



AGENDA

Finance and Administration Committee Meeting

Committee Members

Michael Hennessey, Chairman
Richard Murphy, Vice Chairman
Andrew Do
Gene Hernandez
Steve Jones
Michelle Steel
Donald P. Wagner

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

Wednesday, January 8, 2020 at 10:30 a.m.

Any person with a disability who requires a modification or accommodation in order to participate in this meeting should contact the OCTA Clerk of the Board, telephone (714) 560-5676, no less than two (2) business days prior to this meeting to enable OCTA to make reasonable arrangements to assure accessibility to this meeting.

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

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

Call to Order

Pledge of Allegiance

Director Steel

1. Public Comments

Consent Calendar (Items 2 through 10)

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 - November 13, 2019

Approval of the minutes of the Finance and Administration Committee meeting of November 13, 2019.



3. Approval of Minutes - October 23, 2019

Approval of the minutes of the Finance and Administration Committee meeting of October 23, 2019.

4. Corporate Credit Cards, Internal Audit Report No. 20-504
Gerald Dunning/Janet Sutter

Overview

The Internal Audit Department has completed an audit of corporate credit cards. Based on the audit, controls to ensure transactions are valid, authorized, and in compliance with policies and procedures, are generally adequate; however, one recommendation has been made to clarify requirements for obtaining and documenting approvals.

Recommendation

Direct staff to implement one recommendation provided in Corporate Credit Cards, Internal Audit Report No. 20-504.

5. Bus Marketing, Internal Audit Report No. 19-512
Gerald Dunning/Janet Sutter

Overview

The Internal Audit Department has completed an audit of bus marketing activities. Based on the audit, compliance with procurement and invoice review procedures should be improved and documentation of marketing programs should be enhanced. The Internal Audit Department has made three recommendations to improve compliance and to better document marketing program efforts and effectiveness.

Recommendation

Direct staff to implement three recommendations provided in Bus Marketing, Internal Audit Report No. 19-512.



6. **91 Express Lanes Master Custodial Account and Revenue Allocation, Internal Audit Report No. 19-514**
Ricco Bonelli/Janet Sutter

Overview

The Internal Audit Department has completed an audit of 91 Express Lanes Master Custodial Account activities and revenue allocation. Based on the audit, revenues are allocated to the Orange County Transportation Authority in accordance with the cooperative agreement between Orange County Transportation Authority and the Riverside County Transportation Commission. The audit also found controls over wire transfers from the 91 Express Lanes Master Custodial Account are adequate and effective.

Recommendation

Receive and file 91 Express Lanes Master Custodial Account and Revenue Allocation, Internal Audit Report No. 19-514, as an information item.

7. **Award of Sole Source Agreement for the Purchase and Maintenance of a Xerox Nuvera 144 EA Production Press**
Sara Belovsky/Andrew Oftelie

Overview

As part of the Orange County Transportation Authority's Fiscal Year 2019-20 Budget, the Board of Directors approved the acquisition of a new high-production digital press to replace the 2003 Xerox Docutech 6135 press that has reached the end of its useful life. The new Xerox Nuvera 144 EA is compatible with the existing fleet of Xerox equipment used by the Orange County Transportation Authority. Staff is requesting a sole source agreement with Xerox for the purchase of the press.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. C-9-1771 between the Orange County Transportation Authority and Xerox Corporation, in the amount of \$175,340, for the purchase of a Xerox Nuvera 144 EA Production Press, training, and maintenance.



8. Agreement for the Purchase of Modular Systems and Ancillary Furniture
Sara Belovsky/Andrew Oftelie

Overview

In October 2019, the Orange County Transportation Authority issued an invitation for bids for the purchase, installation, reconfiguration, and maintenance of modular systems and ancillary furniture. Staff is requesting approval to execute a purchase order for needed modular systems and ancillary furniture.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. C-9-1652 between the Orange County Transportation Authority and Western Office, in the amount of \$990,000, to provide services for the purchase of modular systems and ancillary furniture for a two-year term.

9. Orange County Transportation Authority Investment and Debt Programs Report - November 2019
Robert Davis/Andrew Oftelie

Overview

The Orange County Transportation Authority has a comprehensive investment and debt program to fund its immediate and long-term cash flow demands. Each month, the Treasurer submits a report detailing investment allocation, performance, compliance, outstanding debt balances, and credit ratings for the Orange County Transportation Authority's debt program. This report is for the month ending November 30, 2019. 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.



- 10. Orange County Transportation Authority Investment and Debt Programs Report - October 2019**
Robert Davis/Andrew Oftelie

Overview

The Orange County Transportation Authority has a comprehensive investment and debt program to fund its immediate and long-term cash flow demands. Each month, the Treasurer submits a report detailing investment allocation, performance, compliance, outstanding debt balances, and credit ratings for the Orange County Transportation Authority's debt program. This report is for the month ending October 31, 2019. 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.

Regular Calendar

- 11. Fiscal Year 2019-20 First Quarter Budget Status Report**
Anthony Baruch/Andrew Oftelie

Overview

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

Recommendation

Receive and file as an information item.

Discussion Items

- 12. Chief Executive Officer's Report**
- 13. Committee Members' Reports**
- 14. Closed Session**

There are no Closed Session items scheduled.



15. Adjournment

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



Committee Members Present

Michael Hennessey, Chairman
Gene Hernandez
Steve Jones

Committee Members Absent

Richard Murphy, Vice Chairman
Andrew Do
Michelle Steel
Donald P. Wagner

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 November 13, 2019 regular meeting of the Finance and Administration Committee (Committee) was called to order by Committee Chairman Hennessey 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

There were no Special Calendar matters.

Darrell E. Johnson, Chief Executive Officer (CEO), announced that due to lack of quorum, Items 3 through 12 will go forward to the November 25, 2019 Board of Directors meeting for consideration without the Committee's vote.

Consent Calendar (Items 2 through 12)

2. Approval of Minutes

Due to a lack of quorum, the minutes of the October 23, 2019, will return to the next Finance and Administration Committee meeting for consideration.



3. **Fiscal Year 2019 Triennial Review**

Committee Chairman Hennessey pulled this item and requested a full briefing on this item.

Janet Sutter, Executive Director of Internal Audit, stated this audit is required by the Federal Transit Administration (FTA). The FTA triennially reviews 21 different areas that cross divisions throughout the Orange County Transportation Authority (OCTA). Ms. Sutter also stated that OCTA had no deficiencies, which has never happened. Additionally, the FTA complimented OCTA on its best practices, such as OCTA's Disadvantaged Business Enterprise (DBE) program, Title VI program, and Americans with Disabilities Act process.

Mr. Johnson, CEO, stated OCTA was compliant in all the areas, and highlighted an FTA reviewer's comment that OCTA's DBE program is the best in the nation.

Committee Chairman Hennessey congratulated Virginia Abadessa, Director of Contract and Administration and Materials Management, and her staff.

Due to lack of quorum, no action was taken on this item, and it will go forward to the November 25, 2019 Board of Directors meeting for consideration.

4. **Board Member Compensation, Mileage Reimbursements, and Training, Internal Audit Report No. 19-513**

Due to lack of quorum, no action was taken on this item, and it will go forward to the November 25, 2019 Board of Directors meeting for consideration.

5. **Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2019**

Due to lack of quorum, no action was taken on this item, and it will go forward to the November 25, 2019 Board of Directors meeting for consideration.

6. **Oversight Controls and Contract Compliance Related to the Orange Transportation Center Parking Structure Project**

Due to lack of quorum, no action was taken on this item, and it will go forward to the November 25, 2019 Board of Directors meeting for consideration.

7. **91 Express Lanes Update for the Period Ending September 30, 2019**

Due to lack of quorum, no action was taken on this item, and it will go forward to the November 25, 2019 Board of Directors meeting for consideration.



8. Fiscal Year 2019-20 First Quarter Grant Reimbursement Status Report

Due to lack of quorum, no action was taken on this item, and it will go forward to the November 25, 2019 Board of Directors meeting for consideration.

9. Update on the Loan Agreements with the Cities of Anaheim, Buena Park, Placentia, and the West Orange County Water Board

Due to lack of quorum, no action was taken on this item, and it will go forward to the November 25, 2019 Board of Directors meeting for consideration.

10. Orange County Employees Retirement System Early Payment for Fiscal Year 2020-21

Committee Chairman Hennessey pulled this item for staff to provide a brief overview of the prepayment of Orange County Employees Retirement System (OCERS) funds.

Andrew Oftelie, Chief Financial Officer (CFO), reported that OCERS provides member agencies an opportunity to prepay contributions for the fiscal year. He stated as an incentive, OCERS discounts OCTA's contributions by a certain percentage. He also stated this year the discount is 4.5 percent, and staff's recommendation is to authorize the early payment to OCERS.

Committee Chairman Hennessey stated as a point of pride that OCTA manages the budget well, and OCTA can take advantage of these types of savings, which also saves the taxpayers money.

Due to lack of quorum, no action was taken on this item, and it will go forward to the November 25, 2019 Board of Directors meeting for consideration.

11. Environmental Mitigation Program Endowment Fund Investment Report for September 30, 2019

Due to lack of quorum, no action was taken on this item, and it will go forward to the November 25, 2019 Board of Directors meeting for consideration.

12. Agreement for Cloud Disaster Recovery Solution

Due to lack of quorum, no action was taken on this item, and it will go forward to the November 25, 2019 Board of Directors meeting for consideration.



Regular Calendar

13. Fiscal Year 2018-19 Comprehensive Annual Financial Report and 91 Express Lanes Fund Financial Statements

Sean Murdock, Director of Finance and Administration, provided opening comments and a brief update on the fiscal year 2018-19 Comprehensive Annual Financial Report (CAFR), as well as introduced Kathy Lai of Crowe, LLP,

Ms. Lai reported on the following:

- All deliverables provided an unmodified opinion.
- No deficiencies were identified in the internal controls that would be considered material weaknesses.
- No difficulties with management were encountered during the audit.
- Management representation letter was obtained.

Mr. Oftelie acknowledged OCTA staff Changsu Lee, Section Manager III, and David Hernandez, Accountant Principal, for their efforts in working with Ms. Lai and Crowe, LLP.

Committee Chairman Hennessey congratulated staff for producing a clean CAFR within four months.

Mr. Johnson, CEO, stated the effort was timely, and the fresh perspective was right for OCTA.

Due to lack of quorum, no action was taken on this item, and it will go forward to the November 25, 2019 Board of Directors meeting for consideration.

14. Reserve Policy

Sean Murdock, Director of Finance and Administration, provided a PowerPoint on the following:

- Policy Goal;
- Background;
- Bus Program Reserve Policy;
- 91 Express Lanes Reserve Policy;
- Motorist Services Program Reserve Policy;
- Future Reserves;
- Recommendations, and
- Next Steps.

A discussion ensued regarding the time it would take to fill capital reserve accounts and how long would the reserve last.



14. (Continued)

Due to lack of quorum, no action was taken on this item, and it will go forward to the November 25, 2019 Board of Directors meeting for consideration.

Discussion Items

15. Chief Executive Officer's Report

Mr. Johnson, CEO, reported on the following:

- The Interstate 5 (I-5) South County Improvement Project is in full swing, and crews will demolish the La Paz northbound on-ramp this weekend and requires overnight closures of La Paz between Cabot Road and Muirlands Boulevard.
 - Closures will begin at 10:00 p.m. to 8:00 a.m. on Friday, November 15th, and Saturday, November 16th. There will be lane reductions on the northbound I-5; however the freeway will remain open.
 - Staff are notifying the public through all regular OCTA channels.
- On Sunday, November 17th, the Southern California Association of Governments and the Renew Beach Boulevard Coalition are hosting a “Meet on Beach” event along Beach Boulevard. This multi-city event will transform Beach Boulevard. into a more walkable and bikeable street for a day with activities at various hubs along the corridor.
 - OCTA staff will be at the Anaheim/Buena Park hub providing information about Safe Routes to School. Additionally, at the Huntington Beach hub staff will provide information about active transportation and the Orange County Loop.
- This is the final Finance and Administration Committee meeting of the year, and on behalf of OCTA staff, the Committee Members were wished all a happy and safe holiday season.

16. Committee Members' Reports

Committee Chairman Hennessey complimented staff and thanked them for their conservative fiscal management of funds.



17. Closed Session

There were no Closed Session items scheduled.

18. Adjournment

The **10:30 a.m. on Wednesday, December 11, 2019**, meeting of the Finance and Administration Committee has been **cancelled.**

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

ATTEST

Gina Ramirez
Deputy Clerk of the Board

Michael Hennessey
Committee Chairman



Committee Members Present

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

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

Committee Members Absent

Donald P. Wagner

Call to Order

The October 23, 2019, regular meeting of the Finance and Administration (F&A) Committee was called to order by Committee Chairman Hennessey at 10:32 a.m.

Pledge of Allegiance

Committee Vice Chairman R. Murphy led in the Pledge of Allegiance.

1. Public Comments

No public comments were received.

Special Calendar

There were no Special Calendar matters.

Consent Calendar (Items 2 through 11)

2. Approval of Minutes

A motion was made by Committee Vice Chairman R. Murphy, seconded by Director Hernandez, and declared passed by those present, to approve the minutes of the Finance and Administration Committee meeting of September 25, 2019.

3. Fiscal Year 2019-20 Internal Audit Plan, First Quarter Update

Committee Chairman Hennessey pulled this item to inquire if there was anything the F&A Committee needed to be concerned about on the update and if the Internal Audit Department received full cooperation from staff.



3. (Continued)

Janet Sutter, Executive Director of Internal Audit, responded that the Internal Audit department had a good quarter with lots of cooperation. Ms. Sutter stated there is not anything to note in the quarterly update.

Following the discussion, no action was taken on this receive and file information item.

4. Property Insurance Policy Renewal

Committee Chairman Hennessey and Director Steel pulled this item.

Committee Chairman Hennessey inquired on the market trend of 20 to 40 percent increase for insurance policies renewing this year.

Al Gorski, Department Manager of Risk Management, responded that the Orange County Transportation Authority's (OCTA) Broker of Record is Marsh Risk and Insurance Services, Inc. (Marsh) and introduced Craig Morris, Senior Vice President of Marsh, who discussed the possible trends that are causing the increase in premiums.

Director Steel inquired on what services OCTA receives from Marsh for paying an annual fee of \$100,000.

Mr. Gorski responded there are several points of advice that OCTA receives from Marsh. These include insurance requirements for the contractors, baseline information; the staff also depends on Marsh to provide trends in the market. For example, OCTA staff is currently working on the cyber renewal policy with coverage of \$10 million dollars. Additionally, Marsh has seen the market level increase to \$15 million dollars, and OCTA is considering that amount.

A motion was made by Director Steel, seconded by Director Do, and declared passed by those present, to authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A44100, in an amount not to exceed \$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, 2019 to December 1, 2020.



5. Fiscal Year 2018-19 Fourth Quarter Budget Status Report

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

6. State Transit Assistance Fund and Senate Bill 1 State of Good Repair Claims for Fiscal Year 2019-20

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

- A. Adopt Resolution No. 2019-079 to authorize the filing of State Transit Assistance Fund claims, in the amount of revised estimate of \$38,396,928, or up to the actual allocation published by the State Controller's Office, to support public transportation.
- B. Authorize the filing of Senate Bill 1 State of Good Repair claims, in the amount of the revised estimate of \$5,933,032, or up to the actual allocation published by the State Controller's Office, to help sustain and upgrade the Orange County Transportation Authority's bus system.

7. 2019 Measure M2 Sales Tax Forecast

Committee Chairman Hennessey pulled this item to inquire on the 2.2 percent increase in Sales Tax.

Andrew Oftelie, Chief Financial Officer (CFO), stated the increase is based on a combination of factors, including the California Department of Tax and Fee Administration's (CDTFA) implementation of Assembly Bill 147 (AB 147). AB 147 provides essential direction to state law for the United States Supreme Court's *Dakota v. Wayfair, Inc.*, decision in California, and this is more attributable to the increase from \$13.1 billion to \$13.4 billion. Additionally, the delay in receipts from the CDTFA last year, at this time, staff showed a negative growth rate based on the actuals that OCTA had received from CDTFA.

Following the discussion, no action was taken on this receive and file information item.



8. Orange County Transportation Authority Investment and Debt Programs Report - September 2019

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

9. First Quarter Fiscal Year 2019-20 Procurement Status Report

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

10. New York Meetings Update - September 2019

Committee Chairman Hennessey pulled this item to report on the annual New York rating agencies trip and highlighted the compliments received by the rating agencies about the 91 Express Lanes.

Committee Chairman Hennessey inquired if there were any updates from the rating agencies.

Andrew Oftelie, CFO, responded that there had been no official actions by any of the rating agencies. However, Moody's representatives stated they were considering a review of OCTA in the coming months. He stated that OCTA's goal for this trip was to reaffirm or maintain the high ratings that OCTA already had. Also, based on the criteria of the rating agencies, OCTA's ratings are as high as possible for both Measure M and the 91 Express Lanes.

Following the discussion, no action was taken on this receive and file information item.

11. Agreement for Budget and Forecasting Software

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

- A. Approve the selection of Clarity Partners, LLC, as the firm to provide budget and forecasting software.
- B. Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-9-1083 between the Orange County Transportation Authority and Clarity Partners, LLC, in the amount of \$536,067, for a term of three years with two, two-year option terms to provide budget and forecasting software.



Regular Calendar

12. **Contractor Selection for the Back-Office System and Customer Service Center Operations for the 91 Express Lanes in Orange and Riverside Counties**

Kirk Avila, General Manager of the 91 Express Lanes, provided a PowerPoint on the following:

- Background;
- Modernizing the 91 Express Lanes-Toll Lane Systems Integrator Services, Back-Office System/Customer Service Center Procurement, Roadway Services Procurement;
- Procurement Includes: Back-Office System, Customer Service Center, Other Operational Functions;
- Procurement Process;
- Cofiroute USA, LLP Proposed Cost;
- Recommendations, and
- Next Steps.

Committee Chairman Hennessey inquired why only 20 percent of the proposal was the price.

Mr. Avila responded in consultation with OCTA's project management consultant HNTB, the Riverside County Transportation Commission (RCTC), and OCTA's contracts department, staff reviewed the industry standards, and pricing was at the 20 percent level.

Committee Chairman Hennessey inquired what agencies were on the interview panel.

Mr. Avila stated the panel was made up of representatives from OCTA, RCTC, the Los Angeles County Metropolitan Transportation Authority, and San Diego Metropolitan Transit System.

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

- A. Approve the selection of Cofiroute USA, LLC., as the firm to provide the back-office system and customer service center operations services for the 91 Express Lanes in Orange and Riverside counties.
- B. Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-9-1177 among the Orange County Transportation Authority, Riverside County Transportation Commission, and Cofiroute USA, LLC., in the amount of \$72,982,804, to provide the back-office system and customer service center operations services for the 91 Express Lanes in Orange and Riverside counties, for an initial term of seven years with two three-year option terms. The designated share for the Orange County Transportation Authority will be \$35,420,566.



Discussion Items

13. Chief Executive Officer's Report

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

Beach Boulevard Corridor Study (Study):

- OCTA is in the final round of collecting public feedback for the Study.
- Comments can be submitted online now through October 26th at octa.net/beachstudy.
- The Study will be completed in February 2020.

25th Annual Economic Forecast:

- On October 30th, the California State University Fullerton and the Orange County Business Council are hosting their 25th annual Economic Forecast in Irvine.
- He, along with, Andrew Oftelie and Directors Bartlett, Davies, Hennessey, Hernandez, and R. Murphy will be attending.
- The program starts at 11:30 a.m. and registration is at 11:00 a.m.

14. Committee Members' Reports

There were no Committee Members' Reports.

15. Closed Session

There were no Closed Session items scheduled.



16. Adjournment

The meeting adjourned at 11:03 a.m.

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, November 13, 2019**, at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.

ATTEST

Gina Ramirez
Deputy Clerk of the Board

Michael Hennessey
Committee Chairman



January 8, 2020

To: Finance and Administration Committee

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

Subject: Corporate Credit Cards, Internal Audit Report No. 20-504

Overview

The Internal Audit Department has completed an audit of corporate credit cards. Based on the audit, controls to ensure transactions are valid, authorized, and in compliance with policies and procedures, are generally adequate; however, one recommendation has been made to clarify requirements for obtaining and documenting approvals.

Recommendation

Direct staff to implement one recommendation provided in Corporate Credit Cards, Internal Audit Report No. 20-504.

