



STREETS & ROADS



BUS TRANSIT

November 9, 2005

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, 2005.

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 a system of comprehensive internal controls 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, 2005, 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, 2005, 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 generally accepted accounting principles (GAAP), 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 in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 and schedules.
- **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. An 18-member Board of Directors (Board) governs OCTA and consists of five members of the Orange County Board of Supervisors, 10 city representatives selected by all of the cities within the County, two public members selected by the other 15 Board Members, and a representative appointed by the Governor of California serving in a non-voting capacity. A Chief Executive Officer manages OCTA and acts in accordance with the directions, goals and policies approved by the Board.

OCTA provides 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 (OCTD), the Consolidated Transportation Services Agency, the Orange County Local Transportation Authority (OCLTA), the Orange County Service Authority for Freeway Emergencies (SAFE), the Orange County Congestion Management Agency, the Orange County Service Authority for Abandoned Vehicles (SAAV), 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 the 91 Express Lanes, a toll facility on a ten-mile segment of the Riverside Freeway (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: bus operations, commuter rail, Measure M, bus rapid transit, 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 Commuter Services; Construction & Engineering; Labor Relations & Civil Rights; External Affairs Divisions as well as the Chief Executive Officer'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 OCTD,

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 six years, \$38 million from this source will be diverted annually to the County; however, over the next eight years, OCTA will be receiving \$23 million in gas tax revenue annually from the State of California 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's 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.

During the last year, Orange County has experienced employment growth that averaged approximately 1.8 percent. Recent forecasts for calendar year 2005 estimate growth of 1.4 percent. Six major industries account for approximately 84 percent of all jobs in the County: 43.5 percent services, 10.8 percent retail trade, 9.8 percent state and local government, 8.7 percent financial activities, 5.8 percent wholesale trade, and 5 percent durable goods. The remaining 16 percent consists of non-durable goods, construction, high technology, transportation and public utilities, and mineral extraction. Estimated employment within Orange County is 1.47 million workers for the calendar year 2005.

Economic projections on a national level indicate continued low unemployment and inflation rates. At the local level, the Orange County economy is projected to remain relatively stable over the next five years.

Orange County's residents' personal income has grown from \$106 billion in 2000 to an estimated \$130.7 billion in calendar year 2005, with the value of building permits decreasing from \$3.97 billion to \$3.2 billion over the same period. However, traditional indicators point to a relatively stable regional economy over the next five years.

Summary of OCTA Activities and Services

2005 Outstanding Public Transportation System Achievement Award—The American Public Transportation Association (APTA) recently presented its 2005 Outstanding Public Transportation System Achievement Award to OCTA. The award honors an APTA public transportation system member demonstrating achievement in efficiency and effectiveness based on verifiable data concerning bus and paratransit performance for a consecutive three-year period and specific achievements in safety, operations, customer service,

financial management, marketing and community relations. OCTA was chosen over transportation systems in New York City, Chicago, San Francisco, and Portland to receive this prestigious award.

Bus Transit—The County’s population amounts to more than three million. This rapid growth places renewed importance on improving the County’s public transit system and the mobility it provides residents. By the end of fiscal year 2005, more than 67 million passengers boarded OCTA buses, the highest ridership in the history of the agency. APTA ranked OCTA as the public transportation system with the 12th highest ridership in the United States (U.S.) during the first half of fiscal year 2005. This growing ridership reflects the continuing success of OCTA’s “Putting Customers First” program. Since much of OCTA’s ridership is transit dependent, the continuous improvement of local bus service plays a vital role in the County’s economy.

During fiscal year 2005, OCTA expanded frequency and service with 35,000 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. Starting in January 2005, OCTA instituted a fare increase, the first increase since 1991. While most transit system fare increases result in reduced ridership, OCTA only experienced a less than one percent decrease, which had nominal impact on overall ridership during the fiscal year.

OCTA aggressively marketed its local bus service to youths and senior citizens, two very important discretionary ridership audiences. To capture the growing youth segment, OCTA developed the Youth Summer Saver Bus Pass. With the theme, “Be There. Do That,” the program encourages youths age 18 and younger to use public transportation to get around during the summer months. The Youth Summer Saver Bus Pass also acted as a discount card good at over 80 popular County destinations.

