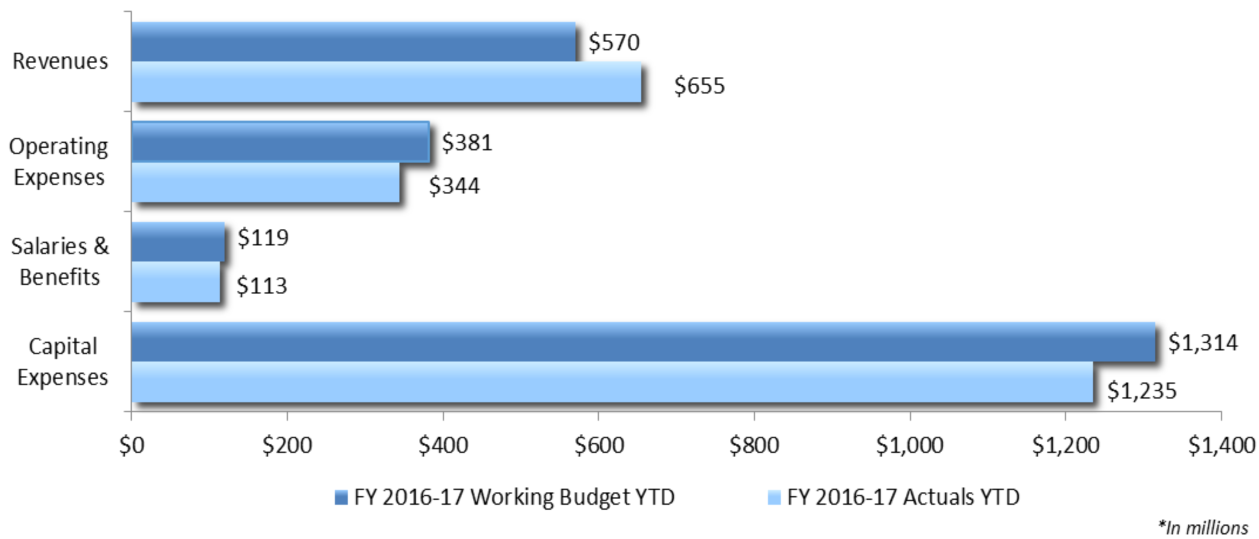
Quarterly Budget Status Report

Third Quarter of Fiscal Year 2016-17



OVERVIEW

The Board of Directors (Board) approved the Orange County Transportation Authority (OCTA) Fiscal Year (FY) 2016-17 budget on June 13, 2016. The approved budget itemized the anticipated revenues and expenses necessary to deliver OCTA's transportation programs and meet service commitments.

In the third quarter, the second quarter Local Transportation Authority (LTA) Measure M2 (M2) and Local Transportation Fund (LTF) sales tax revenue true-ups were received. The results yielded a 2.79 percent growth rate year-over-year compared to the budgeted growth rate of 4.4 percent for LTA M2 sales tax revenue and 2.35 percent growth compared to the budgeted growth rate of 2.8 percent for LTF. Advances in the third quarter for LTA M2 sales tax revenue did increase slightly. However, LTA M2 sales tax revenue is still causing a year-to-date underrun of approximately $3.1 million. Advances for LTF sales tax revenue were higher than anticipated in the third quarter causing actuals to exceed the budget by approximately $3.1 million. However, the actual amount for both of these sales tax revenues for the third quarter will not be finalized until mid-June when OCTA receives the third quarter "true-up" payment. Fare revenue underran by approximately $2 million, primarily due to a year-over-year decrease in fixed-route boardings of 9.1 percent. Underruns in operating revenue for the Transit Program are offset by underruns of $7.9 million in operating expenditures.

The majority of variance explanations are due to timing issues for both revenues and expenses. In areas where expenditures underrun the budget, the primary cause is timing issues related to capital projects. Often these same projects have external funding that cannot be sought for reimbursement until expenditures are incurred, creating underruns in revenues as well.

This report summarizes the material variances between the budget plan and actual revenues and expenses for the FY.

AMENDMENTS

The OCTA Board of Directors has approved two budget amendments in the amount of $1.15 billion.

Description (in thousands)	Amount
Adopted Budget	$ 1,161,476
Job Access & Reverse Commute Agreements	313
Design-Build I-405 Improvement Project	1,147,065
Total Working Budget	$ 2,308,854

STAFFING

A staffing plan of 1,386.5 full-time equivalent positions was approved for FY 2016-17. At the end of the third quarter 1,328 of these positions were filled.