Background

Corporate credit cards are issued to members of Orange County Transportation Authority (OCTA) management to facilitate payment of travel and business expenses. Expenses may also be paid by the employee and submitted for reimbursement through the Accounts Payable Department. OCTA maintains a written Corporate Credit Card Policy (Policy), outlining proper use of the cards and responsibilities for preparing and submitting monthly reconciliations of card activity.

Discussion

Policies for approval of business meal and event table expenditures do not specify when approvals must be obtained or how approvals are to be documented. The Internal Audit Department (Internal Audit) recommended

management update policies to provide additional guidance. Management agreed and indicated that updates will be made in early January 2020.

Summary

Internal Audit has completed an audit of corporate credit cards and has offered one recommendation for improvement.

Attachment

- A. Corporate Credit Cards, Internal Audit Report No. 20-504

Prepared by:



Gerry Dunning
Senior Internal Auditor
714-560-5875

Approved by:



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

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Corporate Credit Cards

Internal Audit Report No. 20-504

December 23, 2019



Performed by:

Gerry Dunning, CIA, CISA, CFE, Senior Internal Auditor
Janet Sutter, CIA, Executive Director



Distributed to:

Ken Phipps, Deputy Chief Executive Officer
Andrew Oftelie, Chief Financial Officer, Finance and Administration
Sean Murdock, Director, Finance and Administration
Ben Torres, Ann Marumoto, Jane Swanson

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Corporate Credit Cards
December 23, 2019**

Table of Contents

| | |
|---|---|
| Conclusion | 1 |
| Background | 1 |
| Objectives, Scope, and Methodology | 1 |
| Audit Comment, Recommendation, and Management Response..... | 3 |
| Policy Approval Requirements Should be Clarified..... | 3 |

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Corporate Credit Cards
December 23, 2019**

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of corporate credit cards. Based on the audit, controls to ensure transactions are valid, authorized, and in compliance with policies and procedures, are generally adequate; however, one recommendation has been made to clarify policies for obtaining and documenting approvals.

Background

Corporate credit cards are issued to members of Orange County Transportation Authority (OCTA) management to allow for payment of travel and business expenses. Expenses may also be paid by the employee and submitted for reimbursement through the Accounts Payable Department (Accounts Payable). OCTA maintains a written Corporate Credit Card Policy (Policy), outlining proper use of the cards and responsibilities for preparing and submitting monthly reconciliations of card activity. Cardholders are also required to acknowledge receipt of OCTA's Code of Conduct every two years.

OCTA administrative staff assist cardholders in assembling monthly reconciliations of corporate card activity and in preparing expense reimbursement packages. Monthly reconciliation packages, with supporting receipts, are submitted to the Deputy Chief Executive Officer (DCEO), or his designee, for review and approval. The DCEO submits his package to the Chief Executive Officer (CEO) for review and approval. Monthly reconciliation packages must be submitted to the Accounts Payable for processing within 28 days of the statement date.

Objectives, Scope, and Methodology

The objective was to identify and test controls over corporate credit cards and to test card activity for compliance with OCTA policies.

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

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

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Corporate Credit Cards
December 23, 2019**

- Control Environment
 - The organization demonstrates a commitment to integrity and ethical values.
 - Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
- Risk Assessment
 - The organization considers the potential for fraud in assessing risks to the achievement of objectives.
- Control Activities
 - The organization deploys control activities through policies that establish what is expected and in procedures that put policies into action.
- Monitoring Activities
 - The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

The scope of the audit included credit card statements and related activity during the period January 14 through September 14, 2019.

The methodology consisted of testing cardholder bi-annual acknowledgement of OCTA's Code of Conduct; identification and testing of controls over corporate card statement reconciliations; and testing corporate card transactions for compliance with the Policy, the Business Expense Policy (BE Policy), and the Travel Policy. Also, testing was performed to ensure corporate credit card expenses were not duplicated in expense reimbursement requests submitted during the same period.

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

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Corporate Credit Cards
December 23, 2019**

Audit Comment, Recommendation, and Management Response

Policy Approval Requirements Should be Clarified

Policies outlining requirements for approval of business meals and purchase of event tables should be clarified to specify how and when approvals are to be obtained and documented. Forms used to document approvals should be referenced in the related policy.

The BE Policy indicates that the purchase of complete tables at events is discouraged and requires the approval of the CEO or DCEO, but does not outline requirements for evidencing such approval. Similarly, the Travel Policy addresses business meal expenses and outlines requirements for documenting the meal purpose and attendees, etc. and recommends preapproval. Testing found that business meals are documented on a Business Meal Expense form; however, pre-approval is not typically obtained, and the Travel Policy makes no reference to the form.

Recommendation 1:

Management should update policies to provide additional guidance for obtaining and documenting approvals.

Management Response:

Management agrees with the recommendation and will clarify the procedures for the approval of business meals and purchase of complete tables. The Travel Policy will be amended to remove the recommendation to obtain preapproval for business meals, however reimbursements for business meals will still require approval as outlined in the Policy. The BE Policy will be modified to include a procedure that will require written authorization from the CEO or DCEO prior to the purchase of a complete table. The procedure will also clarify the acceptable forms of written authorization, such as interoffice memo, email, etc. Management anticipates implementing the changes in early January 2020.



January 8, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department 

Subject: Bus Marketing, Internal Audit Report No. 19-512

Overview

The Internal Audit Department has completed an audit of bus marketing activities. Based on the audit, compliance with procurement and invoice review procedures should be improved and documentation of marketing programs should be enhanced. The Internal Audit Department has made three recommendations to improve compliance and to better document marketing program efforts and effectiveness.

Recommendation

Direct staff to implement three recommendations provided in Bus Marketing, Internal Audit Report No. 19-512.

Background

The Internal Audit Plan for Fiscal Year (FY) 2018-19 included an audit of bus marketing. The audit was identified at the annual risk assessment meeting between the Internal Audit Department (Internal Audit) and the Executive Director of External Affairs.

The Marketing and Customer Engagement Department (Department) is responsible for public communications related to bus operations and marketing of bus and Metrolink promotions and programs, such as the Angels Express service, OC Flex, and mobile ticketing. Bus marketing project managers use a combination of internal support staff and competitively-procured consultants to implement marketing projects and programs.

During FY 2018-19, expenditures for bus marketing communications and promotions were approximately \$1.1 million.

A documented Marketing Plan, including the purpose, goals and objectives, target audience, timeline, and evaluation criteria, for each marketing project/program is required.

Discussion

Evaluation of procurement activities of the Department noted that contracts are frequently issued for short, one to two-year terms, and for values just below the threshold requiring Board of Directors' approval. In addition, multiple contracts with the same firm were issued during overlapping time periods. Internal Audit recommended management revise practices to combine contracts for similar services and issue contracts for recurring services for longer time periods. Management agreed and indicated that practices are being revised, project management training will be obtained, and additional controls over the procurement process have been implemented.

Internal Audit also identified weaknesses in the invoice review process, including the use of pre-typed invoice review checklists. Several invoices lacked required information and/or included costs not covered by the contracts. Internal Audit recommended that management provide training to project managers responsible for invoice review and approval. Management agreed and indicated that a program controls review has been implemented effective November 2019, and project management training will be provided.

Finally, Internal Audit found that compliance with Department procedures for development, execution, and approval of marketing programs was not always documented and evident. Internal Audit recommended written procedures be reviewed with project managers and documentation, including source and support for program evaluation criteria and results, be maintained. Management agreed to update procedures accordingly and to provide training.

Summary

Internal Audit has completed an audit of bus marketing activities and has offered three recommendations for improvement.

Attachment

- A. Bus Marketing, Internal Audit Report No. 19-512

Prepared by:



Gerald Dunning
Senior Internal Auditor
714-560-5875

Approved by:



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

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Bus Marketing

Internal Audit Report No. 19-512

December 5, 2019



Performed by Gerry Dunning, CIA, CISA, CFE, Senior Internal Auditor
Janet Sutter, CIA, Executive Director

GD

Distributed to: Lance Larson, Executive Director, External Affairs
Alice Rogan, Stella Lin, Ryan Armstrong

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Bus Marketing
December 5, 2019**

Table of Contents

| | |
|--|---|
| Conclusion | 1 |
| Background | 1 |
| Objectives, Scope, and Methodology | 2 |
| Audit Comments, Recommendations, and Management Responses | 3 |
| Procurement Practices Should be Improved | 3 |
| Invoice Review Practices Should be Improved | 3 |
| Compliance with Program Administration Procedures Should be Documented | 4 |

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Bus Marketing
December 5, 2019**

Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of bus marketing activities. Based on the audit, compliance with procurement policy and invoice review procedures should be improved, and documentation of marketing programs should be expanded. Internal Audit has made three recommendations to improve compliance and to better document marketing program efforts and effectiveness.

Background

The Marketing and Customer Engagement Department (Department) within the External Affairs Division, is responsible for public communications related to bus operations and marketing of bus and Metrolink promotions and/or new programs, such as the Angels Express service, OC Flex, and the implementation of mobile ticketing. Bus marketing staffing within the Department includes a manager, section manager, and three marketing specialists that act as project managers for the various bus marketing programs. Bus marketing project managers use a combination of internal support staff and consultants to implement marketing projects.

During fiscal year (FY) 2018-19, expenditures for bus marketing communications and promotions was approximately \$1.1 million. The budget includes bus book design and printing, diversity outreach efforts, targeted bus route promotions, and promotions specific to the OC Fair Express, OC Flex, Bravo, Mobile Ticketing, and the Summer Youth programs, among others.

Department procedures require a Marketing Plan (Plan) be developed and documented for each marketing program, including the purpose, goals and objectives, target audience, elements, timeline, and evaluation criteria. The procedures include, but are not limited to, approval of the Plan by the Department manager, development and approval of a budget, and periodic traffic reports documenting project status. Finally, projects should include documented evaluation of the results, using criteria and measurements outlined in the Plan.

The Department maintains time-and-expense contracts with several consultants to assist in developing and executing marketing promotions.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Bus Marketing
December 5, 2019**

Objectives, Scope, and Methodology

The objectives were to evaluate bus marketing operations and to assess and test controls in place to ensure compliance with procurement and invoice review policies and contract terms.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control, in the broadest sense, encompasses the plans, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal Controls significant within the context of the audit objectives were evaluated as part of this audit.

The methodology consisted of testing a judgmental sample of 3 (out of 12) open contracts, with a bias toward the larger-value contracts, for compliance with selected procurement policies and procedures; evaluation of open contract terms and values; testing a judgmental sample of 40 invoices, with a bias toward including 20 percent of the invoices against each of six contracts, for compliance with invoice review procedures and contract terms; and testing of a judgmental sample of five marketing programs, with a bias toward including different programs/promotions, for compliance with marketing plan policies and procedures.

The scope was limited to bus marketing activities and invoices during FY 2017-18 and 2018-19, and open bus marketing contracts as of May 2019.

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

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Bus Marketing
December 5, 2019**

Audit Comments, Recommendations, and Management Responses

Procurement Practices Should be Improved

Evaluation of the Department's procurement activities noted that contracts are frequently issued at or below \$250,000 (the maximum level before Board of Director's approval is required) and often for short, one or two-year terms. In addition, multiple contracts with the same firm have been issued during overlapping time periods. In most cases, if only one contract were used to provide all marketing services, the contract maximum would exceed \$250,000.

Recommendation 1:

Management should revise practices to ensure that contracts for similar services are combined and contract terms are set for longer periods when recurring services are sought. Management should train staff and perform monitoring, to ensure procurements are not being designed to fall under approval thresholds.

Management Response:

Management concurs and has begun to implement practices to have longer terms and consolidate future contracts for similar services to support Bus Marketing needs. External consulting expertise will be procured to provide Project Management training and provide updated guidance to staff. Management has additionally implemented an updated and streamlined requisition process with added controls that will ensure procurements are not being designed to fall under approval thresholds.

Invoice Review Practices Should be Improved

Invoice Review Checklists, used to document verification of invoice elements against contract terms, appear to be pre-typed templates that do not represent actual validation of charges.

All invoices were accompanied by Invoice Review Checklists that were completed and approved, indicating that charges were adequately supported and that labor rates and Other Direct Cost (ODC) charges were consistent with contract terms; however, Internal Audit noted several exceptions, as follows:

- Several invoices tested included ODC's that were not covered by the contract; however, the accompanying Invoice Review Checklists indicated that ODC's were "per contract rate schedules".

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Bus Marketing
December 5, 2019**

- Invoices for labor charges did not identify staff names (or other support to allow for validation of hours) as required by the contract; however, accompanying Invoice Review Checklists indicate “Employee labor hours being invoiced are adequately supported”.
- Invoices that included only ODC’s or only labor were accompanied by Invoice Review Checklists that indicate both ODC’s and labor charges were verified.
- Several invoices lacked required elements, such as a signed certification that the invoice is a true, complete, and correct statement of reimbursable costs, and the relevant contract number.

Recommendation 2:

Management should undergo training to reiterate the responsibilities of those charged with reviewing and approving invoices. Invoice Review Checklists should be blank and completed as invoices are reviewed.

Management Response:

Management agrees and has implemented a Program Controls function for all Marketing and Customer Engagement contracts in November 2019. This new function will ensure thorough and accurate reviews, approvals, and payments of contract invoices. Additionally, external consulting expertise will be procured to provide Project Management training and provide updated guidance to staff.

Compliance with Program Administration Procedures Should be Documented

Discussion with project and Department management, and review of the files for five marketing promotions noted that compliance with all Department procedures for development, execution, and approval of marketing programs is not always evident and documented.

Department procedures outline requirements for each marketing program, including development of a documented Plan, obtaining approval of the Plan, obtaining consultant budget estimates prior to start of work, final art approval, maintenance of traffic reports reflecting project status, and documented evaluation of results. The promotions tested did have written Plans, however, budget estimates and required approvals were not documented. Also, there was no evidence of regular traffic reports prepared to reflect the status of projects. Finally, the source and support of Plan evaluation criteria was not maintained in the files.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Bus Marketing
December 5, 2019**

Recommendation 3:

Internal Audit recommends written procedures be reviewed with project managers and management require documented compliance with requirements. In addition, documentation should include the source and support of stated evaluation criteria and related results.

Management Response:

Management concurs. With the assistance of external consulting expertise, Management will evaluate and update the current processes and procedures manual to reflect current needs and work environment to include the source and support of stated evaluation criteria and related results. It is expected that the new processes, procedures, and training will be completed the end of December 2020.



January 8, 2020

To: Finance and Administration Committee

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

Subject: 91 Express Lanes Master Custodial Account and Revenue Allocation, Internal Audit Report No. 19-514

Overview

The Internal Audit Department has completed an audit of 91 Express Lanes Master Custodial Account activities and revenue allocation. Based on the audit, revenues are allocated to the Orange County Transportation Authority in accordance with the cooperative agreement between the Orange County Transportation Authority and the Riverside County Transportation Commission. The audit also found controls over wire transfers from the 91 Express Lanes Master Custodial Account are adequate and effective.

Recommendation

Receive and file 91 Express Lanes Master Custodial Account and Revenue Allocation, Internal Audit Report No. 19-514, as an information item.

Background

In 2008, the Riverside County Transportation Commission (RCTC) received authority to extend the 91 Express Lanes from the Riverside County Line to Interstate 15. This section of the 91 Express Lanes opened in 2017, providing customers with eight additional miles of travel-time certainty. The Orange County Transportation Authority (OCTA) and RCTC entered into an agreement with the current 91 Express Lanes operator, Cofiroute USA (Cofiroute), to service both segments of the 91 Express Lanes.

OCTA, RCTC, and Bank of the West entered into a Master Custodial Account (MCA) Agreement in 2017, with Bank of the West serving as the account custodian. OCTA and RCTC also entered into a cooperative agreement (Cooperative Agreement) in December 2011. This agreement, along with a

detailed revenue-split schedule, outlines how revenues are to be allocated between OCTA and RCTC. As the 91 Express Lanes operator, Cofiroute tracks all trip activity through its Revenue and Account Management System, which is configured to allocate revenues by agency in accordance with the Cooperative Agreement. Tolls and violation fees collected for trips registered on the OCTA 91 Express Lanes side are assigned to OCTA, while tolls and violation fees collected for trips registered on the RCTC side are assigned to RCTC. Other administrative fees, miscellaneous non-toll revenue, and bad debt expenses are allocated by Cofiroute according to the Cooperative Agreement and detailed revenue-split schedule. OCTA's share of the revenues from the MCA averaged \$4.8 million per month during the audit period.

Discussion

The audit of the 91 Express Lanes MCA was included in the Fiscal Year 2018-19 Internal Audit Plan to evaluate controls and test activities to ensure proper allocation and deposit of revenues to OCTA. Internal Audit performed testing of revenues received and allocated from the 91 Express Lanes MCA to OCTA's 91 Express Lanes Operating Account and found that revenues were allocated in accordance with the Cooperative Agreement between OCTA and RCTC. Internal Audit also performed an assessment and testing of the MCA wire transfer control environment and determined that controls in place were adequate and effective.

Summary

Internal Audit has completed an audit of 91 Express Lanes MCA and Revenue Allocation.

Attachment

- A. 91 Express Lanes Master Custodial Account and Revenue Allocation, Internal Audit Report No. 19-514

Prepared by:



Ricco Bonelli
Principal Internal Auditor
714-560-5384

Approved by:



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

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



91 Express Lanes Master Custodial Account and Revenue Allocation

Internal Audit Report No. 19-514

December 10, 2019



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

RTB

Distributed to: Kirk Avila, General Manager, 91 Express Lanes
Andrew Oftelie, Sean Murdock, Benjamin Torres

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
91 Express Lanes
Master Custodial Account and Revenue Allocation
December 10, 2019**

Table of Contents

Conclusion 1
Background 1
Objectives, Scope, and Methodology 3

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
91 Express Lanes
Master Custodial Account and Revenue Allocation
December 10, 2019**

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of 91 Express Lanes Master Custodial Account (Custodial Account) activities and revenue allocation. Based on the audit, revenues are allocated to the Orange County Transportation Authority (OCTA) in accordance with the account agreement and the cooperative agreement between OCTA and the Riverside County Transportation Commission (RCTC). The audit also found controls over wire transfers from the Custodial Account are adequate and effective.

Background

The 91 Express Lanes is a four-lane, 18-mile toll road built in the median of State Route (SR) 91 (SR-91) between the SR-55/SR-91 interchange and the SR-91/Interstate (I) 15 (I-15) interchange. The 91 Express Lanes uses congestion management pricing to adjust tolls quarterly based on the number of vehicles utilizing the toll road. Motorists pay tolls via a transponder that automatically deducts the toll amount from a prepaid account.

In 2008, the RCTC received authority to extend the 91 Express Lanes to I-15. This section of the 91 Express Lanes opened in 2017, providing customers with eight additional miles of travel time certainty. OCTA and RCTC entered into an agreement with the current 91 Express Lanes operator, Cofiroute USA (Cofiroute), to service both segments of the 91 Express Lanes.

OCTA, RCTC, and Bank of the West entered into a Master Custodial Account Agreement (MCA Agreement) in 2017, with Bank of the West serving as the custodian for the Custodial Account. Deposits into the Custodial Account include all revenues and transponder-holder deposits received by the custodian in connection with the 91 Express Lanes, which refer jointly to the OCTA 91 Express Lanes and the RCTC 91 Express Lanes.

OCTA and RCTC also entered into a cooperative agreement (Cooperative Agreement) in December 2011. This agreement, along with a detailed revenue-split schedule, outlines how revenues and bad debt expenses are allocated between OCTA and RCTC. As the 91 Express Lanes operator, Cofiroute tracks all trip activity on the 91 Express Lanes through its Revenue and Account Management System (RAMS). RAMS is configured to track trip activity by agency (OCTA or RCTC) in order to allocate revenues in accordance with the Cooperative Agreement. Tolls and violation fees collected for trips registered on the OCTA 91 Express Lanes side are assigned to OCTA, while tolls and violations fees collected for trips registered on the RCTC side are assigned to RCTC. Other administrative fees, miscellaneous non-toll revenue, and bad debt expenses are allocated according to the Cooperative Agreement and detailed revenue-split schedule.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
91 Express Lanes
Master Custodial Account and Revenue Allocation
December 10, 2019**

In accordance with the MCA Agreement, funds in the 91 Express Lanes account are disbursed to the designated OCTA and RCTC operating bank accounts. Each business day, Cofiroute staff prepare a daily wire package. The package consists of wire transfer instructions for the Bank of the West and journal entries for OCTA and RCTC recording the daily prepaid tolls, deposits, and miscellaneous revenue and bad debt expense activity. Detailed documentation of daily activity by agency is provided to support the journal entries.