In September 2004, OCTA inaugurated the “youthNmotion” program, a partnership effort with local schools and youth organizations to encourage youth bus ridership. Lively interactive presentations by OCTA outreach representatives at schools and youth clubs demonstrated how easy it is to ride the bus. More than 11,000 youths age 11 to 16 participated in the program.

OCTA began a new outreach program for senior citizens entitled, “Be There.” Through an easy-to-follow brochure and hands-on presentations with a fun trial bus ride at senior centers, OCTA outreach staff demonstrated how easy and economical it is for seniors to get wherever they want to go by bus.

OCTA continued offering its Employer Pass (E-Pass) program. E-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. E-Pass provides employees with a convenient annual swipe card to make boarding the bus easy. During fiscal year 2005, the E-Pass program generated a total of 464,223 boardings.

The University Pass (U-Pass) allows universities to provide growing student enrollments with convenient transportation and ease on-campus parking constraints. With the U-Pass, students, faculty, and staff swipe their validated campus IDs and get unlimited access to OCTA buses while the school is charged 75 cents per boarding up to a maximum of \$30 per month. California State University, Fullerton and the University of California, Irvine—two of the largest campuses in the County—have U-Pass programs in effect. The U-Pass program generated 454,484 boardings during fiscal year 2005.

OCTA initiated a new College Pass program exclusively for college students, faculty and staff. The program offers two special discounted passes: the Quarter Pass, good for 75 days and the Semester Pass, good for 120 days. With rising gasoline prices and a shortage of parking facilities at many campuses, College Pass affords economical and dependable transportation for students.

The transit infrastructure expanded with the opening in May 2005 of OCTA's fourth bus facility, the Santa Ana Maintenance and Operations Center. This state-of-the-art operations and maintenance facility can accommodate 274 large buses and provides convenient access to many of OCTA's most heavily used bus routes. It currently houses 236 large buses, 35 of which are articulated buses.

91 Express Lanes— During fiscal year 2005, drivers took 12,741,319 trips on the 91 Express Lanes toll road. This amounted to more than 1.5 million additional trips on the toll road over the previous year. Yet those same commuters also were able to get where they wanted to go faster and easier. How could there be fewer bottlenecks and traffic jams when more drivers than ever before used the toll lanes?

OCTA achieved these positive results by implementing an innovative congestion management policy. The new policy encourages commuters to carpool to reduce the number of vehicles in the lanes, and also motivates them to commute when there is less traffic. OCTA's "Three Ride Free" program allows carpools of three or more to use the High Occupancy Vehicle three plus (HOV3+) lane on the 91 Express Lanes for free during most hours and at a 50 percent discount during high demand times. During fiscal year 2005, HOV3+ trips reached 2,528,053, a 15.2 percent increase over fiscal year 2004.

OCTA also eased the rush-hour crunch by offering lower tolls to entice motorists to drive during lighter traffic periods. For example, in summer 2004,

eastbound rush-hour traffic increased only 3 to 4 percent, while travel during non-peak hours swelled to 14 percent. As a result, traffic has spread out and speeded up even as the amount of overall traffic jumped more than 12 percent during the past year. For 91 Express Lanes customers, the speedy commute gave them a priceless gift of time. According to a 2004 Customer Satisfaction Survey, users reported saving about 36 minutes per trip in the afternoon by using the toll road. That is time they can spend working out at the gym, throwing the ball with the kids or enjoying a nice family dinner.

OCTA's policy of maximizing the number of vehicles that can travel in the 91 Express Lanes continues to demonstrate positive results. Traffic increased in all categories during fiscal year 2005. As mentioned above, full toll trips increased by 13.2 percent and carpools of three or more rose 15.2 percent over the previous year. As of June, 2005, 172,220 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 County voters in 1990. Since the creation of OCTA, the Board 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): The \$135.8 million project designed to improve traffic flow and safety at the I-405/SR-55 interchange near Costa Mesa, one of the 10 busiest freeway interchanges in the nation, is scheduled for completion by the end of September 2005. Access to shopping, business and entertainment clustered in the South Coast Metro area of Costa Mesa has been improved. The new "braided" configuration 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, the addition of an on-ramp to northbound I-405 from Anton Boulevard, was completed and opened on July 5, 2005.

