OCTA

November 11, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

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

Overview

Orange County Transportation Authority 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 fourth 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 2019, 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 has approved three amendments for the FY, increasing the expense budget by $5.9 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
4/27/2020	Purchase of Paratransit Buses	241
5/11/2020	Mobile Ticketing Application Provider	1,117
	Total Working Budget	**$1,531,073**

*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.

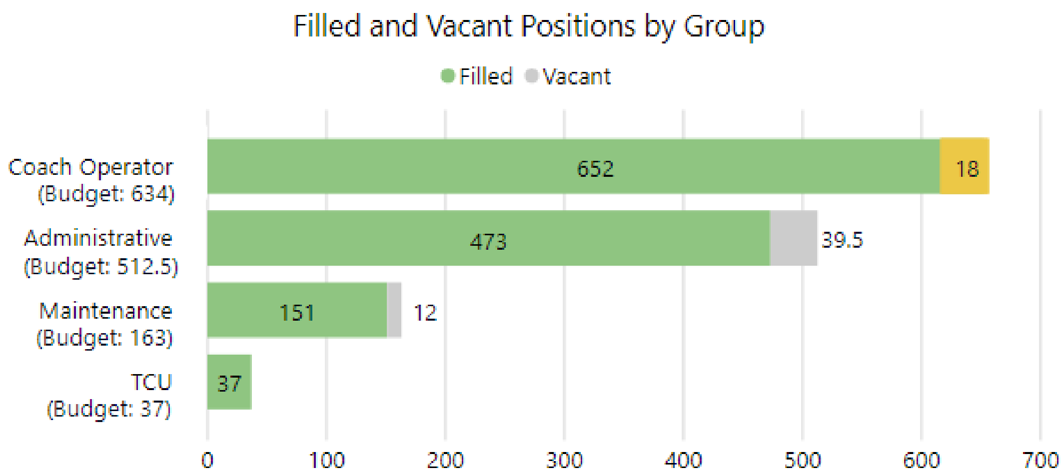
Unless indicated on an individual chart, the general color pattern used is outlined below:

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

Staffing

Total salaries and benefits underran the budget by $5.6 million. This is primarily due to vacancies OCTA-wide, with the largest vacancy percentages in the administrative (7.7 percent) and maintenance (7.4 percent) groups at the end of the FY. There were 652 coach operators employed as of the end of the FY, which exceeded the budgeted number of positions of 634 by 2.8 percent. This was attributed to two factors, which were successful coach operator recruitment efforts prior to the coronavirus (COVID-19) coupled with efforts to effect a reduction in coach operator leave of absences. However, based on the impact of COVID-19, recruitment for coach operators was placed on hold and based on attrition, the number of coach operators reached the budgeted level in July. There are 652 active coach operators, which is not to be confused with the number of coach operators available to operate a bus. The 652 coach operators include 83 COVID-19 age related full-time equivalents (FTE), 18 COVID-19 Family and Medical Leave Act FTEs, and seven COVID-19 sick leave FTEs. This translates into only 544 coach operators actually available to operate a bus, or 90 coach operators less than the budgeted number of 634.

Furthermore, on a financial basis, actual salaries and benefits for coach operator positions underran the budget by $0.3 million.

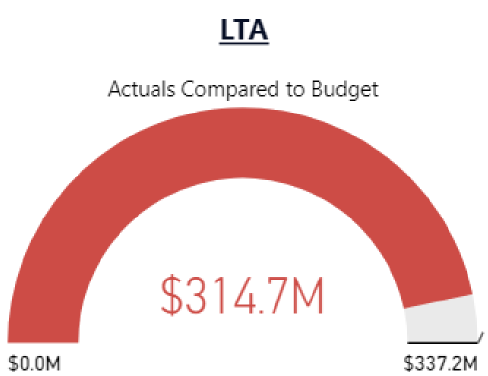


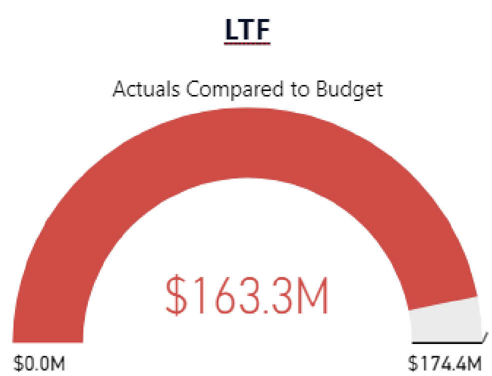
Vacancy Percentage by Group

-2.8%	7.7%	7.4%	0.0%
Coach Operator	Administrative	Maintenance	TCU

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 $314.7 million were $22.6 million lower than the budget and LTF sales tax receipts of $163.3 million were $11.1 million lower than the budget. The lower-than-anticipated sales tax receipts were due to the dramatic impact of COVID-19 on the Orange County economy during the final four months of the FY.





