



Environmental Mitigation Program Endowment Recommendations to Fund Preserved Lands

Objective

- The OCTA Environmental Mitigation Program allocates at least five percent of the M2 freeway program budget for comprehensive environmental mitigation to off-set impacts from the freeway improvements.
 - This will help to expedite the biological resources permitting processes to facilitate with the timely implementation of the freeway projects.

OCTA – Orange County Transportation Authority

M2 – Measure M2



Purpose

- Demonstrate to Resource Agencies that OCTA has the financial capacity to assure the mitigation Preserves can be properly managed in perpetuity.
 - Estimated annual cost \$784K (2014 dollars)

Preserves - Environmental Mitigation Program acquired lands

Resource Agencies - United States Fish and Wildlife Service, and California Department of Fish and Wildlife



EOC Assumptions

- Endowment Management:
 - Public or private, non-profit other than OCTA.
 - Keep option for OCTA in Conservation Plan.
 - Develop investment parameters, reporting, and accountability in open process prior to determining endowment manager.
- Management Costs:
 - Use current Preserve management and monitoring costs as baseline.
 - Review and refine costs every two years in an open public process.
- Financial Assumptions:
 - Effective spending rate of 2.5% (interest rate of 5.75% minus inflation of 2.5% and management cost of 0.75%).
 - 12-year even deposit schedule anticipated to begin in 2016.



Endowment Deposit Scenarios

| Interest Assumption and Type of Deposit Schedule | Beginning and Ending Years of Deposit | First Year Annual Costs Are Paid From Endowment | Total Deposits to Endowment (Excludes Interest) | Annual Management, Etc. Costs Paid Before Hand-Over | Total Deposits Plus Annual Costs Paid Before Hand-Over | Lowest Balance of Freeway Mitigation Program |
|---|---------------------------------------|---|---|---|--|--|
| 1.5% Effective Spending Rate (4.5% Nominal Interest, 2.5% Inflation, 0.5% Fund Management) | | | | | | |
| 1A Front-Loaded | 2016-2030 (15 Years) | 2031 | \$61.8 M | \$15.7 M | \$77.5 M | \$3.5 M (2016-2029) |
| 1B Even Series | 2016-2035 (20 Years) | 2036 | \$61.7 M | \$22.0 M | \$83.7 M | \$7.3 M (2022) |
| 1C Even Series | 2016-2040 (25 Years) | 2041 | \$62.4 M | \$28.9 M | \$91.3 M | \$11.5 M (2020) |
| 2.5% Effective Spending Rate (5.75% Nominal Interest, 2.5% Inflation, 0.75% Fund Management) | | | | | | |
| 2A Front-Loaded | 2016-2025 (10 Years) | 2026 | \$33.5 M | \$9.9 M | \$43.4 M | \$3.5 M (2016-2024) |
| 2B Even Series | 2016-2027 (12 Years) | 2028 | \$34.5 M | \$12.1 M | \$46.6 M | \$8.9 M (2022) |
| 2C Even Series | 2016-2030 (15 Years) | 2031 | \$34.1 M | \$15.7 M | \$49.8 M | \$12.7 M (2019-2020) |
| 2D Even Series | 2016-2035 (20 Years) | 2036 | \$33.4 M | \$22.0 M | \$55.4 M | \$15.1 M (2017-2018) |
| 2E Even Series | 2016-2040 (25 Years) | 2041 | \$33.0 M | \$28.9 M | \$61.9 M | \$15.8 M (2016-2017) |



Review of September 24, 2014 – F&A Discussion/Input

- General agreement with:
 - The recommended basis for cost assumptions for the mitigation program.
 - The endowment concept for meeting the long- term management responsibilities of the mitigation program.
 - The financial assumptions regarding earnings, inflation, and management costs for an endowment.
 - Mitigation land management and management of the associated endowment(s) not being part of OCTA's core business and should be transferred to appropriate and qualified third parties.



Review of September 24, 2014 – F&A Discussion/Input (continued)

- Questions about the options and pros/cons for endowment managers and various investment policies and strategies.
- Clarifications on:
 - The legal vesting timing of the endowment.
 - The legislative history guiding endowment requirements and the stability of these requirements.
 - OCTA's protection from risks regarding unexpected expenditures or poor earnings if mitigation lands and associated endowments are transferred to third parties.

Review of September 24, 2014 – F&A Discussion/Input (continued)

- Chairman Spitzer made a motion to direct staff to work with other entities with mitigation lands to develop and recommend comprehensive land management strategies.

Recommendations

- For purposes of demonstrating commitment to management of the OCTA NCCP/HCP or Conservation Plan Preserves, approve multi-year deposits, totaling approximately \$34.5 million, to a non-wasting endowment in accordance with the July 2, 2014, EOC recommendations on endowment funding.
- Direct staff to develop the appropriate investment parameters and reporting and accounting standards through a public process involving the EOC, the F&A, and the Board.
- Direct staff to work with other entities with mitigation lands to identify logical land managers to develop potential land management strategies.

NCCP/HCP or Conservation Plan Preserves - Natural Community Conservation Plan/Habitat Conservation Plan Board - Board of Directors

