OCTA

Mitigation and Resource Protection Program Oversight Committee

Environmental Oversight Committee

Orange County Transportation Authority
600 S. Main Street, Orange CA

January 16, 2008
11:30 a.m. - 1 p.m.

AGENDA

1. **Welcome**

2. **Approval of November 2007 Minutes**

3. **Presentation Items**

   A. Plan of Finance Overview
   Kirk Avila, OCTA Treasurer of Finance, Administration & Human Resources

   B. San Diego Association of Governments (SANDAG) Environmental Mitigation Program Overview
   Keith Greer, SANDAG Senior Regional Planner

4. **Work Plan Review**
   Monte Ward, OCTA Director of Special Projects

5. **Committee Organization**

6. **Next Meeting**

7. **Committee Member Reports**

8. **Adjournment**

Public Comments: The Agenda descriptions are intended to give notice to members of the public of a general summary of items of business to be transacted or discussed. Members from the public wishing to address the Committee will be recognized by the Chairman at the time the Agenda item is to be considered. A speaker's comments shall be limited to three (3) minutes. Any person with a disability who requires a modification or accommodation in order to participate in this meeting should contact the OCTA at (714) 560-5725, no less than two (2) business days prior to this meeting to enable OCTA to make reasonable arrangements to assure accessibility to this meeting.

Environmental Oversight Committee

Jan. 16, 2008
Meeting Minutes

Committee Members Present:
Vice-Chair Melanie Schlotterbeck, Measure M Support Groups
Cathy Green, OCTA Board of Directors
Merlin L. “Bud” Henry Jr., Taxpayers Oversight Committee
Judy McKeehan, SWCA Environmental Consultants
Adam Probolsky, Probolsky Research
Dan Silver, Endangered Habitats League
Jonathan Snyder, US Fish and Wildlife Service
Debbie Townsend, California Wildlife Conservation Board
Ed Pert, CA Department of Fish and Game
Sylvia Vega, Caltrans

Committee Members Absent:
Chair Patricia Bates, OCTA Board of Directors
Mark Cohen, US Army Corps of Engineers

Orange County Transportation Authority Staff Present:
Paul Taylor
Monte Ward
Ellen Burton
Kia Mortazavi
Jim Sterling
Marissa Espino
Dan Phu
Ryan Maloney

Members of the Public
None

1. **Welcome & Introductions**
   In Director Bates’ absence, Vice-Chair Melanie Schlotterbeck called the meeting to order at 11:40 a.m. Jeff Corless was introduced as a representative of Director Bates.

2. **Approval of November 2007 Minutes**
   Minutes from the November 2007 meeting were reviewed and approved without revisions.

3. **Presentation Items**
   a. **Plan of Finance Overview**

Kirk Avila, OCTA Treasurer, presented an overview of the plan to finance early action projects prior to receiving Renewed Measure M (M2) funds starting in 2011. Until receiving revenue from M2, early action plan projects will be funded by commercial paper, a loan instrument with a very short term. Monte Ward explained that it is expected that early acquisition of land for projects will save money, even considering the interest on the short term loans. In response to members questions, Monte said the funding was intended primarily for acquisitions, but can be used for any element of early action projects. Another member commented that the early availability of funds was critical to some conservation efforts given the transient availability of land.

b. San Diego Association of Governments (SANDAG) Environmental Mitigation Program Overview

Keith Greer, SANDAG Senior Regional Planner, presented an overview of San Diego's Transnet Environmental Mitigation program. Transnet is funded by a one-half cent sales tax starting in 2009, and is currently funded by a commercial paper program. The focus of SANDAG's program is a Memorandum of Understanding that allows the early acquisition of property with understanding of environmental mitigation program assurances once the transportation project is built. Keith also presented several lessons learned from SANDAG's development of their memorandum.

A member asked if federal properties, such as Camp Pendleton and Miramar, would be included. Keith explained that while federal properties would benefit from the program, they were under federal management and would not be participating in Transnet.

A question was asked regarding how the program would result in a cost savings. Keith answered that the program is expected to result in cost savings over a 10-year period due to the reduced cost of land acquisitions (due to historical increasing land costs), reduced time/costs in environmental mitigation phase, and more rapid project delivery.

Monte asked how the environmental impact costs of a project were determined. Keith explained that SANDAG's environmental staff had categorized the types of environmental areas affected by each project, and then calculated the historical cost of environmental mitigation efforts for that type of vegetation by area. Keith clarified in response to another question that the estimates for mitigation could be greater or lesser than expected, so the Transnet program would average the costs of environmental mitigation over 10 years.

In response to several member questions, Keith clarified the management and monitoring aspect of Transnet. Management and monitoring includes both land stewardship, such as property management, waste removal, cleaning, signage and fencing; and adaptive monitoring where the focus is on monitoring impacted plant and animal species. The ongoing costs of management and monitoring are roughly two-thirds of total cost, capital or acquisition costs are the remaining third.

Keith responded to a later question on funding restrictions by explaining that SANDAG would prefer not to hold any land itself. If an environmental group agreed to partner with them, they would release the title to that group as long as they retained the environmental assurances. A question was asked if SANDAG had considered endowments, to which Keith responded they were, in addition to regional endowments.

A member asked about the largest stumbling block that SANDAG had encountered in its program. Keith responded that the limited flexibility of both SANDAG and environmental groups had been the major issue. SANDAG cannot give funds without environmental assurances, and environmental agencies cannot give complete assurances long in advance of projects. Additionally, accounting for funds spent must meet state and federal accounting guidelines in order to qualify for matching funds. In terms of planning issues, Keith noted that people generally get uncomfortable with very long-term projects such as 10- to 15-year advance mitigation.

4. **Work Plan Review**
Monte Ward presented a draft work plan to the committee, and explained the possible need for two subcommittees to address issues encountered by SANDAG. A motion was passed to create two subcommittees. Staff was directed to prepare a summary description of the objectives of the two committees, and send them to all committee members by e-mail. Monte mentioned that the subcommittees may include people who aren't members of the primary committee, depending on the issues being addressed. He also stated that we would bring the committee the charter for approval for next meeting.

5. **Committee Organization**
A member recommended that the committee or subcommittees develop an aggressive timeline for completion of the EOC's memorandum, to complete the memorandum in under two years.

There was an additional recommendation for committee members to appoint alternate members. Monte stated that the ordinance did not currently provide for alternates, but staff would investigate the possibility.

6. **Next Meeting**
Due to a scheduling conflict, the February meeting was tentatively changed to Feb. 20 at 10 a.m. Staff will confirm room availability and provide an update to members.

7. **Committee Member Reports**
None

8. **Adjournment**
   A motion to adjourn the meeting at 12:52 p.m. was made and passed unanimously.

OCTA

BOARD COMMITTEE TRANSMITTAL

November 9, 2007

To: Members of the Board of Directors

From: Wendy Knowles, Clerk of the Board WK

Subject: Plan of Finance for Early Action Plan

Finance and Administration Committee October 24, 2007

Present: Directors Amante, Brown, Buffa, Campbell, Moorlach, Nguyen
Absent: Director Bates

Committee Vote

This item was passed by all Committee Members present.

Committee Recommendations

A. Adopt the Plan of Finance, which identifies a tax-exempt commercial paper program as the preferred method of funding Early Action Plan projects.

B. Select JP Morgan and Lehman Brothers to serve as broker dealers for the tax-exempt commercial paper program.

C. Authorize the use of tax-exempt commercial paper proceeds to fund all Renewed Measure M expenditures until the collection of sales taxes begins in fiscal year 2011.

D. Authorize the issuance of a request for proposals for letter of credit services for the tax-exempt commercial paper program.

E. Authorize the issuance of a request for proposals for issuing and paying agent services for the tax-exempt commercial paper program.

F. Authorize the issuance of a request for proposal for a hedging program for the tax-exempt commercial paper program and future Renewed Measure M expenditures.

Committee Discussion

The Committee members suggested that staff should add in $100 million for potential projects subject to state and federal decisions.

Director Moorlach directed staff to explore other ideas for supporting a tax-exempt commercial paper program that could reduce costs.

OCTA

October 24, 2007

To: Finance and Administration Committee

From: Arthur T. Leahy, Chief Executive Officer

Subject: Plan of Finance for Early Action Plan

Overview

On August 13, 2007, the Orange County Transportation Authority Board of Directors adopted the Final Renewed Measure M Early Action Plan. Early Action Plan projects will require funding prior to the collection of Renewed Measure M sales tax receipts in April 2011. A Plan of Finance with a preferred funding strategy for financing these Early Action Plan projects is presented for adoption.

Recommendations

A. Adopt the Plan of Finance, which identifies a tax-exempt commercial paper program as the preferred method of funding Early Action Plan projects.

