



May 11, 2020

To: Members of the Board of Directors

From: Darrell E. Johnson, Chief Executive Officer

Subject: Orange County Transportation Authority Fiscal Year 2020-21 Budget Workshop

Overview

The Orange County Transportation Authority is developing the fiscal year 2020-21 budget, which identifies available revenues and costs associated with providing transportation services and programs for Orange County. The proposed budget will be reviewed in detail in an informal workshop following the May 11, 2020, Orange County Transportation Authority Board of Directors' meeting.

Recommendation

Receive and file as an information item.

Discussion

The preparation of the Orange County Transportation Authority's (OCTA) annual budget began in December 2019 with the development of initial revenue projections, a service plan, and program goals and objectives for the upcoming fiscal year (FY). These projections were updated in March 2020 based on the impacts of novel coronavirus (COVID-19) pandemic. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provided funding that helped OCTA balance the budget based on the service plan, program goals, and objectives that are in accordance with those of the Board of Directors (Board) and Chief Executive Officer (CEO).

Each division developed and submitted its budget requests in January, which were subject to successive internal reviews. The proposed budget was reviewed by a CEO-appointed internal budget review committee, consisting of the Deputy CEO, Chief Financial Officer, 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, OCTA Strategic Plan, Comprehensive Business Plan, and the Next10 Plan.

The development of the FY 2020-21 proposed budget was based on a series of programmatic assumptions that were presented to the Finance and Administration (F&A) Committee on February 28, 2020, and the OCTA Board on March 11, 2020. However, due to the COVID-19 pandemic, revised budget assumptions were presented to the F&A Committee on April 8, 2020, and the OCTA Board on April 13, 2020. The presentation covered the changed economic landscape based on the COVID-19 pandemic and revised revenue and expense assumptions used to develop the budget for OCTA's major programs including: Measure M2 (M2), Transit, Commuter Rail, Motorist Services, and 91 Express Lanes.

Due to the recent COVID-19 pandemic, sales tax in FY 2020-21 for the M2 Program and 1/4 cent Local Transportation Fund sales tax revenues are forecasted to decline by 4.3 percent on a year-over-year basis. This is based on the sales tax forecasting methodology provided by Muni Services Inc. OCTA is also assuming that sales tax will decline by approximately 33 percent in the last quarter of FY 2019-20.

The FY 2020-21 proposed 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 uses of prior year designations. Planned uses of prior year designations are funds set aside (designated) in prior FYs to be utilized in the current FY. The uses of these funds are planned and do not represent a utilization of funds as a result of deficit spending. Expenditures include current year expenditures, as well as funds designated in the current FY to be used in a future FY.

The combination of estimated revenues and planned use of reserves produces available funding of \$1,439.5 million, while proposed expenditures and designations yield a total use of funds of \$1,439.5 million. On a year-over-year comparison to the approved FY 2019-20 budget, the FY 2020-21 proposed budget is \$85.7 million less than the FY 2019-20 budget. This is primarily due to bus purchases that are included in the FY 2019-20 budget and are not included in the FY 2020-21 budget.

Under the M2 Program, while the COVID-19 pandemic is expected to impact sales tax revenues, there is financial capacity within the program to continue to improve freeways, streets and roads throughout Orange County, as well as fund multiple transit programs through FY 2020-21. Staff will continue to model the impact of COVID-19 to the M2 Program as the revenue impacts become more defined in the coming months. Included in the proposed budget is \$417.7 million to help fund freeway improvement projects on Interstate 405, Interstate 5, State Route 55, State Route 57, and State Route 91. Approximately \$147 million

is budgeted to improve streets and roads, including \$55.6 million for the Regional Capacity Program, \$49.7 million to fund the Local Fair Share Program, and \$35.8 million for Regional Traffic Signal Synchronization. In addition, the budget also includes \$62.3 million for M2 Transit, including \$31.6 million for ongoing construction of the OC Streetcar.

With the help of the CARES Act, the FY 2020-21 budget will include the same level of fixed-route bus service, as was included in the FY 2019-20 budget. A total of 1.63 million revenue hours will be budgeted with 62 percent of the hours directly operated by OCTA and 38 percent of the hours provided by OCTA's contractor. While the budget will assume pre-COVID-19 pandemic levels of bus service, actual restoration of service will occur throughout the year based on ridership demand and public health considerations. Paratransit service trips are anticipated to decrease by 2 percent to 1.7 million. In addition, OC Flex service will be budgeted at 23.6 thousand revenue hours, which is consistent with the FY 2019-20 budget.

The Metrolink budget assumes a three-month extension of the current agreement with OCTA. At the end of three months Metrolink will submit a budget proposal for the balance of FY 2020-21. The CARES Act stimulus will also provide OCTA with the ability to take a demand-based approach to restore OCTA's Metrolink subsidy to accommodate for up-to pre-COVID-19 pandemic trips. That is a total of 54 weekday trips and 16 weekend trips for Metrolink service within Orange County.

The COVID-19 pandemic has not only caused the economy to slow but has resulted in severe traffic declines well in excess of peak losses during the Great Recession in 2008 for the 91 Express Lanes Program. The 91 Express Lanes are currently experiencing traffic declines of approximately 70 percent when compared to the same period last year. The 91 Express Lanes excess revenue reserve has approximately \$82 million available to fund future operating and debt service payments. As a result, revenues and expenses are balanced for the 91 Express Lanes Program for FY 2020-21.

Staff will be presenting the FY 2020-21 budget in detail in an informal workshop setting on May 11, 2020. The presentation will include a discussion of program goals and objectives, proposed staffing plan, and the sources and uses of funds planned to meet specified program goals. The presentation will be solely informational for the Board and the Board will not be asked to vote on the budget at the meeting. A public hearing for the budget is scheduled to occur at the June 8, 2020, Board meeting, after which staff anticipates seeking Board approval of the budget.

Summary

Staff will conduct a budget workshop for the OCTA Board at the May 11, 2020, Board meeting. The presentation will be solely informational for the Board. No public hearing will be held at the meeting, nor will the Board be asked to vote on the budget at the meeting. A public hearing for the budget is scheduled to occur at the June 8, 2020, Board meeting, after which staff anticipates seeking Board approval of the budget.

Attachment

A. Fiscal Year 2020-21 Budget Workshop

Prepared by:



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

Approved by:



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