



September 12, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Fiscal Year 2018-19 Comprehensive Business Plan

Overview

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

Recommendation

Approve the Fiscal Year 2018-19 Comprehensive Business Plan.

Background

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

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

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

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

Discussion

The Proposed Fiscal Year (FY) 2018-19 CBP is divided into six programs as follows: Bus, Rail, Measure M2 (M2), 91 Express Lanes, Non-Program Specific Projects, and Motorist Services. Key revenue and expense assumptions as well as risk factors for each program are outlined below:

Bus Program

Based on current revenue and expenditure assumptions the Bus Program is sustainable over the next 20 years. The Bus Program is able to maintain existing service levels and meet all necessary capital requirements over the life of the plan. Key revenue assumptions for the Bus Program include continued sales tax growth, continued state and federal funding, and stabilization and eventual growth in ridership which will help increase fare revenue. The plan also includes fare increases every 10 years beginning in FY 2022-23. OCTA has not implemented a fare increase since FY 2012-13.

Key expenditure assumptions include maintaining existing fixed-route service levels, continued outsourcing of paratransit and a portion of fixed-route service, containment of cost growth for the paratransit program, and a useful life of 18 years on the large bus fleet. If OCTA can meet the preceding assumptions, the plan does include the potential to add fixed-route service in the future.

Key risks to the Bus Program include voter approval of Proposition 6, which would repeal Senate Bill (SB) 1 funding. Approval of Proposition 6 would eliminate more than \$19.2 million annually in funding for the Bus Program and require reductions in fixed-route service. Additional risks include softening of sales tax growth, continued declines in bus ridership, continued cost growth in the paratransit program, and the potential for unfunded mandates such as requirements to purchase costly zero emission buses in the future.

Additionally, in July 2016 the Federal Transit Administration published the Transit Asset Management (TAM) Final Rule. To comply with this rule all recipients and subrecipients of federal funds that own, operate, or manage capital assets used for providing public transportation must develop and

implement TAM plans. The TAM plan has a number of requirements with the goal being that agencies demonstrate that assets are being maintained in a state of good repair.

OCTA has developed a Transit Asset Management Plan (TAMP) in accordance with federal law. Currently the majority of assets within OCTA's TAMP are related to the Bus Program, though this will change upon completion of the OC Streetcar project. The TAMP will be used to develop the 20-year list of prioritized transit capital needs. In addition, the TAMP documents the various interdependent business processes, activities, and tools needed to manage OCTA's transit assets to ensure safe, reliable, and high quality transit service. A synopsis of the requirements of the TAMP and OCTA's efforts in meeting those requirements has been included in Attachment B.

Rail

Based on current revenue and expenditure assumptions the Rail Program is also sustainable over the next 20 years. Service level assumptions for Orange County are anticipated to remain at 54 weekday trains over the life of the plan. Key revenue assumptions for the Rail Program include continued M2 sales tax growth, which is the primary source for Metrolink operations, and continued state and federal funding.

Key expenditure assumptions include moderate annual growth in the Metrolink operating subsidy, and sufficient Federal and State funding to support Orange County's share of Metrolink's capital rehabilitation and replacement program. It is anticipated that the rail program will have limited funding available for capital projects outside of the current rehabilitation and replacement plan.

Key risks to the rail program include softening of M2 sales tax growth, unexpected growth in the Metrolink operating subsidy, as well as any decrease in state or federal funding, which is utilized primarily to fund rail capital expenditures.

M2

The assumptions included in the CBP for the M2 Program are consistent with the Next 10 Plan and Board-approved sales tax forecast methodology. The estimated M2 sales tax revenue available to support the M2 Program is \$13.1 billion. Based on current revenue and expenditure assumptions it is anticipated that OCTA will be able to deliver the programs and projects included in the M2 Plan and meet the commitments made to the voters.

The primary risks that could impact OCTA's ability to deliver the M2 Program over the long term include softening of sales tax growth as well as cost impacts due to competition for resources. The passage of Proposition 6 would also impact external funding available to support projects.

91 Express Lanes

Based on current revenue and expenditure assumptions the 91 Express Lanes will continue to meet the stated objectives of maximizing throughput through the corridor while meeting all financial commitments over the 20-year period. It is anticipated that the usage of the express lanes will continue to grow with an average increase in toll revenue of 3.4 percent over the 20-year period. Total operating expenses for the express lanes are anticipated to grow annually at a modest 2 percent driven primarily by the economies of scale achieved as a result of the joint operating agreement between OCTA and the Riverside County Transportation Commission. Capital requirements to maintain the express lanes are met over the life of the plan. Two State Route 91 widening projects totaling \$741.7 million are also included in the plan.

Risks to the 91 Express Lanes ability to meet its future financial obligations would include an economic recession that had substantial negative impacts on traffic volume or additional capacity to the 91 corridor which impacted traffic volume. Both of these scenarios would have direct impact on toll revenue. The 91 Express Lanes is well positioned financially, based on current reserve levels, to withstand impacts to toll revenue as a result of a recession.

Non-Program Specific Projects

The majority of OCTA's freeway and streets and roads projects are funded primarily through the M2 Program. In addition, the funding for transit projects generally comes from the M2 or Bus programs.

OCTA has committed to a handful of other projects including bikeways and pedestrian facilities, and the Vanpool and Rideshare programs, which are generally funded through State and Federal grant funds. As such, the sustainability of these programs is subject to continued State and Federal funding opportunities. OCTA will continue efforts to maximize the amount of state and federal funds received to support these programs into the future

Motorist Services

The Motorist Services Program consists of the Service Authority for Freeway Emergencies (SAFE) Program. SAFE includes the Freeway Service

Patrol (FSP), Freeway Call Box Program, and Southern California 511. The SAFE Program receives funding from several sources including Department of Motor Vehicle registration fees, funds from the State Highway Account as well as SB 1 funding. In addition to those sources, the FSP Program also receives funding from the M2 Program. It is anticipated that the M2 Program will contribute approximately \$155.6 million to support the FSP Program over the life of M2.

Based on current revenue and expenditure assumptions, it is anticipated that the Motorist Services Program will be sustainable over the 20-year horizon of the CBP. Potential risks to the program include continued funding from the State Highway Account as well as voter approval of Proposition 6. Should voters approve Proposition 6, the impacts to the FSP Program could be mitigated by the contributions of the M2 Program; however, using M2 Program funds to backfill SB 1 funding would limit the ability to expand the FSP Program in the future.

Summary

The CBP strives to provide the OCTA Board with an effective business planning tool for ensuring the financial feasibility of OCTA's programs and services. The Proposed Fiscal Year 2018-19 CBP documents the financial feasibility of OCTA to deliver its programs and services over a 20-year horizon.

Attachments

- A. Proposed Comprehensive Business Plan Fiscal Year 2018-19
- B. OCTA Transit Asset Management Plan (2018)

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