B. Select JP Morgan and Lehman Brothers to serve as broker dealers for the tax-exempt commercial paper program.

C. Authorize the use of tax-exempt commercial paper proceeds to fund all Renewed Measure M expenditures until the collection of sales taxes begins in fiscal year 2011.

D. Authorize the issuance of a request for proposals for letter of credit services for the tax-exempt commercial paper program.

E. Authorize the issuance of a request for proposals for issuing and paying agent services for the tax-exempt commercial paper program.

F. Authorize the issuance of a request for proposal for a hedging program for the tax-exempt commercial paper program and future Renewed Measure M expenditures.

Background

On November 7, 2006, Orange County voters renewed the Measure M one-half cent sales tax by a vote of nearly 70 percent. The sales tax will fund transportation improvement projects throughout the County and will last for a period of 30 years, beginning on April 1, 2011 through March 31, 2041.

The Renewed Measure M (M2) ordinance expresses a preference for a pay-as-you-go project financing. Both M2 and the original Measure M sales tax (M1) permit debt financing under the proper conditions. In the case of the M1 program, the benefits of early action were obvious and tangible – projects cost less, traffic relief was delivered sooner, and the opportunity was created for additional projects to be delivered.

The Transportation 2020 Committee has directed the preparation of a five-year plan, covering the years 2007 to 2012, to advance the implementation of M2. A draft Early Action Plan (EAP) outlining the projects and programs that could be advanced along with anticipated schedules and major milestones was approved by the Board of Directors (Board) and released on May 29, 2007. Input was actively sought from city officials and key stakeholders, and recommendations on financing and budget needs were added before approval of the final EAP by the Board on August 13, 2007.

On August 13, 2007, the Board adopted the final EAP and approved an amendment to the fiscal year (FY) 2008 budget to accommodate the staffing and resource needs to begin implementation of the M2 program. The budget amendment increased the budget by $19.4 million and added 11 new positions to the Orange County Transportation Authority's (Authority) staffing plan.

Funding Requirements

EAP projects will require approximately $376.6 million through FY 2011. This includes approximately $211.1 million to fund freeway projects, $80 million to fund freeway programmatic mitigation, $71.1 million to fund transit projects, and $14.4 million to fund streets and roads projects. Since the M2 program does not begin generating sales tax receipts until April 1, 2011, other funding sources will need to be identified to pay for these expenditures.

Funds from the Corridor Mobility Improvement Account, State Transportation Improvement Program, Riverside County Transportation Commission, 91 Express Lanes, and the M1 program are estimated to provide approximately $126.9 million for these projects through FY 2011. This leaves approximately $249.7 million in expenditures with no funding source identified.

Freeway Projects

The cash expenditures for the freeway projects contained in the EAP through FY 2011 are divided into the following categories:

Project Study Reports		$ 12.1 million
Environmental Phase		16.0 million
Design and Program Management		42.3 million
Right-of-Way and Utilities		35.6 million
Construction and Construction Management		96.1 million
Support Services		9.0 million
	Total	$ 211.1 million

Although $211.1 million in expenditures are forecasted through FY 2011, the net amount of EAP freeway expenditures is estimated at $84.2 million after applying the receipt of other revenue sources. In addition to the freeway categories identified above, an additional $80 million is estimated to be expensed by FY 2011 for environmental mitigation. This expenditure will provide for the early acquisitions of appropriate mitigation properties for freeway projects. A Master Agreement between the Authority and federal and state resource agencies is required prior to the expenditure of these funds. Although these funds are assumed for cash flow purposes, the Authority's Board will need to approve any agreements between the agencies.

Attachment A lists the estimated costs and other funding sources by year for the freeway projects in the EAP through FY 2011.

Transit Programs

The cash expenditures for the transit projects contained in the EAP through FY 2011 are divided into the following categories:

High Frequency Metrolink Service		$ 54.5 million
Transit Extensions to Metrolink		6.7 million
Convert Metrolink Stations to Regional Gateways		7.9 million
Expand Mobility Choices for Senior and Disabled		0.1 million
Community Based Transit / Circulators		1.0 million
Safe Transit Stops		0.1 million
Support Services		0.8 million
	Total	$ 71.1 million

A more detailed breakdown of the estimated costs highlighted above for the transit program is shown in Attachment B.

Streets and Roads Program

The cash expenditures for the streets and roads projects contained in the EAP through FY 2011 total approximately $14.4 million. These expenditures will fund approximately 1,800 signals for a countywide traffic signal synchronization network.

Discussion

In 2003, the Authority conducted a request for proposals (RFP) for investment banking services. Seven firms were selected by the Board to serve on the Authority's financing team for future debt issuances (Attachment C). The term of the selection was for a period of five years. The only financing transaction occurring during the past four years was the 91 Express Lanes Refunding Bonds. Five firms were selected from the team of seven to work on that transaction.

With the passage of the M2 sales tax and the Board's adoption of the EAP, the Authority solicited funding ideas from the seven firms on the financing team. The Authority reviewed the proposals received and evaluated each of the strategies presented.

Options that merited further evaluation included issuing long-term bonds, either as capital appreciation bonds or as bonds issued with capitalized interest; bond anticipation notes with a three and a half year final maturity; bond anticipation notes issued on an annual basis; and a tax-exempt commercial paper program (TECP).

With the exception of the TECP option, the other alternatives are all fixed interest rate transactions. However, the annual issuance of bond anticipation notes option does require resetting the interest rate every year. The TECP option is a variable interest rate program that fluctuates with each maturity. Maturities range from one to 270 days.

Long-term bond issuances and bond anticipation notes would require the Authority to issue a set amount of bonds very soon to fund all, if not most, of the project expenditures associated with the EAP. The interest on these bonds or notes would have to be capitalized and would begin to accrue interest once the bonds or notes are issued. With a TECP program, the Authority would only issue the notes when the funds were needed. In order to establish the programs, the documentation process is more simplified for a TECP program relative to the other options.

In addition to these alternatives, the Authority has the option of borrowing from internal funds for some of the EAP projects. This option is not preferable since the cash balances in the Authority's investment portfolio are generating returns in excess of 5 percent. Therefore, borrowing internally from these funds would require the M2 program to pay an interest cost in excess of 5 percent. Interest rates for short-term notes are currently in the 3.5 to 3.8 percent range.

Recommended Strategy

Staff is recommending the establishment of a TECP program to fund EAP projects. A TECP program best meets the criteria for an effective financing program for the Authority. Attachment D provides the Plan of Finance, which discusses the financing options available and provides a cash flow utilizing a TECP program through FY 2011.

TECP has served the Authority well on the M1 program by providing a low-cost and flexible mechanism for funding projects when needed. The Authority established the M1 TECP program in 1993 to fund the Santa Fe right-of-way acquisition for the Los Angeles to San Diego corridor. The interest rate for the program since it was established in 1993 has averaged less than three percent per year.

Many of the benefits of using TECP as an ongoing component of the M1 program also apply to its use as an interim financing tool for the M2 program. A TECP program can accommodate both accelerations and delays in spending under the EAP without forcing the Authority to pay unnecessary interest costs or be constrained by artificial limits on its ability to ramp up issuances when necessary. The sizing of credit and liquidity facilities can be increased and decreased quickly and easily, within the parameters of the overall program size authorized by the Board.

TECP also provides the ability to treat the program as a "line of credit" or as a permanent portion of the capital structure than can be drawn down or paid off at any time. Once the Authority begins collecting sales tax receipts from the M2 program, the Authority will then issue bonds to payoff the then-existing TECP program and capture certainty of borrowing costs thereafter.

To implement the TECP program, the evaluation team that reviewed the proposals submitted by the financing team is recommending the use of two firms to serve as broker dealers for the transactions. JP Morgan and Lehman Brothers are the two recommended firms. Both firms have vast experience with other California self-help counties in implementing TECP programs. Their qualifications and work plans set them apart from the other respondents.

Anticipated Costs

Cost of issuance expenses (legal fees, rating fees, setup costs, printing, etc.) are paid primarily at the initiation of the TECP program, which can remain in place for decades once it has been authorized. These costs are estimated at approximately $400,000.

In addition to the cost of issuance fees, annual fees will be comprised of remarketing fees for the broker dealers, letter of credit fees, and trustee fees. The remarketing fees will total four basis points per year (.0004 multiplied by the outstanding principal amount of the TECP program). Letter of credit fees are estimated at 15 basis points per year for the outstanding principal amount and 8 basis points for the unutilized amount. These estimations are based upon recent letter of credit bids for similar agencies. Trustee fees are estimated at $6,000 per year. Total annual fees are estimated at approximately $169,000 for the first two years and $537,000 for the third year. The increase in the third year is based upon the higher outstanding TECP principal amount.

The TECP program will fund all of these fees including the interest on the program. The Authority will issue TECP, and as the TECP matures, will issue new TECP to fund the maturing TECP plus interest. This will continue until the Authority pays down the entire principal amount. Pay downs in principal can occur at any time and can be for a portion of the outstanding amount or the entire amount.

