



SR-22 FREEWAY



BUS TRANSIT

December 13, 2004

The Board of Directors
Orange County Transportation Authority
550 South Main Street
Orange, CA 92863

State law requires the Orange County Transportation Authority (OCTA) to publish within six months of the close of the fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States (GAAP) and audited in accordance with auditing standards generally accepted in the United States by independent certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of OCTA for the fiscal year ended June 30, 2004.

This year's CAFR contains improved financial reporting implemented in fiscal year 2002. We believe this new financial reporting model instituted by the Governmental Accounting Standards Board provides better information for CAFR users.

This report consists of management's representations concerning the finances of OCTA. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, OCTA management has established comprehensive internal control that is designed both to protect OCTA's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of OCTA's financial statements in conformity with GAAP. Because the cost of internal control should not outweigh its benefits, OCTA's comprehensive framework of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects. The enclosed data presents the financial position and results of operations of OCTA on a government-wide and fund basis. All disclosures necessary to enable the reader to gain an understanding of OCTA's financial activities have been included.

OCTA's financial statements have been audited by Macias Gini & Company LLP. The goal of the independent audit was to provide reasonable assurance that the financial statements of OCTA for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining,

on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Macias, Gini & Company LLP concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that OCTA's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of OCTA was part of a broader, federally mandated Single Audit designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, but also on the government's internal control and compliance with legal requirements, with a special emphasis on internal control and legal requirements involving the administration of federal awards. These reports are available in OCTA's separately issued Single Audit report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. OCTA's MD&A can be found immediately following the report of the independent auditors.

This Comprehensive Annual Financial Report is presented in three sections:

- **Introductory:** Including the letter of transmittal, organization charts and information, and financial reporting awards.
- **Financial:** Including the independent auditor's report, the basic financial statements with accompanying notes, required supplementary information including the MD&A, and other supplementary information related to combining fund statements.
- **Statistical:** Including selected financial and nonfinancial data relating to OCTA on a multiple-year basis, as well as demographic information relating to the County of Orange, California (County), where OCTA provides transportation planning and services.

Profile of OCTA

OCTA was established by state law and began serving the public on June 20, 1991. OCTA is governed by a 12-member Board of Directors (Board) consisting of four members of the Orange County Board of Supervisors, six city council members selected by all of the cities within the County, one public member selected by the other ten board members, and a nonvoting representative appointed by the Governor of California. The Board has three alternates, consisting of the fifth County supervisor, a city council member and a public member. OCTA is managed by a Chief Executive Officer (CEO) in accordance with directions, goals and policies approved by the Board.

OCTA is responsible for providing coordinated, efficient and accountable transportation planning and services within Orange County. Former agencies and funds which were consolidated to form OCTA include: the Orange County Transportation Commission; the Orange County Transit District; the Consolidated Transportation Services Agency; the Orange County Local Transportation Authority (OCLTA); the Orange County Service Authority for Freeway Emergencies; the Orange County Congestion Management Agency; the Orange County Service Authority for Abandoned Vehicles; the State Transit Assistance Fund; the Local Transportation Fund; the Orange County Unified Transportation Trust (OCUTT); and the Transit Development Reserve. On January 3, 2003, OCTA began operating a toll facility on a ten-mile segment of the Riverside Freeway [State Route (SR) 91] between the Riverside/Orange County Line and the Costa Mesa Freeway (SR-55).

Establishment of the consolidated transportation authority has saved County taxpayers tens of millions of dollars through increased efficiency and elimination of duplicative efforts. At the same time, service and investment in transportation have increased, providing the County with a progressive, effective, and comprehensive transportation system. OCTA has seven primary service programs that support the transportation system in Orange County: transit, commuter rail, Measure M, CenterLine (which is in the preliminary engineering stage), 91 Express Lanes, planning and capital projects, and motorist and other services.

OCTA accounts for its operations by using separate funds to manage and report all financial activities of its many programs. The general fund finances most of the administrative and planning functions of OCTA, and includes the Finance, Administration, and Human Resources; Planning, Development and Communications; Construction and Engineering; Labor Relations, DBE and EEOC Divisions as well as the CEO's Executive Office, Clerk of the Board, and Internal Audit Department. Special revenue and capital projects funds are used to account for many of OCTA's revenue sources restricted by law or Board policy. A debt service fund is used to account for debt service activities related

to OCLTA's sales tax revenue bonds. Enterprise funds are used to account for operations of the Orange County Transit District, 91 Express Lanes and Orange County Taxicab Administration Program (OCTAP).

