SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY

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KPMG LLP
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Independent Auditors' Report

The Honorable Board of Directors
San Joaquin Hills Transportation Corridor Agency:

We have audited the accompanying financial statements of the San Joaquin Hills Transportation Corridor Agency (the Agency), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Joaquin Hills Transportation Corridor Agency as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis and required supplementary information on pages 3–7 and pages 41–42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Irvine, California
October 1, 2018

This discussion and analysis of the financial performance of the San Joaquin Hills Transportation Corridor Agency (the Agency) provide an overview of the Agency's financial activities for the fiscal years ended June 30, 2018 and 2017. Please read it in conjunction with the Agency's financial statements and accompanying notes.

Background

The Agency was formed in 1986 as a joint powers authority by the County of Orange and cities in Orange County, California to provide traffic relief to Orange County through the construction and operation of a toll road. The Agency was created to plan, design, finance, construct, and operate a 15-mile toll road, known as the San Joaquin Hills (State Route 73) Toll Road. The Agency's primary focus is the operation of the facility and collection of tolls to repay the tax-exempt revenue bonds that were issued to construct the toll road.

Planning began in the 1970s when local transportation studies identified the need for new highways, including the San Joaquin Hills Transportation Corridor, to serve Orange County's growing population. In the early 1980s, the corridor was envisioned as a free highway funded through state or federal gas-tax revenue, but with a shortage of gas-tax revenue to fund transportation improvements and increasing costs of building new roads, local officials began to study alternative ways to fund road projects.

In the mid-1980s, two state laws were passed authorizing the Agency to collect tolls and development impact fees to fund road construction. With a pledged revenue stream from future tolls and development impact fees, the Agency issued nonrecourse, toll-revenue bonds to fund road construction, rather than relying on the uncertainty of state gas-tax revenue. The Agency also reached an agreement with the California Department of Transportation (Caltrans) to assume ownership, liability, and maintenance of the State Route 73 Toll Road as part of the state highway system. This agreement eliminated the need for the Agency to seek additional funding sources for road maintenance.

In 1996, the State Route 73 Toll Road opened to traffic, the first publicly operated toll road in Southern California. It serves as an important, time-saving alternative route to the Interstate 405 and Interstate 5 Freeways, with 32,265,119 transactions during the year ended June 30, 2018, compared to 31,922,586 annual transactions in 2017, and 30,589,341 transactions in 2016.

Financial Highlights

Tolls, fees, and fines earned in fiscal year 2018 (FY18) totaled $191,234 compared to $182,649 in fiscal year 2017 (FY17), an increase of 4.7%.

As of June 30, 2018 and 2017, the Agency had $432,823 and $365,325, respectively, of restricted cash and investments that were subject to master indentures of trust for the bonds outstanding at each date. The Agency also had $145,598 and $96,696, respectively, of unrestricted cash and investments.

The Agency's net position at June 30, 2018 and 2017 was $(1,749,052) and $(1,805,240), respectively. The negative net position results primarily from the inclusion in the Agency's financial statements of its long-term debt obligations, which were used to fund construction of the corridor, but not the related capital assets, since ownership of the corridor was transferred to Caltrans upon completion of construction.

(In thousands)

Overview of the Financial Statements

The Agency's financial statements include its statements of net position, statements of revenue, expenses, and changes in net position, statements of cash flows, and notes to the financial statements. The financial statements present the financial picture of the Agency from the economic resources measurement focus using the accrual basis of accounting. These statements include the assets and liabilities of the Agency as well as certain items labeled as deferred outflows and inflows of resources. The current year's revenue and expenses are taken into account regardless of when cash is received or paid. The statements of cash flows provide information about the Agency's cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing, and investing activities during the reporting period.

The statements of net position and the statements of revenue, expenses, and changes in net position report the Agency's net position and related changes. Net position is the difference between the total of recorded assets and deferred outflows and the total of liabilities and deferred inflows. The recorded activities include all toll revenue and operating expenses related to the operation of the San Joaquin Hills Transportation Corridor, as well as the Agency's construction-related activities and related financing costs. Activities are financed by toll revenue, development impact fees, fees and fines, and investment income.