Staffing Description	Budget	Filled	Vacant	% Vacancy
Coach Operators	680.0	663.0	17.0	2.5%
Maintenance	171.0	160.0	11.0	6.4%
TCU	37.0	36.0	1.0	2.7%
Union Subtotal	888.0	859.0	29.0	3.3%
Transit Operations Support	173.5	162.5	11.0	6.3%
Other Administrative	325.0	306.5	18.5	5.7%
Administrative Subtotal	498.5	469.0	29.5	5.9%
Total OCTA	**1,386.5**	**1,328.0**	**58.5**	**4.2%**

TOTAL SALARIES AND BENEFITS

At the end of the third quarter, actual salaries and benefits of $113 million were $6.2 million under the budget of $119.2 million. This variance is due to a $4.6 million underrun in Transit Program salaries and benefits and a $1.6 million underrun in General Fund salaries and benefits. In both cases, the underruns are primarily driven by vacant administrative positions.

Total Administrative Salaries and Benefits Expenses	Budget	Actual	$ Variance	% Variance
Transit	$ 80,469	$ 75,890	$ 4,579	5.7%
General Fund	$ 38,693	$ 37,117	$ 1,576	4.1%
Total	**$ 119,163**	**$ 113,007**	**$ 6,155**	**5.2%**

PROGRAM AND FUND VARIANCES

Year-to-date material variances are listed by program or fund group in thousands.

General Fund	Budget	Actual	$ Variance	% Variance
Revenues	$ 4,490	$ 4,137	$ (354)	-7.9%
Expenses	$ 72,678	$ 63,420	$ 9,258	12.7%

Expenses: General Fund expenses underran the budget by $9.3 million. This variance ($17.9 million) is primarily attributed to the construction of the Placentia Metrolink station. The construction of the Placentia Metrolink station is anticipated to take place in FY 2017-18 as a result of an increase in scope to incorporate a parking garage to ensure compliance with current building code standards. There is also an underrun of $1.6 million in administrative salaries and benefits. These underruns are partially offset by timing of the Bristol Street Widening Project expenditures of $11.5 million. The majority of the expenses associated with the project were expected to be paid in the fourth quarter. However, the entirety of the expenses were paid to the City of Santa Ana during the third quarter. Expenditures are anticipated to be in alignment with the budget by the end of the fourth quarter.

Measure M2 Program	Budget	Actual	$ Variance	% Variance
Revenues	$ 268,093	$ 306,157	$ 38,064	14.2%
Expenses	$ 1,393,468	$ 1,380,701	$ 12,767	0.9%

Revenues: Within the M2 Program, there is a net overrun of $38.1 million. This is primarily due to overruns in the OC Bridges ($31.8 million) and Regional Capacity Program revenues ($14.4 million). These overruns are due to prior year grant revenue reimbursements being received in the current FY. However, these overruns are partially offset by an underrun in LTA sales tax revenue of $3.1 million.

LTA sales tax revenue is growing at 2.79 percent year-over-year in comparison to the budgeted growth rate of 4.4 percent. As a result of the lower than budgeted growth rate, LTA M2 sales tax revenue is underrunning the budget by approximately $3.1 million year-to-date. Table 1 shows budget versus actual LTA M2 sales tax revenues received quarterly with the true-up included for the first and second quarter. However, the actual amount of LTA M2 sales tax revenues for the third quarter will be finalized mid-June when OCTA receives the third quarter "true-up" payment.

Table 1 - LTA M2 Sales Tax Revenue

	Quarter 1	Quarter 2	Quarter 3	Total YTD
Budget	$ 77,610	$ 82,292	$ 63,122	$ 223,025
Actuals	$ 75,980	$ 80,968	$ 62,976	$ 219,923
Variance	**$ (1,631)**	**$ (1,324)**	**$ (146)**	**$ (3,102)**

*True-up payments are received at the end of the following quarter.

Expenses: M2 expenses are underrunning by $12.8 million. The variance can be attributed to OC Bridges ($8.1 million), State Route 57 (SR-57) Freeway Improvements ($7.1 million), Interstate 5 Freeway Improvements ($7 million), Regional Traffic Signal Synchronization ($5 million), Regional Capacity Program ($5 million), Community Based Transit Circulators ($4.3 million), and State Route 55 Freeway Improvements ($2.7 million). These underruns are partially offset by overruns within Interstate 405 (I-405) Freeway improvements ($29.9 million),

The $8.1 million underrun pertaining to OC Bridges can be attributed to several grade separation projects. The State College Separation Project is contributing $4.5 million to the underrun. This underrun is primarily due to the cooperative agreement with the City of Fullerton. Approval of an amendment to the cooperative agreement was required by the Fullerton City Council before additional payments can be provided to the city. The amendment was approved late in the third quarter and invoicing is expected to begin in the fourth quarter. The Tustin Avenue Grade Separation Project is contributing $2.5 million to the underrun. Invoices related to this project are currently running one to two months in arrears. Right-of-Way (ROW) land acquisition underran by $1 million due to a lower than expected cost to acquire properties.

