OCTA

AFFILIATED AGENCIES

Orange County Transit District

Local Transportation Authority

Service Authority for Freeway Emergencies

Consolidated Transportation Service Agency

Congestion Management Agency

Service Authority for Abandoned Vehicles

May 25, 2016

Gentlemen/Ladies:

SUBJECT: REQUEST FOR PROPOSALS (RFP) 6-1091
"ENVIRONMENTAL MITIGATION PROGRAM ENDOWMENT FUND MANAGER"

This letter shall serve as Addendum No. 2 to the above RFP issued by the Orange County Transportation Authority (Authority). Offerors are reminded that the proposal submittal date is at or before **2:00 p.m., June 13, 2016.**

In Exhibit A of the RFP, the staff report included as Attachment 1, provided information to the offerors regarding the recommendations adopted by Authority's Board of Directors on October 13, 2014, to fund the preserved lands. The staff report shows an Attachment A, which was inadvertently missing in the RFP package. This Attachment A is included in this addendum.

Offerors are advised that the Authority did not receive any questions regarding any aspects of the RFP by the stated deadline of May 24, 2016.

Offerors are reminded to acknowledge receipt of this Addendum No. 2 in their transmittal letters and in Exhibit B entitled "Price Summary Sheet." All changes addressed in this Addendum No. 2 shall be incorporated into the final Agreement.

Questions regarding this **Addendum No. 2** should be directed to the undersigned at (714) 560-5623.

Sincerely,

Virginia Abadessa

Virginia Abadessa
Director
Contracts Administration and Materials Management

ORANGE COUNTY TRANSPORTATION AUTHORITY

Environmental Mitigation Program Endowment Recommendations to Fund Preserved Lands

Attachment A

Policy Discussion/Recommendations:

1) Who holds the endowment(s)?

There are four key elements with respect to a preserve property – ownership, management, conservation restrictions, and endowment. Different entities can be involved in any and/or all of these elements depending upon the particular circumstances and legal requirements. To determine who should hold an endowment, the legal and practical relationship of these four elements must be considered.

Various combinations of preserve management, fee ownership, and endowment management responsibilities are possible. However, preserve management and fee ownership are often linked, and it is sometimes required that the endowment be held by the preserve manager. Conservation restrictions, usually in the form of a conservation easement, are generally required to be held by an entity separate from the owner and/or manager.

Preserve endowments may be held and managed by the Orange County Transportation Authority (OCTA) or another qualified public or private non-profit entity. OCTA's principal agency mission is not ownership or management of conservation resources. A process for fully evaluating the willingness, capacity, relative costs, and suitability of potential land managers will be recommended and undertaken in concert with the final approval of the Natural Community Conservation Plan/Habitat Conservation Plan (NCCP/HCP). Therefore, it is reasonable to assume that the long-term property title of the OCTA NCCP/HCP preserves and management of these properties will be transferred to another entity or entities for which biological resources conservation is their primary mission. In this regard, it is also reasonable to assume that the endowment(s) for supporting long-term management would be held by an entity approved to hold endowments, not OCTA.

As part of the NCCP/HCP and the accompanying Implementing Agreement (IA) approval process, OCTA needs to demonstrate it has the financial capability to establish the necessary endowment(s) for long-term management. Subsequent to the approval of the NCCP/HCP and IA, OCTA will have the financial obligation to establish the necessary endowment(s) for long-term management. At that time, the resources agencies will have accepted the terms and conditions of the endowment, thereby relieving OCTA of any additional endowment obligations. Once the endowment is created, OCTA has only limited financial risk on the performance of the endowment or liability as defined in the endowment agreement(s), unless the agency is an endowment holder.

Nevertheless, it is prudent to plan for contingencies, and there may be circumstances, as yet unforeseen, in which OCTA would need to hold and manage an endowment. It is possible to preserve that option by including it within the OCTA IA. The resources agencies approve the IA that accompanies the NCCP/HCP. It would seem reasonable to do so in this case.

Finally, it will be necessary, prior to a decision, to confer responsibility for management of an endowment to establish appropriate investment policy parameters. These parameters will vary to some degree depending upon whether a public or non-profit entity is the endowment manager and should be negotiated as appropriate to the particular situation and entity to ensure security, stability, and the necessary reporting and accountability.

Recommendations:

- Assume that OCTA NCCP/HCP preserve properties will be owned and managed, along with an accompanying endowment, by a qualified public or private non-profit entity or entities other than OCTA.
- Maintain the option for OCTA to hold endowments within the NCCP/HCP.
- Prior to determining an endowment manager (or managers), establish the appropriate investment parameters and reporting and accountability standards through a public process involving the Environmental Oversight Committee (EOC) and the Board of Directors (Board).

2) What assumptions should be used to determine long-term preserve management costs?

OCTA has accumulated experience with the costs and responsibilities associated with preserve management as part of the interim management of properties purchased to meet the mitigation and conservation goals of the NCCP/HCP. These costs range between $169 and $956 per acre per year. Information from the draft NCCP/HCP and early drafts of Resource Management Plans for these properties provide a basis for estimating the total average annual cost for management, monitoring, and oversight at $784,181.

