows with high selenium and nitrates and deliver them to the Orange County Sanitation District for treatment and reuse. Costs incurred for the Project totaled \$5,455,175, of which \$3,273,105 was funded by the CTFP and \$2,182,070 was funded by the City and other sources. The Project began on May 27, 2015, and was completed on March 30, 2017.

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Irvine
October 8, 2018

Objectives, Scope, and Methodology

The objectives were to determine whether:

1. Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the City met the required Project match, as applicable.
2. The City complied with competitive contracting requirements.
3. The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project and were tracked separately within the accounting system.
4. The Project was completed, and the final report submitted, within the timeframe dictated by CTFP guidelines.
5. Records and documentation related to the Project were adequately maintained.

The scope is limited to the Project. The methodology included the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to verify evidence of competitive bid procedures.
3. We identified fund accounting procedures used by the City to account for Project revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detailed listing of Project expenditures from the general ledger and determined whether the City met the required Project match, as applicable. We tested a haphazard sample of four expenditures, representing 91 percent of total Project costs. For the expenditures tested, we determined whether the expenditures were properly supported, approved, recorded, and in compliance with the contract and CTFP guidelines. Since the sample was non-statistical, conclusions are limited to the sample items tested.
6. For construction phase work performed by local agency forces, we determined if the decision that local agency forces could perform the work more cost effectively or timely than a contractor was documented in accordance with CTFP guidelines.

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Irvine
October 8, 2018

7. For right-of-way acquisition costs, we reviewed supporting documentation for compliance with CTFP guidelines, and we reviewed to ensure that excess parcels acquired with Program funds were properly accounted for and any net proceeds from disposal of these parcels were returned in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed documentation of the Project start date and completion date to determine whether the Project was completed within the three-year timeframe required by CTFP guidelines, or whether there was evidence of approval for an extension to the timeframe. We also reviewed the final report date to determine that the City submitted the final report to OCLTA within 180 days of Project completion, as required by CTFP guidelines.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Irvine
October 8, 2018**

Detailed Results

Our audit disclosed the following:

Compliance with Competitive Contracting Requirements

The City participated in a multi-agency agreement with the Irvine Ranch Water District (IRWD) and other agencies. IRWD handled the competitive procurement of contractors. The City provided evidence of IRWD's competitive bidding process.

Separate Project Fund

The City recorded costs of the Project in the Special Program Fund (Fund 149) and System Development Charge Fund (Fund 118).

Accounting and Cash Management Procedures

The City established adequate controls to ensure that Project funds were used only for approved Project costs and were tracked separately within the accounting system.

Project Costs

The City incurred costs totaling \$5,455,175 for the Project. The Project funding consisted of CTFP funds of \$3,273,105, and \$2,182,070 from the City and other sources. We found that haphazardly sampled costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the required 40 percent Project match was met.

Use of Local Agency Forces

No construction phase work was performed by local agency personnel.

Right-of-Way Acquisition

No right-of-way was acquired for the Project.

Project Completion

The Project began on May 27, 2015, and was completed on March 30, 2017, which is within the three-year timeframe dictated by CTFP guidelines. The final report was submitted to OCLTA on August 31, 2017, which is within 180 days after Project completion.

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Comprehensive Transportation Funding Programs

City of La Habra Intersection Capacity Enhancements Program Whittier Boulevard and Beach Boulevard Intersection Improvements Project No. 14-LHAB-ICE-3717

October 8, 2018



Performed by: Gabriel Tang, CPA, Principal Internal Auditor
Janet Sutter, CIA, Executive Director

Distributed to: Adriann Cardoso, Department Manager, Planning
Joseph Alcock, Christina Moore

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of La Habra
October 8, 2018

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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of La Habra
October 8, 2018**

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of the Whittier Boulevard and Beach Boulevard Intersection Improvements Project (Project) of the City of La Habra (City), Project Number 14-LHAB-ICE-3717, awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP).

Based on the audit:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the City met the required Project match.
- The City adhered to competitive bidding requirements for the selection of contractors under the Project.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed within the timeframe dictated by CTFP guidelines.
- The City established and maintained a separate cost center for the Project.
- The City submitted the final report to OCLTA within 180 days of the Project completion date as required by CTFP guidelines.

Background

Intersection Capacity Enhancements Program

OCLTA provided funding for construction under the Intersection Capacity Enhancements Program (Program), Project No. 14-LHAB-ICE-3717. The Project was to provide additional traffic lanes and to upgrade the traffic signal at the intersection of Whittier Boulevard and Beach Boulevard. Costs incurred for the Project totaled \$1,479,508, of which \$1,106,563 was funded by the CTFP and \$372,945 was funded by the City. The Project began on November 17, 2014, and was completed on June 21, 2016.

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of La Habra
October 8, 2018

Objectives, Scope, and Methodology

The objectives were to determine whether:

1. Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the City met the required Project match, as applicable.
2. The City complied with competitive contracting requirements.
3. The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project and were tracked separately within the accounting system.
4. The Project was completed, and the final report submitted, within the timeframe dictated by CTFP guidelines.
5. Records and documentation related to the Project were adequately maintained.

The scope is limited to the Project. The methodology included the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to verify evidence of competitive bid procedures.
3. We identified fund accounting procedures used by the City to account for Project revenues and expenditures.
4. We reviewed Project financial records for all payments from the Orange County Transportation Authority to determine that proper accounting and cash management procedures were followed.
5. We obtained a detailed listing of Project expenditures from the general ledger and determined whether the City met the required Project match, as applicable. We tested a haphazard sample of eight expenditures, representing 71 percent of all Project costs. For the expenditures tested, we determined whether the expenditures were properly supported, approved, recorded, and in compliance with the contract and CTFP guidelines. Since the sample was non-statistical, conclusions are limited to the sample items tested.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of La Habra
October 8, 2018**

6. For construction phase work performed by local agency forces, we determined if the decision that local agency forces could perform the work more cost effectively or timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for compliance with CTFP guidelines, and we reviewed to ensure that excess parcels acquired with Program funds were properly accounted for and any net proceeds from disposal of these parcels were returned in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed documentation of the Project start date and completion date to determine whether the Project was completed within the three-year timeframe required by CTFP guidelines, or whether there was evidence of approval for an extension to the timeframe. We also reviewed the final report date to determine that the City submitted the final report to OCLTA within 180 days of Project completion, as required by CTFP guidelines.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of La Habra
October 8, 2018**

Detailed Results

Our audit disclosed the following:

Compliance with Competitive Contracting Requirements

We reviewed documentation provided by the City evidencing that competitive contracting requirements were complied with.

Separate Project Fund

The City recorded costs of the Project in the Measure M2 Grants Fund (Fund 139).

Accounting and Cash Management Procedures

The City established adequate controls to ensure that Project funds were used only for approved Project costs and were tracked separately within the accounting system.

Project Costs

The City incurred costs totaling \$1,479,508 for the Project. The Project funding consisted of CTFP funds of \$1,106,563, and \$372,945 from the City. We found that haphazardly sampled costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the required 25 percent Project match was met.

Use of Local Agency Forces

No construction phase work was performed by local agency personnel.

Right-of-Way Acquisition

No right-of-way was acquired for the Project.

Project Completion

The Project began on November 17, 2014, and was completed on June 21, 2016, which is within the three-year timeframe dictated by CTFP guidelines. The final report was submitted to OCLTA on September 26, 2016, which is within 180 days after Project completion.

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Comprehensive Transportation Funding Programs

City of Tustin Arterial Capacity Enhancements Program Warner Avenue Extension Project Project No. 13-TUST-ACE-3659

October 8, 2018



Performed by: Gabriel Tang, CPA, Principal Internal Auditor
Janet Sutter, CIA, Executive Director

Distributed to: Adriann Cardoso, Department Manager, Planning
Joseph Alcock, Christina Moore

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Tustin
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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Tustin
October 8, 2018**

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of the Warner Avenue Extension Project (Project) of the City of Tustin (City), Project Number 13-TUST-ACE-3659, awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP).

Based on the audit:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the City met the required Project match.
- The City adhered to competitive bidding requirements for the selection of contractors under the Project.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed within the timeframe dictated by CTFP guidelines.
- The City established and maintained a separate cost center for the Project.
- The City submitted the final report to OCLTA within 180 days of the Project completion date as required by CTFP guidelines.

Background

Arterial Capacity Enhancements Program

OCLTA provided funding for construction under the Arterial Capacity Enhancements Program (Program), Project No. 13-TUST-ACE-3659. The Project was to extend Warner Avenue from Red Hill Avenue to Tustin Ranch Road. Costs incurred for the Project totaled \$9,650,063, of which \$5,400,000 was funded by the CTFP and \$4,250,063 was funded by the City and other sources. The Project began on June 4, 2013, and was completed on October 6, 2015.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Tustin
October 8, 2018**

Objectives, Scope, and Methodology

The objectives were to determine whether:

1. Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the City met the required Project match, as applicable.
2. The City complied with competitive contracting requirements.
3. The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project and were tracked separately within the accounting system.
4. The Project was completed, and the final report submitted, within the timeframe dictated by CTFP guidelines.
5. Records and documentation related to the Project were adequately maintained.

The scope is limited to the Project. The methodology included the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to verify evidence of competitive bid procedures.
3. We identified fund accounting procedures used by the City to account for Project revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detailed listing of Project expenditures from the general ledger and determined whether the City met the required Project match, as applicable. We tested a haphazard sample of fifteen expenditures, representing 74 percent of Project costs. For the expenditure tested, we determined whether the expenditures were properly supported, approved, recorded, and in compliance with the contract and CTFP guidelines. Since the sample was non-statistical, conclusions are limited to the sample items tested.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Tustin
October 8, 2018**

6. For construction phase work performed by local agency forces, we determined if the decision that local agency forces could perform the work more cost effectively or timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for compliance with CTFP guidelines, and we reviewed to ensure that excess parcels acquired with Program funds were properly accounted for and any net proceeds from disposal of these parcels were returned to OCLTA in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed documentation of the Project start date and completion date to determine whether the Project was completed within the three-year timeframe in accordance with the CTFP guidelines, or whether there was evidence of approval for an extension to the timeframe. We also reviewed the final report date to determine that the City submitted the final report to OCLTA within 180 days of Project completion, as required by CTFP guidelines.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
City of Tustin
October 8, 2018**

Detailed Results

Our audit disclosed the following:

Compliance with Competitive Contracting Requirements

We reviewed documentation provided by the City evidencing that competitive contracting requirements were complied with.

Separate Project Fund

The City recorded costs of the Project in the CTFP Fund (Fund 139) and Community Facility District 06-1 Fund (Fund 434).

Accounting and Cash Management Procedures

The City established adequate controls to ensure that Project funds were used only for approved Project costs and were tracked separately within the accounting system.

Project Costs

The City incurred costs totaling \$9,650,063 for the Project. The Project funding consisted of CTFP funds of \$5,400,000, and \$4,250,063 from the City and other sources. We found that haphazardly sampled costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the required 40 percent Project match was met.

Use of Local Agency Forces

No construction phase work was performed by local agency personnel.

Right-of Way-Acquisition

No right-of-way was acquired for the Project.

Project Completion

The Project began on June 4, 2013, and was completed on October 6, 2015, which is within the three-year timeframe dictated by CTFP guidelines. The final report was submitted to OCLTA on November 2, 2015, which is within 180 days after Project completion.

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Comprehensive Transportation Funding Programs

County of Orange Arterial Capacity Enhancements Program La Pata Phase I Project No. 12-ORCO-ACE-3596

October 8, 2018



Performed by: Gabriel Tang, CPA, Principal Internal Auditor
Janet Sutter, CIA, Executive Director

Distributed to: Adriann Cardoso, Department Manager, Planning
Joseph Alcock, Christina Moore

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
County of Orange
October 8, 2018

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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
County of Orange
October 8, 2018**

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of the La Pata Phase I Project (Project) of the County of Orange (County), Project Number 12-ORCO-ACE-3596, awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP).

Based on the audit:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the County met the required Project match.
- The County adhered to competitive bidding requirements for the selection of contractors under the Project.
- The County's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed within the timeframe dictated by CTFP guidelines.
- The County established and maintained a separate cost center for the Project.
- The County submitted the final report to OCLTA within 180 days of the Project completion date as required by CTFP guidelines.

Background

Arterial Capacity Enhancements Program

OCLTA provided funding for construction under the Arterial Capacity Enhancements Program (Program), Project No. 12-ORCO-ACE-3596. The Project was to extend La Pata Avenue between Ortega Highway and Calle Saluda. Costs incurred for the Project totaled \$42,368,268, of which \$5,110,000 was funded by the CTFP and \$37,258,268 was funded by the County and other sources. The Project began on December 10, 2013, and was completed on January 12, 2017, 33 days beyond the three-year timeframe dictated by CTFP guidelines; however, the County incurred all CTFP expenditures and more than the required match expenditures within the three-year timeframe.

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Objectives, Scope, and Methodology

The objectives were to determine whether:

1. Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the County met the required Project match, as applicable.
2. The County complied with competitive contracting requirements.
3. The County's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project and were tracked separately within the accounting system.
4. The Project was completed, and the final report submitted, within the timeframe dictated by CTFP guidelines.
5. Records and documentation related to the Project were adequately maintained.

The scope is limited to the Project. The methodology included the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to verify evidence of competitive bid procedures.
3. We identified fund accounting procedures used by the County to account for Project revenues and expenditures.
4. We reviewed Project financial records for all payments from the Orange County Transportation Authority to determine that proper accounting and cash management procedures were followed.
5. We obtained a detailed listing of Project expenditures from the general ledger and determined whether the County met the required Project match, as applicable. We tested a haphazard sample of twelve expenditures, representing 69 percent of total project costs. For the expenditures tested, we determined whether the expenditures were properly supported, approved, recorded, and in compliance with the contract and CTFP guidelines. Since the sample was non-statistical, conclusions are limited to the sample items tested.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
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October 8, 2018**

6. For construction phase work performed by local agency forces, we determined if the decision that local agency forces could perform the work more cost effectively or timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for compliance with CTFP guidelines, and we reviewed to ensure that excess parcels acquired with Program funds were properly accounted for and any net proceeds from disposal of these parcels were returned in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed documentation of the Project start date and completion date to determine whether the Project was completed within the three-year timeframe required by CTFP guidelines, or whether there was evidence of approval for an extension to the timeframe. We also reviewed the final report date to determine that the County submitted the final report to OCLTA within 180 days of Project completion, as required by CTFP guidelines.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Comprehensive Transportation Funding Programs
County of Orange
October 8, 2018**

Detailed Results

Our audit disclosed the following:

Compliance with Competitive Contracting Requirements

We reviewed documentation provided by the County evidencing that competitive contracting requirements were complied with.

Separate Project Fund

The County recorded costs of the Project in the Road Fund 115, Community Facility District (CFD) Fund 529, CFD Fund 554, and CFD Fund 486.

Accounting and Cash Management Procedures

The County established adequate controls to ensure that Project funds were used only for approved Project costs and were tracked separately within the accounting system.

Project Costs

The County incurred costs totaling \$42,368,268 for the Project. The Project funding consisted of CTFP funds of \$5,110,000, and \$37,258,268 from the County and other sources. We found that haphazardly sampled costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the County's required 70 percent Project match was met.

Use of Local Agency Forces

No construction phase work was performed by local agency personnel.

Right-of-Way Acquisition

No right-of-way was acquired for the Project.

Project Completion

The Project began on December 10, 2013, and was completed on January 12, 2017, 33 days after the three-year timeframe allowed by CTFP guidelines; however, the County incurred all CTFP expenditures, and more than the required match expenditures within the three-year timeframe. The final report was submitted to OCLTA on March 22, 2017, which is within 180 days after Project completion.



October 24, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit

Subject: Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2018

Overview

The Internal Audit Department has completed an audit of investments for the period January 1 through June 30, 2018. 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, January 1 through June 30, 2018, Internal Audit Report No. 19-501, 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 June 30, 2018, the portfolio's book value was approximately \$1.5 billion. The portfolio consists of two managed portfolios: liquid assets for OCTA's daily operations and a short term portfolio for future budgeted expenditures. External investment managers administer the short term portfolio, and OCTA's Treasurer manages the liquid assets portfolio.

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

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 January 1 through June 30, 2018.

Summary

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

Attachment

- A. Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2018 Internal Audit Report No. 19-501

Prepared by:



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 January 1 through June 30, 2018

Internal Audit Report No. 19-501

October 8, 2018



Performed by: Janet Sutter, CIA, Executive Director
Ricco Bonelli, CIA, Principal Internal Auditor
Gabriel Tang, CPA, Principal Internal Auditor

Distributed to: Andrew Oftelie, Executive Director, Finance and Administration
Jennifer Matano, Vicki Austin

**ORANGE COUNTY TRANSPORTATION AUTHORITY
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October 8, 2018

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of investments for the period January 1 through June 30, 2018. 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). On June 30, 2018, the portfolio's book value was approximately \$1.5 billion. The portfolio consists of two managed portfolios: liquid assets for OCTA's daily operations and a 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.

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investments: Compliance, Controls, and Reporting
January 1 through June 30, 2018
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Objectives, Scope, and Methodology

The primary objective 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 CGC;
- Investment transactions were adequately supported; and
- OCTA was in compliance with investment requirements of debt issuances.

The scope included investment transactions and investment-related controls for the period January 1 through June 30, 2018. OCTA's independent auditor, Vavrinek, Trine, Day & Co., LLP (VTD), will perform agreed-upon procedures with respect to the Treasury function for the year ended June 30, 2018. Internal Audit limited the scope of this audit to procedures that will not be performed by VTD during the course of their agreed-upon procedures.

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 repo-sweeps for compliance with the Policy, traced a haphazard sample of investments from the bank statements to the Treasury software system (Clearwater), testing a judgmental sample of wire transfers for accuracy and proper authorization, and verifying the accuracy of the quarterly debt and investment reports provided to OCTA's Board of Directors. 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 trustee per quarter, resulting in a sample of 40 securities, and traced the securities from the statements to the Clearwater Daily Holding Reports. For quarterly report transaction testing, Internal Audit judgmentally selected 40 investments per quarter 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 testing the Deputy Treasurer'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 investment managers.

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We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



October 24, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer
Janet Sutter, Executive Director
Internal Audit

Subject: ACCESS Service, Internal Audit Report No. 18-514

Overview

The Internal Audit Department has completed an audit of ACCESS services provided by MV Transportation, Inc. Based on the audit, the reservation and scheduling process, invoice approval procedures, and drug and alcohol program monitoring are adequate. However, improvements to contract amendment policies, calculation of call center hold-times, and monitoring of preventive maintenance, performance bond requirements, and farebox revenue reconciliations are recommended.

Recommendation

Direct staff to implement five recommendations provided in ACCESS Service, Internal Audit Report No. 18-514.

Background

The Orange County Transportation Authority (OCTA) and MV Transportation, Inc. (MV) entered into Agreement No. C-2-1865 (contract), with an initial term of July 1, 2013 through June 30, 2017, and a contract maximum obligation (contract maximum) of \$156,690,376. Under the contract, MV provides management and operating services for ACCESS paratransit. OCTA pays MV a fixed monthly rate plus a variable rate per revenue vehicle hour (RVH), and OCTA pays for supplemental service by Yellow Cab of Greater Orange County (Yellow Cab) on a per-trip basis.

The contract establishes performance standards including standards for on-time performance, passengers per revenue vehicle hour, missed and excessively late trips, valid complaints, accident reporting, preventive maintenance, miles

between road calls, and call center maximum hold times. Penalties and/or incentives are applied based on MV's achievement of these standards.

Discussion

In April 2018 staff processed an amendment to the contract that obligated OCTA to additional costs totaling \$513,333 that were not subject to Board of Directors (Board) approval. Under current policy, amendments that increase the contract maximum by \$250,000 or more require Board approval; however, the policy does not address amendments to pricing that result in increased costs of \$250,000 or more, but can be accommodated within the contract maximum. In addition, the value of the amendment to compensate MV for increased call volume for Same Day Taxi (SDT) reservations was overstated. Staff prepared two estimates for \$513,333 and \$270,400. The higher estimate was based on total reservationists needed to field SDT calls and the lower estimate was based on additional reservationists needed to field calls after volume increased beyond the level originally anticipated in the contract. The Internal Audit Department (Internal Audit) recommended management consider updating policies to require Board approval for amendments to contract pricing that result in additional costs of \$250,000 or more. In addition, management should ensure the validity of cost assumptions and document the reason for the cost estimate selected when valuing amendments. Management agreed to consider a policy change and to implement changes to process for preparing and selecting cost estimates.

With regard to performance standards, Internal Audit found MV's calculation of the call center maximum hold-time performance standard (standard) to be flawed. The standard requires 98 percent of calls to be answered within five minutes, with a \$5,000 penalty when the percentage is 94.1 to 96 percent, increasing to a \$10,000 penalty when the percentage is less than 94 percent. MV staff prepares the calculation using data from an OCTA-purchased system. However, when calculating performance, MV staff include SDT calls answered in five minutes or more as being answered within five minutes, resulting in an overstatement of performance. In April 2018, MV reported that 96.07 percent of calls were answered within five minutes; however, when properly calculated, the percentage was 95.73 percent, which should have triggered a \$5,000 penalty. Internal Audit recommended that management instruct MV to correct the calculation and implement oversight controls to periodically validate the data and the calculation. Management agreed to correct the calculation and enhance monitoring procedures.

Internal Audit also found that OCTA staff had not performed monthly preventative maintenance inspections (PMI) reviews for seven months, including five consecutive months in 2017. The contract requires that PMI be performed

at required intervals, and OCTA staff typically reviews the records of about 20 vehicles per month to monitor PMI performance. Internal Audit recommended that staff consistently perform monthly monitoring of PMI. Management agreed to perform consistent inspections going forward.

Internal Audit also observed that the performance bond provided by MV for the initial four-year term was insufficient to meet contract requirements. Internal Audit recommended that management review performance bonds provided at contract inception and ensure that the bonds meet contract requirements. Management agreed with the recommendation and advised that a third-party vendor has recently been retained to review bond and insurance documentation for compliance with contract terms.

Finally, Internal Audit noted that staff's monitoring of ACCESS fare revenues should be improved. Internal Audit recommended that management enhance procedures to include monitoring of coupons collected by both MV and Yellow Cab and to require investigation of variances exceeding a stated threshold. Management agreed to implement these recommendations.

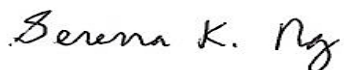
Summary

Internal Audit has completed an audit of ACCESS service and offered five recommendations for improvement.

Attachment

A. ACCESS Service, Internal Audit Report No. 18-514

Prepared by:



Serena Ng
Senior Manager, Internal Audit
714-560-5938

Approved by:



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

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



ACCESS Service

Internal Audit Report No. 18-514

October 10, 2018



Performed by: Serena Ng, CPA, Senior Manager *Serena K. Ng*
Janet Sutter, CIA, Executive Director

Distributed to: Beth McCormick, General Manager, Transit
Andrew Oftelie, Executive Director, Finance and Administration
Jennifer Bergener, Sean Murdock, Virginia Abadessa,
Pia Veasapen, Victor Velasquez, Johnny Dunning, Jack Garate,
Dale Fuchs, Kristen Mason, Russell Henry

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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of ACCESS services provided by MV Transportation, Inc. (MV). Based on the audit, reservation and scheduling procedures, invoice approval procedures, and drug and alcohol program monitoring activities are adequate. However, improvements to contract amendment policies, calculation of call center hold times, performance of monthly reviews of preventive maintenance records, and monitoring of performance bond requirements and farebox revenue reconciliations are recommended.

Specifically, an amendment to change payment terms, resulting in increased costs of \$513,333, was not subject to Board of Directors' (Board) approval because the contract maximum obligation was not changed. Internal Audit recommended this policy be revised to require such approval.

In addition, calculations of call center hold-time performance are flawed, and monthly reviews of preventive maintenance records were not always performed. Other findings included insufficient performance bond values and incomplete monitoring of farebox revenue reconciliations.

Finally, Internal Audit identified issues related to documentation of penalty waivers and pre-approval of major mechanical repairs; however, these issues and related recommendations were reported in the audit of Contracted Fixed Route Services, and subsequently addressed by management. As a result, the recommendations are not repeated in this report.

Background

The Americans with Disabilities Act of 1990 (ADA) requires agencies that operate fixed route operations to provide complementary paratransit service for individuals who are unable to use the fixed route system. The Orange County Transportation Authority (OCTA) responded to this civil rights legislation with the implementation of ACCESS service in 1993. ACCESS service is an advanced reservation service, for travel within areas comparable to OCTA's fixed route bus services, for persons who have been certified as ADA eligible.

OCTA and MV entered into Agreement No. C-2-1865, effective April 3, 2013. Under the contract, MV provides management and operation services including all management, personnel, reservations and scheduling, dispatching, operations, insurance, record-keeping and reporting, computer hardware and administrative software, and vehicles for driver relief and road supervision, as necessary, for the operation of ACCESS service. MV collects cash fares and coupons, and handles, accounts for, and reports all fare revenues received during operation of the service. Yellow Cab of Greater Orange

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County (Yellow Cab) is a named subcontractor as a supplemental ACCESS service provider. The term of the contract runs from July 1, 2013 through June 30, 2017, with two, two-year option terms, and an original maximum obligation of \$156,690,376. Under the payment terms, OCTA pays MV a fixed monthly rate plus a variable rate per revenue vehicle hour (RVH), and OCTA pays for supplemental service by Yellow Cab on a per-trip basis. Amendment No. 1 revised key personnel and language in the scope of work. Effective June 2014, Amendment No. 2 added the decommissioning of vehicles to be utilized in the Senior Mobility Program (SMP) at an increase of \$37,853.52. Effective December 2015, Amendment No. 3 continued the inspections, general maintenance, and painting services of vehicles utilized in the SMP at an increase of \$60,000. Effective August 2016, Amendment No. 4 increased the maximum obligation by \$7,841,232, to accommodate the costs associated with an increased demand for service. In June 2017, Amendment No. 5 was executed to exercise the first option term, extending the contract through June 30, 2019, at an increase of \$90,982,108. In April 2018, Amendment No. 6 was executed to reimburse MV for increased call center service for Same Day Taxi and to revise contract language related to penalties and major maintenance, with no increase to the maximum obligation.

The contract establishes performance standards including standards for on-time performance, passengers per revenue vehicle hour, missed and excessively late trips, valid complaints, accident reporting, preventive maintenance, miles between road calls, and call center maximum hold times. Penalties and/or incentives are applied based on MV's achievement of these standards.

With regard to vehicle maintenance, the contract outlines preventive maintenance requirements for OCTA-owned vehicles. The contract requires MV to perform preventative maintenance inspections (PMI) in accordance with manufacturer's recommended intervals and in compliance with California Highway Patrol terminal inspection requirements. PMI's are to be performed on each OCTA vehicle at 5,000-mile intervals. The manufacturer requires engine oil and filter changes every 5,000 miles, six months, or 200 hours of operation, whichever occurs first. OCTA Transit Division (Transit) staff performs monthly reviews of work order history files for around 20 vehicles out of a fleet of 248, in order to monitor MV's compliance with preventive maintenance requirements.

OCTA Transit staff attends MV's new employee orientations and selected safety meetings. Transit staff is responsible for oversight of MV's safety and drug and alcohol programs, and also performs periodic reviews of MV's driver records, including pull-notices with medical cards and driver's daily logs. When an accident occurs, the coach operator notifies MV Dispatch Services and MV then informs OCTA. Within 24 hours, MV will generate accident reports and send them to OCTA Transit staff and others.

Each month, MV sends a preliminary invoice package to OCTA Financial Planning & Analysis (FP&A) staff that includes a draft invoice, deposit slips for MV's cash fares, and

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work orders for major maintenance costs. FP&A staff then pulls the billing reports from a reporting site, with the report data coming from the Trapeze system. FP&A staff goes through a data reconciliation process where certain filters are run to identify anomalies and compares such anomalies to the ones MV has identified. When the data reconciliation process is complete, the summary reports feed the invoice with the RVH's as well as the passenger counts used in the performance standards. FP&A staff compares the major maintenance expenses to maintenance summaries and reconciles MV's cash fares to the deposit slips. For two pre-selected days, FP&A staff counts the coupons and compares it to MV's counts. FP&A staff runs various reports from the reporting site and BOXI system, pulls information from maintenance summaries and work audit summaries, and obtains call center summary reports, to populate the performance standard calculations in the invoice. Finally, the invoice is submitted for review and signature approval by both FP&A and Transit management.

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Objectives, Scope, and Methodology

The objectives were to assess and test invoice controls, contract compliance, and monitoring controls, and to assess reservation and scheduling effectiveness and efficiency.

The scope was limited to ACCESS service program activities from July 2015 through April 2018, and the current provider, MV. The scope excluded fixed route services.

The methodology included observation and review of reservation and scheduling processes. It also included testing for compliance with selected contract terms, including provision of performance bonds, insurance, and fare revenue reconciliations. Testing of monitoring controls, including evidence of reviews of driver records, drug and alcohol program monitoring reviews, and monthly reviews of vehicle preventive maintenance records, was performed. Internal Audit also performed limited review of MV's achievement of performance standards and OCTA's oversight of these performance standards including appropriate application of related penalties and/or incentives. Finally, Internal Audit reviewed all invoices paid for compliance with payment terms and for evidence of invoice review controls. The testing period was selected to cover more recent activities. For all judgmental samples, any conclusions are limited to the sample items tested since sampling is non-statistical.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

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Audit Comments, Recommendations, and Management Responses

Contract Cost Increases Exceeding \$250,000

Amendment No. 6 to the MV contract obligated OCTA to additional costs exceeding \$250,000 that were not subject to Board approval. In addition, the estimate used to value the price increase appears to be overstated.

The contract includes a fixed monthly payment plus a variable component, based on RVH, and a contract maximum obligation amount (maximum). Under current procurement policy, Board approval is required for contract amendments that increase the contract maximum by more than \$250,000; however, the policy does not address changes to the underlying pricing that increases costs without affecting the contract maximum.

Prior to exercise of the option term, MV requested price adjustments due to higher wage costs. While this request was denied, OCTA management did agree to reimburse MV for increased call center hours for Same Day Taxi reservations. Call center hours were expanded after implementation of OC Bus 360°, which included significant changes to bus service.

In April 2018, the contract was amended to reimburse MV for increased call center service from October 2016 through June 2018, for \$513,333. Board approval was not required by policy because the additional costs could be accommodated within the existing contract maximum.

To arrive at the cost estimate, due to increased call volume, OCTA staff used assumptions provided by MV for calls per booking and calls per shift without validation. Staff then prepared two estimates; \$513,333 and \$270,400. The higher estimate was based on total reservationists needed to field Same Day Taxi calls and the lower estimate was based on additional reservationists needed after call volume increased. The original contract scope of work included call center services for Same Day Taxi reservations. While call volume increased dramatically, it appears unreasonable to reimburse for the cost of all reservationists, rather than just those that were added to address call volume increases.

Recommendation 1:

Internal Audit recommends that management consider policies be updated to require Board approval for amendments that obligate OCTA to additional costs exceeding \$250,000, even when the increase can be accommodated within the contract maximum. Internal Audit also recommends that staff ensure the validity of consultant assumptions before relying on them to derive cost estimates. Finally, the justification and responsibility for selecting between various cost estimates should be documented and approved.

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Management Response (Finance and Administration (F&A) and Transit):

Management agrees with the recommendation to consider a policy change to require Board approval for amendments where individual tasks may increase beyond \$250,000, but the overall contract maximum value does not increase or change. As part of this consideration, the F&A division will present a proposed policy change to OCTA's Executive Management Team to apprise them of the possible change and to solicit their input and the potential impacts to their divisions if such a policy change is made.

Regarding the recommendation for staff to ensure the validity of consultant assumptions before relying on them to derive cost estimates, management agrees to comply with the recommendation.

Lastly, management agrees that the justification and responsibility for selecting between various cost estimates should be documented and approved in writing by the project manager. The F&A division will require that the procurement staff in the Contracts Adminstrating and Materials Management Department (CMM) obtain written confirmations and/or directions from project managers when consultants are being asked to provide additional services. Project managers will be required to indicate that they agree with the additional work and with the cost estimate to perform the work.

Flawed Calculation of Call Center Performance Standard

MV's calculation of the call center maximum hold time performance standard is based on a flawed methodology, and there has been insufficient oversight by OCTA staff.

The contract includes a performance standard that requires 98 percent of calls be answered within five minutes, with a \$5,000 penalty when only 94.1 to 96 percent of calls are answered within five minutes, increasing to a \$10,000 penalty when less than 94 percent of calls are answered within five minutes.

To measure performance, MV prepares the calculation using data from OCTA's IC Business Manager system. The calculation is flawed because Same Day Taxi calls answered in five minutes or more are counted as being answered within five minutes. This method overstates MV's performance and could result in avoidance of penalties. For example, according to MV, 96.07 percent of calls were answered within five minutes during April 2018; however, when properly calculated, only 95.73 percent of calls were answered within five minutes, which would have triggered a penalty of \$5,000.

OCTA staff accepts MV's calculation and uses the number in its assessment of the performance standard without validation.

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Recommendation 2:

Internal Audit recommends that management instruct MV to correct the calculation of percentage of calls answered within five minutes. Further, management should increase oversight of the performance standard by periodically validating the data and the calculation.

Management Response (Transit):

Management agrees with Internal Audit's recommendation. Management will correct the calculation of percentage of calls answered within five minutes. In addition, management will enhance procedures for monitoring the calculation of percentage of calls answered within five minutes.

Monitoring of Preventive Maintenance

OCTA staff did not perform monthly PMI reviews for seven months, including five consecutive months in 2017.

The contract requires that PMI be performed at required intervals, with penalties of \$100 per day for each vehicle operated past the scheduled PMI, increasing to \$200 per day for vehicles operated more than three days or 500 miles past scheduled PMI. Monitoring compliance with PMI standards helps to ensure safe and dependable service and helps reduce costs related to major mechanical maintenance, which is paid for by OCTA under the contract.

To monitor PMI performance, OCTA staff selects and reviews the records of about 20 vehicles per month, out of a fleet of 248. However, staff passed on performing PMI reviews in May, July, August, September, October, and November 2017, and January 2018.

Recommendation 3:

Internal Audit recommends that staff consistently perform monthly monitoring of PMI.

Management Response (Transit):

Management agrees with the finding and will perform consistent inspections of preventive maintenance records to ensure compliance with all regulatory agencies and contract requirements. During this audit period, July 1, 2015 to April 1, 2018, a review of the PMI program indicated that MV had consistently performed PMIs at 99.89 percent; notably, this performance is well above industry standards.