Hedging Opportunities

While short-term municipal interest rates are forecasted to remain at their current levels or decrease, long-term municipal interest rates are projected to increase over the next several years. It may be advantageous for the Authority to lock in today's interest rates for future bond issuances. For example, the Authority will need to issue long-term debt to retire the outstanding principal balance for the M2 TECP program once sales tax collections commence in FY 2011. In addition, the Authority has some large capital expenditures forecasted for FY 2015 and FY 2016. The Authority could utilize a forward starting swap to lock in interest rates at today's levels.

Given these opportunities, staff would like to issue a RFP for hedging strategies to the investment banking community. Many firms have proprietary products that may be advantageous to the Authority. These programs will be evaluated and a recommended strategy (including the possibility of a "do nothing" approach) will be presented to the Finance and Administration Committee and Board in the coming months.

Next Steps

If the Board approves the recommended funding strategy for the EAP projects, staff will begin drafting financing documents for a TECP program. In addition, staff will work with the financing team to issue requests for proposals for letter of credit services and for the selection of a trustee. An update will be provided to the rating agencies, investors, and potential letter of credit providers. Staff will return to the Board for final approval of the TECP financing documents.

Summary

The Plan of Finance for Early Action Plan projects is presented for approval by the Finance and Administration Committee and the Board of Directors.

Attachments

A. Early Action Plan – Freeway Program Cash Requirements
B. Early Action Plan – Transit Program Cash Requirements
C. May 29, 2003, Selection of Underwriting Pool Staff Report
D. Orange County Transportation Authority Plan of Finance for Early Action Plan Projects – October 2007

Prepared by:

Kirk Avila
Treasurer
Treasury/Public Finance
(714) 560-5674

Approved by:

James S. Kenan
Executive Director, Finance,
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ATTACHMENT A

Early Action Plan
Freeway Program Cash Requirements

(Values in Million and Shown in Fiscal Year)

Description	2008	2009	2010	2011	Total
Total Program Estimated Cost					
I-405, I-5 to SR-55 (L)	$0.00	$0.00	$0.00	$1.10	$1.10
I-405, SR-55 to I-605 (K)	$1.00	$1.80	$1.80	$2.00	$6.60
I-5 / Ortega Interch. (D)	$0.00	$2.70	$14.60	$14.70	$32.00
I-5 South OC, Interch. (D)	$0.00	$0.20	$0.30	$0.30	$0.80
I-5, El Toro Y to SR-55 (B)	$0.00	$0.00	$0.00	$0.90	$0.90
I-5, PCH to Pico (C)	$0.00	$0.30	$0.50	$0.50	$1.30
I-5, SR-73 to El Toro Y (C)	$0.00	$1.00	$1.00	$0.00	$2.00
I-605 Access Improvements (M)	$0.00	$0.00	$0.00	$0.30	$0.30
SR-55, I-405 to I-5 (F)	$0.30	$0.20	$0.00	$0.00	$0.50
SR-55, I-5 to SR-22 (F)	$0.00	$0.30	$0.20	$0.00	$0.50
SR-57 NB, Katella to Lincoln	$0.50	$2.30	$1.90	$2.80	$7.50
SR-57 NB, SR-91 to Lambert	$4.50	$5.60	$5.90	$30.50	$46.50
SR-91 EB, SR-241 to SR-71 (J)	$4.30	$2.80	$30.70	$33.50	$71.30
SR-91 WB, I-5 to SR-57 (H)	$0.50	$0.50	$0.60	$2.90	$4.50
SR-91, SR-241 to RCL, OCTA Project (J)	$1.10	$1.10	$1.10	$0.20	$3.50
SR-91, SR-55 to Weir Canyon (J)	$2.30	$3.80	$4.60	$4.50	$15.20
SR-91, SR-57 to SR-55 (I)	$0.10	$1.20	$0.60	$0.00	$1.90
Program Management Consultant	$1.20	$1.50	$1.50	$1.50	$5.70
OCTA Administrative Costs	$1.54	$2.25	$2.55	$2.66	$9.01
Total Program Cost	**$17.34**	**$27.55**	**$67.85**	**$98.36**	**$211.11**
Other Funding Sources					
SR-91 EB, SR-241 to SR-71 (J)	$2.40	$2.40	$30.70	$33.50	$69.00
SR-91, SR-55 to Weir Canyon (J)	$2.30	$3.80	$4.60	$4.50	$15.20
SR-57 NB, SR-91 to Lambert (G)	$0.00	$0.00	$0.30	$17.10	$17.40
SR-57 NB, Katella to Lincoln (G)	$0.00	$0.00	$0.00	$0.60	$0.60
I-405, SR-55 to I-605 (K)	$0.00	$0.70	$0.70	$0.70	$2.10
91 Express Lanes Toll Revenue:					
SR-91 EB, SR-241 to SR-91	$1.90	$0.40	$0.00	$0.00	$2.30
SR-57 M 1 Funding Reimbursement.:					
SR-57, Katella to Lincoln	$0.50	$2.30	$1.90	$1.70	$6.40
SR-57, SR-91 to Lambert	$2.90	$5.60	$5.40	$0.00	$13.90
Total Other Funding Sources	**$10.00**	**$15.20**	**$43.60**	**$58.10**	**$126.90**
Early Action Plan Freeway Program Total	***$7.34***	***$12.35***	***$24.25***	***$40.26***	***$84.21***

Early Action Plan
Transit Program Cash Requirements

(Values in Millions)

Program	Description	2008	*2009*	2010	2011	Total
R	**High Frequency Metrolink Service**					
	Staff	$0.20	$0.34	$0.35	$0.37	$1.25
	Capital	$6.00	$18.54	$19.08	$6.54	$50.16
	Consultant	$0.26	$0.32	$0.34	$0.35	$1.27
	Grade Separation PSR's	$0.07	$0.40	$0.74	$0.53	$1.74
	Project R Total	**$6.53**	**$19.60**	**$20.51**	**$7.79**	**$54.43**
S	**Transit Extensions to Metrolink**					
	Staff	$0.11	$0.14	$0.15	$0.15	$0.55
	Capital	$0.00	$0.00	$0.00	$5.00	$5.00
	Consultant	$0.16	$0.32	$0.34	$0.35	$1.17
	Project S Total	**$0.26**	**$0.46**	**$0.48**	**$5.50**	**$6.72**
T	**Convert Metrolink Stations to Regional Gateways**					
	Staff	$0.00	$0.14	$0.15	$0.15	$0.44
	Capital	$0.00	$0.00	$0.00	$5.00	$5.00
	Consultant	$0.47	$0.65	$0.67	$0.70	$2.49
	Project T Total	**$0.47**	**$0.79**	**$0.82**	**$5.85**	**$7.93**
U	**Expand Mobility Choices for Senior and Disabled**					
	Staff	$0.00	$0.04	$0.04	$0.04	$0.11
	Project U Total	**$0.00**	**$0.04**	**$0.04**	**$0.04**	**$0.11**
V	**Community Based Transit / Circulators**					
	Staff	$0.00	$0.14	$0.15	$0.15	$0.44
	Capital	$0.00	$0.00	$0.00	$0.00	$0.00
	Consultant	$0.00	$0.16	$0.17	$0.18	$0.51
	Project V Total	**$0.08**	**$0.30**	**$0.31**	**$0.33**	**$1.02**
W	**Safe Transit Stops**					
	Staff	$0.00	$0.00	$0.00	$0.00	$0.00
	Capital	$0.00	$0.00	$0.00	$0.00	$0.00
	Consultant	$0.00	$0.04	$0.04	$0.04	$0.13
	Project W Total	**$0.00**	**$0.04**	**$0.04**	**$0.04**	**$0.13**
	General Program Support Total	**$0.14**	**$0.21**	**$0.22**	**$0.23**	**$0.81**
	Early Action Plan Transit Program Total	***$7.48***	***$21.45***	***$22.43***	***$19.79***	***$71.14***

ATTACHMENT C

BOARD COMMITTEE TRANSMITTAL

OCTA

May 29, 2003

To: Members of the Board of Directors

From: Olga Gonzalez, Clerk of the Board

Subject: Selection of Underwriting Pool

Committee Referrals

Finance and Administration Committee — May 14, 2003

Present:	Directors Wilson, Smith, Bilodeau, Brown and McCracken
Absent:	None
Vote:	Unanimous vote of Directors present. Director Bilodeau was not present to vote on this item.

Committee Recommendations

A. Appoint the following firms to serve as part of the Orange County Transportation Authority's Underwriting pool for a period of five years: Lehman Brothers, Bear Stearns, Citigroup, UBS Paine Webber, E.J. De La Rosa & Company, J.P. Morgan, and Raymond James.

