______SAN JOAQUIN HILLS BOARD OF DIRECTORS

__X__FOOTHILL/EASTERN BOARD OF DIRECTORS

**File No. 2017F-015**

**BOARD MEETING DATE:** **June 8, 2017**

**SUBJECT:** Foothill/Eastern Transportation Corridor Agency Fiscal Year 2018 Annual Budget

**STAFF RECOMMENDATION:**

Approve Resolution No. F2017-02 entitled "A Resolution of the Board of Directors of the Foothill/Eastern Transportation Corridor Agency Approving the Budget for Fiscal Year 2018" in the amount of $221,444,437.

**CONTRACTOR/CONSULTANT:** N/A

**BUDGET:**

**SJH:** N/A
**F/E:** 221,444,437

**REPORT WRITTEN BY:** Amy Potter, Chief Financial Officer
(949) 754-3498

**REVIEWED BY:**

Communications
Engineering
Environmental
Finance
Strategic Planning
Toll Operations

**SUBMITTED BY:**

Michael A. Kraman, Chief Executive Officer

San Joaquin Hills
Transportation
Corridor Agency

Chair:
Ross Chun
Aliso Viejo

**Transportation Corridor Agencies**™

Foothill/Eastern
Transportation
Corridor Agency

Chair:
Ed Sachs
Mission Viejo

June 8, 2017

Dear Chairman Sachs and Foothill/Eastern Transportation Corridor Agency Board of Directors:

I am pleased to present you with the Fiscal Year 2018 budget. The budget was developed through an extensive effort that involved review of current expenses and revenue trends, bond indenture requirements, customer service advancements and major developments in capital project plans that will advance the Foothill/Eastern Transportation Corridor Agency's mission to enhance mobility in Orange County and Southern California.

The Agency continues to be financially solid following the refinancing of the Agency's debt in 2013 and 2015 and continued year-over-year transaction and revenue growth that has outpaced budgeted projections. Transactions and toll revenue in Fiscal Year 2017 are projected to be up by approximately 5.0 percent and 7.4 percent respectively over Fiscal Year 2016.

The proposed Fiscal Year 2018 expenditures budget of $221.4 million is an 11 percent increase over the Fiscal Year 2017 budget primarily due to the advancement of the 241/91 Express Connector project through the design phase, construction the Oso Bridge Project and the start of the formal Environmental Impact Report and Environmental Impact Statement analysis for the South Orange County Mobility Improvement program.

The Fiscal Year 2018 budget assumes transactional toll revenue growth of 4.8 percent that is achieved by implementing a 2.0 percent toll increase for non-FasTrak® transactions at all locations (FasTrak tolls will be discounted by $1 at each toll point), and an expected 2.8 percent growth in traffic. Small annual toll increases are important to ensure that revenue growth continues to meet the Agency's goals. FasTrak and non-FasTrak rates increases range from $0.03 to $0.08 depending on toll point and time of day.

The following goals guided the development of the Fiscal Year 2018 budget:

(1) Support the Capital Improvement Plan (CIP)
(2) Provide enhancements to Customer Service
(3) Increase revenues to demonstrate the Agency's ability to meet future coverage and debt service requirements
(4) Build cash reserves to protect against economic downturns, allow for future pay-as-you-go CIP financing, and preserve the flexibility for early debt repayment
(5) Support the credit ratings upgrade strategy and meet investor expectations.

**125 Pacifica, Suite 100, Irvine, CA 92618-3304 • (949) 754-3400 Fax (949) 754-3467**
TheTollRoads.com

In Fiscal Year 2017 we made major strides on delivering improvements and expansions to TCA's toll road network by completing the public comment period for the 241/91 Express Connector environmental process, finalizing agreements with the County of Orange that will allow construction of the Oso Bridge Project to begin in Fiscal Year 2018, the award of a contract to outsource back office customer service with clear performance metrics requirements designed to improve the customer experience, the passage of legislation that will require temporary license plates for all new vehicles that should drastically reduce the number of violations that cannot be processed due to no license plate, and the negotiation of a breakthrough settlement agreement with seven environmental groups that allows planning to move forward in analyzing new ideas for South Orange County traffic relief.

I am proud that these accomplishments were recognized in May by the Southern California Association of Governments (SCAG) with its Outstanding Achievement in Sustainability Award and by the California Transportation Foundation as Agency of the Year and Person of the Year.

Together, these milestones support the Agency's mission to improve mobility in the Southern California region and will allow us to make even larger strides in Fiscal Year 2018. I look forward to working with all of you.

Sincerely,

Michael A. Kraman
Chief Executive Officer

Transportation Corridor Agencies

*COMMITTEE TRANSMITTAL*

DATE: June 8, 2017

TO: Members of Board of Directors

FROM: Amy Potter, Chief Financial Officer

SUBJECT: Foothill/Eastern Transportation Corridor Agency Fiscal Year 2018 Annual Budget

Joint Operations & Finance Committee Meeting - May 26, 2017

Present: Ed Sachs (Chair), Christina Shea (Vice-Chair), Lisa Bartlett, Peggy Huang, Joseph L. Muller, Charles Puckett, Scott Voigts

Absent: Tony Beall, Denis Bilodeau, Brian Maryott, Jose F. Moreno, Mark Murphy, Todd Spitzer, Sal Tinajero, Kathy Ward

***Committee Discussion***

The fiscal year 2018 annual budget was presented in detail at the Budget Workshop on April 19, 2017. At the Joint Operations & Finance Committee Meeting, Chief Financial Officer Amy Potter presented an overview of the fiscal year 2018 annual budget including the fiscal year 2018 initiatives, toll rate recommendation, sources and expenditures, debt service coverage ratios, unrestricted cash, reserves, and the following staff recommendation:

Approve Resolution No. F2017-02 entitled “A Resolution of the Board of Directors of the Foothill/Eastern Transportation Corridor Agency Approving the Budget for Fiscal Year 2018” in the amount of $221,444,437.

Recommendation: Staff is seeking Committee approval to present this item for consideration by the Board of Directors at the June 8, 2017 Board meeting.

At the request of the Chair, this item was moved to be presented for consideration by the Board at the June 8, 2017 meeting.

# 2018

# Fiscal Year Proposed Budget


Foothill/Eastern

**Transportation Corridor Agency**

# Foothill/Eastern
# Transportation Corridor Agency

## Budget Process and Format

## Fiscal Year 2018 Proposed Budget

# Table of Contents

## Budget Process

The Foothill/Eastern Transportation Corridor Agency's (F/ETCA) Board of Directors and the Master Indentures of Trust (Indentures), established in the context of the Agency's 2013 and 2015 bond issuances, provide the financial parameters for the Agency in the development of the budget. The Indentures provide the scheduled future debt service payments and the required debt service coverage ratios that must be obtained each fiscal year and establish financial constraints, which may impact the Agency's ability to undertake additional projects.

At the beginning of the process, the executive team set the objectives for FY18 while considering both near-term and long-term Agency goals and direction from the Board of Directors. Department managers reviewed the status of projects for the current year and developed project initiatives for the next fiscal year with the Agency's goals and objectives in mind:

(1) Support the Capital Improvement Plan (CIP)
(2) Provide enhancements to Customer Service
(3) Increase revenues to demonstrate the Agency's ability to meet future coverage and debt service requirements
(4) Build cash reserves to protect against economic downturns, allow for future pay-as-you-go CIP financing, and preserve the flexibility for early debt repayment
(5) Support the credit ratings upgrade strategy and meet investor expectations

The finance staff worked jointly with each department to compile budget expenditure requests. The project initiatives and budget requests were then reviewed by executive management. The Agency's traffic and revenue consultant attended the March Board meeting and presented an overview of the Agency's toll revenue history, toll rate elasticity, and how current economic trends may affect toll transactions. The proposed annual budget was presented to the F/ETCA Board of Directors at a workshop on April 19, 2017, to obtain direction and feedback. The workshop included a review of toll rates, revenues, and expenditures. Questions received during the workshop were then addressed, and the annual budget is now being presented to the Board of Directors for adoption at the June 8, 2017 Board meeting for the fiscal year starting July 1, 2017. Approval of the budget requires the consent of at least two-thirds of the Board Members. Expenditures during the year must be made in accordance with the Agency's policies. Expenditures in excess of the total of each budget category, as defined in the budget resolution, cannot be made without the approval of a budget resolution by at least two-thirds of the Board Members. The Agency is required to file copies of the annual budget with the trustee on or before the 20th day of July each fiscal year in accordance with the Indentures.

All budgets are developed on a basis consistent with Generally Accepted Accounting Principles. The Chief Executive Officer (CEO) has the authority to make budget transfers within each of the following six categories as long as the total budget amount per category is maintained and the expenditures are made within Board approved policies:

- Administration
- SR 241 (excluding related administration)
- Capital Improvement Plan
- Other Planning, Environmental and Construction
- Toll Operations

- Debt Service

Transfers within each category are subject to the controls in place under the Indentures, the contracts and procurement manual, the investment policy, the staffing and compensation plan, and enabling legislation. Transfers within a category are often made for accounting purposes and given the budget includes estimates, transfers within a category allow department managers to manage within their department thereby reducing the need in many cases to amend the budget if procured costs do not match the original estimates. Transfers within each budget category are reported to the Board of Directors on a quarterly basis.

Transfers between categories require the Board of Directors' approval.

These budget categories are presented on page 22 along with detail subcategories. Budget categories and subcategories are discussed in the Expenditures Summary section beginning on page 17. All budget appropriations lapse at year-end and any amounts not accrued at each year-end must be re-appropriated in the next fiscal year.

**Budget Format**

The FY18 proposed Expenditures budget for the F/ETCA totals $221.4 million. The Agency has one enterprise fund that records all activity on the accrual basis of accounting. The Agency establishes a budget for this one fund including Planning, Environmental and Construction, Toll Operating Expenses and Equipment (Toll Operations), and Debt Service. Expenses directly related to the F/ETCA are charged entirely to the Agency and those incurred on behalf of both the Agency and the San Joaquin Hills Transportation Corridor Agency (SJHTCA) are allocated between the F/ETCA and SJHTCA (the Agencies) based on the estimated benefit to each. As part of the annual budget process, allocations between the Agencies are reviewed.

