August 10, 2010

Honorable Kim Dunning
Presiding Judge of the Superior Court
700 Civic Center Drive West
Santa Ana, California, 92701

Dear Judge Dunning,

On behalf of the Orange County Transportation Authority (OCTA) Board of Directors, (Board) I am pleased to provide responses to findings and recommendations included in the Orange County Grand Jury's June 9, 2010, report entitled "A Short Ride on the Bus: OCTA's Mission Imperiled."

The Grand Jury report correctly recognizes the unprecedented financial hardships that have forced OCTA to make very difficult bus service cuts in the past two years because of state funding cuts, plummeting sales tax revenue, and declining ridership affected by record unemployment.

The decision to gradually reduce approximately 20 percent of bus service during the past two years was made to ensure OCTA remains a responsible steward of taxpayer dollars, maintains a balanced budget and provides for a long-term sustainable transit system. OCTA staff and Board are keenly aware of the role bus transit plays for the economic and social well-being of Orange County.

The OCTA budget for fiscal year 2010-11 was approved by the Board on June 14, 2010, and no further cuts to bus service are anticipated at this time because of steps that have been taken by the OCTA Board and staff to respond quickly and effectively to date.

While the Grand Jury report accurately identified funding challenges facing Orange County bus transit services, the report recommendations do not represent viable solutions to the problem.

**Finding 1: While severe cuts are being made in Orange County's bus service because of reduced funding, OCTA has budgeted $143 million of Measure M revenue for an Anaheim transportation center for which Anaheim is contributing no funds.**

OCTA disagrees wholly with this finding. Funding for Regional Gateways program (Project T) of the Measure M2 (M2) expenditure plan provides for connections to future high-speed rail systems in Orange County. Specifically, this M2 program was intended to provide for improvements needed to convert
Metrolink Stations into Regional Gateways to high-speed rail systems. The State of California is currently planning a high-speed rail system linking northern and southern California which would include a southern terminus in the City of Anaheim. In 2009, the City of Anaheim successfully competed for Project T funds, and the Board approved $82.3 million in M2 Project T funds for the Anaheim Regional Transportation Intermodal Center (ARTIC) project. As part of this action, the Board also awarded $5.78 million of federal funds and $750,000 of Measure M (M1) funds to the cities of Fullerton, Irvine, and Santa Ana to plan for expanded Metrolink station opportunities in those cities. The overall ARTIC funding plan is provided below.

### ARTIC FUNDING

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>M1 Transit</td>
<td>$44.63</td>
</tr>
<tr>
<td>M2 - Project R</td>
<td>$16.90</td>
</tr>
<tr>
<td>M2 - Project T</td>
<td>$82.30</td>
</tr>
<tr>
<td>State</td>
<td>$29.22</td>
</tr>
<tr>
<td>Federal</td>
<td>$5.82</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$178.86</strong></td>
</tr>
</tbody>
</table>

It is important to note that the M2 plan is a contract with Orange County voters and was developed through an 18-month effort involving OCTA, all Orange County cities, and the public. The expenditure of funds for ARTIC is in line with what was approved by the public for this component of M2.

The City of Anaheim is contributing a 2.2 acre parcel valued at $5.3 million immediately adjacent to the tracks as well as staff services required to develop this regional multi-modal transportation facility.

**Finding 2:** OCTA’s need for operating funds is more urgent and immediate than that of other transportation entities, yet OCTA has not moved to revise its funding distribution formula so that the county’s bus system can receive Measure M revenue.

OCTA disagrees wholly with this finding. The distribution of M1 or M2 funds to different transportation modes was approved by Orange County voters, not economic conditions or state legislative actions. By law, the M2 half-cent sales tax requires 43 percent go toward freeways, 32 percent toward streets and roads, and 25 percent to transit. It would be illegal to alter the allocation formula without a vote of the people.

**Finding 3:** Service hour reductions, route eliminations and fare increases have negatively impacted the total number of OCTA bus boardings.

OCTA agrees with this finding. There is no question that reductions in service and fare increases have negatively impacted the total number of
OCTA bus boardings. However, the state of the economy has historically been the primary factor that affects the number of boardings on OCTA buses. Since most bus riders utilize the system to get to and from their jobs, there has always been a strong correlation between job creation and bus ridership in Orange County. Given the depth of the current recession, including the number of jobs lost in Orange County over the last few years, ridership on OCTA buses would have declined significantly over the last two years even if service was not reduced and fares were not raised.

Finding 4: OCTA needs enhanced authority in order to overcome local parochial interests that thwart development of a modern countywide transit system.

OCTA disagrees wholly with this finding. While OCTA is the primary transportation planning and operating agency for the county's bus transit system, OCTA is not pursuing controlling oversight of city policies and processes. With regard to a modern countywide transit system, OCTA operates a fleet of modern alternative fueled vehicles equipped with Global Positioning System (GPS) technology, on-board surveillance, and other on-board systems considered state of the art in the bus transit industry. In addition, OCTA is expanding the frequency of Metrolink service and planning for the proposed high-speed rail system between Anaheim and Los Angeles.

Finding 5 OCTA has exercised prudent management in the funding crisis with selective trims in bus service.

OCTA agrees with this finding. The loss of state funding and declining sales tax revenue has greatly impacted bus operations. OCTA, in trying to serve the greatest number of passengers and provide the most efficient bus service possible with limited resources, had no viable choice but to reduce bus service as the OCTA Board has directed. These changes were made after reviewing responses from the public at community meetings, a public hearing and those submitted by phone and online. OCTA’s goal with these changes is to preserve as much bus service as possible given the available reduced funds.