Financial Analysis

The following table summarizes the net position of the Agency as of June 30, 2018, 2017, and 2016:

	2018	Percentage increase (decrease)	2017	Percentage increase (decrease)	2016
Assets and deferred outflows:					
Current assets	$ 134,642	38.7%	$ 97,075	(16.4)%	$ 116,138
Capital assets, net	4,885	(3.8)	5,078	(7.1)	5,466
Other noncurrent assets	456,391	20.6	378,545	34.3	281,969
Deferred outflows	91,991	(5.6)	97,450	(5.6)	103,263
Total assets and deferred outflows	687,909	19.0	578,148	14.1	506,836
Liabilities and deferred inflows:					
Bonds payable	2,258,187	1.9	2,216,280	1.0	2,194,938
Note payable to F/ETCA	121,096	0.2	120,795	0.2	120,495
Net pension liability	2,826	(23.2)	3,681	(3.0)	3,795
Other liabilities	53,694	26.6	42,401	(0.2)	42,478
Deferred inflows	1,158	401.3	231	(32.1)	340
Total liabilities and deferred inflows	2,436,961	2.2	2,383,388	0.9	2,362,046
Net position	$ (1,749,052)	(3.1)	$ (1,805,240)	(2.7)	$ (1,855,210)

(In thousands)

The increases in current and other noncurrent assets above are primarily attributable to the Agency's accumulation of additional cash reserves, as cash generated from operations has continued to surpass its immediate debt service requirements.

As described in note 6(c) to the financial statements, the Agency's board of directors and the board of directors of Foothill/Eastern Transportation Corridor Agency (F/ETCA) approved an agreement that provided for termination of the Mitigation Payment and Loan Agreement between the agencies, concurrently with the closing of its refinance transaction. The termination agreement also provided for the Agency to pay $120,000 to F/ETCA, in annual installments beginning January 15, 2025 equal to 50% of the Agency's surplus funds, plus accrued interest.

Following is a summary of the Agency's revenue, expenses, and changes in net position for the years ended June 30, 2018, 2017, and 2016:

	2018	Percentage increase (decrease)	2017	Percentage increase (decrease)	2016
Operating revenue:					
Tolls, fees, and fines	$ 191,234	4.7 %	$ 182,649	9.3 %	$ 167,157
Development impact fees	6,798	27.3	5,339	(37.1)	8,491
Other revenue	1	—	1	(99.6)	285
Total operating revenue	198,033	5.3	187,989	6.9	175,933
Operating expenses	21,965	1.3	21,684	37.9	15,723
Operating income	176,068	5.9	166,305	3.8	160,210
Nonoperating expenses, net	(119,880)	3.0	(116,335)	0.6	(115,635)
Change in net position	56,188		49,970		44,575
Net position at beginning of year	(1,805,240)	(2.7)	(1,855,210)	(2.3)	(1,899,785)
Net position at end of year	$ (1,749,052)	(3.1)	$ (1,805,240)	(2.7)	$ (1,855,210)

The Agency's revenue consists primarily of tolls, fees, and fines, which comprised 96.6% of total revenue in FY18, respectively, as compared to 97.2% in FY17. Tolls, fees, and fines increased by 4.7% and 9.3%, respectively, over each of the two preceding years, primarily due to increases in toll transactions and inflationary toll rate increases. Development impact fees increased from $5,339 in FY17 to $6,798 in FY18, or 27.3%, compared to a decrease of 37.1% from FY16 to FY17. The amounts of development impact fees collected fluctuate from year to year depending on residential and nonresidential development in Orange County within the area of benefit within the area of benefit from the San Joaquin Hills Transportation Corridor.

(In thousands)

Operating expenses were $21,965 in FY18 compared to $21,684 in FY17, an increase of 1.3%. Included in FY18 operating expenses is noncash depreciation expense on fixed assets of $2,484, compared to $2,220 in FY17. Excluding depreciation, operating expenses were $19,481 in FY18 and $19,464 in FY17.