Within each Agency, for funding purposes and calculation of debt coverage, costs are further allocated between Planning, Environmental and Construction, and Toll Operations, based on the estimated benefit to each activity. The following discussion presents a broad description of the type of activities included in the three budget fund categories. These three fund categories are represented as separate columns on page 22 to illustrate how each budget category and subcategory is allocated between the budget fund categories. A more detailed discussion of the expenditures proposed for FY18 is included in the Sources and Expenditures section of this document beginning on page 7.

<u>Planning, Environmental, and Construction Expenses (budget fund category)</u>

The proposed FY18 Planning, Environmental, and Construction budget is $83.5 million. The budget for Planning, Environmental and Construction includes capital improvement plan projects, ongoing environmental mitigation and other environmental services, such as demographic and regional transportation studies, and all non-operating administration costs. These expenses are recorded in the Agency's financial statements as an addition to construction in progress, when appropriate, until the roads are transferred to Caltrans, as required. It is at the point of transfer to Caltrans that the costs of the project are then expensed on the financial statements as a contribution to Caltrans. To date, 36 miles of the F/ETCA toll system have been transferred to Caltrans. The costs associated with such projects are budgeted in the year the disbursement is made, not when the project is transferred to Caltrans.

Planning, Environmental and Construction Administration costs are defined as office, personnel, legal, consulting, and other customary and normal expenditures associated with the direct management and administration of the Agency's planning, environmental and construction related activities, including the development impact fee program, and are allocated as discussed above.

The primary sources of funds for Planning, Environmental and Construction Expenses are unrestricted cash on hand from previous years' development impact fee collections and surplus revenues. Surplus revenues are toll, fee and penalty revenues in excess of amounts needed for operating expenses, debt service payments and funding the indenture required reserves in the year the revenue is collected. The debt service reserve fund requirements totaling $220.8 million have been fully met. Surplus revenues are not under bond Indenture requirements (see description of bonds in the Debt Service section on the following page) and may be spent at the Board of Directors' discretion for any lawful purpose. Each year, $5.0 million of development impact fees received by the Agency is available to fund expenditures or increase the unrestricted cash fund; the balance of development impact fees collected during the year are also made available for the same purpose if they are not needed to fund debt service payments. In addition, funding for these expenses is available from the restricted construction funds obtained during the bond refunding completed in February 2015. Other sources of funds for these activities include investment earnings and grant funds awarded to the Agency. See tables on page 33 for detail of unrestricted cash and the restricted construction funds.

Toll Operations (budget fund category)

The Toll Operations budget includes funding for the toll operations activities including operating administration costs. The proposed FY18 Toll Operations budget is $25.1 million.

The primary sources of funds available for Toll Operations are toll revenues, penalties, fees, and interest earnings from certain accounts specified within the Indentures. Unrestricted cash as described above is also available for funding operations equipment and capital purchases.

Amounts allocated to Toll Operations are costs associated with maintaining and operating the toll equipment, software, and systems as well as the customer service centers, toll collection processing, and all other related operating expenses. The major costs budgeted for Toll Operations' activities include the contract costs associated with the operation and maintenance of the Agency's toll systems lane hardware and software; and customer service and toll compliance services which include the operation of the customer service center and toll processing, review and processing of vehicle plate images, and violation collection processing services. Also included in Toll Operations are toll equipment purchases such as transponders, system software, in-lane toll and violation processing equipment, and project development costs. In addition, a portion of Agency administration costs allocated to operation activities such as insurance, salaries and benefits, consulting, legal, office expense and marketing are included in this fund category.

Debt Service (budget fund category)

Debt Service includes annual principal and semi-annual accrued interest payments related to long-term debt. A portion of the outstanding bonds are capital appreciation bonds and convertible capital appreciation bonds, which are structured so that the principal amount accretes (increases) each year at the stated interest rate. Accretion can be simply described as deferred interest that is added to the bonds' principal balance and is recorded as interest expense and an increase to debt on the financial statements. Debt accretion has been excluded from the budget because it is a non-cash item and is reflected in the budget as part of the principal payments in the years scheduled to be paid. The proposed FY18 budget for Debt Service is $112.8 million.

In 1995, the Agency issued long-term toll revenue bonds to finance construction of the Foothill/Eastern Transportation Corridors (State Routes 241, 261 and 133). The bonds were initially refinanced in 1999 and ultimately refinanced in 2013 (with a smaller final portion of the 1995 bonds refinanced in 2015). The 2013 transaction refinanced the debt to 2053, placed the Agency in a solid financial position, significantly improved the Agency's debt metrics and achieved the following:

- Positioned the Agency for future credit upgrades
- Provided for inflationary toll rate increases (small annual adjustments rather than infrequent larger lump sum adjustments)
- Created increased margin to build cash reserves to support the Capital Improvement Plan, withstand future economic downturns and allow for potential early debt repayment in the future

Debt Service, which is primarily funded from toll revenues, grows at an average of 3.75% per year until it reaches maximum annual debt service of $227 million in FY 2039.

Per the Indentures, the Agency's Adjusted Net Toll Revenue (toll related revenues plus interest income on certain accounts, less operating expenses) must be at least 115% of the current year's aggregate debt payments (all debt service scheduled for the fiscal year) and at least 130% of the current year's senior lien debt payments. This is often referred to as 1.15x and 1.30x debt service coverage, respectively.

When compiling the operations budget, the Agency staff ensures that the revenues and expenses budgeted provide the necessary coverage ratio as defined in the Indentures. The FY18 Proposed Budget results in an aggregate coverage ratio of 1.43x and a senior lien coverage ratio of 1.62x. A schedule showing the calculation is included on page 32 of this document.

# Foothill/Eastern Transportation Corridor Agency

## Sources

## and

## Expenditures

## Fiscal Year 2018 Proposed Budget

**Sources and Expenditures**

The Sources and Expenditures of Funds Statement summarizes the Agency's projected total sources and expenditures for the year ending June 30, 2018.

Total sources include revenues budgeted in FY18 as well as cash on hand from development impact fees and surplus revenues collected and available to the Agency from previous years, and amounts in the debt service accounts.

Below is a summary of total funds on hand and the amount of these funds available to fund the FY18 budget as well as future budgets (in thousands).

| | | |
|---|---|---|
| Estimated Total Funds on Hand at 6/30/17 | $ | 592,267 |
| July Activity Related to FY17 | | (63,785) |
| Adjusted Estimated Total Funds on Hand at 6/30/17 | | 528,482 |
| Less Operating Reserves | | (16,936) |
| Less Debt Service Reserves | | (220,762) |
| Estimated Cash Available, excluding Reserves, to Fund Current and Future Budgets | $ | 290,784 |
| Cash Restricted For Debt Service | $ | 3,912 |
| All Other Cash Available to Fund Current and Future Budgets | | 286,872 |
| Estimated Cash Available to Fund Current and Future Budgets | $ | 290,784 |

Total expenditures include all FY18 budgeted expenses requiring a cash outlay.

The Sources and Expenditures of Funds Statement on the following page shows sources less cash expenditures to arrive at cash available to fund subsequent budgets.

The following statement includes the approved FY17 budget, as amended, including transfers within the CEO's authority, staff projected FY17 sources and expenditures based on actuals through March 2017 and the proposed budget for FY18.

**Foothill/Eastern Transportation Corridor Agency**
**Sources and Expenditures of Funds Statement**
**Fiscal Years 2017 through 2018**
**($000)**

| Description | FY 2017 Amended Budget As of 3/31/17 | FY 2017 Estimated Actuals | FY 2018 Proposed Budget |
|---|---|---|---|
| Sources: | | | |
| Net Toll Revenue | 139,664 | 143,697 | 149,923 |
| Penalties | 19,200 | 18,109 | 18,100 |
| Fees | 10,387 | 10,614 | 10,800 |
| Development Impact Fees | 19,000 | 15,532 | 15,000 |
| Interest Earnings | 3,756 | 5,713 | 6,509 |
| Other Revenue | 605 | 620 | 605 |
| Cash on Hand Restricted For Debt Service | 11,146 | 11,146 | 3,912 |
| All Other Cash Available to Fund Current and Future Budgets | 251,540 | 251,540 | 286,872 |
| Total Sources of Funds | 455,298 | 456,971 | 491,721 |
| Expenditures: | | | |
| Planning, Environmental and Construction | 53,720 | 23,400 | 73,451 |
| Planning, Environmental and Construction Administration | 9,312 | 8,505 | 10,079 |
| Toll Operating Administration | 8,343 | 7,771 | 8,607 |
| Toll Customer Service and Toll Compliance | 10,097 | 9,144 | 10,271 |
| Toll Systems | 2,033 | 1,920 | 2,008 |
| Toll Facilities | 762 | 761 | 879 |
| Operations Equipment | 1,992 | 1,916 | 3,379 |
| Debt Service | 112,770 | 112,770 | 112,770 |
| Total Expenditures | 199,029 | 166,187 | 221,444 |
| Projected Cash Available to Fund Subsequent Budgets | 256,269 | 290,784 | 270,277 |
| Less Restricted Cash For Future Debt Service | 3,912 | 3,912 | 561 |
| Projected Available Cash | 252,357 | 286,872 | 269,716 |

**Sources Summary**

With the growth of Southern California's economy, FY17 transactions and transactional toll revenue are expected to be up approximately 5.0% and 7.4%, respectively, over FY16. The 2013 bond refinance transaction greatly improved debt service coverage margins and the ability to withstand future economic downturns. Regardless, it will be important to continue to take measures ensuring that revenue growth continues in FY18 to meet the Agency's goals.

The Agency has also used customer incentives and promotions to maintain and build transactions and revenues. Given the purpose of promotions is to increase revenue, tolls used as incentives for promotions will be recorded as an offset to revenue in accordance with accounting principles and the Indentures. In FY18, marketing incentive programs will continue to be implemented to convert customers who pay online with One-Time-Toll to FasTrak or ExpressAccounts. In addition, paid advertising will continue to emphasize increased awareness of the Toll Roads value proposition.

Staff works with the Agency's traffic and revenue consultant, Stantec Consulting Services Incorporated (Stantec) to review the effect of prior year toll rates and prepare an analysis for the upcoming year. During the April 2017 budget workshop, staff discussed the analysis with the Board and recommended toll rates based on the results of prior year increases and toll elasticity, assumptions included in the bond finance documents, building cash reserves, and economic factors. The FY18 budget for sources of funds is based on the traffic and revenue consultant's toll rate analysis and feedback received from the Board of Directors during the budget workshop (see Net Toll Revenue section below).