RECOMMENDATIONS

Recommendation 1: Re-examine the decision to use $143 million of Measure M revenue to build the Anaheim Regional Transportation Intermodal Center and consider acting to revise the Measure M fund allocation formula, with a goal of increasing the portion for bus transit and reducing the portion for freeway construction.

The recommendation will not be implemented because it is not warranted. This recommendation appears to suggest that M2 funds be used for bus transit operations as part of the solution to address declining state
funds. Transit funding was part of all discussions in developing expenditure plans for M1 as well as M2. In the end, through discussions with local jurisdictions and the general public, the M1 program created a firewall between the rail transit program and the bus transit program with the goal of protecting bus transit funding slated for programs such as senior mobility. The M2 expenditure plan followed suit in protecting bus transit operations funds and included greatly enhanced transit programs for seniors.

The M2 does have a provision included in the ordinance that allows for the expenditure plan to be subject every ten years to public review and with an assessment of progress, delivery, public support and changed circumstances. As with M1, no changes to the plan can be made without review and approval by two-thirds of the Taxpayer Oversight Committee and major changes such as deleting a project or shifting funding among categories must be ratified by a majority of Orange County voters.

Additionally, OCTA would disagree with this recommendation from another policy perspective. The funding shift suggested above would mean taking what is referred to as "one-time money" from a capital project and using it for operating revenue for bus transit. This is seldom, if ever, advisable policy for public agencies due to the fact that once the funding is depleted; there is nothing to replace it to maintain the operation level provided by a one-time infusion of funding.

It is important to note that ARTIC is a planned regional transportation facility serving all modes – bus, rail, fixed guideway, taxi, bicycle, pedestrian. It is funded in part through the Regional Gateways program of M2, which was approved in 2006 by nearly 70 percent of Orange County voters.

As stated previously in this response, by law, the M2 half-cent sales tax requires 43 percent go toward freeways, 32 percent toward streets and roads, and 25 percent to transit. Given that the M2 passed by nearly 70 percent of voters, OCTA is confident that the expenditure plan is on solid ground and should not be altered.

In addition to the Metrolink Gateways program, M2 transit funding will go toward high-frequency Metrolink service, transit extensions to Metrolink including shuttle buses and fixed guideways through the Go Local program, and community-based bus transit services. Again, this plan was approved by the voters of Orange County in November 2006.

Recommendation 2: The Governmental Relations Committee of the OCTA Board should urge Orange County’s Congressional delegation to lobby for legislative modification of the $2.25 billion award of federal stimulus funds to the High Speed Rail project.
The recommendation will not be implemented because it is not warranted. The federal economic stimulus funds were awarded for statewide use to the California High-Speed Rail Authority, a unique government agency over which OCTA has no authority.

OCTA’s legislative platform, adopted annually, seeks increased federal support and flexibility for transit operations funding, as well as funding for other countywide transportation projects.

Recommendation 3: If full state funding is restored to OCTA, bus fares should be reduced because the 2009 fare increase was counterproductive. Lower fares could stimulate greater ridership and thus increase operating revenue.

The recommendation will not be implemented because it is not warranted. As was noted in the Grand Jury report, transit agencies like OCTA are required by the state to maintain a fare box recovery of 20 percent in order to receive state funding. The most recent increase was implemented to ensure OCTA remains eligible for state funds. When fares are raised, we do anticipate a slight drop in ridership; however, in normal economic circumstances those riders are recovered over time. In addition, despite any ridership gains from reducing fares, the net result would likely lead to a reduction in overall revenue, threatening long-term financial stability. However, OCTA staff is considering recommending to the Board that a potential fare increase in January be deferred.

Recommendation 4: Orange County political leaders and transportation managers should launch a series of meetings aimed at creating a countywide transit agency that will have sufficient authority and funding to overcome parochialism in developing a modern transit system. Representatives of business and industry as well as the public could be invited by the local transportation officials to participate.

The recommendation will not be implemented because it is not warranted. OCTA’s transportation vision and planning is a result of ongoing and extensive outreach to the public including residents, business leaders, community leaders, transit users, and elected officials. Among others, outreach includes a standing Citizens Advisory Committee comprised of 34 members, Taxpayers Oversight Committee that ensures successful Measure M implementation, Special Needs in Transit Committee representing the senior and disabled community, Technical Advisory Committee made up public works directors from each city in the county, and regular meetings with transit stakeholders through customer round-table and community meetings.

Additional local agency collaboration is sought through the League of California Cities, Orange County Division, the Orange County City Manager’s
Association and labor organizations. Extensive engagement with private sector stakeholders such as the Orange County Business Council, the Automobile Club of Southern California, chambers of commerce, and other groups are always consulted as OCTA works to deliver a high-quality transportation system in Orange County. Joint meetings with the Transportation Corridor Agencies board leadership and monthly CEO meetings with our neighboring county transportation agencies are also held.

Support from all cities in Orange County is necessary to ensure limited tax dollars are spent appropriately. Through this cooperative effort, M1, which expires next year, has brought more than $4 billion in transportation improvements to every corner of the county.

Thank you for the opportunity to respond the Grand Jury's report. One of OCTA's core beliefs is operating the agency in an accessible and transparent manner and we welcome any opportunity to demonstrate this to the residents of Orange County.

Sincerely,

Will Kempton

cc: OCTA Board of Directors
    Mr. Tom Wood, City Manager, Anaheim