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Insufficient Performance Bond

The performance bond provided by MV for the initial four-year term was insufficient to meet contract requirements.

The contract required MV to establish a performance bond in the amount of ten percent of the first four contract years, or initial term, amounts. In addition, if the contract value is amended, the amount of the bond must be increased or decreased accordingly.

At contract inception, MV established an annually renewable performance bond of \$3,041,252, equal to ten percent of the estimated costs of services for the first year of the contract. MV then continued the bond in the amount of \$3,041,253, for each of the next three years of the initial term. However, use of an annually renewable performance bond did not meet contract requirements. Rather, the contract value for the initial term was \$156,690,376, which would have required a bond set at \$15,669,038.

Even if use of an annually renewable performance bond was allowed, the annual bond amount was insufficient, as the estimated costs increased each year, totaling \$2,917,957 of additional costs from the first year. Also, the bond amount did not factor in the estimated costs for supplemental service performed by Yellow Cab, initially projected at \$32,122,309, or 21 percent of the contract amount.

Finally, the bond was not increased for Amendments No. 2, No. 3, and No. 4, which collectively increased the contract amount by \$7,939,086; however, when the option term was subsequently exercised, the performance bond provided met contract requirements.

Recommendation 4:

Internal Audit recommends that management review performance bonds at contract inception to ensure that the bonds meet the contract requirements. When amendments to increase the contract amount are executed, management should ensure that the bonds are increased accordingly.

Management Response (F&A):

Management concurs with this recommendation. CAMM's standard procurement practice for a contract that requires a performance bond is to send the bond to OCTA's Risk Manager for review and approval at contract inception. CAMM management will review each contract file to ensure approval from the Risk Management Department is documented as appropriate.

To ensure proper adjustments to bond requirements when amendments are executed, CAMM has recently implemented services from a third-party vendor, Insurance Tracking Services, Inc. (ITS), to review bond and insurance documentation for compliance to ensure contract requirements are met. CAMM management will review the bond amount

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in the ITS system following amendment execution to ensure accuracy of the bond requirements, as well as the bond amount provided.

Monitoring of ACCESS Fare Revenue

Staff's monitoring of ACCESS fare revenues should be improved.

MV provides monthly farebox reconciliation documents as part of its invoice package. The reconciliations compare the scheduled farebox revenues from the Trapeze system to the actual cash and coupon fares collected by MV, as well as the recorded no-pays. Cash fares collected by MV and Yellow Cab are credited to OCTA through the invoice.

OCTA staff pre-selects two days in the month, requests MV's coupon counts along with the actual coupons for those days, and verifies the coupon counts; however, staff does not always reconcile the counts back to the monthly farebox reconciliation document. Internal Audit identified several instances where the coupon counts did not agree to the amounts listed on the farebox reconciliation document.

In addition, Internal Audit compared the June 2018 coupon counts to the figures recorded on the monthly farebox reconciliation and found that totals did not match on most days, although the month-end total agreed. It appears that the daily quantities in the farebox reconciliation may be pulled from a separate log or there may be adjustments to the daily quantities to smooth out differences.

While OCTA staff looks at the monthly farebox reconciliations including the variances, there is no established threshold for investigation. In comparison, OCTA's threshold for investigating variances in farebox revenue for fixed route services is set at one percent.

Further, MV does not provide the coupons and coupon counts by Yellow Cab, and OCTA staff does not perform any independent counts of these coupons.

Recommendation 5:

Internal Audit recommends that management enhance procedures for monitoring of ACCESS fare revenue. Procedures should include monitoring of coupons collected by both MV and Yellow Cab, reconciliation of MV's daily coupon count sheets to the farebox reconciliation document, and investigation of variances exceeding a stated threshold.

Management Response (F&A and Transit):

Management agrees with Internal Audit's recommendation. Management agrees to enhance procedures for monitoring of ACCESS fare revenue and coupons collected by both MV and Yellow Cab. In addition, management will continue to reconcile count sheets to the farebox reconciliation report and will establish a threshold for researching variances.



October 24, 2018

To: Finance and Administration Committee
From: Darrell E. Johnson, Chief Executive Officer
Subject: Fiscal Year 2017-18 Fourth Quarter Budget Status Report

Overview

The Orange County Transportation Authority's staff has implemented the fiscal year 2017-18 budget. This report summarizes the material variances between the budget and actual revenue and expenses through the fourth quarter of fiscal year 2017-18.

Recommendation

Receive and file as an information item.

Background

The Board of Directors (Board) approved the Orange County Transportation Authority (OCTA) Fiscal Year (FY) 2017-18 Budget on June 12, 2017. The approved budget itemized the anticipated revenue and expenses necessary to deliver OCTA's transportation programs and projects.

The balanced budget as originally approved by the Board in June was \$1.29 billion. Sources of funds were comprised of \$1.06 billion in current FY revenue and \$232.6 million in use of prior year designations. Uses of funds were comprised of \$1.15 billion of current year expenditures and \$142.7 million of designations.

The Board approved seven amendments through the end of the FY, increasing both expense and revenue budgets by \$62.7 million. These amendments are summarized in the table below. In total, these amendments increased the working budget to \$1.35 billion.

Date	Description	Amount*
7/1/2017	Adopted Budget	\$1,289,773
9/11/2017	Additional funding for Environmental Mitigation Program restoration projects.	805
9/25/2017	Purchase of six 40-foot CNG buses for Bravo! route 529.	3,595
10/9/2017	Removal of contaminated materials at Orange Transportation Center parking structure construction site.	1,930
10/9/2017	SCRRA member agency contribution replacement for FTA funds.	6,000
11/13/2017	Purchase of ten hydrogen fuel cell electric buses.	13,307
11/13/2017	Construction of hydrogen fueling station at Santa Ana Bus Base.	4,778
2/26/2018	Services for toll lanes systems integration.	32,309
	<i>Subtotal Amendments</i>	<i>62,724</i>
	Total Working Budget	\$1,352,497

*Amounts in thousands

Discussion

Staff monitors and analyzes revenue and expenditures versus the working budget. The Quarterly Budget Status Report (Attachment A) 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 in Attachment A are Bus, Rail, 91 Express Lanes, Motorist Services, and Measure M2 (M2).

Total salaries and benefits underran the budget by \$8.3 million. This is due to vacancies OCTA-wide, primarily, coach operator vacancies which accounted for \$5.9 million of the underrun.

Bus Program operating revenue overran by \$0.4 million due to Local Transportation Fund sales tax revenue. Bus Program operating expenses underran the budget by \$11.5 million, primarily due to staffing vacancies and lower fuel and other consumables expenses. Capital revenue overran the budget by \$12.2 million due to prior year grant revenue received in the current FY for projects associated with bus purchases and the engine upgrade project. Capital expenses underran the budget by \$3 million due to the timeline for infrastructure projects at the Santa Ana bus base and the Fullerton Transportation Center extending into the next FY, and lower than anticipated bids for installation of video surveillance systems at the Santa Ana and Garden Grove bus bases.

The Rail Program operating revenue was in line with the budgeted amount, coming within one percent of the budgeted amount. Operating expenses were \$10.9 million lower than the budget, primarily due to rail support service expenditures which have been rebudgeted in the next FY, and the quarterly Metrolink operating subsidy payment to SCRRA. Capital revenue underran the budget by \$38.9 million, primarily due to the timing of grant revenue associated with the Orange Transportation Center Parking Structure Project and Laguna Niguel-San Juan Capistrano Passing Siding Project. Grant revenues are typically received three to four months in arrears following qualifying expenditures. Capital expenses underran the budget by \$45.9 million due to the timing of the Placentia Metrolink Station project and changes to the timeline for the Laguna Niguel - San Juan Capistrano passing siding project. These projects have been rebudgeted in the next FY.

The 91 Express Lanes Program received \$14.7 million more in operating revenue than budgeted. This is primarily due to the continued increase in demand since Riverside County Transportation Commission's opening of the 91 Express Lanes extension into Riverside County. Actual operating expenses overran by \$0.6 million due to increased toll road usage leading to increased account servicing and credit card processing fees. Capital revenue and Capital expenses underran the budget by \$3.1 million each. This was primarily due to the capital expense portion of the Electronic Toll and Traffic Management System contract, which was lower than consultant estimates.

Operating revenue for the Motorist Services Program was in line with the budget, coming within one percent of the budgeted amount. Operating expenses for the Motorist Services Program underran the budget by \$1 million, primarily due to an additional Freeway Service Patrol beat to support construction of the Interstate 405 Improvement Project that was not implemented. The additional support was scheduled and budgeted to commence in the current FY, but will not take place until next FY.

Sales tax revenue for the Local Transportation Authority M2 Program and Local Transportation Fund Bus Program are estimated to have grown by 4.1 percent and 3.7 percent for the FY, respectively, compared to the budgeted growth rates of 3.3 percent and 2.4 percent. Sales tax revenue for the FY was estimated by MuniServices, LLC, due to a large number of tax payments for the FY that have not been processed by the California Department of Tax and Fee Administration (CDTFA). The CDTFA continues to process tax payments for the FY; however, it has stated that their methodology of allocating sales tax will not enable them to provide OCTA with the sales tax revenue attributable to the FY once all the tax payments for the FY are processed. OCTA is working with the CDTFA to address this issue.

Summary

All of OCTA's programs operated within their approved budgets. Under operations, which includes the Bus, Rail, 91 Express Lanes, and Motorist Services programs, actual revenues were approximately \$38.3 million higher than actual expenses. Capital expenditures and revenues underran the budget. However, actual capital revenues outpaced actual expenditures by approximately \$22.2 million. It is important to note that capital grant funding cannot be reimbursed unless the associated expenses have been incurred. As a result, more capital revenue can be received in a FY associated with projects from a prior FY.

Attachment

- A. Quarterly Budget Status Report Fourth Quarter of Fiscal Year 2017-18

Prepared by:



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Approved by:

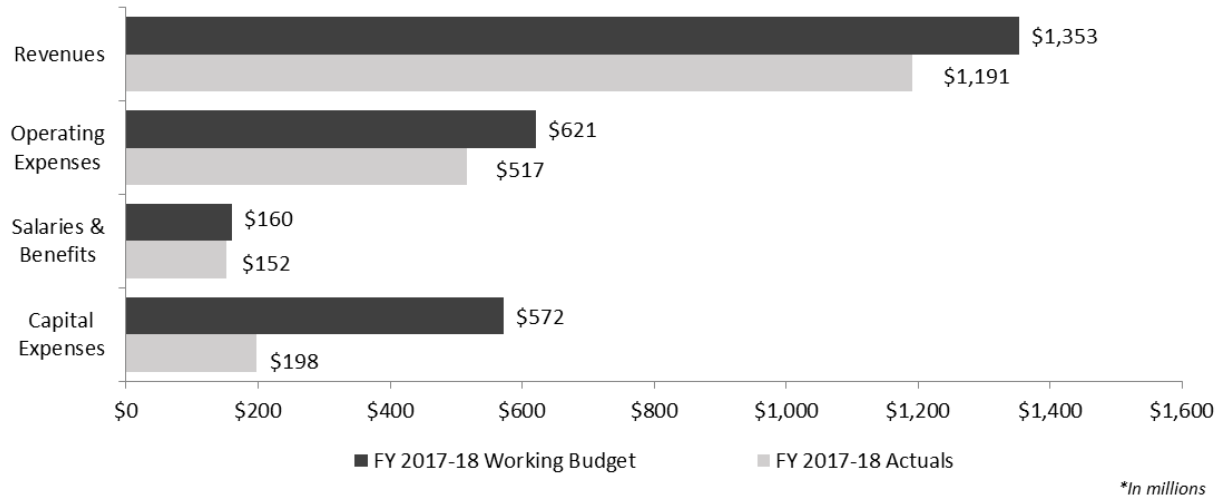


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Quarterly Budget Status Report

Fourth Quarter of Fiscal Year 2017-18



STAFFING

A staffing plan of 1,346.5 full-time equivalent positions was approved by the Board of Directors (Board) for fiscal year (FY) 2017-18. At the end of the fourth quarter, 1,220 of these positions were filled, representing a vacancy rate of 9.4 percent.

Staffing Description	Budget	Filled	Vacant	% Vacancy
Coach Operators	643	577	66	10.3%
Maintenance	171	148	23	13.5%
TCU	37	35	2	5.4%
<i>Union Subtotal</i>	<i>851</i>	<i>760</i>	<i>91</i>	<i>10.7%</i>
Bus Operations Support	165.5	154	11.5	6.9%
Other Administrative	330	306	24	7.3%
<i>Administrative Subtotal</i>	<i>495.5</i>	<i>460</i>	<i>35.5</i>	<i>7.2%</i>
Total OCTA	1,346.5	1,220	126.5	9.4%

TOTAL SALARIES AND BENEFITS

Total salaries and benefits of \$151.8 million were \$8.3 million lower than the budget of \$160.2 million. This variance is comprised of a \$5.9 million underrun in the Bus Program salaries and benefits, as well as a \$2.4 million underrun in General Fund salaries and benefits. In both groups, the underruns are driven by vacant positions.

	Budget	Actual	\$ Variance	% Variance
Bus Program	\$ 105,423	\$ 99,556	\$ 5,867	5.6%
General Fund	54,728	52,284	2,444	4.5%
Total	\$ 160,151	\$ 151,840	\$ 8,311	5.2%

PROGRAM VARIANCES

Year-to-date material variances are listed below by program. All dollar amounts in tables are shown in thousands.

Bus Program



	Budget	Actual	\$ Variance	% Variance
Operating				
Revenue	\$ 336,363	\$ 336,741	\$ 378	0.1%
Expenses	336,363	324,855	11,508	3.4%
Net Operating	\$ -	\$ 11,887		
Capital				
Revenue	35,956	48,136	12,180	33.9%
Expenses	35,956	32,923	3,033	8.4%
Net Capital	\$ -	\$ 15,213		

Operating Revenue: The \$0.4 million overrun in Bus Program operating revenue can be attributed to Local Transportation Fund (LTF) Bus Program sales tax revenue which experienced an annual growth rate of 3.7 percent for the FY, compared to the budgeted growth rate of 3.3 percent.

Operating Expenses: The \$11.5 million underrun in Bus Program operating expenses can be attributed to salaries and benefits (\$5.9 million), fuel and other consumables (\$2.9 million), contracted service (\$1.3 million), and paratransit service (\$0.7 million).

Salaries and benefits underran the budget by \$5.9 million. This is primarily due to vacant positions. The vacancy rate at the end of the fourth quarter was 10.7 percent for Bus Program union employees and 6.9 percent for Bus Program administrative employees, compared to budgeted vacancy rates of 3 percent for each group.

The underrun of \$2.9 million for fuel and other consumables such as tires, motor oil, and hoses is primarily due to the Alternative Fuel Tax Credit (AFTC) of \$2.3 million from the federal government which offset fuel costs. The AFTC was not budgeted due to its uncertainty.

Contracted services underran the expense budget by \$1.3 million. For contracted fixed-route service (\$0.7 million), the underrun is due to penalties imposed on the contractor, as well as lower contracted revenue vehicle hours provided than budgeted based on mid-year service adjustments. For contracted special agency service (\$0.6 million), the underrun is due to the timing of service commencement for two new facilities: Alzheimer's Family Services Centers in Mission Viejo and Irvine. The Mission Viejo facility opened later than anticipated and the Irvine facility did not open in the FY.

The underrun of \$0.7 million in paratransit service expenses can be attributed to supplemental taxi service. The average cost per trip was \$3.36 lower than the budgeted rate of \$37.39 based on distance traveled.

Capital Revenue: Capital revenue overran the budget by \$12.2 million, which is due to prior year grant revenues received in the current FY for bus purchases and the engine upgrade project. The timing of the receipt of funds from external sources can cross FY's. Frequently, projects that have external funding sources cannot seek reimbursement until expenditures are incurred or projects are officially closed.

Capital Expenses: Capital expenses underran the budget by \$3 million, primarily associated with bus base and transit center capital projects.

A procurement for installation of video surveillance systems at the Santa Ana and Garden Grove bus bases contributed \$0.7 million to the underrun. Bids for the project were lower than expected.

Infrastructure upgrades to prepare for a hydrogen fueling station contributed \$0.7 million to the underrun. Due to

staffing turnover at Southern California Edison, this project is taking longer than expected and will now be completed in the next FY. Design work on a transit security and operations center underran by \$0.5 million. Due to the complexity of the project involving multiple stakeholders, this project phase will extend into the next FY. Design services for a heating and ventilation unit replacement underran by \$0.5 million. This is due to the timing of a contract task order under an existing agreement. Expenses for these projects have been rebudgeted in the following FY.

Rail Program



	Budget	Actual	\$ Variance	% Variance
Operating				
Revenue	\$ 48,386	\$ 48,710	\$ 324	0.7%
Expenses	48,386	37,480	10,906	22.5%
Net Operating	\$ -	\$ 11,229		
Capital				
Revenue	70,212	31,334	(38,878)	-55.4%
Expenses	70,212	24,326	45,886	65.4%
Net Capital	\$ -	\$ 7,009		

Operating Revenue: Rail Program operating revenue was in line with the budget, coming within one percent of the budgeted amount of \$48.4 million.

Operating Expenses: Rail Program operating expenses underran the budget by \$10.9 million. The underrun is primarily associated with rail support services (\$4.8 million), Metrolink operating subsidy (\$3.6 million), and engineering and modeling services (\$1.6 million).

The underrun in rail support services is associated with the Positive Train Control (PTC) project which is being led by Southern California Regional Rail Authority (SCRRA). PTC expenses of \$1.7 million to cover the final invoice were budgeted in FY 2017-18 in anticipation that the project may extend into the current FY. However, actual expenses were booked in the prior FY which resulted in an underrun.

Also, within rail support services, billing from the City of Fullerton for the Fullerton Transportation Center elevator project has been less than anticipated (\$1 million). This is due to a moratorium on construction activity by Burlington Northern Santa Fe (BNSF), owner of the rail corridor, in addition to timing of steel work which caused

the construction schedule to be updated. The expense has been rebudgeted in the following FY.

Another contributor to the variance in rail support services is the Orange Transportation Center parking structure project (\$0.5 million). The City of Orange is the lead on the design phase and will invoice OCTA upon completion of the project. This is expected to occur the following FY and the expense has been rebudgeted.

The \$3.6 million underrun associated with the Metrolink operating subsidy is due to a credit received in the current FY. Each FY, the Metrolink operating subsidy is adjusted based on operating subsidy deficits or surplus from previous FYs. Due to a surplus from a prior FY, actual contributions from OCTA are less than what was anticipated for the FY.

The \$1.6 million underrun for engineering and modeling services can be attributed to design and engineering services for the Placentia Metrolink Station. Prior to procurement of these services, final approval of the station design by BSNF, City of Placentia acquisition of required BNSF right-of-way (ROW), and finalization of the BNSF construction and maintenance agreement remain to be completed. As a result, underruns for the Metrolink station continued through the end of the FY. This expense has been rebudgeted in the following FY.

Capital Revenue: The \$38.9 million underrun in Rail Program capital revenue can be attributed to the Laguna Niguel - San Juan Capistrano (LN-SJC) Passing Siding Project (\$22.1 million), the Orange Transportation Center parking structure project (\$9.1 million), and the slope stabilization project (\$2 million). Expenses must be incurred before grant revenue can be sought. Once eligible expenditures take place, staff will seek grant reimbursement.

Capital Expenses: The \$45.9 million underrun in Rail Program capital expenses can be attributed to the LN-SJC Passing siding project (\$22.7 million) and the Placentia Metrolink Station project (\$21.8 million).

The LN-SJC Passing Siding project underran by \$22.7 million. This is due to the timing of the construction phase cooperative agreement with SCRRA. This is the result of multiple stakeholder modification requests during the design phase of the project. Construction activity is now anticipated to take place next FY. This expense has been rebudgeted in the following FY.

The \$21.8 million underrun associated with the Placentia Metrolink Station project is due to later-than-anticipated execution of the construction contract. The contract cannot be advertised until a construction and maintenance agreement is in place with BNSF, owner of

the rail ROW. Originally anticipated to be complete in the current FY, this is expected to take place in the following FY and the expense has been rebudgeted.

91 Express Lanes Program



	Budget	Actual	\$ Variance	% Variance
Operating				
Revenue	\$ 61,117	\$ 75,796	\$ 14,679	24.0%
Expenses	61,117	61,677	(560)	-0.9%
Net Operating	\$ -	\$ 14,119		
Capital				
Revenue	11,515	8,410	(3,105)	-27.0%
Expenses	11,515	8,410	3,105	27.0%
Net Capital	\$ -	\$ -		

Operating Revenue: The 91 Express Lanes operating revenue overran the budget by \$14.7 million. The overrun can be attributed to revenue from fees such as violation processing and account minimum fees (\$6 million), increased trips resulting from Riverside County Transportation Commission's extension of the 91 Express Lanes into Riverside County (\$5.2 million), and an overrun in interest income for the 91 Express Lanes cash accounts due to a more favorable interest rate environment than initially forecast (\$1.5 million).

Operating Expenses: The 91 Express Lanes operating expenses overran the budget by \$0.6 million. The overrun is due to increased toll road usage leading to increased account servicing and credit card processing by the 91 Express Lanes vendor for these items.

Capital Revenue: Capital revenue for the 91 Express Lanes underran the budget by \$3.1 million. This pertains to correlating expense underruns in the capital portion of the Electronic Toll and Traffic Management (ETTM) system contract.

Capital Expenses: Capital expenses for the 91 Express Lanes underran the budget by \$3.1 million due to the capital portion of the ETTM system contract (\$2.4 million) and improvements to the customer service center (\$0.5 million). For the ETTM system contract, initial estimates were provided by a consultant and the actual executed contract amount was lower than estimated. The underrun of \$0.5 million associated with improvements to the customer service center is due to the project being postponed by Riverside County Transportation

Commission, the lead agency on the project, until the following FY. The expense has been rebudgeted.

Motorist Services Program



	Budget	Actual	\$ Variance	% Variance
Operating				
Revenue	\$ 8,271	\$ 8,316	\$ 45	0.5%
Expenses	8,271	7,290	981	11.9%
Net Operating	\$ -	\$ 1,026		

Operating Expenses: Operating Expenses underran the budget by \$1 million for the FY. This underrun is due to timing for Freeway Service Patrol (FSP) additional support service for the Interstate 405 (I-405) Improvement Project (\$0.4 million), a sign-installation engineering consultant which was not procured (\$0.3 million), and a discontinued project for FSP performance monitoring (\$0.2 million). The additional FSP service to support construction of the I-405 Improvement Project was expected to begin in the current FY based on the best estimates from the engineer at the time but was not needed until the next FY. The sign-installation engineering consultant for 511 Program signs was not procured because a more cost-effective method was determined utilizing engineering resources through existing freeway projects. The project for FSP performance monitoring was discontinued at the request of California Department of Transportation (Caltrans) staff. The project needs the coordination of Caltrans systems and they chose not to proceed.

M2 Program



Revenue: Local Transportation Authority M2 Program sales tax revenue grew at an annual rate of 4.1 percent for the FY, which was above the budgeted growth rate of 3.3 percent.

Mode	Budget	Actual	\$ Variance	% Variance
Freeways	\$ 232,596	\$ 73,594	\$ 159,002	68.4%
Streets & Roads	153,715	111,883	41,832	27.2%
Transit	34,505	9,825	24,681	71.5%
Administration	10,455	8,117	2,338	22.4%
Debt Service	28,794	28,794	0	0.0%
Total	\$ 460,065	\$ 232,212	\$ 227,853	49.5%

Expenses: The M2 Program expenditures underran the budget by \$227.9 million. Freeways contributed \$159 million to the underrun, primarily due to unused contract contingency expenses and ROW services for the I-405 Improvement Project. Streets and Roads contributed \$41.8 million to the underrun due to lower than anticipated project payment requests from the cities and county for the Regional Capacity and Regional Traffic Signal Synchronization programs. Transit contributed \$24.7 million to the underrun, primarily due to lower than anticipated transit circulator grant payments to cities as well as the timing of contract execution with Southern California Regional Rail Authority for costs associated with the San Juan Creek Bridge Replacement project. Administration expenses for the M2 Program contributed \$2.3 million to the underrun. Financial advisory and bond counsel service expenses related to debt issuance were lower than anticipated.



October 24, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: First Quarter Fiscal Year 2018-19 Procurement Status Report

Overview

The first quarter procurement status report summarizes the procurement activities for information purposes to the Orange County Transportation Authority Board of Directors. This report focuses on procurement activity from July 1 through September 30, 2018, that was approved by the Board of Directors during this period. The first quarter procurement status report also projects future procurement activity for the second quarter as identified in the fiscal year 2018-19 budget.

Recommendation

Receive and file as an information item.

Background

The Board of Directors (Board) approved the Orange County Transportation Authority Fiscal Year (FY) 2018-19 Budget, which identifies the goods and services that will be purchased during the FY. A quarterly procurement report has been prepared detailing the procurement activity for line items that were approved by the Board during the first quarter of FY 2018-19. The report also provides a “look-ahead” of upcoming procurement activity by Board committee. The quarterly procurement report identifies contractual activity, not dollars spent.

Discussion

During the first quarter of FY 2018-19, the Contracts Administration and Materials Management Department handled 501 different contractual documents. Of the total, 341 procurements, valued at \$203,688,140, were completed; the remaining procurements will be executed during the second quarter of FY 2018-19.

In the first quarter, the Board took action on 31 procurements. The procurements were split between ten new agreements valued at \$248,146,142, eight amendments valued at \$20,528,466, four cooperative agreements valued at \$0, three purchase orders valued at \$1,364,260, five purchase order amendments valued at \$415,703, and one sole source agreement valued at \$37,921. Not all procurements are completed within the quarter in which they begin. Often, the procurements require cost and price reviews and negotiations which can lengthen the procurement process. Procurements not completed within the first quarter will be completed in the second quarter of FY 2018-19. Attachment A shows a list of Board-approved procurements during the first quarter.

Looking forward to the second quarter of FY 2018-19 (October through December 2018), the Board committees will be asked to take action on several items such as:

- Consultant selection for federal legislative advocacy and consulting services;
- Cooperative Agreement with the California Department of Transportation for the Interstate 5 widening project between State Route 73 and Oso Parkway;
- Consultant selection for construction management support for the Anaheim Canyon Metrolink Station Improvement Project;
- Consultant selections to provide investment management services; and
- Agreement to construct the Laguna Niguel to San Juan Capistrano Passing Siding Project.

The estimated value of these upcoming procurements is \$222,476,083. Attachments B through E identify procurement activity anticipated in the second quarter of FY 2018-19 by the committee that will review the items.

Summary

This report provides an update of the procurement activity for the first quarter of FY 2018-19, July through September 2018, as well as a look-ahead at anticipated procurement activity for the second quarter of FY 2018-19. Staff recommends that this report be received and filed as an information item.

Attachments

- A. Board-Approved Contracts – First Quarter FY 2018-2019
- B. Regional Planning and Highways Committee – Second Quarter Outlook (October 1, 2018 – December 31, 2018)
- C. Transit Committee – Second Quarter Outlook (October 1, 2018 – December 31, 2018)
- D. Finance and Administration Committee - Second Quarter Outlook (October 1, 2018 – December 31, 2018)
- E. Legislative and Communications Committee - Second Quarter Outlook (October 1, 2018 – December 31, 2018)

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Board Approved Contracts - First Quarter FY 2018-2019

AGREEMENTS

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
WSP USA Inc.	8-1629	Bristol Street Transit Corridor Study	9/1/2018	2/28/2020	\$438,158
Yellow Cab of Greater Orange County, Inc.	8-1440	Same-Day Taxi Service	8/1/2018	7/31/2020	\$4,870,139
Sandwood Enterprises, Inc.	8-1622	Demolition and Clearance Services for the OC Streetcar Project in the City of Santa Ana - Residential Property	8/21/2018	10/31/2018	\$89,000
Hout Construction Services	8-1428	On-Call Project Management and Construction Management Services for Transit Facilities Projects	12/15/2018	12/31/2021	\$900,000
Joshua Grading & Excavating, Inc.	8-1452	On-Call Property Maintenance Services for OCTA-Owned Properties Acquired to Support Highway and Transit Projects	10/1/2018	9/30/2023	\$1,500,000
HDR, Inc.	8-1418	Construction Management Support Services for the I-5 HOV Widening Project Between Oso Parkway and Alicia Parkway	11/15/2018	2/15/2023	\$11,184,847
HDR Engineering, Inc.	8-1512	Program Management Consultant Services for Regional Rail Programs	12/15/2018	12/31/2023	\$7,500,000
Kittelson & Associates	8-1683	Beach Boulevard Corridor Study	10/8/2018	4/30/2020	\$439,999
EFS West, Inc.	8-1864	Facility Modifications for a Hydrogen Gas Detection System at Santa Ana Bus Base	10/22/2018	3/20/2019	\$685,350
Walsh Construction Company II, LLC	7-1904	Construction of the OC Streetcar Project	10/15/2018	10/30/2021	\$220,538,649
TOTAL NUMBER OF CONTRACTS					10
TOTAL DOLLAR VALUE					\$248,146,142

AMENDMENTS

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
Howroyd Wright Employment Agency, Inc. DBA AppleOne Employment Services	5-3658	Amendment No. 4 Temporary Staffing Services	10/8/2018	10/31/2018	\$83,565
California State Association of Counties	5-3649	Amendment No. 3 Kaiser Permanente Health Plan	1/1/2019	12/31/2019	\$11,986,000
California State Association of Counties	5-3650	Amendment No. 3 Anthem Blue Cross Health Maintenance Organization	1/1/2019	12/31/2019	\$3,092,000
California State Association of Counties	5-3651	Amendment No. 3 Anthem Blue Cross Preferred Provider Organization	1/1/2019	12/31/2019	\$1,432,000
California State Association of Counties	5-3652	Amendment No. 3 Anthem Blue Cross Consumer Driven Health Plan	1/1/2019	12/31/2019	\$2,443,000
California State Association of Counties	1-2996	Amendment No. 8 Delta Dental Preferred Provider Organization	1/1/2019	12/31/2019	\$1,250,000
California State Association of Counties	1-2995	Amendment No. 8 Delta Dental Health Maintenance Organization	1/1/2019	12/31/2019	\$51,000
California State Association of Counties	1-2997	Amendment No. 6 Vision Service Plan	1/1/2019	12/31/2019	\$190,901
TOTAL NUMBER OF CONTRACTS					8
TOTAL DOLLAR VALUE					\$20,528,466

Board Approved Contracts - First Quarter FY 2018-2019

COOPERATIVE AGREEMENTS

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
City of Garden Grove	8-1797	Garden Grove Boulevard Regional Traffic Signal Synchronization Project	12/15/2018	12/31/2023	\$0
City of Anaheim	8-1798	Katella Avenue Regional Traffic Signal Synchronization Project	12/15/2018	12/31/2023	\$0
City of Aliso Viejo	8-1799	Los Alisos Boulevard Regional Traffic Signal Synchronization Project	12/15/2018	12/31/2023	\$0
City of Irvine	8-1800	Main Street Regional Traffic Signal Synchronization Project	12/15/2018	12/31/2023	\$0
TOTAL NUMBER OF CONTRACTS					4
TOTAL DOLLAR VALUE					Revenue \$0

PURCHASE ORDERS

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
Marsh Risk and Insurance Services, Inc.	A40164	Excess Worker's Compensation Insurance Policy	10/1/2018	10/1/2019	\$550,000
Marsh Risk and Insurance Services, Inc.	A40377	Excess Liability Insurance Policy	11/1/2018	11/1/2019	\$800,000
California State Association of Counties	8-1869	Delta Dental Health Maintenance Organization	1/1/2019	12/31/2019	\$14,260
TOTAL NUMBER OF PURCHASE ORDERS					3
TOTAL DOLLAR VALUE					\$1,364,260

PURCHASE ORDER AMENDMENTS

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
EcoInteractive, Inc.	A40326	Amendment No. 1 Include Capital Improvement Program Module to Web-Based Software System for Tracing and Reporting of Federal Transportation Improvement Program and Combined Transportation Funding Program Project Data	10/1/2018	8/31/2019	\$27,500
California State Association of Counties	7-1897	Amendment No. 2 Voya Life and Accidental Death and Dismemberment Insurance	1/1/2019	12/31/2019	\$232,203
California State Association of Counties	7-1898	Amendment No. 2 Voya Supplemental Life Insurance	1/1/2019	12/31/2019	\$0
California State Association of Counties	7-1899	Amendment No. 1 Voya Short-term and Long-term Disability Insurance	1/1/2019	12/31/2019	\$130,000
California State Association of Counties	7-1900	Amendment No. 1 Voya Employee Leave Administration	1/1/2019	12/31/2019	\$26,000
TOTAL NUMBER OF CONTRACTS					5
TOTAL DOLLAR VALUE					\$415,703

SOLE SOURCE

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
Computer SOS	8-1844	Counterpoint Application and Provide Set-up, Hosting, Licensing, and Server Support Services	9/12/2018	9/30/2019	\$37,921
TOTAL NUMBER OF CONTRACTS					1
TOTAL DOLLAR VALUE					\$37,921

REGIONAL PLANNING and HIGHWAYS COMMITTEE - Second Quarter Outlook (October 1, 2018 - December 31, 2018)

<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Value</u>	<u>Division</u>
October 1, 2018	Contract Change Order for additional design and construction efforts for the Interstate 405 Improvement Project	\$8,560,556	Capital Programs
	Cooperative Agreement with the California Department of Transportation for the Interstate 5 Widening Project between State Route 73 and Oso Parkway	\$133,289,000	Capital Programs
	Amendment to Agreement with Parson Transportation Group for additional program management consultant services for the Interstate 405 Improvement Project between State Route 73 and Interstate 605	\$39,762,000	Capital Programs
November 5, 2018	Amendment to Cooperative Agreement with the Orange County Flood Control District for the Railroad Grade Separation Projects	\$300,000	Capital Programs
	Amendment to Cooperative Agreement with the cities of Costa Mesa, Fountain Valley, Huntington Beach and Westminster for the Interstate 405 Improvement Project	\$1,107,000	Capital Programs
	Amendment to Cooperative Agreement with the California Department of Transportation for the Interstate 5 High-Occupancy Vehicle Improvement Project between Pacific Coast Highway and San Juan Creek Road	\$1,300,000	Capital Programs

REGIONAL PLANNING and HIGHWAYS COMMITTEE - Second Quarter Outlook (October 1, 2018 - December 31, 2018)

<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Value</u>	<u>Division</u>
November 5, 2018	California Department of Transportation Freeway Service Patrol Program Fund Transfer Agreements	\$7,328,377	Transit

December 3, 2018 No procurement actions on this agenda

TRANSIT COMMITTEE - Second Quarter Outlook (October 1, 2018 - December 31, 2018)

<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Value</u>	<u>Division</u>
October 11, 2018	Amendments to Agreements to exercise option terms for on-call architectural and engineering design and construction support services for facility modification projects	\$1,000,000	Capital Programs
	Cooperative Agreement for the administration of the Orange County Taxi Administration Program	\$251,188	Transit
	Cooperative Agreements with Adult Day Healthcare Agencies and My Day Counts for the provision of special transportation services	\$7,653,435	Transit
November 8, 2018	Contract award for building repairs at the Irvine Construction Circle Bus Base	\$438,000	Capital Programs
	Consultant selection for construction management support services for the Anaheim Canyon Metrolink Station Improvement Project	\$1,600,000	Capital Programs
	Amendment to Agreement with Hill International for additional construction management services for the Orange Metrolink Parking Structure	\$600,000	Capital Programs

TRANSIT COMMITTEE - Second Quarter Outlook (October 1, 2018 - December 31, 2018)

<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Value</u>	<u>Division</u>
November 8, 2018	Amendment to HNTB for design support services and preparation of plans, specifications and estimates for the OC Streetcar Project	\$900,000	Capital Programs
	Consultant selection for bus ridership data collection services	\$727,752	Transit
	Sole Source Agreement with Arrow Global and Vapor for driver barrier protection system	\$32,325	Transit
	Sole Source Agreement with Vapor Bus International for driver barrier protection system	\$34,888	Transit
	Sole Source Agreement with Cummins to purchase one natural gas engine	\$84,300	Transit
<hr/>			
December 13, 2018	Contract award for the Laguna Niguel to San Juan Capistrano Passing Siding Project	\$16,000,000	Capital Programs

FINANCE AND ADMINISTRATION COMMITTEE - Second Quarter Outlook (October 1, 2018 - December 31, 2018)

<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Value</u>	<u>Division</u>
October 10, 2018	Contract award for Microsoft Enterprise Software	\$1,504,438	Finance and Administration
October 24, 2018	Consultant selections to provide Underwriting Services	\$900,000	Finance and Administration
	Amendment to Agreement with the City of Laguna Beach for additional federal funding for public transit service	\$119,735	Finance and Administration
	Property Insurance Policy Renewal	\$550,000	Human Resources and Organizational Development
November 14, 2018	No procurement actions on this agenda		
November 28, 2018	No procurement actions on this agenda		
December 12, 2018	No procurement actions on this agenda		

LEGISLATIVE AND COMMUNICATIONS COMMITTEE - Second Quarter Outlook (October 1, 2018 - December 31, 2018)

<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Value</u>	<u>Division</u>
October 18, 2018	Consultant selection to provide Federal Legislative Advocacy and Consulting Services	\$480,000	External Affairs
November 15, 2018	No procurement actions on this agenda		
December 20, 2018	No procurement actions on this agenda		



October 24, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Local Agency Investment Fund - September 2018

Overview

The Orange County Transportation Authority invests a portion of its liquid portfolio in the State of California Local Agency Investment Fund. Each month, the State Treasurer's office publishes a report detailing the composition of the pool. The attached summary statements from the report are for the month ending September 30, 2018. The report has been reviewed and is consistent with the investment practices of the State Treasurer's Office.