At the beginning of FY18, the Agency expects to have total cash adjusted for accrual items of $528.5 million. The expected adjusted cash balance includes debt service reserve and operating reserve funds of $237.7 million and $290.8 million of cash on-hand available to fund the current and future years' budgets. These available funds are primarily from development impact fees, surplus revenues, and interest earnings. During FY18, Net Toll Revenue, Penalties, Fees, Development Impact Fees, Interest Earnings, and Other Revenue are budgeted at $200.9 million. Below are brief explanations of each of these funding sources.

Net Toll Revenue

The FY18 budget assumes transactional toll revenue of $159.7 million which represents a 4.8% increase over projected FY17 transactional toll revenue. The budget for FY18 Net Toll Revenue of $149.9 million, or 74.6% of total revenue, is a combination of the Agency's estimate of transactional toll revenue reduced by estimated processable and unprocessable transactions (offset by toll revenue recovered from processed violations), and non-revenue transactions. As a result of the conversion to All Electronic Tolling (AET) and the resulting shift in payment patterns, including some patrons who may have previously paid with cash but are now initially identified instead as processable violation transactions, toll revenue recovered during the violation process is appropriately classified as Net Toll Revenue. The Agency currently waives the penalty for first time violators if the toll is paid within 30 days.

Unprocessable violations (primarily vehicles with no license plates) and non-revenue transactions (primarily California Highway Patrol, Caltrans, and Agency vehicles used on the road for operations and maintenance) are expected to occur at a rate of 4.3% of transactional toll revenue or $6.8 million in FY18. Processable transactions offset by toll revenue recovered from processed violations is budgeted at $3.0 million or 1.9% of transactional toll revenue in FY18.

The proposed 4.8% transactional toll revenue increase is achieved by implementing a 2.0% non-FasTrak rate increase. The FasTrak rates increase at amounts that maintain the $1.00 discount from the non-FasTrak rates.

The proposed toll rates are expected to result in transaction growth of 2.8% based on the Stantec analysis. The growth rate assumes continued economic improvement and an increase in traffic congestion on routes parallel to the toll roads thereby increasing the value of time savings obtained by choosing the toll road option.

The table on the following page shows the FY17 current toll rates and the proposed FY18 toll rates by location, split between non-FasTrak and FasTrak, and peak/off-peak if applicable. In summary, FasTrak and non-FasTrak rates increase by $0.03 to $0.08 per tolling location.

| Location | Time/Type | Current Rates | Proposed 2% Increase Rate | Change |
|---|---|---|---|---|
| Tomato Springs** | Non-FasTrak Off-Peak | $ 3.45 | $ 3.52 | $ 0.07 |
| | FasTrak Off-Peak | $ 2.45 | $ 2.52 | $ 0.07 |
| | Non-FasTrak Peak* | $ 3.70 | $ 3.77 | $ 0.07 |
| | FasTrak Peak | $ 2.70 | $ 2.77 | $ 0.07 |
| Portola North | Non-FasTrak Off-Peak | $ 2.49 | $ 2.54 | $ 0.05 |
| | FasTrak Off-Peak | $ 1.49 | $ 1.54 | $ 0.05 |
| | Non-FasTrak Peak* | $ 2.92 | $ 2.98 | $ 0.06 |
| | FasTrak Peak | $ 1.92 | $ 1.98 | $ 0.06 |
| Alton | Non-FasTrak* | $ 2.49 | $ 2.54 | $ 0.05 |
| | FasTrak | $ 1.49 | $ 1.54 | $ 0.05 |
| Portola South | Non-FasTrak* | $ 1.68 | $ 1.71 | $ 0.03 |
| | FasTrak | $ 0.68 | $ 0.71 | $ 0.03 |
| Los Alisos | Non-FasTrak* | $ 1.58 | $ 1.61 | $ 0.03 |
| | FasTrak | $ 0.58 | $ 0.61 | $ 0.03 |
| Antonio | Non-FasTrak* | $ 1.68 | $ 1.71 | $ 0.03 |
| | FasTrak | $ 0.68 | $ 0.71 | $ 0.03 |
| Oso | Non-FasTrak* | $ 2.39 | $ 2.44 | $ 0.05 |
| | FasTrak | $ 1.39 | $ 1.44 | $ 0.05 |
| Windy Ridge** | Non-FasTrak Off-Peak | $ 3.60 | $ 3.67 | $ 0.07 |
| | FasTrak Off-Peak | $ 2.60 | $ 2.67 | $ 0.07 |
| | Non-FasTrak Peak* | $ 3.87 | $ 3.95 | $ 0.08 |
| | FasTrak Peak | $ 2.87 | $ 2.95 | $ 0.08 |
| Orange Grove** | Non-FasTrak Off-Peak | $ 2.80 | $ 2.86 | $ 0.06 |
| | FasTrak Off-Peak | $ 1.80 | $ 1.86 | $ 0.06 |
| | Non-FasTrak Peak* | $ 3.07 | $ 3.13 | $ 0.06 |
| | FasTrak Peak | $ 2.07 | $ 2.13 | $ 0.06 |
| Irvine Ranch** | Non-FasTrak Off-Peak | $ 2.49 | $ 2.54 | $ 0.05 |
| | FasTrak Off-Peak | $ 1.49 | $ 1.54 | $ 0.05 |
| | Non-FasTrak Peak* | $ 2.92 | $ 2.98 | $ 0.06 |
| | FasTrak Peak | $ 1.92 | $ 1.98 | $ 0.06 |
| Portola (West) | Non-FasTrak* | $ 2.49 | $ 2.54 | $ 0.05 |
| | FasTrak | $ 1.49 | $ 1.54 | $ 0.05 |
| Irvine Blvd. (East) | Non-FasTrak* | $ 1.96 | $ 2.00 | $ 0.04 |
| | FasTrak | $ 0.96 | $ 1.00 | $ 0.04 |
| Irvine Blvd. (West) | Non-FasTrak* | $ 1.96 | $ 2.00 | $ 0.04 |
| | FasTrak | $ 0.96 | $ 1.00 | $ 0.04 |
| Irvine Blvd. (West) NB On | Non-FasTrak* | $ 2.49 | $ 2.54 | $ 0.05 |
| | FasTrak | $ 1.49 | $ 1.54 | $ 0.05 |
| Portola (West) SB On | Non-FasTrak* | $ 2.49 | $ 2.54 | $ 0.05 |
| | FasTrak | $ 1.49 | $ 1.54 | $ 0.05 |

* One Time Toll (OTT) rate

** 3-4 Axle Vehicles 2 Times Rate      5+ Axle Vehicles 4 Times Rate

The Agency estimates that it will receive a total of $143.7 million in Net Toll Revenue in FY17. This consists of $152.4 million of transactional toll revenue reduced by estimated processable and unprocessable transactions of $14.9 million offset by toll revenue collected from processed violations of $6.2 million.

Penalties

Penalties revenue is budgeted for FY18 at $18.1 million, representing 9.0% of total revenues and consists of violation penalties related to toll violations. The intent of violation penalties is to act as a deterrent and ensure collection of toll revenues. Penalties revenue is recorded as collected. As mentioned in the Net Toll Revenue section above, the toll related to a violation is properly classified in Net Toll Revenue. The Agency continues its efforts in signing patrons up for accounts and informing infrequent users of the available payment options in order to avoid handling through the violation process. The Agency also implemented agreements with major rental car companies in April 2016 which have proved successful in reducing violations. The Agency will continue initiatives in FY18 to attempt to address violations, such as signage, and providing materials to support communication to the community at large and visitors.

Penalties revenue for FY17 is estimated to be $18.1 million. The FY18 Penalties budget is conservative with consideration given to the current trends in collections, the estimated transactions for FY18, the current processable transactions rate at 6.0% of traffic, the existing policy of $57.50 on the first notice of violation and $42.50 on delinquency notice, and the Agency's policy of waiving penalties for first-time violators.

Fees

Fees are budgeted for FY18 at $10.8 million, representing 5.4% of total revenues. Fees revenue consists of $8.0 million for account maintenance fees from FasTrak accountholders, and $2.8 million of other miscellaneous fees related to operations (i.e., invoice fees, suspended account and returned check fees, lost, stolen or damaged transponder fees, and fees related to programs with San Francisco Airport and rental car agencies).

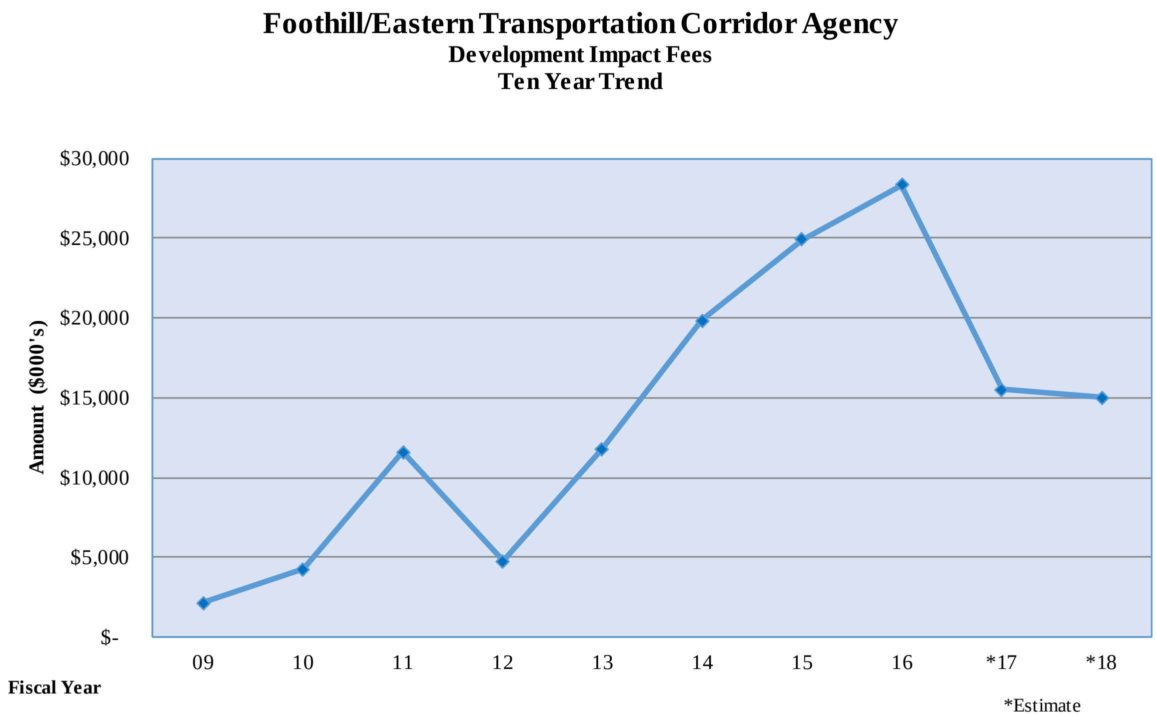
Fees revenue for FY17 is estimated to be $10.6 million. The FY18 budget for account maintenance fees is based on the Agency's current policy in which a fee of $2.00 per transponder is charged to FasTrak accountholders in each month where monthly tolls incurred on F/ETCA or SJHTCA facilities are less than the threshold of $25 per transponder. When an account has multiple transponders, the aggregate tolls incurred by an account are considered when determining whether any account maintenance fees are charged.

