



**May 24, 2023**

**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 2023-24 Budget and Personnel and Salary Resolution

**Overview**

The Orange County Transportation Authority Fiscal Year 2023-24 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 2023-24 Budget following the public hearing to be held at the Board of Directors' meeting on June 12, 2023, at the following Board of Directors' meeting on June 26, 2023, or in a special meeting convened at their discretion, on or before June 30, 2023. The Board of Directors are 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 2023-24 Budget.
- B. Approve the Personnel and Salary Resolution for fiscal year 2023-24.
- 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 fiscal year 2023-24 Orange County Transportation Authority member agency contribution to the Southern California Regional Rail Authority, operating subsidy, in an amount up to \$50,750,849, including authorization of federal funding to be drawn down directly by the Southern California Regional Rail Authority, in an amount up to \$9,534,777. In addition, approve the capital and rehabilitation expenditure budget contingent upon all member agencies' approval of their respective capital

and rehabilitation budgets. The Orange County Transportation Authority's portion of the costs for capital is \$4,129,290 and \$25,543,785 for rehabilitation. Also, authorize a working capital reserve contribution of up to \$7,150,000 to facilitate the funding of capital expenditures and lessen the necessity of using operating funds to front capital expenditures.

### ***Background***

The preparation of the Orange County Transportation Authority's (OCTA) annual budget began in December 2022 with the development of initial revenue projections, a service plan, and program goals and objectives for the upcoming fiscal year (FY). The service plan, program goals, and objectives included in the budget 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 2023, 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 People and Community Engagement to ensure a balanced and fiscally responsible budget is delivered consistent with the Board's goals, CEO's goals, OCTA's Strategic Plan, the Comprehensive Business Plan, and Next 10 Delivery Plan.

The development of the FY 2023-24 proposed budget was based on a series of programmatic assumptions that were presented to the Finance and Administration (F&A) Committee on April 26, 2023. The presentation covered the guiding principles and assumptions used to develop the budget for OCTA's major programs, including Measure M2 (M2), transit, motorist services, and the Express Lanes.

Staff presented the FY 2023-24 budget in an informal workshop setting on May 8, 2023. The presentation included 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 was solely informational for the Board. No public hearing was held at the meeting, nor was the Board asked to vote on the budget at the meeting. A public hearing for the budget is scheduled to occur at the June 12, 2023, Board meeting, after which staff anticipates seeking Board approval of the budget.

***Discussion***

The FY 2023-24 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. Uses of funds 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 uses of prior year designations produces available funding of \$1,698.5 million, while proposed expenditures and designations yield a total use of funds of \$1,698.5 million. On a year-over-year comparison to the approved FY 2022-23 budget, the FY 2023-24 proposed budget is 2.9 percent, or \$48.3 million, greater than the FY 2022-23 approved budget.

Under the M2 program, sales tax revenue growth is anticipated, and the program will continue to improve freeways and streets and roads throughout Orange County, as well as fund transit programs. Included in the proposed budget are freeway improvement projects on State Route 55, Interstate 5, Interstate 405, State Route 57, and State Route 91. Streets and roads improvements will continue to be funded through the Local Fair Share, Regional Capacity, and Regional Traffic Signal Synchronization Programs. In addition, the budget also includes funding for multiple M2 transit programs, including the Southern California Regional Rail Authority (SCRRA [Metrolink]) and the OC Streetcar.

The FY 2023-24 budget assumes revenue hours of 1.47 million with approximately 60 percent of the hours directly operated by OCTA and 40 percent of the hours provided by OCTA's fixed-route contractor. Paratransit service trips are anticipated to increase from current levels of 1.2 million to 1.48 million. In addition, OC Flex service is proposed to remain at current service levels.

Metrolink service is anticipated to remain at 90 percent of pre-pandemic service levels during FY 2023-24. Capital expenditures for the Metrolink program include contributions to the Placentia Metrolink Station, Mission Viejo/Laguna Niguel Slope Stabilization, and San Juan Creek Bridge replacement projects.

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Staff have attended and will continue to attend and be available to present, review, and/or answer questions about the budget at the following committees, as well as to individual Board Members upon request.