When the daily wire packages are received from Cofiroute, OCTA Accounting Department (Accounting) staff review the journal entries for accuracy and completeness, agree the journal entries to the supporting documentation, and confirm the wire transfer amount was deposited into the OCTA 91 Express Lanes Toll Revenue Account. Accounting staff prepare the journal entries to record the daily wire transfers. On a monthly basis, Accounting staff perform bank account reconciliations for both the Custodial Account and the 91 Express Lanes Toll Revenue Account.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
91 Express Lanes
Master Custodial Account and Revenue Allocation
December 10, 2019**

Objectives, Scope, and Methodology

The objectives were to assess the adequacy and effectiveness of controls over wire transfers from the Custodial Account and to determine whether 91 Express Lanes revenues were allocated to OCTA in accordance with the MCA Agreement and the Cooperative Agreement between OCTA and RCTC.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control, in the broadest sense, encompasses the plans, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls significant within the context of the audit objectives were evaluated as part of this audit.

The methodology consisted of an evaluation of controls over the wire transfer process, testing of controls for appropriate authorization and correct beneficiary bank account information, and testing of wire transfer disbursements for accuracy, adequate support, and compliance with revenue sharing agreed to in the Cooperative Agreement between OCTA and RCTC. The methodology also included testing of bank account reconciliations for compliance with OCTA policy.

The scope was limited to evaluation and testing of controls related to compliance with the MCA Agreement and the Cooperative Agreement between OCTA and RCTC. The scope included a judgmental sample of 40 wire transfers made from January 1, 2018 through June 30, 2019. The sample was selected to ensure at least two wire transfers were selected for each month during the 18-month period. Since the sample was non-statistical, any conclusions are limited to the sample items tested.

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



January 8, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Award of Sole Source Agreement for the Purchase and Maintenance of a Xerox Nuvera 144 EA Production Press

Overview

As part of the Orange County Transportation Authority's Fiscal Year 2019-20 Budget, the Board of Directors approved the acquisition of a new high-production digital press to replace the 2003 Xerox Docutech 6135 press that has reached the end of its useful life. The new Xerox Nuvera 144 EA is compatible with the existing fleet of Xerox equipment used by the Orange County Transportation Authority. Staff is requesting a sole source agreement with Xerox for the purchase of the press.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. C-9-1771 between the Orange County Transportation Authority and Xerox Corporation, in the amount of \$175,340, for the purchase of a Xerox Nuvera 144 EA Production Press, training, and maintenance.

Background

The Orange County Transportation Authority (OCTA) currently owns four Xerox Corporation (Xerox) production presses. The presses are used for high-volume copying, including material for outreach, service changes, budget documents, Riders Alerts, presentation and marketing materials, as well as Board of Directors (Board) and Committee agendas. Over the past five years OCTA has experienced fifteen percent growth in print production to over 6.8 million impressions per year.

To support the four production presses, OCTA uses Xerox's exclusive Freeflow software to manage the production of the print jobs. The Xerox Freeflow software allows the technicians to scan the printed material into a main computer

and then disburse the jobs to any of the four production presses. The Freeflow software creates a cohesive and integrated Xerox production system.

Discussion

OCTA currently has a Xerox Docutech black and white production press that has exceeded its useful life. The Xerox 6135 Docutech was purchased in 2003 and serves as the main black and white production press. The recommended useful life for the Docutech press given the number of annual prints is seven years, but OCTA has been able to get an additional nine years of service from the machine. However, the frequency of break downs with the machine has increased and has reached twice per month. In addition, the Xerox 6135 Docutech press is no longer in production and, as a result, parts have become more difficult for the manufacturer to obtain for repairs. As a result, downtime for the machine has increased from one to two hours to two to three days. This has resulted in delays in production jobs or increased cost when the job needs to be printed on a color press, which costs ten times the amount per impression. Currently, a black and white impression costs approximately half a cent per impression, whereas printing a color impression costs approximately five cents per impression. The replacement of the Docutech 6135 with a new Xerox Nuvera 144 EA will also provide a higher-quality finished product based on the Nuvera 144 EA providing twice the resolution quality.

Procurement Approach

This procurement was handled in accordance with OCTA Board-approved policies and procedures for a sole source procurement. Xerox is the exclusive owner of all proprietary rights for Xerox printers and is also the sole entity able to provide the Freeflow software, training, and maintenance. Therefore, Xerox meets OCTA's criteria for a sole source procurement. Awarding this contract to Xerox will allow OCTA to keep pace with user demands and evolutions in printing technology.

The Xerox proposal was reviewed by staff from the Contracts Administration and Materials Management and the General Services departments to ensure compliance with the contract terms and conditions, as well as the technical requirements. Based on the technical review, financial status, and vendor performance, Xerox is deemed responsible. In accordance with OCTA's sole source procurement procedures, a sole source procurement over \$50,000 requires OCTA's Internal Audit Department (Internal Audit) to conduct a price review of the proposed pricing from Xerox. Internal Audit concluded that Xerox provided OCTA with fair and reasonable pricing for the Xerox Nuvera 144 EA

Production Press, maintenance, and training based on historical contracted rates.

Fiscal Impact

The project was approved in OCTA's Fiscal Year 2019-20 Budget, Finance and Administration, General Services, Account 1291-9026-A5300-OKE, and is funded with local funds.

Summary

Based on the information provided, staff recommends the Board authorize the Chief Executive Officer to negotiate and execute sole source Purchase Order No. C-9-1771 between the Orange County Transportation Authority and Xerox Corporation, in the amount of \$175,340, for the purchase of a Xerox Nuvera 144 EA Production Press, training, and maintenance.

Attachment

None.

Prepared by:



Sara Belovsky
Section Manager,
General Services
(714) 560-5720

Approved by:



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



Virginia Abadessa
Director, Contracts Administration and
Materials Management
(714) 560-5623



January 8, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Agreement for the Purchase of Modular Systems and Ancillary Furniture

Overview

In October 2019, the Orange County Transportation Authority issued an invitation for bids for the purchase, installation, reconfiguration, and maintenance of modular systems and ancillary furniture. Staff is requesting approval to execute a purchase order for needed modular systems and ancillary furniture.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. C-9-1652 between the Orange County Transportation Authority and Western Office, in the amount of \$990,000, to provide services for the purchase of modular systems and ancillary furniture for a two-year term.

Discussion

The Orange County Transportation Authority (OCTA) administrative offices relocated to its current location in 1993. At that time, existing modular furniture was purchased to fit the new building configuration to accommodate staff, and some conference room tables, chairs, and desk chairs were transferred from the former administrative offices.

OCTA's current furniture product is over 26 years old and no longer complies with today's ergonomic and environmental workplace standards. The majority of electrical components housed inside the panel systems are showing significant signs of aging. As of February 2019, the current furniture model was discontinued and OCTA is now limited in its ability to make ergonomic changes to existing layouts given the limited number of replacement parts available.

This request is two-fold and includes funds to replace the furniture in nineteen conference rooms to include new technology tables and seating at the

Administration building and Garden Grove Maintenance and Annex buildings. The balance of the funds will be used to begin a phased approach to replace the office panel system at the Administrative building on a floor-by-floor basis. OCTA anticipates the replacement of the furniture for the nineteen conference rooms to be approximately \$751,200. It is anticipated that the cost to replace panels and electrical components for each floor will be approximately \$100,000 per floor. The balance of the funds from this procurement will allow OCTA to replace the panel systems and electrical components for two floors, which would be completed over a one to two-year time period.

As OCTA purchases new panel systems, it is anticipated that the majority of existing work surfaces and storage units will continue to be used. Only those work surfaces and storage units that show significant signs of wear will be replaced. The new proposed panel system meets current Americans with Disabilities Act requirements, which call for electrical components to be located at the desk or surface level, making the setup of computers or electrical equipment ergonomically compliant. As the current systems are replaced, the existing furniture will be sold as surplus.

Staff anticipates budgeting the replacement of the panels and electrical components for the remaining floors beginning in fiscal year 2021-22. It is anticipated that it will take four years to complete the replacement of the panels and electrical components for the remaining eight floors.

Procurement Approach

This procurement was handled in accordance with OCTA's Board of Directors (Board)-approved procedures for materials and equipment greater than \$50,000. These procedures, which conform to both federal and state requirements, are used when minimum requirements can be clearly specified and, therefore, the lowest price is the only criterion for choosing among the bidders who are responsive and responsible after a sealed bid process.

On October 10, 2019, Invitation for Bids (IFB) 9-1652 was issued electronically on CAMM NET. The project was advertised on October 10 and 16, 2019, in a newspaper of general circulation. On October 30, 2019, one bid was received and publicly opened.

The bid was reviewed by staff from Contracts Administration and Materials Management (Camm) and General Services departments to ensure compliance with legal requirements and technical specifications. The bidder and bid amount is presented below:

| <u>Firm and Location</u> | <u>Bid Amount</u> |
|---|-------------------|
| Western Office Los Angeles, California | \$990,000 |

In accordance with OCTA procurement policies and procedures, a single bid received for a procurement over \$50,000 requires the OCTA Internal Audit Department to conduct a review to determine if there was adequate competition. In addition, CAMM contacted several vendors from the bid list to inquire why they did not submit bids. The firms stated that they did not submit a bid due to several reasons, which include: some firms not having the resources needed for this project, some companies no longer in business, and others were not able to provide competitive pricing.

Western Office, the incumbent vendor, is providing OCTA with fair and reasonable pricing, based on historical, as well as current contract rates for similar products and services.

The purchase order will be for a two-year term with a not-to-exceed amount of \$990,000. The IFB requires award to the lowest responsive, responsible bidder. As such, staff recommends award to Western Office.

Fiscal Impact

The project is included in OCTA's proposed Fiscal Year 2019-20 Budget, Finance and Administration Division, General Services, Accounts 1290-A5310-1NX-7611 and 1290-A0001-1P3-7662, and is funded through the General Fund.

Summary

Based on the information provided, staff recommends the Board authorize the Chief Executive Officer to negotiate and execute Purchase Order No. C-9-1652 with Western Office in the amount of \$990,000 for the purchase, installation, reconfiguration, and preventative maintenance of systems and ancillary furniture.

Attachment

None.

Prepared by:



Sara Belovsky
Section Manager,
General Services
714-560-5720

Approved by:



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



Virginia Abadessa
Director, Contracts Administration and
Materials Management
714-560-5623



January 8, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Orange County Transportation Authority Investment and Debt Programs Report – November 2019

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 November 30, 2019. 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 November 30, 2019, the Orange County Transportation Authority's (OCTA) outstanding investments totaled \$2.06 billion. The portfolio is divided into three managed portfolios: the liquid portfolio for immediate cash needs, the short-term portfolio for future budgeted expenditures, and the bond proceeds portfolio to meet Measure M2 transportation program needs. In addition to these portfolios, OCTA has funds invested in debt service reserve funds for the 91 Express Lanes Program.

The weighted average book yield for 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.

The OCTA's month-end balance in the Local Agency Investment Fund was \$10,743,844, with an average monthly effective yield of 2.1 percent. The OCTA's month-end balance in the Orange County Investment Pool (OCIP) was \$13,974,507. For the month of October, the monthly gross yield for the OCIP was 2.2 percent. Yields for the month of November will be received in December.

OCTA's debt portfolio had an outstanding principal balance of \$1.01 billion as of November 30, 2019. Approximately 63 percent of the outstanding balance is comprised of M2 debt, nine percent is associated with the 91 Express Lanes Program, and 28 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 November 30, 2019.

Attachment

- A. Orange County Transportation Authority Investment and Debt Programs
– For the Period Ending November 30, 2019.

Prepared by:



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

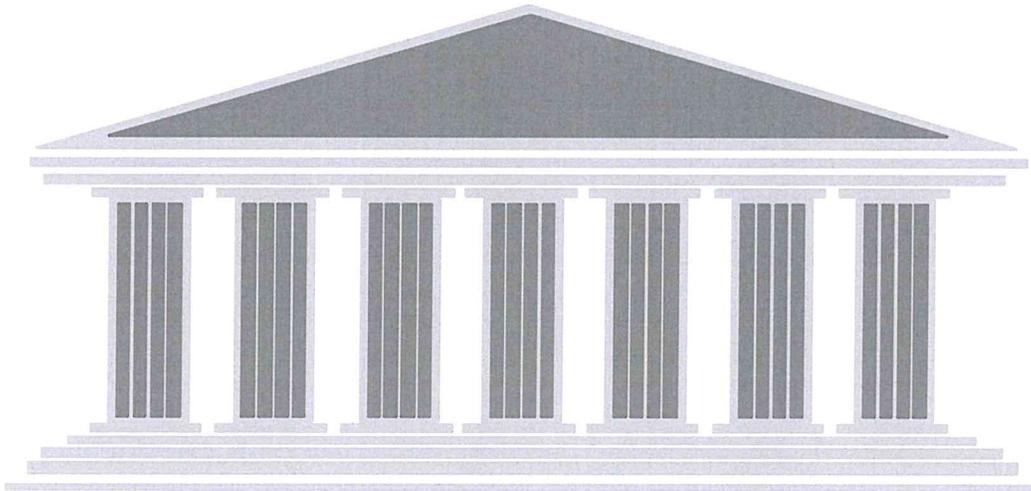
Approved by:



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

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

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



**Presented to the
Finance and Administration Committee**

**For The Period Ending
November 30, 2019**

INVESTMENT PROGRAM

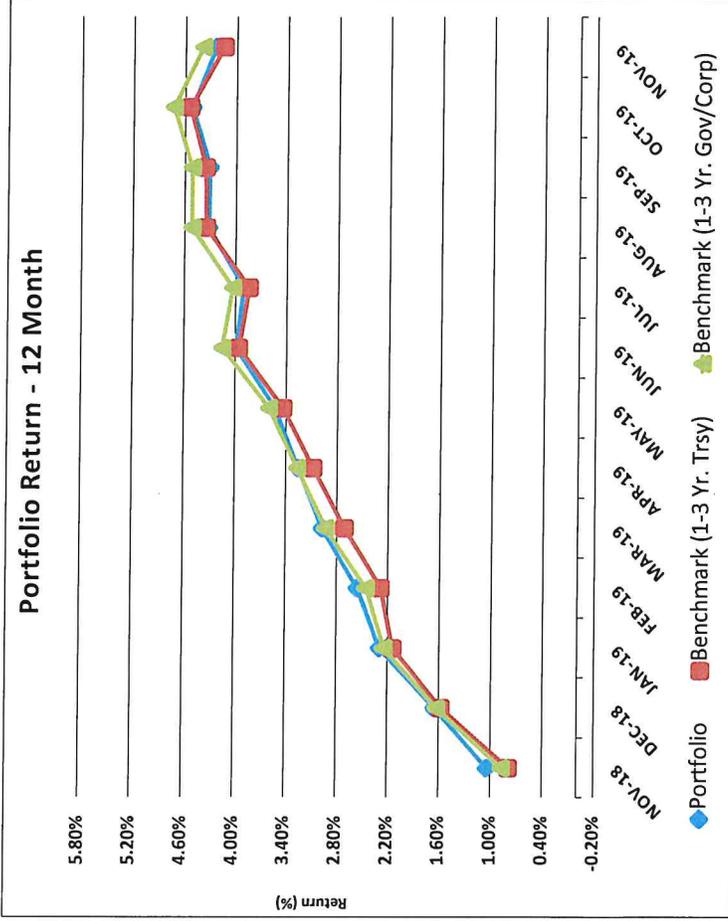
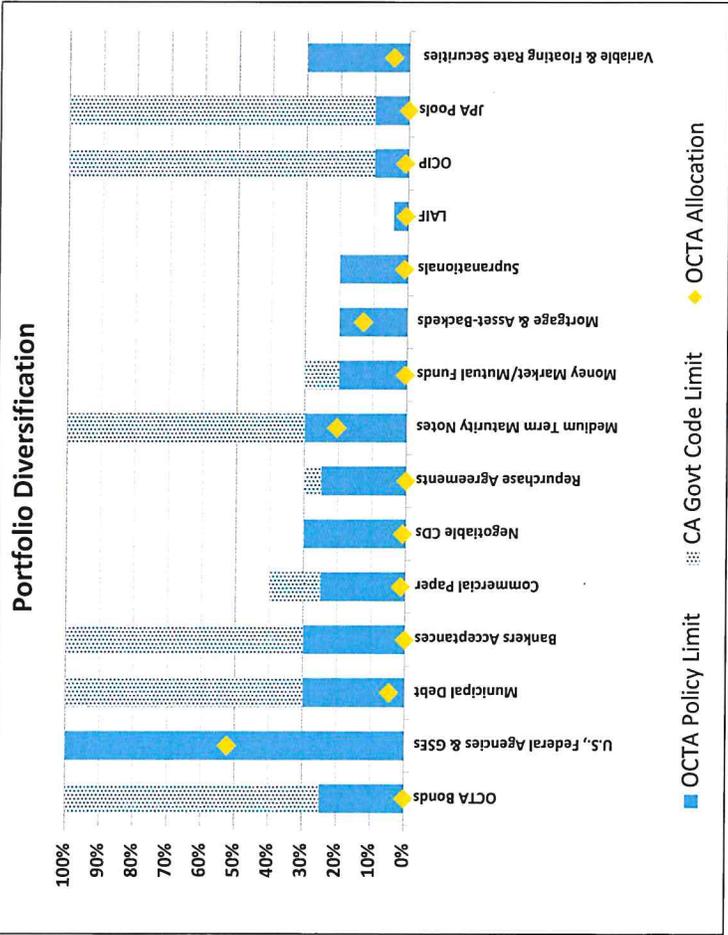
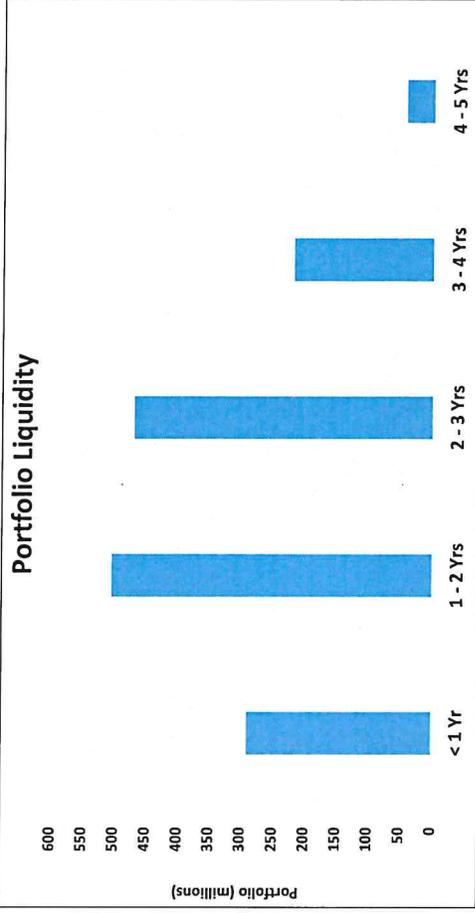
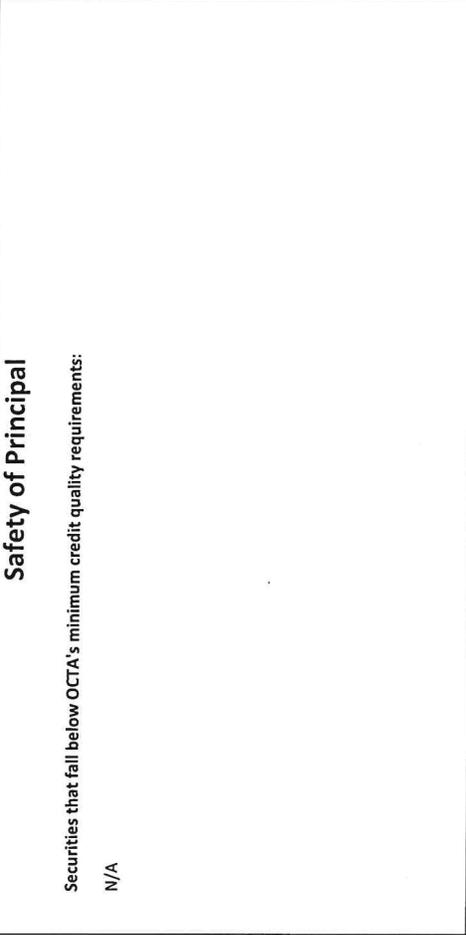
OCTA Investment Dashboard

