☐ SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY AGENDA ITEM #: 12

☒ FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY

Transportation Corridor Agencies

BOARDS OF DIRECTORS

June 14, 2018

FILE NUMBER: 2018F-016

FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY FISCAL YEAR 2019 ANNUAL BUDGET

RECOMMENDATION

Foothill/Eastern Transportation Corridor Agency Recommendation:

Approve Resolution No. F2018-02 entitled “A Resolution of the Board of Directors of the Foothill/Eastern Transportation Corridor Agency Approving the Budget for Fiscal Year 2019” in the amount of $202,061,271.

SUMMARY

Attached are the Fiscal Year 2019 Proposed Budget report and Resolution No. F2018-02.

COMMITTEE REVIEW

Agency executive staff presented their FY19 department initiatives, staffing and contracts at their related committee meetings during March and April 2018. The FY19 proposed annual budget was then presented at a workshop during the Joint Operations and Finance Committee Meeting on April 25, 2018. The workshop included a discussion of Agency initiatives, toll rates, revenues, and expenditures. The FY19 proposed annual budget was then presented on May 24, 2018, to the Joint Operations and Finance Committee with a request to present the FY19 proposed annual budget to the Board of Directors for approval on June 14, 2018.

MOTION:	Murphy
SECOND:	Shea
OPPOSED:	Ward
VOTE:	Passed

Report Written By: Erick Luque, Manager, Budget and Planning

REVIEWED BY:

Amy Potter

Amy Potter, Chief Financial Officer
(949) 754-3498

APPROVED BY:

Michael A. Kraman

Michael A. Kraman, Chief Executive Officer

Attachment(s)

San Joaquin Hills
Transportation
Corridor Agency

Chair:
Fred Minagar
Laguna Niguel

Transportation Corridor Agencies™

Foothill/Eastern
Transportation
Corridor Agency

Chair:
Ed Sachs
Mission Viejo

June 14, 2018

Re: Foothill/Eastern Transportation Corridor Agency's Fiscal Year 2019 Budget

Dear Chair Sachs and Board Members:

Thank you for your direction and support in the adoption of the attached Foothill/Eastern Transportation Corridor Agency (Agency) Fiscal Year 2019 (FY19) Budget.

Totaling $202.1 million, the FY19 budget will guide the Agency through the year and into the future by funding and advancing initiatives that support capital improvements, enhance customer service and strengthen our financial health.

We enter FY19 with transactions and revenue at historic highs following five consecutive years of strong transactional and revenue growth and finances that have never been in better condition -- as evidenced by recent bond ratings upgrades, strong liquidity and growing reserve fund balances.

With the growth of Southern California's economy, by the end of Fiscal Year 2018 (FY18) transactions and revenue are expected to increase by approximately 3.5 percent and 5.2 percent, respectively, compared to the previous year.

Agency staff continuously works to meet the Agency's goals. As of August 1, 2017, all of TCA's senior lien bonds had investment grade ratings from the three major credit rating agencies (Standard & Poor's, Moody's and Fitch).

Shortly thereafter, in another move to strengthen our finances, $125 million of bonds were remarketed at a highly favorable long-term interest rate of 3.95 percent, saving the Agency approximately $1.3 million per year. The bonds were originally issued in 2013 by the Agency with a five-year term as part of the refinancing of the original bonds issued to fund construction of the 133, 241 and 261 Toll Roads.

To continue enhancing customer service for our 1.2 million accountholders and approximately 1 million annual One-Time-Toll customers, we have reduced our average wait time from four minutes and 59 seconds to just 45 seconds. We are hearing about the positive improvements from our Customers who are giving us an average rating of 4.6 out of 5 in overall customer satisfaction and 88 percent would recommend our customer service to a friend or colleague.

125 Pacifica, Suite 100, Irvine, CA 92618-3304 ∑ (949) 754-3400 Fax (949) 754-3467
thetollroads.com
Members: Aliso Viejo ∑ Anaheim ∑ Costa Mesa ∑County of Orange ∑ Dana Point ∑ Irvine ∑ Laguna Hills ∑ Laguna Niguel ∑ Laguna Woods ∑ Lake Forest Mission Viejo ∑ Newport Beach ∑ Orange ∑ Rancho Santa Margarita ∑ San Clemente ∑ San Juan Capistrano ∑ Santa Ana ∑ Tustin ∑ Yorba Linda

For future mitigation, we purchased property directly adjacent to O'Neill Regional Park in Trabuco Canyon that was once slated for residential development. The land is home to self-sustaining oak, coastal sage scrub and riparian habitats, and provides an important wildlife link for birds and animals to access a natural corridor extending to the Cleveland National Forest. We will preserve the land, known as Saddle Club, as natural habitat and it will be the first of our 2,100-acres of open space to allow recreational usage. The public access plan will be developed during FY19, ensuring that Saddle Club is both enjoyed and undeveloped for future generations.

Those future generations will be plentiful. Orange County's population is expected to increase by more than 250,000 residents and traffic delays are projected to increase by 66 percent by 2040. Our Agency remains committed to identifying solutions that will relieve the traffic congestion on Interstate 5 through South Orange County.

We conducted a study of the South Orange County community which identified high levels of agreement that there is a growing traffic problem that people expect their elected officials and public agencies to fix. Data has concluded that this severe congestion is significantly impacting the quality of life for South Orange County families, residents, business owners and commuters. We are working alongside Caltrans, the Orange County Transportation Authority, the County of Orange and local cities to address traffic congestion concerns in South Orange County.

We have been evaluating the traffic congestion relief ideas proposed by the public, and have conducted some preliminary work as part of the Project Study Report which is expected to be completed in summer 2018. The Project Study Report is the first step toward initiating the formal environmental process.

We move into FY19, with ambition and driven by initiatives. We are working with the County of Orange to build an overcrossing bridge structure for a portion of Oso Parkway (at the southern end of the 241 Toll Road) to allow traffic from Los Patrones Parkway to travel under Oso Parkway and connect to the 241 Toll Road. We are planning for the transition to 6C tolling technology and the simplification of our account types; we will extensively study our system-wide traffic; and we will keep working to bring traffic relief to South Orange County.

