



June 11, 2025

To: Finance and Administration Committee
From: Darrell E. Johnson, Chief Executive Officer
Subject: Reserve Policy Update

Overview

The Orange County Transportation Authority is committed to prudent fiscal management and maintaining the ability to fund its programs and services during times of economic uncertainty. The Orange County Transportation Authority has a history of maintaining reserves to mitigate the impacts of financial risks to the programs it operates. Staff is proposing to update the reserve policy to increase the minimum balance requirement for the general liability reserve.

Recommendation

Adopt the Proposed Reserve Policy dated June 23, 2025, and implement the policy in current and future financial plans.

Background

The Orange County Transportation Authority (OCTA) has a history of maintaining reserves to support programs for which revenues can be greatly impacted during times of economic uncertainty or recession. The OCTA Board of Directors (Board) formally adopted a reserve policy in November 2019 to mitigate the impacts of financial risks to OCTA's programs. Since then, the Board has periodically approved updates to the policy. In March 2022, the Board approved an update to the Reserve Policy to establish a long-term operating reserve within the bus program to help sustain service levels into the future. In June 2024, the Board approved updates to the reserve targets for the 91 Express Lanes, payment commencement dates for the 405 Express Lanes reserves, and the incorporation of three administrative funds reserves into the policy, one of which was the general liability reserve.

OCTA has a longstanding history of maintaining a general liability reserve to protect against liability claims. OCTA has also had periods of time where it purchased excess liability insurance to add an additional layer of protection

against liability claims. However, due to unfavorable conditions in the excess liability insurance market, OCTA has remained self-insured with no excess liability coverage since November 23, 2020. During this time, OCTA has continued to maintain a general liability reserve per the Board-approved Reserve Policy.

The Reserve Policy specifies that the minimum balance of the general liability reserve is based on an annual actuarial review that provides outstanding claims liabilities, estimates future claims liabilities, and forecasts cash flow requirements for the estimated liabilities utilizing a variety of approaches based on OCTA's claims history. The annual actuarial reviews are generally received in August of each year and based on the actuarial review for 2024, the minimum general liability reserve balance is \$7.1 million. OCTA has taken a conservative approach with the general liability reserve and currently maintains a balance of approximately \$20.8 million.

Discussion

At the OCTA Board meeting held on May 12, 2025, staff was directed to evaluate options to increase the required minimum balance for the general liability reserve. Given that the purpose of the general liability reserve is to protect against claims originating from OCTA's directly operated bus service, staff conducted an informal survey to determine the amount of some of the larger single claims for bus-related incidents paid by peer agencies. With few exceptions, the larger single claim amounts for bus-related incidents paid by peer agencies was \$25 million or less. A conservative approach to strengthening the required minimum balance for OCTA's general liability reserve would be to use the amount provided by the actuarial review, which is based on OCTA's standard claims experience, and add \$25 million to protect against a large, unpredictable claim. This approach would increase the required minimum balance from \$7.1 million to \$32.1 million and would allow OCTA to cover a large, unpredictable claim as well as anticipated claims in any given year.

The current balance for the general liability reserve is \$20.8 million. This approach would require an additional deposit of approximately \$11.3 million into the reserve, which could be accommodated without impacting bus operations. The language included in OCTA's Reserve Policy would also be amended to reflect the minimum balance amount of the general liability reserve to be \$25 million plus the amount based on the annual actuarial reserve.

A redlined version of the Proposed Reserve Policy has been included as Attachment A and the amended language can be found on page 4 of the document.

Summary

OCTA has a history of maintaining reserves to mitigate the impacts of financial risks to the programs it operates. OCTA is proposing to amend the policy to increase the minimum reserve balance for the general liability reserve to better protect against future claims.

Attachments

- A. Orange County Transportation Authority, Proposed Reserve Policy Redlined Version dated June 23, 2025
- B. Orange County Transportation Authority, Proposed Reserve Policy dated June 23, 2025

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