In addition, the following milestones were accomplished:

- The northbound I-405 to northbound SR-55 direction of the carpool bridge (Minimum Operating Segment (MOS) -1 Project) opened to traffic on December 30, 2004. The southbound SR-55 to Southbound I-405 direction of the bridge opened to traffic on January 28, 2005

- The carpool connector bridge between southbound SR-55 and northbound I-405 and the reverse movement (MOS-3 Project) is complete and was opened to traffic on May 5, 2005
- Improvements provided by the I-405/Corona Del Mar Freeway (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. The I-405 portion was completed in July 2004. The entire project was declared complete in July 2004 with the exception of punchlist and change order work

Santa Ana Freeway (I-5): Although the majority of improvements to the 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 the SR-91 to the Orange/Los Angeles County line. OCTA has been working with California Department of Transportation (Caltrans) and the City of Buena Park to move this project forward. Right-of-way acquisition and utility relocations are in progress. The design phase is nearly complete. Through Measure M, OCTA is able to fund almost two-thirds of the projected \$251 million cost. The project will provide commuters on the I-5 with an additional carpool and travel lanes in each direction, as well as auxiliary lanes in each direction to make entering and exiting the freeway safer and easier. Completion is scheduled for late 2009.

Garden Grove Freeway (SR-22): The \$495 million SR-22 improvement project is underway. The project covers approximately 12 miles through the cities of Westminster, Garden Grove, Santa Ana and Orange, and will add carpool lanes, auxiliary lanes and several interchange improvements along the freeway. An elevated connector designed to eliminate weaving will also be added, separating the southbound Orange Freeway (SR-57) connector and The City Drive ramps on the westbound SR-22. OCTA is using the design-build method to improve the SR-22, with a single contract firm for final engineering and construction. By using the design-build process—a first for OCTA and a first in the State of California on an active freeway—the project can be completed more efficiently and save years in the process. The project, scheduled to take 800 days, is currently approaching the halfway mark.

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 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 Corona Expressway (SR-71)
- SR-91 eastbound/westbound from Eastern Toll Road (SR-241) to Imperial Highway

The improvements under study on the eastbound SR-91 between SR-241 and SR-71 will complement two westbound projects that were completed in spring 2004. This project is now in the Project Report/Environmental Document phase. 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 4th Street to Newport Avenue and the SR-55 from 4th 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. The Draft Project Study Report for this project has been submitted to Caltrans for review, with final approval expected by fall 2005. Beyond these efforts, OCTA and Caltrans are continuing to develop 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
- SR-57 northbound from Orangethorpe Avenue to Lambert Road
- SR-57 northbound from Katella Avenue to Lincoln Avenue
- 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. The project on I-405 to add auxiliary lanes between Magnolia Avenue and Beach Boulevard has advanced to the final design phase.

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: After eight months of study and comments from more than a thousand community members, the OCTA Board voted 12-4 to further study options for improving mobility in central Orange County. The next phase of the Central County Corridor Major Investment Study involves a detailed analysis of engineering issues and costs associated with five conceptual alternatives including arterial street improvements, extension of the SR-57 from the SR-22 to the I-405 along the Santa Ana River riverbed, widening the SR-55, and transit improvements in central Orange County. The new study will get underway during 2006 and take 12 to 18 months to complete. It will ultimately provide a recommendation for a comprehensive strategy to improve travel in central Orange County. During the study, the public, community leaders and local officials will have several opportunities to provide comments and input to the study.

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 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. In October 2005, after carefully considering input from the public and the project's elected officials group, the OCTA Board of Directors will choose an alternative for further study. A policy decision on a preferred strategy is expected by the end of 2005.

Riverside County to Orange County Corridor Study: The OCTA and the Riverside County Transportation Commission, in partnership with the Foothill/Eastern Transportation Corridor Agency, are currently working towards developing solutions to improve mobility between Orange and Riverside counties. The first phase of the Riverside County - Orange County Major Investment Study (MIS) began in Summer 2004 and consisted of working with the public to identify the key concerns and issues related to improving mobility between the two counties. Based on the feedback received, a Purpose and Need Statement was created that provided a starting point for developing conceptual alternatives to relieve congestion.

Five conceptual improvement corridors and 12 conceptual alternatives plus a no-build alternative were then developed and presented to the public at several community meetings and open houses conducted in Spring 2005. Community members were given many opportunities to review the corridors and alternatives and provide valuable feedback to the Study team. At the conclusion of the planning process, the MIS Policy Committee evaluated the five corridors and 12 alternatives, and selected three major-build alternatives and a no-build alternative for further evaluation. A policy decision on a preferred strategy is expected by December 2005.