Revenue sources consist primarily of sales tax apportionments, farebox collections, tolls and related fees, gasoline tax, interest income, federal capital and operating assistance grants, state grants, property taxes and vehicle registration fees. On November 6, 1990, the voters of Orange County passed Measure M, which provided for a local transactions and use tax of 1/2 percent for 20 years to pay for a wide variety of freeway, road and transit improvements in the County. A 1/4 percent sales tax, as outlined in state law, provides operating assistance for transit service, as well as a small percentage for planning and administrative support. Over the next seven years, \$38 million from this source will be diverted annually to the County of Orange; however, over the next nine years, OCTA will be receiving \$23 million in gas tax revenue annually from the State in exchange for these diverted funds. The diverted money will be used by the County as part of its bankruptcy recovery effort. OCTA also receives 5.35 percent of total statewide receipts for sales and use taxes on gasoline and diesel fuel.

Every year, OCTA develops its staffing, operating and capital plans for the upcoming fiscal year. The product of this effort is the fiscal year budget. The budget outlines the expected funding sources and uses of funds that represent OCTA's year-long commitment to transportation projects and services. The budget also presents the projected fund balance for all funds that encompass OCTA. The budget is recorded in OCTA's accounting system, where it is compared with actual performance. Staff ensures that the budget is adopted by the Board of Directors before the beginning of each fiscal year. During the fiscal year, all major budget revisions and updates are presented to the Board for consideration and adoption.

Once adopted, staff ensures that the Board is kept well informed of budget versus actual performance. Budget control is accomplished through the following means:

- On a monthly basis, staff reviews actual monthly and year-to-date performance against the budget and provides a forecast for the remainder of the fiscal year. As part of this review, all materially significant variances and revisions are explained.
- On a quarterly basis, as part of the Board of Directors regular agenda, staff reports OCTA's financial results in the Quarterly Budget Status Report. This report compares actual quarterly and year-to-date performance to budget in the areas of revenue, staffing, operating and capital expenditures. The

quarterly budget status report for the fourth quarter summarizes the full year's performance against the approved budget.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which OCTA operates.

Orange County Economy—Orange County's diverse economy has enabled it to avoid the full impact of the downturn in the national and state economies over the last few years. Traditional indicators point to a relatively stable regional economy over the next five years. OCTA continuously monitors changes in the economy because of the potential impact on future sales tax receipts and other revenues vital to the organization.

Ten Initiatives for Ten Years—In September 2001, the OCTA Board of Directors approved ten strategic initiatives to help guide freeway, street, bus, and rail projects in Orange County over the next decade. The multimodal program is expected to include a total of \$4.6 billion in local transportation improvements by 2011. OCTA's ten strategic initiatives include:

1. Deliver the SR-22 HOV and I-5 Far North widening projects
2. Improve SR-91 corridor travel
3. Fix freeway bottlenecks
4. Encourage carpooling on toll roads
5. Invest in streets and roads
6. Expand Metrolink service
7. Expand local bus service
8. Add express bus service
9. Provide bus rapid transit service
10. Build light rail transit

These ten priorities serve as the basis for OCTA's strategic transportation plan over the next ten years. Together they will make a significant impact on the County's mobility. OCTA will continue to monitor and refine these transportation priorities to best meet the needs of the community and maximize available financial resources.

Summary of OCTA Activities and Services

Bus Transit—Orange County's population now numbers more than three million. This rapid growth places renewed importance on improving the county's public transit system and the mobility it provides residents. More than 67.5 million passengers boarded OCTA buses during fiscal year 2004, making OCTA one of the nation's fastest growing bus systems, according to the American Public Transportation Association. Since much of OCTA's ridership is transit dependent, the continuous improvement of local bus service is vital to the county's economy.

During fiscal year 2004, OCTA expanded frequency and service with 47,016 additional service hours. Service was increased on existing routes and changes were made to a number of routes to serve more people and offer passengers more frequent service within the system's core area.

OCTA aggressively marketed its local bus service during fiscal year 2004. The "Putting Customers First" comprehensive customer service program continued with colorful bus wraps and transit cards featuring OCTA employees. The program helped the public put a human face on OCTA's bus transit system. As gas prices rose during May, OCTA took advantage of the situation with a "Relationship" Campaign. Utilizing transit shelters, bus boards and radio traffic report sponsorships, the campaign reminded potential riders that they needn't stay married to their automobiles with the cost and stress of driving when an attractive alternative like OCTA bus service was available.

Two new pass programs were created to boost ridership—University Pass (U-Pass) and Employer Pass (E-Pass). University Pass allows universities and colleges to provide growing student enrollments with convenient transportation and ease on-campus parking constraints. With U-Pass, students, faculty and staff swipe their validated campus IDs and get unlimited access to OCTA buses while the school is charged 60 cents per boarding up to a maximum of \$25.00 per month. California State University, Fullerton and the University of California, Irvine have U-Pass programs in effect. Employer Pass, created to foster relationships with the employer community, is an annual pass exclusively for employers to make available to their employees. Employees have unlimited use of OCTA buses and employers are charged 60 cents per boarding while the E-Pass is in effect.

OCTA's successful Y Cruiser Youth Summer Pass Program was available again. The Y Cruiser bus pass is a fun way to encourage youths 18 and under to use the bus for work, play and to get around all summer long.