Operating expenses in FY17 reflected an increase of 37.9% from FY16. A substantial portion of this increase resulted from a change in the method of allocating certain costs and revenue between the Agency and F/ETCA. As described in Note 2(l) to the financial statements, costs are allocated between the two agencies based on the estimated benefit to each. The allocation method was reevaluated in connection with preparation of the agencies' FY17 budgets, taking into account several factors. These included the conversion to All Electronic Tolling that changed the agencies' business model from using on-road infrastructure (cash toll collections) to a centralized back office focus, weighted toward costs to support customers and the revenue base. This change, along with significant growth in the Agency's tolls, fees, and fines revenue, suggested that an increased allocation of the agencies' total account maintenance fee revenue and operating expenses was appropriate for the Agency's FY17 budget. The effects were to shift approximately $4.8 million of account maintenance fee revenue and $5.7 million of operating expenses from F/ETCA to the Agency in FY17.

Net nonoperating expenses for FY18 include $2,123 of costs incurred in connection with the removal of some of the agency's toll booths; investment income of $1,263, compared to $915 in FY17; a reduction in the arbitrage rebate expense of $407, compared to $142 in FY17; and interest expense of $119,427, compared to $117,313 in FY17.

Capital Assets, Net

The following table summarizes the Agency's capital assets, net of accumulated depreciation at June 30:

		2018	2017	2016
Construction in progress	$	73	—	—
Right-of-way acquisitions, grading, or improvements		106	119	119
Furniture and equipment		4,706	4,959	5,347
Total capital assets, net	$	4,885	5,078	5,466

Right-of-way acquisitions, grading, or improvements include easements and environmental mitigation parcels. Furniture and equipment includes facility and toll revenue equipment related to the corridor operations facility, transponders, toll and violations collection equipment, buildings, and changeable message signs.

More detailed information about the Agency's capital assets is presented in note 5 to the financial statements.

Debt Administration

At June 30, 2018, 2017, and 2016, the Agency had outstanding bonds payable of $2,258,187, $2,216,280, and $2,194,938, respectively. The net changes during 2018 and 2017 were primarily attributable to accretion of principal on capital appreciation bonds totaling $47,897 and $45,392, respectively, offset by principal payments of $3,740 and $21,800.

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The Agency's tolls, fees, fines, and development impact fee revenue, less certain expenses, as defined in the indentures of trust, is pledged to repay these bonds. The Agency has several debt covenants contained in the master indentures of trust. Management of the Agency represents that the Agency was in compliance with all of its covenants as of and for the years ended June 30, 2018 and 2017.

Economic Factors

After consideration of toll rate recommendations from the Agency's traffic consultant and the potential effects of traffic diversion, toll rates were approved by the Agency's board of directors for implementation effective July 1, 2018. The new toll rates are projected to result in a 2.8% increase in transactional toll revenue and reflect an increase of $0.40 for peak hour toll rates at the mainline plaza.

Contacting the Agency's Financial Management

This financial report is designed to provide a general overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, San Joaquin Hills Transportation Corridor Agency, 125 Pacifica, Suite 100, Irvine, CA 92618 or to info@thetollroads.com.

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Statements of Net Position

June 30, 2018 and 2017

(In thousands)