During FY18 the Agencies will transition to providing all accountholders with electronic account activity statements versus mailed statements. If an accountholder would like to continue to receive mailed statements, the statements will be provided monthly for a fee of $1.00 per statement.

Development Impact Fees

The Agency adopted a Development Impact Fee Program in 1986. The fee program is based on the general principle that development within the "area of benefit" of the corridor will benefit from the construction of the corridor. Development Impact Fees (DIF) are assessed on new residential and non-residential (commercial, industrial, etc.)

development. Development Impact Fees for FY17 are expected to approximate $15.5 million. The Agency is estimating Development Impact Fees to be $15.0 million for FY18, representing 7.5% of total revenues, based upon recent trends and development. The following chart is provided to illustrate the historical trend of Development Impact Fees collected.




Interest Earnings

Interest Earnings represent earnings on funds held in trust for bondholders, funds held for operations and funds held in custody accounts at the trustee for the Agency. Budgeted Interest Earnings are based upon the existing investment portfolio. Total Interest Earnings budgeted for FY18 of $6.5 million represent approximately 3.2% of total revenues.

Interest Earnings for FY17 are estimated to be $5.7 million.

Other Revenue

Other Revenue of $0.6 million represents 0.3% of total revenues and is for rental income of office space leased to SJHTCA in the Pacifica building owned by F/ETCA. Estimated FY17 Other Revenue of $0.6 million includes rental income and miscellaneous receipts.

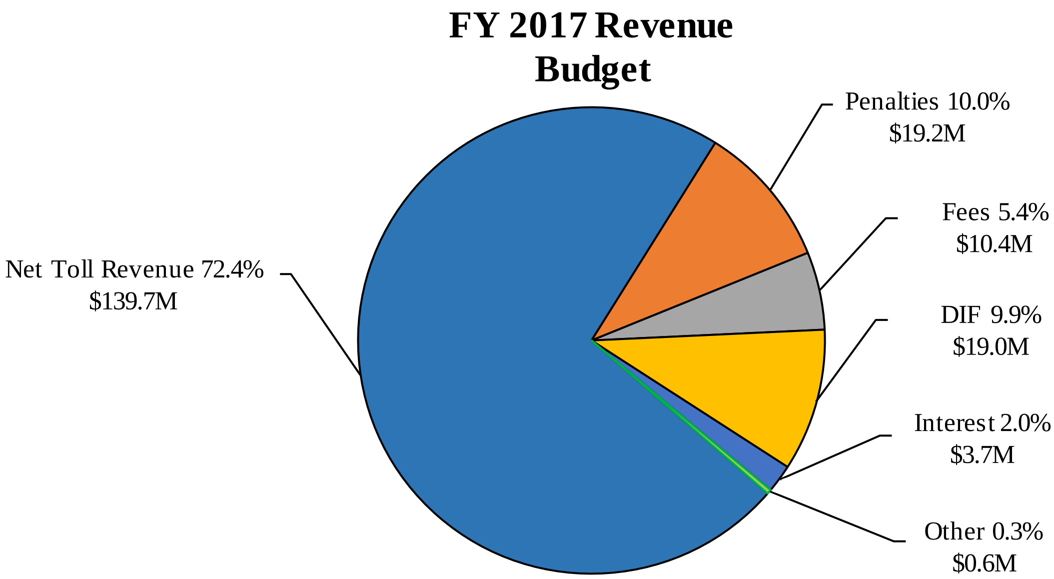
**Revenue Pie Chart – FY17 Budget as compared to FY18 Budget**

The pie charts on the following page show a comparison of FY17 budgeted revenues to FY18 proposed budget revenues.

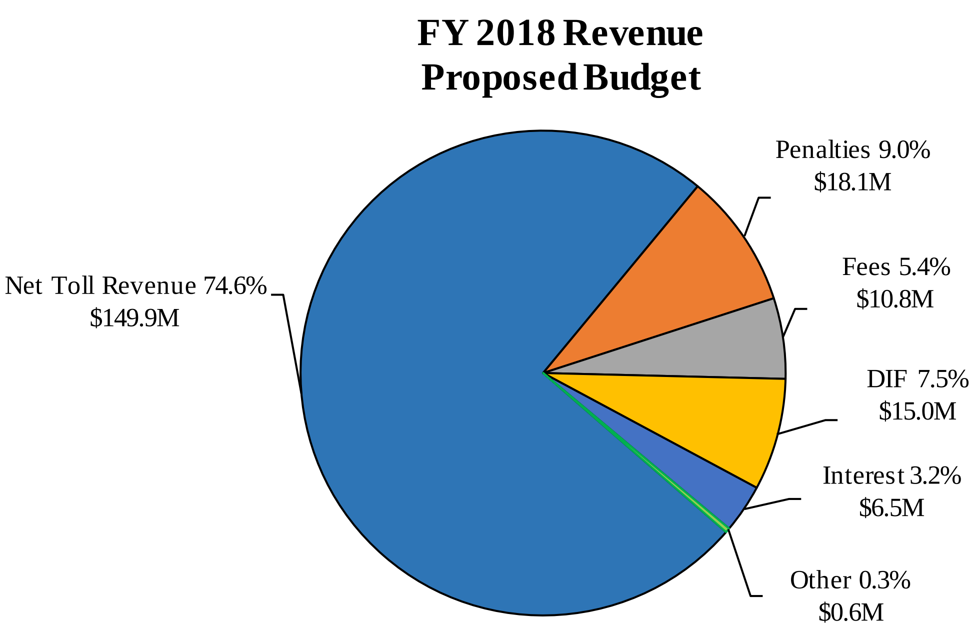
Budgeted revenues increased $8.3 million to $200.9 million in FY18 from budgeted revenues of $192.6 million in FY17 due to an increase in Net Toll Revenue, Fees, and Interest Earnings, offset by decreases in Penalties and Development Impact Fees.

Net Toll Revenue is expected to increase from $139.7 million budgeted in FY17 to $149.9 million in the FY18 budget as a result of current transaction and revenue trends and toll rate changes. Penalties are projected to be lower in FY18 by $1.1 million compared to the FY17 budget as a result of actual violation collections and current transaction and transactional toll revenue trends. See Penalties discussion on page 13 for more information. Fees are budgeted to increase in FY18 by $0.4 million compared to the FY17 budget. FY18 budgeted Development Impact Fees have decreased by $4.0 million from the FY17 budget to $15.0 million based on recent collection trends and development. Interest Earnings are expected to increase by approximately $2.8 million primarily resulting from working with the Agency's investment advisor to implement an active management strategy which has allowed the Agency to take advantage of the Federal Open Market Committee increasing the Fed funds interest rate.

## Foothill/Eastern Transportation Corridor Agency




**Total FY17 Budget Revenue $192.6M**




**Total FY18 Budget Revenue $200.9M**

**Expenditures Summary**

In response to the economic downturn in the recent past, the Agency worked diligently to significantly decrease operating expenses and reduce headcount, while continuing to provide quality customer service and ensuring that equipment, systems, and facilities remained in a good state of repair. This provided for a lower base to absorb inflationary growth.

As a result of the improving economy and a steady return of revenues to levels recorded prior to the economic downturn in FY08, the Agency prepared the FY18 expense recommendation considering the cost impact of increasing transactions and revenues. In addition, the budget includes proposed inflationary increases in major operating contracts, operations initiatives, capital projects costs, and staffing to manage the growth in operations and capital project initiatives. Detail of expenditures can be found on pages 21-31.

The FY18 proposed budget for expenses was developed with the Agency's continued commitment to fiscal responsibility and overarching goals.

The proposed budget for FY18 includes total expenditures of $221.4 million. The following are brief explanations of the various expenditures.

<u>Planning, Environmental and Construction (Excluding Administration)</u>

This category mainly consists of costs associated with the Agency's current Capital Improvement Plan including the 241/91 Express Connector, South County Mobility Improvement, the Oso Bridge and Gap Closure, Los Patrones Parkway Coordination, Toll Booth Removal, and Signage projects. The proposed budget for Planning, Environmental and Construction is $73.4 million for FY18, or approximately 33.1% of the total budget. The funding for these expenses is the cash on hand from previous development impact fee collections and Agency directed surplus revenues.

The Planning, Environmental and Construction projected actuals for FY17 total $23.4 million. The increase of $50.0 million in the FY18 budget is primarily related to the progress in the projects listed above.

<u>Administration</u>

The total proposed budget for Administration expenses is $18.7 million for FY18, or approximately 8.4% of the total proposed budget. The Administration category includes all employee compensation (3.1% of the total budget) as well as overhead-type expenses, such as insurance, legal, office expenses, administrative consulting services, marketing, building services, and travel expenses. These costs are budgeted in total but are allocated between the two primary activities of the Agency: Planning, Environmental and Construction and Toll Operations. The allocation of costs between the two types of activities is necessary in determining the appropriate funding source as well as for the calculation of debt service coverage per the Indentures. The resulting allocation can be seen in the columns for each activity on page 22 of this document.