In a continuing effort to improve customer service, a new OCTA Store opened at OCTA's offices in January offering customers a convenient location to purchase bus passes and open 91 Express Lanes accounts. New 7 and 15 Day

Passes provided customers with more fare media options to increase the percentage of customers using prepaid passes when boarding.

The transit infrastructure expanded as progress continued on OCTA's fourth bus base in the city of Santa Ana. When completed in early 2005, the state-of-the-art operations and maintenance facility will accommodate 278 large buses, including 35 articulated buses, and will provide convenient access to many of OCTA's most heavily used bus routes.

91 Express Lanes—To increase convenience for 91 Express Lanes customers, OCTA opened a new Customer Service Center in Corona. The new center has convenient freeway access and more visitor and handicapped parking. This new location is one of many positive changes for the 91 Express Lanes as OCTA remains committed to improving mobility for the thousands who rely on the 91 Freeway to commute between Orange and Riverside counties. In addition, 91 Express Lane customers can update accounts, replace or add transponders, make payments or open a new account at the new OCTA Store in Orange.

OCTA's purchase of the 91 Express Lanes eliminated the non-compete provision and paved the way for future improvements along the main freeway. The first improvement, the addition of an auxiliary lane on the westbound SR-91 from the Orange/Riverside County line to the SR-241, was completed and opened in February. The second improvement, the restriping of a 2.1-mile segment through Corona, was funded by the County of Riverside and opened to traffic in May. Preliminary studies by the City of Corona indicate that the two projects dramatically improved vehicle speeds from an average of 12 mph to 52 mph during peak morning commute hours.

In an effort to ensure the financial stability of the 91 Express Lanes, OCTA refinanced \$135 million in taxable bonds during November, a debt OCTA assumed with the toll road purchase. This action is projected to save approximately \$17.8 million in present value savings over 27 years.

OCTA's policy of maximizing the number of vehicles that can travel in the 91 Express Lanes is showing positive results and is benefiting the commuters who use the toll road. During fiscal year 2004, traffic increased in all categories. Total trips exceeded 11 million for an increase of 12.1 percent over the previous year. Trips by carpools containing three or more riders were up 43.3 percent and full toll trips were up 6.5 percent. As of June 30, 2004, 160,174 transponders were in circulation.

Freeway Improvements—Freeway improvements continue to be the cornerstone and most visible component of the Measure M Traffic Improvement and Growth Management Plan approved by Orange County voters in 1990. Since the creation of OCTA, the Board of Directors made accelerating freeway

construction a top priority to provide transportation relief to motorists as quickly as possible.

While the majority of Measure M freeway improvements are nearly complete, OCTA continues to plan other projects well into the future. This will require OCTA to aggressively seek federal, state and private sector funding of long-term projects. Nevertheless, a number of projects experienced significant progress in the last year including:

San Diego Freeway (I-405): OCTA made significant progress on a \$134 million project designed to improve traffic flow and safety at the I-405/SR-55 interchange near Costa Mesa, one of the ten busiest freeway interchanges in the nation. In early 2003, the redesigned Bristol Street off-ramp from SR-55 and northbound I-405 and a new Avenue of the Arts off-ramp (Minimum Operating Segment (MOS)-2 Project) were completed. These projects improved access to shopping, business and entertainment clustered in the South Coast Metro area of Costa Mesa. The new "braided" configuration also eliminated traffic weaving and improved traffic safety for vehicles exiting at Bristol Street from northbound I-405 in relation to motorists traveling southbound on SR-55 connecting to northbound I-405. The final improvement for this area is the addition of an on-ramp to northbound I-405 from Anton Blvd. scheduled for completion in November 2004.

In addition to the above, the following milestones were accomplished:

1. The opening of the direct carpool connector between southbound SR-55 to southbound I-405 and the reverse movement (MOS-1 Project) is in the final stage of construction and is scheduled to be open by the end of 2004.
2. Major roadway work and the bridge structure within the SR-55 median for the direct carpool connector between southbound SR-55 and northbound I-405 and the reverse movement (MOS-3 Project) are complete. Construction activity similar to above is now focused within the I-405 median to complete the connector. The entire project is scheduled for completion by early 2005.
3. Improvements provided by the I-405/SR-73 interchange project eliminated chokepoints and the redesigned on and off ramps improved access to the freeway. The SR-73 portion of this project was completed in late 2003, and the I-405 portion is substantially complete and open to traffic. Full project completion should be accomplished by fall 2004.

Since the discovery of the damage to the carpool connector in the MOS-1 Project, OCTA has been working closely with all parties to expedite implementation of the repairs and resolution of the cost responsibility. The

repair plan was approved, executed and is planned to meet the scheduled opening date.

Santa Ana Freeway (I-5): Although the majority of improvements to the Santa Ana Freeway (I-5) have been completed using Measure M dollars combined with federal and local funding, there is a remaining need to widen the I-5 north of SR-91 to the Orange/Los Angeles County line. OCTA has been working with Caltrans and the City of Buena Park to move this project forward, and will complete the project's design phase in July 2005. Through Measure M, OCTA is able to fund two-thirds of the projected \$204.8 million cost. The project will provide commuters on the I-5 with an additional general purpose lane and carpool lane in each direction, as well as auxiliary lanes in each direction. Construction is expected to begin in January 2006.