		2018	2017
Assets:			
Current assets:			
Cash and investments	$	50,274	28,224
Restricted cash and investments		71,756	55,252
Receivables:			
Accounts, net of allowance of $2,407 and $2,871, respectively		4,550	3,809
Other		1,356	786
Due from Foothill/Eastern Transportation Corridor Agency		6,075	8,475
Other assets		631	529
Total current assets		134,642	97,075
Noncurrent assets:			
Cash and investments		95,324	68,472
Restricted cash and investments		361,067	310,073
Capital assets, net		4,885	5,078
Total noncurrent assets		461,276	383,623
Deferred outflows of resources:			
Unamortized deferral of bond refunding costs		91,210	96,832
Pension costs		781	618
Total assets and deferred outflows		687,909	578,148
Liabilities:			
Current liabilities:			
Accounts payable		2,257	2,500
Unearned revenue		18,680	6,793
Employee compensated absences payable		281	286
Interest payable		31,134	31,073
Current portion of bonds payable		4,064	3,632
Total current liabilities		56,416	44,284
Net pension liability		2,826	3,681
Arbitrage rebate liability		1,342	1,749
Long-term bonds payable		2,254,123	2,212,648
Note payable to Foothill/Eastern Transportation Corridor Agency		121,096	120,795
Total liabilities		2,435,803	2,383,157
Deferred inflows of resources:			
Pension costs		1,158	231
Total liabilities and deferred inflows		2,436,961	2,383,388
Net position:			
Net investment in capital assets		(2,162,092)	(2,114,370)
Restricted		388,899	333,983
Unrestricted		24,141	(24,853)
Total net position	$	(1,749,052)	(1,805,240)

See accompanying notes to financial statements.

SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Operating revenue:			
Tolls, fees, and fines	$	191,234	182,649
Development impact fees		6,798	5,339
Other revenue		1	1
Total operating revenue		198,033	187,989
Operating expenses:			
Toll compliance and customer service		10,458	9,888
Salaries and wages		3,729	4,117
Toll systems		989	1,019
Depreciation		2,484	2,220
Professional services		1,062	1,292
Insurance		651	643
Facilities rent		671	605
Toll facilities		195	192
Marketing		701	689
Other operating expenses		1,025	1,019
Total operating expenses		21,965	21,684
Operating income		176,068	166,305
Nonoperating revenue (expenses):			
Investment income		1,263	915
Loss on disposition of capital assets		(2,123)	(79)
Adjustment of arbitrage rebate liability		407	142
Interest expense		(119,427)	(117,313)
Nonoperating expenses, net		(119,880)	(116,335)
Change in net position		56,188	49,970
Net position at beginning of year		(1,805,240)	(1,855,210)
Net position at end of year	$	(1,749,052)	(1,805,240)

See accompanying notes to financial statements.

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Cash received from toll road patrons	$	204,780	181,053
Cash received from development impact fees		6,784	5,336
Cash received from other revenue		1	1
Cash payments to suppliers		(16,097)	(14,417)
Cash payments to employees		(3,825)	(4,116)
Net cash provided by operating activities		191,643	167,857
Cash flows from capital and related financing activities:			
Cash payments for acquisition of capital assets		(2,304)	(1,911)
Cash payments related to the disposition of capital assets		(2,110)	—
Cash payments for interest and principal		(71,536)	(90,488)
Net cash used in capital and related financing activities		(75,950)	(92,399)
Cash flows from investing activities:			
Cash receipts for interest and dividends		3,494	2,624
Cash receipts from the maturity and sale of investments		110,249	121,715
Cash payments for purchase of investments		(219,685)	(206,701)
Net cash used in investing activities		(105,942)	(82,362)
Net increase (decrease) in cash and cash equivalents		9,751	(6,904)
Cash and cash equivalents at beginning of year		44,627	51,531
Cash and cash equivalents at end of year (note 4)	$	54,378	44,627
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	176,068	166,305
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		2,484	2,220
Changes in operating assets and liabilities:			
Accounts receivable		(741)	(176)
Fees receivable		(14)	(3)
Due from Foothill/Eastern Transportation Corridor Agency		2,400	(898)
Other assets		(102)	(63)
Accounts payable		(243)	993
Unearned revenue		11,887	(522)
Net pension liability		(855)	(114)
Deferred outflows of resources related to pensions		(163)	190
Deferred inflows of resources related to pensions		927	(109)
Employee compensated absences payable		(5)	34
Total adjustments		15,575	1,552
Net cash provided by operating activities	$	191,643	167,857

(Continued)

SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Noncash capital and related financing and investing activities:			
Amortization of bond premium recorded as reduction of interest expense	$	2,250	2,250
Amortization of deferred bond refunding costs		(5,622)	(5,623)
Interest expense recorded for accretion of bonds and note payable		(48,198)	(45,692)
Change in unrealized gain/loss on investments		(3,409)	(1,169)
Amortization of discount/premium on investments		923	(419)
Adjustment of arbitrage rebate liability		407	142

See accompanying notes to financial statements.