Projected Administration expenses for FY17 total $16.3 million. The increase in the FY18 proposed budget from the FY17 projected actuals is primarily due to financial, legal, and community outreach services related to the 241/91 Express Connector project, outreach and legal services related to South County Mobility Improvement, consulting for the Agency's Business Intelligence project, Customer Service Center Modernization, and the System-Wide Traffic Optimization Study.

Toll Operations (Excluding Administration)

Toll Operations include toll system costs associated with maintaining the Agency's system lane hardware and software currently under contract with TransCore LP, customer service center and violation processing management and staff currently under contract with Faneuil, Inc., customer service system maintenance and toll processing under contract with BRiC-TPS LLP, and image based transaction processing currently under contract with Global Agility, Inc. Also included in this category are toll facilities costs for maintaining the Agency's buildings utilized in the operation of the road, and toll equipment such as transponders and server replacements. The proposed FY18 budget for these expenses is $16.5 million or 7.5% of the total budget.

Toll Operations, excluding Administration, is projected to total $13.7 million in FY17. The FY18 budget is $2.8 million higher than projected FY17 actuals primarily due to increases in labor for improved customer service and other customer service and compliance costs directly related to revenues, consultant support for the Customer Service Center Back Office System Replacement Project, scheduled Consumer Price Index adjustments for the system lane hardware and software maintenance contracts, and an increase in transponder purchases.

Debt Service

The Debt Service category includes the annual principal and semi-annual interest payments to be made on all outstanding bonds. These payments for FY18 are budgeted at $112.8 million, or 50.9% of the total budget. Debt Service for FY17 will total $112.8 million.

Future years' Debt Service, which is primarily funded from toll revenues, grows at an average of 3.75% per year until it reaches maximum annual debt service of $227 million in FY 2039.

**Expenditures of Funds – FY17 Amended Budget as compared to FY18 Budget**

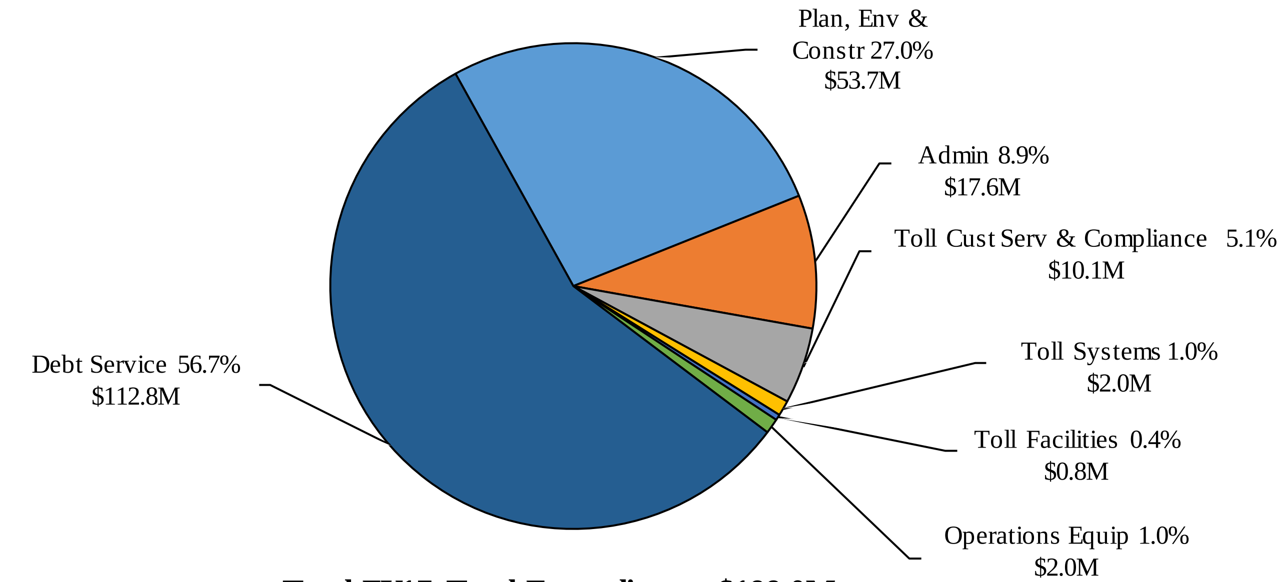
The pie charts on the following page show a comparison of the FY17 amended budget and the FY18 proposed budget by type of expense.

The FY18 proposed budget of $221.4 million, as compared to the prior year's amended budget of $199.0 million, shows an increase of $22.4 million or 11.3%. The net increase is primarily due to an increase in the Planning, Environmental and Construction budget for the Oso Bridge and Gap Closure, and Los Patrones Parkway Coordination projects. In addition, there is an increase in the Toll Operations budget for the Customer Service Center Back Office System Replacement Project.

The Debt Service category includes the semi-annual interest and annual principal payments on the 2013 and 2015 outstanding bonds. In FY18, only semi-annual interest payments on the 2013 bonds are scheduled to be paid. These payments are budgeted at $112.8 million for FY18 and FY17.

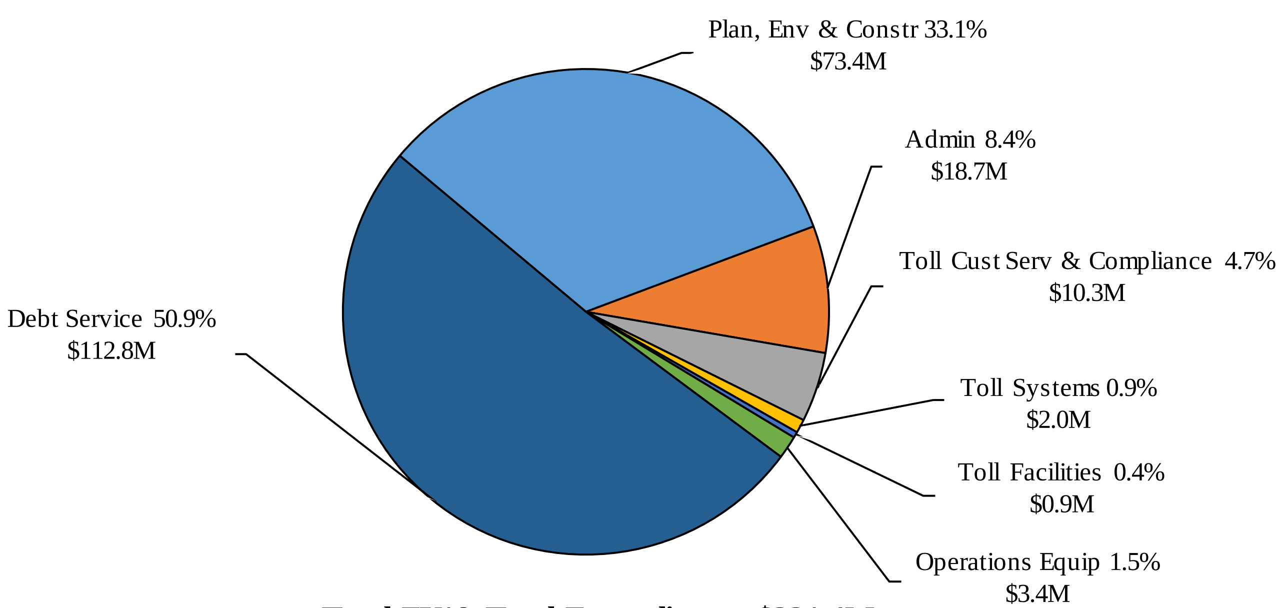
# Foothill/Eastern Transportation Corridor Agency

## FY2017 Expenditures
## Amended Budget




**Total FY17 Total Expenditures $199.0M**

## FY 2018 Expenditures
## Proposed Budget




**Total FY18 Total Expenditures $221.4M**

**Expenditures Detail**

The schedule on the following page details the budget as summarized on pages 23-31 into more specific categories (budget subcategories). Many of the Administration subcategories are allocated between Planning, Environmental and Construction and Toll Operations expenses.

**Foothill/Eastern Transportation Corridor Agencies**
**Fiscal Year 2018 Proposed Budget**
**($000)**

| | Budget Fund Categories | | | |
|---|---|---|---|---|
| **Budget Category and Subcategory** | **Plan, Environ & Construction** | **Toll Operations Exp & Equip** | **Debt Service** | **Total** |
| Administration: | | | | |
| Regular Salaries | 2,296 | 2,592 | - | 4,888 |
| Internship Program | 29 | 33 | - | 62 |
| Board Compensation | 44 | 53 | - | 97 |
| Benefits | 899 | 996 | - | 1,895 |
| Employer Taxes | 39 | 46 | - | 85 |
| Insurance | 191 | 874 | - | 1,065 |
| Legal Expense | 466 | 552 | - | 1,018 |
| Telephone/Comm | 40 | 61 | - | 101 |
| Office Expense | 130 | 249 | - | 379 |
| Educ, Seminar, Membership, Mtgs | 97 | 161 | - | 258 |
| Consulting and Other Services | 450 | 958 | - | 1,408 |
| Marketing | - | 828 | - | 828 |
| Publications & Subscriptions | 3 | 4 | - | 7 |
| Rents & Leases | 21 | 25 | - | 46 |
| Building Services | 240 | 282 | - | 522 |
| Transportation & Travel | 125 | 117 | - | 242 |
| Office Equipment | 28 | 41 | - | 69 |
| Pacifica Fixed Assets | 200 | 735 | - | 935 |
| Subtotal Administration | 5,298 | 8,607 | - | 13,905 |
| 241/91 Connector Administration: | | | | |
| Administration | 262 | - | - | 262 |
| Legal | 170 | - | - | 170 |
| Subtotal 241/91 Connector Admin | 432 | - | - | 432 |
| SR 241 Administration: | | | | |
| Administration | 3,419 | - | - | 3,419 |
| Legal | 930 | - | - | 930 |
| Subtotal 241 SR Admin | 4,349 | - | - | 4,349 |
| Total Administration | 10,079 | 8,607 | - | 18,686 |
| Planning, Environmental and Construction: | | | | |
| SR 241: | | | | |
| South County Mobility Improvement | 28,012 | - | - | 28,012 |
| Oso Bridge & Los Patrones Pkwy Coordination | 25,164 | - | - | 25,164 |
| Total SR 241 | 53,176 | - | - | 53,176 |
| Capital Improvement Plan (CIP): | | | | |
| Wildlife Safety Fencing Monitoring | 51 | - | - | 51 |
| 241/91 Express Connector | 12,969 | - | - | 12,969 |
| Toll Booth Removal | 1,110 | - | - | 1,110 |
| Signage | 2,885 | - | - | 2,885 |
| 241 Widening-133 to Chapman (Loma Segment) | 3 | - | - | 3 |
| Trabuco Road Interchange Coordination | 160 | - | - | 160 |
| Jeffrey Road Interchange Study | 690 | - | - | 690 |
| Total Capital Improvement Plan | 17,868 | - | - | 17,868 |
| Other Planning, Environmental and Construction: | | | | |
| Environmental | 591 | - | - | 591 |
| Design Program Mgmt | 920 | - | - | 920 |
| Design Special Studies & Other | 600 | - | - | 600 |
| ROW Acquisitions, Appraisals & Other | 296 | - | - | 296 |
| Total Other Planning, Environ and Constr | 2,407 | - | - | 2,407 |
| Total Planning, Environmental and Construction | 73,451 | - | - | 73,451 |
| Toll Operations: | | | | |
| Customer Service & Toll Compliance | - | 10,271 | - | 10,271 |
| Toll Systems | - | 2,008 | - | 2,008 |
| Toll Facilities | - | 879 | - | 879 |
| Subtotal Toll Operations | - | 13,158 | - | 13,158 |
| Operations Equipment: | | | | |
| Transponder Equipment | - | 1,938 | - | 1,938 |
| Toll Equipment and Capital Expenditures | - | 1,441 | - | 1,441 |
| Total Equipment | - | 3,379 | - | 3,379 |
| Total Toll Operations | - | 16,537 | - | 16,537 |
| Debt Service | - | - | 112,770 | 112,770 |
| Total Expenditures | 83,530 | 25,144 | 112,770 | 221,444 |