Garden Grove Freeway (SR-22): The \$490 million SR-22 improvement project will add a high occupancy vehicle (HOV) lane, an auxiliary lane and several interchange improvements along the freeway. During fiscal year 2004, OCTA continued work with Caltrans on approval of the final Environmental Impact Report/Statement. On August 19, 2003, the Record of Decision was filed completing the environmental approval process. OCTA has taken the project lead and is completing the project, with the help of the private sector, through a design-build process—a first for OCTA and a first in the State of California on an active freeway. By taking this approach, OCTA estimates that the project can be completed approximately two years earlier than the most aggressive Caltrans schedule, at the same cost or less, and with more consideration for local issues such as maintenance of traffic and right-of-way acquisition.

In September 2003, request for proposals for the design-build contract were issued and on March 17, 2004, proposals were received from two design-build teams. Due to the dramatic increases in construction costs, primarily due to escalation in prices for materials such as steel, the proposal prices came in significantly higher than the engineer's estimate. The technical evaluation of the proposals was completed and a request for a best and final offer was issued to the two bidders and submitted on June 30, 2004. During this time, OCTA has resolved the lawsuit filed by the City of Garden Grove on the project and worked to secure the necessary funding to complete the entire project.

Freeway Chokepoints—A major area of emphasis for OCTA is identifying and improving freeway chokepoint areas throughout Orange County. Chokepoints are freeway bottleneck locations where roadway operations are hampered by unusually heavy weaving and merging. Remedies for chokepoints include the addition of auxiliary lanes between interchanges, interchange or ramp modifications, re-striping and improved signage, as well the extension of

auxiliary lanes through interchanges when warranted by high traffic volumes. The Freeway Chokepoint Program is one of OCTA's Ten Strategic Initiatives and has over 40 projects under development along the I-5, SR-55, SR-57, SR-91, and I-405. The total construction cost estimates to fix all of the bottlenecks exceed \$800 million and will require a blend of federal, state and local funding.

OCTA and Caltrans, in conjunction with local jurisdictions, are working cooperatively to develop a slate of "shelf-ready" projects that can be brought forward as funding becomes available. Significant progress has been achieved with several projects constructed or advancing to the next stages of development. OCTA has had to overcome issues related to non-compete restrictions and the state budget crisis. Most recently, however, elimination of the toll road non-compete agreement on the SR-91 allowed the completion of four Project Study Reports for chokepoint improvements to the SR-91 corridor along the following locations:

- SR-91 westbound from SR-55 to Tustin Avenue
- SR-91 westbound from SR-57 to I-5
- SR-91 eastbound from SR-241 to SR-71
- SR-91 eastbound/westbound from SR-241 to Imperial Highway

The improvements under study on the eastbound section will complement two westbound projects that were completed in spring 2004. In addition to the SR-91 improvements, OCTA is developing conceptual improvements to the I-5/SR-55 interchange in central Orange County. The study area, which spans the I-5 from Fourth Street to Newport Avenue and the SR-55 from Fourth Street to Edinger Avenue, presents numerous challenges since it encompasses several chokepoint problem areas. The goal is to analyze weave patterns and develop focused near-term solutions to eliminate bottlenecks, while enhancing the safety and operation of this critical freeway juncture. Beyond these efforts, OCTA continues to develop five freeway chokepoint improvement projects at the following locations:

- I-5 southbound at Culver Drive
- I-5 southbound at Oso Parkway
- I-5 southbound at Avenida Pico
- I-5 southbound at Camino Capistrano
- I-405 from Magnolia Avenue to Beach Boulevard

The development work underway focuses on preliminary engineering and environmental analysis to refine these projects for design and construction.

Major Investment Studies—In addition to the projects listed above, OCTA is conducting several Major Investment Studies (MIS) to improve travel on Orange County freeways.

Central County Corridor Study: A Request for Proposal was issued in May for a consultant to conduct the first phase of a study to develop a purpose and need statement and conceptual alternatives to improve travel in the central part of the county. A contract was awarded for \$200,000 to URS Corporation in June. The six-month study will kick-off in July 2004 with outreach activities including open houses, an elected officials roundtable, a stakeholders workshop, one-on-one meetings and a survey posted on the OCTA website.

The San Diego Freeway (I-405) Study: This major study covering the I-405 corridor from the San Gabriel River Freeway (I-605) to the Corona Del Mar Freeway (SR-73) kicked off in late 2003. In spring 2004, the study entered the conceptual alternatives stage. The technical team presented the public with 15 possible solutions to the congestion problem. After receiving input from the public, elected officials and business and community leaders, the technical team reviewed the 15 conceptual alternatives for feasibility and cost effectiveness to narrow the possibilities down to three. Further input from the community will result in a Locally Preferred Alternative (LPA) in early 2005.