Streets and Roads—Local streets and roads provide daily transportation for Orange County’s more than 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 2005, OCTA allocated approximately \$55 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 \$712 million in Measure M revenues.

Paratransit—OCTA operates curb-to-curb paratransit van service for persons with disabilities. This service, known as ACCESS, is mandated by the Americans with Disabilities Act (ADA) 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. ACCESS provided 1,141,740 unlinked trips during fiscal year 2005, an increase of 10.9 percent from the previous fiscal year.

In an effort to manage future growth and still provide quality service that meets ADA requirements, OCTA implemented several Paratransit Growth Management strategies to manage paratransit ridership growth. The strategies included: increasing the efficiency of OCTA’s ADA paratransit service; educating the disabled community on the value of OCTA’s 100 percent accessible fixed-route service; creating a more balanced fare structure consistent with ADA requirements; and increasing overall fixed-route services for our customers with special needs.

With these strategies, OCTA developed and implemented several effective programs. The Senior Mobility Program, which supplies operating funds and retired vehicles to local cities' senior programs, provided more than 16,500 trips per month to elderly persons. OCTA partnered with the Orange County Office on Aging, cities and senior centers throughout the County to provide special service such as nutrition transportation via contracted taxi providers. OCTA partners with special agencies to transport developmentally disabled adults to and from vocational programs, and also with local senior service agencies to furnish an operating subsidy to transport disabled adults to day care centers. OCTA introduced Reduced Fare IDs that allow paratransit customers to use the 100 percent accessible fixed-route service for only \$.25. OCTA also initiated the Late Night ACCESS Program by contracting with taxi companies to provide transportation for paratransit customers requiring service between 10 p.m. and 4 a.m.

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:

- Orange County Line 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
- Inland Empire/Orange County (IEOC) Line serving stations in San Bernardino, Riverside Downtown, Riverside-La Sierra, North Main Corona, Anaheim Canyon, Orange, Santa Ana, Tustin, Irvine, Laguna Niguel/Mission Viejo and San Juan Capistrano
- 91 Line serving stations in Riverside Downtown, Riverside-La Sierra, North Main Corona, Anaheim Canyon, Fullerton, Norwalk/Santa Fe Springs, Commerce and Downtown Los Angeles

During fiscal year 2005, total commuter rail ridership for the three lines serving Orange County (including the Metrolink riders on Amtrak) exceeded three million passengers. OCTA and partner cities are in the process of expanding the system with a new Metrolink station in Buena Park slated for completion in 2006.

Light Rail—Even though The CenterLine, the 9.3-mile light rail starter system planned to service central Orange County, entered the final design phase during fiscal year 2005, in the absence of federal funding allocation, OCTA cannot complete the project by 2010, thus triggering the need to substitute its

Transportation Control Measure with projects that can provide equivalent emission reductions in the same timeframe. On October 14, 2005, The OCTA Board directed staff to cease all efforts towards the project and redirect resources to other rapid transit projects.

Advanced Rail Transit—As directed by the Board, OCTA staff began studying a variety of alternatives to The CenterLine, some of which will be recommended to the Board, including:

- Launching a new bus rapid transit (BRT) system in a dedicated lane on all or part of the existing CenterLine route starting at Bristol Street in Santa Ana and extending as far as John Wayne Airport
- Accelerating planned expansion of Metrolink commuter rail service to provide service every 30 minutes, seven days a week
- Widening Bristol Street in Santa Ana between Civic Center Drive and Warner Avenue, reserving the center median for future transit use
- Implementing a new street-running BRT system that would use existing traffic lanes with buses operating on a comprehensive network and serving key destinations in Orange and Los Angeles counties, including several Metrolink stations
- Exploring other rapid transit options, including a light rail system on the former Pacific Electric right of way in west Orange County, a people mover in Irvine and/or a magnetic-levitation (Maglev) train between Anaheim and Las Vegas
- Reallocating Measure M funds to approved freeway and/or local street projects, which would require voter approval

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 1,226 call boxes throughout Orange County. In fiscal year 2005, 18,540 calls (an average of 1,545 calls per month) were received 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. During fiscal year 2005, the FSP program assisted an estimated 68,160 stranded motorists (an average of 5,680 assists per month) on Orange County freeways and public toll roads utilizing 35 tow trucks during peak hours and five tow trucks during midday 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 local Orange County streets and roads. 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 2005, the SAAV program funded the removal of 13,413 abandoned vehicles from Orange County streets.