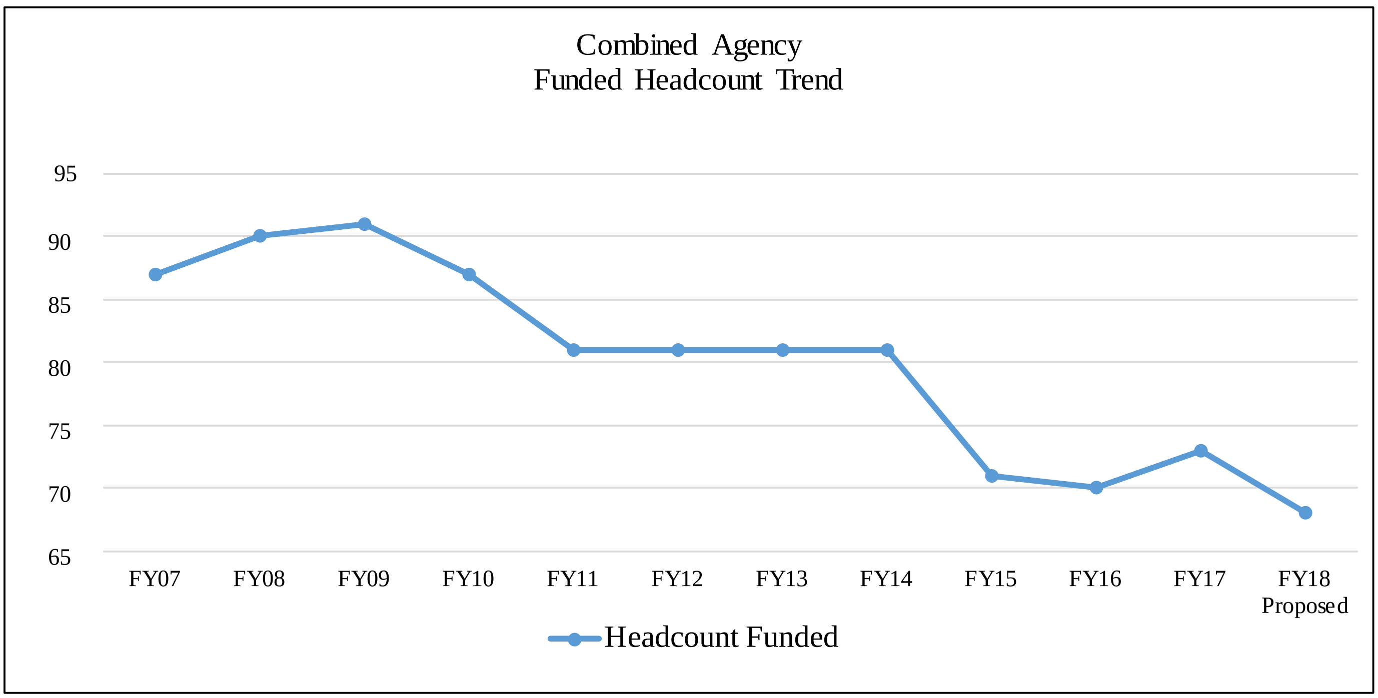
Staffing

The policies of the Transportation Corridor Agencies (TCA) require approval by the Boards of Directors for all new salary grade classifications, changes to the staffing plan (number of approved positions), and the total compensation budget. Compensation and staffing programs are then administered by the CEO under the approved budget. During the budget process each year, the CEO recommends changes to the existing programs for the upcoming fiscal year.

The recommended staffing plan for FY18 is 68 funded positions and is allocated 62% to this Agency and 38% to SJHTCA. The FY18 budget includes one reclassification, five positions eliminated from the customer service walk-in center due to outsourcing, one eliminated Toll Facilities position, and two headcount additions to support human resources and environmental project initiatives:

- Human Resources Generalist
- Environmental Analyst

The following chart shows the change in funded headcount from 2007 through 2017 and the projected 2018 headcount on a combined Agency basis (F/ETCA and SJHTCA). The decrease in FY15 was due to the end of cash toll collections.




The functional area organization chart on the following page illustrates the duties and responsibilities for each executive's division and the number of full time equivalent positions.

In addition to the regular duties and responsibilities that are required to manage the Agencies, there are a number of project initiatives that staff work on each year to achieve Agency goals and objectives. Some of the longer-term projects have been included on the organization chart.

# Fiscal Year 2018

**SJHTCA Board**

**F/ETCA Board**

Chief Executive Officer
3 FTEs

### Communications & Marketing 7.25 FTEs

- ∑Communications Strategy
- ∑Marketing
- ∑Media Relations
- ∑Special Events
- ∑Website
- ∑Graphics
- ∑Presentations
- ∑Publications
- ∑E-newsletters
- ∑Issue Management
- ∑Social Media
- ∑Customer Communication Consistency
- ∑Tourism & Visitor Outreach
- ∑The Toll Roads Rewards Program
- ∑Environmental Outreach
- ∑241/91 Express Connector Outreach
- ∑Sponsorships

### Finance, Contracts, HR & Administration 31.5 FTEs

- ∑Long-Term Financial Planning & Bond Finance
- ∑Financial Reporting and Cash Flow Management
- ∑Accounting
- ∑Toll Operations Accounting/ Reconciliation/ Auditing
- ∑Annual Audit
- ∑Budgeting
- ∑Treasury
- ∑Finance
- ∑Debt Compliance
- ∑Investor Relations
- ∑Insurance/Risk Management
- ∑Internal Audit
- ∑Development Impact Fee Program
- ∑Administration
- ∑Human Resources
- ∑Recruiting
- ∑Benefits & Compensation
- ∑Employee Relations
- ∑Training & Development
- ∑Contracts & Procurement
- ∑Legislative Financial Support

### Toll Operations & IT 12 FTEs

- ∑Customer Interaction Management
- ∑Call Centers
- ∑Walk-In Customer Service Centers
- ∑Revenue Collection
- ∑Account Management
- ∑Toll Compliance & CHP Program
- ∑Toll System Implementation & Operations
- ∑Cyber Security & Corporate System Support
- ∑Legislative Support
- ∑National Toll Standards
- ∑Interoperability
- ∑Data Management

### Engineering & Facilities 7.5 FTEs

- ∑SR 241/91 Express Connector
- ∑South County Mobility Improvement
- ∑Oso Bridge & Los Patrones Parkway
- ∑Capital Improvement Plan
- ∑Special Projects
- ∑Design
- ∑Engineering
- ∑Construction Management
- ∑Real Property
- ∑Caltrans Interface
- ∑Facilities Maintenance

### Environmental Planning 3.5 FTEs

- ∑SR241/91 Express Connector
- ∑South County Mobility Improvement
- ∑Oso Bridge & Los Patrones Parkway
- ∑Habitat Stewardship
- ∑Environmental Compliance
- ∑Regional Transportation Plan Coordination
- ∑Project Permitting
- ∑Intergovernmental Project Review
- ∑Mitigation Land Transfer
- ∑NCCP/HCP Compliance
- ∑Wildlife Safety Fencing
- ∑Open Space Acquisition

### Strategy & Public Affairs 3.5 FTEs

- ∑South County Mobility Improvement
- ∑Oso Bridge & Los Patrones Parkway
- ∑Develop, Implement & Execute the Strategic Plan & Initiatives
- ∑Translate Strategic Priorities Into Comprehensive & Actionable Plans
- ∑Build Relationships With Stakeholders & Partners at the Local, State & Federal Levels
- ∑Educate & Garner Active Support for TCA
- ∑Establish Open & Candid Communication With Supporters & Opponents
- ∑ Discuss Commonalities While Exploring a Wide Range of Solutions
- ∑Develop Annual State & Federal Legislative Platforms
- ∑Legislative Initiatives

Administration - Compensation (Regular Salaries and Benefits)

The Agency employee compensation budget is $6.9 million. TCA salaries are reviewed each year through the annual performance review process. The Agency does not provide for any type of automatic step or Cost of Living Adjustment (COLA) increases.

Benefits include contributions to a cafeteria plan (medical, dental, and vision) and retirement plans. In general, budgeted benefits are determined by applying estimated rates for these plans to estimated headcount. If benefit rates come in lower than expected, the budget is not spent. FY18 benefits are 38.8% of salaries.

The FY18 employer contributions to OCERS have been budgeted at 27.23% for legacy employees and 24.36% for employees hired on or after January 1, 2013, under the Public Employees' Pension Reform Act – PEPRA. Each of these rates includes a component of 13.79% that represents payment of the Agencies' unfunded actuarial accrued liability (UAAL). The Agency's UAAL is estimated as of December 31, 2016 at approximately $7.3 million. The UAAL is amortized over 20 years. The Agencies monitor the UAAL and believe that it is manageable as it is paid each year as part of the employer contribution.