Recommendation

Receive and file as an information item.

Discussion

As of September 30, 2018, the fair value including accrued interest of the Pooled Money Investment Account (PMIA) was \$88,025,067,288 with an average monthly effective yield of 2.06 percent and a month-end weighted average maturity of 193 days. The Local Agency Investment Fund (LAIF) is a component of the State of California PMIA. The month-end balance of LAIF was \$20,193,623,741. The Orange County Transportation Authority's month-end balance in LAIF was \$10,424,157.

The average monthly effective yield is the average of the daily yield for the month. 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 current market value.

Summary

The Orange County Transportation Authority is submitting a copy of the Local Agency Investment Fund statements and summary reports to the Finance and Administration Committee. The statements are for the month ending September 30, 2018.

Attachment

A. Local Agency Investment Fund – As of September 30, 2018

Prepared by:



Jennifer Matano
Department Manager,
Treasury/Public Finance
(714) 560-5563

Approved by:



Andrew Oftelie
Executive Director,
Finance and Administration
(714) 560-5649

Local Agency Investment Fund
P.O. Box 942809
Sacramento, CA 94209-0001
(916) 653-3001

www.treasurer.ca.gov/pmia-laif/laif.asp
October 15, 2018

ORANGE COUNTY TRANSPORTATION AUTHORITY

MANAGER, TREASURY/PUBLIC FINANCE
550 SOUTH MAIN STREET
P.O. BOX 14184
ORANGE, CA 92613-1584

PMIA Average Monthly Yields

Account Number:
80-30-001

Tran Type Definitions

September 2018 Statement

Account Summary

Total Deposit:	0.00	Beginning Balance:	10,424,157.09
Total Withdrawal:	0.00	Ending Balance:	10,424,157.09



**JOHN CHIANG
TREASURER
STATE OF CALIFORNIA**



PMIA Performance Report

Date	Daily Yield*	Quarter to Date Yield	Average Maturity (in days)
09/10/18	2.05	1.98	189
09/11/18	2.05	1.98	189
09/12/18	2.05	1.98	189
09/13/18	2.06	1.98	190
09/14/18	2.07	1.98	190
09/15/18	2.07	1.99	190
09/16/18	2.07	1.99	190
09/17/18	2.07	1.99	187
09/18/18	2.07	1.99	188
09/19/18	2.08	1.99	188
09/20/18	2.08	1.99	188
09/21/18	2.08	1.99	187
09/22/18	2.08	1.99	187
09/23/18	2.08	1.99	187
09/24/18	2.08	2.00	189
09/25/18	2.08	2.00	188
09/26/18	2.09	2.00	190
09/27/18	2.09	2.00	192
09/28/18	2.09	2.00	193
09/29/18	2.09	2.00	193
09/30/18	2.09	2.00	193
10/01/18	2.11	2.11	205
10/02/18	2.11	2.11	205
10/03/18	2.12	2.11	206
10/04/18	2.12	2.12	206
10/05/18	2.12	2.12	205
10/06/18	2.12	2.12	205
10/07/18	2.12	2.12	205
10/08/18	2.12	2.12	202
10/09/18	2.12	2.12	202
10/10/18	2.13	2.12	202

*Daily yield does not reflect capital gains or losses

[View Prior Month Daily Rates](#)

LAIF Performance Report

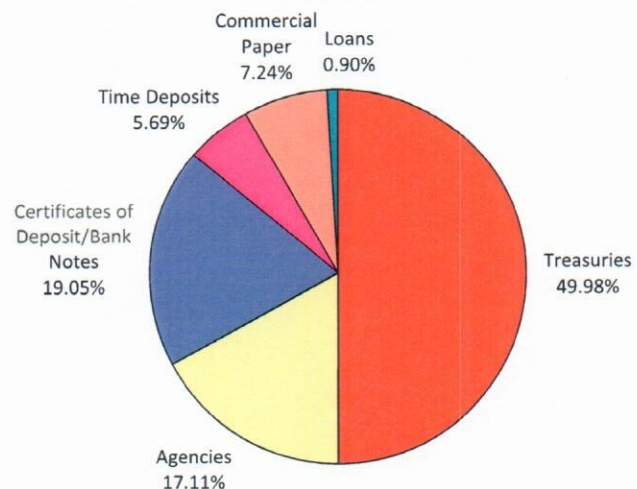
Quarter Ending 06/30/18

Apportionment Rate: 1.90%
 Earnings Ratio: 0.00005216919081336
 Fair Value Factor: 0.998126869
 Daily: 1.92%
 Quarter to Date: 1.76%
 Average Life: 193

**PMIA Average Monthly
Effective Yields**

Sept 2018 2.063
 Aug 2018 1.998
 July 2018 1.944

**Pooled Money Investment Account
Portfolio Composition
09/30/18
\$88.3 billion**



Percentages may not total 100%, due to rounding.

Based on data available as of 10/10/2018



State of California

Pooled Money Investment Account

Market Valuation

9/30/2018

Description		Carrying Cost Plus Accrued Interest Purch.	Amortized Cost	Fair Value	Accrued Interest
1*	United States Treasury:				
	Bills	\$ 16,170,833,546.22	\$ 16,296,335,127.01	\$ 16,285,062,500.00	NA
	Notes	\$ 27,467,752,638.26	\$ 27,461,025,460.04	\$ 27,325,385,500.00	\$ 89,821,892.00
1*	Federal Agency:				
	SBA	\$ 780,001,209.85	\$ 780,001,209.85	\$ 771,570,823.84	\$ 1,469,354.69
	MBS-REMICs	\$ 27,050,783.12	\$ 27,050,783.12	\$ 27,393,077.56	\$ 126,471.34
	Debentures	\$ 2,397,593,922.31	\$ 2,397,424,286.90	\$ 2,382,272,150.00	\$ 7,989,582.70
	Debentures FR	\$ -	\$ -	\$ -	\$ -
	Debentures CL	\$ 200,000,000.00	\$ 200,000,000.00	\$ 196,871,500.00	\$ -
	Discount Notes	\$ 11,141,336,347.31	\$ 11,204,143,319.80	\$ 11,197,252,500.00	NA
1*	Supranational Debentures	\$ 489,118,743.08	\$ 489,118,743.08	\$ 486,290,300.00	\$ 1,903,918.00
1*	Supranational Debentures FR	\$ 100,344,087.56	\$ 100,344,087.56	\$ 100,706,084.34	\$ 542,330.04
2*	CDs and YCDs FR	\$ 525,000,000.00	\$ 525,000,000.00	\$ 525,000,000.00	\$ 2,309,472.31
2*	Bank Notes	\$ 1,000,000,000.00	\$ 1,000,000,000.00	\$ 999,336,863.17	\$ 7,979,666.68
2*	CDs and YCDs	\$ 15,300,000,000.00	\$ 15,300,000,000.00	\$ 15,293,041,253.62	\$ 87,416,041.66
2*	Commercial Paper	\$ 6,396,625,430.50	\$ 6,422,115,291.71	\$ 6,421,592,005.55	NA
1*	Corporate:				
	Bonds FR	\$ -	\$ -	\$ -	\$ -
	Bonds	\$ -	\$ -	\$ -	\$ -
1*	Repurchase Agreements	\$ -	\$ -	\$ -	\$ -
1*	Reverse Repurchase	\$ -	\$ -	\$ -	\$ -
	Time Deposits	\$ 5,022,740,000.00	\$ 5,022,740,000.00	\$ 5,022,740,000.00	NA
	AB 55 & GF Loans	\$ 790,994,000.00	\$ 790,994,000.00	\$ 790,994,000.00	NA
	TOTAL	\$ 87,809,390,708.21	\$ 88,016,292,309.07	\$ 87,825,508,558.08	\$ 199,558,729.42

Fair Value Including Accrued Interest

\$ 88,025,067,287.50

* Governmental Accounting Standards Board (GASB) Statement #72

Repurchase Agreements, Time Deposits, AB 55 & General Fund loans, and Reverse Repurchase agreements are carried at portfolio book value (carrying cost).

The value of each participating dollar equals the fair value divided by the amortized cost (0.997832404).

As an example: if an agency has an account balance of \$20,000,000.00, then the agency would report its participation in the LAIF valued at \$19,956,648.08 or \$20,000,000.00 x 0.997832404.



October 24, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Orange County Treasurer's Management Report -
September 2018

Overview

The Orange County Transportation Authority invests a portion of its liquid portfolio in the Orange County Investment Pool. Each month, the Orange County Treasurer publishes a comprehensive report detailing the composition of the pool and the prevailing economic and market conditions. The attached Treasurer's Management Report for the Orange County Investment Pool is for the month ending September 30, 2018. The report has been reviewed and is consistent with the investment practices of the Orange County Treasurer.

Recommendation

Receive and file as an information item.

Discussion

As of September 30, 2018, the book value of the Orange County Investment Pool (OCIP) Money Market Fund was \$623,595,668 with a monthly gross yield of 1.68 percent and a month-end average days to maturity of 40 days. The OCIP Extended Fund book value was \$6,638,972,479 with a monthly gross yield of 1.77 percent and a month-end average days to maturity of 420 days. The Orange County Transportation Authority's month-end balance in the OCIP was \$13,896,315; the combined pool had a monthly gross yield of 1.76 percent and month-end average days to maturity of 357 days.

The monthly gross yield is the average of the daily yield for the month. 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 current market value.

During September there were no additions or deletions to the Treasurer's Approved Issuer List. Both the Money Market Fund and the Extended Fund were in compliance at month-end. Pages 26 through 92 containing investment inventory are not included in the attachment. Copies of OCIP's investment inventory reports are available upon request.

Summary

The Orange County Transportation Authority is submitting a copy of the Orange County Treasurer's Management Report to the Finance and Administration Committee. The report is for the month ending September 30, 2018.

Attachment

- A. Treasurer's Monthly Investment Report – September 30, 2018

Prepared by:



Jennifer Matano
Department Manager,
Treasury/Public Finance
(714) 560-5563

Approved by:



Andrew Oftelie
Executive Director,
Finance and Administration
(714) 560-5649

Treasurer's Monthly **INVESTMENT** SEPTEMBER 2018 **REPORT**

From the Office of
SHARI L. FREIDENRICH, CPA, CCMT, CPFA, ACPFIM
Orange County Treasurer



COUNTY OF ORANGE

**TREASURER'S INVESTMENT REPORT
For September 30, 2018**

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OFFICE OF THE TREASURER-TAX COLLECTOR
SHARI L. FREIDENRICH, CPA, CCMT, CPFA, ACPFIM



INTERDEPARTMENTAL COMMUNICATION

Date: October 15, 2018

To: Supervisor Andrew Do, Chairman
Supervisor Shawn Nelson, Vice-Chairman
Supervisor Michelle Steel
Supervisor Todd Spitzer
Supervisor Lisa Bartlett

From: Shari L. Freidenrich, CPA, CCMT, CPFA, ACPFIM *SLF*

Subject: Treasurer's Investment Report for the Month Ended September 30, 2018

Attached please find the Treasurer's Investment Report for the County of Orange for the month ended September 30, 2018. The County Treasurer provides this report in compliance with California Government Code Sections 53607, 53646, and 27134 and the County's Investment Policy Statement (IPS). We have included some charts and other data for your information including charts on fund composition and the top ten pool participants. This report is also publicly available on our website at ocgov.com/ocinvestments.

INVESTMENT POOL COMPOSITION

The investments contained within this report are as of September 30, 2018. The Investment Pool Statistics summary shows the total investment responsibility of the County Treasurer as delegated by the Board of Supervisors: the Orange County Investment Pool (OCIP) that includes the Voluntary Participants' funds, the Orange County Educational Investment Pool (OCEIP), the John Wayne Airport Investment Fund and various other non-Pooled investment funds. The investment practices and policies of the Treasurer are based on compliance with State law and prudent money management. The primary goal is to invest public funds in a manner which will provide maximum security of principal invested with secondary emphasis on providing adequate liquidity to Pool Participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

The County Treasurer established three short-term funds, the Orange County Money Market Fund (OCMMF), the Orange County Educational Money Market Fund (OCEMMF), and the John Wayne Airport Investment Fund, which all are invested in cash-equivalent securities and provide liquidity for immediate cash needs. Standard & Poor's, on September 19, 2018, reaffirmed their highest rating of AAAM on the OCMMF and the OCEMMF. The County Treasurer also established the Extended Fund that is invested to meet cash needs between one and five years out. The Orange County Investment Pool is comprised of the Orange County Money Market Fund and portions of the Extended Fund. The Orange County Educational Investment Pool is comprised of the Orange County Educational Money Market Fund and portions of the Extended Fund.

The maximum maturity of investments for the OCMMF and the OCEMMF is 13 months, with a maximum weighted average maturity (WAM) of 60 days, and they have a current WAM of 40 and 51, respectively. The maximum maturity of investments for the John Wayne Airport Investment Fund is 15 months, with a maximum WAM of 90 days, and a current WAM of 86. The maximum maturity of the Extended Fund is five years, with duration not to exceed the Merrill Lynch 1-3 Year index +25% (2.32), and the duration is currently at 1.13. The investments in all of the funds are marked to market daily to calculate the daily fair value of the funds. To further maintain safety, adherence to an investment strategy of only purchasing top-rated securities and diversification of instrument types and maturities is required.

ECONOMIC UPDATE

In September 2018, the job market added 134,000 new jobs, and August's job numbers were revised upward by 69,000 to 270,000. The U.S. unemployment rate for September decreased to 3.7% from 3.9% in the prior month. The Empire State Manufacturing Index decreased to 19.0 from 25.6 in August, while the Philadelphia Fed Index increased to 22.9 from 11.9 in August. The Federal Reserve uses these indexes as regional economic gauges, and a reading above zero

Mission: Ensure safe and timely receipt, deposit, collection and investment of public funds.

signals economic expansion. With respect to housing, S&P/CaseShiller reported that housing prices continue to show positive momentum as year-over-year prices increased for the seventy-fifth consecutive month in July, up 6.00% from a year ago. The index for pending home sales decreased 2.50% on a year-over-year basis in August. On September 26, 2018, the Federal Open Markets Committee (FOMC) raised the benchmark Federal Funds rate by 0.25 percent resulting in a new target range of 2.00 percent to 2.25 percent.

The 10-year Treasury rate increased from 2.86% in August to 3.05% in September. The short-term 90-day T-bill increased from 2.11% at the end of August to 2.19% at the end of September. The rate on the 2-year Treasury note was 2.81% at the end of September, up from 2.62% in August.

INVESTMENT INTEREST YIELDS AND FORECAST

The current gross interest yield year-to-date for fiscal year 2018/2019 is 1.69% for OCIP and 1.74% for OCEIP. The current net yield for fiscal year 2018/2019 is 1.63 for OCIP and 1.68% for OCEIP. The forecasted net yield for fiscal year 2018/2019 for both OCIP and OCEIP is 1.81%.

APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS

Each month, the County Treasurer apportions the accrued interest earnings to each pool participant. As of the first business day of the following month accrued, but unpaid, interest earnings are added to pool participants' average balances in determining a participant's relative share of the pool's monthly earnings. The actual cash distribution will generally be paid in the month following. The August 2018 and September 2018 interest apportionments are expected to be paid in November 2018 and December 2018. The investment administrative fee for fiscal year 2018/2019 is estimated at 5.9 basis points.

TEMPORARY TRANSFERS

The County Treasurer, as required by Constitution Article XVI, Section 6, and per the Board of Supervisor's Resolution 15-016, is authorized to make temporary transfers to school districts to address their short-term cash flow needs. The loans are secured by tax receipts to be received by the County Treasurer, as the banker for the school districts. Temporary transfers from the OCEIP total \$40 million and will be repaid by January 31, 2019.

PORTFOLIO HOLDINGS OF DEBT ISSUED BY POOL PARTICIPANTS

Under guidelines outlined in the current IPS, the County Treasurer may invest in "A" or above rated securities issued by municipalities. Municipal debt issued by the County of Orange is exempt from this credit rating requirement. The Investment Pools may invest no more than 5% of individual pool assets in any one issuer, with the exception of the County of Orange which has a 10% limit. The Investment Pools have a total market value of \$355 million in County of Orange debt, which represents approximately 4.3% of total pooled assets. Prior to purchasing any pool participant debt, a standardized credit analysis is performed.

COMPLIANCE SUMMARY

The investment portfolios had no compliance exceptions for the month of September 2018. The Auditor-Controller issued their report on Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended June 30, 2018, which stated that no instances of noncompliance were identified.

CREDIT UPDATE

During September, there were two changes to the Treasurer's Approved Issuer List. Royal Bank of Canada and Toronto Dominion Bank were both downgraded one notch by Moody's, from Aa2 to A2 and Aa1 to Aa3 respectively. Both issuers had been already put on hold by the Credit Investment Committee in July, 2016 and March, 2017 respectively. An ongoing credit analysis of all issuers owned in the Investment Pools is reviewed on a daily, monthly, quarterly, and annual basis.

I certify that this report includes all pooled and non-pooled investments as of September 30, 2018 and is in conformity with all State laws and the IPS approved by the Board of Supervisors on November 14, 2017. The investments herein shown provide adequate liquidity to meet the next six months of projected cash flow requirements. I am available if you have any questions on this Investment Report at (714) 834-7625.

Enclosures

cc: Distribution List

ORANGE COUNTY TREASURER-TAX COLLECTOR

SUMMARY OF INVESTMENT DATA

INVESTMENT TRENDS

	SEPTEMBER 2018	AUGUST 2018	INCREASE (DECREASE)	NET CHANGE %	SEPTEMBER 2017	INCREASE (DECREASE)	NET CHANGE %
Orange County Investment Pool (OCIP)							
End Of Month Market Value ¹	\$ 3,767,385,607	\$ 3,800,757,752	\$ (33,372,145)	-0.88%	\$ 3,861,840,310	\$ (94,454,703)	-2.45%
End Of Month Book Value ¹	\$ 3,788,455,916	\$ 3,818,674,986	\$ (30,219,070)	-0.79%	\$ 3,870,073,483	\$ (81,617,567)	-2.11%
Monthly Average Balance	\$ 3,761,688,842	\$ 3,728,926,590	\$ 32,762,252	0.88%	\$ 3,855,856,727	\$ (94,167,885)	-2.44%
Year-To-Date Average Balance	\$ 3,815,987,973	\$ 3,843,137,539	\$ (27,149,566)	-0.71%	\$ 3,875,715,219	\$ (59,727,246)	-1.54%
Monthly Accrued Earnings ²	\$ 5,422,064	\$ 5,324,206	\$ 97,858	1.84%	\$ 3,638,098	\$ 1,783,966	49.04%
Monthly Net Yield ²	1.70%	1.62%	0.08%	4.69%	1.09%	0.61%	56.17%
Year-To-Date Net Yield ²	1.63%	1.60%	0.03%	1.90%	1.05%	0.58%	54.81%
Annual Estimated Gross Yield ³	1.87%	1.87%	0.00%	0.00%	1.28%	0.59%	45.80%
Weighted Average Maturity (WAM)	357	350	7	2.00%	354	3	0.85%
Orange County Educational Investment Pool (OCEIP)							
End Of Month Market Value ¹	\$ 4,416,020,298	\$ 4,589,471,472	\$ (173,451,174)	-3.78%	\$ 4,317,321,454	\$ 98,698,844	2.29%
End Of Month Book Value ¹	\$ 4,439,034,297	\$ 4,609,254,223	\$ (170,219,926)	-3.69%	\$ 4,325,452,348	\$ 113,581,949	2.63%
Monthly Average Balance	\$ 4,530,663,894	\$ 4,779,197,893	\$ (248,533,999)	-5.20%	\$ 4,306,132,604	\$ 224,531,290	5.21%
Year-To-Date Average Balance	\$ 4,767,167,150	\$ 4,885,418,778	\$ (118,251,628)	-2.42%	\$ 4,516,044,148	\$ 251,123,002	5.56%
Monthly Accrued Earnings ²	\$ 6,743,750	\$ 7,083,460	\$ (339,711)	-4.80%	\$ 4,041,894	\$ 2,701,855	66.85%
Monthly Net Yield ²	1.74%	1.68%	0.06%	3.75%	1.08%	0.66%	61.30%
Year-To-Date Net Yield ²	1.68%	1.65%	0.03%	1.78%	1.04%	0.63%	60.55%
Annual Estimated Gross Yield ³	1.87%	1.87%	0.00%	0.00%	1.30%	0.57%	44.13%
Weighted Average Maturity (WAM)	340	325	15	4.62%	323	17	5.26%

¹ Market values provided by Bloomberg and Northern Trust. The OCIP and OCEIP market values are slightly lower than book value due to the seven Federal Reserve short-term rate increases totaling 1.75% since November 2016. Note that, as disclosed on page 6, the OCIP and OCEIP both have a net asset value (NAV) of .99. They both have sufficient liquidity to meet projected cash flow needs.

² In September 2018, the OCIP and OCEIP Monthly Accrued Earnings, Monthly Net Yields and Year-To-Date Net Yields were higher than the prior year primarily due to seven Federal Reserve short-term rate increases totaling 1.75% since November 2016.

³ The OCIP and OCEIP annual estimated gross yields for September 2017 are reported at the actual annual gross yields for FY 17/18, and their annual estimated gross yields for September 2018 are reported at the forecasted gross yield of 1.87%. The OCIP and OCEIP annual estimated gross yields for FY 18/19 are higher than FY 17/18 yields of 1.28% and 1.30% primarily due to seven Federal Reserve short-term rate increases totaling 1.75% since November 2016.

ORANGE COUNTY TREASURER-TAX COLLECTOR
INVESTMENT POOL STATISTICS
 FOR THE MONTH AND QUARTER ENDED: September 30, 2018

INVESTMENT STATISTICS - By Investment Pool⁽¹⁾

DESCRIPTION	CURRENT BALANCES	Average Days to Maturity	Daily Yield as of 9/30/2018	MONTHLY Gross Yield	QUARTER Gross Yield	Current NAV ⁽⁵⁾
COMBINED POOL BALANCES (includes the Extended Fund)						
Orange County Investment Pool (OCIP)	MARKET Value \$ 3,767,385,607	357	1.86%	1.76%	1.69%	0.99 ⁽⁶⁾
	COST (Capital) \$ 3,788,593,504					
	MONTHLY AVG Balance \$ 3,761,688,842					
	QUARTERLY AVG Balance \$ 3,815,987,973					
	BOOK Value \$ 3,788,455,916					
Orange County Educational Investment Pool (OCEIP)	MARKET Value \$ 4,416,020,298	340	1.89%	1.80%	1.75%	0.99 ⁽⁶⁾
	COST (Capital) \$ 4,439,156,895					
	MONTHLY AVG Balance \$ 4,530,663,894					
	QUARTERLY AVG Balance \$ 4,767,167,150					
	BOOK Value \$ 4,439,034,297					

INVESTMENT STATISTICS - Non-Pooled Investments⁽²⁾

DESCRIPTION	CURRENT BALANCE	INVESTMENT BALANCES AT COST
Specific Investment		
Funds:	MARKET Value \$ 99,957,530	John Wayne Airport Investment Fund 46,294,341
283, FVSD, CCCD	COST (Capital) \$ 101,466,899	Fountain Valley School District Fund 40 34,790,770
	MONTHLY AVG Balance \$ 106,233,328	CCCD Series 2017E Bonds 20,381,788
	QUARTERLY AVG Balance \$ 106,447,701	
	BOOK Value \$ 101,282,858	
		\$ 101,466,899

MONTH END TOTALS

INVESTMENTS & CASH		INVESTMENTS & CASH	
COUNTY MONEY MARKET FUND (OCMMF)			
County Money Market Fund	\$ 622,453,122	OCIP	\$ 3,841,662,558
County Cash & Cash Equivalent ⁽⁴⁾	53,069,054	OCEIP	4,535,182,104
EXTENDED FUND	6,641,657,836	Specific Investment Funds	101,466,899
EDUCATIONAL MONEY MARKET FUND (OCEMMF)		Non-Pooled Cash & Cash Equivalent ⁽⁴⁾	22,994,815
Educational Money Market Fund	963,639,441		
Educational Cash & Cash Equivalent ⁽⁴⁾	96,025,209		
NON-POOLED INVESTMENTS			
Non-Pooled Investments @ Cost	101,466,899		
Non-Pooled Cash & Cash Equivalent ⁽⁴⁾	22,994,815		
	\$ 8,501,306,376		\$ 8,501,306,376

KEY POOL STATISTICS

INTEREST RATE YIELD		WEIGHTED AVERAGE MATURITY (WAM)	
OCMMF - MONTHLY GROSS YIELD	1.68%	OCMMF	40
OCEMMF - MONTHLY GROSS YIELD	1.95%	OCEMMF	51
JOHN WAYNE AIRPORT - MONTHLY GROSS YIELD	2.06%	JOHN WAYNE AIRPORT WAM	86
OCIP - YTD NET YIELD ⁽³⁾	1.63%	LGIP WAM (Standard & Poors)	33
OCEIP - YTD NET YIELD ⁽³⁾	1.68%		
90-DAY T-BILL YIELD - MONTHLY AVERAGE	2.16%		

ORANGE COUNTY TREASURER-TAX COLLECTOR
INVESTMENT POOL STATISTICS
FOR THE MONTH AND QUARTER ENDED: September 30, 2018

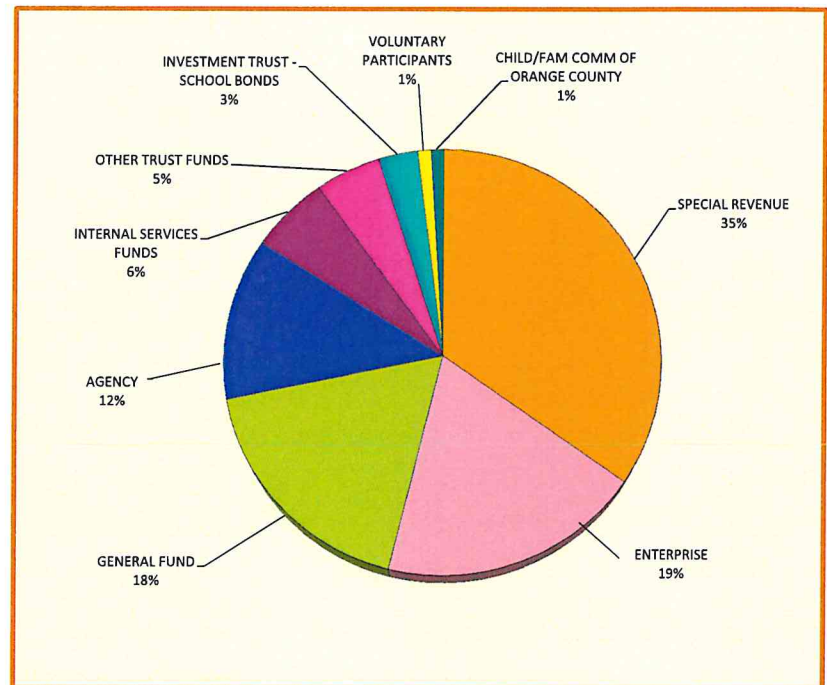
INVESTMENT STATISTICS - By Investment Fund

DESCRIPTION	CURRENT BALANCES	Average Days to Maturity	Daily Yield as of 9/30/2018	MONTHLY Gross Yield	QUARTER Gross Yield	Current NAV ⁽⁵⁾
<u>County Money Market Fund (OCMMF)</u>	MARKET Value \$ 623,483,218 COST (Capital) \$ 622,453,122 MONTHLY AVG Balance \$ 598,229,576 QUARTERLY AVG Balance \$ 611,442,140 BOOK Value \$ 623,595,668	40	2.03%	1.68%	1.65%	1.00
<u>Educational Money Market Fund (OCEMMF)</u>	MARKET Value \$ 964,913,807 COST (Capital) \$ 963,639,441 MONTHLY AVG Balance \$ 1,055,146,440 QUARTERLY AVG Balance \$ 1,273,946,626 BOOK Value \$ 964,922,066	51	2.09%	1.95%	1.88%	1.00
<u>Extended Fund</u>	MARKET Value \$ 6,595,008,880 COST (Capital) \$ 6,641,657,836 MONTHLY AVG Balance \$ 6,638,976,720 QUARTERLY AVG Balance \$ 6,697,766,357 BOOK Value \$ 6,638,972,479	420	1.83%	1.77%	1.70%	0.99 ⁽⁶⁾
ALLOCATION OF EXTENDED FUND						
<u>Extended Fund</u> <u>OCIP Share</u>	MARKET Value \$ 3,143,902,389 COST (Capital) \$ 3,166,140,382 MONTHLY AVG Balance \$ 3,163,459,266 QUARTERLY AVG Balance \$ 3,204,545,833 BOOK Value \$ 3,164,860,248	420	1.83%	1.77%	1.70%	0.99
<u>OCEIP Share</u>	MARKET Value \$ 3,451,106,491 COST (Capital) \$ 3,475,517,454 MONTHLY AVG Balance \$ 3,475,517,454 QUARTERLY AVG Balance \$ 3,493,220,524 BOOK Value \$ 3,474,112,231	420	1.83%	1.77%	1.70%	0.99
<u>Modified Duration</u>	1.13					

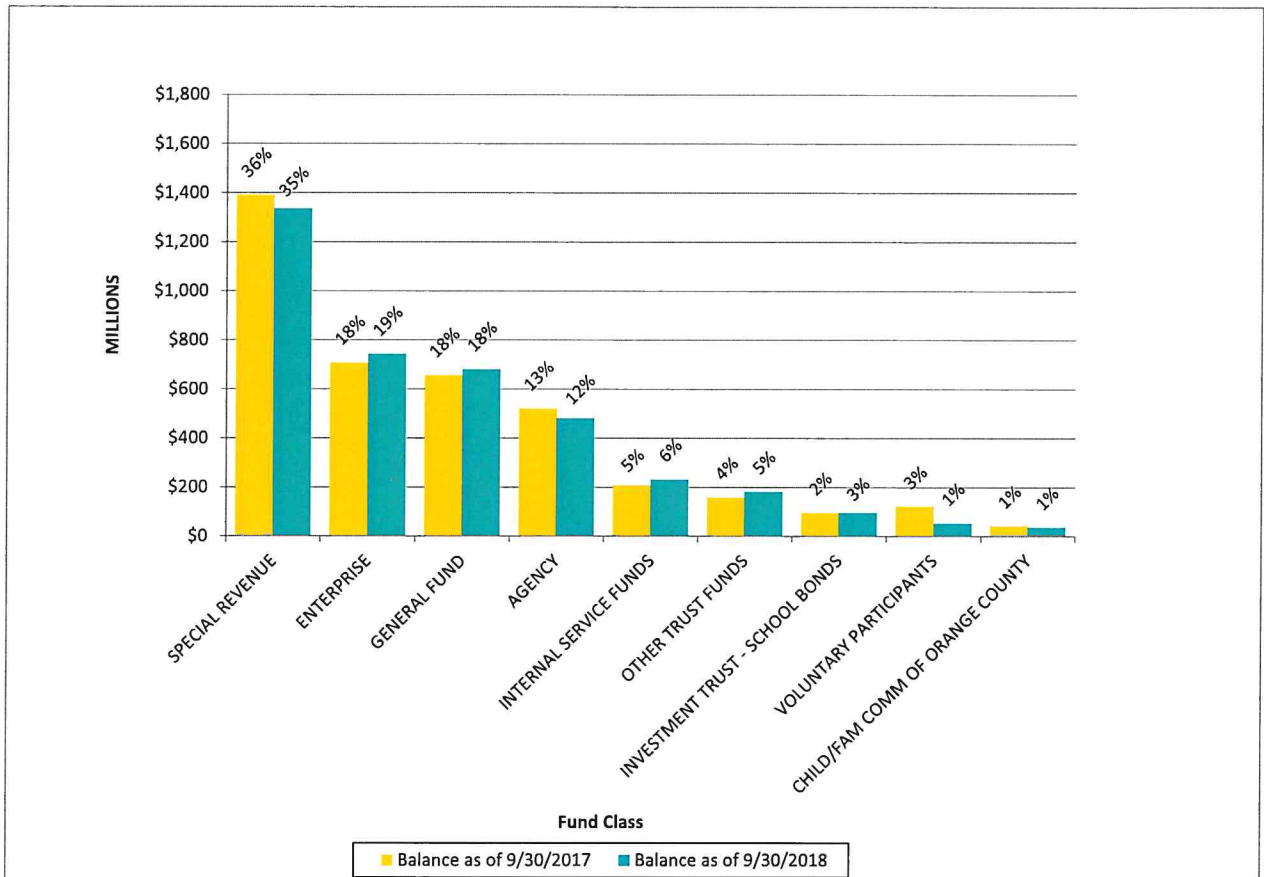
- (1) The Combined Pool Balances include the County and Educational Money Market Funds and their respective portions of the Extended Fund.
- (2) Specific non-pooled investments are reported in compliance with Government Code Section 53646 (b)(1). Detailed descriptions are included in the inventory listing in Section VII of this report.
- (3) The Net Yield differs from the Monthly Gross Yield as it includes the deduction of the Investment Administrative Fee.
- (4) Balances include investments matured on 9/30/2018 (Sunday), cash was not received until 10/1/2018 (Monday).
- (5) Book Value is computed as Cost reduced by amortization of premium and increased by the accretion of discount of the Investment Portfolio. Net Asset Value (NAV) is equal to Market Value divided by Book Value.
- (6) The OCIP and OCEIP market values in the current year have caused the current NAVs to drop to .99, as the Extended Fund portion represents 84% and 78% of the total OCIP and OCEIP balances, and its NAV is .99. The Extended Fund generally purchases investments between 1 and 5 years, and the decrease in NAV of 1% is due to several Federal Reserve, short-term rate increases totaling 1.75% since November 2016. The OCIP and OCEIP have sufficient liquidity to meet projected cash flow needs.