The $7.1 million variance pertaining to the SR-57 Project can primarily be attributed to delays in the project. The project continues to be delayed as the consultant addresses design product quality issues. Staff and California Department of Transportation (Caltrans) are working with the consultant to address the quality issues to complete the design, and achieve construction ready in FY 2018.

The landscaping for the SR-57 between Katella Avenue and Lincoln Avenue will not be completed in the current FY as planned due to delays in Caltrans safety reviews of the final design. This will push future milestones of the project into FY 2018.

The Regional Traffic Signal Synchronization Program underran by $5 million through the third quarter. This is due to the collaboration process with consultants, local agencies, and Caltrans. A large collaborative effort is required due to the massive scope of the projects, as such, the projects are taking longer than originally anticipated. Progress will accelerate as the projects advance in development.

Approximately $5 million of the variance is associated with the Regional Capacity Program. The billing cycles and the magnitude of expenses are dependent upon the cities progress/completion of their individual projects, making billing cycles difficult to forecast. This program will continue to be monitored throughout the FY.

The underrun within Community Based Transit Circulators ($4.3 million) is primarily due to fewer than expected cities joining the program through the third quarter. Memorandums of understanding (MOUs) have been sent out to several cities within the county for signatures. Service for these areas could potentially begin during the next FY.

The SR-55 project has experienced underruns ($2.7 million) within ROW utilities due to modification requests by Caltrans. An updated Draft Environmental Document and Project Report was completed late in the third quarter. The environmental, design and ROW phases are anticipated to begin next FY.

The primary driver behind the $29.9 million overrun relating to the I-405 Improvement Project is the earlier than expected encumbrance of the design build contract. This contract was originally expected to be fully executed in the fourth quarter, which created a $64 million overrun. This overrun has been partially offset by underruns in ROW land acquisition and project development. A $26 million underrun in ROW land acquisition can be attributed to the longer than expected lead time required to extend offers to land owners, and the difficulty of predicting the acceptance rate among property owners. Underruns of $12.1 million within project development are primarily due to invoicing running several months in arrears.

Transit Program	Budget	Actual	$ Variance	% Variance
Revenues	$ 214,669	$ 268,034	$ 53,365	24.9%
Expenses	$ 183,623	$ 166,909	$ 16,715	9.1%

Revenues: Transit revenues have overrun by $53.4 million. The variance is primarily related to the receipt of federal grant funds for the purchase of buses from the prior year. ($57 million) and LTF sales tax revenues ($3.1 million). However, this overrun was partially offset by an underrun in grant funds related to the engine upgrade project ($3.8 million) and fare revenues ($2 million).

An overrun of $57 million within revenue was related to a bus procurement. Federal grant funds received through the third quarter were a partial reimbursement from a prior year bus procurement. Additional federal grant funds are likely to be received as the FY continues.

The underrun of $3.8 million in grant revenues related to the engine upgrade project is simply a timing issue. The project has been completed and we anticipate to receive the reimbursed revenues by the end of the FY.

Fare revenues underran by $2 million. This is primarily due to lower than anticipated utilization of fixed-route bus services. Year-over-year fixed-route boardings have decreased by 9.1 percent. Staff will continue to monitor this variance and provide regular updates.

In the third quarter, the second quarter Local Transportation Fund (LTF) sales tax revenue true-up was also received. The results yield a 2.35 percent growth rate year-over-year in comparison to the budgeted growth rate of 2.8 percent. Advances in the third quarter have grown at 12.8 percent, resulting in an overrun of approximately $3.1 million year-to-date. Table 2 shows budget versus actual LTF sales tax revenues received quarterly with the true-up included for the first and second quarter. However, the actual amount of LTF sales tax revenues for the third quarter will be finalized mid-June when OCTA receives the third quarter "true-up" payment.

Table 2 - LTF Sales Tax Revenue

	Quarter 1	Quarter 2	Quarter 3	Total YTD
Budget	$ 39,807	$ 41,574	$ 33,871	$ 115,252
Actuals	$ 39,569	$ 41,800	$ 37,001	$ 118,370
Variance	**$ (239)**	**$ 227**	**$ 3,130**	**$ 3,117**

*True-up payments are received at the end of the following quarter.

Expenses: The $16.7 million underrun in Transit expenditures is primarily attributed to bus capital projects and procurement ($6.6 million), salaries and benefits ($4.6 million), bus base and transit center projects ($1.9 million), fuels ($1.1 million), and equipment maintenance ($0.6 million).

Expenses related to bus capital projects and procurement underran through the third quarter by $6.6 million. Approximately $5.5 million of the underrun is due to the mid-life engine campaign on 97 Compressed Natural Gas buses. Maintenance staff was required by Cummins to establish Installation Quality Assurance Approval (IQA) before the first set of engines could be delivered. The IQA was recently completed and the project has continued. The remaining $1.1 million variance can be attributed to the procurement of buses for community based circulator service. The purchase price for seven cutaway buses came in lower than expected.