All of that while continuing to perform the daily work needed to support the collection of more than 330,000 tolls on The Toll Roads every weekday. TCA is one of modern tolling's leading agencies, bringing much-needed traffic relief to Orange County. Whether it's the routine or the revolutionary, the staff and I are up for the work, and we thank you for your leadership and the direction you provide as we serve you, your constituents and all of those who drive to and through Orange County.

Sincerely,

Michael A. Kraman

Michael A. Kraman
Chief Executive Officer

Enclosures

2019

Fiscal Year Proposed Budget

Foothill/Eastern

Transportation Corridor Agency

Foothill/Eastern
Transportation Corridor Agency

Budget Process and Format

Fiscal Year 2019 Proposed Budget

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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 FY19 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. All Agency functional areas presented their portion of the budget at the related committee meetings during March and April 2018. The Agency's traffic and revenue consultant attended the April 2018 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 Joint Operations and Finance Committee at a workshop on April 25, 2018, 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 was again presented to the Joint Operations and Finance Committee on May 24, 2018. The annual budget is now being presented to the Board of Directors for adoption at the June 14, 2018 Board meeting for the fiscal year starting July 1, 2018. 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 FY19 proposed expenditures budget for the F/ETCA totals $202.1 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 and adjusted if necessary for the next fiscal year.

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 FY19 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 FY19 Planning, Environmental, and Construction budget is $63.2 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 audited financial statements as an addition to construction in progress. Certain projects are then 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 audited 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 expense is incurred, 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' surplus revenues and development impact fee collections. 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. Other sources of funds for these activities include investment earnings. See the table on page 32 for detail of unrestricted cash funds.

Toll Operations (budget fund category)

The Toll Operations budget includes funding for the toll operations activities including operating administration costs. The proposed FY19 Toll Operations budget is $27.4 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. 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 FY19 budget for Debt Service is $111.5 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.

In FY18, $125 million of Term Rate Bonds were remarketed which locked in a lower interest rate, resulting in approximately $1.3 million in interest rates savings each year.

Following the refinance, the Agency has exceeded projections every year and has received credit rating upgrades.

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 FY19 proposed budget results in an aggregate coverage ratio of 1.54x and a senior lien coverage ratio of 1.74x. A schedule showing the calculation is included on page 31 of this document.

Foothill/Eastern
Transportation Corridor Agency

Sources

and

Expenditures

Fiscal Year 2019 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, 2019.

Total sources include revenues budgeted in FY19 as well as cash on hand from surplus revenues and development impact fees collected and available to the Agency from previous years.

Below is a summary of total funds on hand and the amount of these funds available to fund the FY19 budget as well as future budgets (in thousands).

Estimated Total Funds on Hand at 6/30/18	$ 664,736
July Activity Related to FY18	(63,875)
Adjusted Estimated Total Funds on Hand at 6/30/18	600,861
Less Operating Reserves	(17,290)
Less Debt Service Reserves	(220,762)
Estimated Cash Available, excluding Reserves, to Fund Current and Future Budgets	$ 362,809

Total expenditures include all FY19 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 FY18 budget, as amended, including transfers within the CEO's authority, staff projected FY18 sources and expenditures based on actuals through March 2018 and the proposed budget for FY19.

Foothill/Eastern Transportation Corridor Agency
Sources and Expenditures of Funds Statement
Fiscal Years 2018 through 2019
($000)

Description	FY 2018 Amended Budget As of 3/31/18	FY 2018 Estimated Actuals	FY 2019 Proposed Budget
Sources:			
Net Toll Revenue	149,923	154,194	159,682
Penalties	18,100	23,615	23,600
Fees	10,800	11,572	11,700
Development Impact Fees	15,000	20,914	20,800
Interest Earnings	6,510	8,676	10,563
Other Revenue	605	620	706
Cash on Hand Restricted For Debt Service	3,940	3,940	-
All Other Cash Available to Fund Current and Future Budgets	316,957	316,957	362,809
Total Sources of Funds	521,835	540,488	589,860
Expenditures:			
Planning, Environmental and Construction	74,968	34,081	53,594
Planning, Environmental and Construction Administration	10,909	9,548	9,625
Toll Operating Administration	8,605	7,392	8,765
Toll Customer Service and Toll Compliance	10,271	9,953	11,913
Toll Systems	2,008	1,657	2,049
Toll Facilities	879	810	745
Operations Equipment	3,379	2,638	3,912
Debt Service*	109,390	111,600	111,458
Total Expenditures	220,409	177,679	202,061
Projected Cash Available to Fund Subsequent Budgets	301,426	362,809	387,799
Less Restricted Cash For Future Debt Service	-	-	-
Projected Available Cash	301,426	362,809	387,799

*Represents cash debt service payments without regard to Revenue Guarantee Funds used for Budget and Debt Service Coverage Calculations per the Indentures. Revenue Guarantee Funds were established in the 2013 Refinancing transaction to pay debt service but have not been needed to be used by the Agency for actual cash debt service payments. The Revenue Guarantee Funds then became unrestricted cash as per the Indentures and are no longer scheduled beyond FY18.

Sources Summary

With the growth of Southern California's economy, FY18 transactions and transactional toll revenue are expected to be up approximately 3.5% and 5.2%, respectively, over FY17. 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 FY19 to meet the Agency's goals.

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 2018 budget workshop, staff discussed the analysis with the Board and recommended toll rates based on the results of prior year increases and toll elasticity, toll rate growth assumptions included in the bond finance documents, traffic congestion on the system, building cash reserves, and economic factors. The FY19 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 FY19, the Agency expects to have total cash adjusted for accrual items of $600.9 million. The expected adjusted cash balance includes debt service reserve and operating reserve funds of $238.1 million and $362.8 million of cash on-hand available to fund the current and future years' budgets. These available funds are primarily from surplus revenues, development impact fees, and interest earnings. During FY19, Net Toll Revenue, Penalties, Fees, Development Impact Fees, Interest Earnings, and Other Revenue are budgeted at $227.1 million. Below are brief explanations of each of these funding sources.