**ORANGE COUNTY INVESTMENT POOL
COMPOSITION BY FUND
AS OF SEPTEMBER 30, 2018**

FUNDS	BALANCE
SPECIAL REVENUE	\$ 1,335,716,841
ENTERPRISE	743,415,655
GENERAL FUND	680,374,334
AGENCY	481,937,970
INTERNAL SERVICE FUNDS	231,742,566
OTHER TRUST FUNDS	182,090,589
INVESTMENT TRUST - SCHOOL BONDS	96,212,510
VOLUNTARY PARTICIPANTS	53,445,529
CHILD/FAM COMM OF ORANGE COUNTY	36,726,564
TOTAL	\$ 3,841,662,558



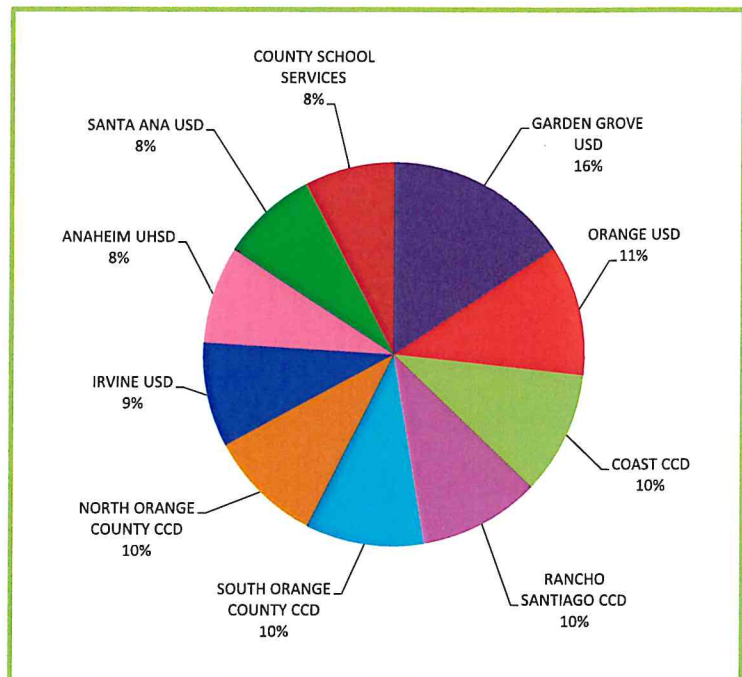
**ORANGE COUNTY INVESTMENT POOL
COMPOSITION BY FUND
AS OF SEPTEMBER 30**



**ORANGE COUNTY EDUCATIONAL INVESTMENT POOL
TOP TEN POOL PARTICIPANTS
AS OF SEPTEMBER 30, 2018**

DISTRICT #	SCHOOL DISTRICT	BALANCE ⁽¹⁾
72	GARDEN GROVE USD	\$ 468,403,270 (1)
80	ORANGE USD	329,969,019 (1)
90	COAST CCD	310,102,441 (1)
92	RANCHO SANTIAGO CCD	306,655,653 (1)
96	SOUTH ORANGE COUNTY CCD	299,346,509
88	NORTH ORANGE COUNTY CCD	290,845,772 (1)
75	IRVINE USD	264,583,588 (1)
64	ANAHEIM UHSD	245,753,058 (1)
84	SANTA ANA USD	243,841,920 (1)
94	COUNTY SCHOOL SERVICES	228,184,831
TOTAL		\$ 2,987,686,061

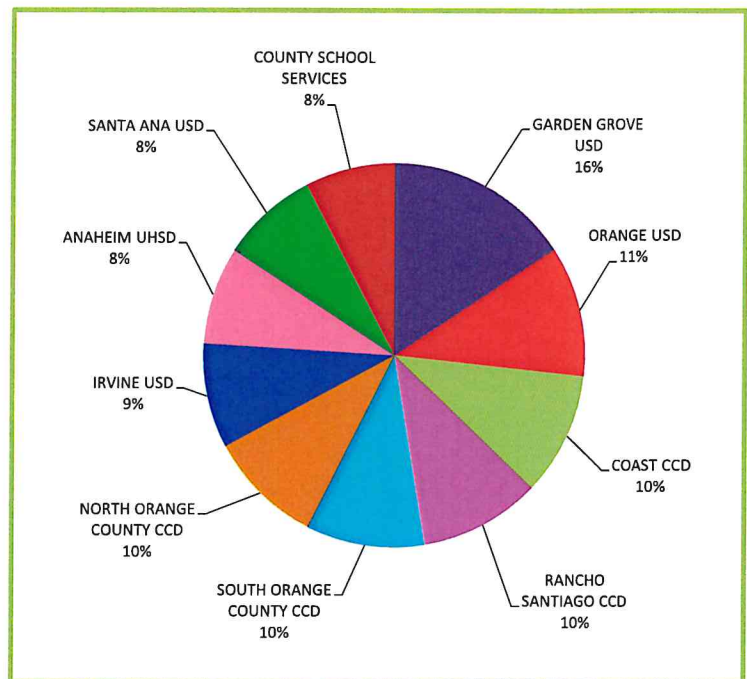
(1) BALANCES INCLUDE GENERAL OBLIGATION BOND PROCEEDS



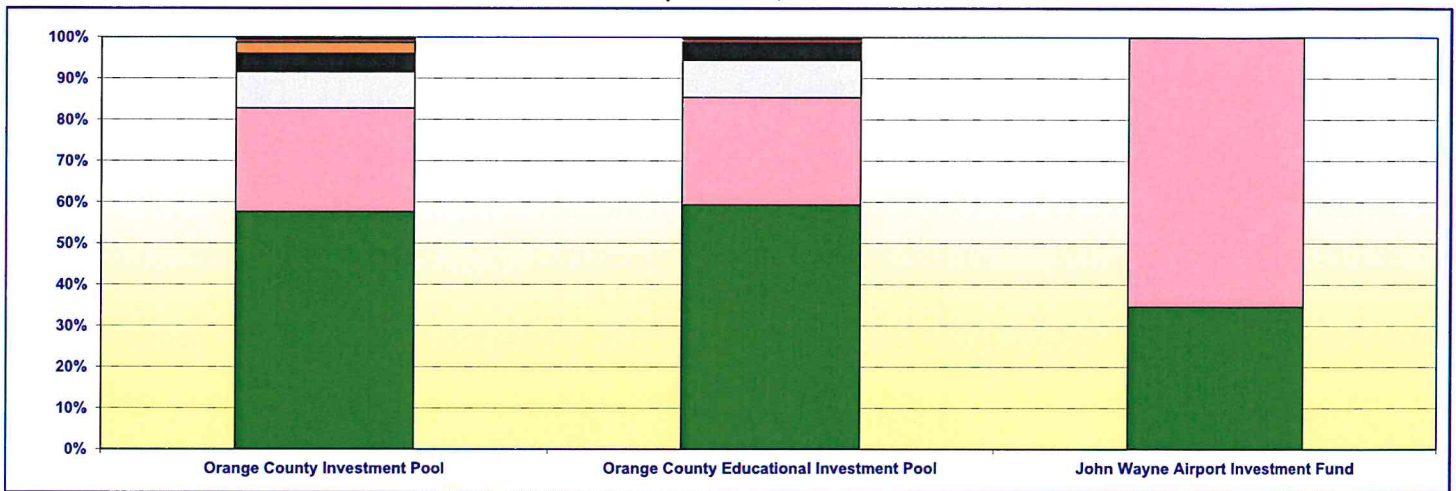
**ORANGE COUNTY EDUCATIONAL INVESTMENT POOL
TOP TEN POOL PARTICIPANTS
AS OF SEPTEMBER 30, 2018**

DISTRICT #	SCHOOL DISTRICT	BALANCE ⁽¹⁾
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94	COUNTY SCHOOL SERVICES	228,184,831
TOTAL		\$ 2,987,686,061

(1) BALANCES INCLUDE GENERAL OBLIGATION BONDS PROCEEDS



ORANGE COUNTY TREASURER - TAX COLLECTOR
BY INVESTMENT TYPE AT MARKET VALUE - By Percentage Holdings
September 30, 2018



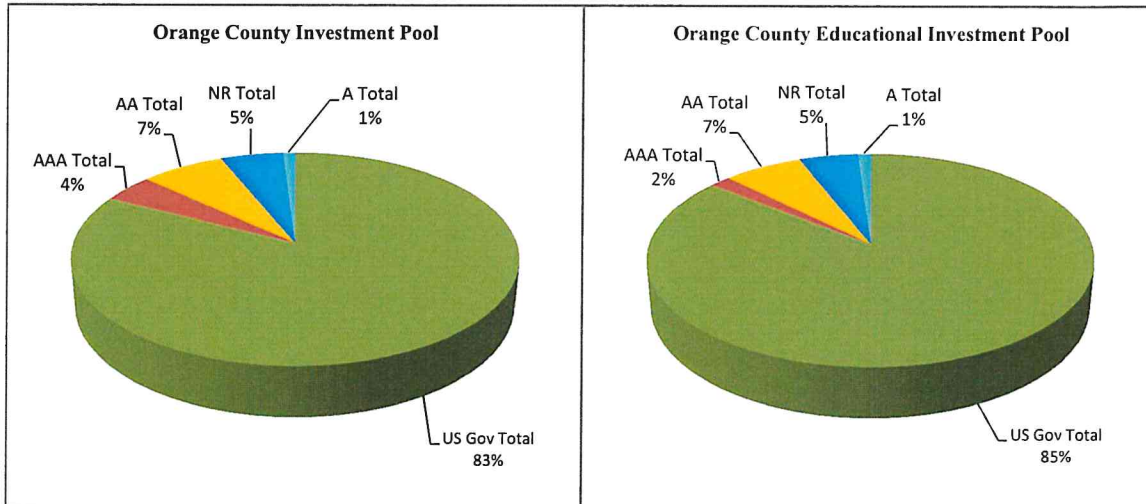
Orange County Investment Pool			
	In Thousands		%
U. S. GOVERNMENT AGENCIES	\$ 2,171,659		57.64%
U. S. TREASURIES	948,024		25.17%
MEDIUM-TERM NOTES	328,347		8.72%
MUNICIPAL DEBT	169,416		4.50%
MONEY MARKET MUTUAL FUNDS	102,210		2.71%
LOCAL AGENCY INVESTMENT FUND	28,742		0.76%
CERTIFICATES OF DEPOSIT	18,988		0.50%
	<u>\$ 3,767,386</u>		<u>100.00%</u>

Orange County Educational Investment Pool			
	In Thousands		%
U. S. GOVERNMENT AGENCIES	\$ 2,621,417		59.36%
U. S. TREASURIES	1,149,848		26.05%
MEDIUM-TERM NOTES	395,608		8.96%
MUNICIPAL DEBT	185,970		4.21%
MONEY MARKET MUTUAL FUNDS	10,784		0.24%
LOCAL AGENCY INVESTMENT FUND	31,550		0.71%
CERTIFICATES OF DEPOSIT	20,843		0.47%
	<u>\$ 4,416,020</u>		<u>100.00%</u>

John Wayne Airport Investment Fund			
	In Thousands		%
U. S. GOVERNMENT AGENCIES	\$ 16,030		34.65%
U. S. TREASURIES	30,193		65.26%
MONEY MARKET MUTUAL FUNDS	39		0.09%
	<u>\$ 46,262</u>		<u>100.00%</u>

Calculated Using Market Value at 9/30/2018

ORANGE COUNTY TREASURER - TAX COLLECTOR
CREDIT QUALITY BY MARKET VALUE
 September 30, 2018



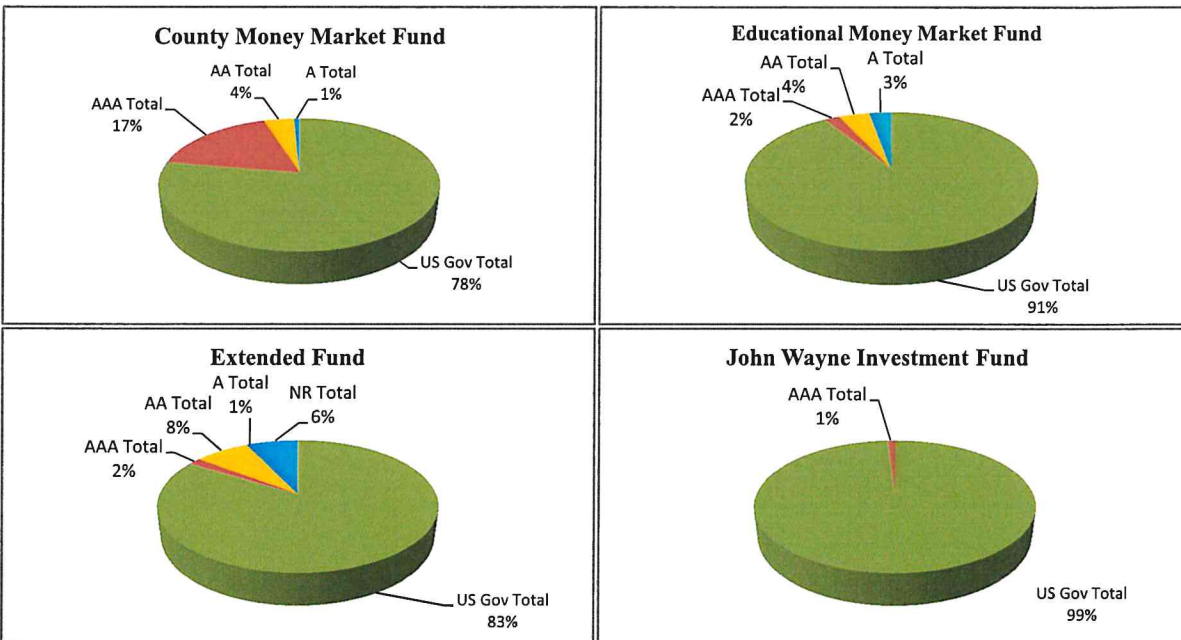
US GOV Includes Agency & Treasury Debt

AA includes AA+, AA-, & AA

A includes A+, A-, & A

NR Includes LAIF and Orange County Pension Obligation Bonds

ORANGE COUNTY TREASURER - TAX COLLECTOR
CREDIT QUALITY BY MARKET VALUE
 September 30, 2018



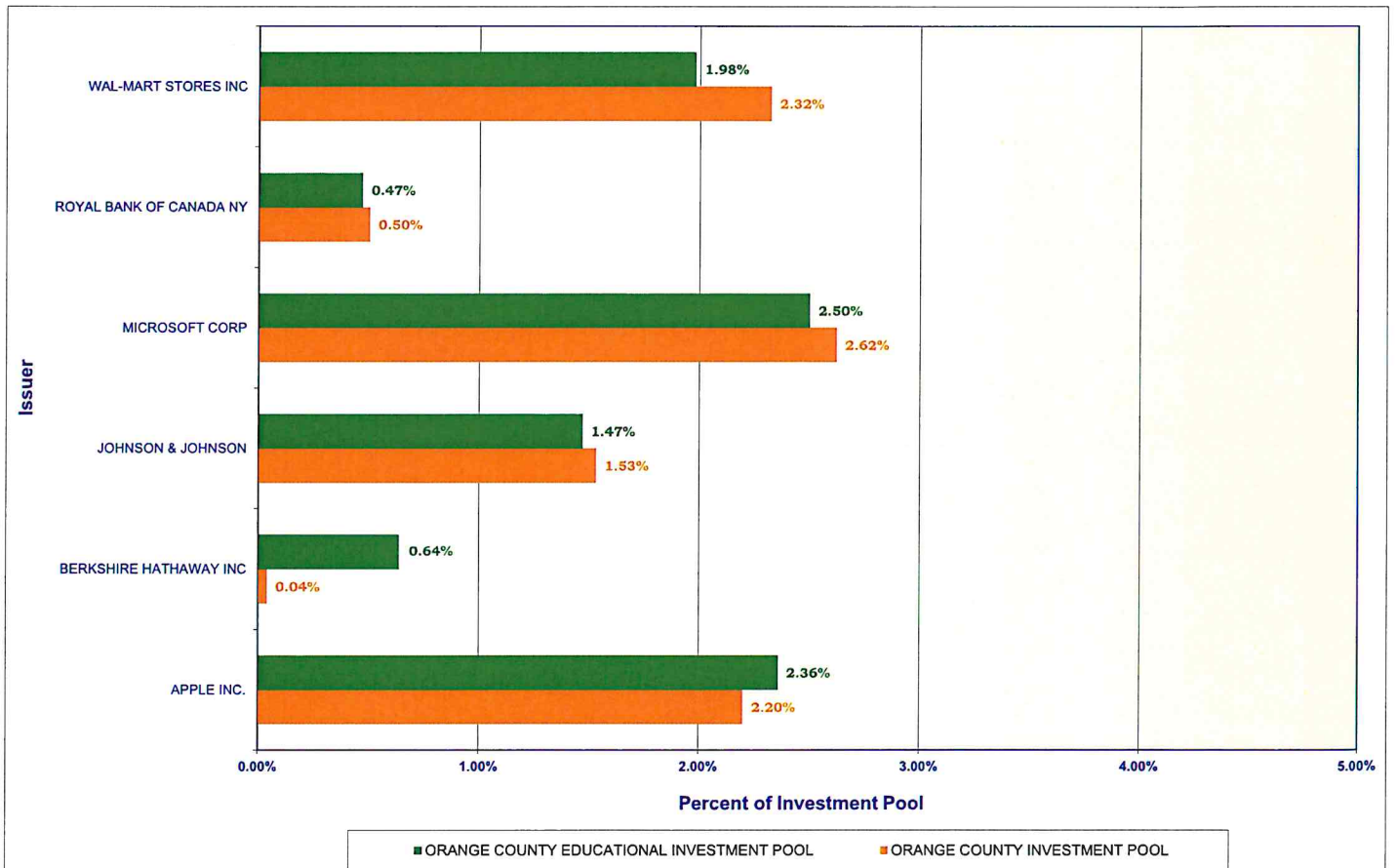
US GOV Includes Agency & Treasury Debt

AA includes AA+, AA-, & AA

A includes A+, A-, & A

NR Includes LAIF and Orange County Pension Obligation Bonds

ORANGE COUNTY TREASURER - TAX COLLECTOR
MEDIUM-TERM NOTES / CERTIFICATES OF DEPOSIT
ISSUER CONCENTRATION-By Investment Pool
 September 30, 2018



ORANGE COUNTY TREASURER-TAX COLLECTOR
APPROVED ISSUER LIST - OCIP, OCEIP, and JWA
September 30, 2018

ISSUER	S/T RATINGS			L/T RATINGS		
	S&P	Moody's	Fitch	S&P	Moody's	Fitch
U.S. TREASURY SECURITIES						
U.S. GOVERNMENT	A-1+	P-1	F1+	AA+	Aaa	AAA
U.S. GOVERNMENT AGENCY SECURITIES						
FEDERAL NATIONAL MORTGAGE ASSOCIATION	A-1+	P-1	F1+	AA+	Aaa	AAA
FEDERAL HOME LOAN MORTGAGE CORPORATION	A-1+	P-1	F1+	AA+	Aaa	AAA
FEDERAL HOME LOAN BANKS	A-1+	P-1	NR	AA+	Aaa	NR
FEDERAL FARM CREDIT BANKS	A-1+	P-1	F1+	AA+	Aaa	AAA
MEDIUM-TERM NOTES						
APPLE INC	A-1+	P-1	NR	AA+	Aa1	NR
JOHNSON & JOHNSON	A-1+	P-1	F1+	AAA	Aaa	AAA
MICROSOFT CORPORATION	A-1+	P-1	F1+	AAA	Aaa	AA+
BERKSHIRE HATHAWAY INC *	A-1+	P-1	NR	AA	Aa2	A+
<i>BERKSHIRE HATHAWAY FINANCE *</i>	NR	NR	NR	NR	Aa2	A+
ISSUERS ON HOLD						
ROYAL BANK OF CANADA NY (JULY, 2016) **	A-1+	P-1	F1+	AA-	A2	AA
TORONTO DOMINION BANK NY (MARCH, 2017) ***	A-1+	P-1	F1+	AA-	Aa3	AA-
WALMART INC (JULY, 2018) ****	A-1+	P-1	F1+	AA	Aa2	AA
MUNICIPAL BONDS						
ORANGE CNTY CA PENSION OBLG 2018 A	NR	NR	NR	NR	NR	NR
STATE POOL - LOCAL AGENCY INVESTMENT FUND						
LOCAL AGENCY INVESTMENT FUND	NR	NR	NR	NR	NR	NR
MONEY MARKET MUTUAL FUNDS *****						
NAME OF FUND	S & P	Moody's	Fitch			
INVESCO GOVERNMENT & AGENCY SHORT-TERM INVESTMENTS TRUST (AIM)	AAAm	Aaa-mf	AAAmmf			
GOLDMAN SACHS FINANCIAL SQUARE GOVT FUND	AAAm	Aaa-mf	NR			
MORGAN STANLEY INSTITUTIONAL LIQUIDITY FUNDS - GOVT	AAAm	Aaa-mf	NR			
NORTHERN INSTITUTIONAL TREASURY PORTFOLIO	AAAm	NR	NR			

* Further purchase restrictions apply due to Investment Policy Statement rating limits.

** Moody's downgraded its L/T issuer credit rating from Aa2 to A2 on September 24, 2018 and kept the issuer rating Outlook on Stable. S&P changed its outlook from Negative to Stable on June 27, 2018.

*** Moody's downgraded its L/T issuer credit rating from Aa1 to Aa3 on September 24, 2018 and kept its issuer rating Outlook on Stable.

**** S&P placed its L/T issuer credit rating on Negative Outlook (S&P - May 9, 2018).

***** All money market funds are institutional money market funds investing in debt issued or guaranteed by the U.S. Government and its agencies.

**Orange County Treasurer-Tax Collector
Changes in Approved Issuer's List
For the Month Ended September 30, 2018**

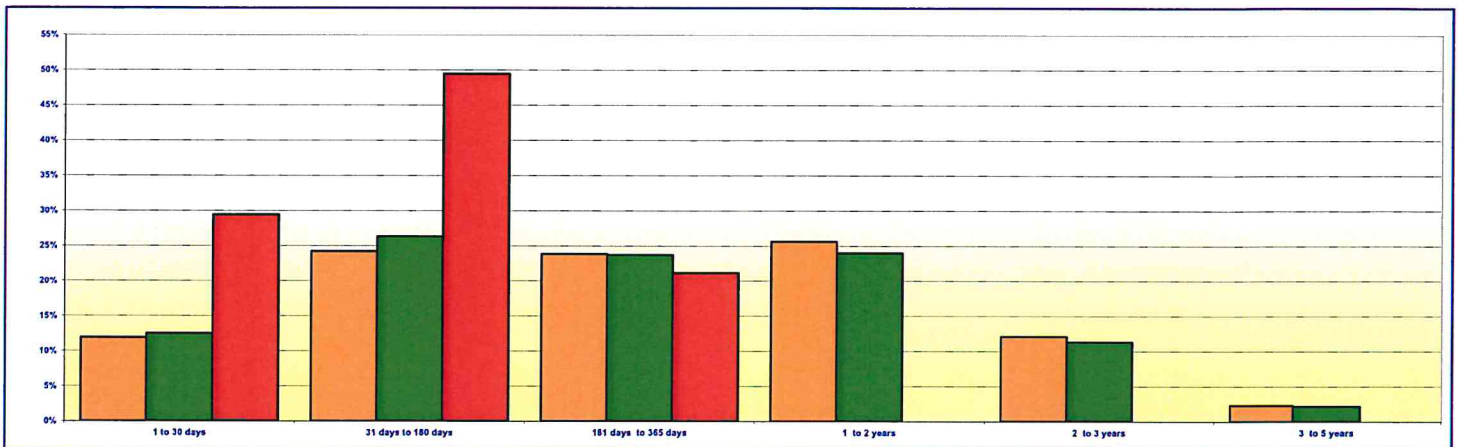
During September, there were two changes made to the Treasurer's Approved Issuer List.

- On September 24, 2018, Moody's downgraded Royal Bank of Canada NY's issuer rating from Aa2 to A2 following the upgrade on July 16, 2018 from A1 to Aa2. Moody's also kept its issuer rating Outlook on Stable. The Credit Investment Committee put Royal Bank of Canada on hold back in July, 2016 and kept them on hold through the upgrade and now the subsequent downgrade.
- On September 24, 2018, Moody's downgraded Toronto Dominion Bank NY's issuer rating from Aa1 to Aa3 following the upgrade on July 16, 2018 from Aa2 to Aa1. Moody's also kept its issuer rating Outlook on Stable. The Credit Investment Committee put Toronto Dominion Bank on hold back in March, 2017 and kept them on hold through the upgrade and now the subsequent downgrade.

An ongoing credit analysis of all issuers owned in the Investment Pools is reviewed on a daily, monthly, quarterly, and annual basis.

**ORANGE COUNTY TREASURER - TAX COLLECTOR
MATURITIES DISTRIBUTION**

September 30, 2018

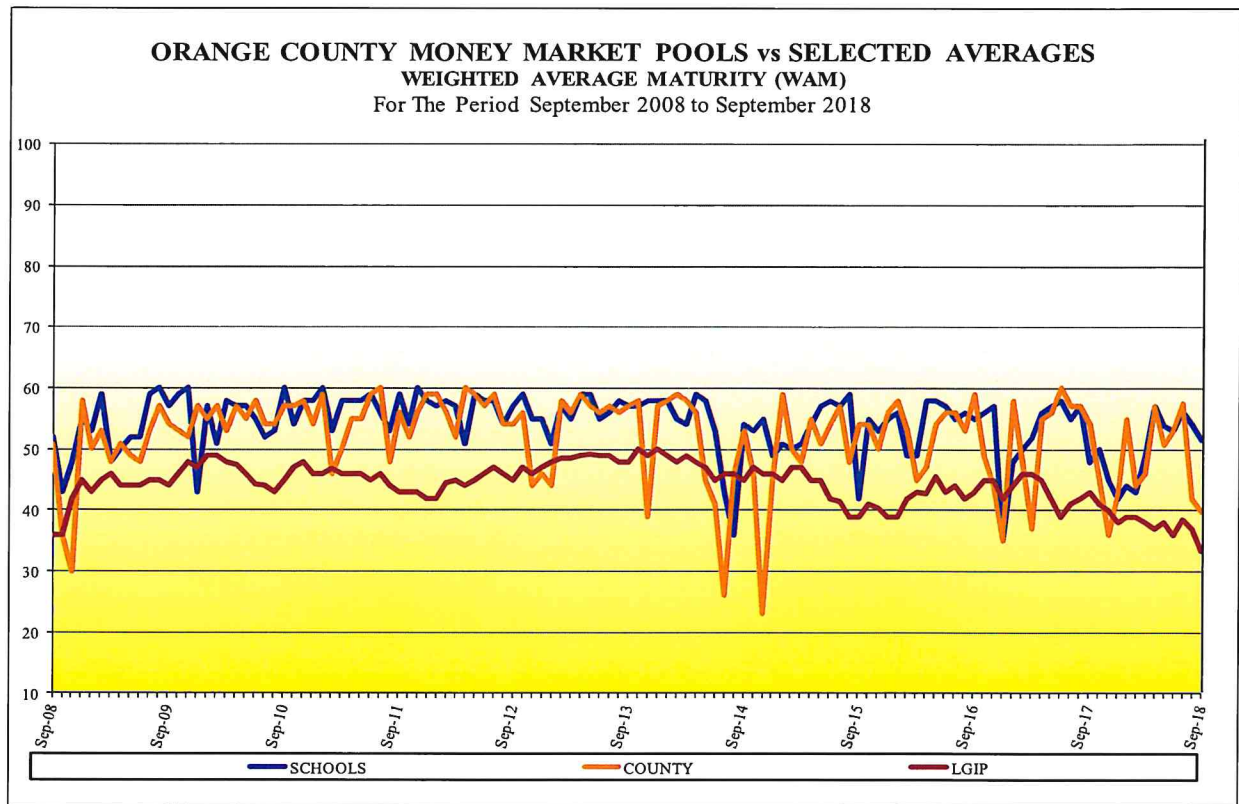
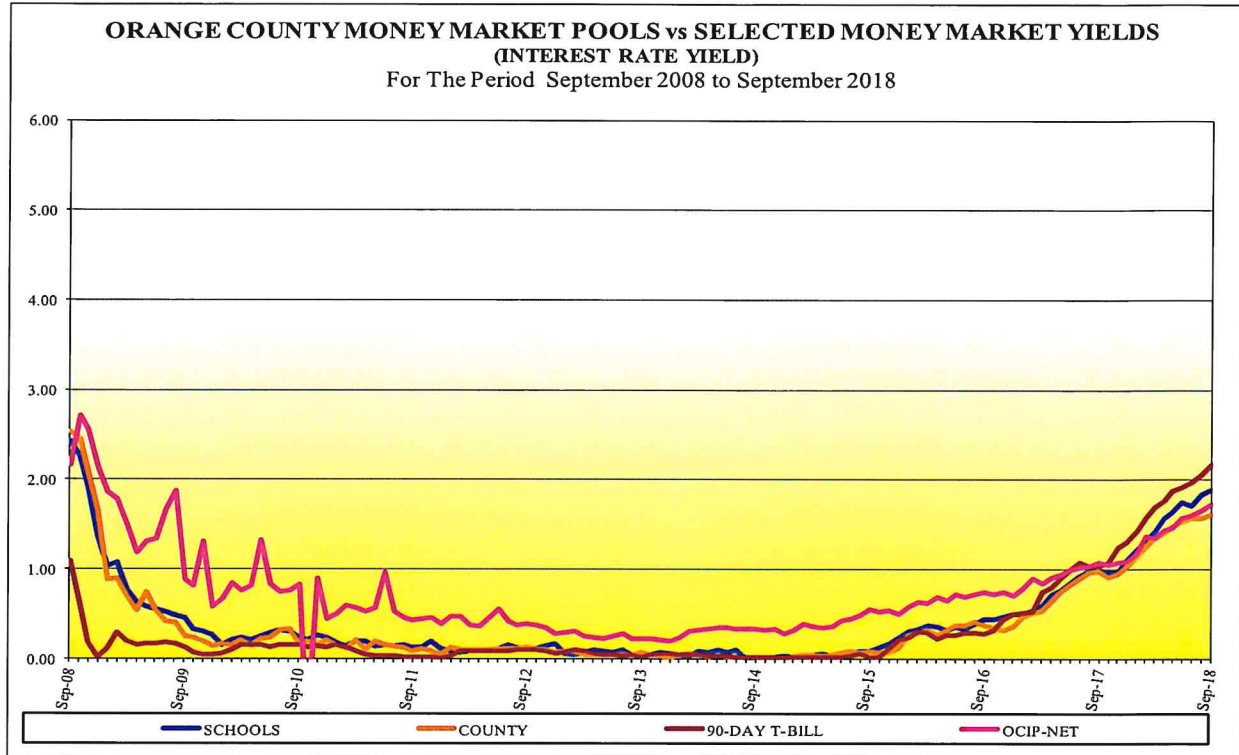


ORANGE COUNTY INVESTMENT POOL			
	In Thousands ⁽¹⁾		%
1 TO 30 DAYS	\$	452,450	11.93%
31 TO 180 DAYS		917,383	24.18%
181 TO 365 DAYS		904,980	23.86%
1 YEAR TO 2 YEARS		970,978	25.60%
2 YEARS TO 3 YEARS		459,191	12.10%
3 YEARS TO 5 YEARS		88,456	2.33%
TOTAL	\$	3,793,438	100.00%

ORANGE COUNTY EDUCATIONAL INVESTMENT POOL			
	In Thousands ⁽¹⁾		%
1 TO 30 DAYS	\$	554,497	12.49%
31 TO 180 DAYS		1,169,011	26.30%
181 TO 365 DAYS		1,053,985	23.71%
1 YEAR TO 2 YEARS		1,065,857	23.98%
2 YEARS TO 3 YEARS		504,061	11.34%
3 YEARS TO 5 YEARS		97,099	2.18%
TOTAL	\$	4,444,510	100.00%

JOHN WAYNE AIRPORT INVESTMENT FUND			
	In Thousands ⁽¹⁾		%
1 TO 30 DAYS	\$	13,639	29.42%
31 TO 180 DAYS		22,925	49.44%
181 TO 365 DAYS		9,800	21.14%
TOTAL	\$	46,364	100.00%

(1) Maturity limits are calculated using face value.