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 Orange County's 34 cities as well as the County. 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. By the end of fiscal year 2005, OCTAP was responsible for the permitting of 17 taxi companies, 671 taxicabs and 974 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 and quarterly reports for the Board. 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, 2005, OCTA's outstanding debt consisting of bonds, commercial paper notes, and certificates of participation was \$658 million, net of unamortized amounts. The current portion of this debt totals \$110 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. These bonds final maturity is scheduled for December 2030. 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 and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the OCTA for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the 23rd 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 U.S. and applicable legal requirements.

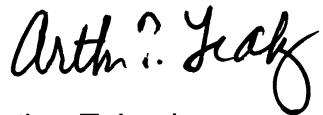
A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The California Society of Municipal Finance Officers (CSMFO) awarded a Certificate of Award for Outstanding Financial Reporting to the OCTA for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the fourth straight year OCTA has received the award. 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.

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 for its support for efforts to excel in the operational and financial management of OCTA.

Respectfully submitted,

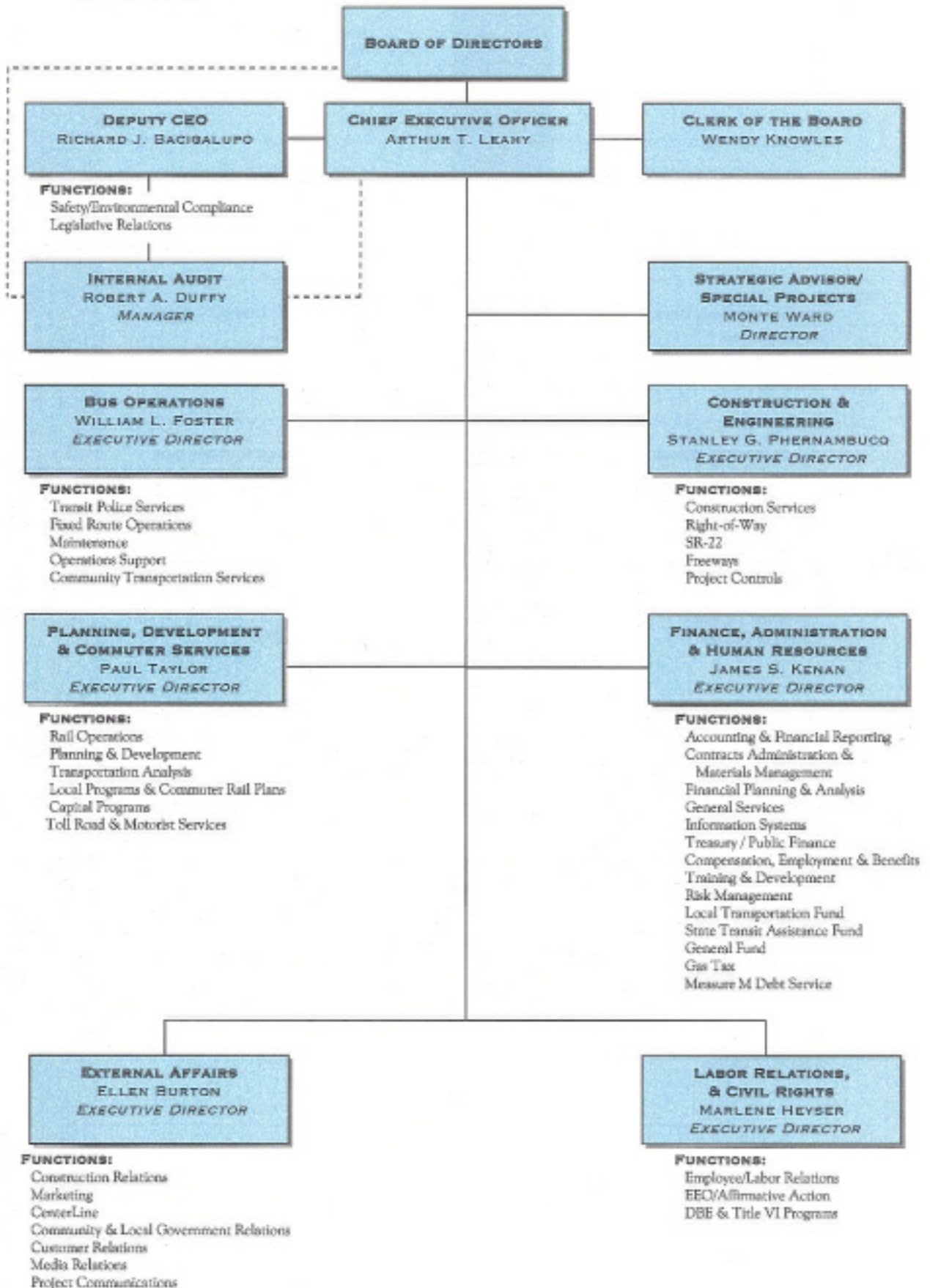


Arthur T. Leahy
Chief Executive Officer


James S. Kenan

Executive Director of Finance, Administration and Human Resources

(AS OF JUNE 30, 2008)



<p>BILL CAMPBELL CHAIRMAN Supervisor, District 3 County of Orange</p>		<p>ARTHUR C. BROWN, VICE-CHAIRMAN Mayor Pro Tem City of Buena Park</p>	
<p>CAROLYN CAVECCHIE, DIRECTOR Mayor Pro Tem City of Orange</p>		<p>LOU CORREA, DIRECTOR Supervisor, District 1 County of Orange</p>	
<p>RICHARD DIXON, DIRECTOR Mayor Pro Tem City of Lake Forest</p>		<p>MICHAEL D. DUVAL, DIRECTOR Mayor Pro Tem City of Yorba Linda</p>	
<p>GATHY GREEN, DIRECTOR Councilmember City of Huntington Beach</p>		<p>GARY MONAHAN, DIRECTOR Mayor Pro Tem City of Costa Mesa</p>	