Net Toll Revenue

The FY19 budget assumes transactional toll revenue of $167.6 million which represents a 3.7% increase over projected FY18 transactional toll revenue. The budget for FY19 Net Toll Revenue of $159.7 million, or 70.2% 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. 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 $7.2 million in FY19. Processable transactions offset by toll revenue recovered from processed violations is budgeted at $0.8 million or 0.5% of transactional toll revenue in FY19.

The proposed 3.7% transactional toll revenue increase is achieved by implementing a Peak Hour rate at the mainline plazas with a 5% increase over the FY18 Peak rate. The mainline plazas will have Pre- and Post-Peak rates equal to the FY18 Peak rates and there will be no changes to the toll rates at the ramps.

The proposed toll rates are expected to result in transaction growth of 3.1% 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 FY18 current toll rates and the proposed FY19 toll rates by location, split between off-peak, pre- & post-peak, and peak hour if applicable. In summary, peak hour rates increase by $0.15 to $0.20 per tolling location.

The peak periods are 7:00 – 9:00 am and 5:00 – 7:00 pm during which the peak hours are 7:30 – 8:30 am and 5:00 – 6:00 pm.

Location	Time/Type	Current Rates*	Recommended	
			Rate	Change
Tomato Springs***	Off-Peak	$ 3.52	$ 3.52	$ -
	Pre- & Post-Peak	$ 3.77	$ 3.77	$ -
	Peak Hour**	$ 3.77	$ 3.96	$ 0.19
Portola North	Off-Peak	$ 2.54	$ 2.54	$ -
	Pre- & Post-Peak	$ 2.98	$ 2.98	$ -
	Peak Hour**	$ 2.98	$ 2.98	$ -
Alton	Peak & Off-Peak**	$ 2.54	$ 2.54	$ -
Portola South	Peak & Off-Peak**	$ 1.71	$ 1.71	$ -
Los Alisos	Peak & Off-Peak**	$ 1.61	$ 1.61	$ -
Antonio	Peak & Off-Peak**	$ 1.71	$ 1.71	$ -
Oso	Peak & Off-Peak**	$ 2.44	$ 2.44	$ -
Windy Ridge***	Off-Peak	$ 3.67	$ 3.67	$ -
	Pre- & Post-Peak	$ 3.95	$ 3.95	$ -
	Peak Hour**	$ 3.95	$ 4.15	$ 0.20
Orange Grove***	Off-Peak	$ 2.86	$ 2.86	$ -
	Pre- & Post-Peak	$ 3.13	$ 3.13	$ -
	Peak Hour**	$ 3.13	$ 3.29	$ 0.16
Irvine Ranch***	Off-Peak	$ 2.54	$ 2.54	$ -
	Pre- & Post-Peak	$ 2.98	$ 2.98	$ -
	Peak Hour**	$ 2.98	$ 3.13	$ 0.15
Portola (West)	Peak & Off-Peak**	$ 2.54	$ 2.54	$ -
Irvine Blvd. (East)	Peak & Off-Peak**	$ 2.00	$ 2.00	$ -
Irvine Blvd. (West)	Peak & Off-Peak**	$ 2.00	$ 2.00	$ -
Irvine Blvd. (West) NB On	Peak & Off-Peak**	$ 2.54	$ 2.54	$ -
Portola (West) SB On	Peak & Off-Peak**	$ 2.54	$ 2.54	$ -

* FasTrak prepaid accountholder rate is a $1 discount from the published rates
** One-Time Toll (OTT) Rate
*** 3-4 Axle Vehicles 2 Time Rate   5+ Axle Vehicle 4 Times Rate

The Agency estimates that it will receive a total of $154.2 million in Net Toll Revenue in FY18. This consists of $161.7 million of transactional toll revenue reduced by estimated processable and unprocessable transactions, and non-revenue transactions of $14.0 million offset by toll revenue collected from processed violations of $6.6 million.

<u>Penalties</u>

Penalties revenue is budgeted for FY19 at $23.6 million, representing 10.4% 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 FY19 to attempt to address violations, such as providing materials to support communication to the community at large and visitors.

Penalties revenue for FY18 is estimated to be $23.6 million. The FY19 Penalties budget is conservative with consideration given to the current trends in collections, the estimated transactions for FY19, the current processable transactions rate at 4.4% 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 FY19 at $11.7 million, representing 5.2% of total revenues. Fees revenue consists of $8.9 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 FY18 is estimated to be $11.6 million. The FY19 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.

In FY18 the Agencies transitioned 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 FY18 are expected to approximate $20.9 million. The Agency is estimating Development Impact Fees to be $20.8 million for FY19, representing 9.2% of total revenues, based upon recent trends and development.

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 FY19 of $10.6 million represent approximately 4.7% of total revenues.

Interest Earnings for FY18 are estimated to be $8.7 million.

Other Revenue

Other Revenue of $706,000 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 FY18 Other Revenue of $620,000 includes rental income and miscellaneous receipts.

Revenue Pie Chart – FY18 Budget as compared to FY19 Budget

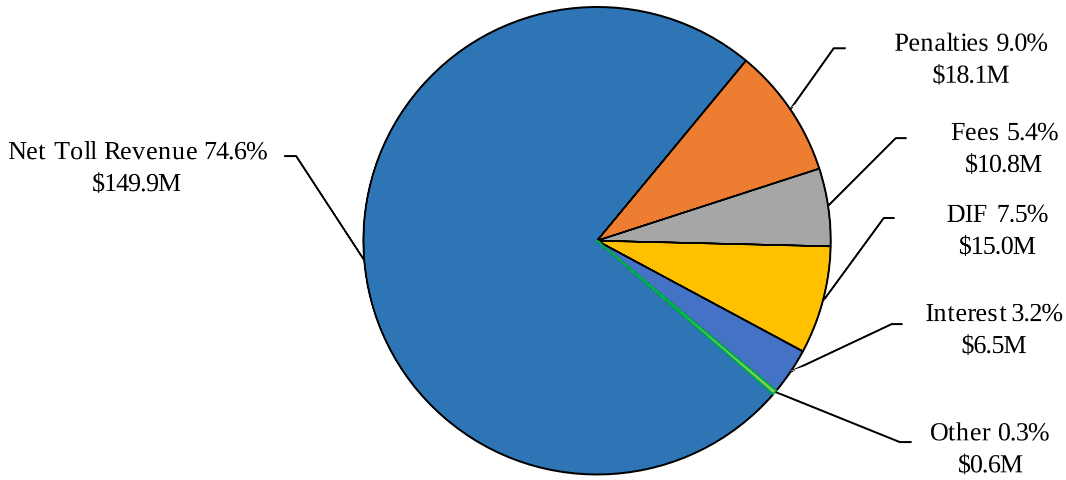
The pie charts on the following page show a comparison of FY18 budgeted revenues to FY19 proposed budget revenues.