Major Programs

Bus Program

Bus Program operating revenue of $342.2 million exceeded the budget by $18.3 million, primarily due to higher-than-anticipated earnings on investments of $11.1 million. The FY had a more favorable earnings yield on cash and investments of 3.2 percent compared to the budgeted earnings yield of two percent. In addition, there was a $30.7 million overrun resulting from federal Coronavirus Aid, Relief, and Economic Security Act (CARES) funds not anticipated to be received when the budget was developed a year prior to COVID-19. Also, a portion of the variance of $5.9 million was the result of a federal tax credit for use of alternative fuels in the prior FY and received as revenue in the current FY. Property tax revenue exceeded the budget by $1.3 million due to higher-than-anticipated property tax receipts.

These variances were offset by lower-than-anticipated LTF sales tax revenue ($11.1 million). The lower-than-anticipated sales tax receipts were due to the dramatic impact of COVID-19 on the Orange County economy during the final four months of the FY.

Bus Program operating expenses of $283.7 million underran the budget by $40.2 million, primarily due to lower utilization of both fixed-route bus and OC ACCESS paratransit services resulting from COVID-19. On March 23, 2020, OCTA temporarily reduced fixed-route bus service to Sunday service levels – about 60 percent of regular service – seven days per week. In June, service levels increased from approximately one million, Saturday-service level hours, to 1.2 million revenue vehicle hours to accommodate slightly increased ridership and help ensure social distancing onboard.

For the first eight months of the FY, revenues were generally tracking with projections and expenses were slightly underrunning the budget. The last four months of the FY changed the entire trajectory of the year when the pandemic started. The receipt of one-time funds from the CARES Act, investment earnings, and the alternative fuel tax credit combined with lower expenses related to lower fixed-route service levels and very low paratransit costs since the onset of the pandemic put the Bus Program in good shape at FY end.

However, lower long-term sales tax projections along with lower boardings and corresponding fare revenues will make it difficult to restore pre-pandemic service levels once the CARES Act funds are depleted.

Bus Program capital revenue of $84.5 million underran the budget by $202.2 million, primarily due to federal grant revenue, which was not received in the FY for the purchase of 201 40-foot compressed natural gas (CNG)-powered buses and 116 22-foot gasoline-powered cutaway buses. The grant funds were budgeted in their entirety to match the contract executions for the bus purchases. However, expenses must be incurred before the revenue can be received. Staff anticipates receiving revenues as expenditures take place in future years. The primary driver of the underrun is the purchase of 201 40-foot, CNG-powered buses. This procurement was delayed to accommodate bidders request for extensions due to their inability to secure on-time pricing and availability from their suppliers for parts due to COVID-19. The procurement is now anticipated to occur in the first half of next FY and the expense was rebudgeted.

Rail Program

Rail Program operating revenue of $46.7 million exceeded the budget by $2.2 million, primarily due to higher-than-anticipated earnings on investments. The FY had a more favorable earnings yield on cash and investments of 3.2 percent compared to the budgeted earnings yield of two percent. Operating expenses of $36.6 million underran by $7.9 million, primarily due to on-call consultant planning, environmental, and modeling services. This includes a $3.4 million underrun for the Irvine Metrolink Station and fourth main project due to design and environmental services. A study was conducted in the FY to look at alternative cost options for the project. As a result, the scope was reduced to only perform environmental review at this time and then evaluate phasing options. Design services for the Placentia Metrolink Station project contributed $1.8 million to the underrun as the project awaits a shared-use agreement to be in place with the rail right-of-way (ROW) owner, Burlington Northern Santa Fe (BNSF). The remainder of the underrun ($2.9 million) was due to the quarterly operating subsidy payment to Southern California Regional Rail Authority (Metrolink) for OCTA's annual portion of the Metrolink operations. This underrun is due to an operating surplus in the previous FY. Therefore, the subsidy provided by OCTA was less than anticipated. The Rail Program finished the FY with a $10.1 million operating surplus.

Rail Program capital revenue of $6.4 million underran the budget by $37.2 million primarily due to funds for construction of the Placentia Metrolink Station project which were not expensed in the FY ($25.8 million), and grant funds for construction of the Anaheim Canyon Metrolink Station project ($14.2 million) which were not received in the FY based on corresponding expenses. The underruns were partially offset by the receipt of grant funds and city contributions for construction of the Orange Transportation Center Parking Structure project and the Laguna Niguel to San Juan Capistrano passing siding project. The funds for both of these projects were budgeted last FY but received in the current FY.