In FY16, the Agency completed a detailed classification study of salary ranges through a consultant and FY17 salary ranges were adjusted based on the results of the study. For FY18, the staffing plan includes a 3% adjustment to salary ranges based on current public and private sector data. The recommendation to revise the Agency's salary ranges does not in itself, result in any change to individual employee salaries. Employee salary adjustments are only based on merit increases and/or promotions.

A 4.0% merit pool of $172,274 based on the current public and private sector data, with an emphasis on like organizations, has been included in the budget. The recommended merit pool will allow the Agency to remain competitive, reward employees for their performance, and help retain current employees. The annual review process includes: employee input on the employee's perspective of accomplishments and future goals, supervisor review and evaluation of employee accomplishments and establishment of goals for the next year, executive team member review of all performance reviews for the department, human resources review of all employee performance reviews for consistency, and submittal of performance reviews to the CEO for approval. The performance reviews are rated based on employee performance and include the following rating categories: Exceptional, Exceeds Expectations, Meets Expectations, Needs Development, and Unsatisfactory. The merit increase will be assigned according to ratings category and is expected to range from 2.5% to 5%. A 3.0% non-base building performance incentive pool of $129,206 has been included in the budget and is linked to the FY18 Agency initiatives. This will allow the CEO to reward outstanding achievement on special projects and/or initiatives in accordance with the Agencies' performance incentive award policy.

TCA has contained costs through a net reduction in headcount (81 to 68) since FY11 and reduced benefits by shifting pension and health benefits costs to employees and reduction of accrued leave. Our philosophy and approach to contract out many of our services continues to keep our salaries/benefits lower and manageable.

Administration - Insurance

Insurance expense is budgeted at $1.1 million, approximately 0.5% of the total budget. The major components of insurance include earthquake, property, general and excess liability, cyber, and workers' compensation coverage as detailed in the annual Current Insurance Coverage Report which was provided at the February 2017 Board of Directors meeting. Policies are marketed and placed by the Agency's insurance broker, Alliant Insurance Services, Inc., who provides all of the Agencies' insurance procurement needs. All insurance is maintained in accordance with the requirements of the Indentures and as prudent business activities dictate.

Administration - Legal Expenses

Legal Expenses, excluding amounts related to the SR 241, are $1.0 million, approximately 0.5% of the total budget. Amounts in this category include, but are not limited to, general counsel representation, legislation, support for ongoing and potential litigation, legal consulting related to contract issues, financing, development impact fees, human resources, and claims litigation. Legal expenses are invoiced separately by individual matter, or type of legal issue, and are managed by the individual department managers who have requested the assistance. Composite rates for general counsel are $247 per hour. Negotiated blended rates related to complex contract issues and certain real estate issues are $300 per hour. In addition, litigation rates are billed at prevailing rates that vary between $325 and $840 per hour depending on the level of experience of the attorney involved, and state lobbyists bill at a rate of $445 per hour. Below is a breakdown of legal expenses by major category:

| | |
|---|---|
| Contracts | $ 276,000 |
| Toll Operations | 247,000 |
| Financing | 152,000 |
| General/Other | 150,000 |
| Human Resources | 108,000 |
| Development Impact Fees | 50,000 |
| Environmental | 30,000 |
| Construction | 5,000 |
| Total | $ 1,018,000 |

Administration - Consulting and Other Services

The Consulting Services category is $1.4 million, which represents approximately 0.6% of the total budget and, as detailed below, includes service fees, maintenance and third party assistance contracts for both recurring needs and special projects, such as payroll processing, investment and financial advisory services, annual audit services, and the implementation and project management costs associated with the Business Intelligence project. It also includes a state and national interoperability consultant and testing support, printing and distribution of publications, federal and state advocacy, and community/public relations services.

| | |
|---|---|
| Financial Consulting | $ 468,000 |
| Communications & 241/91 Express Connector Outreach | 202,000 |
| System-Wide Traffic Optimization Study | 186,000 |

| | |
|---|---|
| Strategic Planning | 180,000 |
| Business Intelligence Project Consulting | 100,000 |
| Other Consulting | 83,000 |
| Payroll & Personnel Services | 82,000 |
| Audit Services | 57,000 |
| Toll Operations Services | 50,000 |
| Total | $ 1,408,000 |

Administration - Marketing

Total expenditures for marketing and advertising are budgeted at $0.8 million, representing 0.4% of the total budget. This includes amounts paid for the Agency's marketing consultant for creating and placing radio and digital advertising, designing and printing direct mail and account statement inserts; website design and programming services; and email communication to FasTrak and ExpressAccount holders including The Toll Roads Rewards program. These efforts are geared toward increasing account signups and toll road ridership. The following is the budget associated with these expenses:

| | |
|---|---|
| Marketing Consultant | $ 650,000 |
| Analytics and Research | 113,000 |
| Website Development | 50,000 |
| Accountholder Email Communications | 15,000 |
| Total | $ 828,000 |

Administration - Building Services

Building Services is budgeted at $0.5 million, approximately 0.2% of the total budget. This category includes all operating costs associated with the Agency's operations facility (Pacifica building) and the San Clemente Information Center including utilities, janitorial services, landscaping services, and maintenance and repairs as listed below:

| | |
|---|---|
| Pacifica Utilities | $ 335,000 |
| Pacifica Building Maintenance Services | 180,000 |
| San Clemente Utilities & Building Maintenance Services | 7,000 |
| Total | $ 522,000 |

Administration - Pacifica Fixed Assets

The Pacifica Fixed Assets category is budgeted at $0.9 million, approximately 0.4% of the total budget. This category is related to equipment qualifying for capitalization and includes Customer Service Center Modernization, and Pacifica building carpet and wallcovering replacements.

Planning, Environmental and Construction - SR 241 South County Mobility Improvement and Oso Bridge

The SR 241 Planning, Environmental and Construction costs (including related administrative costs) are budgeted at $57.5 million representing 26.0% of the proposed budget. The primary costs for this category are the outreach and planning efforts for South County Mobility Improvement, initiation of construction for the Oso Bridge and Gap Closure project, coordination with the County of Orange and Rancho Mission Viejo on the development of the Los Patrones Parkway project, pre-financing costs which include mitigation land acquisition, initiation of a new NEPA/CEQA environmental process, engineering work to support outreach efforts, legal, and advocacy consultants. Related administrative expenses consist of legislative services, strategy consultants, advancement of the community outreach and stakeholder process, development of finance plans for various alternatives, community relations, and advertising. These projects are outlined in the Capital Improvement Plan to be presented to the Board of Directors on June 8, 2017 and summarized below:

| | |
|---|---|
| Construction | $ 22,693,000 |
| Engineering/Design Oversight | 15,180,000 |
| Environmental | 14,483,000 |
| Right of Way | 820,000 |
| Subtotal | $ 53,176,000 |
| Administrative and Legal Expenses | 4,349,000 |
| Total | $ 57,525,000 |

Planning, Environmental and Construction - Capital Improvement Plan

The Capital Improvement Plan, excluding South County Mobility Improvement, the Oso Bridge and Gap Closure project, and Los Patrones Parkway Coordination (including related administrative costs), is budgeted at $18.3 million and represents 8.3% of the total budget. This category is comprised of projects for the 133, 241 and 261 Toll Roads and includes annual funding for the projects, including program management, environmental, design, construction management, construction, and all other related costs. The four main CIP projects include the coordinated efforts with the Orange County Transportation Authority (OCTA), Riverside County Transportation Commission (RCTC), and Caltrans on a direct tolled connector from the SR 241 to the 91 Express Lanes, the Signage project, the Toll Booth Removal project, and the 241/Jeffrey Road Interchange Study. Related administrative expenses consist of financial and legal advisory services, community outreach consulting, and community relations. These projects are outlined in the Capital Improvement Plan to be presented to the Board of Directors on June 8, 2017 and summarized below:

| | |
|---|---|
| 241/91 Express Connector | $ 12,969,000 |
| Signage | 2,885,000 |
| Toll Booth Removal | 1,110,000 |
| 241/Jeffrey Road Interchange Study | 690,000 |
| Trabuco Road Interchange Coordination | 160,000 |
| Wildlife Safety Fencing Monitoring | 51,000 |
| 241 Widening-133 to Chapman (Loma Segment) | 3,000 |
| Subtotal | $ 17,868,000 |
| Administrative and Legal Expenses | 432,000 |
| Total | $ 18,300,000 |

Planning, Environmental and Construction - Other Planning, Environmental and Construction

Other Planning, Environmental and Construction costs are budgeted at $2.4 million, or 1.1% of the total budget. Expenditures budgeted mainly include design program management, traffic trend and capacity analyses, and continued monitoring and habitat management for nearly 1,800 acres of mitigation area required for the 133, 241 and 261 Toll Roads. Monitoring and habitat management includes the Limestone Canyon Mitigation Area, Live Oak Plaza, coordination with the Southern California Association of Governments, San Diego Association of Governments, and OCTA to ensure the Agency's projects are described accurately in regional transportation plans.

| | |
|---|---|
| Design Program Management | $ 920,000 |
| Traffic Trends/Capacity Analysis | 600,000 |
| Mitigation & Permits | 415,000 |
| ROW, Surveying & Title | 296,000 |
| Staff Assistance & Other Environmental | 176,000 |
| Total | $ 2,407,000 |

Toll Operations - Toll Customer Service and Toll Compliance

The Toll Customer Service and Toll Compliance category totals $10.3 million, approximately 4.6% of the total budget, and primarily includes funding for the service center operations and toll compliance activities comprised of customer service and violation processing staff and management costs for the customer service operator Faneuil, Inc., customer service system maintenance and toll processing costs for BRiC-TPS LLP, and image based transaction processing costs for Global Agility, Inc. Also included in this category are credit card processing fees assessed on all FasTrak, ExpressAccount, and violation credit card transactions, printing, postage, and mailing services, judgment recovery and collection costs, CHP violation enforcement, and telephone system expenses. Fees are included in this category for the Costco, AAA, and Albertsons FasTrak enrollment programs. The budget associated with these expenses is detailed below:

| | |
|---|---|
| Credit Card Processing Fees | $ 3,413,000 |
| Customer Service Contract | 3,339,000 |
| Postage & Printing | 1,579,000 |
| Customer Service System Maintenance | 1,104,000 |
| Enforcement Services & Other | 533,000 |
| Other Customer Service | 248,000 |
| Projects | 55,000 |
| Total | $ 10,271,000 |