Budgeted revenues increased $26.2 million to $227.1 million in FY19 from budgeted revenues of $200.9 million in FY18 due to increases in Net Toll Revenue, Fees, Interest Earnings, Penalties, and Development Impact Fees.

Net Toll Revenue is expected to increase from $149.9 million budgeted in FY18 to $159.7 million in the FY19 budget as a result of current transaction and revenue trends and toll rate changes. Penalties are projected to be higher in FY19 by $5.5 million compared to the FY18 budget as a result of actual violation collections and current transaction and transactional toll revenue trends. (See Penalties discussion on page 12 for more information.) Fees are budgeted to increase in FY19 by $0.9 million compared to the FY18 budget based on fee collection trends. FY19 budgeted Development Impact Fees have increased by $5.8 million from the FY18 budget to $20.8 million based on recent collection trends and development. Interest Earnings are expected to increase by approximately $4.1 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 Federal funds interest rate.

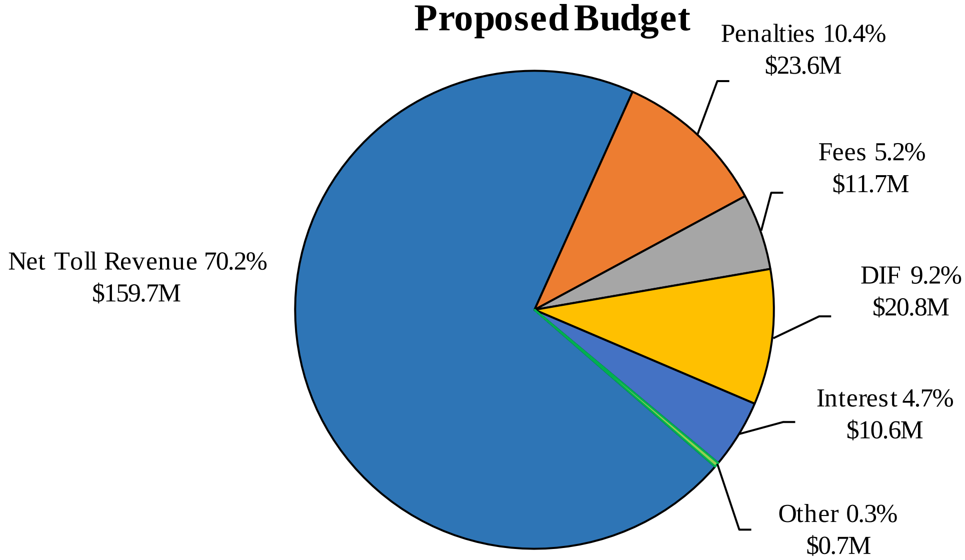
Foothill/Eastern Transportation Corridor Agency

FY18 Revenue Budget



FY18 Budget Revenue $200.9M

FY19 Revenue Proposed Budget



FY19 Budget Revenue $227.1M

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 FY19 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, and capital projects costs. Detail of expenditures can be found on pages 21-30.

The FY19 proposed budget for expenses was developed with the Agency's continued commitment to fiscal responsibility and goals and objectives.

The proposed budget for FY19 includes total expenditures of $202.1 million. The following are brief explanations of the various expenditures.

Planning, Environmental and Construction (Excluding Administration)

This category mainly consists of costs associated with the Agency's current Capital Improvement Plan including the 241/91 Express Connector, South County Traffic Relief Effort, the Oso Bridge, and Signage Enhancement projects. The proposed budget for Planning, Environmental and Construction is $53.6 million for FY19, or approximately 26.5% of the total budget. The funding for these expenses is the cash on hand from Agency directed surplus revenues and previous development impact fee collections.

The Planning, Environmental and Construction projected actuals for FY18 total $34.1 million. The increase of $19.5 million in the FY19 budget is primarily related to construction of the Oso Bridge, and the South County Traffic Relief Effort environmental review process commencing in FY19.

Administration

The total proposed budget for Administration expenses is $18.4 million for FY19, or approximately 9.1% of the total proposed budget. The Administration category includes all employee compensation (3.3% 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 FY18 total $16.9 million. The increase in the FY19 proposed budget from the FY18 projected actuals is primarily due to marketing, consulting, and legal related to the 6C transition and account simplification project, outreach and legal services related to South County Traffic Relief Effort, consulting for the Customer Service

Center Modernization, the System-Wide Traffic Optimization Study, as well as legal costs related to ongoing litigation.

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 license plate 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 FY19 budget for these expenses is $18.6 million or 9.2% of the total budget.

Toll Operations, excluding Administration, is projected to total $15.1 million in FY18. The FY19 budget is $3.5 million higher than projected FY18 actuals primarily due to increases in labor, printing, postage, and transponders related to the 6C transition and account simplification project; customer service and compliance costs directly related to increased revenues; and scheduled Consumer Price Index adjustments for the system lane hardware and software maintenance contracts.

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 FY19 are budgeted at $111.5 million, or 55.2% of the total budget. FY18 Debt Service, net of Revenue Guarantee Funds, will total $109.4 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.

