



May 24, 2017

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Subject: Preview to the Public Hearing on Orange County Transportation Authority's Fiscal Year 2017-18 Budget and Personnel and Salary Resolution

Overview

The Orange County Transportation Authority Fiscal Year 2017-18 Budget presents a balanced plan of sources and uses of funds while providing for the current and future transportation needs of Orange County. The Board of Directors may approve the fiscal year 2017-18 budget following the public hearing to be held at the Board of Director's Meeting on June 12, 2017, at the following Board of Directors' meeting on June 26, 2017, or in a special meeting convened at their discretion. The Board of Directors are also asked to approve changes to the Personnel and Salary Resolution as part of the budget approval process.

Recommendations

- A. Approve by Resolution the Orange County Transportation Authority's Fiscal Year 2017-18 Budget.
- B. Approve the Personnel and Salary Resolution for Fiscal Year 2017-18.
- C. Authorize the Chief Executive Officer to negotiate and execute the software and hardware licensing, maintenance, and emergency support purchase orders and/or agreements.
- D. Approve fiscal year 2017-18 Orange County Transportation Authority member agency contribution to the Southern California Regional Rail Authority in an amount up to \$28,238,881, including authorization of Federal Transit Administration funds, in the amount of \$6,000,000, to be drawn down directly by Southern California Regional Rail Authority. In addition, approve capital rehabilitation in the amount of \$7,344,982, offset by \$6,059,016 in Rotem repayment, with the balance paid by Federal Transit Administration funds that will be drawn down directly by Southern California Regional Rail Authority.

Background

The Orange County Transportation Authority (OCTA) staff has developed a balanced budget for fiscal year (FY) 2017-18 that defines the financial resources required to provide a broad spectrum of multi-modal transportation services.

A budget workshop was conducted with the Board of Directors (Board) on Monday, May 8, 2017, during which staff made a presentation covering plans for each of OCTA's programs and services, and its associated revenues and expenses.

Discussion

The preparation of OCTA's annual budget began in December 2016 with the development of preliminary revenue projections, a service plan, and program goals and objectives for the upcoming FY. The service plan and program goals were developed in accordance with the Board Strategic Initiatives and Chief Executive Officer (CEO) Initiatives. The budget is within the financial constraints of the Comprehensive Business Plan (CBP), and also incorporates the Board approved sales tax forecasting methodology, as well as California's Senate Bill 1 (SB-1).

Each division developed and submitted its budget requests in January, which were subject to successive internal reviews to ensure conformance set by executive management. The budget was reviewed by a CEO-appointed internal budget review committee, consisting of the Deputy CEO, Executive Director of Finance and Administration, and Executive Director of Human Resources and Organizational Development, to ensure a balanced and fiscally responsible budget is delivered consistent with the Board's goals, CEO's goals, CBP, and Next 10 Plan.

The development of the FY 2017-18 budget was based on a series of programmatic assumptions that have been presented to the Finance and Administration Committee over the course of the last two months. The presentations have covered the guiding principles and assumptions used to develop the budgets for OCTA's major programs, including Measure M2 (M2), bus operations, rail, and 91 Express Lanes.

The budget represents a balanced plan of sources and uses of funds. Sources of funds include new revenues received within the year, as well as planned use of prior year designations. Expenditures include current year expenditures, as

well as funds designated in the current FY to be used in a future FY. The combination of revenues and planned use of prior year designations produces available funding of \$1,289.8 million, while expenditures and designations yield a total use of funds of \$1,289.8 million. On a year-over-year comparison, the FY 2017-18 budget is 11 percent, or \$128.3 million, higher than the FY 2016-17 budget. The increase is primarily driven by increased capital expenditures for freeway improvements and the OC Streetcar.

The available funding includes revenues of \$1,057.2 million and a use of prior year designations of \$232.6 million. In the next year, it is anticipated that sales tax will increase by 3.3 and 2.4 percent for M2 and Local Transportation Fund, respectively. The FY 2017-18 budget incorporates the passage of SB-1, and it is estimated that \$28.9 million will be received in State Transit Assistance funding from the State of California to support the bus transit program. Passenger fares are budgeted at \$47.9 million. Furthermore, it is anticipated that toll revenue for the 91 Express Lanes will increase slightly, by \$3.2 million on a budget-to-budget basis.

The planned use of prior year designations is comprised of funds previously designated or reserved for future operating or capital expenditures. The largest draw on prior year designations will be from M2, with \$194.8 million planned for expenditures for the freeway improvements, OC Streetcar, OC Bridges, and Placentia Metrolink Station.

The use of funds consists of salaries and benefits of \$160.2 million, services and supplies of \$294.7 million, contributions to other agencies of \$185.9 million, debt service of \$34.6 million, capital expenditures of \$471.7 million, and designations for future operating and capital requirements of \$142.7 million.

OCTA will continue to honor the commitment made to the residents of Orange County when they approved the renewal of Measure M. Approximately \$513.1 million in M2 related expenditures are budgeted for projects to improve transportation within Orange County. These funds will pay for improvements to freeways and streets and roads throughout Orange County, as well as fund rail and transit programs.

Of the \$513.1 million in M2 related expenditures, the funds will be utilized for improvements to freeways (\$170.4 million), streets and roads (\$156.8 million), rail (\$109.2), transit (\$37.3 million), environmental cleanup (\$10.6 million), and to cover the net cost of debt service (\$28.8 million).

