OCTA

December 4, 2024

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Fiscal Year 2024-25 Proposed Comprehensive Business Plan

Overview

The Orange County Transportation Authority's Comprehensive Business Plan is a strategic business tool utilized to assess 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 assesses the financial sustainability of all programs and services over a 20-year horizon.

Recommendation

Approve the Fiscal Year 2024-25 Proposed Comprehensive Business Plan.

Background

The Comprehensive Business Plan (CBP) is updated annually as part of the Orange County Transportation Authority's (OCTA) financial calendar to assess the financial sustainability of OCTA's programs and services. The foundation of the CBP rests upon Board of Directors' (Board) direction and input from each division within OCTA. Prior Board action, coupled with divisional input, are the basis for operating, capital, and revenue assumptions. These inputs are also used to shape program direction and forecast revenues and expenditures for each project 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 evaluates the financial sustainability 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 presented to the Board every other year for adoption.

Discussion

The CBP is organized into six key programs: Bus Program, Regional Rail Program, Measure M2 (M2) Program, Express Lanes Programs, Motorist Services Program, and other programs. Key revenue and expense assumptions, along with associated risk factors for each program, are outlined below:

Bus Program

Based on current revenue and expenditure assumptions, the Bus Program is projected to remain sustainable over the next 20 years. It has the capacity to enhance service levels while fulfilling all necessary capital requirements throughout the duration of the plan.

Key Assumptions

- Current service hours are at 1.517 million, with plans to expand to 1.625 million by the end of fiscal year (FY) 2025-26.
- Paratransit trip levels are expected to return to 100 percent of pre-pandemic levels by FY 2026-27.
- Paratransit trip growth is forecasted to be 1.1 percent on an annual basis.
- Average long-term Transportation Development Act (TDA) sales tax growth rate projected at 3.1 percent based on Board-approved sales tax forecasting methodology.
- Stabilization of boardings anticipated in FY 2025-26, followed by gradual long-term growth.
- No fare increases planned.
- Assume updated fare policy goes into effect in FY 2025-26.
- Ongoing federal and state funding will support both operating and capital expenses.
- The useful life of the large bus fleet is up to 18 years.
- Market will mature for zero-emission buses (ZEB) and the cost will decrease to that of a compressed natural gas (CNG) bus or external funding will be required to cover the cost differential between ZEB and CNG buses.

Ongoing Primary Risks

- Softening of TDA sales tax growth could impact future service levels.
- Federal and state funding levels for transportation are impacted resulting in a decline in funding which could impact service levels.
- Weak ridership demand would impact fare revenue and service productivity.
- The cost of a ZEBs remains significantly higher than the cost of a CNG bus.
- ZEB reliability and operational performance.
- Larger-than-anticipated growth in the cost to operate fixed-route and/or paratransit service.

Regional Rail Program

Based on current revenue and expenditure assumptions, the Regional Rail program is not sustainable over the next 20 years. The program is currently anticipated to run out of funding in FY 2037-38. The primary drivers of the financial challenges for the Southern California Regional Rail Authority (Metrolink) Program continue to be lagging ridership recovery and increasing operational costs. To increase ridership, Metrolink recently introduced its Optimized Service Plan (OSP), increasing weekday service to 58 trains (up from 41) with 16 weekend trains. OCTA will monitor the impacts of the OSP and continue to collaborate with Metrolink and other member agencies to assess the appropriate levels of service given ongoing ridership levels.

Key Assumptions

- M2 sales tax remains the long-term funding source for operation and is set to expire in FY 2040-41.
- Ridership growth in line with Metrolink's five-year projections for FY 2024-25 through FY 2028-29, flat thereafter.
- Ongoing receipt of federal formula funding, which is primarily used for capital improvements.
- Sustain Metrolink's OSP with 58 weekday trains and 16 weekend trains.
- Operating costs are based on Metrolink's five-year projections for FY 2024-25 through FY 2028-29, with moderate annual growth thereafter.
- Backlog of Metrolink rehabilitation and renovation projects.

Ongoing Primary Risks

- Softening of M2 sales tax growth could impact funding for future service.
- Ridership projections are not achieved.

- Federal funding levels for transportation are impacted, which could decrease funds available for the capital program.
- Larger-than-anticipated growth in the Metrolink operating costs.
- Substantial unfunded state of good repair backlog.

M2 Program

The assumptions included in the CBP for the M2 Program are consistent with the recently Board-approved 2024 Next 10 Delivery Plan. The estimated M2 sales tax revenue available to support the M2 Program is $14 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.

Key Assumptions

- M2 Program sales tax of $14 billion.
- $3.6 billion in external revenues to support projects.
- Utilization of 91 Express Lanes excess revenue to fund two M2 freeway projects along State Route 91 (SR-91).
- Minimum cash balance of $689 million through 2041.
- Economic uncertainty built into the freeway mode to help mitigate against future impacts to the program.