B. Authorize the selection of the following firms from the Orange County Transportation Authority's Underwriting pool to provide underwriting services for the potential refinancing of the 91 Express Lanes debt: Lehman Brothers, Bear Stearns, Citigroup, UBS Paine Webber, and E.J. De La Rosa & Company. Authorize the Chief Executive Officer to execute Agreement C-3-0259 with Lehman Brothers to serve as Senior Manager of the Underwriting team for the potential refinancing of the 91 Express Lanes.

Committee Discussion

The Finance and Administration Committee requested clarification on the selection and interview process for the firms which will provide underwriting services for the potential refinancing of the 91 Express Lanes debt.

Staff explained that after selecting the Underwriting pool, the Evaluation Committee's next task was to recommend a team from the seven firms listed in the staff report to restructure the debt associated with the 91 Express Lanes. The Evaluation Committee used the interview process to further question each firm on their experiences with toll road financings and the 91 Express Lanes. The Evaluation Committee rated each of the firms based on the responses to the questions asked during the interviews. The Evaluation Committee recommended the following five firms be selected for any future refinancing of the debt associated with the 91 Express Lanes.

Lehman Brothers (Senior Manager)
Bear Stearns (Senior Co-Manager)
UBS Paine Webber (Co-Manager)
Citigroup (Co-Manager)
E.J. De La Rosa & Company (Co-Manager)

This recommendation for the selection of a 91 Express Lanes debt restructuring team is based on the ratings from the interview process and the desire to assemble a balanced financing team. The team recommended has firms specializing in specific market segments, which add value from a team and financing perspective. These firms offer the Authority access to large institutional investors, the retail market, high net worth individuals, and California investors.

OCTA

May 14, 2003

To: Finance and Administration Committee

From: Arthur T. Leahy, Chief Executive Officer

Subject: Selection of Underwriting Pool

Overview

On March 19, 2003, the Orange County Transportation Authority issued a Request for Proposals for underwriting services. Offers were received in accordance with the Authority's procurement procedures for professional and technical services. The proposals were reviewed by an Evaluation Committee and seven firms were interviewed. The evaluation process has been completed and recommendations are presented for Board of Directors approval.

Recommendations

A. Appoint the following firms to serve as part of the Orange County Transportation Authority's Underwriting pool for a period of five years: Lehman Brothers, Bear Stearns, Citigroup, UBS Paine Webber, E.J. De La Rosa & Company, J.P. Morgan, and Raymond James.

B. Authorize the selection of the following firms from the Orange County Transportation Authority's Underwriting pool to provide underwriting services for the potential refinancing of the 91 Express Lanes debt: Lehman Brothers, Bear Stearns, Citigroup, UBS Paine Webber, and E.J. De La Rosa & Company. Authorize the Chief Executive Officer to execute Agreement C-3-0259 with Lehman Brothers to serve as Senior Manager of the Underwriting team for the potential refinancing of the 91 Express Lanes.

Background

On March 19, 2003, the Orange County Transportation Authority (Authority) issued a Request for Proposals (RFP) for underwriting services. Notifications were sent to 428 firms and an advertisement was included in the Orange County Register on March 19 and March 24, 2003.

Orange County Transportation Authority
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The Authority has issued over $1.3 billion in debt and currently has over $755 million outstanding. Over the past decade, the Authority has evolved into one of the largest and most sophisticated issuers in the State. As a result, the Authority is one of the highest rated sales tax issuers in California. The Authority's underwriters have provided creative strategies to successfully structure and market the Authority's sales tax bonds and certificates of participation.

Over the next several years, the Authority's financial focus will concentrate on the refinancing of the taxable debt associated with the 91 Express Lanes acquisition, finding solutions to funding shortfalls and timing issues related to the receipt of federal and state funds, and continued improvement of the Authority's investor relations program. These efforts require a team of underwriters with various specialties to serve the needs of the entire Authority.

Discussion

Fourteen firms responded to the Underwriting Services RFP. On April 17, 2003, an Evaluation Committee reviewed the various proposals. The committee was comprised of the Authority's Deputy Director of Finance and Administration, the Treasury/Public Finance department manager, the Accounting and Financial Reporting department manager, a member of the Contracts Administration and Materials Management department, and the Authority's Financial Advisor.

The Evaluation Committee evaluated the proposals based on the following criteria:

- understanding the Authority's financing objectives
- knowledge of the 91 Express Lanes and other tolling facilities
- creative and innovative approaches to meeting the Authority's needs
- firm resources and accessibility of key personnel
- experience in various financing transactions
- key personnel qualifications
- reasonableness of fees

The Evaluation Committee was asked to group the firms based on their strengths and weaknesses. Based on a review of the individual proposals, the Evaluation Committee short-listed seven firms to participate in interviews on May 1, 2003. The seven firms short-listed scored exceptionally well in the areas of clarity of presentation, knowledge and understanding of project requirements, and commitment and enthusiasm towards the project. The Evaluation Committee recommends including all seven firms as part of the Authority's Underwriting pool.

The firms are as follows:

Bear Stearns
Citigroup
E.J. De La Rosa & Company
J.P. Morgan
Lehman Brothers
Raymond James
UBS Paine Webber

During the interview process, the Authority questioned each of firms on toll road financings and specifically, the 91 Express Lanes. Each firm highlighted their individual experiences with toll road financings and discussed how they have been involved with the 91 Express Lanes in the past. Based on their responses to the questions asked during the interviews, the Evaluation Committee is recommending the following firms be selected for any future refinancings or restructuring of the debt associated with the 91 Express Lanes.

Lehman Brothers (Senior Manager)

Bear Stearns (Senior Co-Manager)
UBS Paine Webber (Co-Manager)
Citigroup (Co-Manager)
E.J. De La Rosa & Company (Co-Manager)

The Evaluation Committee recommends Lehman Brothers be selected to serve as Senior Manager of this Underwriting team. Lehman Brothers demonstrated a thorough understanding of the Authority's immediate needs and their knowledge of the 91 Express Lanes set them apart from the other firms short-listed. Lehman Brothers' presentation highlighted a proposed credit rating strategy, areas of focus for the Authority, and a number of structuring considerations for the potential refinancing.

Bear Stearns also distinguished themselves from the other firms interviewed. They have been involved with the 91 Express Lanes for several years and have in depth knowledge of the outstanding taxable debt structure. Therefore, the Evaluation Committee recommends that Bear Stearns be appointed Senior Co-Manager of this Underwriting team.

Although J.P. Morgan and Raymond James were not selected to serve on the Underwriting team associated with the 91 Express Lanes refinancing, the two firms will have an opportunity to assist the Authority in the future. It is anticipated that different Underwriting teams may be needed for different project financings or refinancings in the future and that a Senior Managing Underwriter as well as

Co-Managers will be selected, as needed, from those firms selected in the Underwriting pool. This team of firms will be selected on a project-by-project basis.

Fiscal Impact

Funds for underwriting services in the amount of $1,385,000 are included in the Authority's FY 2003-04 budget in account 0036-7519-B0050.

Summary

The Authority received fourteen proposals in response to the Underwriting Services Request for Proposals. Based on the findings of the Evaluation Committee, staff recommends the selection of seven firms to serve as part of the Authority's Underwriting pool for a period of five years. From this Underwriting pool, staff also recommends the selection of five firms to serve as part of the Underwriting team associated with any future financing related to the 91 Express Lanes.

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Orange County Transportation Authority
Plan of Finance for Early Action Plan Projects
October 2007

Introduction

On November 7, 2006, Orange County voters passed Renewed Measure M (M2) for transportation improvements with a 69.7 percent vote. M2 will become effective April 1, 2011 and the new M2 sales tax increment will be collected for 30 years until 2041. The M2 measure is an extension of the 20-year Measure M sales tax that was passed on November 6, 1990 and expires March 31, 2011.

Success of Measure M

Voters recognized that the County needs a continuing investment in infrastructure in order to meet its growing population and economic base. The campaign for M2 was based on the success of Measure M. Measure M has contributed billions of sales tax receipts to very successful and noticeable improvements in Orange County's freeways, streets and roads, and transit systems. The M2 campaign slogan was "Promises Made, Promises Kept."

The success of Measure M is largely due to the early decision by Orange County Transportation Authority's (OCTA) Board of Directors (Board) to accelerate the construction and delivery of key projects. Despite the strong preference for pay-as-you go financing in Measure M's Ordinance No. 2, the Board recognized the economic advantages of prudently using debt to advance project delivery. The Board and staff have worked diligently to successfully introduce Measure M debt financings to the rating agencies, insurance companies, and investors. Today, OCTA's sales tax revenue bond financings have AAA and AA category ratings.

The acceleration of key Measure M projects through the sale of debt has resulted in many projects being delivered to Orange County residents before the scheduled completion date and below budget. OCTA has completed or currently has under contract every project promised in its 1990 Measure M Expenditure Plan. The funds that are dedicated to cities and the County to maintain and improve local streets and roads along with transit fare reductions for seniors and persons with disabilities will continue until Measure M ends in March 2011. OCTA has even been able to fund additional projects such as the $550 million Garden Grove Freeway (State Route 22) expansion project, which was not in the original Measure M Expenditure Plan. OCTA may be the only self-help county in California to have completed all of the projects in its original expenditure plan and have a surplus with which to fund additional major projects.