•For the Month Ended September 30, 2018, S&P LGIP – 1.98; S&P LGIP WAM -33; 90-Day T-Bill – 2.16; OCIP – Net – 1.70

ORANGE COUNTY TREASURER-TAX COLLECTOR
INVESTMENT POOL YIELDS
October 1, 2017 - September 30, 2018

PERIOD ENDING - MONTH / YEAR	MONTH END MARKET VALUE	EARNINGS FOR MONTH	GROSS AVERAGE YIELD FOR MONTH	MONTH END WAM
<i>Current Month September 2018</i>				
OCMMF	\$ 623,483,218	\$ 825,257	1.68%	40
OCEMMF	\$ 964,913,807	\$ 1,694,095	1.95%	51
Extended Fund	\$ 6,595,008,880	\$ 9,646,462	1.77%	420
<i>August 2018</i>				
OCMMF	\$ 659,580,340	\$ 768,838	1.64%	42
OCEMMF	\$ 1,135,219,335	\$ 2,041,031	1.90%	54
Extended Fund	\$ 6,595,429,549	\$ 9,597,798	1.69%	414
<i>July 2018</i>				
OCMMF	\$ 519,462,662	\$ 949,885	1.64%	58
OCEMMF	\$ 1,430,530,269	\$ 2,265,416	1.77%	56
Extended Fund	\$ 6,644,200,611	\$ 9,464,408	1.65%	432
<i>June 2018</i>				
OCMMF	\$ 763,523,217	\$ 1,395,560	1.60%	53
OCEMMF	\$ 1,586,960,674	\$ 2,142,715	1.81%	53
Extended Fund	\$ 6,600,606,705	\$ 8,820,686	1.60%	419
<i>May 2018</i>				
OCMMF	\$ 1,271,767,146	\$ 1,895,963	1.54%	51
OCEMMF	\$ 1,507,610,060	\$ 2,273,000	1.71%	54
Extended Fund	\$ 6,615,441,734	\$ 8,444,349	1.48%	414
<i>April 2018</i>				
OCMMF	\$ 1,677,026,990	\$ 2,621,771	1.47%	57
OCEMMF	\$ 1,715,592,154	\$ 1,887,341	1.64%	57
Extended Fund	\$ 6,661,112,140	\$ 8,045,347	1.46%	397
<i>March 2018</i>				
OCMMF	\$ 1,466,459,327	\$ 1,551,676	1.41%	46
OCEMMF	\$ 1,149,359,827	\$ 1,585,016	1.48%	49
Extended Fund	\$ 6,652,243,109	\$ 7,957,780	1.40%	415
<i>February 2018</i>				
OCMMF	\$ 1,396,683,700	\$ 1,284,889	1.32%	44
OCEMMF	\$ 1,273,494,829	\$ 1,464,904	1.37%	43
Extended Fund	\$ 6,647,720,511	\$ 7,473,044	1.46%	428
<i>January 2018</i>				
OCMMF	\$ 1,245,291,533	\$ 1,659,517	1.21%	55
OCEMMF	\$ 1,594,050,298	\$ 2,213,711	1.28%	44
Extended Fund	\$ 6,595,804,419	\$ 6,473,087	1.24%	423
<i>December 2017</i>				
OCMMF	\$ 2,128,947,374	\$ 2,182,701	1.10%	43
OCEMMF	\$ 2,136,417,171	\$ 1,446,683	1.17%	42
Extended Fund	\$ 5,906,097,678	\$ 6,050,707	1.18%	375
<i>November 2017</i>				
OCMMF	\$ 1,459,897,098	\$ 1,124,024	1.02%	36
OCEMMF	\$ 1,154,471,530	\$ 889,369	1.03%	45
Extended Fund	\$ 5,996,926,512	\$ 5,910,266	1.19%	399
<i>October 2017</i>				
OCMMF	\$ 1,387,117,541	\$ 983,038	0.97%	45
OCEMMF	\$ 1,008,484,106	\$ 1,026,340	1.03%	50
Extended Fund	\$ 5,975,091,002	\$ 5,972,076	1.17%	416
Fiscal Year July 1, 2018 - June 30, 2019	Average Month End Market Value Balance	YTD Interest Income	YTD Gross Yield	YTD Average
OCIP	\$ 3,755,932,995	\$ 16,279,102	1.69%	362
OCEIP	\$ 4,633,343,229	\$ 20,974,088	1.74%	329

ORANGE COUNTY TREASURER-TAX COLLECTOR

CASH AVAILABILITY PROJECTION

FOR THE SIX MONTHS ENDING MARCH 31, 2019

Government Code Section 53646 (b) (3), effective on January 1, 1996, requires the Treasurer-Tax Collector to include a statement in the investment report, denoting the ability of the Orange County Investment Pool (OCIP) and the Orange County Educational Investment Pool (OCEIP) to meet their expenditure requirements for the next six months.

The OCIP and OCEIP consist of funds in the treasury deposited by various entities required to do so by statute, as well as those entities voluntarily depositing monies in accordance with Government Code Section 53684.

The Treasurer-Tax Collector is required to disburse monies placed in the treasury as directed by the Auditor-Controller and the Department of Education, except for the making of legal investments, to the extent funds are transferred to one or more clearing funds in accordance with Government Code Section 29808.

The Treasurer-Tax Collector, in her projection of cash availability to disburse funds as directed by the Auditor-Controller and the Department of Education, is primarily relying on historical trends involving deposits and withdrawals and known future cash flows. No representation is made as to an individual depositor's ability to meet their anticipated expenditures with anticipated revenues.

The Cash Availability Projection for the six months ending March 31, 2019, indicates the ability of the pools to meet projected cash flow requirements. However, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected and those differences may be material.

ORANGE COUNTY INVESTMENT POOL				
Month	Investment Maturities	Projected Deposits	Projected Disbursements	Cumulative Available Cash
September 2018 - Ending Cash				\$ 13,073,741
October	\$ 592,475,611	\$ 1,018,225,375	\$ 503,035,507	1,120,739,220
November	255,710,602	1,236,786,012	1,202,407,571	1,410,828,263
December	193,902,697	2,549,658,591	1,943,355,681	2,211,033,870
January	186,782,013	581,211,495	1,350,588,322	1,628,439,056
February	114,041,586	470,192,052	285,246,985	1,927,425,709
March	86,805,275	736,245,907	637,743,238	2,112,733,653

ORANGE COUNTY EDUCATIONAL INVESTMENT POOL				
Month	Investment Maturities	Projected Deposits	Projected Disbursements	Cumulative Available Cash
September 2018 - Ending Cash				\$ 3,544,545
October	\$ 940,181,113	\$ 403,046,097	\$ 740,311,927	606,459,828
November	267,595,194	801,604,789	698,090,277	977,569,534
December	112,111,379	1,448,480,824	488,718,171	2,049,443,566
January	229,700,178	642,968,187	939,811,598	1,982,300,333
February	125,404,462	276,125,850	669,859,971	1,713,970,674
March	146,962,496	535,053,767	717,707,481	1,678,279,456

ORANGE COUNTY TREASURER-TAX COLLECTOR
STATEMENT OF ACCOUNTABILITY
For the Month and Quarter Ended September 30, 2018

	<u>Month</u>	<u>Quarter</u>
Treasurer's Accountability at the Beginning of the Period:	\$ 8,557,204,624	\$ 9,387,613,004
Cash Receipts:		
County	418,883,165	1,313,730,591
School and Community College Districts	550,738,587	1,099,406,981
Total Cash Receipts	<u>969,621,752</u>	<u>2,413,137,572</u>
Cash Disbursements:		
County	397,918,907	1,522,804,295
School and Community College Districts	626,734,275	1,776,316,372
Total Cash Disbursements	<u>1,024,653,182</u>	<u>3,299,120,667</u>
Net Change in Cost Value of Pooled Assets	<u>(55,031,430)</u>	<u>(885,983,095)</u>
Net Increase (Decrease) in Non-Pooled Investments	98,587	(572,616)
Net (Decrease) Increase in Non-Pooled Cash	<u>(965,405)</u>	<u>249,083</u>
Treasurer's Accountability at the End of the Period:	<u>\$ 8,501,306,376</u>	<u>\$ 8,501,306,376</u>
Assets in the Treasury at the End of the Period (at Cost Value):		
Pooled Investments:		
Orange County Investment Pool		\$ 3,788,593,504
Orange County Educational Investment Pool		4,439,156,895
Total Pooled Investments		<u>8,227,750,399</u>
Non-Pooled Investments:		
Non-Pooled Investments - John Wayne Airport		46,294,341
Non-Pooled Investments - Fountain Valley School District Fund 40		34,790,770
Non-Pooled Investments - CCCD Series 2017E Bonds		20,381,788
Total Non-Pooled Investments		<u>101,466,899</u>
Cash and Cash Equivalent:		
Cash in banks - County ⁽¹⁾		52,955,818
Cash in banks - Schools ⁽¹⁾		96,025,209
Cash in banks - OC Sheriff		15,210,787
Cash in banks - John Wayne Airport ⁽¹⁾		7,784,029
Cash - Other		113,235
Total Cash		<u>172,089,078</u>
Total Assets in the Treasury at the End of the Period:		<u>\$ 8,501,306,376</u>

⁽¹⁾ Balances include investments matured on 9/30/2018 (Sunday), but cash was not received until 10/1/218 (Monday).

**ORANGE COUNTY TREASURER-TAX COLLECTOR
INVESTMENT POLICY (IPS) COMPLIANCE SUMMARY
September 30, 2018**

Investment Policy (IPS) Guidelines		Orange County Money Market Fund		Extended Fund		Orange County Educational Money Market Fund		John Wayne Airport Investment Fund	
Diversification Limit	Investment Type	Market Value of Investments ⁽¹⁾	Percent of Portfolio	Market Value of Investments ⁽¹⁾	Percent of Portfolio	Market Value of Investments ⁽¹⁾	Percent of Portfolio	Market Value of Investments ⁽¹⁾	Percent of Portfolio
100%	U.S. Treasuries Securities	\$ 99,792,187	16.01%	\$ 1,779,349,012	26.98%	\$ 218,731,481	22.67%	\$ 30,192,810	65.26%
100%	U.S. Government Agency Securities	384,190,332	61.62%	3,749,597,469	56.86%	659,287,442	68.32%	16,030,421	34.65%
30%	Municipal Debt	-	0.00%	355,386,457	5.39%	-	0.00%	-	0.00%
30%	Medium-Term Notes	37,290,297	5.98%	610,553,671	9.26%	76,110,709	7.89%	-	0.00%
40%	Banker Acceptances	-	0.00%	-	0.00%	-	0.00%	-	0.00%
40%	Commercial Paper	-	0.00%	-	0.00%	-	0.00%	-	0.00%
30%	Negotiable Certificates of Deposits	-	0.00%	39,830,400	0.60%	-	0.00%	-	0.00%
\$65MM	Local Agency Investment Fund (LAIF)	-	0.00%	60,291,871	0.91%	-	0.00%	-	0.00%
20%	Repurchase Agreements	-	0.00%	-	0.00%	-	0.00%	-	0.00%
20%	Money Market Mutual Funds	102,210,402	16.39%	-	0.00%	10,784,175	1.12%	39,254	0.09%
20%	Investment Pools	-	0.00%	-	0.00%	-	0.00%	-	0.00%
30%	Supranationals	-	0.00%	-	0.00%	-	0.00%	-	0.00%
		\$ 623,483,218	100.00%	\$ 6,595,008,880	100.00%	\$ 964,913,807	100.00%	\$ 46,262,485	100.00%

Investment Policy (IPS) Guidelines	Compliance Category (Yes/No)	Orange County Money Market Fund	Extended Fund	Orange County Educational Money Market Fund	John Wayne Airport Investment Fund
5%	Percentage Limits				
20%	Issuer Limit	Yes	Yes	Yes	Yes
50%	Money Market Mutual Fund Issuer	Yes ⁽²⁾	N/A	Yes ⁽²⁾	Yes
See Above	Government Agencies Issuer	Yes ⁽⁴⁾	Yes ⁽⁴⁾	Yes ⁽⁴⁾	Yes ⁽⁴⁾
	Diversification Limit	Yes	Yes	Yes	Yes
60 Days	Maturity/Duration Limits				
90 Days	Weighted Average Maturity - Money Market Fund	Yes/39.84	N/A	Yes/51.49	N/A
>Merrill 1-3 Year Index+25% (2.32)	Weighted Average Maturity - JWA Investment Fund	N/A	N/A	N/A	Yes/85.77
13 Months/397 days	Duration ⁽³⁾	N/A	Yes/1.13	N/A	N/A
15 Months/458 days	Final Maturity - Money Market Fund	Yes/319	N/A	Yes/319	N/A
5 Years/1826 days	Final Maturity - John Wayne Airport Investment Fund	N/A	N/A	N/A	Yes/361
	Final Maturity - Extended Fund	N/A	Yes/1440	N/A	N/A
A-1/≥ A	Rating Limits				
≥ A-1/P-1/F2	Money Market Fund Short Term/Long Term	Yes	N/A	Yes	Yes
A-1/≥ AA ⁽²⁾	Short Term Debt/No Split Ratings	Yes	N/A	Yes	Yes
Approved Issuer List	Extended Fund Short Term/Long Term	N/A	Yes	N/A	N/A
Broker/Dealer List	Authorized Issuer	Yes	Yes	Yes	Yes
0.995 - 1.005	Authorized Financial Dealer/Institution	Yes	Yes	Yes	Yes
	Net Asset Value - Money Market Fund and JWA	Yes/0.9998	N/A	Yes/1.0000	Yes/1.0001

(1) All investments are marked to market in compliance with the narrow valuation range prescribed by the IPS and market values are provided by Bloomberg Professional Services and Northern Trust.

(2) Excludes US Government Debt per the 2018 IPS policy approved by the Board of Supervisors on November 14, 2017 effective on January 1, 2018.

(3) Rating Agency requirements limit investment in each Money Market Mutual Fund to 10%.

(4) GSE Issuers rated 'AA-' or higher with final maturities of 30 days or less are excluded from the calculation of the 50% limit per IPS for the Extended Fund and the JWA Investment Fund and from the Rating Agency limit of 33% for the two Money Market Funds.

(5) IPS states all pools, except short-term pools, shall have an effective duration not to exceed a leading 1-3 year index +25%. Duration provided above (1.13) is a modified duration, which does not take into consideration all embedded options such as callable bonds. This presentation is not considered materially different from the effective duration requirement specified in IPS.

Note: Compliance exceptions, if any, are noted by red shading for the specific IPS guideline and investment pool.

ORANGE COUNTY TREASURER-TAX COLLECTOR
INVESTMENT POLICY (IPS) AND TREASURY OVERSIGHT COMMITTEE (TOC) COMPLIANCE SUMMARY
September 30, 2018

COMPLIANCE CATEGORY	RESPONSIBLE PARTY	REGULATORY/POLICY GUIDELINES	CURRENT STATUS
Annual Compliance Audit	TOC	Performance Evaluation-Cal Govt. Code 27134	Calendar year 2016 and six months ended 6/30/17 in progress.
Quarterly Schedule of Assets Review	AC	Performance Evaluation-Cal Govt. Code 26920(a)	March 31, 2018 and June 30, 2018 in progress.
Annual Schedule of Assets Audit	AC	Performance Evaluation-Cal Govt. Code 26920(b)	June 30, 2017 in progress.
Quarterly Continuous Compliance Auditing	TOC	TOC Directive	June 30, 2018 completed. September 30, 2018 in progress.
Investment Administrative Fee	TTC	Compensation Agreement-Cal Govt. Code 27013	FY 16/17 and FY 17/18 in progress.
Annual Broker/Dealer Review	TTC	Authorized Financial Dealers and Qualified Institutions	Calendar year 2017 in progress.
Annual Broker/Dealer IPS Certification	TTC	Authorized Financial Dealers and Qualified Institutions	All 2018 IPS certifications received for active approved brokers.
IPS Compliance Deficiencies	TTC	Investment/Diversification/Maturity Restrictions/Form 700	FY 18/19 identified two compliance incidents as of September 30, 2018.
TOC Bylaw Changes	BOS	TOC Review and BOS Annual Approval	The TOC reviewed Bylaws and made one change at the October 18, 2017 meeting. The BOS approved on November 14, 2017.
Annual IPS Approval	BOS	TOC Review and BOS Annual Approval	The TOC reviewed proposed IPS changes at the October 18, 2017 meeting and did not make any additional changes. The BOS approved on November 14, 2017.
TOC Annual Report	BOS	TOC Bylaws Rule 30 - Oral and Written Report	The TOC 2017 Annual Report was presented to BOS meeting on February 27, 2018.
Broker/Financial Institution List	TTC	OC Gift Ban Ordinance and Form 700	The TOC members were provided a list of active TTC Broker/Dealers and Financial Institutions at the TOC meeting on October 18, 2017.
Certificates of Compliance	TTC	TOC Bylaws Rule 34 - Annual	The TOC members are in compliance for calendar year 2018.
Ethics Training	TTC	TOC Bylaws Rule 34 - Every Two Years	The TOC members are in compliance for calendar year 2016 (one submitted in January 2017).
Conflict of Interest Form 700 Filing	TTC	TOC Bylaws Rule 34 / IPS - Every Year	All TOC members and designated employees are in compliance for calendar year 2017.

LEGEND	
Auditor-Controller	AC
Board of Supervisors	BOS
Treasury Oversight Committee	TOC
Office of Treasurer-Tax Collector	TTC

**Orange County Treasurer-Tax Collector
Noncompliance Detail
For the Month Ended September 30, 2018**

During September, the Orange County Investment Pool (OCIP), the Orange County Educational Investment Pool (OCEIP), and the John Wayne Airport Investment Fund were all free of noncompliance incidents.



Orange County Auditor-Controller Internal Audit



Compliance Monitoring of the
Treasurer's Investment Portfolio for the
Quarter Ended June 30, 2018

Audit Number 1723
Report Date: September 11, 2018



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
I N T E R N A L A U D I T

Eric H. Woolery, CPA
Orange County Auditor-Controller

Lily Chin, CPA, CGMA	Audit Manager II
Michael Steinhaus, CPA, CGMA	Audit Manager I
Nancy Ramos	Auditor I

12 Civic Center Plaza, Room 200
Santa Ana, CA 92701

Auditor-Controller Website
www.ac.ocgov.com



ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Audit No. 1723

September 11, 2018

TO: Members, Treasury Oversight Committee

SUBJECT: Compliance Monitoring of the Treasurer's Investment Portfolio
For the Quarter Ended June 30, 2018

At the request of the Treasury Oversight Committee, we have completed the Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended June 30, 2018.

Please feel free to call me at (714) 834-2456 or Lily Chin, Audit Manager II, at (714) 834-4096, should you wish to discuss any aspect of our report.

Eric H. Woolery, CPA
Auditor-Controller

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Shari L. Freidenrich, Treasurer-Tax Collector
- Frank Kim, County Executive Officer
- Larry Walker, Assistant Treasurer-Tax Collector
- Gary Nguyen, Director of Investments, Treasurer-Tax Collector – Treasury
- JC Squires, Financial Manager, Treasurer-Tax Collector – Treasury
- Jennifer Han, Accounting/Compliance Manager, Treasurer-Tax Collector – Treasury
- Robin Stieler, Clerk of the Board of Supervisors
- Foreperson, Grand Jury
- Vavrinek, Trine, Day & Co., LLP, County External Auditor



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Treasurer's Investment Portfolio
For the Quarter Ended June 30, 2018
Audit No. 1723*

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Internal Auditor's Report

Audit No. 1723

September 11, 2018

Richard Rohm, CPA, Chair, Public Member
Treasury Oversight Committee
625 North Ross Street, Building 11
Santa Ana, California 92701

We have completed the compliance monitoring of the Treasurer's Investment Portfolio for the quarter ended June 30, 2018. The purpose of our engagement was to determine whether the Orange County Investment Pool (OCIP), Orange County Educational Investment Pool (OCEIP), and various other non-pooled investments managed by the Treasurer, such as John Wayne Airport Investment Fund, were in compliance with the applicable provisions of its Investment Policy Statement (IPS) and that instances of noncompliance, including technical incidents, were properly reported in the Treasurer's Monthly Investment Report. It is important to note that the Treasurer further invests pooled funds from the OCIP and OCEIP into three funds: the Orange County Money Market Fund (OCMMF), the Orange County Educational Money Market Fund (OCEMMF) (collectively referred to as Money Market Funds), and the Extended Fund.

We perform the compliance monitoring of the Treasurer's investment portfolio at the request of the Treasury Oversight Committee. The monitoring is designed to provide limited assurance to the Treasury Oversight Committee and the Office of the Treasurer-Tax Collector that the Treasurer's investment portfolio complies with specific provisions of the IPS, and that instances of noncompliance are properly reported.

Our compliance procedures included judgmentally selecting five business days for testing from each month and importing the selected electronic downloads from the Treasurer's Quantum system into ACL, a computer-assisted audit technique software, to perform calculations and determine whether investment purchases complied with the IPS.

Based on the procedures performed, **no instances of noncompliance were identified**. When applicable, our report also includes information regarding the Treasurer's reporting of technical incidents in the Treasurer's Monthly Investment Reports. The Treasurer defines a technical incident as an event, other than the purchase of a security, which causes an IPS limit to be exceeded. The most common cause of a technical incident is when the total investment pool holdings decrease causing the relative percentage of holdings to increase.



Internal Auditor's Report

The following lists the procedures performed and results achieved:

1. **Authorized Investments (IPS Section VI, VII, VIII, IX, XI):** We judgmentally selected a sample of 15 investments purchased during the quarter (one investment for each of the 15 business days selected for testing). For the samples selected, we confirmed that the investments conform to authorized investment requirements in accordance with the IPS. We also confirmed that the investments were purchased from issuers or brokers on the Treasurer's authorized lists.

Results: We found no exceptions.

2. **Diversification Compliance (IPS Section VIII.1):** We performed calculations to determine that the Money Market and Extended Fund portfolios met the diversification limits for investment types in accordance with the IPS, and that the John Wayne Airport Investment Fund met those diversification limits as well.

Results: We found no exceptions.

3. **Weighted Average Maturity (WAM) Limitations (IPS Section VIII.2):** We performed calculations to determine that WAM did not exceed 60 days for the Money Market Funds in accordance with the IPS, and that WAM did not exceed 90 days for the John Wayne Airport Investment Fund.

Results: We found no exceptions.

4. **Maximum Maturity Limitations (IPS Section VIII.2):** We confirmed that the maximum maturity of any portfolio instrument purchased did not exceed 397 days for Money Market Funds, five years for US treasury, government sponsored enterprise, and municipal debt securities, and three years for medium-term notes and negotiable certificates of deposits for the Extended Fund in accordance with the IPS, and that the maximum maturity did not exceed 15 months for the John Wayne Airport Investment Fund.

Results: We found no exceptions.

5. **Investment Type Maximum Maturity Limitations (IPS Section VIII.1):** We confirmed that the maximum maturity of investments purchased for commercial paper, bankers' acceptances, and repurchase agreements did not exceed 270 days for commercial paper, 180 days for bankers' acceptances, or one year for repurchase agreements in accordance with the IPS.

Results: We found no exceptions.

6. **Issuer Limitations (IPS Section VIII.1):** We performed calculations to determine that the Money Market and Extended Fund portfolios did not exceed the investment limits for issuers in accordance with the IPS, and that the John Wayne Airport Investment Fund did not exceed those investment limits.

Results: We found no exceptions.



Internal Auditor's Report

7. **Financial Reporting (IPS Section XXI):** We reviewed the investment portfolio for a sample of 15 business days to determine that any instances of non-compliance or technical incidents were properly reported in the Treasurer's Monthly Investment Report in accordance with the IPS.

Results: We found no exceptions.

This report is intended solely for the information and use of the Treasury Oversight Committee and the Office of the Treasurer-Tax Collector; however, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in blue ink, reading "Eric H. Woolery", is positioned below the text "Respectfully submitted,".

Eric H. Woolery, CPA
Auditor-Controller

MONTHLY TREASURER'S INVESTMENT REPORT

Distribution List

County of Orange Elected Officials

Honorable Sandra Hutchens, Sheriff-Coroner
Honorable Hugh Nguyen, Clerk-Recorder
Honorable Claude Parrish, Assessor
Honorable Anthony J. Rackauckas, Jr., District Attorney/Public Administrator
Honorable Eric Woolery, Auditor-Controller

Treasury Oversight Committee

Gary Capata
Alisa Cutchen
Frank Kim
Al Mijares
Laura Parisi
Richard Rohm
Eric Woolery

County of Orange Departments

Assessor
Auditor-Controller
Child Support Services
Clerk of the Board
Clerk-Recorder
County Counsel
County Executive Office
District Attorney/Public Administrator
Health Care Agency
Human Resources Services
Independent Review
In-Home Supportive Services
John Wayne Airport
OC Community Resources
OC Dana Point Harbor
OC Public Works
OC Waste & Recycling
Performance Audit
Probation
Public Defender
Registrar of Voters
Sheriff-Coroner
Social Services Agency

County Agencies

Children & Families Commission
Civic Center Commission
Law Library
Orange County Employees Retirement System
Orange County Cemetery District
Orange County Fire Authority
Orange County Transportation Authority
Transportation Corridor Agencies

State of California

CDIAC
Superior Court

Orange County School Districts

Orange County Department of Education
Anaheim City School District
Anaheim Union High School District
Brea-Olinda Unified School District
Buena Park School District
Capistrano Unified School District

Centralia School District
Cypress School District
Fountain Valley School District
Fullerton School District
Fullerton Joint Union High School District
Garden Grove Unified School District
Huntington Beach City School District
Huntington Beach Union High School District
Irvine Unified School District
Laguna Beach Unified School District
La Habra City School District
Los Alamitos Unified School District
Lowell Joint School District
Magnolia School District
Newport-Mesa Unified School District
Ocean View School District
Orange Unified School District
Placentia-Yorba Linda Unified School District
Saddleback Valley Unified School District
Santa Ana Unified School District
Savanna School District
Tustin Unified School District
Westminster School District

Orange County Community College Districts (CCD)

Coast Community CCD
North Orange County CCD
Rancho-Santiago CCD
South Orange County CCD

Orange County Regional Occupational Programs (ROP)

Capistrano-Laguna Beach ROP
Coastline ROP
North Orange County ROP

Voluntary Pool Participants (date approved)

Serrano Water District (6-22-99)
City of Villa Park (10-2-01)
City of Tustin (5-21-02)
Mesa Water District (8-9-02)
Orange County Water District (3-30-04)
Municipal Water District of OC (7-27-04)
Orange County Mosquito and Vector Control District (11-14-06)
Buena Park Library District (2-9-10)
Local Agency Formation Commission (10-5-10)
Villa Park Community Services Foundation (4-5-11)
City of Laguna Niguel (3-13-14)
City of Lake Forest (12-16-15)
Foothill/Eastern TCA (10-14-16)
San Joaquin Hills TCA (10-14-16)
Foothill/Eastern TCA/RCC (11-17-16)
City of Laguna Woods (5-10-17)
City of Mission Viejo (10-2-17)
Placentia Library District (10-16-17)



October 24, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Orange County Transportation Authority Investment and Debt Programs Report - September 2018

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 September 30, 2018. 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

As of September 30, 2018, the Orange County Transportation Authority's (OCTA) outstanding investments totaled \$1.5 billion. The portfolio is divided into two managed portfolios: the liquid portfolio for immediate cash needs and the short-term portfolio for future budgeted expenditures. 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 the OCTA portfolio is 2.2 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.

OCTA's debt portfolio had an outstanding principal balance of \$573 million as of September 30, 2018. Approximately 54 percent of the outstanding balance is

comprised of Measure M2 debt, 17 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 September 30, 2018.

Attachment

- A. Orange County Transportation Authority Investment and Debt Programs
– For the Period Ending September 30, 2018.

Prepared by:



Jennifer Matano
Department Manager
Treasury/Public Finance
(714) 560-5563

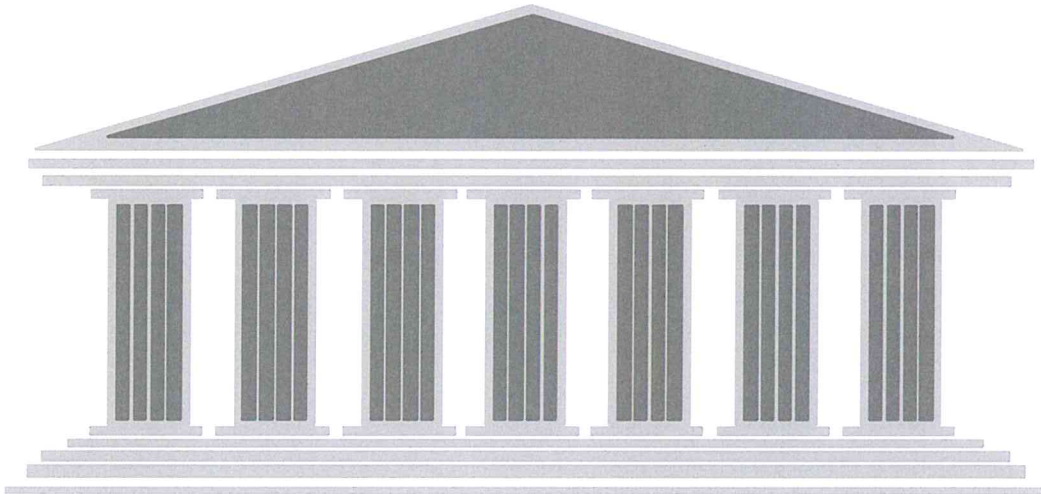
Approved by:



Andrew Oftelie
Executive Director,
Finance and Administration
(714) 560-5649

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

**Orange County Transportation Authority
Investment and Debt Programs**



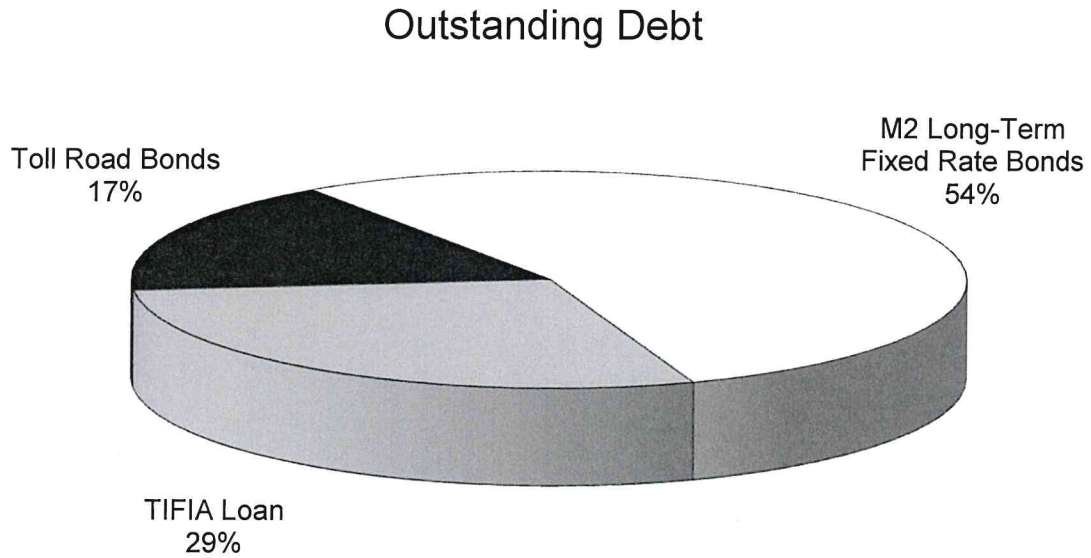
**Presented to the
Finance and Administration Committee**

**For The Period Ending
September 30, 2018**

DEBT PROGRAM

Total Outstanding Debt

As of 9/30/18



TOTAL OUTSTANDING DEBT: \$573,030,000

Outstanding Debt

As of 9/30/18

Orange County Local Transportation Authority (OCLTA-M2)

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

Issued:	\$	293,540,000
Outstanding:		293,540,000
Debt Service FY 2019:		12,922,317
Pledged Revenue Source:	M2 Sales Tax Revenues	
Ratings		Aa2/AA+/AA+
Final Maturity		2041

2010 Series B Tax-Exempt Sales Tax Revenue Bonds

Issued:	\$	59,030,000
Outstanding:		16,695,000
Debt Service FY 2019:		8,914,350
Pledged Revenue Source:	M2 Sales Tax Revenues	
Ratings		Aa2/AA+/AA+
Final Maturity		2020

91 Express Lanes

2013 OCTA 91 Express Lanes Refunding Bonds

Issued:	\$	124,415,000
Outstanding:		97,795,000
Debt Service FY 2019:		10,796,325
Pledged Revenue Source:	91 Toll Road Revenues	
Underlying Ratings		A1/AA-/A
Final Maturity		2030

405 Express Lanes

2017 TIFIA Loan

Outstanding:	\$	165,000,000
Accrued Debt Service FY 2019:	\$	7,514,815
Pledged Revenue Source:	405 Toll Road Revenues	
Ratings		Baa2
Final Maturity		2057

INVESTMENT PROGRAM

Investment Profile

9/30/2018

<u>Portfolio Manager</u>	<u>Depository</u>	<u>Role</u>	<u>Type of Investment</u>	<u>Amount (\$ Millions)</u>
<i>ACTIVELY MANAGED INVESTMENTS</i>				
Logan Circle Partners	Union Bank	Custodian	Short-Term Operating	345.9
Chandler Asset Management	Union Bank	Custodian	Short-Term Operating	347.9
Payden & Rygel Investment Counsel	Union Bank	Custodian	Short-Term Operating	348.2
Public Financial Management (PFM)	Union Bank	Custodian	Short-Term Operating	347.7
<i>POOLED INVESTMENTS</i>				
California State Treasurer	LAIF	Custodian	Liquid	10.4
Orange County Treasurer	OCIP	Custodian	Legal Requirement	13.9
<i>CASH INVESTMENTS</i>				
OCTA	BNY Mellon	Trustee	Liquid	62.3
OCTA	Bank of the West	Broker	Liquid	19.6
OCTA	U.S Bank	Trustee	Liquid	0.0
<i>DEBT SERVICE RESERVE FUNDS</i>				
91 Express Lanes 2013 Ref. Bonds	U.S Bank	Trustee	Commercial Paper	11.0
91 Express Lanes 2013 Ref. Bonds	Bank of the West	Trustee	Commercial Paper	10.2
91 Express Lanes 2013 Ref. Bonds	Bank of the West	Trustee	Commercial Paper	3.1
Bank Deposits/Cash				0.4
TOTAL				\$1,520.7