11/30/2019

Safety of Principal

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

N/A



Investment Profile

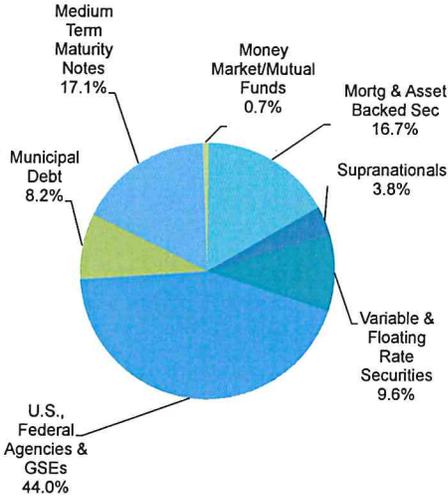
11/30/2019

| Portfolio / Managers | Depository | Role | Type of Investment | Amount (\$ Millions) |
|--|---------------------|-----------|-------------------------------|-------------------------|
| <u>LIQUID PORTFOLIO:</u> | | | | |
| OCTA | BNY Mellon | Trustee | Cash | \$ 84.6 |
| OCTA | Bank of the West | Broker | Cash | 27.1 |
| OCTA | U.S Bank | Trustee | Cash | 0.0 |
| California State Treasurer | LAIF | Custodian | Per LAIF Investment Policy | 10.7 |
| Orange County Treasurer | OCIP | Custodian | Per OCIP Investment Policy | 14.0 |
| Subtotal OCTA Liquid Portfolio | | | | \$ 136.5 |
| <u>SHORT-TERM PORTFOLIO:</u> | | | | |
| <u>Investment Managers</u> | | | | |
| MetLife Investment Management | Union Bank | Custodian | Per OCTA Investment Policy | \$ 380.9 |
| Chandler Asset Management | Union Bank | Custodian | Per OCTA Investment Policy | 380.8 |
| Payden & Rygel Investment Counsel | Union Bank | Custodian | Per OCTA Investment Policy | 386.9 |
| PFM Asset Management | Union Bank | Custodian | Per OCTA Investment Policy | 382.8 |
| Subtotal Short-Term Portfolio (Investment Managers) | | | | \$ 1,531.4 |
| <u>BOND PROCEED PORTFOLIO:</u> | | | | |
| OCTA | Bank of Nova Scotia | Custodian | Per Measure M2 Bond Indenture | \$ 283.5 |
| OCTA | BNY Mellon | Trustee | Per Measure M2 Bond Indenture | 80.6 |
| Subtotal OCTA Bond Proceeds Portfolio | | | | \$ 364.1 |
| <u>RESERVE FUNDS PORTFOLIO:</u> | | | | |
| 91 Express Lanes 2013 Ref. Bonds | U.S Bank | Trustee | Commercial Paper | \$ 11.4 |
| 91 Express Lanes 2013 Ref. Bonds | Bank of the West | Trustee | Commercial Paper | 10.4 |
| 91 Express Lanes 2013 Ref. Bonds | Bank of the West | Trustee | Commercial Paper | 3.1 |
| Bank Deposits/Cash | | | | 0.2 |
| Subtotal OCTA Reserve Funds Portfolio | | | | \$ 25.0 |
| TOTAL | | | | \$ 2,057.0 |

Investment Manager Diversification and Maturity Schedules

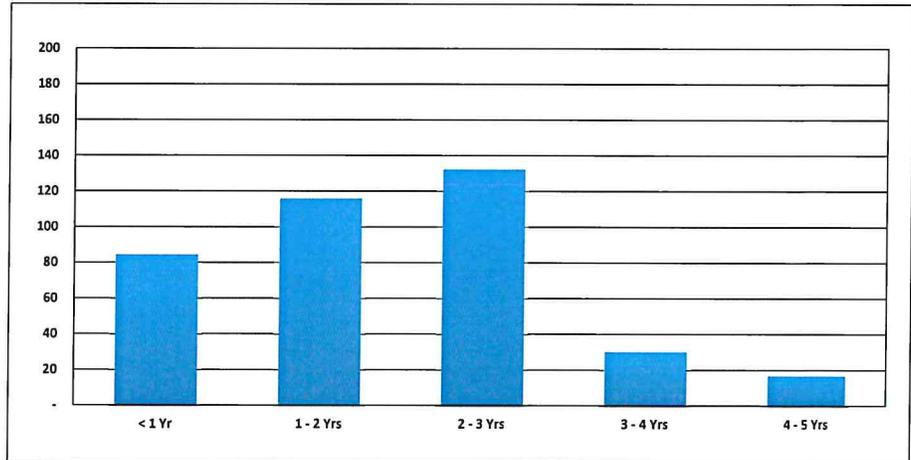
**MetLife Investment Management
11/30/2019**

SHORT-TERM PORTFOLIO (\$380.9 M)



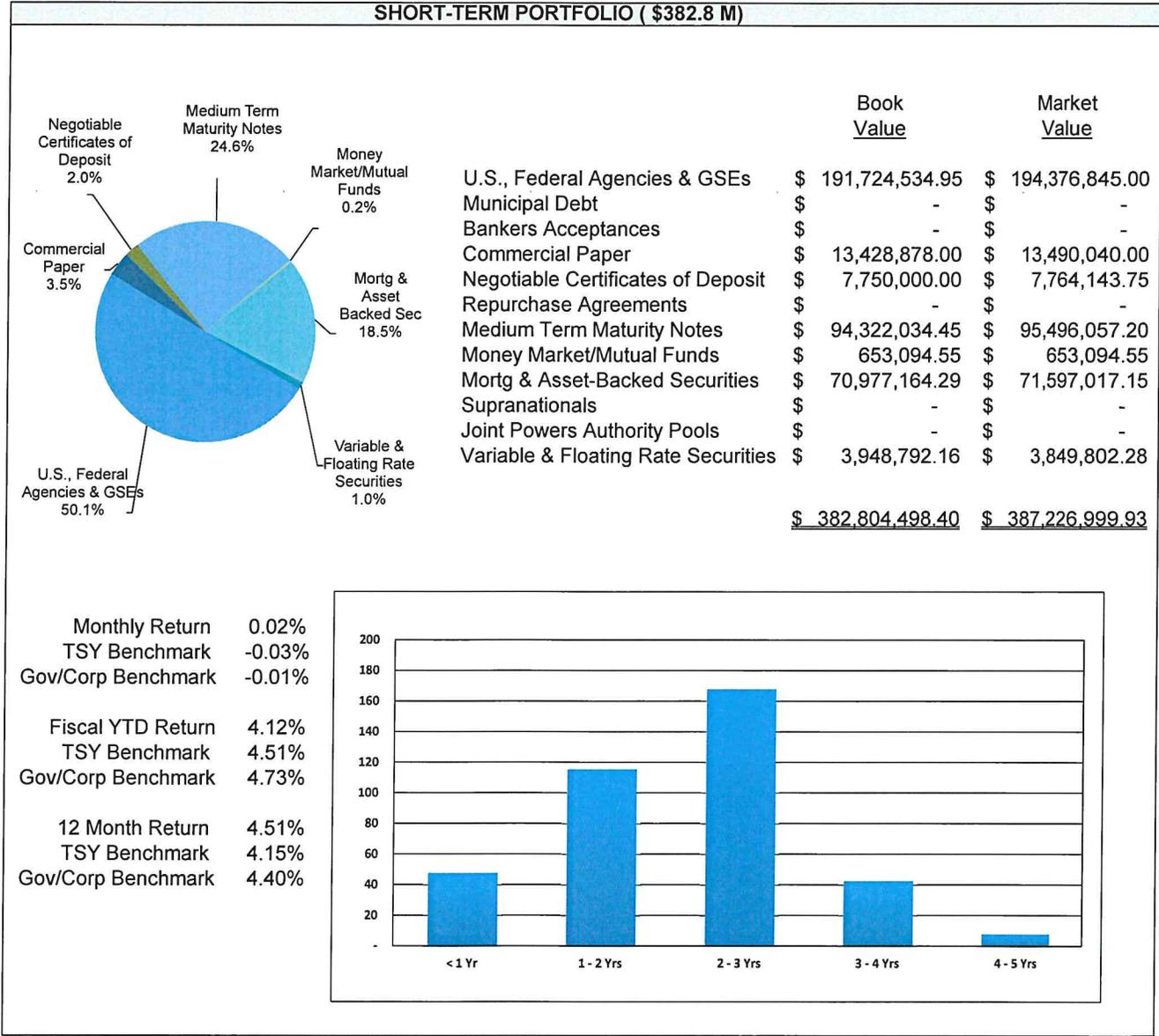
| | <u>Book Value</u> | <u>Market Value</u> |
|-------------------------------------|--------------------------|--------------------------|
| U.S., Federal Agencies & GSEs | \$ 167,499,978.06 | \$ 168,457,625.28 |
| Municipal Debt | \$ 31,369,202.50 | \$ 31,292,954.25 |
| Bankers Acceptances | \$ - | \$ - |
| Commercial Paper | \$ - | \$ - |
| Negotiable Certificates of Deposit | \$ - | \$ - |
| Repurchase Agreements | \$ - | \$ - |
| Medium Term Maturity Notes | \$ 64,957,527.07 | \$ 65,886,431.20 |
| Money Market/Mutual Funds | \$ 2,773,753.28 | \$ 2,773,753.28 |
| Mortg & Asset-Backed Securities | \$ 63,446,877.85 | \$ 63,899,149.64 |
| Supranationals | \$ 14,319,780.00 | \$ 14,360,663.70 |
| Joint Powers Authority Pools | \$ - | \$ - |
| Variable & Floating Rate Securities | \$ 36,499,181.46 | \$ 36,516,697.12 |
| | <u>\$ 380,866,300.22</u> | <u>\$ 383,187,274.47</u> |

| | |
|--------------------|--------|
| Monthly Return | 0.05% |
| TSY Benchmark | -0.03% |
| Gov/Corp Benchmark | -0.01% |
| Fiscal YTD Return | 3.96% |
| TSY Benchmark | 4.51% |
| Gov/Corp Benchmark | 4.73% |
| 12 Month Return | 3.74% |
| TSY Benchmark | 4.15% |
| Gov/Corp Benchmark | 4.40% |