Renewed Measure M

The M2 Transportation Investment Plan totals $11.81 billion (in 2005 dollars) in projects that are designed to reduce traffic congestion, strengthen the economy and improve the Orange County quality of life by upgrading key freeways, fixing major interchanges, maintaining streets and roads, synchronizing traffic signals countywide, building a visionary rail transit system, and protecting Orange County from the street runoff that pollutes Orange County beaches. The $11.81 billion matches the projected M2 sales tax revenues over 30 years.

The successful completion of the M2 program is both a necessity to enhance the quality of life in Orange County as well as a management challenge based on many variables. The success of M2 will depend on the:

- Cost of future transportation improvements,
- Receipt of other revenue sources, as well as,
- Receipt of sales tax revenues based upon current projections.

Cost of Future Transportation Improvements: The Caltrans Construction Cost Inflation Index has increased more than 100 percent since 2002. Future construction cost increases may challenge the ability of OCTA to deliver the M2 projects on time and under budget.

Receipt of Other Revenue Sources: OCTA is expected to receive funds from other revenue sources for several projects throughout the M2 program. These funding sources include Corridor Mobility Improvement Account, State Transportation Improvement Program, 91 Express Lanes, M1 program, and other sources. A significant drop in projected receipts could create potential issues for the delivery of M2 projects.

Receipt of Sales Tax Revenues based upon Current Projections: OCTA has retained Chapman University, California State University Fullerton, and the University of California at Los Angeles to provide M2 sales tax projections. The average annual compound growth of the three projections from 2011 through 2041 was 4.97 percent.

The M2 sales tax revenues will be allocated as follows:

- 1.5 percent of gross sales tax receipts to the State Board of Equalization (SBOE)
- 2 percent of gross sales tax receipts for environmental cleanup
- 1 percent for sales tax receipts for oversight and annual audits

- Net sales tax receipts will be allocated as follows:
  - 43 percent freeway projects
  - 32 percent streets and roads
  - 25 percent transit

The M2 Ordinance No. 3 states that pay-as-you go financing is preferred. The new Ordinance does not modify, repeal or supersede Ordinance No. 2. Section 5 in Ordinance No. 3 authorizes bond financing and places no limit on the par amount outstanding. It also states that bonds may be issued "at any time before, on, or after the imposition of taxes" net of the SBOE fee and the 2 percent for environmental mitigation.

Early Action Plan

Orange County voters are eager to see OCTA duplicate the success of the accelerated project delivery process of Measure M. With the leadership of OCTA's Board, immediately after the M2 election, staff began to analyze the M2 Transportation Investment Plan for projects and programs that could be attractive for acceleration.

The Transportation 2020 Committee directed the preparation of a five-year plan, covering the years of 2007 to 2012, to advance the implementation of M2. A draft Early Action Plan outlining the projects and programs that could be advanced along with the anticipated schedules and major milestones was approved by the OCTA Board and released on May 29, 2007. Input was actively sought from key city officials and stakeholders, and recommendations on financing and budget needs were added before approval of the final Early Action Plan by OCTA's Board on August 13, 2007.

The Early Action Plan (EAP) presents a blueprint for early action on the M2 Transportation Investment Plan for the five-year period from 2007 through 2012. That blueprint commits to meeting the following nine objectives in the next five years:

1. Complete the first major milestone, conceptual engineering, for every freeway project in the Plan; ensuring that all projects are eligible for matching funds and ready to enter into environmental review, design and construction.
2. Start construction on five major M2 freeway projects on the Riverside Freeway (State Route 91), the Orange Freeway (State Route 57) and the Santa Ana Freeway (Interstate 5) valued at $445 million. Two other projects will also be under construction at the San Diego Freeway (Interstate 405)/State Route 22 and the Interstate 405/San Gabriel River Freeway (I-605) interchanges, valued at $400 million and paid for by Proposition 1B and federal funds.

3. Enable every Orange County city and the County to meet eligibility requirements for M2 funds, including new pavement management and signal synchronization programs.
4. Award up to $165 million to cities and the County for signal synchronization and road upgrades.
5. Implement a high frequency Metrolink Service within Orange County with associated railroad crossing safety and quiet zone improvements completed or under construction. Begin project development for at least five major grade separation projects.
6. Award up to $200 million in competitive funding for transit projects.
7. Complete development work and allocate funds for transit care discounts and improved services for seniors and persons with disabilities.
8. Complete an agreement between OCTA and resource agencies detailing environmental mitigation of freeway improvements and commitments for project permitting. Begin allocation of funds for mitigation.
9. Complete program development for road runoff/water quality improvements; Begin allocation of funds to water quality projects.

Early Action Plan Approved Capital Expenditures

Staff was directed to proceed with the implementation of the EAP, beginning with the development of a financial strategy for how best to fund the early implementation of the M2 projects. The EAP approved projects include capital expenditures for the period before M2's collection start date as well as capital expenditures for after the start of M2.

Early Action Plan Financing Needs

The EAP approved accelerating M2 expenditures for freeway projects, transit projects and streets and roads projects in FY 2008 through FY 2011. The accelerated M2 expenditures can be funded today and repaid with M2 sales tax revenues collected after April 1, 2011, if OCTA capitalizes (or borrows) the interest payments necessary to pay investors before April 1, 2011, and provides for a long-term take-out financing for investors. The EAP approved M2 expenditures cannot be funded on a pay-as-you-go basis since M2 funds will not be received until fiscal year (FY) 2011.

Selling notes with either tax-exempt commercial paper (TECP) or fixed rate bond anticipation notes (BANs) with capitalized interest that also provides for a long-term take-out financing is relatively common. Several self-help transportation counties have recently sold fixed rate or floating rate debt issues with capitalized interest and provided for a take-out financing after the initiation of their renewed sales tax. The rating agencies, bond insurance companies, letter-of-credit providers and investors are confident that when the self-help counties debt issues mature after their new sales tax revenue start dates, the agencies can refinance the interim borrowings with long-term debt. Based on OCTA's successful history of selling and repaying sales tax revenue bonds and annual rating agency and investor updates, an OCTA debt issue sold today with capitalized interest to be repaid through a refinancing in 2011 would be well received.

If OCTA issues debt today to finance the EAP approved accelerated expenditures totaling $249.7 million plus capitalized interest through April 2011, OCTA should plan on refinancing the interim debt with long-term sales tax revenue bonds shortly after M2 sales tax receipts start in April 2011. OCTA has the option to actually fix the refinancing costs of the interim debt that will mature in FY 2011 today through a variety of hedging techniques.

Capital Needs in FY 2008 through FY 2011

EAP projects will require approximately $376.6 million through FY 2011. This includes approximately $211.1 million to fund freeway projects, $80 million to fund freeway programmatic mitigation, $71.1 million to fund transit projects, and $14.4 million to fund streets and roads projects. Since the M2 program does not begin generating sales tax receipts until April 1, 2011, other funding sources will need to be identified to pay for these expenditures.

Funds from the Corridor Mobility Improvement Account, State Transportation Improvement Program, Riverside County Transportation Commission, 91 Express Lanes, and the M1 program are estimated to provide approximately $126.9 million for these projects through FY 2011. This leaves approximately $249.7 million in expenditures with no funding source identified.

Freeway Projects: The cash expenditures for the freeway projects contained in the EAP through FY 2011 are divided into the following categories:

Project Study Reports	$ 12.1 million
Environmental Phase	16.0 million
Design and Program Management	42.3 million
Right-of-Way and Utilities	35.6 million
Construction and Construction Management	96.1 million
Support Services	9.0 million
Total	$ 211.1 million

In addition to the freeway categories identified above, an additional $80 million is estimated to be expensed by FY 2011 for environmental mitigation. This expenditure will provide for the early acquisitions of appropriate mitigation properties and implementation of mitigation programs for freeway projects. A Master Agreement between the Authority and federal and state resource agencies is required prior to the expenditure of these funds. Although these funds are assumed for cash flow purposes, the Authority's Board will need to approve any agreements between the agencies and any subsequent expenditures.

Exhibit A lists the estimated costs and other funding sources by year for the Freeway projects in the EAP through FY 2011.

Transit Programs: The cash expenditures for the transit projects contained in the EAP through FY 2011 are divided into the following categories:

High Frequency Metrolink Service	$ 54.5 million
Transit Extensions to Metrolink	6.7 million
Convert Metrolink Stations to Regional Gateways	7.9 million
Expand Mobility Choices for Senior and Disabled	0.1 million
Community Based Transit / Circulators	1.0 million
Safe Transit Stops	0.1 million
Support Services	0.8 million
Total	$ 71.1 million

A more detailed breakdown of the estimated costs highlighted above for the Transit program is shown in Exhibit B.