Labor costs underran by approximately $4.6 million primarily due to vacant positions. The current vacancy rate for Transit union employees is 3.3 percent and 6.3 percent for administrative employees.

Projects related to bus base improvements have contributed $1.9 million to the variance. This underrun is primarily due to the project to improve security cameras at the Santa Ana and Garden Grove bases ($1.2 million) and two small construction projects at the Garden Grove Base ($0.5 million). These projects are anticipated to begin in FY 2018 and have been re-budgeted.

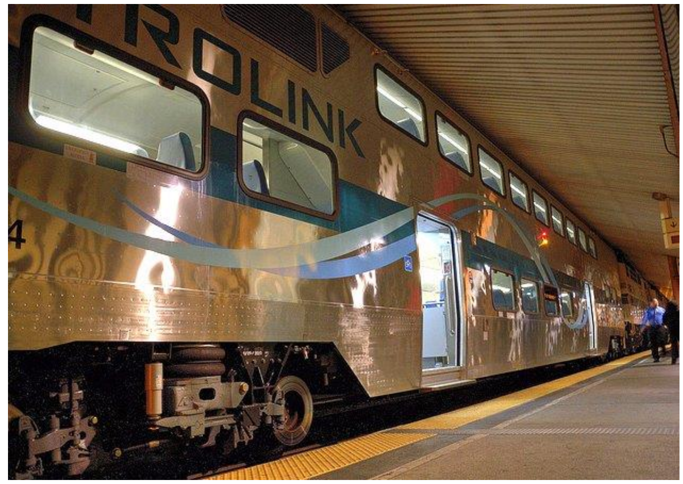
The underruns in fuel ($1.1 million) and equipment maintenance ($0.6 million) can be attributed to the timing of invoicing from the vendors. Several accounts within these categories are billing two to three months in arrears. Actuals are expected to be in alignment with the budget by year end.

91 Express Lanes Program

	Budget	Actual	$ Variance	% Variance
Revenues	$ 32,741	$ 39,996	$ 7,254	22.2%
Expenses	$ 33,665	$ 26,459	$ 7,205	21.4%

Revenues: The 91 Express Lanes revenues are overrunning by $7.3 million. Approximately $3.7 million of the overrun is related to more than anticipated non-toll revenues. These revenues are due to a higher number of toll violations having been processed through the third quarter and a larger number of account minimum fees collected than originally anticipated. An additional $3.3 million of the overrun is related to more trips than originally anticipated through the third quarter. When forecasting trips, a conservative approach was taken due to the repaving project that resulted in weekend closures earlier in the FY. It was anticipated that the weekend closures that would occur during the project would lead to a significant decrease in trips. The weekend closures related to the project did not have the projected negative effect and trips exceeded expectations through the third quarter.

Expenses: 91 Express Lanes expenses are underrunning by $7.2 million primarily due to the pavement rehabilitation project. This project began later than expected due to scheduling requirements and weather conditions. The paving project is contributing $5.5 million to the underrun and should be completed in the fourth quarter. Operational costs related to the toll road are also contributing to the underrun. The contract for toll road operations was negotiated at a lower than expected rate leading to an underrun of $0.6 million.



Commuter Rail Fund

	Budget	Actual	$ Variance	% Variance
Revenues	$ 12,683	$ 6,314	$ (6,369)	-50.2%
Expenses	$ 61,918	$ 25,930	$ 35,988	58.1%

Revenues: Commuter Rail Fund revenues underran by $6.4 million. The underrun is primarily due to revenues associated with the Orange Transportation Center parking project. Expenditures for this project were anticipated to be incurred in the third quarter. However, the project is now anticipated to incur expenses in FY 2018. As a result, revenues for this project will now be received in the FY 2018.

Expenses: Commuter Rail Fund expenses are underrunning by $36 million. The underrun is primarily due to the Orange Transportation Center Parking Expansion Project ($24.0 million), the Metrolink operating subsidy ($6.3 million), and Metrolink Service Expansion Project Management Services ($2.3 million). Award for the construction of the Orange Transportation Center Parking Expansion project is anticipated in the fourth quarter and expenses will begin in FY 2018. Expenses for the Metrolink operating subsidy are currently running a quarter in arrears. The remaining underrun of $2.3 million is related to a Rotem car payment. OCTA received two invoices related to the purchase of Rotem cars by Metrolink. The processing of these invoices took longer than anticipated due to a request for additional back-up information and a subsequent financial review. After extensive review of the invoices and additional information, the process has moved forward and the payment will be made in the fourth quarter.