Capital expenses of $4.6 million underran the budget by $39 million primarily due to the timing of construction phase expenses for the Placentia Metrolink Station project ($23.9 million) and the Anaheim Canyon Metrolink Station project ($14.4 million). Construction of the Placentia Metrolink Station project requires BNSF approvals, which are still undergoing negotiations to finalize the shared-use agreement for the ongoing Metrolink use of the BNSF rail corridor in the project location. Construction phase expenses for the Anaheim Canyon Metrolink Station project contributed the remainder of the underrun due to ongoing contract negotiations with property owners adjacent to the project location. These funds have been rebudgeted for the next FY.

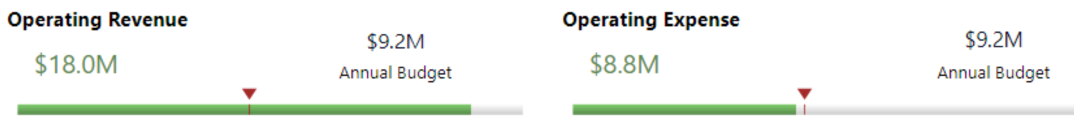
91 Express Lanes Program

The 91 Express Lanes Program operating revenue of $34.5 million underran by $43.6 million, primarily due to less-than-anticipated funding required to support the State Route 91 (SR-91) Widening project ($21.2 million) and the Placentia Metrolink Station project ($14.3 million). Funds are committed for both projects based on expenditures in the M2 Program and the Rail Program. The remainder of the underrun was the result of lower-than-anticipated toll revenue based on utilization of the toll lanes. COVID-19 led to a 29 percent reduction in total traffic volume for the toll lanes in the FY when compared to the prior FY.

Operating expenses of $34.5 million underran by $43.6 million, primarily due to less-than-anticipated funding required for the SR-91 Widening project ($21.2 million) and the Placentia Metrolink Station project ($14.3 million). The toll road operating contract contributed $1.1 million to the underrun due to an allotment for potential change orders, which was not utilized. The allotment was budgeted in the event there was new tolling technology or functionality, which needed to be implemented by the contractor. The remainder of the underrun was the result of as-needed expenses associated with toll road account servicing, legal services, and equipment repair/maintenance.

Capital revenue for the 91 Express Lanes of $28.9 million underran by $9.2 million due to less-than-anticipated capital expenses. The underrun of $9.2 million was primarily attributable to a contract for computer equipment for the 91 Express Lanes back-office system ($8.3 million). The contract was executed in the second half of the FY and only a portion of the expenses took place. Staff anticipates further expenses to occur next FY. The remainder of the underrun was due to invoice timing for improvements to the customer service center. The invoice was paid in the prior FY after work was completed and the budget was not needed this FY.

