



**May 28, 2025**

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer

**Subject:** Preview to the Public Hearing on Orange County Transportation Authority's Fiscal Year 2025-26 Budget and Personnel and Salary Resolution

### **Overview**

The Orange County Transportation Authority Fiscal Year 2025-26 Proposed 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 Orange County Transportation Authority Fiscal Year 2025-26 Proposed Budget following the public hearing to be held at the Board of Directors' meeting on June 9, 2025, at the following Board of Directors' meeting on June 23, 2025, or in a special meeting convened at their discretion, on or before June 30, 2025. The Board of Directors is also asked to approve 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 2025-26 Budget.
- B. Approve the Personnel and Salary Resolution for fiscal year 2025-26.
- C. Authorize the Chief Executive Officer, or his designee, to negotiate and execute the software and hardware licensing, maintenance, and emergency support purchase orders, and/or agreements.
- D. Approve the fiscal year 2025-26 Orange County Transportation Authority member agency contribution to the Southern California Regional Rail Authority operating subsidy, in an amount up to \$51,972,543, contingent upon all other member agencies agreeing to their respective operating subsidy contributions. In addition, approve the capital and rehabilitation expenditure budgets contingent upon all member agencies' approval of

their respective capital and rehabilitation budgets. The Orange County Transportation Authority's budget for capital expenditures is \$3,084,444 and for rehabilitation expenditures is \$32,455,508.

### ***Background***

The development of the Orange County Transportation Authority's (OCTA) Fiscal Year (FY) 2025–26 Proposed Budget began in December 2024 and reflects a comprehensive planning effort grounded in OCTA's mission, strategic priorities, and long-term financial management. Initial steps included the development of revenue projections, service plans, and program-specific goals and objectives, all developed in alignment with the direction of the Board of Directors (Board) and the Chief Executive Officer (CEO).

In January 2025, each division submitted detailed budget requests based on their operational needs and strategic objectives. These submissions underwent multiple layers of internal review to ensure fiscal discipline and alignment with agency-wide goals. An internal budget review committee, appointed by the CEO and consisting of the Deputy CEO, Chief Financial Officer, and the Executive Director of People and Community Engagement, conducted a rigorous evaluation of the proposed budget to ensure it reflects a balanced, efficient, and strategically aligned financial plan. The committee assessed each request for consistency with the Board's priorities, CEO's goals, OCTA's Strategic Plan, Comprehensive Business Plan, and the Next 10 Delivery Plan.

Key programmatic assumptions supporting the FY 2025–26 proposed budget (proposed budget) was presented to the Finance and Administration (F&A) Committee on March 26, 2025. The presentation outlined the guiding principles and financial assumptions that form the foundation of the proposed budget across OCTA's core program areas, including Measure M2 (M2), transit operations, motorist services, and the express lanes.

An informational budget workshop was conducted for the Board on May 12, 2025. During the workshop, staff provided an overview of the proposed budget, including agency-wide goals and objectives, the staffing plan, and the anticipated sources and uses of funds. The workshop was designed to provide Board Members with a comprehensive understanding of the proposed financial plan.

A public hearing on the proposed budget is scheduled for the June 9, 2025, Board meeting. Following the public hearing, staff will request formal approval of the proposed budget by the Board. The adopted budget will serve as the agency's financial blueprint for the coming FY, supporting delivery of high-quality and efficient transportation services for Orange County residents and commuters.

### ***Discussion***

The proposed budget presents a balanced financial plan, detailing the sources and uses of funds. It reflects a judicious mix of new revenues and the strategic use of previously designated funds, ensuring fiscal stability without resorting to deficit spending. Previously designated funds, also known as planned uses of prior year designations, are funds set aside (designated) in prior FYs to be utilized in the current FY.

The combination of estimated revenues and planned uses of prior year designations produces available funding of \$1,739.2 million, while proposed expenditures and designations yield a total use of funds of \$1,739.2 million. On a year-over-year comparison to the FY 2024-25 approved budget, the proposed budget is one percent, or \$17.4 million, less than the FY 2024-25 approved budget.

Given the uncertainty in the economy, OCTA is taking a conservative approach to sales tax assumptions and assuming no growth in the coming year. Sales tax for the M2 Program is forecasted to be \$432.1 million. Similarly, the quarter-cent Local Transportation Fund sales tax revenue, primarily supporting the bus program, is anticipated to be \$220.1 million.

Under the M2 Program, significant funding is allocated for freeway improvements, particularly on State Route 91 (SR-91), State Route 55, and Interstate 5, reflecting OCTA's promise to deliver on the M2 Next 10 Delivery Plan. The M2 Program will also continue to fund local jurisdictions through streets and roads efforts including the Local Fair Share Formula Program, the competitive Regional Capacity Program, and the Regional Traffic Signal Synchronization Program. Additionally, there is continued investment in both local and regional transit, which includes programs like Metrolink and the OC Streetcar.