Streets and Roads Program: The cash expenditures for the streets and roads projects contained in the EAP through FY 2011 total approximately $14.4 million. These expenditures will fund approximately 1,800 signals for a countywide traffic signal synchronization network.

As OCTA reviews the process of funding the EAP approved expenditures, it faces a fundamental challenge that many other self-help counties and government agencies with large capital improvement programs are currently facing; rampant construction cost inflation and the potential for reduced consumer spending due to real estate and other financial market uncertainties. Construction cost inflation has been soaring in California.

A combination of higher costs and lower sales tax revenues could have an impact on OCTA's ability to deliver M2 projects on time and under budget. Against this backdrop, it will be critical for OCTA to manage and minimize the cost of financing projects for M2 as it did so successfully for Measure M.

Request For Proposals for Underwriting Services

If OCTA decides to sell debt today in order to fund the EAP approved M2 accelerated capital expenditures, OCTA must decide whether to borrow funds on a fixed rate basis or on a floating rate basis. OCTA issued a Request for Proposals (RFPs) to its current underwriting team in August 2007. The RFPs provided the underwriters with substantial background information including the EAP approved August 13, 2007, by OCTA's Board.

Based on the EAP and the prevailing market conditions, the underwriters had specific recommendations for the approved interim capital requirements as well suggestions for the capital expenditures for freeway projects, transit projects and streets and roads projects beyond FY 2011.

Interim Financing Borrowing Options

OCTA has several interim financing options available to meet its M2 accelerated project expenditures over the next four years. One of OCTA's options is to fund a portion of the accelerated M2 capital expenditures with internal investment balances. However, OCTA's internal investment balances are currently yielding over 5 percent and the financing options considered below cost approximately 3.5 to 3.8 percent.

Six financing options that were suggested in the underwriting services RFP were analyzed. Forward Delivery Bonds and Convertible Capital Appreciation Bonds were eliminated from further consideration because of the high interest cost and marketing difficulty.

Four options analyzed are recommended for further consideration:

- A single 3.5-year BANs,
- Capital Appreciation Bonds (CABs),
- "Rolling" TECP, and
- "Rolling" BANs.

Financing Alternatives for EAP

Financing Options	Considerations	Viable Option
Forward Delivery Bonds	• Currently no market for 3.5 year forward	No
Convertible Capital Appreciation Bonds	• CABs product through 2011 with set conversion to current bonds in 2011 • Costly and difficult to market	No
BANs with Capitalized Interest	• Multiple long-term projects requiring additional long-term debt issues allow compliance with IRS requirement that maximum capitalized interest period is limited to 3 years or 1 year after "in service date" of project • Does not require credit enhancement	Yes
Capital Appreciation Bonds ("CABs")	• Interest accretes through 2011 • Difficult and more expensive to market • May require credit enhancement	Yes
"Rolling" BANs	• Fund capitalized interest from subsequent note issuance	Yes

	• Interest rate risk when BANs rollover • Does not require credit enhancement	
"Rolling" TECP	• Fund capitalized interest from additional issuance of TECP • Interest rate risk when TECP roll over • Requires credit enhancement and liquidity	Yes

The four financing options can be divided into two categories, fixed rate, and floating rate.

Fixed Rate BANs with Capitalized Interest: OCTA could issue a single 3.5-year BANs due April 1, 2011. The BANs Official Statement would look similar to a bond Official Statement. The BANs would receive a note rating similar to TECP. A 3.5-year BANs could be sold with or without credit enhancement.

Advantages

- Lock-in permanent rates: Ability to lock-in fixed interest rates for the life of the financing.
- Minimal administrative requirement: Does not require a bank liquidity facility or on-going management by staff.

Disadvantages

- Reinvestment risk: OCTA would issue some amount up front and have to reinvest the proceeds for some period before they are actually spent.
- Capitalized interest required: The par amount of the BANs will be much greater than the amount of the project funds since interest will have to be pre-funded for some period.

Fixed Rate Capital Appreciation Bonds (CABs): In today's market, OCTA could issue 3.5-year CABs and would not have to pay interest until April 2011. The interest would accrete to the bondholder and the bondholder would receive the original par amount plus the accreted interest in FY 2011. There is very little market precedent for such a financing option. Consequently, the interest rate for a 3.5-year CABs is difficult to predict.

Advantages

- Lock-in permanent rates: Ability to lock-in fixed interest rates for the life of the financing.
- Capitalized interest not required: Does not require any interest to be paid until after April 2011.

Disadvantages

- Priced at a premium: CABs with three year maturities or longer are priced at a premium in the market.

"Rolling" One Year BANs: BANs are fixed rate notes that would allow OCTA to fix the interest rate for one year. OCTA could issue "rolling" one year BANs for the first three years and then a final six-month BANs. The interest rate would likely be different for each BANs.

Advantages

- Lock-in rates for a one-year period: Ability to lock-in rates for up to 13 months
- Minimal administrative requirement: Does not require a bank liquidity facility

Disadvantages

- Reinvestment risk: OCTA would issue some amount up front and have to reinvest the proceeds for some period before they are actually spent
- Market risk: Take out of the BANs with the next BANs at a future date possibly at higher interest rates.

Floating Rate "Rolling" TECP: Based on its Measure M program, OCTA is very familiar with TECP. A new TECP program must be secured by a commercial bank letter of credit. A TECP program will allow OCTA to borrow amounts as needed over time. However, a TECP program will expose OCTA to the risk that future short-term interest rates may increase. TECP typically matures from one to 270 days. OCTA could issue TECP every 270 days and "roll" each interest accrual into the next TECP issuance until April 1, 2011.

Advantages

- Minimize accrued interest and/or eliminate negative arbitrage: Draw proceeds on an "as needed" basis.
- Use of low cost variable rate debt: Historically, variable rate yields have been lower than fixed-rate yields.

Disadvantages

- Market risk: Take out of the TECP with permanent financing at a future date possibly at higher interest rates.
- Administrative requirements: Requires the solicitation of a bank liquidity facility and on-going management of the program by staff.

IRS Regulations

Capitalizing 3.5 years of interest in a fixed rate BANs may bump up against the IRS requirement that limits capitalized interest to the "longer of three years or after one year after the in-service date of the project" requirement. The combination of freeway projects, streets and roads, and transit projects currently meets the exception to the general IRS rule.

Plan of Finance Recommendation

EAP Financing: Based on current market considerations, OCTA staff believes TECP offers the most attractive financing option for the EAP program. In addition to the cost benefit, TECP is well suited to OCTA's financing needs and requirements. TECP has decisive benefits for:

- **Program flexibility:** The interim M2 accelerated capital expenditures are not finalized yet. For example, the Board has to approve the proposed environmental mitigation agreements. TECP will allow OCTA to invest funds as needed. In addition, OCTA may wish to pay down TECP early with unexpended Measure M funds in the future.
- **Documentation:** TECP has streamlined disclosure requirements. OCTA will not need to prepare a BANs Official Statement or the long-term indenture required by BANs.
- **Timing:** A TECP program can be designed, priced, and closed very quickly.
- **IRS regulations:** IRS tax regulations for TECP are different from bonds. The IRS regulations allow you to treat a TECP "rollover" as a current refunding of the debt. A current refunding essentially gives OCTA a new maximum capitalized interest restriction based on the IRS test.

OCTA is a well-respected credit in the capital markets. Based on recent conversations and meetings, OCTA can receive very attractive letter of credit (LOC) offers from commercial banks. Based on an expedited and successful commercial bank LOC, OCTA can issue TECP for its EAP expenditures as early as January 2008.

M2 FY 2011 Refinancing: OCTA can refinance the interim TECP issued for M2 capital expenditures debt when the M2 collections begin in April 2011. OCTA faces interest rate risk for the required M2 capital expenditures debt refinancing between now and April 2011. If short-term interest rates increase between now and April 2011, this would raise OCTA's M2 borrowing cost and reduce OCTA's capacity to fund M2 projects. OCTA is therefore exposed to the risk that any potential increase in short-term interest rates would limit future M2 bonding capacity.

There are attractive hedging opportunities that will allow OCTA to lock in a refinancing rate today for the EAP TECP program. Staff is currently reviewing the costs and benefits of combining the M2 TECP program with a forward starting swap or rate lock in order to fix refinancing costs in April 2011 based on today's historically attractive hedging rates. In addition, staff will be evaluating whether a hedging strategy should be implemented for post EAP expenditures. A Request for Proposals should be issued to evaluate hedging strategies for OCTA. These strategies should be evaluated and presented to the Finance and Administration Committee and Board for review.

Cash Flows

Cash flows incorporating a TECP program for the EAP projects through FY 2011 are provided in Exhibit C. At this time, it is estimated that M2 expenditures for FY 2012 will be funded on a pay-as-you-go basis and will not require bond financing.