<p>CHRIS NORBY, DIRECTOR Supervisor, District 4 County of Orange</p>		<p>CURT PRINGLE, DIRECTOR Mayor City of Anaheim</p>	
<p>MIGUEL PULIDO, DIRECTOR Mayor City of Santa Ana</p>		<p>SUSAN RITSCHKE, DIRECTOR Councilmember City of San Clemente</p>	
<p>MARK ROSEN, DIRECTOR Mayor Pro Tem City of Garden Grove</p>		<p>JAMES W. SILVA, DIRECTOR Supervisor, District 2 County of Orange</p>	
<p>THOMAS W. WILSON, DIRECTOR Supervisor, District 5 County of Orange</p>		<p>GREGORY T. WINTERBOTTOM, DIRECTOR Public Member</p>	
<p>VACANT, DIRECTOR Public Member</p>		<p>CINDY QUON, GOVERNOR'S EX-OFFICIO MEMBER Director, Caltrans District 12</p>	

2005 | MANAGEMENT STAFF

(AS OF JUNE 30, 2005)

ARTHUR T. LEAHY	Chief Executive Officer
RICHARD J. BACIGALUPO	Deputy Chief Executive Officer
WENDY KNOWLES	Clerk of the Board
MONTE WARD	Strategic Advisor / Special Projects Manager
ROBERT A. DUFFY	Manager, Internal Audit
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ELLEN BURTON	Executive Director, External Affairs
WILLIAM L. FOSTER	Executive Director, Bus Operations
MARLENE HEYSER	Executive Director, Labor Relations, & Civil Rights
JAMES S. KENAN	Executive Director, Finance, Administration & Human Resources
STANLEY G. PHERNAMBUQC	Executive Director, Construction & Engineering
PAUL TAYLOR	Executive Director, Planning, Development & Commuter Services
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KENNETH G. PHIPPS	Division Director, Finance, Administration & Human Resources
VIRGINIA ABADESSA	Manager, Contracts Administration and Materials Management
AL GORSKI	Acting Manager, Compensation, Employment & Benefits
TOM WULF	Manager, Accounting and Financial Reporting
KIRK AVILA	Manager, Treasury and Public Finance / Treasurer
KENNETH G. PHIPPS	Acting Manager, Financial Planning and Analysis
AL GORSKI	Manager, Risk Management
WILLIAM MAO	Chief Information Officer
RICH SMITH	Manager, General Services
JULIE ESPY	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, 2004

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.



Nancy L. Zjelle

President

Jeffrey R. Emer

Executive Director

*California Society of
Municipal Finance Officers*

Certificate of Award

Outstanding Financial Reporting 2003-2004

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.*

February 24, 2005

Sandra A. Schmidt

Sandra Schmidt, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



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