Investment Manager Diversification and Maturity Schedules

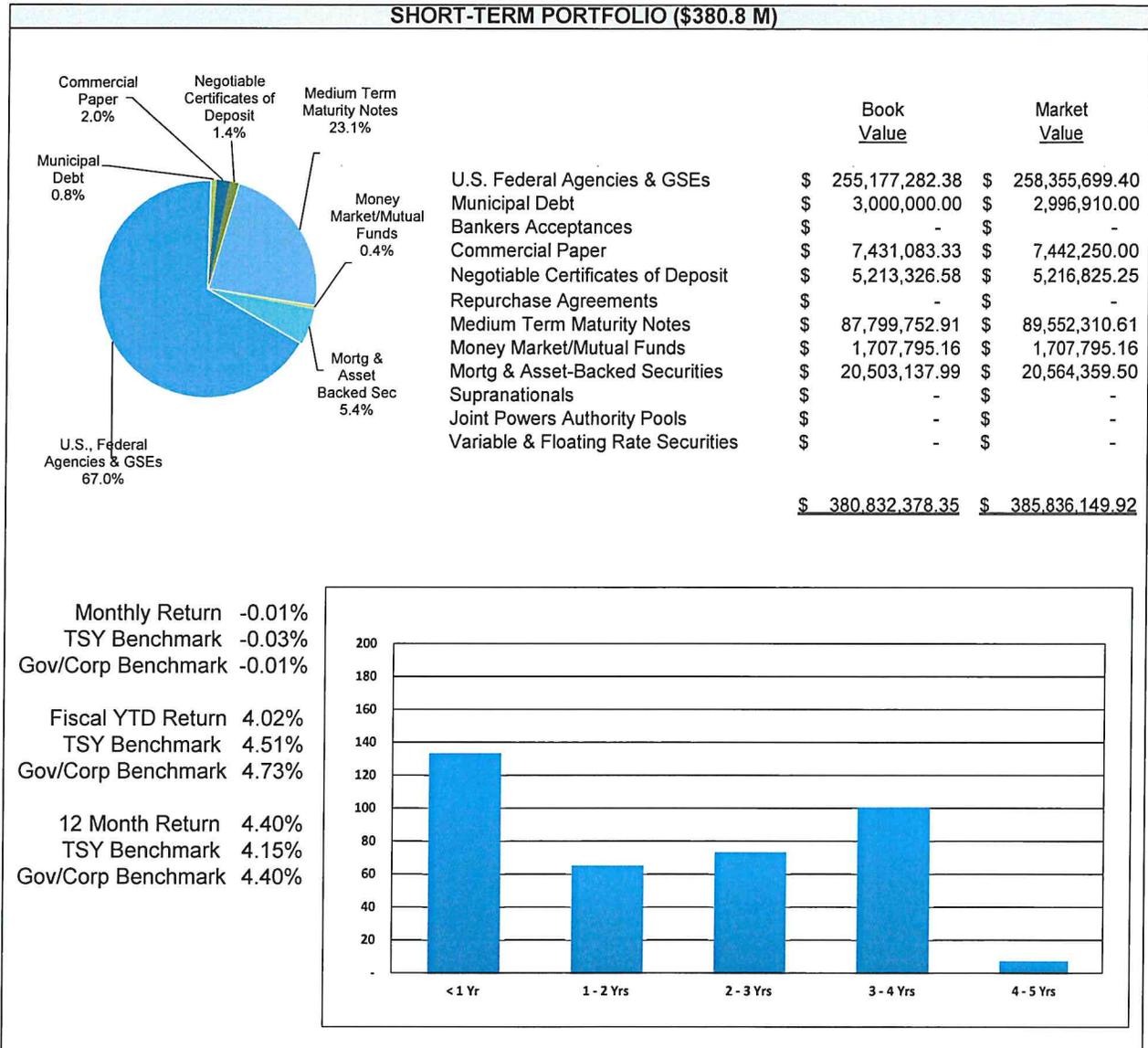
PFM
11/30/2019



Investment Manager Diversification and Maturity Schedules

Chandler Asset Management

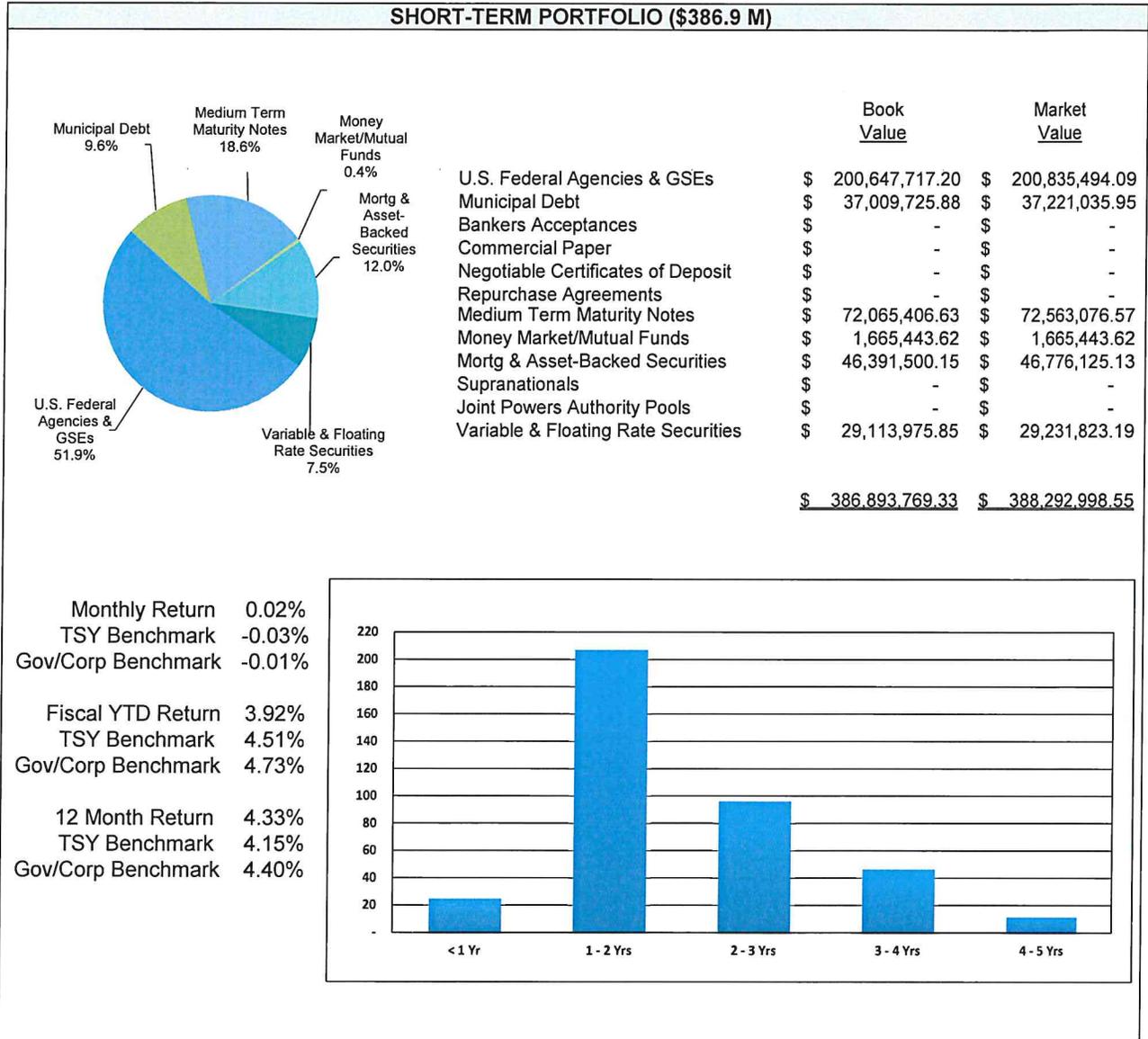
11/30/2019



Investment Manager Diversification and Maturity Schedules

Payden & Rygel

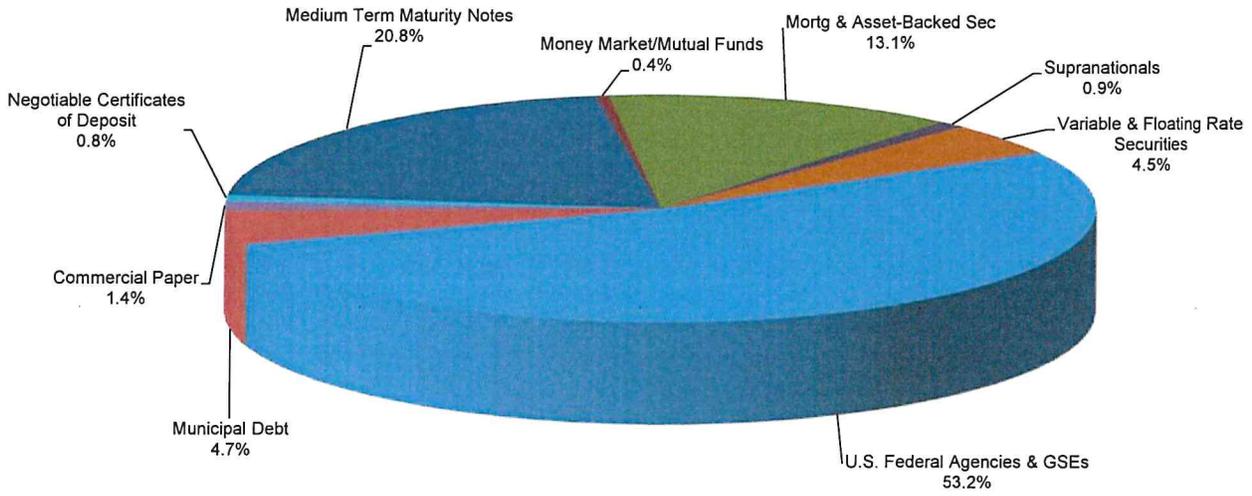
11/30/2019



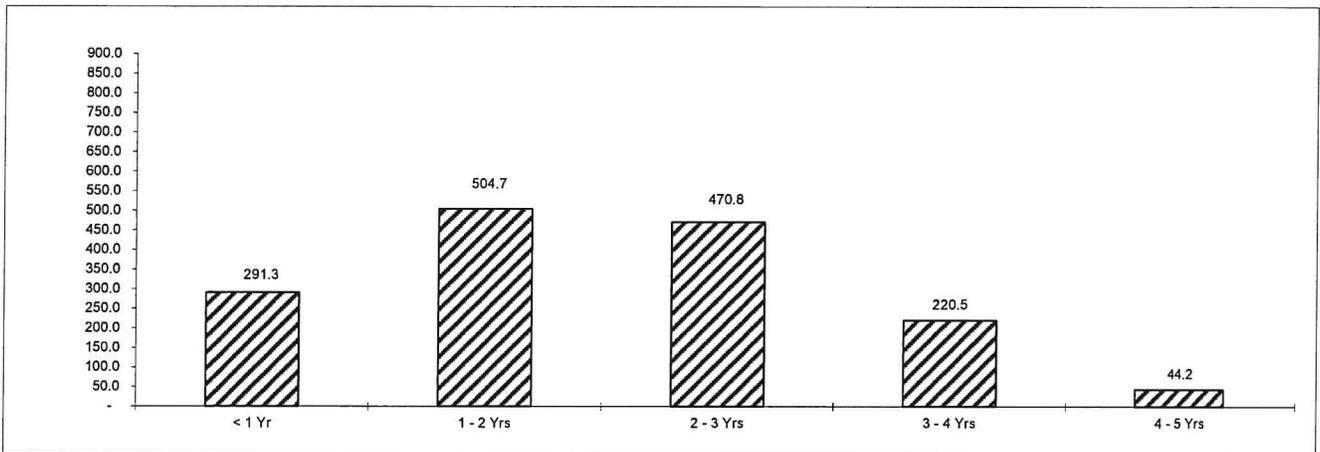
Short-Term Portfolio

11/30/2019

Portfolio Composition



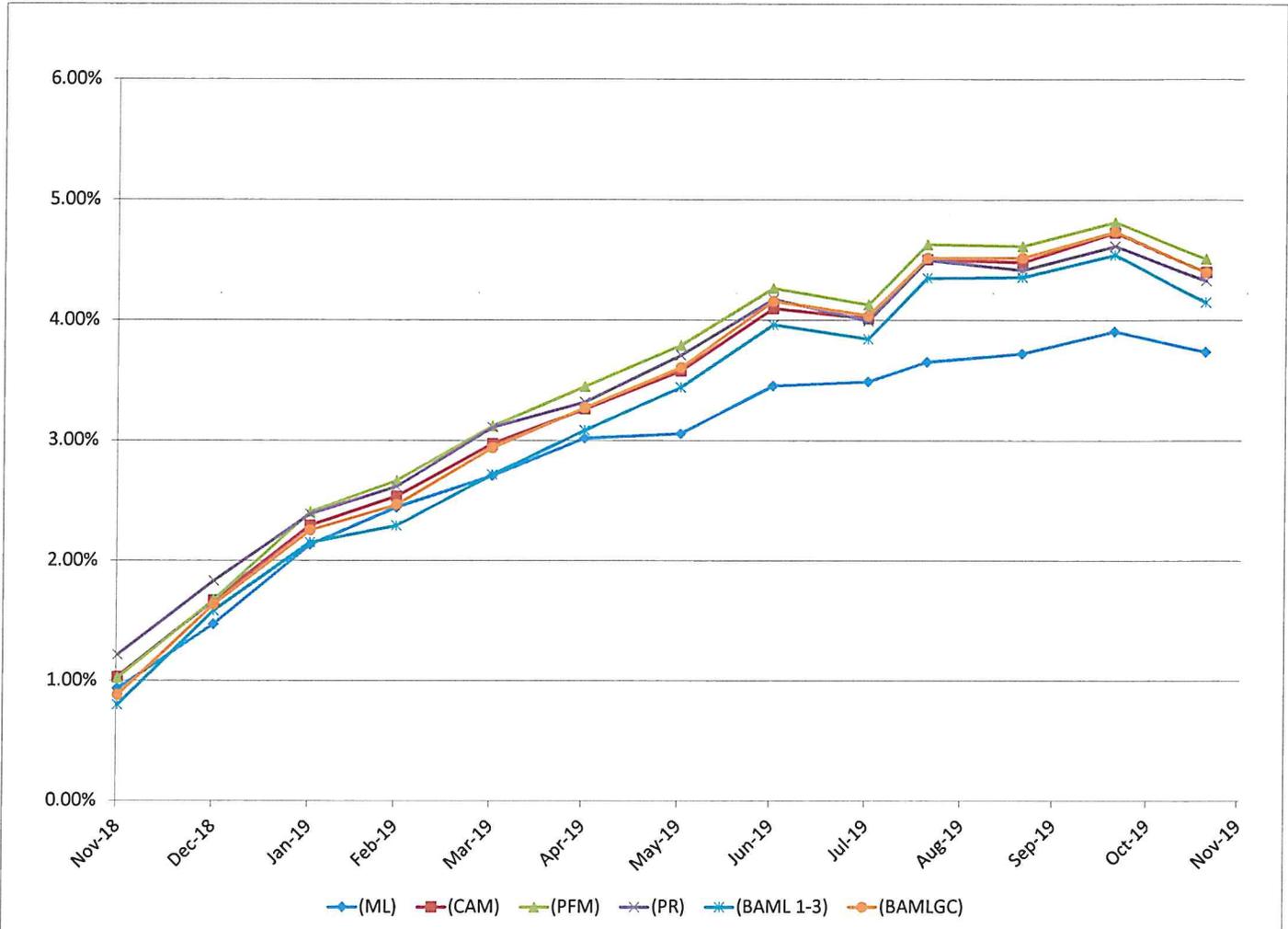
Maturity Schedule



Short-Term Portfolio Performance

11/30/2019

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



| | MetLife Investment Mgmt (ML) | Chandler Asset Mgmt (CAM) | Public Fin Mgmt (PFM) | Payden & Rygel (PR) | ICE/BAML 1-3 Yr Trsy (BAML 1-3) | BAML 1-3 Yr Gov/Corp (BAMLGC) |
|--------|------------------------------------|---------------------------------|-----------------------------|---------------------------|---------------------------------------|-------------------------------------|
| Nov-18 | 0.93% | 1.03% | 1.02% | 1.22% | 0.80% | 0.88% |
| Dec-18 | 1.47% | 1.67% | 1.67% | 1.83% | 1.58% | 1.64% |
| Jan-19 | 2.13% | 2.29% | 2.41% | 2.39% | 2.15% | 2.25% |
| Feb-19 | 2.44% | 2.54% | 2.67% | 2.62% | 2.29% | 2.46% |
| Mar-19 | 2.71% | 2.97% | 3.12% | 3.11% | 2.72% | 2.94% |
| Apr-19 | 3.02% | 3.26% | 3.45% | 3.32% | 3.08% | 3.27% |
| May-19 | 3.06% | 3.58% | 3.79% | 3.71% | 3.44% | 3.61% |
| Jun-19 | 3.45% | 4.10% | 4.27% | 4.17% | 3.96% | 4.16% |
| Jul-19 | 3.49% | 4.01% | 4.13% | 3.99% | 3.84% | 4.04% |
| Aug-19 | 3.65% | 4.50% | 4.63% | 4.50% | 4.35% | 4.52% |
| Sep-19 | 3.72% | 4.48% | 4.61% | 4.41% | 4.36% | 4.52% |
| Oct-19 | 3.91% | 4.73% | 4.82% | 4.62% | 4.54% | 4.74% |
| Nov-19 | 3.74% | 4.40% | 4.51% | 4.33% | 4.15% | 4.40% |

Short-Term Portfolio Performance 11/30/2019

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



| | MetLife Investment Mgmt <u>(ML)</u> | Chandler Asset Mgmt <u>(CAM)</u> | Public Fin Mgmt <u>(PFM)</u> | Payden Rygel <u>(PR)</u> | ICE/BAML 1-3 Yr Trsy <u>(BAML 1-3)</u> | BAML 1-3 Yr Gov/Corp <u>(BAMLG)</u> |
|--------|---|--|------------------------------------|--------------------------------|--|---|
| Nov-18 | 2.99% | 2.92% | 2.93% | 2.98% | 2.80% | 2.93% |
| Dec-18 | 2.78% | 2.72% | 2.77% | 2.78% | 2.53% | 2.78% |
| Jan-19 | 2.65% | 2.61% | 2.65% | 2.67% | 2.49% | 2.69% |
| Feb-19 | 2.64% | 2.62% | 2.64% | 2.68% | 2.53% | 2.72% |
| Mar-19 | 2.51% | 2.46% | 2.44% | 2.51% | 2.32% | 2.49% |
| Apr-19 | 2.47% | 2.44% | 2.44% | 2.46% | 2.30% | 2.47% |
| May-19 | 2.35% | 2.23% | 2.21% | 2.21% | 2.02% | 2.21% |
| Jun-19 | 2.12% | 2.01% | 2.00% | 2.01% | 1.80% | 1.99% |
| Jul-19 | 2.15% | 2.09% | 2.09% | 2.09% | 1.95% | 2.02% |
| Aug-19 | 1.81% | 1.76% | 1.75% | 1.82% | 1.59% | 1.67% |
| Sep-19 | 1.80% | 1.81% | 1.83% | 1.88% | 1.69% | 1.77% |
| Oct-19 | 1.69% | 1.67% | 1.68% | 1.74% | 1.57% | 1.65% |
| Nov-19 | 1.73% | 1.73% | 1.77% | 1.81% | 1.65% | 1.72% |

Investment Compliance

11/30/2019

| Portfolio Subject to Investment Policy | | | |
|--|---------------------------|-------------------------|--|
| Short-Term/Liquid Portfolio | Dollar Amount Invested | Percent Of Portfolio | Investment Policy Maximum Percentages |
| U.S. Federal Agencies & GSEs | \$ 815,049,513 | 48.9% | 100% |
| Municipal Debt | 71,378,928 | 4.3% | 30% |
| Bankers Acceptances | - | 0.0% | 30% |
| Commercial Paper | 20,859,961 | 1.3% | 25% |
| Negotiable Certificates of Deposit | 12,963,327 | 0.8% | 30% |
| Repurchase Agreements | 26,887,312 | 1.6% | 25% |
| Medium Term Maturity Notes | 319,144,721 | 19.1% | 30% |
| Money Market/Mutual Funds | 91,404,504 | 5.5% | 20% |
| Mortgage & Asset-Backed | 201,318,680 | 12.1% | 20%* |
| Supranationals | 14,319,780 | 0.9% | 20% |
| Local Agency Investment Fund | 10,743,844 | 0.6% | \$ 65 Million |
| Orange County Investment Pool | 13,974,507 | 0.8% | 10% |
| Joint Powers Authority Pools | - | 0.0% | 10% |
| Bank Deposits | 251,557 | 0.0% | 5% |
| Variable & Floating Rate Securities | 69,561,949 | 4.2% | 30% |
| Total Short-Term/Liquid Portfolio | \$ 1,667,858,584 | 100.0% | |

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

| Portfolio Subject to Indenture | | | | | |
|---|-------------------------|----------------|---------|------------------------|---------------|
| Bond Proceeds Portfolio | Dollar Amount | Credit Quality | OCTA | Indenture Requirements | |
| | Invested | | Term | Credit Quality | Term |
| Money Market Funds | \$ 80,635,215 | AAA/Aaa | 45 days | Min. A2/A | Max. 4 years |
| Guaranteed Investment Contract | 283,450,000 | Aa2/AA-/A+ | N/A | Min. A3/A- | N/A |
| Total Bond Proceeds Portfolio | \$ 364,085,215 | | | | |
| Reserve Funds Portfolio | | | | | |
| Commercial Paper | \$ 24,854,259 | P-1/F-1 | 30 days | Min. A-1/P-1 | Max. 180 days |
| Bank Deposits | \$ 182,756 | | | | |
| Total Reserve Funds Portfolio | \$ 25,037,015 | | | | |
| Total Portfolio Subject to Indenture | \$ 389,122,230 | | | | |
| Portfolio Total | \$ 2,056,980,814 | | | | |

Negative Credit Watch 11/30/2019

| <u>Manager / Security</u> | <u>Par Amount</u> | <u>Maturity</u> | <u>S&P</u> | <u>Moody's</u> | <u>Fitch Ratings</u> |
|---|-------------------|-----------------|----------------|----------------|----------------------|
| PFM | | | | | |
| <i>Pfizer Inc.</i> | 2,300,000 | Various* | AA- | A1 | A |
| On June 17, 2019, S&P, and Fitch placed the long-term ratings of Pfizer Inc. under review for possible downgrade. | | | | | |
| Chandler Asset Mgmt | 4,000,000 | Various** | A | A2 | A- |
| <i>Daimler Finance North America LLC</i> | | | | | |
| On July 31, 2019 Moody's placed the long-term ratings of Daimler Finance North America LLC under review for possible downgrade. | | | | | |

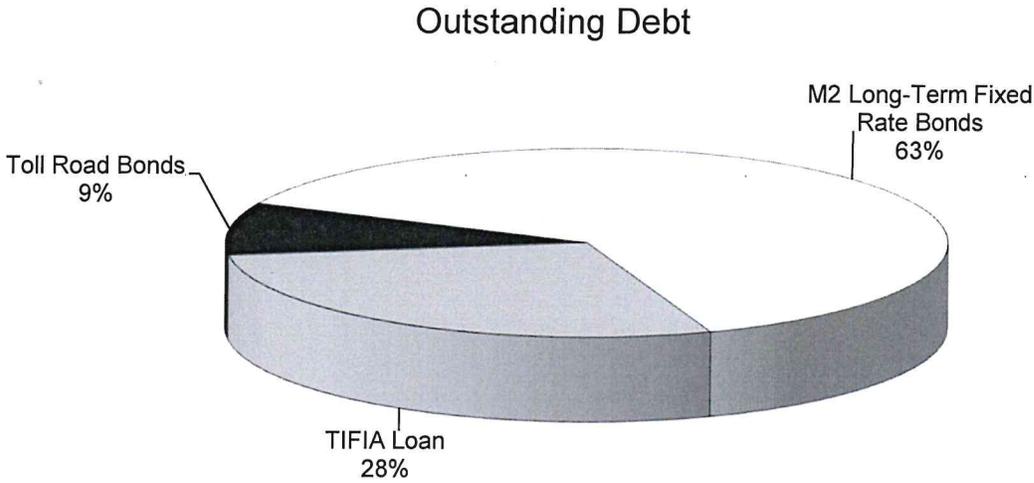
*9/15/21 & 3/11/22

** 1/6/20 & 5/5/20

DEBT PROGRAM

Total Outstanding Debt

As of 11/30/19



TOTAL OUTSTANDING DEBT: \$1,013,905,000

Outstanding Debt

As of 11/30/19

Orange County Local Transportation Authority (OCLTA-M2)

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

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

2010 Series B Tax-Exempt Sales Tax Revenue Bonds

| | |
|--------------------------------|-----------------------|
| Issued: | \$ 59,030,000 |
| Outstanding: | 8,530,000 |
| Debt Service FY 2020: | 8,913,850 |
| Pledged Revenue Source: | M2 Sales Tax Revenues |
| Ratings (Fitch/ Moody's/ S&P): | AA+/Aa2/AA+ |
| Final Maturity: | 2020 |

2019 M2 Sales Tax Bond

| | |
|-------------------------|-----------------------|
| Issued: | \$ 376,690,000 |
| Outstanding: | 376,690,000 |
| Debt Service FY 2020: | 17,939,230 |
| Pledged Revenue Source: | M2 Sales Tax Revenues |
| Ratings (Fitch/ S&P): | AA+/AA+ |
| Final Maturity: | 2041 |

91 Express Lanes

2013 OCTA 91 Express Lanes Refunding Bonds

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

405 Express Lanes

2017 TIFIA Loan

| | |
|-------------------------------|------------------------|
| Outstanding: | \$ 287,000,000 |
| Accrued Debt Service FY 2020: | \$ 11,185,641 |
| Pledged Revenue Source: | 405 Toll Road Revenues |
| Ratings (Moody's): | Baa2 |
| Final Maturity: | 2057 |



January 8, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Orange County Transportation Authority Investment and Debt Programs Report – October 2019

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 October 31, 2019. 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 October 31, 2019, the Orange County Transportation Authority's (OCTA) outstanding investments totaled \$2.05 billion. The portfolio is divided into three managed portfolios: the liquid portfolio for immediate cash needs, the short-term portfolio for future budgeted expenditures, and the bond proceeds portfolio to meet Measure M2 transportation program needs. In addition to these portfolios, OCTA has funds invested in debt service reserve funds for the 91 Express Lanes Program.

The weighted average book yield for 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.

The OCTA's month-end balance in the Local Agency Investment Fund was \$10,743,844, with an average monthly effective yield of 2.2 percent. The OCTA's month-end balance in the Orange County Investment Pool (OCIP) was \$249,368. For the month of September, the monthly gross yield for the OCIP was 2.3 percent. Yields for the month of October will be received in November.

OCTA's debt portfolio had an outstanding principal balance of \$1.01 billion as of October 31, 2019. Approximately 63 percent of the outstanding balance is comprised of M2 debt, nine percent is associated with the 91 Express Lanes Program, and 28 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 October 31, 2019.

Attachment

- A. Orange County Transportation Authority Investment and Debt Programs
– For the Period Ending October 31, 2019.