Comparison with other preserve management costs in Orange County and throughout the state indicates widely varying costs from $49 to more than $20,000 per acre. The principal finding is that there is no standardized or benchmark cost across jurisdictions for preserve management; many variables come into play and no two preserves are alike.

However, some general rules of thumb can be discerned:

1. There are economies of scale. Smaller properties are more costly on a per acre basis than large tracts.

2. Adjacent land uses and land owners can have significant impacts on costs, either positive or negative, depending upon the nature of the ownership and use.
3. Public access imposes added costs related to outreach, supervision, patrolling, monitoring, and enforcement.
4. Cost for monitoring and adaptive management activities under the NCCP/HCP can vary significantly depending upon the frequency and complexity of required actions.
5. Over the long term, management costs on a per acre basis appear to decline as preserve conditions stabilize and management activities are refined.

It will take ten years or longer to accumulate sufficient funding for an endowment for the OCTA NCCP/HCP. During that time, Resource Management Plans for all preserve properties will be completed, detailed Property Analysis Record type reviews will be undertaken, and agreements for long-term management will be developed. These processes, along with continued experience with preserve management, will serve to refine the estimate of costs. As a result, the specific amount needed for the endowment(s) can be adjusted either by periodically adjusting the amounts deposited or the duration of the deposit schedule.

It seems reasonable to use the current estimated costs for preserve management as a benchmark for the OCTA NCCP/HCP and to provide for periodic refinement of these estimates as more detailed information and management experience accumulates. This refinement of costs and any recommended changes should be undertaken in a public setting involving the EOC and the OCTA Board.

Recommendations:

- Use the current estimated annual OCTA preserve management and monitoring costs as a factor in calculating the necessary endowment.

- During the period of establishing the endowment, publicly review and refine, every two years, the estimated preserve management costs and recommend adjustments to the endowment calculation and deposits accordingly.

3) What financial assumptions should be used to establish the amount of the endowment(s)?

The estimate of the amount needed for the endowment is a function of the preserve management costs as well as assumptions about investment policies, interest earnings, and inflation.

OCTA has long-term experience with a treasury function, managing funds for its capital improvement programs. The investment policies for this purpose are built around low risk and liquidity, since the funds are generally held short-term in preparation for transportation improvement projects. OCTA staff and Board Members are familiar with fund management and oversight in this context.

The endowment(s) needed for the OCTA NCCP/HCP must serve a different function by providing for annual preserve monitoring and management costs "in perpetuity." Funds will need to be sufficient to support these activities solely from interest earnings going forward, without reducing the principal (non-wasting endowment). Also, the endowment(s) must be built up from the M2 Environmental Mitigation Program (EMP) revenue stream (derived from at least five percent of the Freeway Program revenues) concurrent with funding current obligations and ongoing costs and activities.

There is a high degree of confidence that the necessary endowment(s) can be funded from the forecasted revenues. However, policy choices exist around the assumptions about four factors (interest rates, inflation rates, fund management costs, and deposit schedule) in order to determine how large an endowment needs to be and how long it will take to create it.

Using a model created by the OCTA NCCP/HCP financial consultant, with input from OCTA's revenue, inflation, and preserve management forecasts, different scenarios for establishing the endowment(s) were examined. Key variables include the effective spending rate (earnings on investments, net of inflation, and fund management costs) and the pace and duration of the deposit schedule to create the endowment(s).

Changes in these variables affect the total size of the endowment needed, the amount of management costs paid from revenues before the endowment is fully funded, and the annual balance available in the EMP.

In evaluating these factors, the Ad Hoc Working Group sought to use reasonably conservative assumptions about the effective spending rate while balancing the duration of the deposit schedule with the annual balance in the EMP.

The recommended target for the effective spending rate is 2.5 percent, which assumes a nominal interest earnings rate of 5.75 percent, with 2.5 percent inflation and an annual fund management cost of 0.75 percent over the long term. The recommended deposit schedule is for equal annual deposits over a period of 12 years, beginning in 2016 when the OCTA NCCP/HCP is assumed to be approved.

The 2.5 percent effective spending rate contrasts with OCTA's current rate of 1.5 percent and would require that the agency accommodate investment policies for the NCCP/HCP endowment(s) that vary from those it uses for its own short-term capital improvement fund investments. Placing this in terms of OCTA's current investment policies would mean, for example, utilizing longer term corporate and government-fixed income securities, rather than a one- to three-year, short-term portfolio. For a private, non-profit fund manager, investments could include some equities as well.

The 2.5 percent effective spending rate target is still very conservative. By way of comparison, other conservation endowments assume rates of between 3.5 percent and 4.5 percent. College and university endowments are also within a similar range.

With regard to the assumed fund management cost of 0.75 percent, this is considered a high estimate consistent with that of a private non-profit fund manager. Public fund management costs are likely to be closer to 0.50 percent, which is consistent with OCTA's current costs for its capital funds management.