Riverside County to Orange County Corridor Study: OCTA, in conjunction with the Riverside County Transportation Commission (RCTC), began a study to improve travel between Riverside and Orange counties. OCTA launched a community outreach plan that not only involves the public in the discussion, but also makes them a focal point in determining the future of the Riverside County to Orange County Corridor. The study was launched in June and OCTA produced numerous public information documents including a study newsletter, a “Frequently Asked Questions” piece and a questionnaire inviting ideas on how to improve the corridor. Next steps in the study include briefing area elected officials and hosting three public open houses to encourage discussion on possible improvements to the corridor.

Streets and Roads—Local streets and roads provide daily transportation for Orange County’s three million residents and are a critical component of the county’s vast transportation network. There are presently more than 7,200 miles of local streets and roads within Orange County.

OCTA sets priorities and allocates funding to local governments to supplement their programs for maintaining and improving roadways. Projects include the elimination of potholes, rough surfaces and bottlenecks, as well as increasing street and road capacity to improve mobility and reduce traffic congestion throughout the county.

During fiscal year 2004, OCTA allocated approximately \$66 million in Measure M funds to local cities and the County for the improvement and maintenance of local and regional streets and roads, interchanges and intersections. Since the passage of Measure M in 1990, local cities and the County have received more than \$657 million in Measure M revenues.

Paratransit—OCTA also operates curb-to-curb paratransit van service for persons with disabilities. This service, known as ACCESS, is mandated by the Americans with Disabilities Act and is intended to provide public transit service to persons who are unable to use regular fixed route buses. ACCESS service requires the completion of an eligibility process to determine the rider's transportation limitations. Demand for ACCESS has continued to grow since its inception in 1993. During fiscal year 2004, the number of eligible riders totaled 24,955 and there were more than one million ACCESS trips. ACCESS ridership continues to experience increased demand for services.

Senior Mobility Program—In 1998, due to the explosive growth in the senior population of Orange County, OCTA established the Senior Pilot Program. Six cities voluntarily participated in this program, which permits local jurisdictions to receive operating funds for senior transportation services to complement the service provided by OCTA. Because of the Senior Pilot Program's success, the Board of Directors approved an expansion of this program, called the Senior Mobility Program, to include additional cities in Orange County. The expanded program began in January 2002, and today 17 cities, the Vietnamese Senior Center, and the Korean American Senior Association of Orange County participate in the Senior Mobility Program with additional cities slated to join within the next year. While many of the participants contract privately for vehicles, OCTA donated ten surplus vehicles to the program during fiscal year 2004.

Commuter Rail (Metrolink)—Commuter rail service is operated by the Southern California Regional Rail Authority (SCRRA) and is popularly known as Metrolink. SCRRA is a joint powers authority formed by transportation agencies in five counties including OCTA. Metrolink trains serve Orange County with 40 train trips per day along three commuter rail lines: the Orange County Line, the Inland Empire/Orange County (IEOC) line and the 91 (Riverside/Fullerton/Los Angeles) line.

Since its inception in March 1994, Metrolink service on the Orange County line has steadily increased. The Orange County line operates 19 daily train trips with station stops in Oceanside, San Clemente, San Juan Capistrano, Laguna Niguel/Mission Viejo, Irvine, Tustin, Santa Ana, Orange, Anaheim, Fullerton, Norwalk/Santa Fe Springs, Commerce, and Downtown Los Angeles. During fiscal year 2004, Metrolink and Amtrak continued the Rail-2-Rail program allowing Metrolink monthly pass holders using the Orange County line to ride

any Amtrak Pacific Surfliner or Amtrak bus within the trip limits of their pass at no additional cost. This program helped increase ridership in the Orange County corridor.

The IEOC line began service in October 1995 and operates 12 trains per day between San Bernardino and San Juan Capistrano. The new 91 line began service in May 2002 and provides nine train trips per day between Riverside and Los Angeles with stops in Riverside Downtown, Riverside-La Sierra, North Main Corona, West Corona, Fullerton, Norwalk/Santa Fe Springs, and Downtown Los Angeles.

In fiscal year 2004, total commuter rail ridership for lines serving Orange County (including the Metrolink riders on Amtrak) exceeded 2.7 million passengers. Ridership on the Orange County line totaled 1.4 million passengers. More than 914,000 passengers rode the IEOC line, and more than 429,000 passengers rode the 91 line in fiscal year 2004. OCTA and partner cities are in the process of expanding the system with the construction of a new Metrolink station in Buena Park, which is expected to be completed in 2005.

Light Rail—In 1992, the OCTA Board of Directors initiated a plan to bring efficient rail travel to residents throughout Orange County. This vision of countywide rail service was incorporated into the 87-mile Urban Rail Master Plan. With the introduction of Metrolink commuter rail service in 1994, and continuing Amtrak service, OCTARail offered Orange County commuters an alternative to the solo drive.