OCTA's efforts to increase bus ridership include the implementation of OC Bus 360°, and no fare increase in FY 2017-18. Fixed-route service will continue with 40 percent of contracted revenue hours during the FY. It is anticipated that total expenditures for the countywide bus system will be \$349.4 million. Approximately \$274.1 million is budgeted for operations, \$8.6 million is budgeted for capital expenditures, and \$7.3 million will be utilized for special programs. An additional \$59.4 million will be designated to the capital replacement fund for future capital requirements.

Designated funds consist of funds being set aside for future year expenditures. Approximately \$142.7 million is being designated in the FY 2017-18 budget for future capital expenditures. The largest designations are in the M2 Fund (\$59.4 million) for future capital projects throughout Orange County, Orange County Transit District Fund (\$59.4 million) for future fixed asset purchases, and the 91 Express Lanes Fund (\$19.2 million) for future capital improvements along the State Route 91 corridor.

Staff was available to present, review, or answer questions about the budget at the following committees, as well as to individual Board Members upon request.

Committee	Date
Finance and Administration	May 10 & 24
Legislative and Communications	May 18
Transit	May 11 & June 8
Executive Committee	June 5
Regional Planning and Highways	June 5

Personnel and Salary Resolution

The FY 2017-18 Personnel and Salary Resolution (PSR) (Attachment C) governs administrative employees and is approved annually as part of the budget. Changes have been made to the PSR to include minor clarifications where necessary.

The PSR includes a 3.5 percent merit pool and 3 percent special performance award pool. The PSR also includes a salary structure adjustment of 2 percent. Salary structure adjustments do not automatically increase employee salaries unless they are below the minimum of the new range. Additionally, there is an

increase in the number of personal paid holidays from five to six, notwithstanding the six fixed holidays bringing the total number of paid holidays to 12. Employees that are non-exempt on an alternate work schedule will receive the equivalent of one work day per scheduled holiday or personal paid holiday, adding an additional cost of \$5,376. Currently, non-exempt employees are paid eight hours for a holiday regardless of their schedule. As part of the deferred compensation benefit program, the employer match would change to 1 percent upon hire and increase to 2 percent at five years of service and 3 percent at ten years of service. Also included in the PSR is a change to employee tuition reimbursement. This benefit is not automatic, an employee must meet specific requirements to be eligible. The current maximum reimbursement amount remains at \$3,500 per year, but any future increase will be indexed to the California State University tuition, up to the maximum nontaxable Internal Revenue Service limit of \$5,250.

Information Systems Licensing and Maintenance Agreements

Each year, in conjunction with approving the budget, the Board approves OCTA's software and hardware licensing and maintenance agreements. OCTA follows industry practice to ensure proper maintenance and to receive critical product upgrades of its licensed software and purchased hardware. The annual licensing and maintenance agreements are executed with each hardware and software developer on a sole source basis, for an amount not to exceed the contracted value for each vendor. The sole source list includes licensing and maintenance agreements, as well as emergency support after hours, weekends, and holidays. On a cumulative basis, the software and hardware licensing, maintenance, and emergency support agreements will not exceed \$4.8 million. A list of the agreements is included as Attachment D.

Southern California Regional Rail Authority (SCRRA) Budget

Under the Joint Powers Agreement that governs the SCRRA, each member agency must approve its financial contribution to the SCRRA budget. The FY 2017-18 SCRRA budget estimates the OCTA operating funding allocation to be \$28,238,881, including authorization of Federal Transit Administration (FTA) funds, in the amount of \$6,000,000, to be drawn down directly by SCRRA.

In addition to the annual operating funding allocation, OCTA is also responsible for a portion of the costs for rehabilitation projects. These projects are typically led by the SCRRA, and the grant funds to pay for them are drawn down directly by the SCRRA. As a result, these projects are not typically included in OCTA's budget. The SCRRA budget (Attachment E) provides a detailed list of projects and the associated costs by member agency. OCTA's portion of the costs for

FY 2017-18 is \$7,344,982, which is partially offset by the fifth Rotem railcar credit in the amount of \$6,059,016. The net cost to OCTA for rehabilitation projects for FY 2017-18 is \$1,285,966. OCTA will utilize FTA funds for rehab projects that will be drawn down directly by SCRRA.

Summary

The Orange County Transportation Authority Fiscal Year 2017-18 Budget was reviewed by the Board of Directors in a workshop setting on May 8, 2017. The Board of Directors may approve the FY 2017-18 budget following the public hearing on June 12, 2017, at the regularly scheduled meeting on June 26, 2017, or in a special meeting convened at their discretion.

Attachments

- A. Resolution of the Board of Directors for the Orange County Transportation Authority Approving an Operating and Capital Budget Fiscal Year 2017-18
- B. Orange County Transportation Authority Budget Summary Fiscal Year 2017-18
- C. Proposed Changes for the Personnel and Salary Resolution FY 2017 -18
- D. Orange County Transportation Authority Licensing and Maintenance Agreements Sole Source List Fiscal Year 2017-18
- E. Transmittal of the Preliminary Fiscal Year 2017-18 SCRRA Budget

Prepared by:



Victor Velasquez
Department Manager,
Financial Planning and Analysis
(714) 560-5592

Approved by:



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