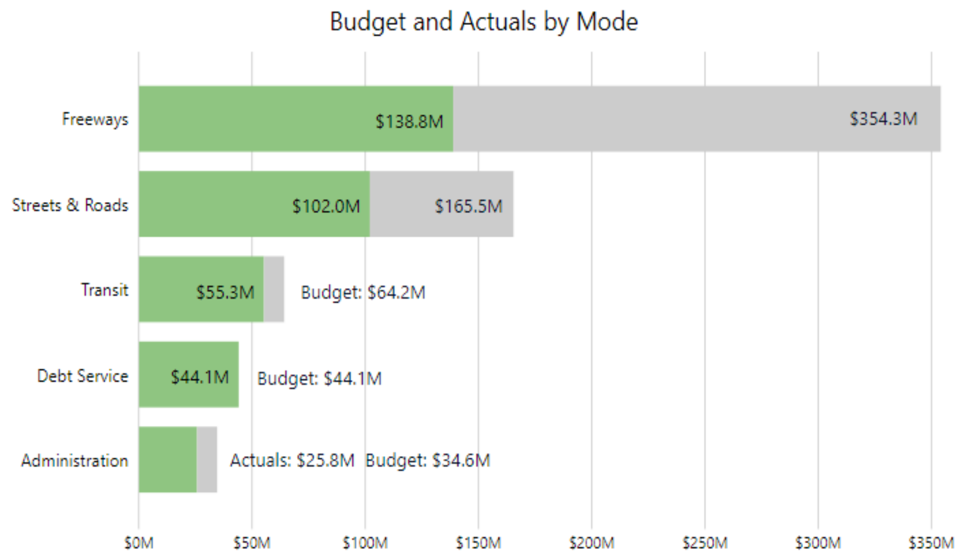
Motorist Services Program



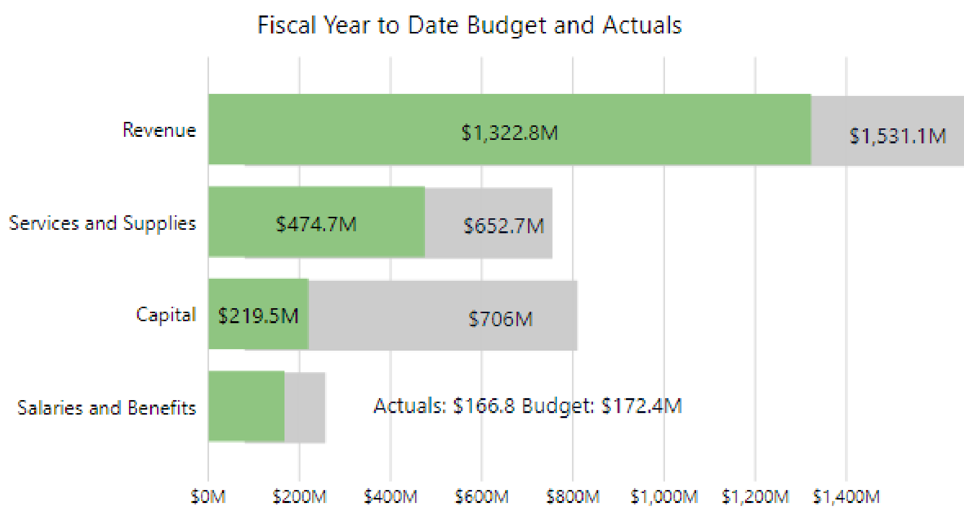
Motorist Services Program revenue of $18 million exceeded the budget by $8.8 million, primarily due to state contribution funds for Freeway Service Patrol (FSP). The funds for operating the service were budgeted in the prior two FYs but were received in the current FY. This is primarily due to the time required by California Department of Transportation to determine the process of distributing SB 1 (Chapter 5, Statutes of 2017) funds. Expenses for the program of $8.8 million underran the budget by $0.3 million, primarily due to a freeway call box radio upgrade project, which has been rescheduled to next FY. The project was budgeted to facilitate the upgrade from 3G to 4G radio technology, but due to the vendor continuing 3G support for another year, the project was rescheduled to the following FY and the funds were rebudgeted. The remainder of the underrun is due to lower than anticipated fuel prices for contracted tow service for the FSP Program. The Motorist Services Program finished the FY with an operating surplus of $9.1 million.

M2 Program

Total expenses for the M2 Program of $366.1 million underran the budget by $296.6 million, primarily due to lower utilization of ROW capital and ROW support expenses for the State Route 55 (SR-55) Widening project ($81 million), the Interstate 5 (I-5) South County Improvement project ($58 million), and the Interstate 405 Improvement Project ($34 million). For each of these projects, the underrun is due to the timing and magnitude of ROW phase expenses, which is difficult to forecast due to the complex negotiating process. Most of these expenses have been rebudgeted in the next FY. An additional underrun of $61.2 million was due to lower-than-anticipated project payment requests from the cities for the Regional Capacity Program, Regional Traffic Signal Synchronization Program, and Environmental Clean-up Program.



Summary



Revenue of $1.32 billion underran the budget by $208.3 million, primarily due to less-than-anticipated utilization of prior year reserves to fund capital projects. The majority of the funds were rebudgeted in FY 2020-21 to fund capital projects such as bus purchases and ROW expenditures as needed. Also contributing to the underrun was lower LTA sales tax receipts and LTF sales tax receipts due to the impact of COVID-19 on the Orange County economy.

Services and supplies expenses of $474.7 million underran the budget by $178 million, primarily due to less-than-anticipated contributions to local agencies based on lower-than-anticipated project payment requests for competitive M2 programs. Also contributing to the underrun was lower bus operating expenses based on lower service levels due to COVID-19.

Capital expenses of $219.5 million underran the budget by $486.6 million, primarily due to a contract for bus purchases, which was not executed in the FY, and ROW expenditures for the SR-55 Widening project, and the I-5 South County Improvement project.

Salaries and benefits of $166.8 million underran the budget by $5.6 million due to vacancies, primarily in the administrative (7.7 percent underrun) and maintenance (7.4 percent underrun) groups.

Attachment

A. FY 2019-20 Fourth Quarter Budget Status Summary

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