During fiscal year 2004, OCTARail's intracounty light rail network moved forward with The CenterLine. As the cornerstone of OCTARail, the 9.3-mile CenterLine light rail starter system will serve central Orange County. OCTA has been working closely with our partner cities of Costa Mesa, Irvine, and Santa Ana to ensure that this \$1.0 billion project meets the needs of residents, businesses, visitors, and commuters alike. OCTA is currently finalizing preliminary engineering on The CenterLine Project—studying an exact rail alignment, station locations and rail technology. The project is expected to enter into final design in early 2005, and the community will continue to play an important role of shaping the look and feel of the system. The Federal Government has given The CenterLine Project its highest Rail New Starts rating, and OCTA's financial plan provides for operations through 2033.

Motorist and Other Services—OCTA also facilitates other state and locally funded programs primarily related to motorist services.

Service Authority for Freeway Emergencies (SAFE)—Orange County broke new ground in 1987 when it pioneered a solar-powered cellular technology call box system. During 2003, the entire network was equipped with Text

Telephone assistance devices for the hearing impaired. The program is funded by a \$1 per year fee on vehicles registered in Orange County. SAFE now operates and maintains 1,280 call boxes throughout Orange County. In fiscal year 2004, more than 28,000 calls (an average of 2,400 calls per month) were placed through the SAFE callbox network.

Freeway Service Patrol (FSP)—Orange County's FSP, which consists of a fleet of dedicated tow trucks that patrol the County's vast freeway system, helps to keep freeways flowing freely by removing disabled cars and other physical impediments. By assisting drivers with dead batteries, empty gas tanks, and flat tires, traffic congestion from freeway incidents has been greatly reduced.

FSP is sponsored by SAFE and the California Highway Patrol and is funded by California State Highway funds administered by Caltrans and matching funds from SAFE. This program is part of an overall plan to significantly improve freeway traffic flow and reduce smog caused by stop-and-go congestion. In fiscal year 2004, the FSP program assisted 58,000 stranded motorists (an average of 5,000 assists per month) on Orange County freeways and public toll roads utilizing 35 tow trucks during peak hours and five tow trucks during mid-day hours.

Service Authority for Abandoned Vehicles (SAAV)—Established in October 1991, SAAV funds the cost of removing abandoned vehicles from roadsides throughout Orange County. Funded by a \$1 per vehicle registration fee, this program allows the County and its 34 cities to remove unsightly and potentially dangerous vehicles from public and private property. Using SAAV funds for this purpose means that cities do not have to use important law enforcement and code enforcement funds on vehicle removal. During fiscal year 2004, Orange County cities and the County abated approximately 33,300 abandoned vehicles from both public and private property and received \$2.3 million in reimbursements from OCTA.

Orange County Taxicab Administration Program (OCTAP)—California cities are required by law to regulate taxicabs. OCTAP, a regulatory program operated by OCTA, was formed to regulate taxicab companies, drivers, and vehicles on behalf of participating Orange County cities. OCTAP began operation in January 1998. The service is funded by fees paid by taxicab drivers and operators, requiring no tax subsidies. Prior to OCTAP, each taxicab company and its affiliated drivers had to follow a variety of rules and regulations established by each of the cities in which they operated. This made the task of ensuring compliance with taxicab rules and regulations difficult and time consuming. OCTAP was established to alleviate the administrative burden from local cities, centralize the issuance of permits to taxicab companies and drivers, and eliminate duplication of efforts.

Enforcement is conducted by local police departments. All 34 cities in Orange County and the County itself have now joined the program ensuring added efficiency and effectiveness for local governments countywide. At fiscal year end, Orange County has 615 permitted taxi cabs and 876 permitted taxi drivers.

Cash Management

OCTA's Treasury/Public Finance Department contracts with several private sector investment management firms to manage the majority of OCTA's cash assets. Separate investment accounts are maintained for the proceeds and the interest earnings from each of OCTA's debt issues. The remainder of OCTA's cash and investments are maintained in commingled accounts, with interest earnings allocated to the respective funds and accounts based on daily dollar average balances.

Each of the investment manager's accounts is monitored on a daily basis by the Treasury/Public Finance Department to ensure compliance with OCTA's investment policy. The investment policy has been adopted by OCTA's Board of Directors and is approved annually to ensure that it complies with all applicable laws and regulations and that the policy meets OCTA's foremost investment objective: safeguarding of principal.

OCTA maintains commercial checking accounts at Bank of the West for the purposes of issuing payroll and general accounts payable. The bank collateralizes all balances over the \$100,000 covered by the Federal Deposit Insurance Corporation with a pooled collateral account held by the financial institution's trust department in OCTA's name. Bank of the West also provides a controlled disbursement service to OCTA under terms of a cooperative agreement between Bank of the West and Mellon Bank. This service is funded on a daily basis from an OCTA SWEEP investment account with Bank of the West's Trust Department. On a daily basis, OCTA's Treasury/Public Finance Department invests excess cash in these accounts in accordance with OCTA's investment policy. These investments are facilitated by Bank of the West's California Treasury Division.