Prepared by:



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

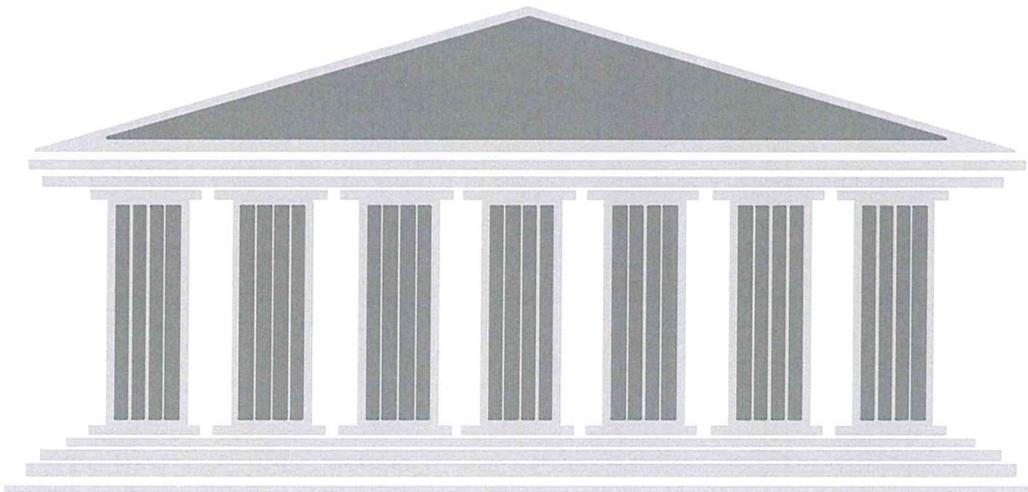
Approved by:



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

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

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



**Presented to the
Finance and Administration Committee**

**For The Period Ending
October 31, 2019**

INVESTMENT PROGRAM

OCTA Investment Dashboard

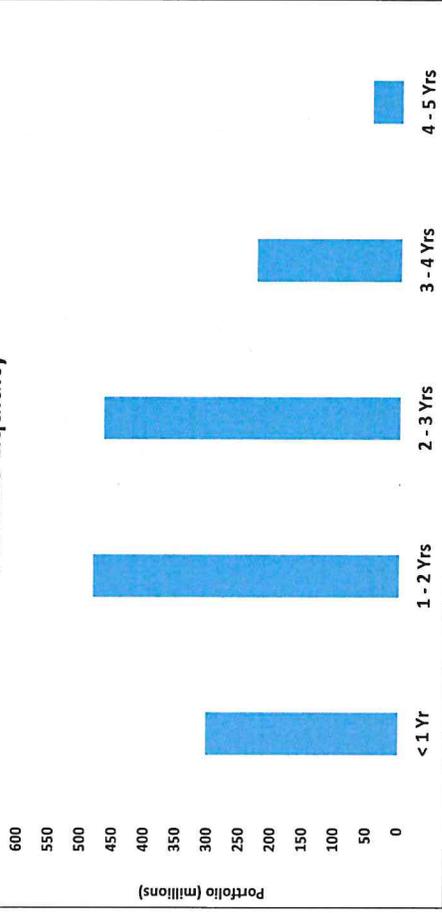
10/31/2019

Safety of Principal

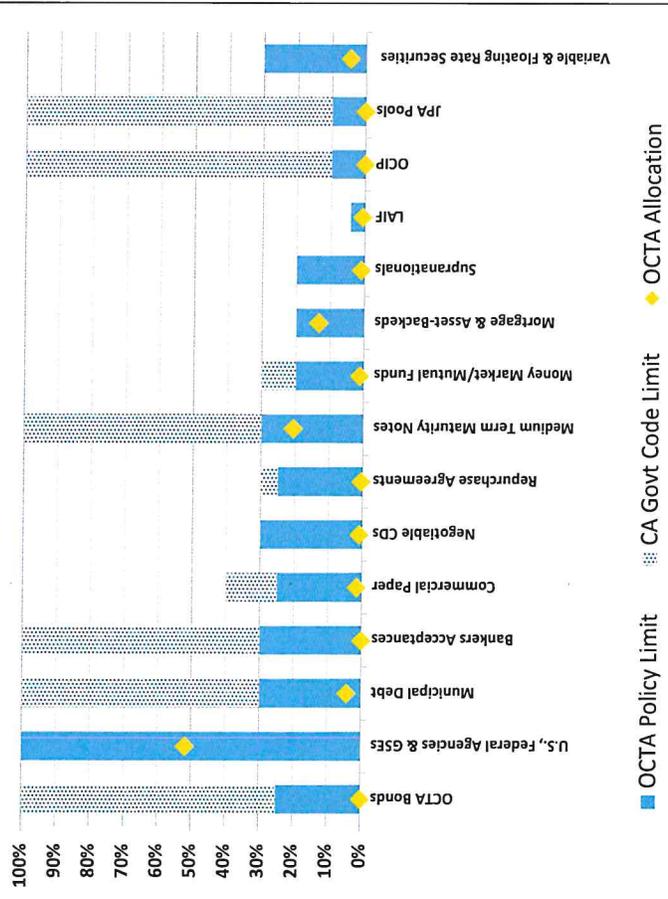
Securities that fall below OCTA's minimum credit quality requirements:

N/A

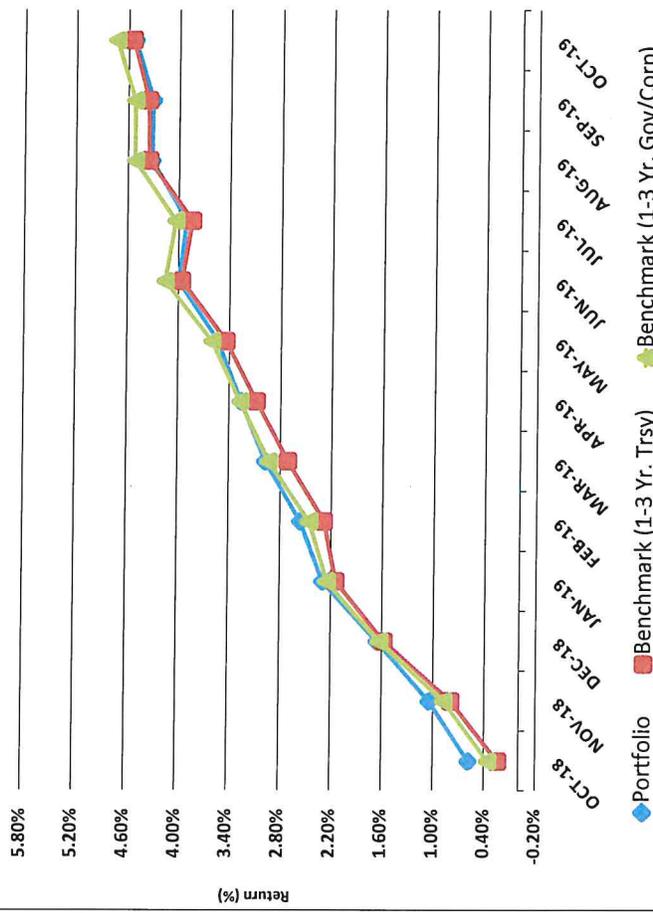
Portfolio Liquidity



Portfolio Diversification



Portfolio Return - 12 Month



Investment Profile

10/31/2019

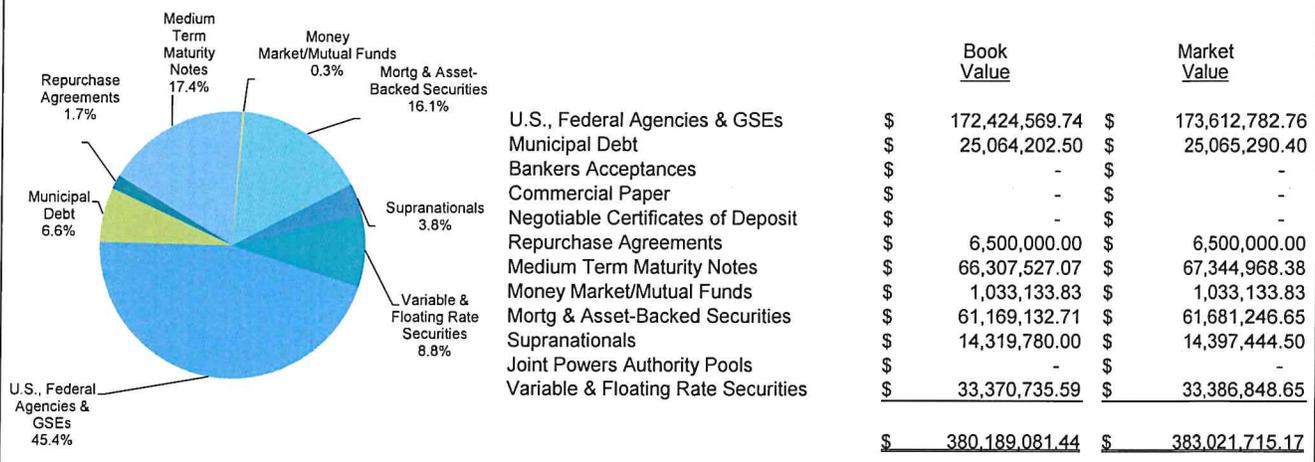
| Portfolio / Managers | Depository | Role | Type of Investment | Amount (\$ Millions) |
|---|---------------------|-----------|-------------------------------|--------------------------|
| <u>LIQUID PORTFOLIO:</u> | | | | |
| OCTA | BNY Mellon | Trustee | Cash | \$ 87.4 |
| OCTA | Bank of the West | Broker | Cash | 37.1 |
| OCTA | U.S Bank | Trustee | Cash | 0.0 |
| California State Treasurer | LAIF | Custodian | Per LAIF Investment Policy | 10.7 |
| Orange County Treasurer | OCIP | Custodian | Per OCIP Investment Policy | 0.2 |
| <i>Subtotal OCTA Liquid Portfolio</i> | | | | <u>\$ 135.5</u> |
| <u>SHORT-TERM PORTFOLIO:</u> | | | | |
| <u>Investment Managers</u> | | | | |
| MetLife Investment Management | Union Bank | Custodian | Per OCTA Investment Policy | \$ 380.2 |
| Chandler Asset Management | Union Bank | Custodian | Per OCTA Investment Policy | 380.4 |
| Payden & Rygel Investment Counsel | Union Bank | Custodian | Per OCTA Investment Policy | 386.0 |
| PFM Asset Management | Union Bank | Custodian | Per OCTA Investment Policy | 382.1 |
| <i>Subtotal Short-Term Portfolio (Investment Managers)</i> | | | | <u>\$ 1,528.7</u> |
| <u>BOND PROCEED PORTFOLIO:</u> | | | | |
| OCTA | Bank of Nova Scotia | Custodian | Per Measure M2 Bond Indenture | \$ 300.1 |
| OCTA | BNY Mellon | Trustee | Per Measure M2 Bond Indenture | 63.2 |
| <i>Subtotal OCTA Bond Proceeds Portfolio</i> | | | | <u>\$ 363.3</u> |
| <u>RESERVE FUNDS PORTFOLIO:</u> | | | | |
| 91 Express Lanes 2013 Ref. Bonds | U.S Bank | Trustee | Commercial Paper | \$ 11.4 |
| 91 Express Lanes 2013 Ref. Bonds | Bank of the West | Trustee | Commercial Paper | 10.4 |
| 91 Express Lanes 2013 Ref. Bonds | Bank of the West | Trustee | Commercial Paper | 3.1 |
| Bank Deposits/Cash | | | | 0.2 |
| <i>Subtotal OCTA Reserve Funds Portfolio</i> | | | | <u>\$ 25.0</u> |
| TOTAL | | | | <u>\$ 2,052.5</u> |

Investment Manager Diversification and Maturity Schedules

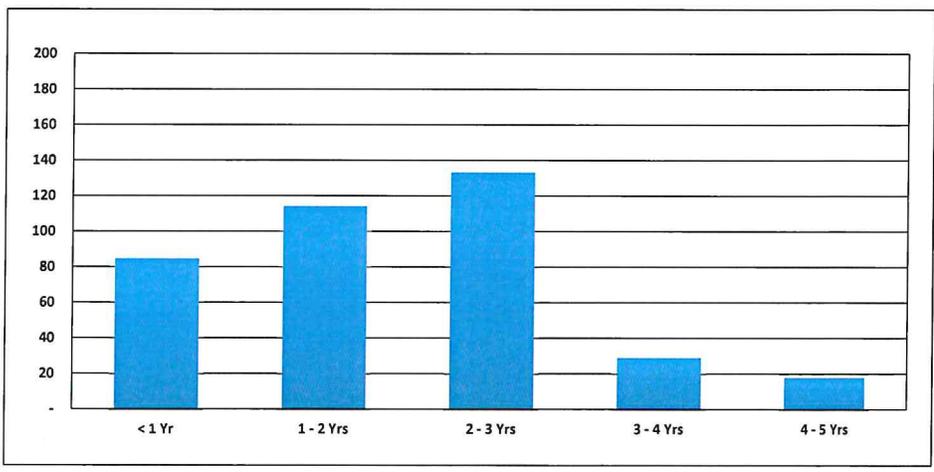
MetLife Investment Management

10/31/2019

SHORT-TERM PORTFOLIO (\$380.2 M)



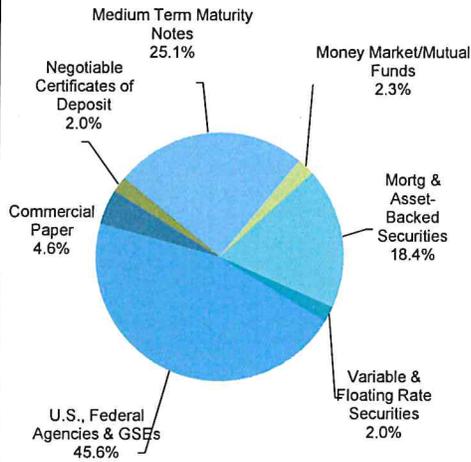
| | |
|--------------------|-------|
| Monthly Return | 0.29% |
| TSY Benchmark | 0.33% |
| Gov/Corp Benchmark | 0.34% |
| | |
| Fiscal YTD Return | 4.02% |
| TSY Benchmark | 4.71% |
| Gov/Corp Benchmark | 4.88% |
| | |
| 12 Month Return | 3.91% |
| TSY Benchmark | 4.54% |
| Gov/Corp Benchmark | 4.74% |



Investment Manager Diversification and Maturity Schedules

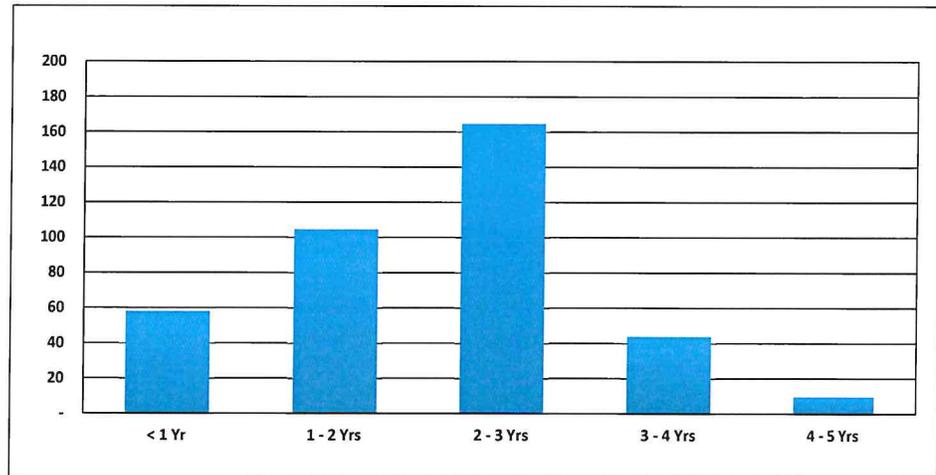
PFM
10/31/2019

SHORT-TERM PORTFOLIO (\$382.1 M)



| | Book Value | Market Value |
|-------------------------------------|--------------------------|--------------------------|
| U.S., Federal Agencies & GSEs | \$ 174,287,361.39 | \$ 177,360,351.18 |
| Municipal Debt | \$ - | \$ - |
| Bankers Acceptances | \$ - | \$ - |
| Commercial Paper | \$ 17,389,683.00 | \$ 17,586,146.00 |
| Negotiable Certificates of Deposit | \$ 7,750,000.00 | \$ 7,745,350.00 |
| Repurchase Agreements | \$ - | \$ - |
| Medium Term Maturity Notes | \$ 96,046,852.05 | \$ 97,422,430.60 |
| Money Market/Mutual Funds | \$ 8,677,694.25 | \$ 8,677,694.25 |
| Mortg & Asset-Backed Securities | \$ 70,179,671.13 | \$ 70,893,619.43 |
| Supranationals | \$ - | \$ - |
| Joint Powers Authority Pools | \$ - | \$ - |
| Variable & Floating Rate Securities | \$ 7,728,223.57 | \$ 7,696,019.71 |
| | <u>\$ 382,059,485.39</u> | <u>\$ 387,381,611.17</u> |

| | |
|--------------------|-------|
| Monthly Return | 0.31% |
| TSY Benchmark | 0.33% |
| Gov/Corp Benchmark | 0.34% |
| Fiscal YTD Return | 4.52% |
| TSY Benchmark | 4.71% |
| Gov/Corp Benchmark | 4.88% |
| 12 Month Return | 4.82% |
| TSY Benchmark | 4.54% |
| Gov/Corp Benchmark | 4.74% |

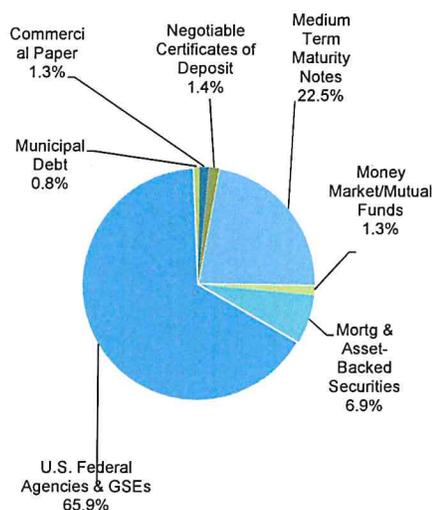


Investment Manager Diversification and Maturity Schedules

Chandler Asset Management

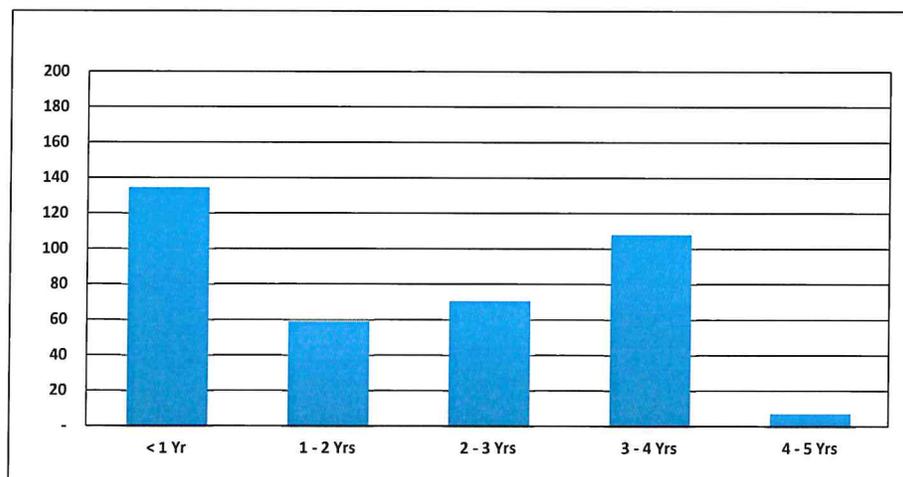
10/31/2019

SHORT-TERM PORTFOLIO (\$380.4 M)



| | Book Value | Market Value |
|-------------------------------------|--------------------------|--------------------------|
| U.S. Federal Agencies & GSEs | \$ 250,678,161.29 | \$ 254,369,474.40 |
| Municipal Debt | \$ 3,000,000.00 | \$ 3,000,210.00 |
| Bankers Acceptances | \$ - | \$ - |
| Commercial Paper | \$ 4,951,972.22 | \$ 4,953,000.00 |
| Negotiable Certificates of Deposit | \$ 5,213,326.58 | \$ 5,219,380.60 |
| Repurchase Agreements | \$ - | \$ - |
| Medium Term Maturity Notes | \$ 85,528,831.06 | \$ 87,475,216.57 |
| Money Market/Mutual Funds | \$ 4,823,487.83 | \$ 4,823,487.83 |
| Mortg & Asset-Backed Securities | \$ 26,224,099.81 | \$ 26,293,109.64 |
| Supranationals | \$ - | \$ - |
| Joint Powers Authority Pools | \$ - | \$ - |
| Variable & Floating Rate Securities | \$ - | \$ - |
| | <u>\$ 380,419,878.79</u> | <u>\$ 386,133,879.04</u> |

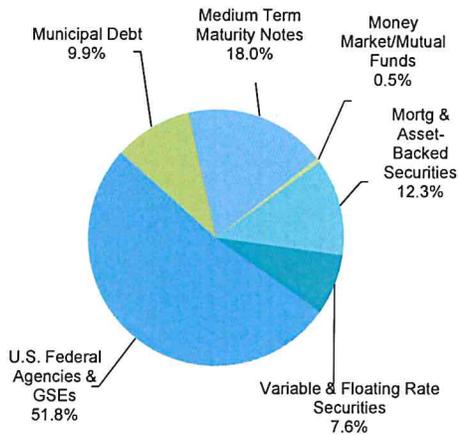
| | |
|--------------------|-------|
| Monthly Return | 0.35% |
| TSY Benchmark | 0.33% |
| Gov/Corp Benchmark | 0.34% |
| | |
| Fiscal YTD Return | 4.51% |
| TSY Benchmark | 4.71% |
| Gov/Corp Benchmark | 4.88% |
| | |
| 12 Month Return | 4.73% |
| TSY Benchmark | 4.54% |
| Gov/Corp Benchmark | 4.74% |