Short-Term Portfolio - \$1.39 Billion

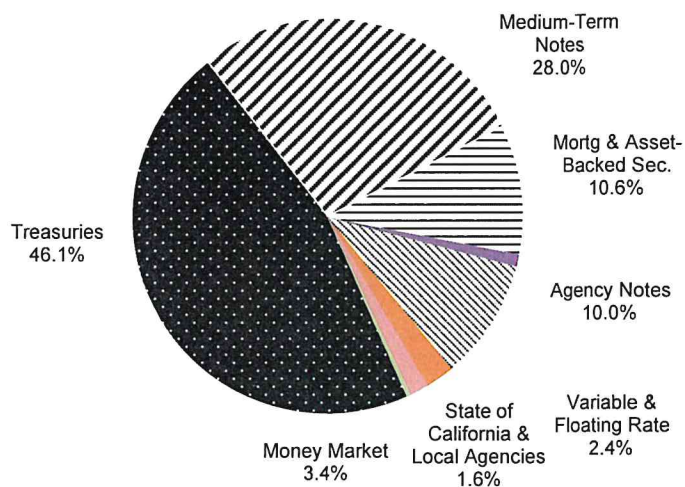
As of 9/30/18

Part 1 of 2

Logan Circle Partners

Book Value \$ 345,904,677

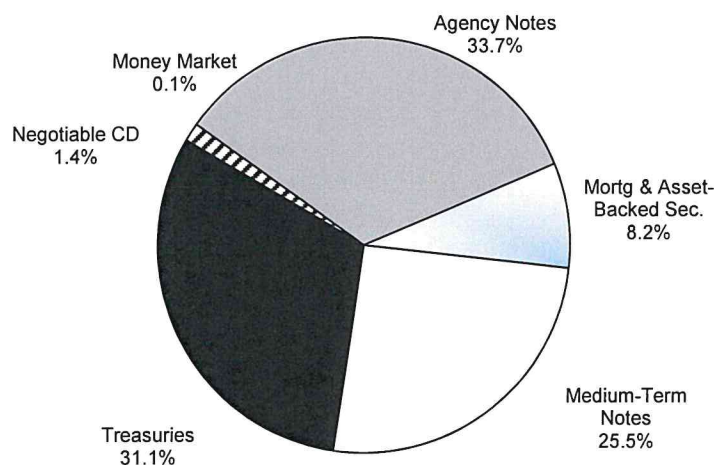
Market Value \$ 343,184,603



Chandler Asset Management

Book Value \$ 347,913,605

Market Value \$ 344,011,297



Market Value Reported By Custodial Bank

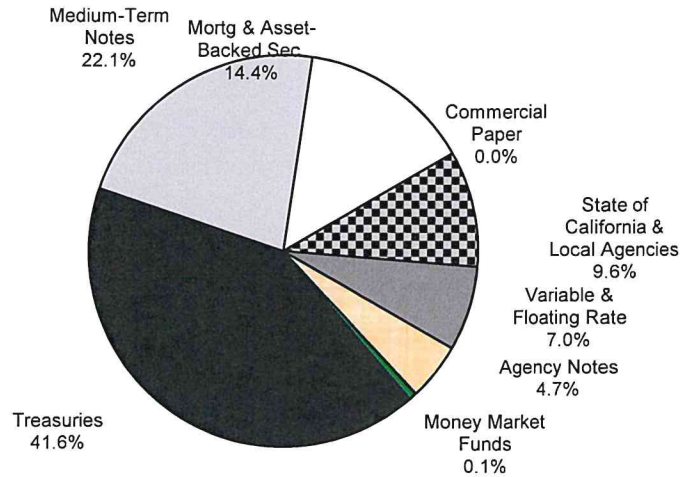
Short-Term Portfolio - \$1.39 Billion

As of 9/30/18

Part 2 of 2

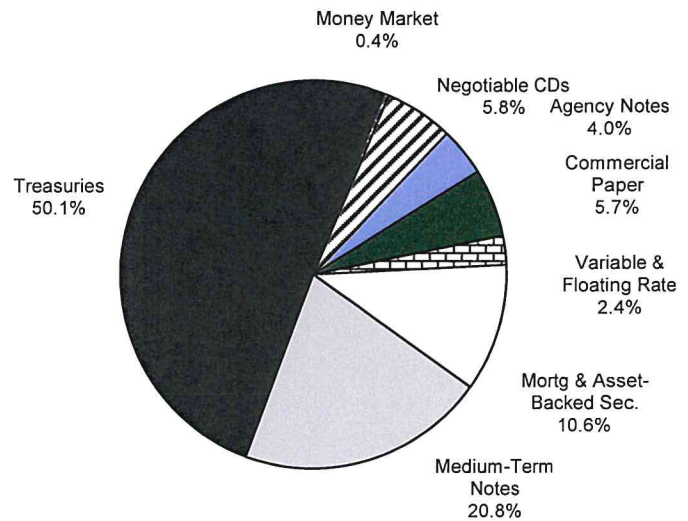
Payden & Rygel

Book Value	\$	348,228,831
Market Value	\$	345,262,670



Public Financial Management (PFM)

Book Value	\$	347,710,290
Market Value	\$	344,340,966



Market Value Reported By Custodial Bank

Short-Term Portfolio Maturity Schedule

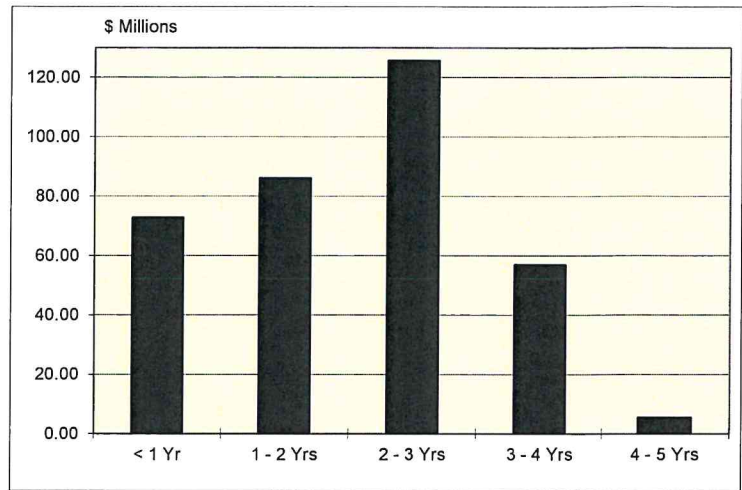
As of 9/30/18

Logan Circle Partners (\$345.9 M)

Monthly Return -0.04%
 TSY Benchmark -0.12%
 Gov/Corp Benchmark -0.08%

Fiscal YTD Return 0.36%
 TSY Benchmark 0.19%
 Gov/Corp Benchmark 0.30%

12 Month Return 0.43%
 TSY Benchmark 0.04%
 Gov/Corp Benchmark 0.20%

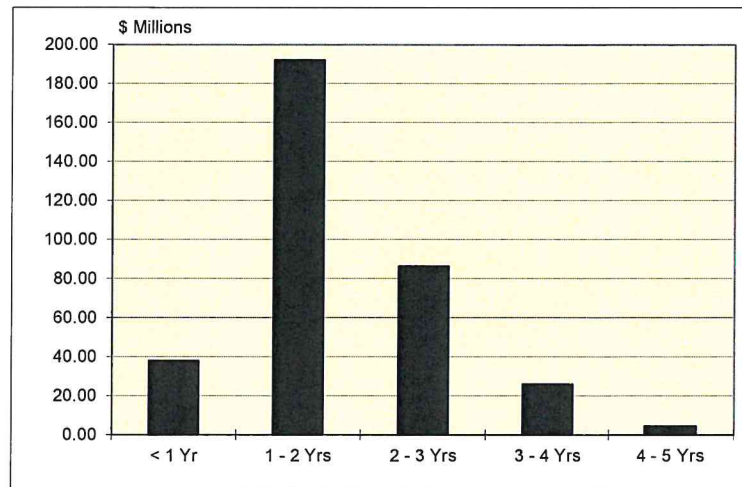


Chandler Asset Management (\$347.9 M)

Monthly Return -0.03%
 Benchmark Comparison -0.12%
 Gov/Corp Benchmark -0.08%

Fiscal YTD Return 0.39%
 TSY Benchmark 0.19%
 Gov/Corp Benchmark 0.30%

12 Month Return 0.38%
 TSY Benchmark 0.04%
 Gov/Corp Benchmark 0.20%



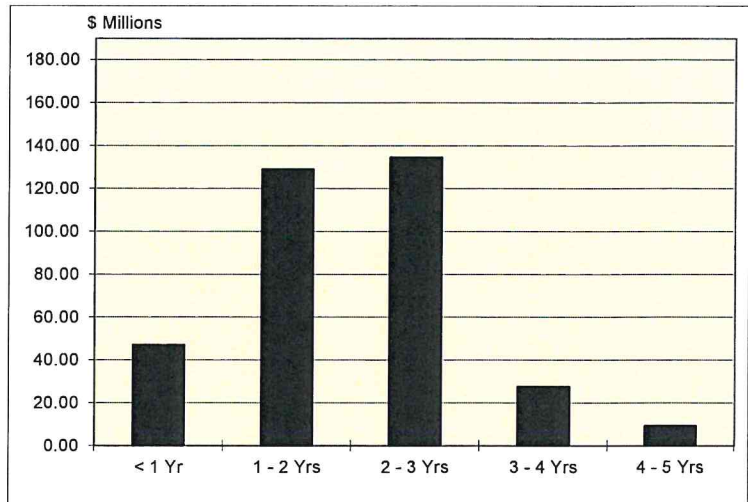
Yield Curve Change From 8/31/18 to 9/30/18			
	8/31/18	9/30/18	Change
1 Year	2.450%	2.567%	0.1170%
2 Year	2.628%	2.821%	0.1930%
3 Year	2.693%	2.884%	0.1910%
5 Year	2.739%	2.954%	0.2150%
30 Year	3.020%	3.206%	0.1860%

Short-Term Portfolio Maturity Schedule

As of 9/30/18

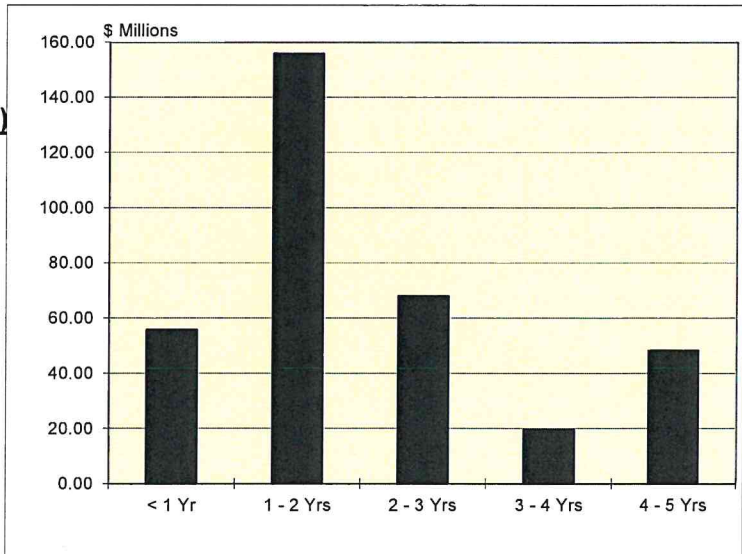
Payden & Rygel (\$348.2 M)

Monthly Return	0.01%
TSY Benchmark	-0.12%
Gov/Corp Benchmark	-0.08%
Fiscal YTD Return	0.44%
TSY Benchmark	0.19%
Gov/Corp Benchmark	0.30%
12 Month Return	0.67%
TSY Benchmark	0.04%
Gov/Corp Benchmark	0.20%



Public Financial Management (\$347.7 M)

Monthly Return	-0.04%
TSY Benchmark	-0.12%
Gov/Corp Benchmark	-0.08%
Fiscal YTD Return	0.39%
TSY Benchmark	0.19%
Gov/Corp Benchmark	0.30%
12 Month Return	0.39%
TSY Benchmark	0.04%
Gov/Corp Benchmark	0.20%

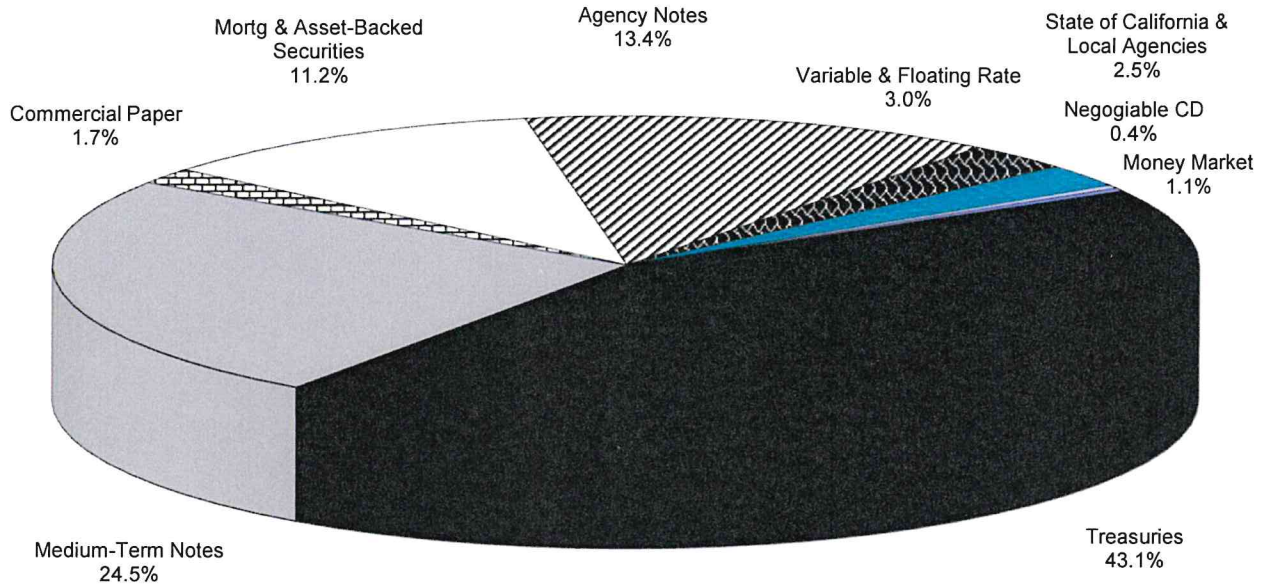


Yield Curve Change From 8/31/18 to 9/30/18			
	8/31/18	9/30/18	Change
1 Year	2.450%	2.567%	0.1170%
2 Year	2.628%	2.821%	0.1930%
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5 Year	2.739%	2.954%	0.2150%
30 Year	3.020%	3.206%	0.1860%

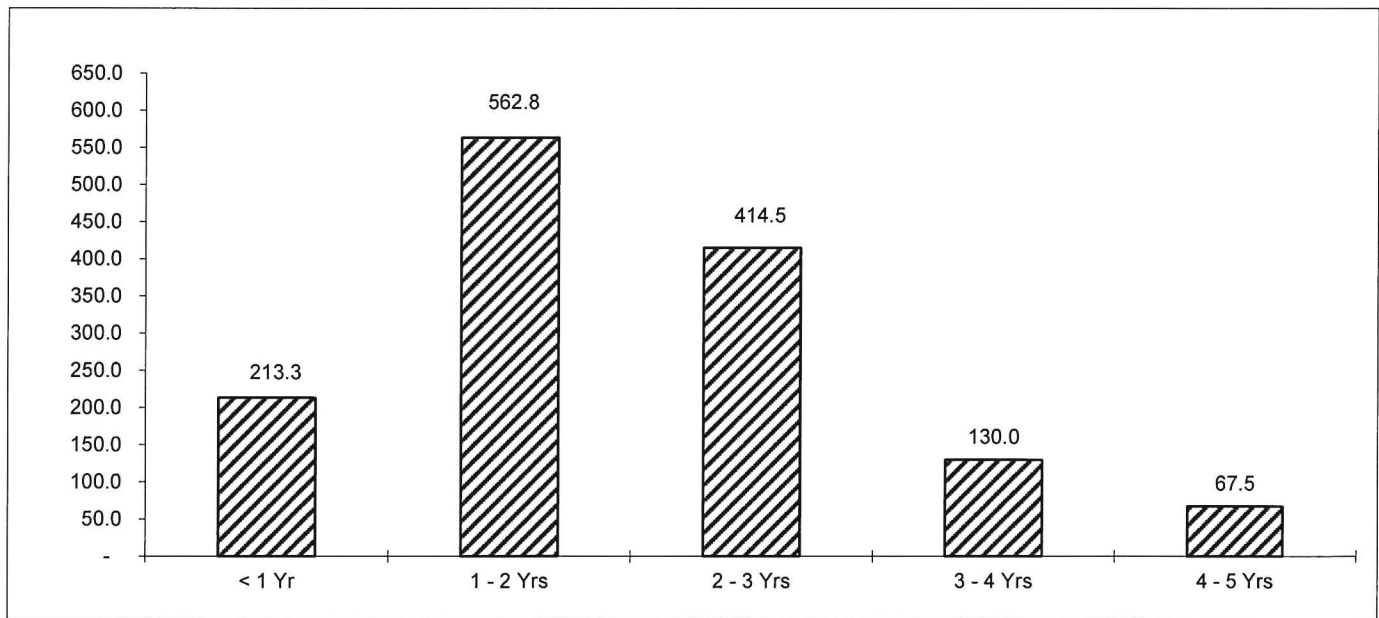
Short-Term Portfolio

As of 9/30/18

Total Portfolio Composition



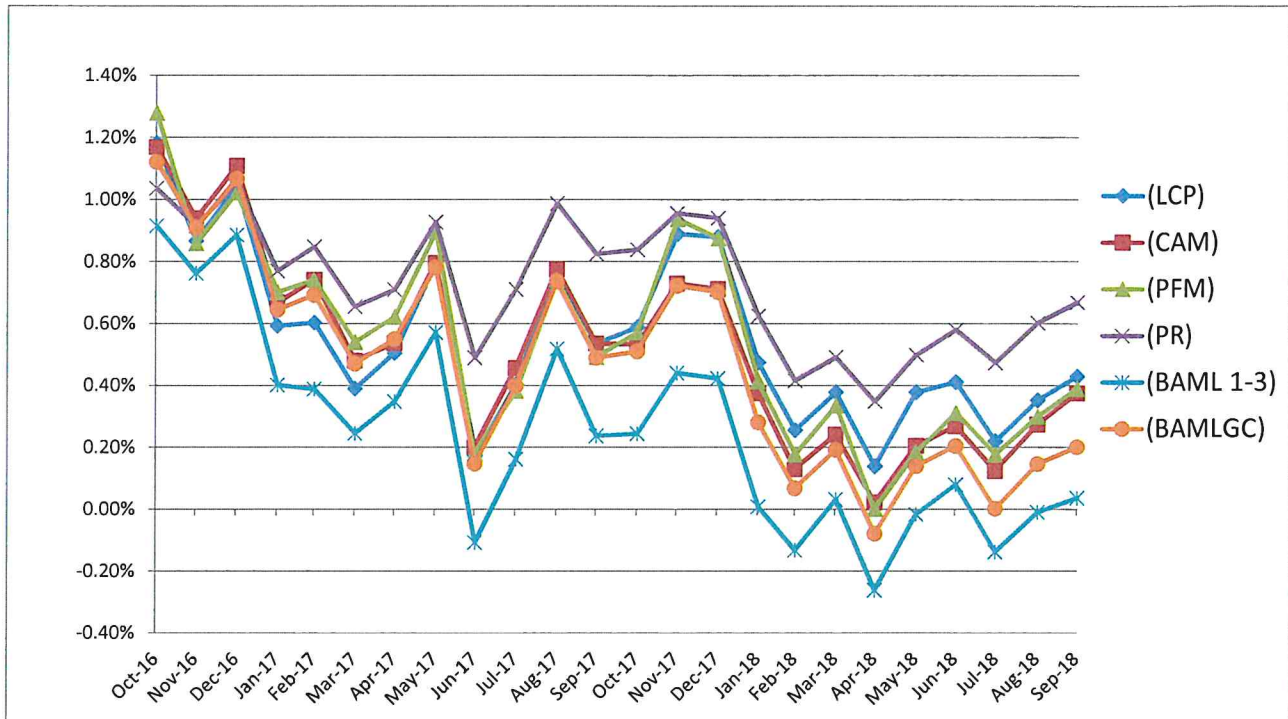
Total Portfolio Maturity Schedule



Short-Term Portfolio Performance

As of 9/30/18

Trailing 1-Year Total Return
Vs. The Bank of America Merrill Lynch (BAML) 1-3 Benchmarks

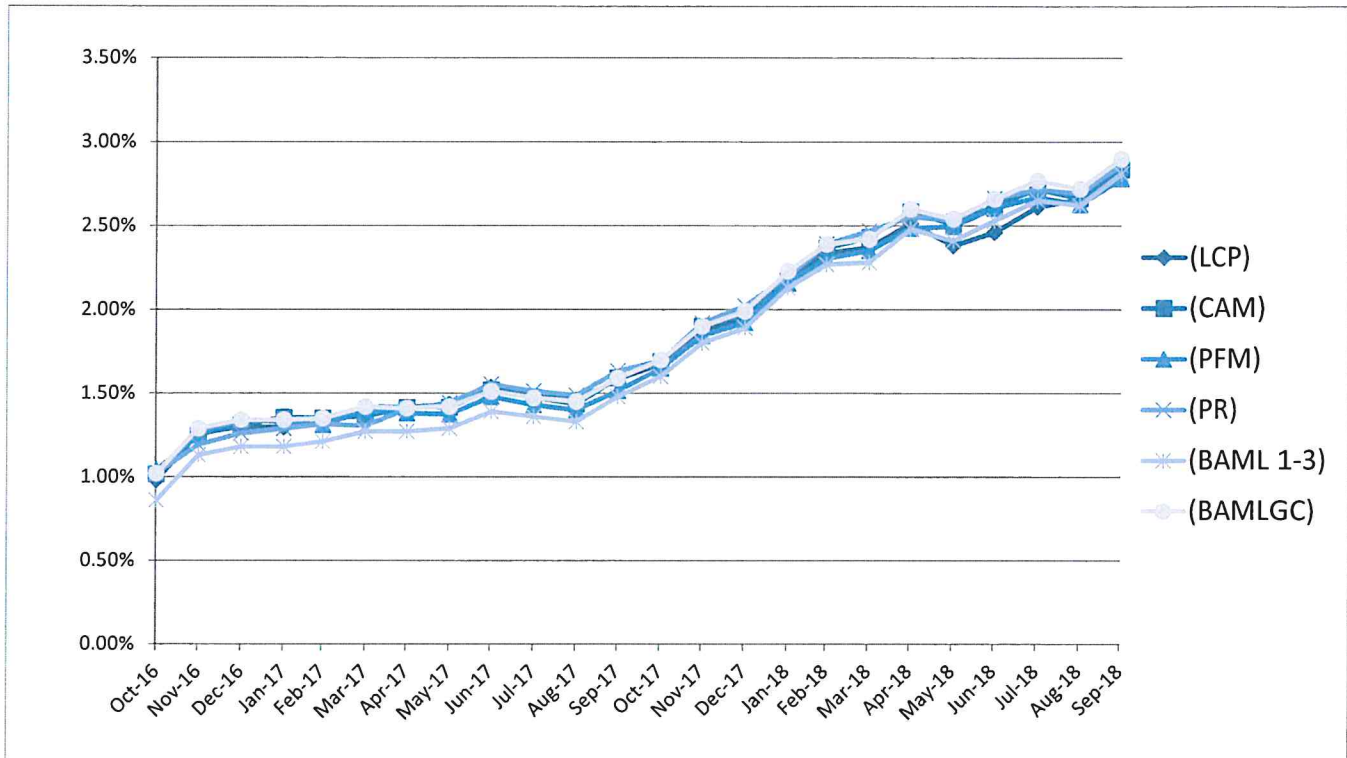


	Logan Circle Partners (LCP)	Chandler Asset Mgmt (CAM)	Public Fin Mgmt (PFM)	Payden & Rygel (PR)	ICE/BAML 1-3 Yr Trsy (BAML 1-3)	ICE/ BAML 1-3 Yr Gov/Corp (BAMLGC)
Oct-16	1.18%	1.17%	1.28%	1.04%	0.92%	1.12%
Nov-16	0.87%	0.94%	0.86%	0.92%	0.76%	0.91%
Dec-16	1.04%	1.11%	1.02%	1.05%	0.89%	1.07%
Jan-17	0.59%	0.67%	0.70%	0.77%	0.40%	0.65%
Feb-17	0.60%	0.74%	0.74%	0.85%	0.39%	0.69%
Mar-17	0.39%	0.48%	0.54%	0.65%	0.25%	0.47%
Apr-17	0.51%	0.54%	0.62%	0.71%	0.35%	0.55%
May-17	0.79%	0.80%	0.90%	0.93%	0.57%	0.78%
Jun-17	0.17%	0.20%	0.18%	0.49%	-0.11%	0.15%
Jul-17	0.40%	0.46%	0.38%	0.71%	0.16%	0.40%
Aug-17	0.76%	0.78%	0.74%	0.99%	0.52%	0.74%
Sep-17	0.54%	0.54%	0.49%	0.82%	0.24%	0.49%
Oct-17	0.59%	0.53%	0.57%	0.84%	0.24%	0.51%
Nov-17	0.89%	0.73%	0.94%	0.96%	0.44%	0.72%
Dec-17	0.88%	0.71%	0.87%	0.94%	0.42%	0.70%
Jan-18	0.48%	0.38%	0.41%	0.62%	0.01%	0.28%
Feb-18	0.26%	0.13%	0.18%	0.42%	-0.13%	0.07%
Mar-18	0.38%	0.24%	0.34%	0.49%	0.03%	0.19%
Apr-18	0.14%	0.02%	0.00%	0.35%	-0.26%	-0.08%
May-18	0.38%	0.21%	0.18%	0.50%	-0.02%	0.14%
Jun-18	0.41%	0.27%	0.31%	0.58%	0.08%	0.20%
Jul-18	0.22%	0.12%	0.18%	0.47%	-0.14%	0.00%
Aug-18	0.35%	0.27%	0.30%	0.60%	-0.01%	0.15%
Sep-18	0.43%	0.38%	0.39%	0.67%	0.04%	0.20%

Comparative Yield Performance

As of 9/30/18

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



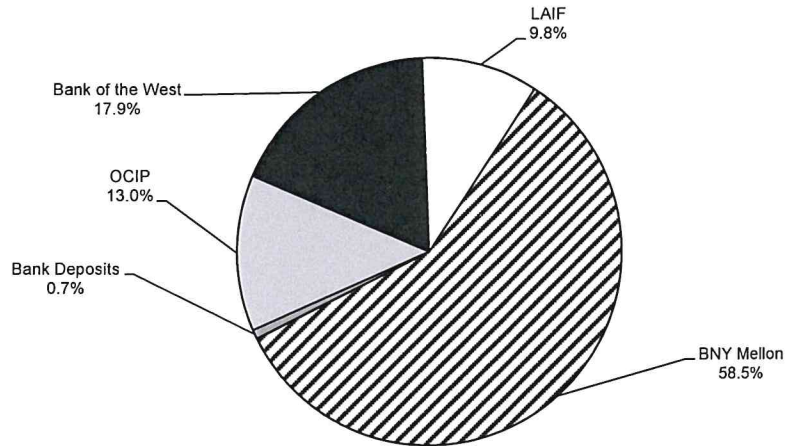
	Logan Circle Partners (LCP)	Chandler Asset Mgmt (CAM)	Public Fin Mgmt (PFM)	Payden Rygel (PR)	ICE/BAML 1-3 Yr Trsy (BAML 1-3)	ICE/ BAML 1-3 Yr Gov/Corp (BAMLGC)
Oct-16	0.98%	1.02%	1.04%	1.02%	0.86%	1.02%
Nov-16	1.26%	1.25%	1.25%	1.19%	1.13%	1.29%
Dec-16	1.30%	1.31%	1.34%	1.26%	1.18%	1.34%
Jan-17	1.29%	1.36%	1.33%	1.29%	1.18%	1.34%
Feb-17	1.32%	1.35%	1.31%	1.31%	1.21%	1.35%
Mar-17	1.42%	1.36%	1.39%	1.30%	1.27%	1.42%
Apr-17	1.42%	1.41%	1.38%	1.41%	1.27%	1.41%
May-17	1.44%	1.42%	1.37%	1.44%	1.29%	1.42%
Jun-17	1.54%	1.52%	1.48%	1.55%	1.39%	1.51%
Jul-17	1.48%	1.48%	1.43%	1.51%	1.36%	1.47%
Aug-17	1.46%	1.44%	1.40%	1.49%	1.33%	1.45%
Sep-17	1.59%	1.59%	1.52%	1.63%	1.48%	1.59%
Oct-17	1.67%	1.69%	1.65%	1.70%	1.60%	1.70%
Nov-17	1.87%	1.90%	1.84%	1.92%	1.80%	1.90%
Dec-17	1.96%	1.97%	1.92%	2.02%	1.89%	1.99%
Jan-18	2.18%	2.19%	2.16%	2.20%	2.13%	2.23%
Feb-18	2.34%	2.37%	2.31%	2.39%	2.27%	2.39%
Mar-18	2.37%	2.43%	2.35%	2.47%	2.28%	2.42%
Apr-18	2.51%	2.58%	2.48%	2.55%	2.48%	2.60%
May-18	2.38%	2.51%	2.50%	2.53%	2.41%	2.54%
Jun-18	2.46%	2.62%	2.60%	2.66%	2.53%	2.66%
Jul-18	2.61%	2.72%	2.67%	2.72%	2.65%	2.77%
Aug-18	2.66%	2.66%	2.63%	2.69%	2.62%	2.72%
Sep-18	2.86%	2.83%	2.78%	2.86%	2.81%	2.90%

Liquid Funds Portfolio - \$106.6 M

As of 9/30/18

Other Liquid Funds

Book Value	\$	106,604,346
Market Value	\$	106,604,346



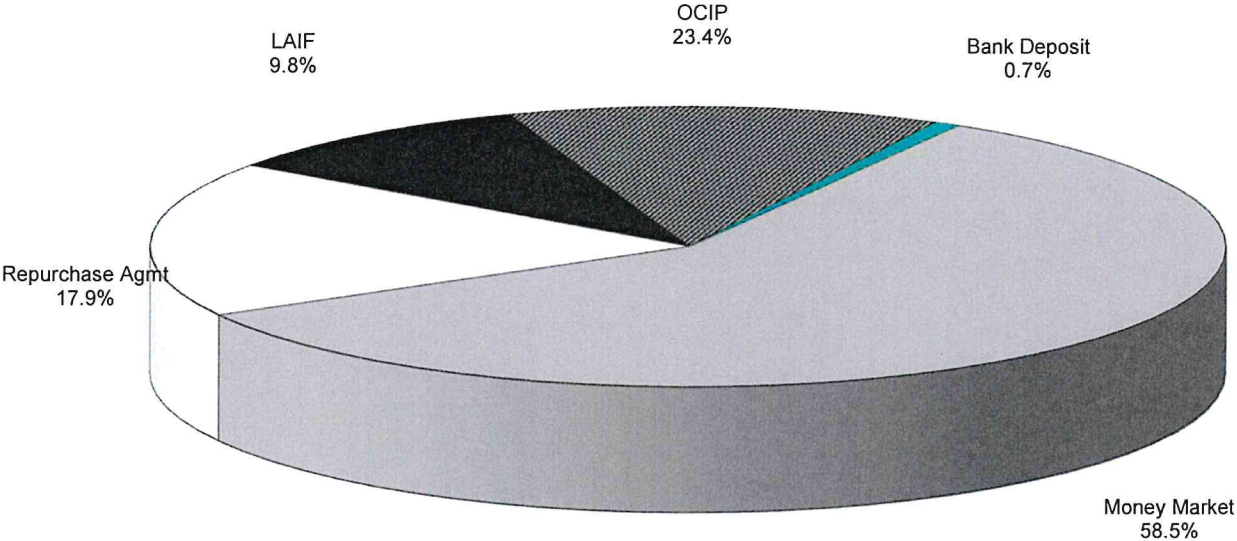
Yield Curve Change From 8/31/18 to 9/30/18			
	8/31/18	9/30/18	Change
1 Month	1.931%	2.112%	0.1810%
3 Month	2.098%	2.200%	0.1020%
6 Month	2.265%	2.369%	0.1040%