The Treasury/Public Finance Department prepares monthly reports for presentation to the Finance and Administration Committee of the Board of Directors and quarterly reports for the Board of Directors. These reports review compliance with OCTA's investment policy, as well as the overall performance of OCTA's investment portfolio.

Debt Administration

As of June 30, 2004, OCTA's outstanding debt consisting of bonds, commercial paper notes, and certificates of participation was \$731 million, net of

unamortized amounts. The current portion of this debt totals \$114 million. Final maturity of the Measure M Sales Tax Revenue Bonds is scheduled for 2011, when the current Measure M sales tax program expires. OCTA refinanced the taxable bonds assumed in the 91 Express Lanes purchase with tax-exempt bonds in November 2003. Final maturity for the transit certificates of participation is scheduled for July 2007. The commercial paper notes have a maximum maturity of 270 days, and OCTA has entered into an irrevocable direct-pay letter of credit reimbursement agreement with Dexia Bank to provide liquidity support for the commercial paper notes.

Risk Management

OCTA management is of the opinion that recorded liabilities for OCTA's self-insured claims are adequate, and resources are being accumulated in the internal service funds to meet potential losses. In addition, a series of training and wellness programs for OCTA administrative, maintenance and coach operator employees seek to evaluate and control losses in health and workers' compensation claims. Defensive driving, customer service and assistance, and other coach operator training programs seek to control general claim exposure.

Pension Benefits

A majority of OCTA's employees participate in the Orange County Employees Retirement System, which is a cost-sharing, multiple-employer defined benefit plan. A nominal number of employees participate in the Public Employees' Retirement System of the State of California. Financial activities for the two retirement systems are not included in this document as the Board does not oversee the retirement systems.

Awards

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Orange County Transportation Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the 22nd straight year OCTA or its predecessor agency has received this prestigious award. In order to be awarded a Certificate of Achievement, OCTA published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the United States and applicable legal requirements.

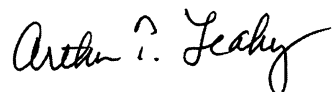
A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The California Society of Municipal Finance Officers (CSMFO) awarded a Certificate of Award for Outstanding Financial Reporting to the Orange County Transportation Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2003. The certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared. We believe our current report continues to conform to the Certificate of Award for Outstanding Financial Reporting Program requirements, and we are submitting it to CSMFO.

Acknowledgments

The preparation of the Comprehensive Annual Financial Report on an efficient basis required the dedication of staff in many OCTA departments. We wish to express our appreciation to all the department managers and staff who assisted and contributed to the preparation of this report, as well as our independent auditors for their participation in the review and preparation of this report. We are especially grateful for the dedicated efforts over the past few years of the Accounting and Financial Reporting Department staff, who have prepared for and coordinated our implementation and continued support of the new financial reporting model. Special appreciation is extended to the Board of Directors for its support for efforts to excel in the operational and financial management of OCTA.