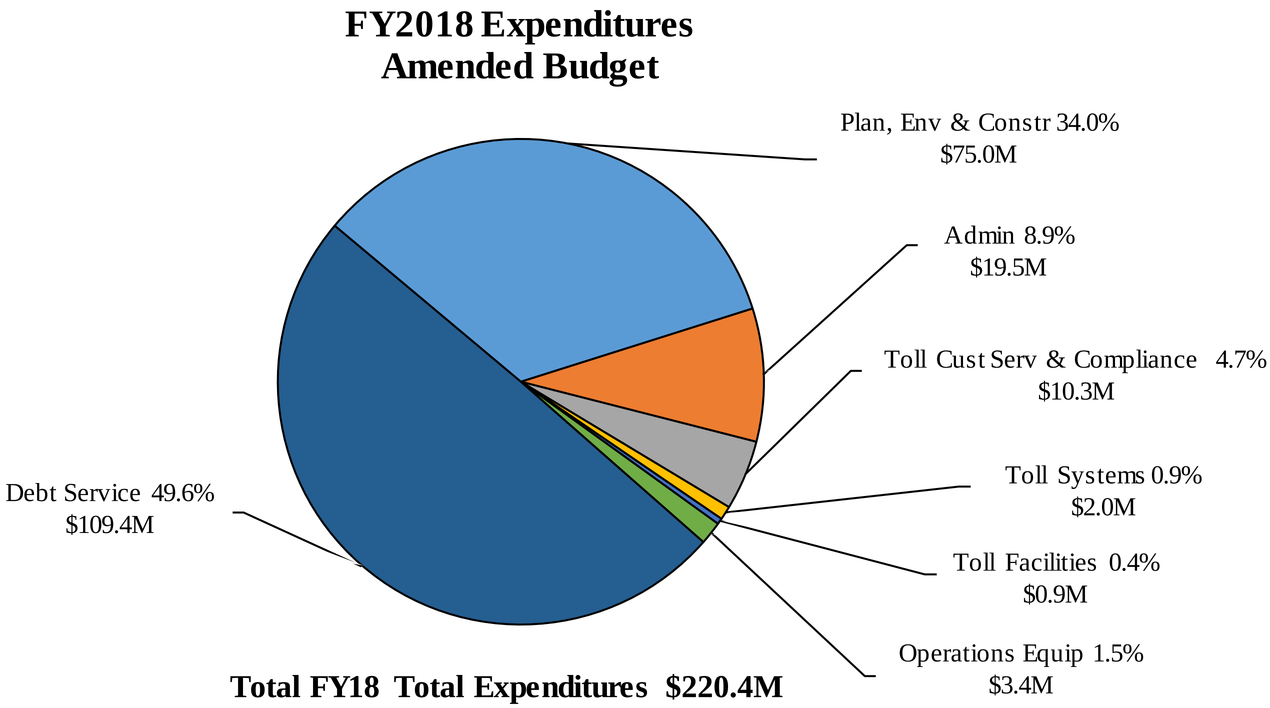
Expenditures of Funds – FY18 Amended Budget as compared to FY19 Budget

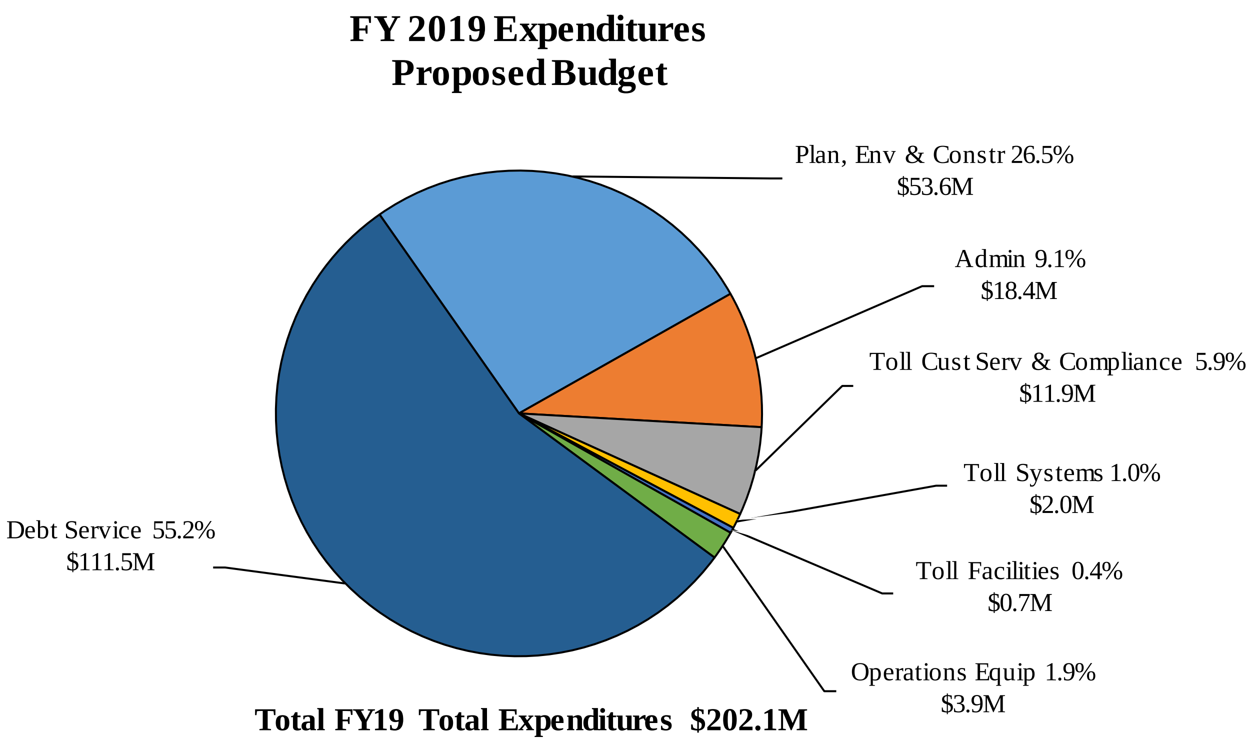
The pie charts on the following page show a comparison of the FY18 amended budget and the FY19 proposed budget by type of expense.

The FY19 proposed budget of $202.1 million, as compared to the prior year's amended budget of $220.4 million, shows a decrease of $18.3 million or 9.7%. The net decrease is primarily due to a decrease in the Planning, Environmental and Construction budget for the South County Traffic Relief Effort, the Oso Bridge project, the 241/91 Express Connector project due to timing of the projects, and the completion of the Toll Booth Removal project in FY18. This is primarily offset by increases in the Toll Operations and Administration budgets for legal costs related to ongoing litigation and expenditures for the 6C transition and account simplification project which includes consulting, legal, postage, printing, call center labor and transponder fulfillment.