For the OC Bus Program, the proposed budget supports 1.62 million service hours, which represents an increase of four percent. Approximately 60 percent of the service hours will be operated by OCTA and the remaining 40 percent will be provided by contractors.

Under the Rail Program, the proposed budget is designed to support regional rail service levels that align with Metrolink's optimized service plan. Regional rail capital expenditures are primarily driven by coastal rail improvements, a slope stabilization project, and the San Juan Creek Bridge Replacement Project. In addition, construction of local rail, also known as the OC Streetcar, is anticipated to be complete with revenue operations beginning in spring 2026.

The budget also funds the Express Lanes Program, with the goal of maximizing throughput on both the SR-91 and Interstate 405 corridors. The 91 Express Lanes continues to meet its commitments while generating excess revenues to fund improvements along the SR-91 corridor, while the 405 Express Lanes continues to meet expectations and fund-required indenture reserves.

In terms of staffing, the budget includes a total of 1,379.5 positions, which is an increase of 31 positions. The increase is driven by an increase of four administrative positions and 27 coach operator positions. The increase in coach operator positions is based on planned increases in bus service levels.

One of the four administrative positions being proposed in the budget is based on an audit recommendation and will improve timeliness in the processing of M2 payments to local jurisdictions. The other three positions are being proposed to offset a high utilization of overtime within bus operations. In addition, 11 new administrative positions were identified during the budget development process that are needed to support OCTA's ongoing efforts. Staff is taking a cautious approach to adding the additional positions at this time given the uncertainty in the economy. Should economic conditions improve, and sales tax growth become more consistent, staff may return to the Board during the FY and request to add the positions.

Staff has attended, and will continue to attend, all committee meetings held between the budget workshop and the public hearing to answer any budget-related questions. Staff is also available to meet with Board Members individually upon request to answer questions.

<b>Committee</b>	<b>Date</b>
Finance and Administration Committee	May 14
Legislative and Communications Committee	May 15
Finance and Administration (Preview of Public Hearing)	May 28
Executive Committee	June 2
Regional Transportation Planning Committee	June 2

#### Personnel and Salary Resolution (PSR)

The FY 2025-26 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 four percent merit pool and four percent special performance award (bonus) pool. The PSR also includes an adjustment of two percent to the maximum salary for each salary grade. Salary grade adjustments do not automatically increase employee salaries unless they fall below the minimum of the new range. Currently, there are 12 OCTA employees that would fall below the proposed minimum grade range, which would require an automatic salary increase totaling \$14,726.

#### 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 and multi-year 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. The Switch Ltd. vendor listed on the sole source list provides data center colocation services for the hosting of OCTA's mission critical business application computing infrastructure. Though other firms offer this service, OCTA included them on the sole source list based upon the criticality of their services in providing the facility for operating OCTA business applications, as well as them being the leader in the industry in providing colocation data center services.

On a cumulative basis, the software and hardware licensing, maintenance, and emergency support agreements will not exceed \$12.9 million. A list of the agreements is included as Attachment D.

#### **Southern California Regional Rail Authority (SCRRA) FY 2025-26 Proposed Budget**

Under the Joint Powers Agreement that governs SCRRA, each member agency must approve its financial contribution to the SCRRA proposed budget. The SCRRA proposed budget estimates the OCTA operating subsidy to be \$51,972,543. OCTA's approval of the operating subsidy would be contingent upon all other member agencies agreeing to their respective operating subsidy contributions.

In addition to the annual operating funding allocation, OCTA is also responsible for a portion of the costs for capital and rehabilitation projects. These projects are typically led by SCRRA, and the grant funds to pay for them are drawn down directly by SCRRA. As a result, these projects are not typically included in OCTA's budget. SCRRA's proposed budget (Attachment E) provides a detailed list of projects and the associated costs by member agency. OCTA's budget for capital expenditures is \$3,084,444 and for rehabilitation expenditures is \$32,455,508.

#### ***Summary***

The Orange County Transportation Authority Fiscal Year 2025-26 Proposed Budget was reviewed by the Board of Directors in a workshop setting on May 12, 2025. The Board of Directors may approve the Orange County Transportation Authority Fiscal Year 2025-26 Proposed Budget following the public hearing on June 9, 2025, at the regularly scheduled meeting on June 23, 2025, or in a special meeting convened at their discretion, on or before June 30, 2025.

***Attachments***

- A. Resolution of the Board of Directors for the Orange County Transportation Authority Approving an Operating and Capital Budget Fiscal Year 2025-26, Resolution No. 2025-026
- B. Orange County Transportation Authority Budget Summary Fiscal Year 2025-26
- C. Proposed Changes for the Personnel and Salary Resolution (PSR) Fiscal Year 2025-26
- D. Orange County Transportation Authority Licensing and Maintenance Agreements Sole Source List - Fiscal Year 2025-26
- E. Transmittal of the Metrolink Southern California Regional Rail Authority Proposed FY2025-2026 (FY26) Metrolink Budget

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