Respectfully submitted,



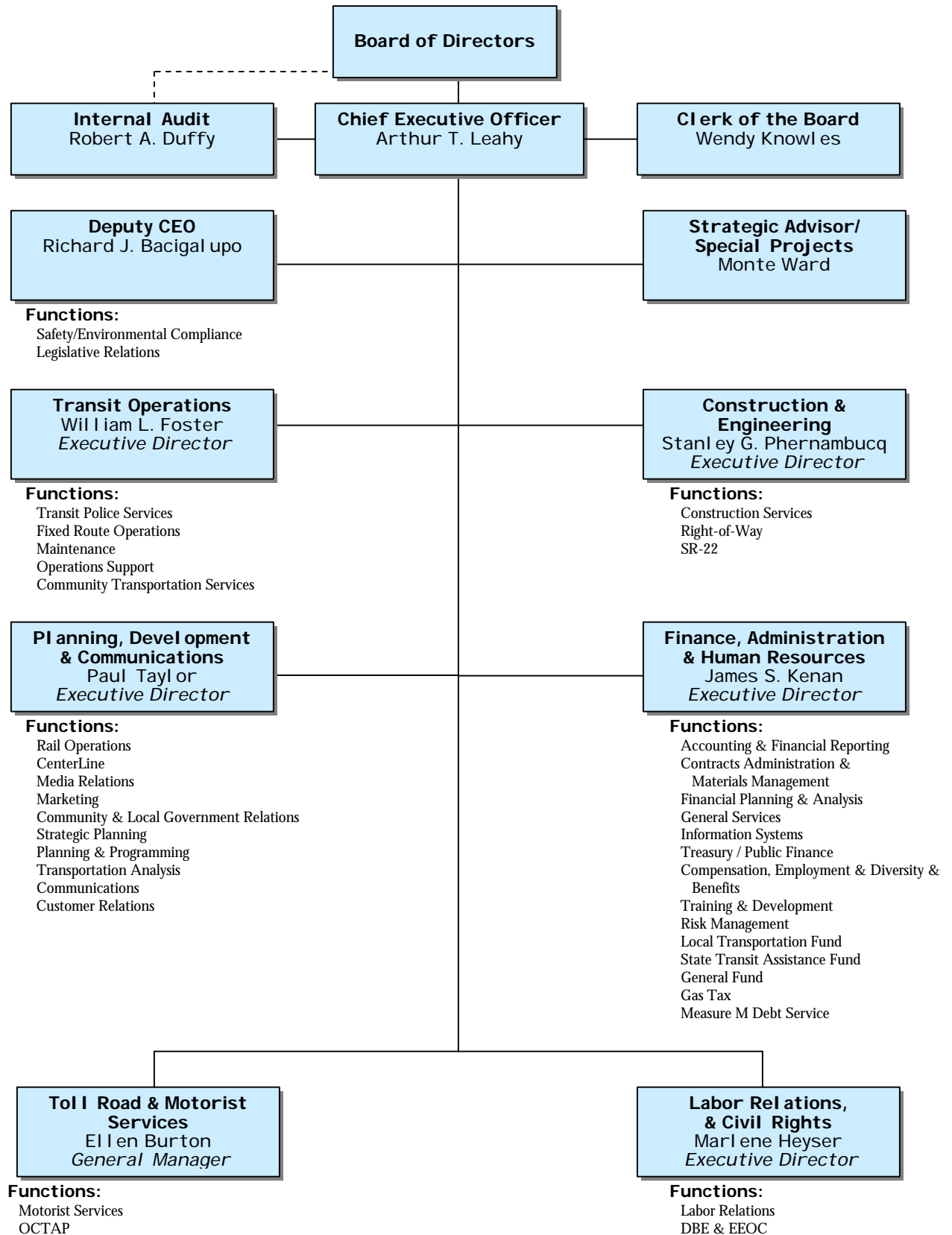
Arthur T. Leahy
Chief Executive Officer



James S. Kenan
Executive Director of Finance, Administration and Human Resources

2004 | ORGANIZATION CHART

(AS OF JUNE 30, 2004)



Gregory T. Winterbottom
Chairman
Public Member



Bill Campbell,
Vice-Chairman
Supervisor, District 3
County of Orange



Arthur C. Brown, **Director**
Councilmember
City of Buena Park



Carolyn Cavecche, **Director**
Mayor Pro Tem
City of Orange



Cathryn De Young, **Director**
Councilmember
City of Laguna Niguel



Tim Keenan, **Director**
Councilmember
City of Cypress



Shirley McCracken,
Director
Mayor Pro Tem
City of Anaheim



Chris Norby, **Director**
Supervisor, District 4
County of Orange



Miguel A. Pulido, **Director**
Mayor
City of Santa Ana



James W. Silva, **Director**
Supervisor, District 2
County of Orange



Charles V. Smith, **Director**
Supervisor, District 1
County of Orange



Denis R. Bildeau,
Alternate Director
Public Member



Bev Perry, **Alternate Director**
Mayor Pro Tem
City of Brea



Thomas W. Wilson,
Alternate Director
Supervisor, District 5
County of Orange



Cindy Quon, **Governor's Ex-officio Member**
Director, Caltrans District 12



2004 I M A N A G E M E N T S T A F F

(AS OF JUNE 30, 2004)

ARTHUR T. LEAHY	Chief Executive Officer
RICHARD J. BACIGALUPO	Deputy Chief Executive Officer
WENDY KNOWLES	Clerk of the Board
ELLEN BURTON	General Manager, Toll Road & Motorist Services
MONTE WARD	Strategic Advisor / Special Projects Manager
ROBERT A. DUFFY	Manager, Internal Audit
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WILLIAM L. FOSTER	Executive Director, Transit Operations
MARLENE HEYSER	Executive Director, Labor Relations, & Civil Rights
JAMES S. KENAN	Executive Director, Finance, Administration & Human Resources
STANLEY G. PHERNAMBUQ	Executive Director, Construction & Engineering
PAUL TAYLOR	Executive Director, Planning, Development & Communications
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KENNETH G. PHIPPS	Division Director, Finance, Administration & Human Resources
VIRGINIA ABADESSA	Manager, Contracts Administration and Materials Management
CAROL ALEXANDER	Manager, Compensation, Employment & Benefits
VICKI AUSTIN / DALE COLE	Acting Managers, Accounting and Financial Reporting
KIRK AVILA	Manager, Treasury and Public Finance / Treasurer
BRIAN CHAMPION	Manager, Financial Planning and Analysis
AL GORSKI	Manager, Risk Management
WILLIAM MAO	Chief Information Officer
RICH SMITH	Manager, General Services
RICHARD G. WONG	Manager, Training & Development
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KENNARD R. SMART, JR.	General Counsel

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Orange County
Transportation Authority,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2002-2003

Presented to the

Orange County Transportation Authority

*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

March 1, 2004

Sandra S. Schmidt

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