The Debt Service category includes the semi-annual interest and annual principal payments on the 2013 and 2015 outstanding bonds. In FY19, only semi-annual interest payments on the 2013 bonds are scheduled to be paid. These payments are budgeted at $111.5 million for FY19 and $109.4 million for FY18, net of Revenue Guarantee Funds.

Foothill/Eastern Transportation Corridor Agency





*Net of Revenue Guarantee Funds

Expenditures Detail

The schedule on the following page details the budget as summarized on pages 23-30 into more specific categories (budget subcategories). Many of the Administration subcategories are allocated between Planning, Environmental and Construction and Toll Operations expenses.

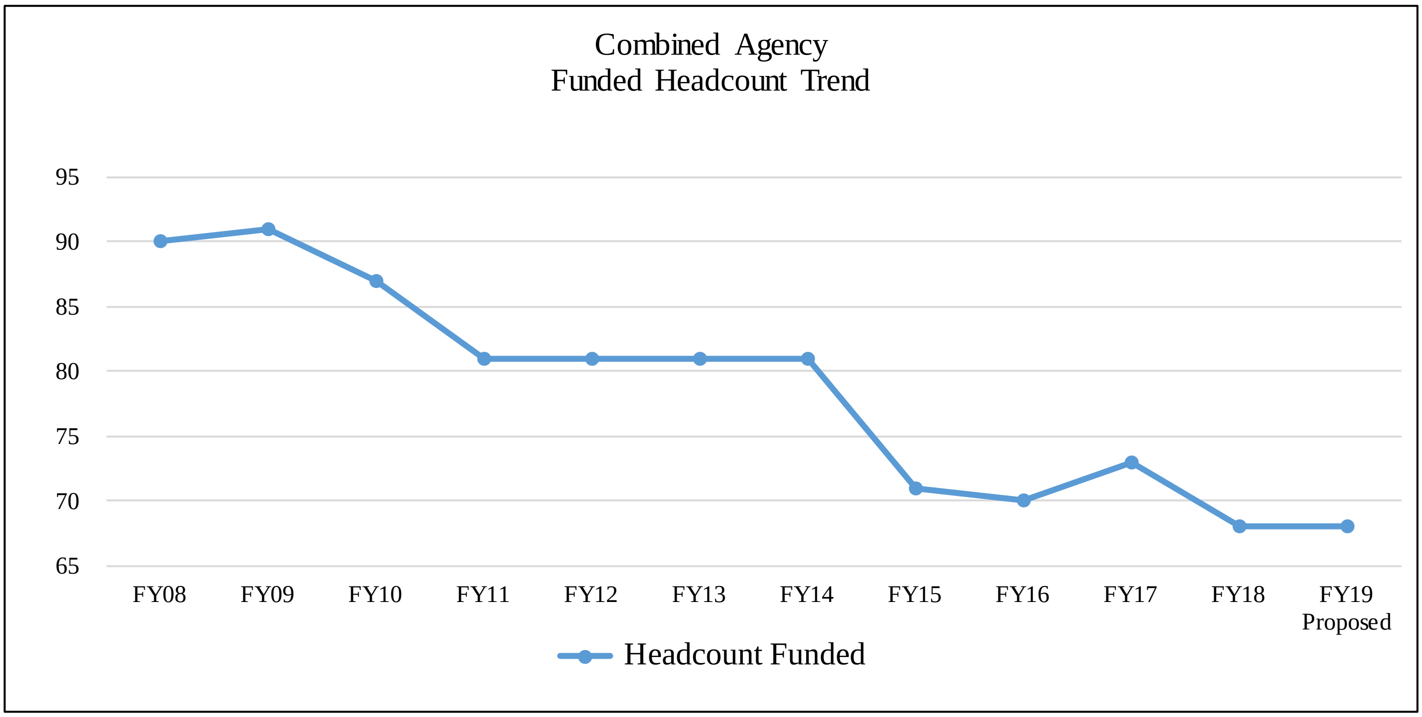
Foothill/Eastern Transportation Corridor Agencies
Fiscal Year 2019 Proposed Budget
($000)

Budget Category and Subcategory	Budget Fund Categories: Plan, Environ & Construction	Toll Operations Exp & Equip	Debt Service	Total
Administration:				
Regular Salaries	2,251	2,628	-	4,879
Internship Program	28	32	-	60
Board Compensation	34	41	-	75
Benefits	798	940	-	1,738
Employer Taxes	40	47	-	87
Insurance	182	985	-	1,167
Legal Expense	426	910	-	1,336
Telephone/Comm	41	48	-	89
Office Expense	158	271	-	429
Educ, Seminar, Membership, Mtgs	92	159	-	251
Consulting and Other Services	662	1,084	-	1,746
Marketing	-	1,028	-	1,028
Publications & Subscriptions	5	7	-	12
Rents & Leases	18	21	-	39
Building Services	226	265	-	491
Transportation & Travel	104	108	-	212
Office Equipment	15	53	-	68
Pacifica Fixed Assets	117	138	-	255
Subtotal Administration	5,197	8,765	-	13,962
241/91 Connector Administration:				
Administration	100	-	-	100
Legal	85	-	-	85
Subtotal 241/91 Connector Admin	185	-	-	185
SR 241 Administration:				
Administration	3,408	-	-	3,408
Legal	835	-	-	835
Subtotal 241 SR Admin	4,243	-	-	4,243
Total Administration	9,625	8,765	-	18,390
Planning, Environmental and Construction:				
SR 241:				
South County Traffic Relief Effort	19,992	-	-	19,992
Oso Bridge	23,590	-	-	23,590
Total SR 241	43,582	-	-	43,582
Capital Improvement Plan (CIP):				
Wildlife Safety Fence Monitoring	50	-	-	50
241/91 Express Connector	4,382	-	-	4,382
Signage Enhancement	2,680	-	-	2,680
241 Widening-133 to Chapman (Loma Segment)	3	-	-	3
Great Park Blvd. Interchange Coordination	130	-	-	130
Jeffrey Road Interchange Study	653	-	-	653
Total Capital Improvement Plan	7,898	-	-	7,898
Other Planning, Environmental and Construction:				
Environmental	494	-	-	494
Design Program Mgmt	930	-	-	930
Design Special Studies & Other	228	-	-	228
Other Construction	462	-	-	462
Total Other Planning, Environ and Constr	2,114	-	-	2,114
Total Planning, Environmental and Construction	53,594	-	-	53,594
Toll Operations:				
Customer Service & Toll Compliance	-	11,913	-	11,913
Toll Systems	-	2,049	-	2,049
Toll Facilities	-	745	-	745
Subtotal Toll Operations	-	14,707	-	14,707
Operations Equipment and Capital Expenditures:				
Transponder Equipment	-	1,456	-	1,456
Toll Equipment and Capital Expenditures	-	2,456	-	2,456
Total Equipment	-	3,912	-	3,912
Total Toll Operations	-	18,619	-	18,619
Debt Service	-	-	111,458	111,458
Total Expenditures	63,219	27,384	111,458	202,061