Ongoing Primary Risks

- Softening of M2 sales tax growth would impact funding available for M2 projects.
- Substantial cost increases for capital projects.
- Shift in state and federal priorities could impact future external funding opportunities for the M2 Freeway Program.
- New environmental requirements.

Impact of M2 Program Sunset

The M2 Program sunsets on March 31, 2041. It is anticipated that some M2 programs will have cash balances as of the sunset date, but no further sales tax collections will occur. As such, funding for the freeway, streets and roads, and transit programs in Orange County will face impacts. The transit programs will be acutely impacted given that M2 sales tax currently funds operations for programs such as Metrolink, Community Circulators, Senior Mobility, Senior Non-Emergency Medical, and is planned to fund operations for the OC Streetcar. These operating programs will face sustainability challenges beginning in FY 2041-42 without alternative funding sources. The FSP will face a similar challenge in the freeway mode. Without replacement funding, these programs will experience reduced services and difficulties in meeting future transportation needs, impacting overall regional mobility.

Express Lanes Programs

The 91 Express Lanes continue to meet the stated objectives of maximizing throughput in the corridor while meeting all financial commitments over the 20-year period. Usage of the express lanes is expected to grow, with toll revenue anticipated to increase by an average of 3.3 percent annually. Total operating expenses for the express lanes are projected to grow at an average annual rate of three percent, driven primarily by economies of scale achieved through the joint operating agreement between OCTA and the Riverside County Transportation Commission. The 91 Express Lanes continue to meet its obligations and to generate excess toll revenue to support transit and freeway improvements along the SR-91 corridor. Future SR-91 corridor capital improvements are consistent with the Board-approved SR-91 Implementation Plan.

The 405 Express Lanes, which opened in December 2023, is projected to meet the primary goals of enhancing traffic flow and fulfilling financial commitments over the next 20 years. With initial usage already strong, toll revenue is expected to grow at an average rate of 3.8 percent annually. Operating expenses are anticipated to increase by an average of three percent per year. Over the 20-year horizon of the CBP, it is anticipated that the 405 Express Lanes will fully fund its reserve requirements, meet its expenditure and debt service requirements, and generate excess toll revenue for future capital improvements along the corridor.

Key Assumptions

- Toll revenue is projected to grow at an average annual rate of 3.3 percent for the 91 Express Lanes, while the 405 Express Lanes are expected to see a growth rate of 3.8 percent.
- Excess revenue from the 91 Express Lanes will continue to fund two M2 freeway projects along the SR-91 corridor.
- Debt from the acquisition of the 91 Express Lanes will be repaid by FY 2030-31.
- Repayment of the debt incurred for the construction of the 405 Express Lanes will begin in FY 2028-29.
- Future capital improvements along the SR-91 corridor will be aligned with the Board-approved SR-91 Implementation Plan.

Ongoing Primary Risks

- A potential economic recession could reduce traffic volumes and toll revenue for both express lanes.
- The addition of capacity along the SR-91 corridor could negatively affect traffic volumes.
- Toll revenue along the 405 Express Lanes does not meet projections resulting in less excess toll revenue than planned.
- State and federal legislative actions or policies that impact tolling operations.

Motorist Services Program

The Motorist Services Program consists of the Service Authority for Freeway Emergencies (SAFE) Program. The SAFE Program includes the Freeway Service Patrol (FSP), Freeway Call Box Program, and Southern California 511. These programs are funded from a variety of revenue sources including funds from the State Highway Account, SB 1 (Chapter 5, Statutes of 2017), vehicle registration fees, and the M2 Program. Current revenue and expenditure projections indicate that the SAFE Program will be sustainable through the 20-year horizon of the CBP. FSP service will be significantly impacted by the sunset of the M2 Program in FY 2040-41 and ongoing service levels and expenditures will be reduced to match available state funding.

Other Programs

The majority of significant freeway, street and roads, and transit projects are funded primarily through the M2 Program. OCTA has also committed to a handful of projects not funded through the M2 Program. These projects are generally funded through local, state, and federal sources and include the Vanpool and Rideshare Programs, Active Transportation Program, Bicycle and Pedestrian Facilities, and Bicycle Safety Program. The sustainability of these programs is subject to continued state and federal funding opportunities. OCTA will continue its efforts to maximize the amount of state and federal funds received to support these programs.

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 FY 2024-25 Proposed CBP documents the financial feasibility of OCTA to deliver its programs and services as promised to the public over a 20-year horizon.

Attachment

A. Fiscal Year 2024-25 Proposed Comprehensive Business Plan

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