(1) Reporting Entity

In recognition of the regional transportation needs in the County of Orange (County), the California State Legislature enacted various amendments to the California Government Code to authorize the financing of bridges and major thoroughfares by joint powers agencies. Pursuant to such authorization, the San Joaquin Hills Transportation Corridor Agency (the Agency) was created in May 1986 by a joint exercise of powers agreement. Current members are the County and the cities of Aliso Viejo, Costa Mesa, Dana Point, Irvine, Laguna Hills, Laguna Niguel, Laguna Woods, Mission Viejo, Newport Beach, San Clemente, San Juan Capistrano, and Santa Ana (collectively, the member agencies). The purpose of the Agency is to plan, design, construct, finance, administer funds for, and operate the San Joaquin Hills Transportation Corridor. The Agency is governed by a board of directors comprising representatives from the member agencies. The Agency has the power to, among other things, incur debt and establish and collect tolls.

The financial statements comprise the activities of the Agency. There are no other organizations for which the Agency is financially accountable or for which it is fiscally responsible. The Agency and the Foothill/Eastern Transportation Corridor Agency (F/ETCA) are under common management and together are called the Transportation Corridor Agencies. However, each agency has an independent governing board.

(2) Summary of Significant Accounting Policies

The accounting policies of the Agency are in conformity with U.S. generally accepted accounting principles (U.S. GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

(a) Basis of Presentation

The Agency records revenue in part from fees and other charges for services to external users and, accordingly, has chosen to present its financial statements using the reporting model for special-purpose governments engaged in business-type activities. This model allows all financial information for the Agency to be reported in a single column in each of the accompanying financial statements.

The Agency distinguishes operating revenue and expenses from nonoperating items in the preparation of its financial statements. Operating revenue and expenses generally result from the collection of tolls, fees, and fines on the corridor. The Agency’s operating expenses include depreciation, materials, services, and other expenses related to the operation of the corridor, in addition to costs associated with the Agency’s ongoing obligations for environmental mitigation and certain costs related to construction administration. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

(b) Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when incurred.

Restricted resources are used in accordance with the Agency's master indentures of trust. Unrestricted resources are used at the Agency's discretion. When both restricted and unrestricted resources are available for use, it is the Agency's policy to determine on a case-by-case basis when to use restricted or unrestricted resources.

(c) Budget

Fiscal year budgets are prepared by the Agency's staff for estimated revenue and expenses. The board of directors adopts the annual budget at the June board meeting for the fiscal year commencing the following July. The approval of the budget requires the consent of at least two-thirds of the board members. No expenditures in excess of the total budget for each board-designated category are made without the approval of at least two-thirds of the board members, at which time a revised and amended budget is required to be submitted to the board of directors. All budgets are adopted on a basis consistent with U.S. GAAP. All budget appropriations lapse at year-end. Any budgeted expenses not incurred by each year-end must be reappropriated in the next fiscal year.

(d) Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

(e) Investments

Investments, except for money market funds, are stated at fair value on a recurring basis. Money market funds with maturities of one year or less are recorded at amortized cost.

The Agency classifies investments as current or noncurrent based on how readily the investment is expected to be converted to cash and whether any restrictions limit the Agency's ability to use the resources.

(f) Receivables

Receivables include amounts due from member agencies for development impact fees collected on behalf of the Agency, credit card receivables, interoperable receivables due from other California toll agencies, receivables from patrons for violations and tolls, and interest.