Conclusion

The Plan of Finance will be reviewed on an annual basis. Market changes and revisions in sales tax collections may affect the current strategy. As such, any changes to the strategy of the Plan of Finance will be submitted to the Board for approval.

EXHIBIT A

Early Action Plan
Freeway Program Cash Requirements

(Values in Million and Shown in Fiscal Year)

Description	2008	2009	2010	2011	Total
Total Program Estimated Cost					
I-405, I-5 to SR-55 (L)	$0.00	$0.00	$0.00	$1.10	$1.10
I-405, SR-55 to I-605 (K)	$1.00	$1.80	$1.80	$2.00	$6.60
I-5 / Ortega Interch. (D)	$0.00	$2.70	$14.60	$14.70	$32.00
I-5 South OC, Interch. (D)	$0.00	$0.20	$0.30	$0.30	$0.80
I-5, El Toro Y to SR-55 (B)	$0.00	$0.00	$0.00	$0.90	$0.90
I-5, PCH to Pico (C)	$0.00	$0.30	$0.50	$0.50	$1.30
I-5, SR-73 to El Toro Y (C)	$0.00	$1.00	$1.00	$0.00	$2.00
I-605 Access Improvements (M)	$0.00	$0.00	$0.00	$0.30	$0.30
SR-55, I-405 to I-5 (F)	$0.30	$0.20	$0.00	$0.00	$0.50
SR-55, I-5 to SR-22 (F)	$0.00	$0.30	$0.20	$0.00	$0.50
SR-57 NB, Katella to Lincoln	$0.50	$2.30	$1.90	$2.80	$7.50
SR-57 NB, SR-91 to Lambert	$4.50	$5.60	$5.90	$30.50	$46.50
SR-91 EB, SR-241 to SR-71 (J)	$4.30	$2.80	$30.70	$33.50	$71.30
SR-91 WB, I-5 to SR-57 (H)	$0.50	$0.50	$0.60	$2.90	$4.50
SR-91, SR-241 to RCL, OCTA Project (J)	$1.10	$1.10	$1.10	$0.20	$3.50
SR-91, SR-55 to Weir Canyon (J)	$2.30	$3.80	$4.60	$4.50	$15.20
SR-91, SR-57 to SR-55 (I)	$0.10	$1.20	$0.60	$0.00	$1.90
Program Management Consultant	$1.20	$1.50	$1.50	$1.50	$5.70
OCTA Administrative Costs	$1.54	$2.25	$2.55	$2.66	$9.01
Total Program Cost	**$17.34**	**$27.55**	**$67.85**	**$98.36**	**$211.11**
Other Funding Sources					
SR-91 EB, SR-241 to SR-71 (J)	$2.40	$2.40	$30.70	$33.50	$69.00
SR-91, SR-55 to Weir Canyon (J)	$2.30	$3.80	$4.60	$4.50	$15.20
SR-57 NB, SR-91 to Lambert (G)	$0.00	$0.00	$0.30	$17.10	$17.40
SR-57 NB, Katella to Lincoln (G)	$0.00	$0.00	$0.00	$0.60	$0.60
I-405, SR-55 to I-605 (K)	$0.00	$0.70	$0.70	$0.70	$2.10
91 Express Lanes Toll Revenue:					
SR-91 EB, SR-241 to SR-91	$1.90	$0.40	$0.00	$0.00	$2.30
SR-57 M 1 Funding Reimbursement.:					
SR-57, Katella to Lincoln	$0.50	$2.30	$1.90	$1.70	$6.40
SR-57, SR-91 to Lambert	$2.90	$5.60	$5.40	$0.00	$13.90
Total Other Funding Sources	**$10.00**	**$15.20**	**$43.60**	**$58.10**	**$126.90**
Early Action Plan Freeway Program Total	***$7.34***	***$12.35***	***$24.25***	***$40.26***	***$84.21***

EXHIBIT B

Early Action Plan
Transit Program Cash Requirements

(Values in Millions)

Program	Description	2008	*2009*	2010	2011	Total
R	**High Frequency Metrolink Service**					
	Staff	$0.20	$0.34	$0.35	$0.37	$1.25
	Capital	$6.00	$18.54	$19.08	$6.54	$50.16
	Consultant	$0.26	$0.32	$0.34	$0.35	$1.27
	Grade Separation PSR's	$0.07	$0.40	$0.74	$0.53	$1.74
	Project R Total	**$6.53**	**$19.60**	**$20.51**	**$7.79**	**$54.43**
S	**Transit Extensions to Metrolink**					
	Staff	$0.11	$0.14	$0.15	$0.15	$0.55
	Capital	$0.00	$0.00	$0.00	$5.00	$5.00
	Consultant	$0.16	$0.32	$0.34	$0.35	$1.17
	Project S Total	**$0.26**	**$0.46**	**$0.48**	**$5.50**	**$6.72**
T	**Convert Metrolink Stations to Regional Gateways**					
	Staff	$0.00	$0.14	$0.15	$0.15	$0.44
	Capital	$0.00	$0.00	$0.00	$5.00	$5.00
	Consultant	$0.47	$0.65	$0.67	$0.70	$2.49
	Project T Total	**$0.47**	**$0.79**	**$0.82**	**$5.85**	**$7.93**
U	**Expand Mobility Choices for Senior and Disabled**					
	Staff	$0.00	$0.04	$0.04	$0.04	$0.11
	Project U Total	**$0.00**	**$0.04**	**$0.04**	**$0.04**	**$0.11**
V	**Community Based Transit / Circulators**					
	Staff	$0.00	$0.14	$0.15	$0.15	$0.44
	Capital	$0.00	$0.00	$0.00	$0.00	$0.00
	Consultant	$0.00	$0.16	$0.17	$0.18	$0.51
	Project V Total	**$0.08**	**$0.30**	**$0.31**	**$0.33**	**$1.02**
W	**Safe Transit Stops**					
	Staff	$0.00	$0.00	$0.00	$0.00	$0.00
	Capital	$0.00	$0.00	$0.00	$0.00	$0.00
	Consultant	$0.00	$0.04	$0.04	$0.04	$0.13
	Project W Total	**$0.00**	**$0.04**	**$0.04**	**$0.04**	**$0.13**
	General Program Support Total	**$0.14**	**$0.21**	**$0.22**	**$0.23**	**$0.81**
	Early Action Plan Transit Program Total	***$7.48***	***$21.45***	***$22.43***	***$19.79***	***$71.14***

EXHIBIT C

ORANGE COUNTY TRANSPORTATION AUTHORITY PROGRAM CASH FLOW SUMMARY

FISCAL YEAR ENDING JUNE 30, *($ in Millions)*	2008	2009	2010	2011
BEGINNING BALANCE	0.00	0.00	0.00	0.00
SOURCES OF FUNDS				
Sales Tax Revenue (Net of Taxpayer Safeguards and Audit Fees)	0.00	0.00	0.00	83.87
Bonded Funds	0.00	0.00	0.00	272.09
Release of Debt Service Reserve Funds	0.00	0.00	0.00	0.00
Tax-Exempt Commercial Paper (TECP) Proceeds	15.96	77.50	59.54	119.08
Taxable Commercial Paper (TXCP) Proceeds	0.00	0.00	0.00	0.00
Other Revenues (Local, State, & Federal Funding)	10.00	15.20	43.60	58.10
Investment Earnings on Cash Balances	0.00	0.00	0.00	0.94
Investment Earnings on DSF	0.00	0.00	0.00	0.00
Investment Earnings on Construction Fund	0.00	0.00	0.00	0.00
Total Sources Of Funds	25.96	92.70	103.14	534.08
DEBT SERVICE PAYMENTS				
Gross Debt Service on Bonds	0.00	0.00	0.00	0.00
TECP Interest and Fees	1.18	3.76	6.42	11.00
TECP Redemption	0.00	0.00	0.00	272.09
TXCP Interest / Redemption	0.00	0.00	0.00	0.00
Total Debt Service Payments	1.18	3.76	6.42	283.09
AMOUNT AVAILABLE FOR PROJECTS	24.78	88.94	96.72	250.99
PROGRAM EXPENDITURES				
Freeway Mode	17.30	67.50	67.90	138.40
Streets & Roads Mode	0.00	0.00	6.40	8.00
Transit Mode	7.48	21.44	22.42	19.78
Environmental Cleanup Mode	0.00	0.00	0.00	0.00
Total Program Expenditures	24.78	88.94	96.72	166.18
ANNUAL CASH FLOW	0.00	0.00	0.00	84.81
FUND BALANCES				
Bond Construction Fund	0.00	0.00	0.00	0.00
Sales Tax Revenue Fund	0.00	0.00	0.00	0.00
ENDING FUND BALANCE	**0.00**	**0.00**	**0.00**	**84.81**