<b>Committee</b>	<b>Date</b>
Finance and Administration	May 10
Transit Committee	May 11
Finance and Administration (Preview of Public Hearing)	May 24
Executive Committee	June 5
Regional Transportation Planning Committee	June 5
Transit Committee	June 8

**Personnel and Salary Resolution (PSR)**

The FY 2023-24 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 and a half percent merit pool and four percent special performance award (bonus pool) pool. The PSR also includes an adjustment of four percent to the maximum salary for each salary grade. Salary grade adjustments do not automatically increase employee salaries unless they are below the minimum of the new range. Currently, there are 19 OCTA employees that fall below the proposed minimum grade range, which would require an automatic salary increase totaling \$20,758. The 19 employees represent a small percentage (1.4 percent) of OCTA's total workforce of 1,369.5 employees.

OCTA is also proposing an increase in the contribution to the Additional Retiree Benefit Account (ARBA) plan. OCTA does not offer retiree medical and instead has offered ARBA as a tool to offset healthcare costs for employees upon retirement. ARBA is not a vested benefit but is one of the tools available for OCTA to retain employees. To qualify for ARBA, an employee must be at least 50 years of age, have at least ten years of service, and receive a retirement benefit under OCERS within 30 days from the date of separation from OCTA. OCTA is proposing to increase the ARBA contribution to better align the ARBA benefit to the market cost of healthcare. The ARBA benefit has not been increased since it was established in 1994. The proposed change increases the contribution from \$10 per month per year of service to a maximum of \$150 per month to \$35 per month per year of service to a maximum of \$525 per month. The benefit would also increase two percent per year to help offset the increasing cost of healthcare. The increased ARBA benefit would apply to those retiring

after July 1, 2023. The cost of the increased benefit in the FY 2023-24 budget is estimated to be \$272,000.

#### 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 Carahsoft vendor listed on the sole source list provides security licenses for our active monitoring, detection, and response platform, which includes incident management response services. Though other firms offer this service, OCTA included them on the sole source list based on the criticality of their services and prior knowledge and experience with OCTA, as well as their standing in the industry regarding cyber security remediation. 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 our 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.

#### SCRRA FY 2023-24 Proposed Budget

Under the Joint Powers Agreement that governs the SCRRA, each member agency must approve its financial contribution to the SCRRA budget. The Proposed FY 2023-24 SCRRA Budget estimates the OCTA operating subsidy to be \$50,750,849. This operating subsidy contribution would continue to support 90 percent of pre-pandemic service levels. In addition, OCTA allows the SCRRA to draw down federal funding directly to pay for a portion of the annual operating subsidy. OCTA estimates the amount of the federal drawn down to be \$9,534,777.

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 the SCRRA, and the grant funds to pay for them are drawn down directly by the SCRRA. As a result, these projects are not typically included in OCTA's budget. The SCRRA proposed budget (Attachment E) provides a detailed list of projects and the associated costs by member agency. OCTA's portion of the costs for capital is \$4,129,290 and the cost for rehabilitation is \$25,543,735.

Metrolink has also received support from member agencies to provide a working capital reserve that would allow the agency to draw on the reserve to front the cost of capital expenditures and replenish the reserve upon receipt of reimbursement of capital grant funds or member agency capital contributions. Metrolink is currently using operating funds to front the cost of capital projects, which puts a strain on cash flow necessary to meet operating expenditures. The total capital reserve for all five member agencies is \$50,000,000, and OCTA's requested contribution amount is \$7,150,000.

### ***Summary***

The Orange County Transportation Authority Proposed Fiscal Year 2023-24 Budget was reviewed by the Board of Directors in a workshop setting on May 8, 2023. The Board of Directors may approve the Orange County Transportation Authority Fiscal Year 2023-24 Budget following the public hearing on June 12, 2023, at the regularly scheduled meeting on June 26, 2023, or in a special meeting convened at their discretion, on or before June 30, 2023.

***Attachments***

- A. Resolution of the Board of Directors for the Orange County Transportation Authority Approving an Operating and Capital Budget Fiscal Year 2023-24, OCTA Resolution No. 2023-024
- B. Orange County Transportation Authority Budget Summary Fiscal Year 2023-24
- C. Proposed Changes for the Personnel and Salary Resolution (PSR) FY 2023-24
- D. Orange County Transportation Authority Licensing and Maintenance Agreements Sole Source List - Fiscal Year 2023-24
- E. Transmittal of the Metrolink Southern California Regional Rail Authority Proposed FY 2023-24 Budget

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