Toll Operations - Toll Systems

The Toll Systems category totals $2.0 million, or approximately 0.9% of the total budget and, as detailed below, primarily consists of fees for the software and hardware maintenance and operation contract with TransCore LP. Also included in this category are toll system spare parts and repairs, software licenses, and various computer maintenance contracts.

| | |
|---|---|
| On-Road Toll System Maintenance | $ 1,704,000 |
| Computer/Software Maintenance & Support | 171,000 |
| Projects | 133,000 |
| Total | $ 2,008,000 |

Toll Operations - Toll Facilities

This category is budgeted at $0.9 million representing 0.4% of the total budget, and accounts for all costs associated with maintaining the Agency's toll plazas such as utilities, janitorial services, and other various supplies and repairs.

| | |
|---|---|
| On Road Utilities | $ 458,000 |
| On Road Building Maintenance Services | 421,000 |
| Total | $ 879,000 |

Toll Equipment & Capital Expenditures

The Toll Equipment & Capital Expenditures budget is $3.3 million, or 1.5% of the total budget. Toll Equipment & Capital Expenditures primarily consists of FasTrak transponder costs and the Customer Service Center Back Office System Replacement Project. Other items include mobile app enhancements, uninterruptible power supply (UPS) replacements, and servers.

| | |
|---|---|
| Transponders | $ 1,938,000 |
| CSC Back Office System Replacement Project | 1,369,000 |
| Other Equipment | 72,000 |
| Total | $ 3,379,000 |

Debt Service

The Debt Service category totals $ 112.8 million or 50.9% of the total budget and in FY18 includes interest payments on the Agency's outstanding bonds. The debt service will be paid from net revenues with $56.4 million to be paid on each January 15, 2018 and July 15, 2018.

A Revenue Guarantee Fund was established at the time of the 2013 financing. Revenue Guarantee Funds were set aside to pay debt service. When Revenue Guarantee Funds are not needed to make debt service payments, the funds become unrestricted after the debt service is paid. In FY18, the Agency expects that $3.4 million will become unrestricted related to FY18 debt service. However, as shown on the following page, the Revenue Guarantee Funds are used in the calculation of debt service coverage ratios as defined in the Indentures.

The FY18 budgeted aggregate and senior lien debt service coverage ratios shown on the following page meet the Indenture requirements of 1.15x and 1.30x, respectively. The budgeted coverage is 1.43x and 1.62x, respectively, and does not include the use of reserves or escrow defeasance. Adjusted Net Toll Revenues only includes revenues and interest earnings in certain accounts per the Indentures. Development impact fees are not included in the calculation. While development impact fees are not included in the budget calculation of the debt service coverage ratios, the Indentures allow for development impact fees that are remaining after each debt service payment to be added to the calculation thereby enhancing the debt service coverage calculation. The Indentures refer to this as Enhanced Adjusted Net Toll Revenues and this enhanced calculation will be used for actual debt service coverage covenant reporting. Current expenses include expenditures that are allocated to operations (as shown in the second column of the schedule on page 22.

## Debt Coverage Calculation Fiscal Year 2018

| | FY18 Budget ($000) |
|---|---|
| Adjusted Net Toll Revenues | |
| Total Toll Revenues Including Fees and Penalties | 178,823 |
| Interest Earnings * | 3,162 |
| Current Expenses - Funded From Toll Revenue | (25,144) |
| Adjusted Net Toll Revenues | 156,841 |
| Aggregate Net Debt Service | |
| Annual Aggregate Debt Service | 112,770 |
| Less Revenue Guarantee Funds | (3,380) |
| Net Aggregate Debt Service | 109,390 |
| Aggregate Coverage Ratio (1.15x requirement) | 1.43 |
| Senior Lien Net Debt Service | |
| Annual Senior Lien Debt Service | 100,006 |
| Less Revenue Guarantee Funds | (3,380) |
| Net Senior Lien Debt Service | 96,626 |
| Senior Lien Coverage Ratio (1.30x requirement) | 1.62 |

* Reflects estimated earnings on specific accounts allowed for coverage as defined per the Indentures

Estimated Unrestricted Cash and Restricted Construction Funds

Below is the FY18 budgeted activity and estimated ending balances for unrestricted cash (as described in more detail on page 5) and restricted construction funds. The restricted construction fund was initially funded in 2015 with the $33.5 million net present value savings of the final refunding of the 1995 bonds. The restricted construction funds have been used for construction purposes only as defined in the tax certificate issued during the refunding:

**Estimated Unrestricted Cash**
**($000)**

| | |
|---|---|
| Estimated Available Cash at 6/30/17 | 272,383 |
| Planning, Environmental and Construction and Related Administration | (70,350) |
| Surplus Revenue including release of Revenue Guarantee Funds * | 49,618 |
| DIF Revenue and Interest Income | 18,065 |
| Estimated Available Cash at 6/30/18 | 269,716 |

* Per the Indentures, when Revenue Guarantee Funds are not needed by the Agency to make debt service payments, the funds become unrestricted after the debt service is paid. In FY18, the Agency expects that $3.4 million will become unrestricted related to FY18 debt service.

**Estimated Restricted Construction Funds**
**($000)**

| | |
|---|---|
| Estimated Restricted Construction Funds at 6/30/17 | 12,985 |
| Planning, Environmental and Construction and Related Administration | (13,180) |
| Interest | 195 |
| Estimated Restricted Construction Funds at 6/30/18 | - |

RESOLUTION NO. F2017-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY
APPROVING THE BUDGET FOR FISCAL YEAR 2018

On motion of Board Member Shea, the following Resolution was adopted.

WHEREAS, Section VI, paragraph 6.1 of the Second Amended and Restated Joint Exercise of Powers Agreement creating the Foothill/Eastern Transportation Corridor Agency (the "JPA"), requires the adoption upon the approval of not less than two-thirds (2/3) of the Board Members, an annual budget for the ensuing fiscal year, pursuant to procedures developed by the Board; and

WHEREAS, Section VI, paragraph 6.3 of the JPA requires all funds to be placed in object accounts and the receipt, transfer or disbursement of such funds during the term of the JPA shall be accounted for in accordance with Generally Accepted Accounting Principles (GAAP) applicable to governmental entities and all revenues and expenditures must be reported to the Board; and,

WHEREAS, Section VI, paragraph 6.4 of the JPA states that all expenditures within the designations and limitations of the approved annual budget shall be made upon the approval of the Chief Executive Officer in accordance with the rules, policies and procedures adopted by the Board; and,

WHEREAS, Section VI, paragraph 6.4 of the JPA further states that no expenditures in excess of those budgeted shall be made without the approval of not less than two-thirds (2/3) of the Board Members to a revised and amended budget which may, from time to time, be submitted to the Board; and,

WHEREAS, Article VI, paragraph 6.5 of the Administrative Code of the Agency adopted on January 10, 1991, requires that all expenditures for travel, conference and business-related activities, and reimbursement of Board Members and Agency employees for such expenditures be governed by the Board adopted Travel and Expense Policy;

NOW, THEREFORE the Board of the Foothill/Eastern Transportation Corridor Agency does resolve, declare, determine and order as follows:

1. Approve the annual budget for Fiscal Year 2018 (FY18) in the amount of $221,444,437. The approval includes Administration, Planning, Environmental and Construction, Toll Operations, Debt expenses, the proposed staffing plan as described in the budget, and projected Revenues, including without limitation the adoption of the "proposed" toll rates, fees, and fines, as presented in the FY18 Annual Budget report.

2. Authorize the Chief Executive Officer to reallocate within budget categories as long as the budget for the following categories does not exceed the amount stated:

| | |
|---|---|
| • Administration | $18,685,967 |
| • SR 241 (excluding related administration) | $53,175,910 |
| • Capital Improvement Plan | $17,868,036 |
| • Other Planning, Environmental and Construction | $2,407,102 |
| • Toll Operations | $16,537,110 |
| • Debt Service | $112,770,312 |

   and subject to controls in place under the 2013 and 2015 Indentures of Trust, the Board approved Contracts and Procurement Manual, Investment Policy, Staffing and Compensation Plan, and finally the Agency's enabling legislation.

3. Resolve to carry forward the project description from the current 2016 Regional Transportation Improvement Program (RTIP) and 2015 San Diego Forward Regional Transportation Plan/Sustainable Communities Strategy (RTP), and to include the updated schedule and project budget approved by this resolution in subsequent RTIP and RTP updates, for the San Diego Association of Governments (SANDAG) region.

4. Resolve to carry forward the project description from the current 2017 Federal Transportation Improvement Program (FTIP) and 2016 Regional Transportation Plan/Sustainable Communities Strategy, and to include the updated schedule and project budget approved by this resolution in subsequent RTIP and RTP updates, for the Southern California Association of Governments (SCAG) region.

5. Direct staff to forward the approved Annual Budget for FY18 to the trustee.

This Resolution No. F2017-02, shall become effective immediately upon adoption.

Adopted this 8th day of June, 2017, by the Board of Directors of the Foothill/Eastern Transportation Corridor Agency.

Ed Sachs

**Ed Sachs, Chair**
Foothill/Eastern Transportation Corridor Agency

RESOLUTION NO. F2017-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY
APPROVING THE BUDGET FOR FISCAL YEAR 2018

ATTEST:

I, Martha M. Ochoa, Secretary/Clerk of the Board of the Foothill/Eastern Transportation Corridor Agency hereby certify that the foregoing Resolution No. F2017-02 was duly adopted on June 8, 2017, by the Board of Directors of the Foothill/Eastern Transportation Corridor Agency by the following vote:

| | |
|---|---|
| Yes: | Bartlett, Beall, Huang, Maryott, Muller, Murphy, Bilodeau (Alternate for Nelson), Sachs, Shea, Spitzer, Voigts |
| No: | Ward |
| Absent: | Moreno, Puckett, Tinajero |
| Abstain: | NONE |

Martha M. Ochoa

Martha M. Ochoa
Secretary/Clerk of the Board
Foothill/Eastern Transportation Corridor Agency