Market Value Reported By Custodial Bank

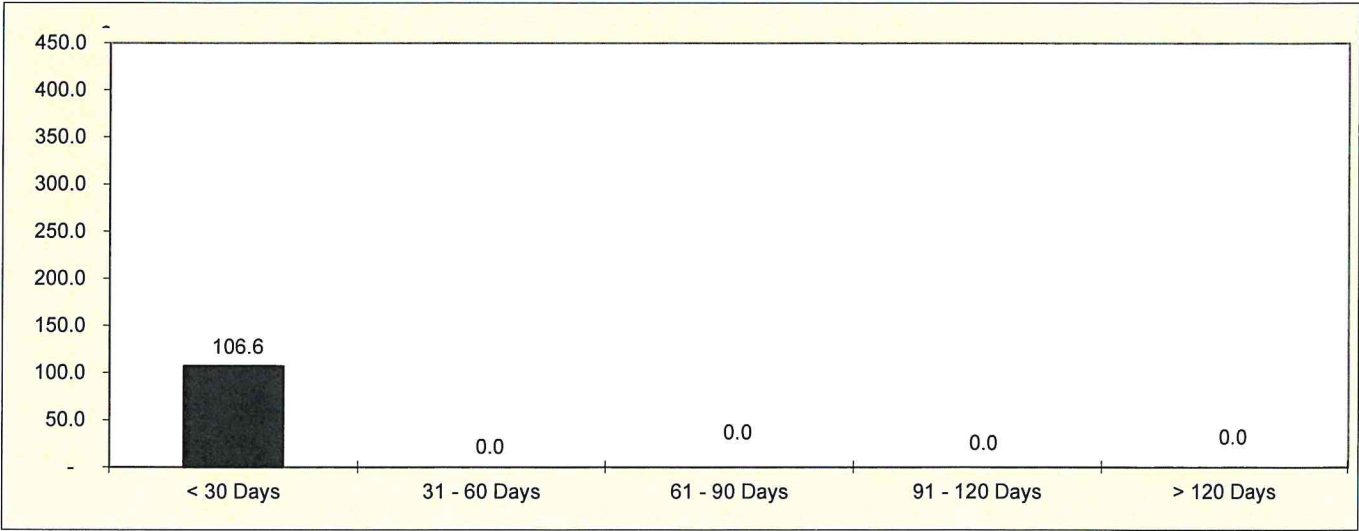
Liquid Portfolio

As of 9/30/18

Total Portfolio Composition



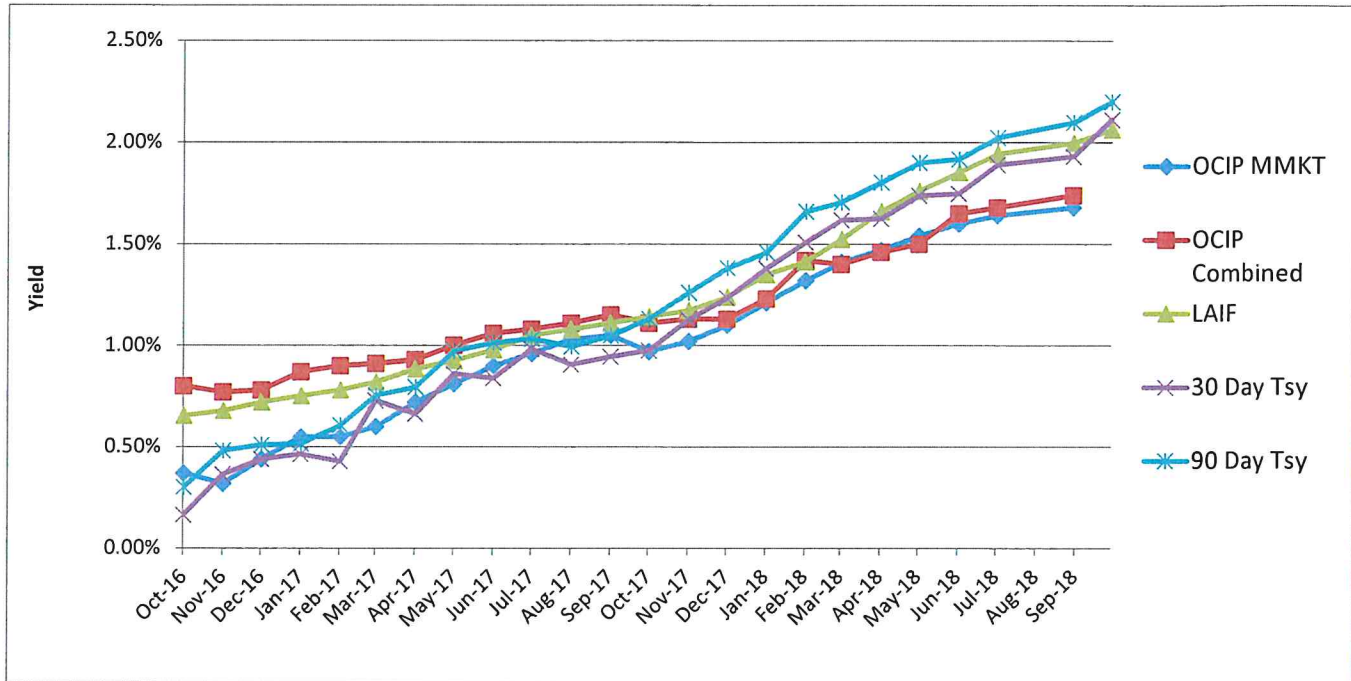
Maturity Schedule For Liquid Portfolio



Liquid Portfolio Performance

As of 9/30/18

Trailing 2-Year Yield OCIP, LAIF, 30 & 90 Day Treasury Bills



	OCIP MMKT	OCIP Combined	LAIF	30 Day Tsy	90 Day Tsy
Oct-16	0.37%	0.80%	0.65%	0.17%	0.30%
Nov-16	0.32%	0.77%	0.68%	0.37%	0.48%
Dec-16	0.44%	0.78%	0.72%	0.44%	0.51%
Jan-17	0.55%	0.87%	0.75%	0.46%	0.52%
Feb-17	0.55%	0.90%	0.78%	0.43%	0.61%
Mar-17	0.60%	0.91%	0.82%	0.73%	0.75%
Apr-17	0.72%	0.93%	0.88%	0.66%	0.80%
May-17	0.81%	1.00%	0.93%	0.86%	0.97%
Jun-17	0.90%	1.06%	0.98%	0.84%	1.01%
Jul-17	0.96%	1.08%	1.05%	0.98%	1.03%
Aug-17	1.03%	1.11%	1.08%	0.91%	0.99%
Sep-17	1.05%	1.15%	1.11%	0.94%	1.05%
Oct-17	0.97%	1.11%	1.14%	0.98%	1.13%
Nov-17	1.02%	1.13%	1.17%	1.13%	1.26%
Dec-17	1.10%	1.13%	1.24%	1.23%	1.38%
Jan-18	1.21%	1.23%	1.35%	1.38%	1.46%
Feb-18	1.32%	1.42%	1.41%	1.51%	1.66%
Mar-18	1.41%	1.40%	1.52%	1.62%	1.71%
Apr-18	1.47%	1.46%	1.66%	1.62%	1.80%
May-18	1.54%	1.50%	1.76%	1.74%	1.90%
Jun-18	1.60%	1.65%	1.85%	1.75%	1.92%
Jul-18	1.64%	1.68%	1.94%	1.89%	2.02%
Aug-18	1.68%	1.74%	2.00%	1.93%	2.10%
Sep-18	N/A	N/A	2.06%	2.11%	2.20%

Investment Policy Compliance

As of 9/30/18

<u>Investment Instruments</u>	<u>Dollar Amount Invested</u>	<u>Percent Of Portfolio</u>	<u>Investment Policy Maximum Percentages</u>
U.S. Treasuries	587,410,070	38.6%	100%
Federal Agencies & U.S. Government Sponsored *	182,390,041	12.0%	100%
State of California & Local Agencies	38,802,661	2.6%	25%
Money Market Funds & Mutual Funds	67,250,332	4.4%	20%
Bankers Acceptances	0	0.0%	30%
Negotiable Certificates of Deposit	24,983,810	1.6%	30%
Commercial Paper	47,613,151	3.1%	25%
Medium Term Maturity Corporate Securities	334,895,108	22.0%	30%
Mortgage and Asset-backed Securities	152,203,199	10.0%	20%**
Repurchase Agreements	19,130,945	1.3%	75%
Investment Agreements Pursuant To Indenture	0	0.0%	100%
Local Agency Investment Fund (LAIF)	10,424,157	0.7%	\$ 40 Million
Orange County Investment Pool (OCIP)	13,896,314	0.9%	\$ 40 Million
CAMP	0	0.0%	10%
Variable & Floating Rate Securities	40,925,603	2.7%	30%
Debt Service Reserve Funds - Investment Agreements	0	0.0%	Not Applicable
Bank Deposits	784,880	0.1%	5%
Derivatives (hedging transactions only)	0	0.0%	5%
TOTAL	1,520,710,271	100.0%	

* See attached page for a detailed listing of this category

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

Investment Policy Compliance

As of 9/30/18

Detail Composition

<u>Investment Instruments</u>	<u>Dollar Amount Invested</u>	<u>Percent Of Total Portfolio</u>	<u>Investment Policy Guidelines</u>
<u>Federal Agencies & U.S. Government Sponsored</u>			
Federal Home Loan Bank (FHLB)	52,835,399	3.5%	35%
Federal Home Loan Mortgage Corporation (FHLMC)	64,848,540	4.3%	35%
Federal Farm Credit Bank (FFCB)	11,903,590	0.8%	35%
Federal National Mortgage Association (FNMA)	54,713,761	3.6%	35%
	184,301,291 *	12.1%	

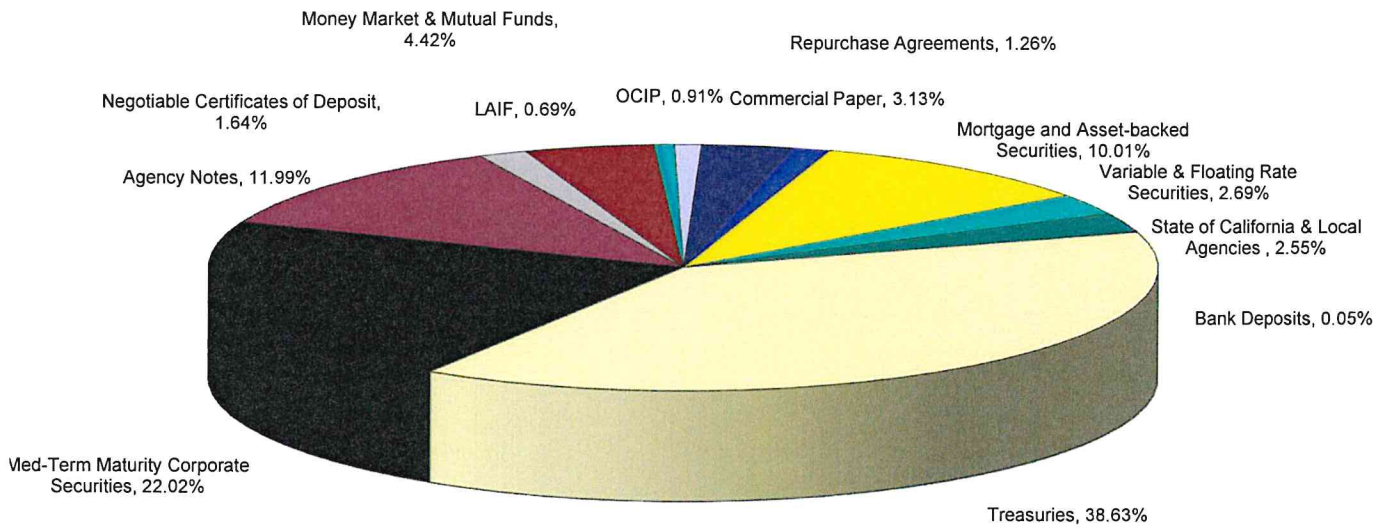
* The Total Dollar Amount Invested Equals The Dollar Amount Invested For Federal Agency Securities, Variable & Floating Rate (Agency) Securities, And A Portion Of Mortgage (Agency) & Asset-back Securities.

Money Market Funds (MMF) & Mutual Funds

First American Obligations Treasury Fund	37,975	0.0%
Goldman Sach Fin. Square Govt. MMF	0	0.0%
Blackrock Institutional T-Fund	4,882,283	0.3%
Fidelity Treasury Obligations MMF	41,345,151	2.7%
Federated Treasury Obligations Fund	<u>20,984,923</u>	<u>1.4%</u>
	67,250,332	4.4%

Investment Allocation

As of 9/30/18



Negative Credit Watch

As of 9/30/18

<u>Manager / Security</u>	<u>Par Amount</u>	<u>Maturity</u>	<u>S&P</u>	<u>Moody's</u>	<u>Fitch Ratings</u>
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PFM

<i>General Electric Company</i>	1,230,000	Various*	A	A2	A
On June 26, 2018, Standard & Poor's placed the long-term ratings of General Electric under review for possible downgrade.					

<i>GE Cap. Int. Funding Co.</i>	1,760,000	11/15/2020	A	A2	A
On June 26, 2018, Standard & Poor's placed the long-term ratings of GE Capital under review for possible downgrade.					

Logan Circle Partners

<i>General Electric Company</i>	2,390,000	10/17/2021	A	A2	A
On June 26, 2018, Standard & Poor's placed the long-term ratings of General Electric under review for possible downgrade.					

* Securities will mature on 8/7/19 and 1/8/20.



October 24, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Amendment to Agreement for Renewable Natural Gas

Overview

On March 14, 2016, the Orange County Transportation Authority Board of Directors approved an agreement with Element Markets Renewable Energy, LLC, to provide renewable natural gas and consulting services for management of the Low Carbon Fuel Standard Program for a three-year initial term with two, two-year option terms. An amendment is required to increase the maximum obligation of the initial term to fund the cost of renewable natural gas, as well as to exercise the first option term.

Recommendations

- A. Authorize the Chief Executive Officer to negotiate and execute Amendment No. 6 to Agreement No. C-5-3636 between the Orange County Transportation Authority and Element Markets Renewable Energy, LLC, to increase the maximum obligation for the initial three-year term, in the amount of \$2,000,000, to purchase renewable natural gas as fuel.
- B. Authorize the Chief Executive Officer to negotiate and execute Amendment No. 6 to Agreement No. C-5-3636 between the Orange County Transportation Authority and Element Markets Renewable Energy, LLC, to exercise the first two-year option term, in the amount of \$8,000,000, to provide renewable natural gas and consulting services for the management of the Low Carbon Fuel Standard Program. This will increase the maximum obligation of the agreement to a total contract value of \$18,060,000.

Discussion

On March 14, 2016, the Orange County Transportation Authority (OCTA) Board of Directors (Board) selected Element Markets Renewable

Energy, LLC (Element Markets) to provide renewable natural gas and assist OCTA in managing two programs; the Low Carbon Fuel Standard (LCFS) generating LCFS credits at the state level and Renewable Fuel Standard (RFS), generating Renewable Identification Number (RIN) credits at the federal level.

California's LCFS Program was enacted to support the California Global Warming Solutions Act of 2006. The LCFS Program was designed to lower greenhouse gas emissions by requiring producers of petroleum-based fuels to reduce the carbon intensity of their transportation fuels. One of the ways that producers of petroleum-based fuels can meet this requirement is to buy credits from entities who use low carbon fuels, such as OCTA.

As a consumer of natural gas for its bus operation, OCTA is able to receive revenue generated from its use of renewable natural gas based on programs at the state and federal level. The revenue OCTA receives from the sale of the credits, under these programs, more than covers the cost of the renewable natural gas required for fuel.

OCTA delegated its regulatory obligations to Element Markets to sell the LCFS and RIN credits and assume all responsibilities associated with LCFS and RFS program management, as well as regulatory and compliance issues. OCTA has steadily received revenue monthly from the sales of these credits. As of September 1, 2018, OCTA has received approximately \$10.8 million from the sale of credits conducted by Element Markets.

This revenue received from the program is used to support bus operations. The cost for renewable natural gas in the same period through September 1, 2018, is approximately \$8 million. It is anticipated that the revenue generated from these programs will continue to fund the cost of renewable natural gas required as fuel for the OCTA fleet.

Element Markets delivers natural gas to OCTA as a pass-through cost based on the daily City Gate Gas Index. Funds in the amount of \$7.81 million were allocated for the initial three-year term. Due to a number of factors such as power generation for cooling systems during hot weather, ongoing pipeline work, and limits on storage capacity, gas prices in Southern California surged to the highest levels seen in the market going back to 2007, prematurely depleting the funds allocated. An increase to the maximum obligation for the initial three-year term, in the amount of \$2 million, is required to continue to pay for the cost of natural gas through March 31, 2019.

Procurement Approach

This procurement was originally handled in accordance with OCTA's Board-approved policies and procedures for professional and technical services. On March 14, 2016, the Board approved the award of the agreement with

Element Markets. The original agreement was awarded on a competitive basis and includes a three-year initial term with two, two-year option terms, in the amount of \$7,810,000.

This proposed amendment will increase the maximum obligation for the initial term in the amount of \$2 million to fund the continuing cost of renewable natural gas. The initial term of the agreement will expire on March 31, 2019, requiring the first option term to be exercised, extending the term through March 31, 2021, in the amount of \$8 million, and bringing the total contract value to \$18,060,000. Extending the term of the agreement will allow OCTA to continue receiving renewable natural gas as fuel for OCTA's fleet and revenue from the sale of LCFS and RIN credits.

Fiscal Impact

The funds required for this agreement are included in OCTA's Fiscal Year 2018-19 Budget, Maintenance Department, Transit Division.

Summary

Based on the information provided, staff recommends the Board authorize the Chief Executive Officer to negotiate and execute Amendment No. 6 to Agreement No. C-5-3636 with Element Markets, to increase the maximum obligation in the initial term, in the amount of \$2 million, and to exercise the first, two-year option term, in the amount of \$8 million, to provide renewable natural gas and consulting services for the management of both the LCFS and RFS programs. This will increase the maximum obligation of the agreement to a total contract value of \$18,060,000.

Attachment

- A. Element Markets Renewable Energy, LLC Agreement No. C-5-3636, Fact Sheet

Prepared by:



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Approved by:



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Virginia Abadessa
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**Element Markets Renewable Energy, LLC
Agreement No. C-5-3636 Fact Sheet**

1. March 14, 2016, Agreement No. C-5-3636, \$7,810,000, approved by the Board of Directors (Board).
 - Agreement to provide renewable natural gas and consulting services for the management of the Low Carbon Fuel Standard Program (LCFS).
 - Initial term effective June 8, 2016 through March 31, 2019, with two, two-year option terms.
2. July 26, 2016, Amendment No. 1 to Agreement No. C-5-3636, \$0, approved by Contracts Administration and Materials Management (CAMM).
 - Amendment to authorize the transfer and sale of Orange County Transportation Authority (OCTA)-owned LCFS credits that were generated prior to contract execution.
3. October 3, 2016, Amendment No. 2 to Agreement No. C-5-3636, \$0, approved by CAMM.
 - Amendment to authorize the transfer and sale of 2,000 additional OCTA-owned LCFS credits that were generated prior to the execution date of the Base Contract.
4. June 14, 2017, Amendment No. 3 to Agreement No. C-5-3636, \$0, approved by CAMM.
 - Amendment to place a minimum price to sell LCFS credits.
5. August 29, 2018, Amendment No. 4 to Agreement No. C-5-3636, \$0, approved by CAMM.
 - Amendment to add as a part of the contract renewable hydrogen to generate LCFS credits.
6. September 21, 2018, Amendment No. 5 to Agreement No. C-5-3636, \$250,000, approved by CAMM.
 - Amendment to add funds to continue purchasing natural gas.
7. November 12, 2018, Amendment No. 6 to Agreement No. C-5-3636, \$10,000,000, pending Board approval.
 - Add \$2,000,000 in the initial term to continue purchasing natural gas.
 - Exercise the first option term effective April 1, 2019 through March 31, 2021 and increase the maximum obligation by \$8,000,000.

Total committed to Element Markets Renewable Energy, LLC, Agreement No. C-5-3636: \$18,060,000.



October 24, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Amendment to Cooperative Agreement with the City of Laguna Beach for Public Transit Services

Overview

On August 26, 2013, the Orange County Transportation Authority Board of Directors approved a cooperative agreement with the City of Laguna Beach for the continued operation of public transit services. Board of Directors' approval is requested to amend the cooperative agreement to provide the City of Laguna Beach with additional funds due to an increase in federal allocation.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Amendment No. 2 to Cooperative Agreement No. C-3-1705 between the Orange County Transportation Authority and the City of Laguna Beach, in the amount of \$119,735, for Federal Transit Administration funding, and to extend the current contract term an additional seven months through June 30, 2019. This will increase the maximum obligation of the cooperative agreement to a total contract value of \$869,735.

Discussion

The City of Laguna Beach (City) has provided public transportation services throughout the city limits through the Laguna Beach Municipal Transit Lines (LBMTL) since 1970. The City and its municipally-owned LBMTL are eligible for federal funding, including the Federal Transit Administration (FTA) Section 5307 Urbanized Area Formula Program funds and the Section 5339 Bus and Bus Facilities Program funds.

Based on the transportation services provided by LBMTL, additional federal grant funding is generated that can be utilized to support transportation services within Orange County. The Orange County Transportation Authority (OCTA), as the direct grant recipient, has the option to utilize the additional funds directly for

OCTA-related transportation services, or to enable the City, as an eligible subrecipient, to use the additional funds to support the services provided by LBMTL. OCTA has historically utilized federal funds for OCTA-related projects and provided an equivalent amount of unrestricted local funds to the City to support the transportation services provided by the LBMTL. On August 26, 2013, the OCTA Board of Directors (Board) approved a cooperative agreement for the pass through of unrestricted local funds to the City for fiscal years (FY) 2013-14 through FY 2017-18.

The City annually submits National Transit Database (NTD) data to FTA and OCTA. The NTD data enables OCTA to calculate the federal formula grant funding available to the City. OCTA utilizes the federal formula funds, Section 5307 and Section 5339, generated by the LBMTL service and provides an equivalent amount of unrestricted local funds.

The amount of FTA funding available to the City was originally estimated to be an average of \$150,000 per FY with a maximum amount of \$750,000 over five years. The FTA apportionments for FY 2017-18 were provided to OCTA in August 2018. The City reported higher revenue miles, passenger miles, and operating costs that increased the City's portion of federal formula grant funding available. This amount exceeds the estimated maximum amount in the cooperative agreement and requires an amendment to the cooperative agreement.

Proposed Amendment No. 2 is to provide the City with its entire calculated federal grant funding, in the amount of \$119,735, which increases the maximum cumulative obligation from \$750,000 to \$869,735. In addition, the current contract term is extended an additional seven months through June 30, 2019, to continue to provide the City with local funding assistance. The cooperative agreement has been previously amended as described in Attachment A.

Fiscal Impact

Another \$119,735 in unrestricted local funds will be sent to LBMTL. The \$119,735 in local funds will be offset by a like amount of federal funding, so there will be no net financial impact to OCTA.

Summary

The City is eligible for federal funding to support public transportation services throughout the city limits. OCTA has historically utilized federal funds for OCTA-related projects and provided an equivalent amount of unrestricted local funds to the City to support transportation services. Staff requests Board approval to authorize the Chief Executive Officer to negotiate and execute Amendment No. 2 to Cooperative Agreement No. C-3-1705, in the amount of

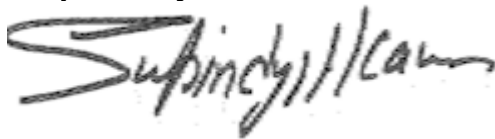
Amendment to Cooperative Agreement with the City of Laguna Beach for Public Transit Services **Page 3**

\$119,735, for FTA funding, and to extend the current contract term an additional seven months through June 30, 2019, to continue to provide the City with local funding assistance.

Attachment

- A. City of Laguna Beach Cooperative Agreement No. C-3-1705 Fact Sheet

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Approved by:



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**City of Laguna Beach
Cooperative Agreement No. C-3-1705 Fact Sheet**

1. August 26, 2013, Cooperative Agreement No. C-3-1705, \$750,000, approved by the Board of Directors (Board).
 - Cooperative agreement for continued operation of public transit services.
 - Effective through June 30, 2018.
2. October 15, 2018, Amendment No. 1 to Agreement No. C-3-1705, \$0.00, approved by Contracts Administration and Materials Management Department.
 - Amendment to extend the term of the cooperative agreement through November 30, 2018.
3. November 12, 2018, Amendment No. 2 to Agreement No. C-3-1705, \$119,735, pending Board approval.
 - Amendment to increase the maximum obligation and extend the term of the cooperative agreement through June 30, 2019, for Federal Transit Administration funding.

Total committed to the City of Laguna Beach, Cooperative Agreement No. C-3-1705, in the amount of \$869,735.



October 24, 2018

To: Finance and Administration Committee
From: Darrell E. Johnson, Chief Executive Officer
Subject: Property Insurance Policy Renewal

A handwritten signature in black ink, appearing to be "DEJ", is written over the "From:" line of the memo.

Overview

The Orange County Transportation Authority holds a property insurance policy with Zurich Insurance Company. This policy is scheduled to expire on December 1, 2018.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A40297, in the amount of \$550,000, to Marsh Risk and Insurance Services, Inc., to purchase property insurance on behalf of the Orange County Transportation Authority for the policy period of December 1, 2018 to December 1, 2019.

Discussion

The Orange County Transportation Authority (OCTA) purchases insurance to protect OCTA property, including buildings, contents, and buses from accidental loss. OCTA is currently insured with Zurich Insurance Company for an annual net of commission premium of \$434,785, which is based on property values of \$542,010,997. The 91 Express Lanes property is insured under a separate insurance policy.

Insurance companies determine property insurance quotes based upon current insurance market conditions affecting rates per \$100 in property values. The current policy runs December 1, 2017 to December 1, 2018. The renewal of this policy will be based on updated property values of \$566,232,099, which includes real and business personal property, information systems equipment, and directly-operated revenue and non-revenue vehicles. Due to the large number of insured buses included in this policy, there is a special insurance condition that OCTA buses are only insured while parked at the bus base. In addition, due to the high replacement value, a \$50,000 deductible is applied per occurrence

for fire loss or damage to OCTA's bus fleet in this policy. Revenue vehicles are self-insured for property damage while in operation. OCTA's paratransit vehicles are not included in OCTA's insurable values since these vehicles are insured by MV Transportation, Inc., as required in Agreement No. C-2-1865, approved by the Board of Directors (Board) on March 25, 2013. In addition, fixed-route buses operated and insured by First Transit, Inc., as required in Agreement No. C-4-1737, approved by the Board on March 23, 2015, are also not included in OCTA's insurable values.

The property insurance policy limit is currently at \$225 million, which provides catastrophic protection equivalent to a total loss just above the current insurable values at OCTA's single largest property value location, the Santa Ana bus base. The insurance provides protection for real and business personal property, improvements and betterments, rolling stock, and extra expense incurred after a loss. Other coverage includes fire, flood, terrorism, civil authority, ingress/egress, leaks to fire sprinkler pipes caused by earthquakes, valuable papers, and boiler and machinery. Policy deductibles for this policy vary by category of coverage. The policy has a \$50,000 deductible that applies to all losses except:

- \$100,000 deductible for flood, except Flood Zone A
- \$500,000 deductible for flood in Flood Zone A

Flood protection is also provided in the current property insurance policy. Flood is defined in the policy as "surface water, underground water, waves, tides, tidal waves, tsunamis, overflow of any body of water, or their spray, all whether driven by wind or not." As with many properties in Orange County, OCTA has buildings that are in areas susceptible to flooding. Flood zones are identified by the National Flood Insurance Program and classified as a special flood hazard area if the area is within a 100-year flood boundary. A "100-year flood" does not refer to a flood that occurs once every 100 years, but refers to a flood level with a one percent or less chance of being equaled or exceeded in any given year. OCTA currently has flood protection included in the current policy with a limit of \$10 million, except for OCTA property in Flood Zone A that has a \$2.5 million limit. Flood Zone A is an area of increased risk of flooding and carries a \$500,000 deductible. Currently, OCTA's Garden Grove Maintenance, Operations, General Services Warehouse, and Annex buildings are in Flood Zone A. Each of OCTA's other locations has been identified in Flood Zone X, which is defined as a moderate flood area.

Earthquake coverage is also provided in the current property insurance policy. The policy provides a \$10 million limit, subject to a five percent deductible of the insurable value per location, with a minimum of \$250,000 damage. Earthquake is defined in the policy as "the shaking or trembling of the earth's crust, caused by underground volcanic or tectonic forces, or by breaking or shifting of rock beneath the surface of the ground from natural causes, considering all events within a 168-hour period as one single event."

OCTA's Broker of Record, Marsh Risk and Insurance Services, Inc. (Marsh), will provide marketing and will purchase the property insurance coverage on behalf of OCTA for this renewal. Marsh is paid an annual flat fee of \$100,000 for marketing and placing all property and casualty insurance per Agreement No. C-7-1585, approved by the Board on May 22, 2017. This flat fee paid to Marsh is not part of the \$550,000 Board-approved budget for the renewal of this policy. By agreement, Marsh does not earn any additional compensation or commission for its services. The contract further requires that any commissions offered by insurers will offset OCTA's premiums.

Marsh has been directed to approach all possible markets to obtain the best coverage and premium options for this renewal. In addition, Marsh has been instructed not to disclose broker compensation to prospective insurers to avoid having them net the broker's commission against their quoted premiums.

OCTA will pursue four goals for renewing this policy as outlined below. The goals are:

1. Explore the potential of a multi-year renewal option from incumbent insurer, Zurich Insurance Company, with potential rate reduction incentives;
2. Target a flat rate renewal if a flat premium cannot be achieved;
3. Maintain the broad terms of the current program;
4. Obtain quotes for optional flood limits beyond the current \$10 million of coverage.

Unless OCTA can obtain a flat premium or flat rate renewal from incumbent insurer Zurich Insurance Company, Marsh will approach other property insurers for proposals on OCTA's behalf. The carriers that will be approached for proposals with a required AM Best financial rating of A-7 or better are listed below in alphabetical order:

- Affiliated FM Insurance Company
- AIG (Lexington Insurance Company)
- Allianz Insurance Group

- Axis Insurance Company
- Chubb Insurance Company
- Liberty Mutual Insurance Company
- Travelers Property Casualty Company of America
- XL Insurance Company
- Zurich Insurance Company

Fiscal Impact

This expenditure was approved in OCTA's Fiscal Year 2018-19 Budget, Human Resources and Organizational Development Division, Risk Management Department, Account 0040-7563-A0017-DTS, and is funded through the Internal Service Fund.

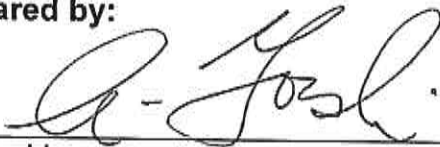
Summary

Based on the information provided, staff recommends the Board authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A40297, in the amount of \$550,000, to Marsh Risk and Insurance Services, Inc., to purchase property insurance on behalf of the Orange County Transportation Authority for the policy period of December 1, 2018 to December 1, 2019.

Attachment

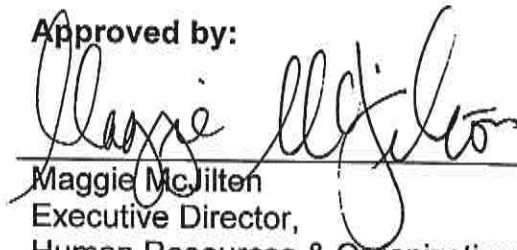
None.

Prepared by:

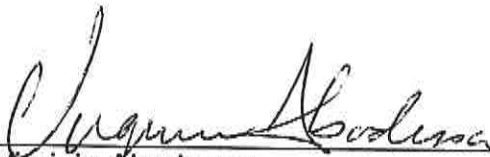


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October 24, 2018

To: Finance and Administration Committee
From: Darrell E. Johnson, Chief Executive Officer
Subject: Measure M2 Sales Tax Forecast

Overview

The Orange County Transportation Authority contracts with MuniServices, LLC, and three universities to forecast Measure M2 taxable sales. MuniServices, LLC, and the three universities have provided updated forecasts, and staff has incorporated the new information into the annual update for the long-range forecast of Measure M2 taxable sales.

Recommendation

Receive and file as an information item.

Background

On March 28, 2016, the Orange County Transportation Authority (OCTA) Board of Directors (Board) directed staff to forecast taxable sales in Orange County by utilizing MuniServices, LLC, forecasted taxable sales growth rates for the first five years of the forecast period, and average growth rates based on forecasted taxable sales from three universities; Chapman University, University of California, Los Angeles, and California State University, Fullerton, for the remaining years.

Due to the significant decrease in forecasted taxable sales based on the updated forecasts received from the four entities, staff provided a preliminary update for the Measure M2 (M2) sales tax forecast to the Board at the July 23, 2018, meeting. At that time, staff reported that forecasted sales tax for the Measure M Program was estimated to decrease from \$13.5 billion to \$13.1 billion based on the updated forecasts. However, staff was waiting to receive the last M2 sales tax receipt for fiscal year (FY) 2018 to finalize the forecast. A portion of the final M2 sales tax payment was received in September for FY 2018, and staff has worked with MuniServices, LLC (MuniServices) to estimate the balance of FY 2018 sales tax receipts due to OCTA.

Discussion

At the July 23, 2018, Board meeting, staff had estimated the ending M2 sales tax receipts for FY 2018. At that time staff had estimated that sales tax would grow by 3.3 percent for the year based on actual receipts through the second quarter. Historically, OCTA has received the final sales tax payment from the State Board of Equalization for the previous FY in September. However, this year OCTA only received an estimated partial payment in September to close out the FY.

Beginning in FY 2018, there was a change in the agency that administers sales tax. The new agency, the California Department of Taxes and Fee Administration (CDTFA) is now responsible for collecting, processing, and distributing sales tax. The CDTFA is currently behind in processing a large number of tax payments for FY 2018. As a result, OCTA did not receive the balance of the FY 2018 sales tax receipts with the September payment. The CDTFA continues to process tax payments for the FY; however, it has stated that their methodology of allocating sales tax will not enable them to provide OCTA with the sales tax revenue attributable to the FY once all of the tax payments for the FY are processed. OCTA is working with the CDTFA to address this issue; however, in order for OCTA to move forward with its efforts to complete annual financial statements, OCTA has worked with MuniServices to estimate sales tax receipts for FY 2018.

MuniServices conducted an analysis which estimated the amount of M2 tax payments due to OCTA for FY 2018. Based on MuniServices analysis, OCTA is missing approximately \$15.9 million in M2 sales tax receipts for FY 2018. Based on this information, the estimated growth rate for the FY is 4.1 percent and the total annual sales tax receipts would be \$321 million. The forecasted amount of sales tax to support the M2 Program remains at \$13.1 billion, as reported to the Board in July.

Summary

OCTA, in conjunction with MuniServices, has estimated the M2 sales tax receipts for FY 2018. M2 sales tax growth is estimated to be 4.1 percent for the FY, with total annual receipts of \$321 million. The forecasted sales tax available to support the M2 Program remains at \$13.1 billion, as reported to the Board in July.