With respect to the schedule for creating the endowment(s), the Ad Hoc Working Group recommends a target schedule of 12 years with equal annual deposits (Exhibit A). This allows for creation of the endowment concurrent with ongoing preserve management, while still maintaining sufficient balance in the EMP to allow for additional mitigation/conservation expenditures and provide for contingencies. It is acknowledged that the schedule may be shortened or lengthened if property management and/or fund management costs are lower or higher than anticipated.

These recommendations are for an endowment deposit, target rate, and deposit schedule for planning purposes, and to demonstrate OCTA's financial capacity to fund the necessary endowment(s) as part of the review and approval of the NCCP/HCP by 2016. Subsequently, OCTA will determine the disposition of preserves and which entity or entities will be vested with long-term management and preserve endowment responsibilities. At that time, the actual and specific terms of endowment management can be negotiated and approved. Variances from the recommended deposit amount and rate target can be reconciled through adjustments in the deposit rate and/or schedule for the endowment.

Recommendation:

- Use, as a target for endowment planning purposes, an effective spending rate of 2.5 percent and a 12-year even series deposit schedule beginning in 2016.

Summary of Recommendations:

A. Assume that OCTA NCCP/HCP preserves will be owned and managed, along with an accompanying endowment, by a qualified public or private non-profit entity or entities other than OCTA.

B. Maintain the option for OCTA to hold endowments within the NCCP/HCP.

C. Prior to determining an endowment manager (or managers) establish the appropriate investment parameters and reporting and accountability standards through a public process involving the EOC and the Board.

D. Use the current estimated annual OCTA preserve management and monitoring costs as a factor in calculating the necessary endowment.

E. During the period of establishing the endowment, publicly review and refine, every two years, the estimated preserve management costs and recommend adjustments to the endowment calculation and deposits accordingly.

F. Use, as a target for endowment planning purposes, an effective spending rate of 2.5 percent, and a 12-year even series deposit schedule beginning in 2016.

EXHIBIT A

OCTA M2 Environmental Mitigation Program
Deposits to Endowment Under Alternative Assumptions and Schedules

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 million (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)

OCTA

ORANGE COUNTY TRANSPORTATION AUTHORITY

Environmental Mitigation Program Endowment Recommendations to Fund Preserved Lands

Attachment B

ATTACHMENT B

Environmental Mitigation Program Current and Anticipated Expenditures

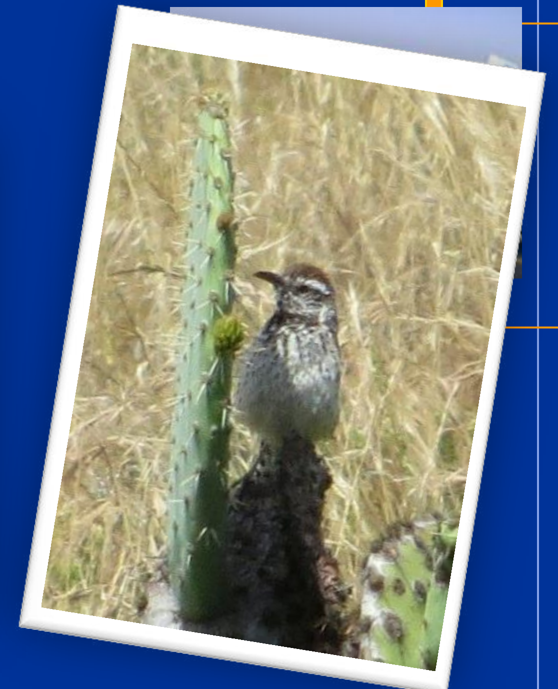
Actions		Estimated Amount
1.0 Preserve Acquisition and Management		
1.1 Acquisition		
1.1.1 Acquired		$27,418,907
1.1.2 Future Acquisitions		$4,864,574
	SUBTOTAL	$32,283,481
1.2 Start Up Expenditures		$2,903,600
1.3 Interim Preserve Management*		$10,818,211
1.4 Permanent, Non-Wasting Endowment		$34,500,000
2.0 Restoration Projects		
2.1 Round 1		$5,362,500
2.2 Round 2		$5,137,500
2.2.1 Future		$421,420
2.3 Round 3 Future		$5,000,000
2.4 Round 4 Future		$5,000,000
3.0 Plan Development		
3.1 NCCP/HCP Plan Development		$2,500,000
4.0 Debt Service		
4.1 Interests on Early Action Plan		$37,200,000
*Cost is escalated at a rate of 2.5% per year for 12 years. First year management cost is estimated to be $784,181. Annual management costs would be paid through existing revenue stream for the first 12 years, while the endowment is established. Costs beyond the 12-year period would be drawn from the interest earned from the endowment. **Preliminary estimates subject to change	TOTAL	$141,126,712**

NCCP/HCP - Natural Community Conservation Plan/Habitat Conservation Plan

ORANGE COUNTY TRANSPORTATION AUTHORITY

Environmental Mitigation Program Endowment Recommendations to Fund Preserved Lands

PowerPoint



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

OCTA

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
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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.

OCTA

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.

OCTA

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

OCTA