FREEWAY MODE
Summary

FISCAL YEAR ENDING JUNE 30, ($ in Millions)		2008	2009	2010	2011
BEGINNING BALANCE		**0.00**	**0.00**	**0.00**	**0.00**
Revenues					
	Sales Tax Revenue	0.00	0.00	0.00	35.32
	Other Revenues	10.00	15.20	43.60	58.10
	Interest	0.00	0.00	0.00	0.40
	Tax-Exempt Commercial Paper Proceeds	7.89	54.97	27.23	88.47
	Taxable Commercial Paper Proceeds	0.00	0.00	0.00	0.00
	Bond Proceeds	0.00	0.00	0.00	178.89
	Total Revenue	17.89	70.17	70.83	361.19
Project Expenditures					
A	Santa Ana Freeway (I-5) - Costa Mesa Fwy (SR-55) to "Orange Crush" (SR-57)	0.00	0.00	0.00	0.00
B	Santa Ana Freeway (I-5) - Costa Mesa Fwy (SR-55) to El Toro "Y" Area	0.00	0.00	0.00	0.90
C	San Diego Freeway (I-5) Improvements South of the El Toro "Y"	0.00	1.30	1.50	0.50
D	Santa Ana Freeway / San Diego Freeway (I-5) Interchange Upgrades	0.00	2.90	14.90	15.00
E	Garden Grove Freeway (SR-22) Access Improvements	0.00	0.00	0.00	0.00
F	Costa Mesa Freeway (SR-55) Improvements	0.30	0.50	0.20	0.00
G	Orange Freeway (SR-57) Improvements	5.00	7.90	7.80	33.30
H	Riverside Freeway (SR-91) - Santa Ana Fwy (I-5) to Orange Fwy (SR-57)	0.50	0.50	0.60	2.90
I	Riverside Freeway (SR-91) - Orange Fwy (SR-57) to Costa Mesa Fwy (SR-55)	0.10	1.20	0.60	0.00
J	Riverside Freeway (SR-91) - Costa Mesa Fwy (SR-55) to Orange/Riv Co Line	7.70	7.70	36.40	38.20
K	San Diego Freeway (I-405) - I-605 Freeway & Costa Mesa Fwy (SR-55)	1.00	1.80	1.80	2.00
L	San Diego Freeway (I-405) - Costa Mesa Fwy (SR-55) & Santa Ana Fwy (I-5)	0.00	0.00	0.00	1.10
M	I-605 Freeway Access Improvements	0.00	0.00	0.00	0.30
	Program Management Consultant	1.20	1.50	1.50	1.50
	Environmental Mitigation	0.00	40.00	0.00	40.00
	Support Costs	1.50	2.20	2.60	2.70
	Total Expenditures	17.30	67.50	67.90	138.40
Debt Service		0.59	2.67	2.93	187.06
ENDING BALANCE		**0.00**	**0.00**	**0.00**	**35.73**

STREETS & ROADS MODE
Summary

FISCAL YEAR ENDING JUNE 30, ($ in Millions)	2008	2009	2010	2011
BEGINNING BALANCE	**0.00**	**0.00**	**0.00**	**0.00**
Revenues				
Sales Tax Revenue	0.00	0.00	0.00	26.29
Other Revenues	0.00	0.00	0.00	0.00
Interest	0.00	0.00	0.00	0.30
Tax-Exempt Commercial Paper Proceeds	0.00	0.00	7.18	8.81
Taxable Commercial Paper Proceeds	0.00	0.00	0.00	0.00
Bond Proceeds	0.00	0.00	0.00	15.69
Total Revenue	0.00	0.00	7.18	51.08
Project Expenditures				
O Regional Capacity Program	0.00	0.00	0.00	0.00
P Regional Traffic Signal Synchronization Program	0.00	0.00	6.40	8.00
Q Local Fair Share	0.00	0.00	0.00	0.00
Total Expenditures	0.00	0.00	6.40	8.00
Debt Service	0.00	0.00	0.77	16.50
ENDING BALANCE	**0.00**	**0.00**	**0.00**	**26.58**

TRANSIT MODE
Summary

FISCAL YEAR ENDING JUNE 30, ($ in Millions)	2008	2009	2010	2011
BEGINNING BALANCE	**0.00**	**0.00**	**0.00**	**0.00**
Revenues				
Sales Tax Revenue	0.00	0.00	0.00	20.54
Other Revenues	0.00	0.00	0.00	0.00
Interest	0.00	0.00	0.00	0.23
Tax-Exempt Commercial Paper Proceeds	8.08	22.54	25.13	21.80
Taxable Commercial Paper Proceeds	0.00	0.00	0.00	0.00
Bond Proceeds	0.00	0.00	0.00	77.51
Total Revenue	8.08	22.54	25.13	120.08
Project Expenditures				
R High Frequency Metrolink Service	6.53	19.60	20.51	7.79
S Transit Extensions to Metrolink	0.26	0.46	0.48	5.50
T Convert Metrolink Stations to Regional Gateways	0.47	0.79	0.82	5.85
U Expand Mobility Choices for Senior and Disabled	0.00	0.04	0.04	0.04
V Community Based Transit / Circulators	0.08	0.30	0.31	0.33
W Safe Transit Stops	0.00	0.04	0.04	0.04
Support Costs	0.14	0.21	0.22	0.23
Total Expenditures	7.48	21.44	22.42	19.78
Debt Service	0.60	1.09	2.71	79.53
ENDING BALANCE	**0.00**	**0.00**	**0.00**	**20.77**

Freeway Mitigation Master Agreement
Draft Work Plan

Tasks	Implementation Schedule	Responsible Party
1.0 Create Oversight Committee		
1.1 Recruitment and appointment policies and procedures	August – Sept. 2007	Monte Ward
1.2 Committee charter and staffing	August – Sept. 2007	Monte Ward/Ellen Burton
1.3 Recruit and select committee members	Sept. – Oct. 2007	OCTA/Marissa Espino
1.4 Convene committee • Meeting times and dates • Select vice-chair • Review charter and work plan	November 2007	OCTA/Marissa Espino
1.5 Committee organization/working subcommittees	TBD	EOC/Marissa Espino
1.6 Monthly committee meetings	Ongoing	EOC/Marissa Espino
2.0 Work Plan Development		
2.1 Draft Work Plan with Tasks, Estimated Schedule and Responsible Parties	Jan. – Feb. 2008	EOC/Monte Ward
2.2 Approval of Work Plan by Allocation Committee	February 2008	EOC/Monte Ward
2.3 Hire/retain staff and/or consultant assistance	Jan. – April 2008	OCTA
2.4 Monitor and report on progress in implementing Work Plan	Ongoing	Monte Ward
3.0 Revenues and Funding		
3.1 M2 funding estimates	January 2008	Ken Phipps
3.3 Matching funds and grants analysis	Jan. - April 2008	TBD
3.4 Recommend funding/financing scenario	Oct. – Nov. 2007	Kirk Avila
3.5 Board adopts EAP plan of finance	November 2007	OCTA/Kirk Avila
4.0 Assessment of Freeway Program Impacts		
4.1 Review of methodologies and data resources	September 2007	EOC/Jim Sterling
4.2 Collection and compilation of data	TBD	EOC/Jim Sterling
4.3 Review and refinement of data	TBD	EOC/Jim Sterling
4.4 Inventory of impacts	TBD	EOC/Jim Sterling, Dan Phu,

		consultant(s)
5.0 Assessment of Mitigation Opportunities		
5.1 Inventory of potential acquisitions/restorations	TBD	TBD, consultant(s)
5.2 Evaluation of nexus with freeway impacts	TBD	TBD
5.3 Assessments of potential price/costs	TBD	TBD
5.4 Ranking of mitigation measures	TBD	TBD
6.0 Negotiate Master Agreement		
6.1 Select negotiating team	TBD	EOC/2020 Committee
6.2 Develop draft framework for agreement	TBD	EOC subcommittee/Monte Ward
6.3 Develop draft agreement	TBD	Resource Agencies/OCTA
6.3 Legal review of draft agreement	TBD	Resource Agencies/OCTA
6.4 Agency reviews of draft agreement	TBD	Resource Agencies/OCTA
6.5 Adoption/approval of final agreement	TBD	Resource Agencies/OCTA
7.0 Implement Mitigation Program		
7.1 Land acquisitions	TBD	TBD
7.2 Habitat restoration projects	TBD	TBD
7.3 Management program	TBD	TBD
7.4 Monitoring	TBD	TBD

OCTA

Mitigation and Resource Protection Program Oversight Committee

Environmental Oversight Committee

2008 Meeting Dates

January 16
February 6
March 5
April 2
May 7
June 4
July 2
August 6
September 3
October 1
November 5
December 3

Beginning in February, all meetings will take place
on the first Wednesday of the month from 10 to 11:30 a.m. at the
Orange County Transportation Authority
600 South Main Street, Orange, CA