<u>Staffing</u>

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 FY19 is 68 funded positions and is allocated 60% to this Agency and 40% to SJHTCA. The following chart shows the change in funded headcount from 2008 through 2018 and the projected 2019 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.

TCA Organizational Structure
Fiscal Year 2019

SJHTCA Board

F/ETCA Board

Chief Executive Officer
3 FTEs

Communications & Marketing
7.25 FTEs

∑6C transition and account simplification project
∑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
30.5 FTEs

∑6C transition and account simplification project
∑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

∑6C transition and account simplification project
∑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 Traffic Relief Effort
∑Oso Bridge
∑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 Traffic Relief Effort
∑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 Traffic Relief Effort
∑System Wide Optimization Analysis and Planning
∑Oso Bridge
∑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 $6.7 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. FY19 benefits are 35.6% of salaries.

The FY19 employer contributions to OCERS have been budgeted at 24.76% for legacy employees and 21.86% 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 11.46% that represents payment of the Agencies' unfunded actuarial accrued liability (UAAL). The Agency's UAAL is estimated as of December 31, 2017 at approximately $6.7 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. In FY18, salary ranges were adjusted by 3%. For FY19, the staffing plan includes a 2% 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 $173,385 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, Successful/Fully Competent, Development Needed, and Unsatisfactory. The merit increase will be assigned according to the ratings category and is expected to range from 0% to 6%. A 3.0% non-base building performance incentive pool of $130,039 has been included in the budget and is linked to the FY19 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 FY12 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 $1.2 million, approximately 0.6% 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 2018 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 $1.3 million, approximately 0.7% 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 require the assistance. Composite rates for general counsel are $255 per hour. Negotiated blended rates related to complex contract issues and certain real estate issues are $300 per hour. In addition, legal rates related to litigation, lobbying and public finance are billed at prevailing rates that vary between $150 and $760 per hour depending on the size and complexity of the matter and the experience and qualifications of the attorney, paralegal or policy advisors assigned to the matter. Below is a breakdown of legal expenses by major category:

Toll Operations	$ 555,000
General/Other	277,000
Contracts	177,000
Environmental	100,000
Financing	80,000
Human Resources	72,000
Development Impact Fees	50,000
6C transition and account simplification project	25,000
Total	$ 1,336,000

Administration - Consulting and Other Services

The Consulting Services category is $1.7 million, which represents approximately 0.9% 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 communications, marketing, and operations consulting for the 6C transition and account simplification project. Additionally, the budget consists of state and national interoperability consultant and testing support, printing and distribution of communications materials, federal and state advocacy, and community/public relations services.

Financial Consulting	$ 591,000

System-Wide Traffic Optimization Study	331,000
Strategic Planning	305,000
Communications & 241/91 Express Connector Outreach	169,000
6C transition and account simplification project	140,000
Audit Services	60,000
Toll Operations Services	49,000
Payroll & Personnel Services	47,000
Other Consulting	29,000
Business Intelligence Project Consulting	25,000
Total	$ 1,746,000

Administration - Marketing

Total expenditures for marketing and advertising are budgeted at $1.0 million, representing 0.5% 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; support for the 6C transition and account simplification project; 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	$ 700,000
6C transition and account simplification project	150,000
Analytics and Research	100,000
Website Development	50,000
Accountholder Email Communications	28,000
Total	$ 1,028,000

Administration - Building Services

Building Services is budgeted at $491,000, 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 (expected to close at the end of FY19) including utilities, janitorial services, landscaping services, and maintenance and repairs as listed below:

Pacifica Utilities	$ 328,000
Pacifica Building Maintenance Services	148,000
San Clemente Utilities & Building Maintenance Services	15,000
Total	$ 491,000

Administration - Pacifica Fixed Assets

The Pacifica Fixed Assets category is budgeted at $255,000, approximately 0.1% of the total budget. This category is related to equipment qualifying for capitalization and includes design consulting for the Customer Service Center Modernization.

Planning, Environmental and Construction - SR 241 South County Traffic Relief Effort and Oso Bridge

The SR 241 Planning, Environmental and Construction costs (including related administrative costs) are budgeted at $47.8 million representing 23.7% of the proposed budget. The primary costs for this category are the outreach and planning efforts for South County Traffic Relief Effort including pre-financing costs which include the initiation of a new environmental document and technical studies, engineering work to support outreach efforts, legal, advocacy consultants, and on-going work related to the construction of the Oso Bridge project. 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 14, 2018 and summarized below:

South County Traffic Relief Effort	$ 19,992,000
Oso Bridge	23,590,000
Subtotal	$ 43,582,000
Administrative and Legal Expenses	4,243,000
Total	$ 47,825,000

Planning, Environmental and Construction - Capital Improvement Plan

The Capital Improvement Plan, excluding South County Traffic Relief Effort and the Oso Bridge projects (including related administrative costs), is budgeted at $8.1 million and represents 4.0% 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, consisting of program management, environmental, design, construction management, construction, and all other related costs. The Agency's CIP projects include the continued coordination 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 Enhancement 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 14, 2018 and summarized below:

241/91 Express Connector	$ 4,382,000
Signage Enhancement	2,680,000
241/Jeffrey Road Interchange Study	653,000
Great Park Blvd. Interchange Coordination	130,000
Wildlife Safety Fence Monitoring	50,000
241 Widening-133 to Chapman (Loma Segment)	3,000
Subtotal	$ 7,898,000
Administrative and Legal Expenses	185,000

Total	$	8,083,000

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

Other Planning, Environmental and Construction costs are budgeted at $2.1 million, or 1.0% 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, Strawberry Farms and Live Oak Plaza. Funding for the development of a site use plan for the Agency's newly acquired Saddle Club mitigation property is also included in FY19, as well as continued 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	$	930,000
Tomato Springs Water Conversion		462,000
Mitigation & Permits		306,000
Traffic Trends/Capacity Analysis		228,000
Staff Assistance & Other Environmental		188,000
Total	$	2,114,000

Toll Operations - Toll Customer Service and Toll Compliance

The Toll Customer Service and Toll Compliance category totals $11.9 million, approximately 5.9% 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 license plate 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. 6C transition and account simplification project costs include postage, printing, call center labor and transponder fulfillment. 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	$	3,686,000
Customer Service Contract		3,573,000
Postage & Printing		1,512,000
Customer Service System Maintenance		1,270,000
6C transition and account simplification project		918,000
Enforcement Services & Other		702,000
Other Customer Service		207,000
Projects		45,000
Total	$	11,913,000

Toll Operations - Toll Systems

The Toll Systems category totals $2.0 million, or approximately 1.0% of the total budget and, as detailed below, primarily consists of fees for the tolling systems 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	$ 1,746,000
Computer/Software Maintenance & Support	143,000
Projects	160,000
Total	$ 2,049,000

Toll Operations - Toll Facilities

This category is budgeted at $0.7 million representing 0.4% of the total budget, and accounts for all costs associated with maintaining the Agency's facilities on the road system such as utilities, janitorial services, and other various supplies and repairs.

On Road Utilities	$ 476,000
On Road Building Maintenance Services	269,000
Total	$ 745,000

Toll Equipment & Capital Expenditures

The Toll Equipment & Capital Expenditures budget is $3.9 million, or 1.9% of the total budget. Toll Equipment & Capital Expenditures primarily consists of current and 6C Protocol Transition 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	$ 1,456,000
CSC Back Office System Replacement Project	1,291,000
6C transition and account simplification project - Transponders	1,065,000
Other Equipment	100,000
Total	$ 3,912,000

Debt Service

The Debt Service category totals $111.5 million, or 55.2% of the total budget and in FY19 includes interest payments on the Agency's outstanding bonds. The debt service will be paid from net revenues with approximately $55.7 million to be paid on each January 15, 2019 and July 15, 2019.

The FY19 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 1.54x and 1.74x, 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 2019

	FY19 Budget ($000)
Adjusted Net Toll Revenues	
Total Toll Revenues Including Fees and Penalties	194,981
Interest Earnings *	4,300
Current Expenses - Funded From Toll Revenue	(27,384)
Adjusted Net Toll Revenues	171,897
Aggregate Net Debt Service	
Annual Aggregate Debt Service	111,458
Aggregate Coverage Ratio (1.15x requirement)	1.54
Senior Lien Net Debt Service	
Annual Senior Lien Debt Service	98,694
Senior Lien Coverage Ratio (1.30x requirement)	1.74

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

Estimated Unrestricted Cash Fund

Below is the FY19 budgeted activity and estimated ending balance for the unrestricted cash fund (as described in more detail on page 5).

Estimated Unrestricted Cash
($000)

Estimated Available Cash at 6/30/18	358,227
Planning, Environmental and Construction and Related Administration	(63,219)
Surplus Revenue	66,023
DIF Revenue and Interest Income	26,768
Estimated Available Cash at 6/30/19	387,799

RESOLUTION NO. F2018-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY
APPROVING THE BUDGET FOR FISCAL YEAR 2019

On motion of Board Member Murphy, 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 and amended on June 9, 2016, 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. Approves the annual budget for Fiscal Year 2019 (FY19) in the amount of $202,061,271. 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 FY19 Annual Budget report.

2. Authorizes 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	$18,390,463
• SR 241 (excluding related administration)	$43,582,755
• Capital Improvement Plan	$7,897,492
• Other Planning, Environmental and Construction	$2,113,734
• Toll Operations	$18,619,015
• Debt Service	$111,457,812

   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. Resolves 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/SCS), and to include the updated schedule and project budget approved by this resolution in all subsequent RTIP updates including the 2018 RTIP, and all subsequent RTP/SCS updates including the 2019 RTP/SCS, for the San Diego Association of Governments (SANDAG) region.

4. Resolves to carry forward the project description from the current 2017 Federal Transportation Improvement Program (FTIP) and 2016 Regional Transportation Plan/Sustainable Communities Strategy (RTP/SCS), and to include the updated schedule and project budget approved by this resolution in all subsequent FTIP updates including the 2019 FTIP, and, and all RTP/SCS updates including the 2020 RTP/SCS, for the Southern California Association of Governments (SCAG) region.

5. Directs staff to forward the approved Annual Budget for FY19 to the trustee.

This Resolution No. F2018-02, shall become effective immediately upon adoption.

Adopted this 14th day of June 2018, by the Board of Directors of the Foothill/Eastern Transportation Corridor Agency.

Ed Sachs, Chair
Foothill/Eastern Transportation Corridor Agency

RESOLUTION NO. F2018-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY
APPROVING THE BUDGET FOR FISCAL YEAR 2019

ATTEST:

I, Martha M. Ochoa, Secretary/Clerk of the Board of the Foothill/Eastern Transportation Corridor Agency hereby certify that the foregoing Resolution No. F2018-02 was duly adopted on June 14, 2018, by the Board of Directors of the Foothill/Eastern Transportation Corridor Agency by the following vote:

Yes:	Director Bartlett, Director Beall, Alternate Campbell, Director Martinez, Director Maryott, Director Viczorek, Director Murphy, Director Puckett, Director Sachs, Director Shea, Director Voigts
No:	Director Moreno, Director Ward, Alternate Gardner
Absent:	Director Nelson
Abstain:	None

Martha M. Ochoa

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