Investment Manager Diversification and Maturity Schedules

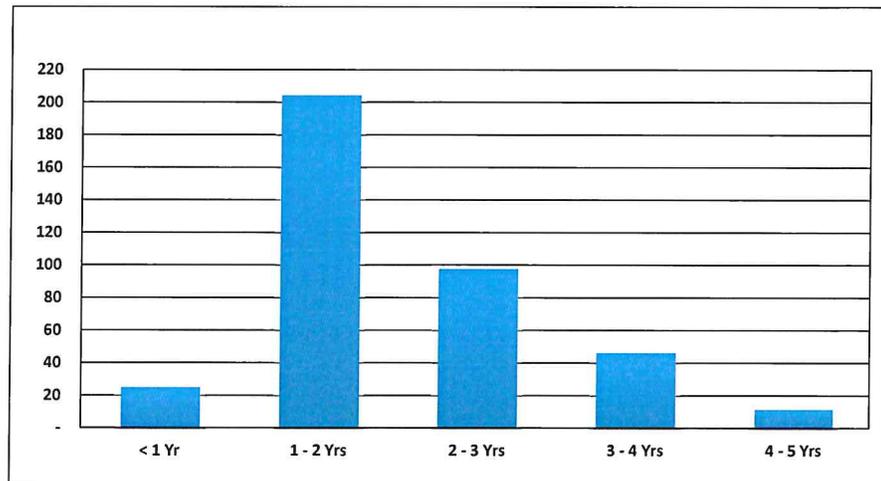
Payden & Rygel
10/31/2019

SHORT-TERM PORTFOLIO (\$386.0 M)



| | <u>Book Value</u> | <u>Market Value</u> |
|-------------------------------------|--------------------------|--------------------------|
| U.S. Federal Agencies & GSEs | \$ 199,939,555.76 | \$ 198,806,017.79 |
| Municipal Debt | \$ 38,085,405.98 | \$ 38,331,489.64 |
| Bankers Acceptances | \$ - | \$ - |
| Commercial Paper | \$ - | \$ - |
| Negotiable Certificates of Deposit | \$ - | \$ - |
| Repurchase Agreements | \$ - | \$ - |
| Medium Term Maturity Notes | \$ 69,401,998.83 | \$ 70,031,845.58 |
| Money Market/Mutual Funds | \$ 2,015,238.38 | \$ 2,015,238.38 |
| Mortg & Asset-Backed Securities | \$ 47,305,997.96 | \$ 47,740,869.36 |
| Supranationals | \$ - | \$ - |
| Joint Powers Authority Pools | \$ - | \$ - |
| Variable & Floating Rate Securities | \$ 29,298,677.71 | \$ 29,433,003.63 |
| | <u>\$ 386,046,874.62</u> | <u>\$ 386,358,464.38</u> |

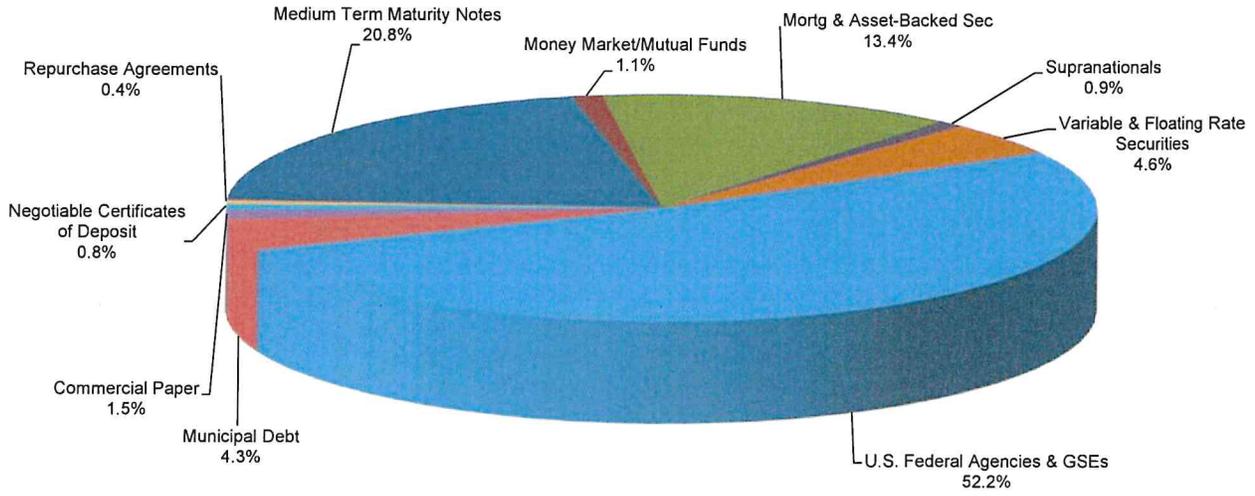
| | |
|--------------------|-------|
| Monthly Return | 0.32% |
| TSY Benchmark | 0.33% |
| Gov/Corp Benchmark | 0.34% |
| | |
| Fiscal YTD Return | 4.36% |
| TSY Benchmark | 4.71% |
| Gov/Corp Benchmark | 4.88% |
| | |
| 12 Month Return | 4.62% |
| TSY Benchmark | 4.54% |
| Gov/Corp Benchmark | 4.74% |



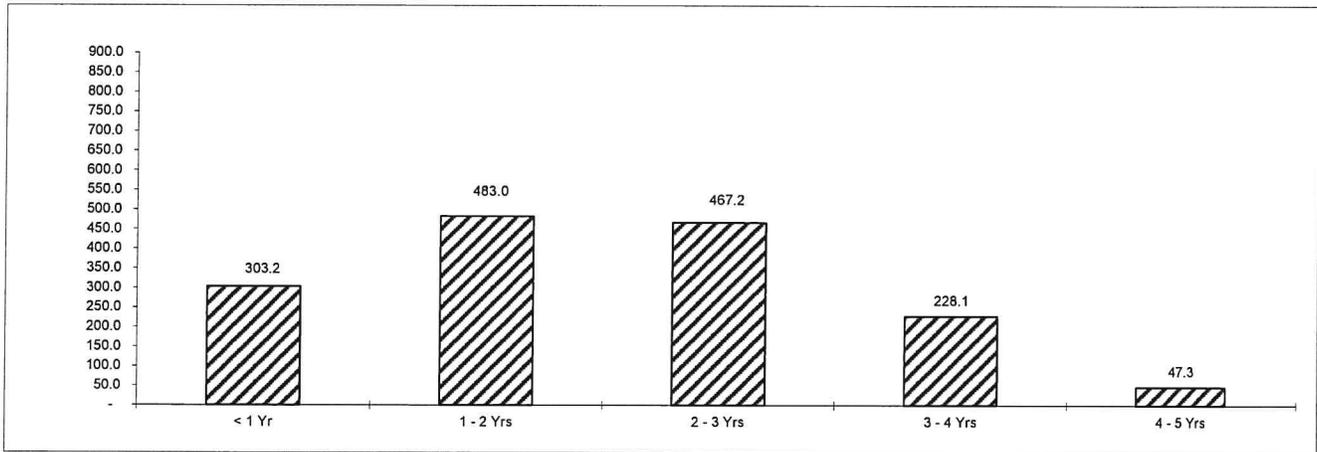
Short-Term Portfolio

10/31/2019

Portfolio Composition

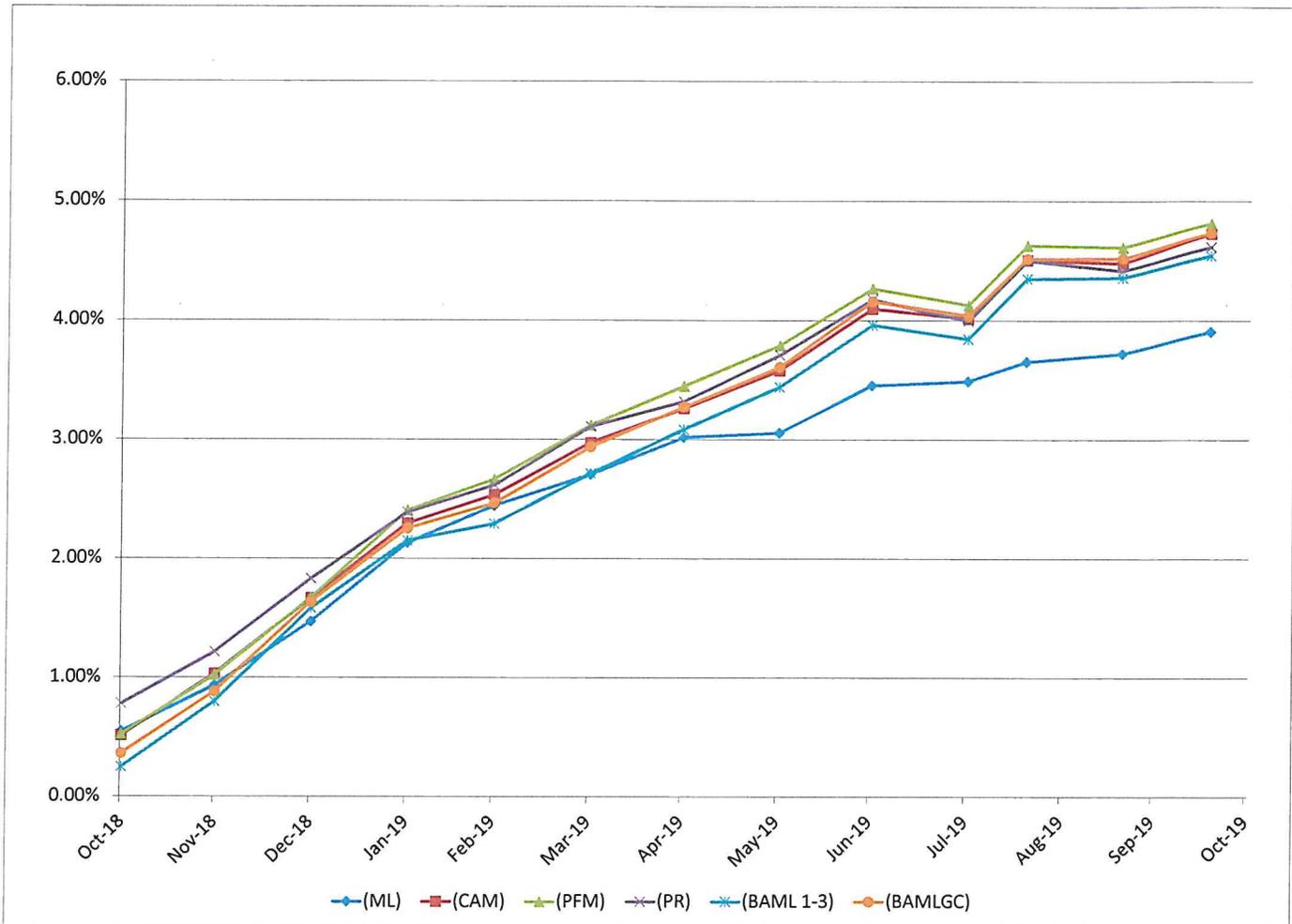


Maturity Schedule



Short-Term Portfolio Performance 10/31/2019

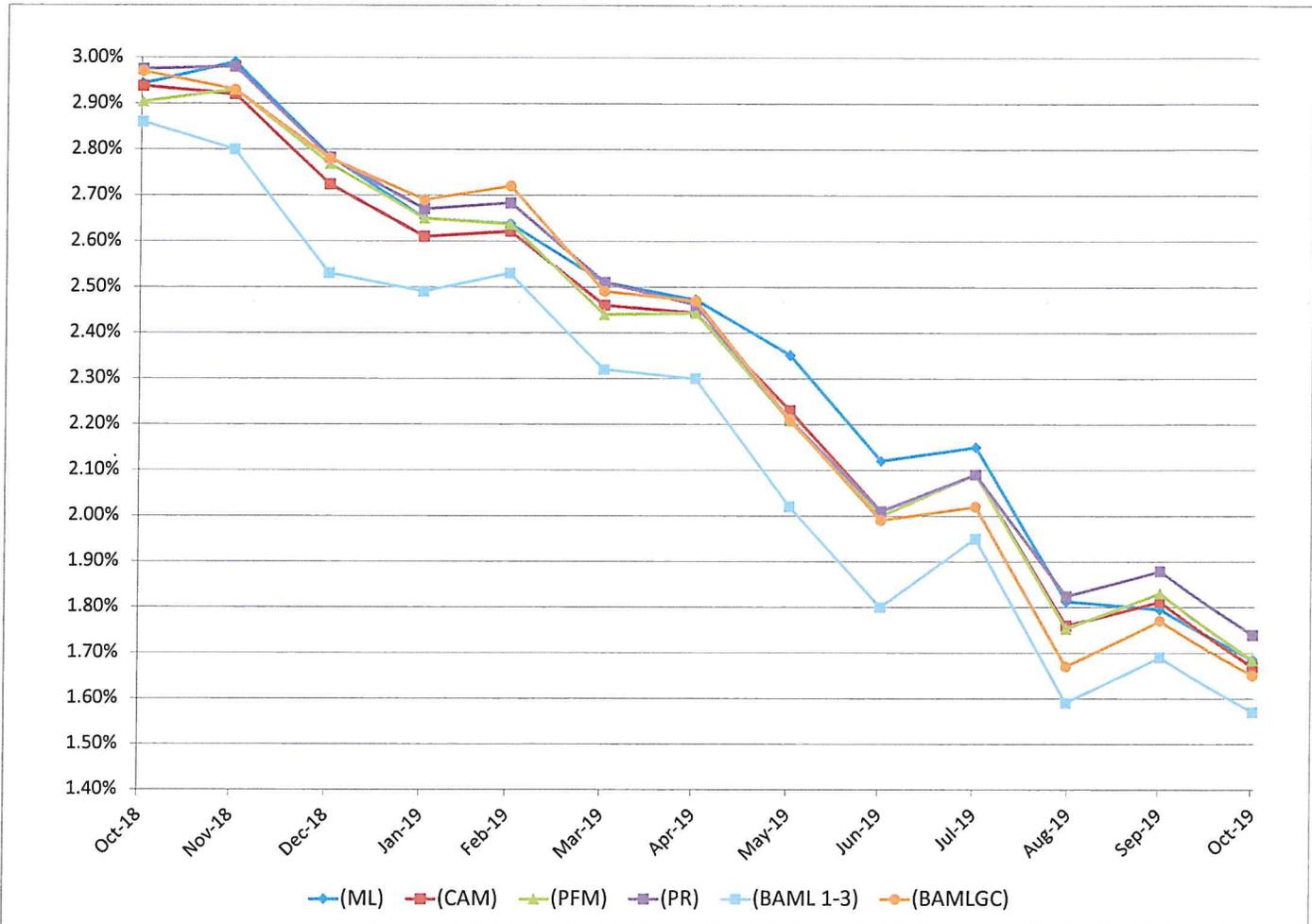
Trailing 1-Year Total Return
Vs. The Bank of America Merrill Lynch (BAML) 1-3 Benchmarks



| | MetLife Investment Mgmt (ML) | Chandler Asset Mgmt (CAM) | Public Fin Mgmt (PFM) | Payden & Rygel (PR) | ICE/BAML 1-3 Yr Trsy (BAML 1-3) | BAML 1-3 Yr Gov/Corp (BAMLGC) |
|--------|------------------------------------|---------------------------------|-----------------------------|---------------------------|---------------------------------------|-------------------------------------|
| Oct-18 | 0.55% | 0.51% | 0.52% | 0.78% | 0.25% | 0.36% |
| Nov-18 | 0.93% | 1.03% | 1.02% | 1.22% | 0.80% | 0.88% |
| Dec-18 | 1.47% | 1.67% | 1.67% | 1.83% | 1.58% | 1.64% |
| Jan-19 | 2.13% | 2.29% | 2.41% | 2.39% | 2.15% | 2.25% |
| Feb-19 | 2.44% | 2.54% | 2.67% | 2.62% | 2.29% | 2.46% |
| Mar-19 | 2.71% | 2.97% | 3.12% | 3.11% | 2.72% | 2.94% |
| Apr-19 | 3.02% | 3.26% | 3.45% | 3.32% | 3.08% | 3.27% |
| May-19 | 3.06% | 3.58% | 3.79% | 3.71% | 3.44% | 3.61% |
| Jun-19 | 3.45% | 4.10% | 4.27% | 4.17% | 3.96% | 4.16% |
| Jul-19 | 3.49% | 4.01% | 4.13% | 3.99% | 3.84% | 4.04% |
| Aug-19 | 3.65% | 4.50% | 4.63% | 4.50% | 4.35% | 4.52% |
| Sep-19 | 3.72% | 4.48% | 4.61% | 4.41% | 4.36% | 4.52% |
| Oct-19 | 3.91% | 4.73% | 4.82% | 4.62% | 4.54% | 4.74% |

Short-Term Portfolio Performance 10/31/2019

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



| | MetLife Investment Mgmt <u>(ML)</u> | Chandler Asset Mgmt <u>(CAM)</u> | Public Fin Mgmt <u>(PFM)</u> | Payden Rygel <u>(PR)</u> | ICE/BAML 1-3 Yr Trsy <u>(BAML 1-3)</u> | BAML 1-3 Yr Gov/Corp <u>(BAMLGC)</u> |
|--------|---|--|------------------------------------|--------------------------------|--|--|
| Oct-18 | 2.94% | 2.94% | 2.90% | 2.98% | 2.86% | 2.97% |
| Nov-18 | 2.99% | 2.92% | 2.93% | 2.98% | 2.80% | 2.93% |
| Dec-18 | 2.78% | 2.72% | 2.77% | 2.78% | 2.53% | 2.78% |
| Jan-19 | 2.65% | 2.61% | 2.65% | 2.67% | 2.49% | 2.69% |
| Feb-19 | 2.64% | 2.62% | 2.64% | 2.68% | 2.53% | 2.72% |
| Mar-19 | 2.51% | 2.46% | 2.44% | 2.51% | 2.32% | 2.49% |
| Apr-19 | 2.47% | 2.44% | 2.44% | 2.46% | 2.30% | 2.47% |
| May-19 | 2.35% | 2.23% | 2.21% | 2.21% | 2.02% | 2.21% |
| Jun-19 | 2.12% | 2.01% | 2.00% | 2.01% | 1.80% | 1.99% |
| Jul-19 | 2.15% | 2.09% | 2.09% | 2.09% | 1.95% | 2.02% |
| Aug-19 | 1.81% | 1.76% | 1.75% | 1.82% | 1.59% | 1.67% |
| Sep-19 | 1.80% | 1.81% | 1.83% | 1.88% | 1.69% | 1.77% |
| Oct-19 | 1.69% | 1.67% | 1.68% | 1.74% | 1.57% | 1.65% |

Investment Compliance

10/31/2019

| Portfolio Subject to Investment Policy | | | |
|--|---------------------------|-------------------------|--|
| Short-Term/Liquid Portfolio | Dollar Amount Invested | Percent Of Portfolio | Investment Policy Maximum Percentages |
| U.S. Federal Agencies & GSEs | \$ 797,329,648 | 47.9% | 100% |
| Municipal Debt | 66,149,608 | 4.0% | 30% |
| Bankers Acceptances | - | 0.0% | 30% |
| Commercial Paper | 22,341,655 | 1.3% | 25% |
| Negotiable Certificates of Deposit | 12,963,327 | 0.8% | 30% |
| Repurchase Agreements | 43,301,334 | 2.6% | 25% |
| Medium Term Maturity Notes | 317,285,209 | 19.1% | 30% |
| Money Market/Mutual Funds | 103,953,128 | 6.2% | 20% |
| Mortgage & Asset-Backed | 204,878,902 | 12.3% | 20%* |
| Supranationals | 14,319,780 | 0.9% | 20% |
| Local Agency Investment Fund | 10,743,844 | 0.6% | \$ 65 Million |
| Orange County Investment Pool | 249,368 | 0.0% | 10% |
| Joint Powers Authority Pools | - | 0.0% | 10% |
| Bank Deposits | 283,588 | 0.0% | 5% |
| Variable & Floating Rate Securities | 70,397,637 | 4.2% | 30% |
| Total Short-Term/Liquid Portfolio | \$ 1,664,197,029 | 100.0% | |

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

| Portfolio Subject to Indenture | | | | | |
|---|---------------------------|----------------|--------------|------------------------|---------------|
| Bond Proceeds Portfolio | Dollar Amount Invested | Credit Quality | OCTA Term | Indenture Requirements | |
| | | | | Credit Quality | Term |
| Money Market Funds | \$ 63,154,691 | AAA/Aaa | 45 days | Min. A2/A | Max. 4 years |
| Guaranteed Investment Contract | 300,100,000 | Aa2/AA-/A+ | N/A | Min. A3/A- | N/A |
| Total Bond Proceeds Portfolio | \$ 363,254,691 | | | | |
| Reserve Funds Portfolio | | | | | |
| Commercial Paper | \$ 24,835,126 | P-1/F-1 | 30 days | Min. A-1/P-1 | Max. 180 days |
| Bank Deposits | \$ 163,968 | | | | |
| Total Reserve Funds Portfolio | \$ 24,999,094 | | | | |
| Total Portfolio Subject to Indenture | \$ 388,253,786 | | | | |
| Portfolio Total | \$ 2,052,450,815 | | | | |