Attachment

- A. Orange County Transportation Authority M2 Sales Tax Revenue Forecast - 2018

Prepared by:



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Approved by:



Andrew Oftelie
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Orange County Transportation Authority
M2 Sales Tax Revenue Forecast - 2018

Fiscal Year	Actual Growth	Chapman Forecast	Growth Rate	UCLA Forecast	Growth Rate	CSUF Forecast	Growth Rate	MuniServices Forecast	Growth Rate	Board Approved Forecast	Blended Growth Rate
2011 **	6.50%	61,756,868	*	61,756,868	*	61,756,868	*	61,756,868	*	61,756,868	*
2012	6.20%	250,892,931	*	250,892,931	*	250,892,931	*	250,892,931	*	250,892,931	*
2013	6.17%	266,384,076	*	266,384,076	*	266,384,076	*	266,384,076	*	266,384,076	*
2014	4.96%	279,599,946	*	279,599,946	*	279,599,946	*	279,599,946	*	279,599,946	*
2015	4.30%	291,615,675	*	291,615,675	*	291,615,675	*	291,615,675	*	291,615,675	*
2016	3.20%	300,944,523	*	300,944,523	*	300,944,523	*	300,944,523	*	300,944,523	*
2017	2.60%	308,768,664	*	308,768,664	*	308,768,664	*	308,768,664	*	308,768,664	*
2018	4.12%	321,480,529	*	321,480,529	*	321,480,529	*	321,480,529	*	321,480,529	*
2019		332,247,407	3.35%	333,553,205	3.76%	342,182,024	6.44%	330,803,464	2.90%	330,803,464	2.90%
2020		342,303,054	3.03%	347,396,752	4.15%	364,714,247	6.58%	339,073,551	2.50%	339,073,551	2.50%
2021		352,556,859	3.00%	355,973,219	2.47%	384,248,451	5.36%	347,550,390	2.50%	347,550,390	2.50%
2022		363,060,177	2.98%	366,099,199	2.84%	403,312,240	4.96%	355,891,599	2.40%	355,891,599	2.40%
2023		373,757,703	2.95%	380,371,123	3.90%	422,157,714	4.67%	364,077,106	2.30%	364,077,106	2.30%
2024		384,865,150	2.97%	394,139,690	3.62%	441,168,192	4.50%			377,541,615	3.70%
2025		396,341,161	2.98%	408,863,818	3.74%	460,067,701	4.28%			391,386,770	3.67%
2026		408,332,147	3.03%	424,087,003	3.72%	478,418,732	3.99%			405,395,126	3.58%
2027		421,224,035	3.16%	439,883,098	3.72%	497,794,842	4.05%			420,167,680	3.64%
2028		434,832,909	3.23%	456,264,930	3.72%	518,494,118	4.16%			435,732,259	3.70%
2029		448,876,188	3.23%	473,257,966	3.72%	540,303,807	4.21%			451,941,952	3.72%
2030		463,369,186	3.23%	490,883,403	3.72%	564,658,629	4.51%			469,207,073	3.82%
2031		478,327,169	3.23%	509,165,482	3.72%	590,608,322	4.60%			487,268,506	3.85%
2032		493,765,548	3.23%	528,128,342	3.72%	617,108,274	4.49%			505,847,680	3.81%
2033		509,701,052	3.23%	547,797,477	3.72%	644,306,255	4.41%			525,000,725	3.79%
2034		526,149,141	3.23%	568,199,135	3.72%	673,694,012	4.56%			545,147,560	3.84%
2035		543,127,374	3.23%	589,360,620	3.72%	703,597,373	4.44%			565,844,830	3.80%
2036		560,652,331	3.23%	611,310,229	3.72%	734,921,415	4.45%			587,352,532	3.80%
2037		578,742,547	3.23%	634,077,298	3.72%	766,963,990	4.36%			609,497,571	3.77%
2038		597,415,579	3.23%	657,692,285	3.72%	800,696,327	4.40%			632,554,773	3.78%
2039		616,691,423	3.23%	682,186,774	3.72%	835,432,037	4.34%			656,357,882	3.76%
2040		636,588,612	3.23%	707,593,510	3.72%	871,421,357	4.31%			680,990,159	3.75%
2041 **		492,845,723	3.23%	550,459,846	3.72%	681,035,313	4.20%			529,731,542	3.72%
Total		\$ 12,837,215,687	3.16%	\$ 13,538,187,615	3.65%	\$ 15,418,748,583	4.62%	\$ 3,818,839,322	2.52%	\$ 13,095,805,558	3.48%

* Fiscal years 2011 through 2017 represent actual sales tax receipts. **Fiscal Year 2018 is based on estimated sales tax revenues from MuniServices, LLC.** Forecasted revenue figures in nominal dollars.

** Fiscal year 2011 includes sales tax receipts for one quarter and fiscal year 2041 represents forecasted sales tax receipts for three quarters.



October 24, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Approval of the 2018 Measure M2 Plan of Finance, Issuance of Measure M2 Bonds, Selection of Underwriting Team, and Bond Counsel Services Amendment

Overview

Staff has completed an update to the Measure M2 Plan of Finance that identifies the program requirements over the next few years for the Measure M2 Program. The updated Measure M2 Plan of Finance highlights the need for the issuance of Measure M2 bonds to fund future expenditures. If a financing is approved, the selection of an underwriting team is recommended, along with additional funds required for bond counsel services.

Recommendations

- A. Authorize the selection of Bank of America Merrill Lynch; Barclays Capital, Inc.; Citigroup Global Markets, Inc.; Goldman Sachs & Co.; J.P. Morgan Securities LLC; and Stifel, Nicolaus & Company, Inc., from the Orange County Transportation Authority's underwriting pool, to assist with the next Measure M2 bond offering.
- B. Authorize the selection of Bank of America Merrill Lynch and Citigroup Global Markets, Inc., from the Orange County Transportation Authority's underwriting pool, to serve as the senior underwriting manager and co-senior underwriting manager, respectively, for the next Measure M2 bond transaction.
- C. Authorize the Chief Executive Officer to execute Amendment No. 5 to Agreement No. C-5-3099 between the Orange County Transportation Authority and Nossaman LLP, in the amount of \$200,000, to provide bond counsel services for the Orange County Transportation Authority Sales Tax Revenue Bonds, Series 2019 transaction. The total contract amount will be \$527,250.

- D. Authorize the issuance of sales tax revenue bonds to finance the Measure M2 Program.
- E. Adopt the 2018 Measure M2 Plan of Finance, which identifies the Measure M2 project requirements over the next several years.
- F. Direct staff to pursue financing opportunities through the Transportation Infrastructure Innovation Act for Measure M2 projects.

Background

The Measure M2 (M2) ordinance expresses a preference for pay-as-you-go project financing. The ordinance states that Orange County Transportation Authority (OCTA) may use bond financing as an alternative method if the planned expenditures make pay-as-you-go financing unfeasible. OCTA's Board of Directors (Board) has continued to advance implementation of M2 through the adoption of early delivery plans and address slower growth in sales tax revenue projections through strategic financing. In 2010, OCTA issued \$353 million in M2 bonds to support the Early Action Plan.

By 2041, OCTA plans to deliver \$13.1 billion of M2 transportation improvements to Orange County. The \$1.9 billion Interstate 405 Improvement Project (405 Project) is the largest project in the M2 plan and in OCTA's history. The general-purpose lanes portion of the 405 Project, 75 percent of the total cost, will be funded by a combination of local, state, and federal funds. The 405 Express Lanes portion of the 405 Project, 25 percent of the total cost, will be paid for by user-generated toll revenue from those who use the 405 Express Lanes.

A total of \$1.136 billion is programmed from M2 funds for the 405 Project. The current 405 Project Plan of Finance includes \$243 million pay-as-you-go M2 funds and approximately \$900 million of bond proceeds from the sale of M2 sales tax revenue bonds in 2019 and 2021.

On May 23, 2016, the Finance and Administration Committee approved the 405 Project Preliminary Plan of Finance. OCTA carefully reviewed the debt financing options for the 405 Express Lanes portion of the 405 Project (25 percent of total costs) that must be financed with non-M2 sources. To address this, OCTA closed a 35-year \$628.93 million Transportation Infrastructure Finance and Innovation Act (TIFIA) loan in July 2017. The non-recourse TIFIA loan is secured solely by future net toll revenues from the 405 Express Lanes. M2 funds cannot be used to repay the TIFIA loan.

The Build America Bureau (Bureau), which administers TIFIA loans for the United States Department of Transportation, ultimately required OCTA to secure committed M2 funds prior to the close of the TIFIA loan. OCTA chose a cost-effective solution to obtain a \$900 million line of credit (LOC) secured by a subordinate lien on future M2 receipts. Through a competitive procurement, OCTA selected Bank of America Merrill Lynch (BAML) to provide the LOC required by the Bureau. The BAML LOC is structured with two tranches, with one tranche for \$400 million maturing July 1, 2019, and one tranche for \$500 million maturing on July 1, 2021. The LOC was structured this way to match OCTA's anticipated M2 financing.

Discussion

Based on the projected construction spending curve for the 405 Project, OCTA's actual M2 sales tax receipts to date, and projected M2 sales tax receipts through 2023, OCTA's preference to complete the general purpose lanes portion of the 405 Project on a pay-as-you-go basis is unfeasible and bond financing is necessary. The cashflow to support this conclusion is outlined in the OCTA Fiscal Year 2018-19 Comprehensive Plan that was approved by the Board on September 24, 2018.

OCTA's objectives for the M2 financings include completing the funding of the 405 Project, achieving low cost of capital, and securing low long-term interest rates. Other objectives that are important to note include maximizing future financial management flexibility and minimizing risk.

With Board approval, OCTA plans to issue M2 sales tax revenue bonds producing approximately \$400 million in bond proceeds in early 2019 and M2 sales tax revenue bonds producing approximately \$500 million in bond proceeds in 2021. However, OCTA staff continues to evaluate various financing options and variables which could change its current 405 Project Plan of Finance recommendation.

Once the underwriting team is approved, OCTA staff will evaluate several alternatives to ensure the lowest cost of financing available. This will include an evaluation of issuing all \$900 million in bonds in 2019 to take advantage of low interest rates and eliminate the need for an LOC. Additionally, staff will work with the underwriting team to explore options for replacing the LOC with lower cost options and evaluate subordinate lien options. The details of the Plan of Finance are available in Attachment A.

Underwriting Team

In order to proceed with the recommended financing approach, OCTA will need to select underwriters for a \$400 million debt issuance.

In September 2016, the Board selected 11 firms to serve on an underwriting pool for a period of five years. At the time of the selection, staff specified that senior managers and co-managers would be selected for future debt issuances from the underwriting pool on a project-by-project basis. In 2017, OCTA selected BAML from the pool to provide TIFIA advisory services for the \$629 million loan.

On August 17, 2018, OCTA issued a mini request for proposals to the 11 firms from the underwriting pool for the next M2 financing. On September 6, 2018, 11 proposals were received. An evaluation committee consisting of OCTA staff from Contracts Administration and Materials Management, Express Lanes Programs, Finance and Administration, Financial Planning and Analysis, as well as an external representative from OCTA's contracted financial advisory consultant, Sperry Capital, Inc., met to review all proposals received. The evaluation committee recommends six firms to serve on the underwriting team for the next M2 debt issuance. The recommended firms are BAML; Barclays Capital, Inc.; Citigroup Global Markets, Inc. (Citi); Goldman Sachs & Co.; J.P. Morgan Securities LLC; and Stifel, Nicolaus & Company, Inc.

The evaluation committee also recommends naming BAML and Citi as the senior underwriting managers for this next M2 debt issuance. BAML will serve as the lead senior manager and be responsible for maintaining the underwriting books for the debt transaction, while Citi will assist BAML with the financing. The other four firms will serve as co-managers on the transaction.

In their proposals, BAML and Citi highlighted their respective firms' vast experience with sales tax revenue bonds in California and throughout the nation. Both firms proposed project teams that have experience with sales tax revenue bonds and an understanding of OCTA's debt structure. The proposed lead banker for the BAML project team has been involved in previous financings with OCTA and has over 30 years of experience. The proposed lead banker for the Citi project team has 27 years of experience. Both firms' technical proposals included work plans with supporting recommendations and a detailed discussion on moving forward with OCTA's financing program. During the interviews, both firms demonstrated their recommendations for the next M2 debt issuance, which included proactive approaches for educating potential investors on the transaction, as well as provided responses to the evaluation committee's questions.

Anticipated Cost of Issuance Expenses and Underwriting Fees

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, printing, roadshow, and other miscellaneous expenditures. The estimated cost of issuance expenses for an M2 debt issuance will total approximately \$550,000. In addition to these costs, the projected underwriting fees for the transaction are estimated at approximately \$582,000. Staff will determine the exact cost of issuance expenses for the transaction and provide those figures to the Board for approval.

Included in these costs are bond counsel services. OCTA currently contracts with Nossaman, LLP (Nossaman) to provide bond counsel services. Services include drafting and reviewing legal documents, providing opinions, and closing the transaction. The procurement for bond counsel services was originally handled in accordance with OCTA's Board-approved policies and procedures for professional services. On April 27, 2015, OCTA executed an agreement with Nossaman to provide bond counsel services. The original agreement was awarded on a competitive basis and includes a three-year initial term with two, one-year option terms and has been previously amended as described in Attachment B. OCTA is currently in the first option term of the contract and will look to exercise the second option term in early 2019. In order to proceed with the \$400 million M2 financing, funds will need to be added to the bond counsel agreement for the debt transaction.

Future TIFIA Loans

OCTA's Next 10 Delivery Plan identifies the need for future debt issuances after 2021. Staff would like to pursue a new TIFIA loan secured by M2 revenues in lieu of traditional bond financing. Subsequent TIFIA loans may offer a lower alternative cost of debt with more flexible repayment structures.

Next Steps

If the Board approves the recommended financing, selection of underwriters, and amendment to bond counsel services, staff will work with its financing team to develop the documents required for a transaction. Once the underwriting team is approved, staff will work with the financing team to evaluate alternatives and any changes to the recommended plan will be presented to the Board for approval. Once the recommended plan is finalized, staff will submit the financing documents to the Board for final review and approval. A tentative schedule is provided on the next page:

Approval of the 2018 Measure M2 Plan of Finance, Issuance of Measure M2 Bonds, Selection of Underwriting Team, and Bond Counsel Services Amendment

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Finance and Administration Committee Meeting (Potential Approval of Debt Issuance)	October 24, 2018
Board of Directors Meeting (Potential Approval of Debt Issuance)	November 12, 2018
Develop Bond Documents	November/December 2018
Finance and Administration Committee Meeting (Potential Approval of Draft Final Documents)	December 12, 2018
Rating Agency/Investor Presentations	December 2018
Board Meeting (Potential Approval of Final Bond Documents)	January 2019
Bond Pricing	January 2019
Bond Closing	February 2019

Summary

Staff has developed an M2 Plan of Finance to support the 405 Project, which includes the use of bond financing. Approval is requested for the selection of underwriters, amendment to the bond counsel contract, approval of the M2 Plan of Finance, and issuance of sales tax revenue bonds to fund the 405 Project.

Attachments

- A. Orange County Transportation Authority, 405 Project, Measure M2 Plan of Finance, October 2018
- B. Nossaman LLP, Agreement No. C-5-3099 Fact Sheet

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**Orange County Transportation Authority
405 Project, Measure M2 Plan of Finance
October 2018**

Introduction

On November 7, 2006, Orange County (OC) voters approved the renewal of the Measure M one-half cent sales tax for transportation improvements with 69.7 percent support. Voters originally endorsed Measure M in 1990 (known as M1) with a sunset in 2011. With the approval of Renewed Measure M (known as M2), the voters agreed to a continued investment of local tax dollars in OC's transportation infrastructure for 30 years, out to 2041.

Since M2's approval, OCTA's Board of Directors (Board) has continued to advance implementation of M2 through the adoption of a series of early delivery plans. These early delivery plans were designed to ensure the delivery of projects and programs through 2041 as promised to the voters, bring transportation improvements earlier to residents and commuters of OC and, as appropriate, address slower growth in sales tax revenue projections through strategic financing and successfully capturing and augmenting the program with external revenue.

By the year 2041, the M2 Transportation Investment Plan plans to deliver over \$13.1 billion worth of transportation improvements to OC. Major improvement plans target OC freeways, streets and roads, transit, and environmental programs. The successful completion of the M2 Program is both a necessity to enhance the quality of life in OC, as well as a management challenge based on many variables. The successful completion of the M2 Program is both a necessity to enhance the quality of life in OC, as well as a management challenge based on many variables.

The 405 Improvement Project

The M2 Transportation Investment Plan lists 14 major freeway projects. The \$1.91 billion I-405 Improvement Project (405 Project) is the largest project in the M2 Transportation Investment Plan and in OCTA's history. In April 2015, the Board identified \$1.254 billion of M2 funds for the 405 Project.

OCTA, in cooperation with the California Department of Transportation, is widening the San Diego Freeway (I-405) between State Route 73 (SR-73) and Interstate 605 (I-605).

The 405 Project will improve 16 miles of I-405 between the SR-73 freeway in Costa Mesa and I-605 near the Los Angeles County line. The 405 Project scope includes adding one general-purpose lane in each direction between Euclid Street and I-605 and making improvements to freeway entrances, exits, and bridges. In addition, the 405 Project will add the 405 Express Lanes, incorporating the existing

carpool lanes and a new lane in each direction between SR-73 and I-605. The 405 Express Lanes are expected to open in January 2023.

The general-purpose lanes portion of the 405 Project, 75% of the total cost, will be funded by a combination of local, state, and federal funds. The 405 Express Lanes portion of the 405 Project, 25% of the total cost, will be paid for by user-generated toll revenue from those who use the 405 Express Lanes.

OCTA awarded OC 405 Partners (DB Contractor) a \$1.217 billion contract to design and construct the 405 Project. The DB Contractor was issued a Notice to Proceed 1 in January 2017 and a Notice to Proceed 2 in July 2017. The DB Contractor has started construction in certain areas of the 405 Project.

The 405 Project Plan of Finance

The OCTA staff has been working on the 405 Project for many years. A Major Investment Study for the 405 Project was completed in 2006. The 405 Project draft Plan of Finance began in 2015 and has evolved each year based on refined funding commitments, construction costs, and financing requirements. The current 405 Project Plan of Finance includes local, state, and federal funds and grant monies. The largest commitment of construction funding is from OCTA's M2 sales tax receipts. In addition, the 405 Project construction funding includes State Highway Operation and Protection Program (SHOPP) funds, and federal and state grants.

OCTA's M2 Ordinance No. 3 states that pay-as-you-go financing is preferred. Ordinance No. 3, Section 5, authorizes bond financing and places no limit on the par amount outstanding. Ordinance No. 3 also states that bonds may be issued "at any time before, on, or after the imposition of taxes" net of the California Department of Tax and Fee Administration fee and the 2% set aside for environmental mitigation.

Based on the projected construction spending curve for the 405 Project, OCTA's actual M2 sales tax receipts to date, and projected M2 sales tax receipts through 2023, OCTA's preference to complete the general purpose lanes portion of the 405 Project on a pay-as-you-go basis is unfeasible and bond financing is necessary. The cashflow to support this conclusion is outlined in the OCTA Fiscal Year 2018-19 Comprehensive Plan that was approved by the Board on September 24, 2018.

A total of \$1.136 billion is programmed from M2 funds for the 405 Project. The current 405 Project Plan of Finance sources for the 405 Project include \$243 million pay-as-you-go M2 funds and approximately \$900 million of bond proceeds from the sale of M2 sales tax revenue bonds in 2019 and 2021. OCTA's M2 sales tax revenue bonds are currently rated Aa2, AA+, and AA+ by Moody's, Standard & Poor's (S&P), and Fitch respectively.

OCTA carefully reviewed the debt financing options for the 405 Express Lanes portion of the 405 Project (25% of total costs) that must be financed with non-M2 bond proceeds. In January 2016, OCTA decided to pursue a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan.

TIFIA loans generally have lower interest rates than toll revenue bonds, and TIFIA loans provide more flexible debt repayment structures than toll revenue bonds. In February 2016, OCTA submitted a Letter of Interest (LOI) for a TIFIA loan. In July 2016, OCTA received an indicative rating from S&P with a Plan of Finance based on pay-as-you-go M2 funds in 2017 and 2018, SHOPP funds, state and federal grants, and M2 bond issuance proceeds in 2019 and 2021. In August 2016, OCTA met with TIFIA loan officials and presented a similar plan of finance, which also included selling M2 sales tax revenue bonds in 2019 and 2021.

OCTA closed a 35-year \$628.93 million TIFIA loan in July 2017. The non-recourse TIFIA loan is secured solely by future net toll revenues from the 405 Express Lanes. M2 funds cannot be used to repay the TIFIA loan.

The TIFIA loan interest rate is 2.91%, one basis point above the 30-year U.S. Treasury rate on the day of the TIFIA loan closing. The TIFIA loan matures December 1, 2057. The TIFIA loan is rated Baa2 by Moody's. The rating reflects the completion risk of the 405 Project, the ramp-up risk, and the toll revenue risks of the new 405 Express Lanes. Based on the strong 405 Express Lanes toll revenue projections and the success of the new 91 Express Lanes in Riverside County and the Interstate 10 and Interstate 110 Express Lanes in Los Angeles County, the credit rating of the 405 Express Lanes are expected to improve over time.

The Build America Bureau (Bureau), which administers TIFIA loans for the U.S. Department of Transportation, ultimately required OCTA to secure committed M2 funds prior to the close of the TIFIA loan. Although OCTA had sufficient debt capacity to issue senior lien M2 bonds in the amount necessary to complete the funding of the 405 Project before the TIFIA loan financial close date, to satisfy the Bureau's committed funds requirement OCTA chose a cost-effective solution to secure a \$900 million line of credit (LOC) secured by a subordinate lien on future M2 receipts. Through a competitive procurement, OCTA selected Bank of America Merrill Lynch (BAML) to provide the LOC required by the Bureau. The BAML LOC is structured with two tranches, with one tranche for \$400 million maturing July 1, 2019 and one tranche for \$500 million maturing on July 1, 2021.

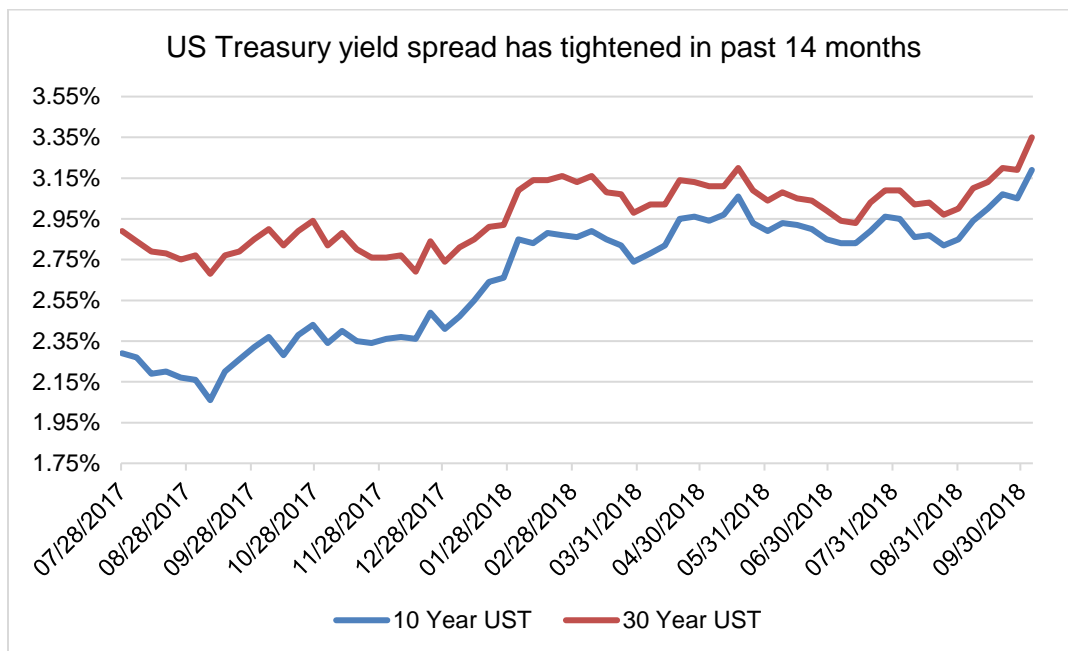
Current M2 Projections

In July 2018, OCTA presented a revised M2 sales tax forecast to the Board. The sales tax for the M2 Program is forecasted to be \$13.1 billion through 2041. This represents a decrease of \$0.4 billion compared to the previous year's forecast of \$13.5 billion. MuniServices' average annual short-term growth rate decreased by 70 basis points. The collective growth rates projected by Chapman University,

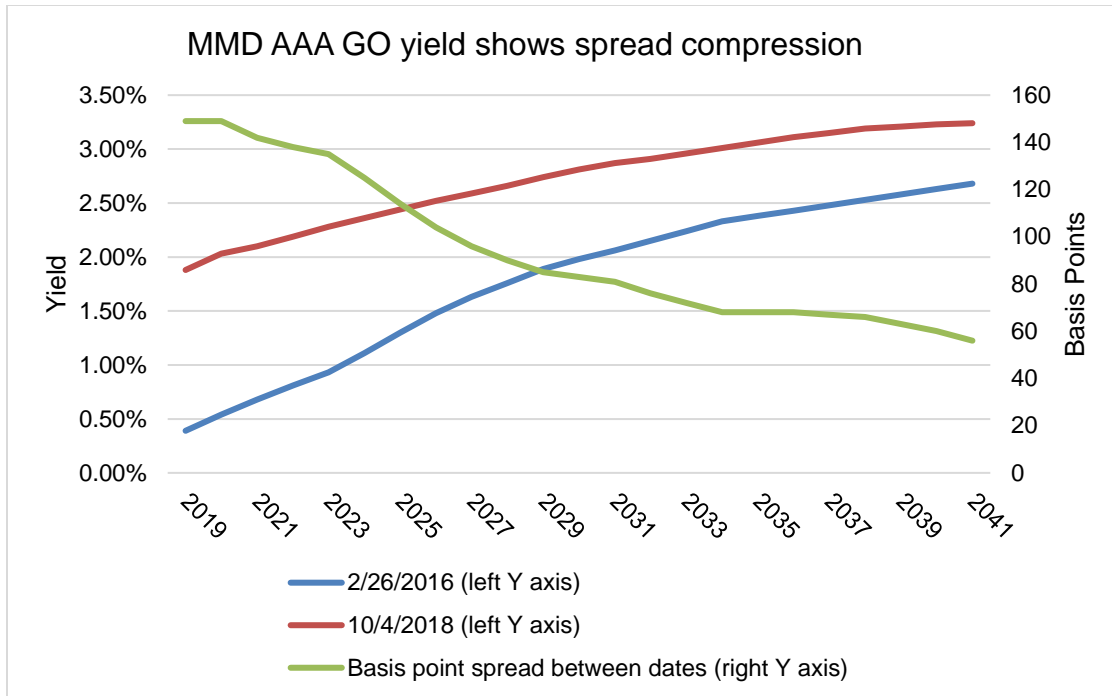
University of California, Los Angeles, and California State, Fullerton from 2017 to 2018 also decreased. The anticipated decline in short-term growth rates was driven by anticipated lower growth in general retail as online sales grow, slowing of growth in new auto sales, slowing of new construction, and declines in IT infrastructure spending due to trends toward cloud storage and software solutions. The long-term anticipated decline was due to lower inflation, lower payroll job growth, lower population growth, and higher migration outside of OC.

Current Capital Market Conditions

Capital market conditions have changed due to monetary policy since OCTA's original draft Plan of Finance in 2016. Since mid-2016, based on continuing positive economic indicators, the Federal Reserve has been gradually increasing the Fed Funds Rate which has resulted in rising short-term interest rates. For example, the two-year U.S. Treasury rate has risen from 0.75% in February 2016 when OCTA submitted its LOI for a TIFIA loan to 2.88% on October 5, 2018. However, long-term rates have been relatively steady. The spread between 10-year and 30-year US Treasury rates has tightened significantly since OCTA closed on its TIFIA loan July 26, 2017 (see chart below). Over the past six months, the spread between the 10-year and 30-year U.S. Treasury has averaged 15 basis points; the result has been a flattening yield curve.



The chart below illustrates the flattening of the municipal bond yield curve based on the Municipal Market Data (MMD) general obligation (GO) yields. In 2017, OCTA's M2 sales tax revenue bonds traded in a range of 10 to 15 basis points above the MMD GO benchmark. Today OCTA's bonds can trade at yields almost identical to or through the MMD GO benchmark.



Many economists and capital market observers expect short- and long-term interest rates to rise in 2019.

The Tax Cuts and Jobs Act of 2017 signed in December 2017 has had a significant impact on the tax-exempt bond market. Among many other provisions that affected tax-exempt debt, the Tax Cuts and Jobs Act of 2017 signed in December 2017 eliminated advance refundings and the State and Local Tax Deduction.

After a surge in tax-exempt bond issuance in December 2017, most municipal market observers predicted that 2018 tax-exempt bond issuance will be down 10% to 35% from the prior year. In addition to lower new issue volume, the elimination of SALT has increased the demand for California tax-exempt bonds.

Construction Fund Reinvestment

The increase in taxable short-term interest rates will have a positive impact on the reinvestment of the proposed 2019 M2 bond issuance. Therefore, OCTA could experience higher interest income on its bond proceeds than it pays in debt service.

The M2 bond proceeds must be invested pursuant to the permitted Investment Securities in the Indenture for the 2010 M2 sales tax revenue bonds. (Investment Securities is a defined term within the Indenture. The Investment Securities definition in the M2 indenture requires that Investment Agreements must be with providers that have minimum ratings of Aa2 by Moody's and AA by S&P.) Prior to

the anticipated sale of the 2019 M2 sales tax revenue bonds, the OCTA staff will review current reinvestment rates and flexibility afforded by purchasing highly rated Investment Securities with maturities that approximate the estimated 405 Project construction spend requirements, the active management of the bond proceeds by one of the portfolio managers under contract with OCTA, or an investment agreement.

2018 405 Project Plan of Finance: Goals

The goal of the 405 Project Plan of Finance is to establish OCTA's objectives for the M2 financings required to complete the funding of the 405 Project, as well to leave sufficient M2 debt capacity to meet the needs of the Next 10 Delivery Plan project delivery requirements. The establishment of clear, measurable objectives is a prerequisite to the formulation of a 2018 405 Project Plan of Finance strategy. Objectives include:

- Achieving the lowest possible borrowing cost;
- Taking advantage of today's low long-term interest rates;
- Providing M2 sales tax revenue bond proceeds as needed;
- Maximizing future financial management flexibility; and
- Minimizing risk.

2018 Financing Team and Anticipated Cost of Issuance Expenses and Underwriting Fees

In September 2016, the Board selected 11 firms to serve on an underwriting pool for a period of five years. At the time of the selection, staff specified that senior managers and co-managers would be selected for future debt issuances from the underwriting pool on a project-by-project basis. On August 17, 2018, OCTA issued a mini request for proposals to the 11 firms from the underwriting pool. Of those 11 firms, six firms have been selected to serve on the underwriting team for the upcoming 405 Project issuance. The recommended firms are BAML as senior, Citi as co-senior, and Barclays, Goldman, JP Morgan, and Stifel as the four co-managers.

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, printing, roadshow, and other miscellaneous expenditures. Nossaman LLP will serve as bond counsel on the transaction. The estimated cost of issuance expenses for a M2 debt issuance will total approximately \$550,000. In addition to these costs, the projected underwriting fees for the transaction are estimated at approximately \$582,000. Staff will determine the exact cost of issuance expenses for the transaction and provide those figures to the Board for approval.

2018 405 Project Plan of Finance Recommendation

With Board approval, OCTA plans to issue M2 sales tax revenue bonds producing approximately \$400 million in bond proceeds in early 2019 and M2 sales tax revenue bonds producing approximately \$500 million in bond proceeds in 2021.

The Bureau will allow OCTA to reduce the required LOC amount when OCTA issues M2 sales tax revenue bonds as planned. The \$400 million of M2 sales tax revenue bond proceeds in 2019 will reduce TIFIA's requirement for committed funds provided by the BAML LOC from \$900 million to \$500 million when the \$400 million M2 bond proceeds are deposited with OCTA's trustee. OCTA currently pays BAML a fee of 26 basis points, totaling \$1.04 million annually, for the \$400 million tranche maturing July 2019.

Similarly, when OCTA sells the planned \$500 million of M2 sales tax revenue bonds in 2021 and deposits the \$500 million M2 sales tax revenue bond proceeds with its trustee, TIFIA will no longer have a requirement for committed funds and the BAML LOC will terminate. OCTA currently pays BAML a fee of 36 basis points, totaling \$1.8 million annually, for the outstanding \$500 million tranche maturing July 2021.

OCTA staff continues to review various financing options and variables which could change its current 405 Project Plan of Finance recommendation. The recent underwriter's proposals suggested several interesting alternatives to OCTA's current plans to issue M2 sales tax revenue bonds producing approximately \$400 million in bond proceeds in early 2019.

- Most of the underwriters discussed the potential benefits of issuing the entire \$900 million 405 Project funding requirements in 2019. The potential benefits of issuing \$900 million in 2019 included: locking in the current low interest rates; potential interest savings if interest rates were to climb significantly between 2019 and 2021; and early termination of the entire BAML LOC.
- Several underwriters suggested a hybrid approach involving the simultaneous issuance of \$400 million of M2 sales tax revenue bonds in 2019 and a two-year \$500 million Bond Anticipation Notes (BANs), which would provide BAN proceeds to replace the TIFIA requirement for the \$500 million LOC and could potentially be reinvested at a higher interest rate that could offset the cost of the BANs. The \$500 million BANs would then be repaid with the proceeds of the 2021 M2 sales tax revenue bonds.
- One underwriter suggested issuing subordinate lien M2 bonds rather than the current plan to issue senior lien M2 bonds. The potential benefit would be to preserve the current attractive debt service coverage of the M2 senior lien bonds and, due to today's market conditions, pay a similar interest rate.
- One underwriter suggested pursuing a TIFIA loan secured by a subordinate lien of M2 bonds for several of OCTA's Next 10 Delivery Plan projects. Such

a TIFIA loan may offer attractive pricing and would preserve the current attractive debt service coverage of the M2 senior lien bonds.

OCTA's staff will continue to evaluate if there are attractive alternatives to the current plan to issue \$400 million of M2 sales revenue bonds in 2019.

Future Issuances

In addition to the \$900 million for the 405 Project, OCTA expects to issue an additional \$1 billion in bonds from 2023 through 2041, based on M2 revenue forecasts and project funding requirements.

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.

**Nossaman LLP
Agreement No. C-5-3099 Fact Sheet**

1. April 27, 2015, Agreement No. C-5-3099, \$215,000, approved by Contracts Administration and Materials Management (CAMM) Department.
 - Agreement to provide bond counsel services.
 - Initial term of the agreement is effective April 27, 2015 through March 31, 2018, with two, one-year option terms.
2. June 3, 2016, Amendment No. 1 to Agreement No. C-5-3099, \$0.00, approved by the CAMM Department.
 - To replace key personnel for federal and sales tax services.
3. May 8, 2017, Amendment No. 2 to Agreement No. C-5-3099, \$80,000, approved by the Board of Directors (Board).
 - To provide additional bond counsel services to support the review, closing, and opinions needed for a Letter/Line of Credit Request for Proposal required by the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for the Interstate 405 Improvement Project, from State Route 73 to Interstate 605.
4. December 22, 2017, Amendment No. 3 to Agreement No. C-5-3099, \$32,250, approved by the CAMM Department.
 - To provide additional bond counsel services related to the TIFIA loan for the Interstate 405 Improvement Project, from State Route 73 to Interstate 605.
5. March 30, 2018, Amendment No. 4 to Agreement No. C-5-3099, \$0.00, approved by the CAMM Department.
 - To exercise the first option term and extend the agreement through March 31, 2019.
6. November 12, 2018, Amendment No. 5 to Agreement No. C-5-3099, \$200,000, pending Board approval.
 - To provide bond counsel services related to the issuance of the Measure M2 Sales Tax Revenue Bonds, Series 2019.

Total committed to Nossaman LLP, Agreement No. C-5-3099: \$527,250.