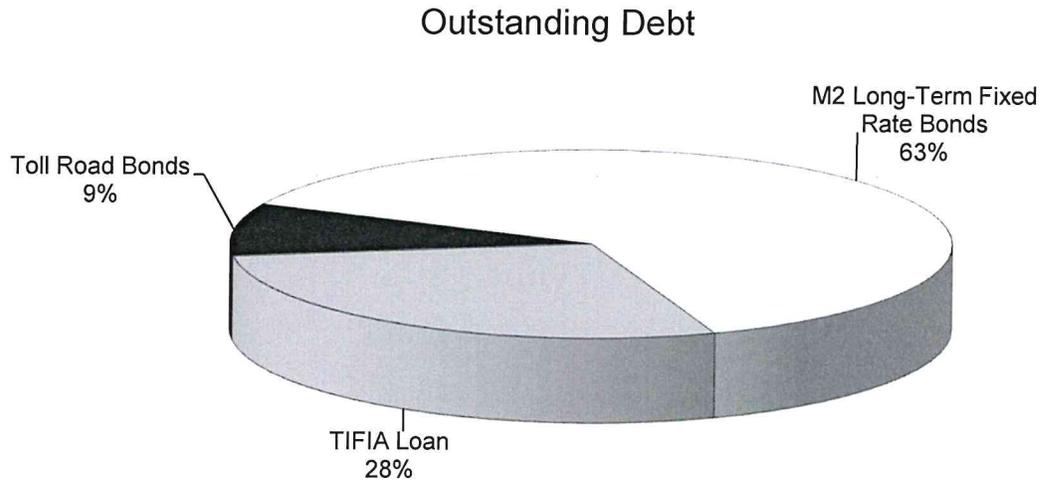
Negative Credit Watch 10/31/2019

| <u>Manager / Security</u> | <u>Par Amount</u> | <u>Maturity</u> | <u>S&P</u> | <u>Moody's</u> | <u>Fitch Ratings</u> |
|--|-------------------|-----------------|----------------|----------------|----------------------|
| PFM | | | | | |
| <i>Pfizer Inc.</i> | 2,300,000 | Various* | AA- | A1 | A |
| On June 17, 2019, S&P, and Fitch placed the long-term ratings of Pfizer Inc. under review for possible downgrade. | | | | | |
| MetLife Investment Mgmt | | | | | |
| <i>Bristol-Myers Squibb Co.</i> | 2,160,000 | 5/14/2021 | A+ | A2 | A- |
| On January 3, 2019, S&P, and Fitch placed the long-term ratings of Bristol-Myers Squibb Co. under review for possible downgrade. | | | | | |

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

DEBT PROGRAM

Total Outstanding Debt As of 10/31/19



TOTAL OUTSTANDING DEBT: \$1,013,905,000

Outstanding Debt

As of 10/31/19

Orange County Local Transportation Authority (OCLTA-M2)

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

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

2010 Series B Tax-Exempt Sales Tax Revenue Bonds

| | | |
|--------------------------------|-----------------------|-------------|
| Issued: | \$ | 59,030,000 |
| Outstanding: | | 8,530,000 |
| Debt Service FY 2020: | | 8,913,850 |
| Pledged Revenue Source: | M2 Sales Tax Revenues | |
| Ratings (Fitch/ Moody's/ S&P): | | AA+/Aa2/AA+ |
| Final Maturity: | | 2020 |

2019 M2 Sales Tax Bond

| | | |
|-------------------------|-----------------------|-------------|
| Issued: | \$ | 376,690,000 |
| Outstanding: | | 376,690,000 |
| Debt Service FY 2020: | | 17,939,230 |
| Pledged Revenue Source: | M2 Sales Tax Revenues | |
| Ratings (Fitch/ S&P): | | AA+/AA+ |
| Final Maturity: | | 2041 |

91 Express Lanes

2013 OCTA 91 Express Lanes Refunding Bonds

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

405 Express Lanes

2017 TIFIA Loan

| | | |
|-------------------------------|------------------------|-------------|
| Outstanding: | \$ | 287,000,000 |
| Accrued Debt Service FY 2020: | \$ | 10,499,200 |
| Pledged Revenue Source: | 405 Toll Road Revenues | |
| Ratings (Moody's): | | Baa2 |
| Final Maturity: | | 2057 |



January 8, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

A handwritten signature in black ink, appearing to read "Darrell E. Johnson for", is written over the printed name in the "From:" field.

Subject: Fiscal Year 2019-20 First Quarter Budget Status Report

Overview

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

Recommendation

Receive and file as an information item.

Background

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

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

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

Table 1 - Working Budget

| Date | Description | Amount* |
|-----------|--|---------------------|
| 7/1/2019 | Adopted Budget | \$ 1,525,194 |
| 7/22/2019 | Contracted Fixed-route Service Agreement | 4,521 |
| | <i>Subtotal Amendments</i> | <i>4,521</i> |
| | Total Working Budget | \$ 1,529,715 |

*in thousands

Discussion

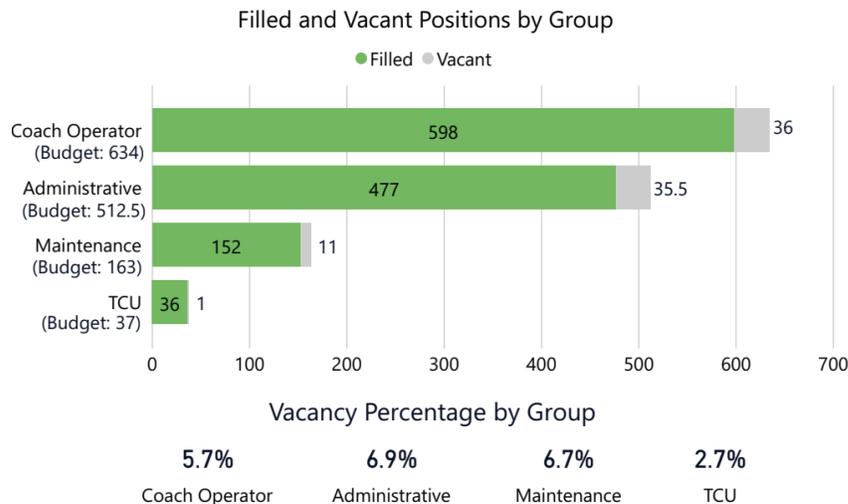
Staff monitors and analyzes revenues and expenditures versus the working budget. This report provides a summary level overview of staffing levels and explanations for material budget-to-actual variances within each pertinent OCTA program. The OCTA programs included are Bus, Commuter Rail, 91 Express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

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

- Gray – Budget
- Green – Within budget
- Yellow – Within 5 percent variance of budget
- Red – Over 5 percent variance of budget

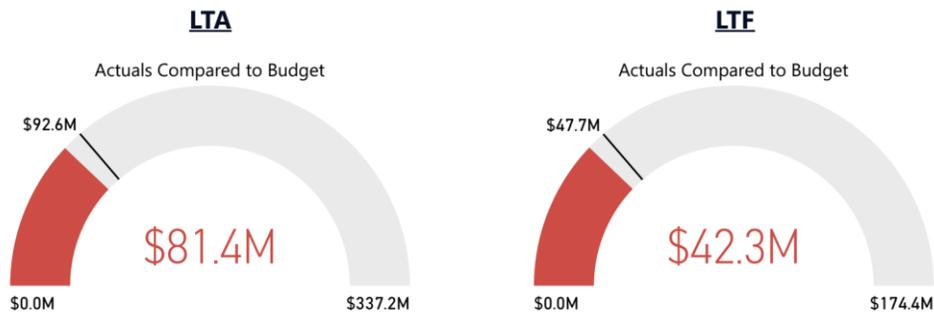
Staffing

Total salaries and benefits underran the budget by \$1 million. This is primarily due to vacancies OCTA-wide, with the largest vacancy percentages in the Administrative (6.9 percent) and Maintenance (6.7 percent) groups at the end of the quarter.



Sales Tax Receipts

The charts below provide a FY snapshot for both the Local Transportation Authority (LTA) M2 Program and Local Transportation Fund (LTF) Bus Program sales tax revenues against the budget. LTA sales tax receipts of \$81.4 million were \$11.2 million lower than the budget. LTF sales tax receipts of \$42.3 million were \$5.4 million lower than the budget. Staff is working with MuniServices, Limited Liability Corporation, OCTA's sales tax consultant, to determine if this underrun is material or simply a timing issue of receipts from California Department of Tax and Fee Administration.



Major Programs



Bus Program



Bus Program operating revenue of \$58 million underran the budget by \$4.3 million, primarily due to lower than anticipated LTF sales tax revenue. Bus Program operating expenses of \$57.5 million underran the budget by \$2.1 million, primarily due to fuel costs (\$0.8 million). Compressed natural gas fuel underran due to a lower unit cost than anticipated, and hydrogen fuel and gasoline underran due to lower miles driven than anticipated. Hydrogen fuel is used in 11 buses which were all anticipated to be in service beginning in July 2019; however, three of the buses did not begin service until October 2019 due to the hydrogen fueling station not being fully operational until late in the first quarter. Gasoline is used for ACCESS, the on-demand paratransit service, and

less miles were driven than forecast for the first quarter. Also contributing to the underrun was \$0.2 million for OC Flex service due to technical difficulties with the contractor’s data system resulting in invoicing in arrears by two months. This is anticipated to be resolved in the following quarter, and billing is anticipated to be back on schedule. An underrun of \$0.2 million for security services was the result of a year-end credit from the Orange County Sheriff’s Department for position vacancies in a prior FY. A \$0.2 million underrun for the on-board video surveillance system project was the result of invoice timing. Invoices anticipated to be paid in the first quarter were paid early in the second quarter. The remainder of the underrun for operating expenses was the result of less as-needed expenses than anticipated for the first quarter. These include items like shop supplies, minor repairs, and maintenance on the bus fleet.



Bus Program capital revenue of \$3.3 million overran the budget by \$1.9 million, primarily due to prior FY state grant revenue received in the current FY for the purchase of ten hydrogen fuel cell electric buses. California Air Resources Board grant revenue associated with the bus purchase was budgeted in a prior FY but received in the current FY based on corresponding expenditures. Capital expenses of \$1.4 million were in line with the budgeted amount.



Rail Program



Rail Program operating revenue of \$9.6 million overran the budget by \$0.3 million primarily due to higher than anticipated earnings on investments. Operating expenses of \$1.3 million underran by \$8 million, primarily due to the quarterly operating subsidy payment to Southern California Regional Rail Authority (SCRRA) for OCTA’s annual portion of the Metrolink operations. This \$7.4 million underrun is the result of ongoing negotiations for the funding agreement, and once executed, the underrun is anticipated to be resolved. The remainder of the operating expense underrun is associated with on-call project management support services for multiple projects within the Rail Program.

| | | | |
|------------------------|---------------|------------------------|---------------|
| Capital Revenue | | Capital Expense | |
| \$0.1M | \$43.6M | \$0.0M | \$43.6M |
| ▼ \$0.1M YTD Budget | Annual Budget | ▼ \$0.1M YTD Budget | Annual Budget |

Actual capital revenue and expenses for the Rail Program were less than \$0.1 million, respectively, and in line with budgeted expectations. Contracts for larger capital projects such as construction of the Anaheim Canyon Metrolink Station project and the Placentia Metrolink Station project are anticipated later in the FY, increasing both capital revenue and expense activity.



91 Express Lanes Program

| | | | |
|--------------------------|---------------|--------------------------|---------------|
| Operating Revenue | | Operating Expense | |
| \$15.9M | \$78.1M | \$3.7M | \$78.1M |
| \$15.0M YTD Budget | Annual Budget | \$5M YTD Budget | Annual Budget |

The 91 Express Lanes Program operating revenue of \$15.9 million overran by \$0.9 million, primarily due to fees collected for toll violations and account minimums. Revenue from these fees are variable in nature and therefore difficult to forecast. Operating expenses of \$3.7 million underran by \$1.3 million, primarily due to as-needed expenses associated with toll road account servicing, legal services, and equipment repair/maintenance.

| | | | |
|------------------------|---------------|------------------------|---------------|
| Capital Revenue | | Capital Expense | |
| \$0.1M | \$38.1M | \$0.1M | \$38.1M |
| ▼ \$0.1M YTD Budget | Annual Budget | ▼ \$0.1M YTD Budget | Annual Budget |

Capital revenue and expenses for the 91 Express Lanes Program of \$0.1 million respectively, were in line with budgeted expectations. Contracts for larger capital projects including the new Back Office System and Customer Service Center project will be executed later in the FY, increasing capital revenue and expense activity.



Motorist Services Program

Operating Revenue



Operating Expense

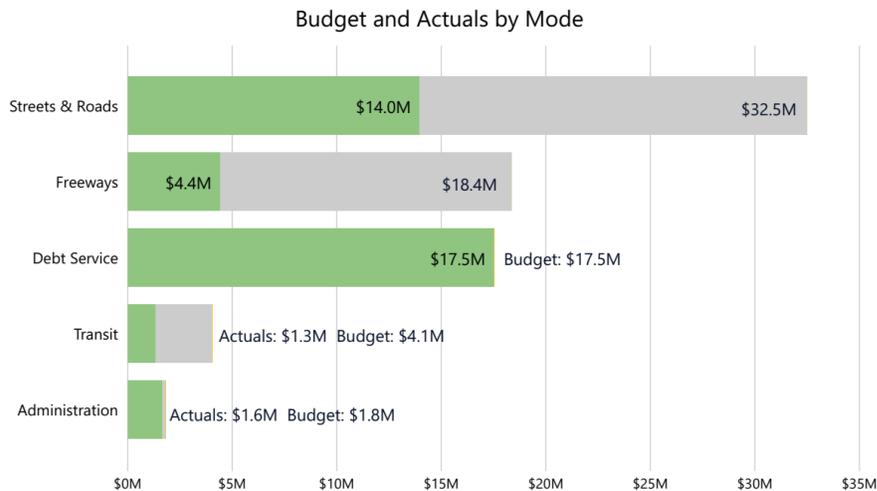


Motorist Services Program revenue of \$1.6 million overran the budget by \$0.3 million, primarily due to earlier than anticipated contribution from the cities for the Orange County Taxi Administration Program. This revenue was anticipated to be received evenly over the course of the FY, however cities are contributing their portions sooner. Expenses for the program of \$1.2 million underran the budget by \$0.1 million due to lower than anticipated invoices for contracted tow service for the Freeway Service Patrol Program. Fuel cost for this program is variable, and due to lower fuel costs, invoices received were lower than anticipated.

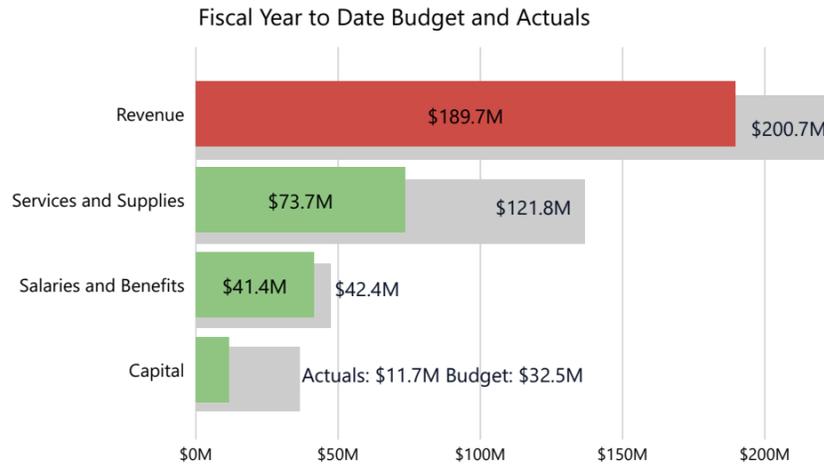


Measure M2 Program

Total expenses for the M2 Program of \$38.9 million underran the budget by \$35.3 million, primarily due to lower than anticipated project payment requests from the cities for the Regional Capacity Program, Regional Traffic Signal Synchronization Program, and Environmental Cleanup Program. Also contributing to the underrun is invoice timing for construction and construction support services for the Interstate 5 South County Improvement project and the Interstate 405 Improvement Project.



Summary



Overall, revenue of \$189.7 million underran the budget by \$11 million, primarily due to lower sales tax revenue for the M2 Program (\$11.2 million) and Bus Program (\$5.4 million). These underruns were partially offset by an overrun from grant revenue budgeted in a prior FY but received in the current FY for the purchase of hydrogen fuel cell electric buses. Services and supplies expenses of \$73.7 million underran the budget by \$48.1 million, primarily due to an underrun in the Metrolink operating subsidy and contributions to local agencies based on lower than anticipated project payment requests for Regional Capacity Program, Regional Traffic Signal Synchronization Program, Environmental Cleanup Program, and Community-based Transit/Circulator Program. Salaries and benefits of \$41.4 million underran the budget by \$1 million due to vacancies. Capital expenses of \$11.7 million underran the budget by \$20.8 million, primarily due to construction and construction support services for the Interstate 5 South County Improvement project and the Interstate 405 Improvement Project.

Attachment

- A. FY 2019-20 First Quarter Budget Status Summary

Prepared by:



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

Approved by:

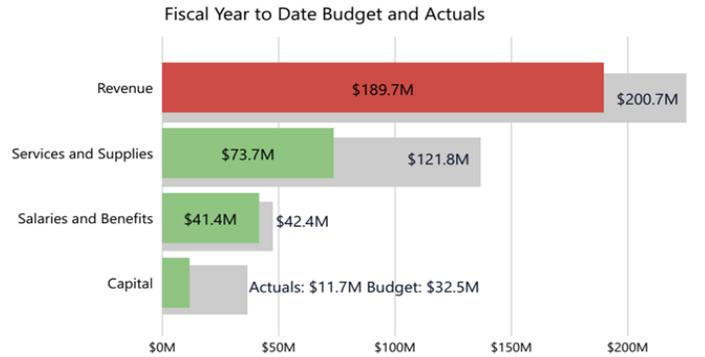


Andrew Oftelie
Chief Financial Officer,
Finance and Administration
(714) 560-5649

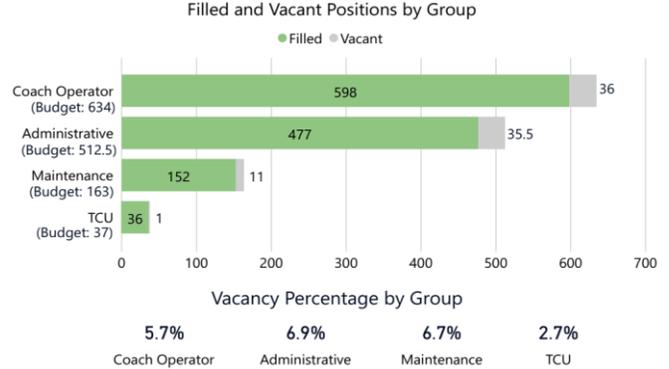


● Budget ● Within Budget ● Within 5% Variance ● Over 5% Variance

Total Authority

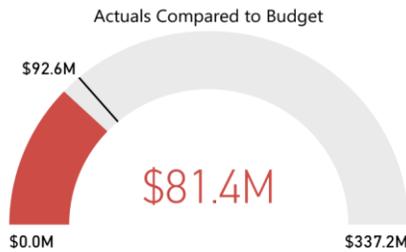


Staffing

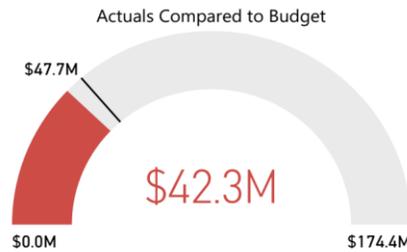


Sales Tax Receipts

LTA



LTF

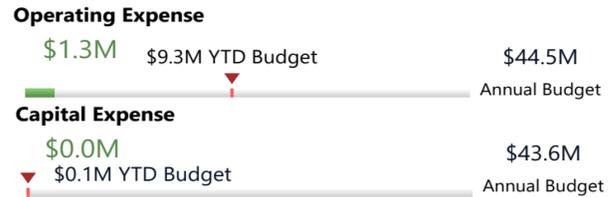


Major Operating Programs

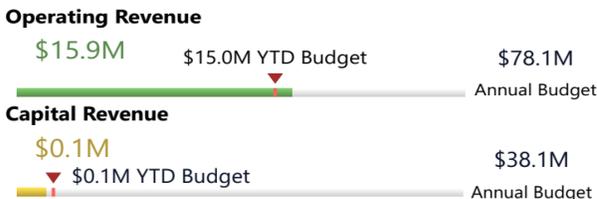
Bus Program



Rail Program



91 Express Lanes Program



Motorist Services Program