(g) Capital Assets

Capital assets include construction in progress, environmental mitigation sites, easements, the corridor operations facility, transponders, toll and violations collection equipment, buildings, changeable message signs, vehicles, and furniture. Capital assets are defined by the Agency as assets with an initial individual cost of more than five thousand dollars, with the exception of transponders that are valued in total, and an estimated useful life in excess of one year. The cost of capital assets includes ancillary charges necessary to place the assets into their intended location and condition for use.

As described further in note 5, the San Joaquin Hills Transportation Corridor and the related purchases of rights of way, for which title vests with the California Department of Transportation (Caltrans), are not included as capital assets because the Agency does not have title to these assets. The costs of normal

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maintenance and repairs and mitigation that do not add value to the assets or materially extend asset lives are not capitalized.

Capital assets are recorded at cost and are depreciated using the straight-line method over the following estimated useful lives:

Asset type	Useful life
Buildings	20–30 Years
Changeable message signs	15 Years
Toll revenue equipment	5 Years
Vehicles	5 Years
Leasehold improvements, other equipment, and furniture	5–10 Years

Assets determined to be impaired are recorded at the lower of cost or estimated net realizable value.

(h) Unearned Revenue

Unearned revenue represents prepaid tolls collected from patrons, including those using FasTrak®, an electronic toll collection system.

(i) Unamortized Deferral of Bond Refunding Costs

Deferred bond refunding costs represent certain costs related to the issuance of bonds. These costs have been recorded as deferred outflows of resources, and are being amortized over the remaining period during which the refunded bonds were scheduled to be repaid, as more fully detailed in note 6.

(j) Pension Plan

Qualified permanent employees of the Agency participate in a cost-sharing, multiple-employer defined benefit pension plan administered by the Orange County Employees Retirement System (OCERS). For purposes of measuring the Agency's net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by OCERS. For this purpose, plan contributions are recognized when they are due and payable in accordance with plan terms. Investments are reported at fair value.

(k) Revenue Recognition

Toll revenue is recognized at the time each vehicle passes through the toll plaza. Development impact fees are earned when building permits are issued and funds are collected by the member agencies. Other revenue is recognized when earned.

(l) Transactions with F/ETCA

Expenses directly related entirely to the Agency are charged to the Agency, and those incurred on behalf of both the Agency and F/ETCA are allocated between the two agencies based on the estimated benefit to each. In addition, the Agency has amounts due from F/ETCA related to F/ETCA customers who incur tolls on the Agency's corridor and has amounts due to F/ETCA related to the Agency's customers who incur tolls on state routes 241, 261, and 133 and other expenses. At June 30, 2018 and 2017, the Agency had net receivables due from F/ETCA of $6,075 and $8,475, respectively.

(m) Net Position

The Agency's net position is classified within the following categories:

Net investment in capital assets: Represents the Agency's capital assets, net of accumulated depreciation and unamortized bond refunding costs, reduced by the outstanding principal balances of debt attributable to the acquisition, construction, and improvement of those assets.

Restricted: Represents the Agency's assets subject to externally imposed conditions, related primarily to restricted bond proceeds and certain revenue collected, net of related liabilities.

Unrestricted: Represents the remainder of the Agency's net position not included in the categories above.

(n) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(o) Reclassifications

Certain amounts reported in the prior period have been reclassified to conform to the current period presentation.

(Continued)

(In thousands)

(3) Development Impact Fees

The sources of development impact fees for the years ended June 30, 2018 and 2017 were as follows:

		2018	2017
City of Irvine	$	3,195	2,475
City of Laguna Niguel		1,137	16
City of San Juan Capistrano		628	392
City of Newport Beach		533	330
City of San Clemente		520	313
City of Santa Ana		284	22
City of Aliso Viejo		254	1,377
County of Orange		126	279
City of Dana Point		96	126
City of Costa Mesa		25	6
City of Laguna Hills		—	3
	$	6,798	5,339

(4) Cash and Investments

Cash and investments as of June 30, 2018 and 2017 are classified in the accompanying financial statements as follows:

		2018	2017
Current cash and investments	$	50,274	28,224
Noncurrent cash and investments		95,324	68,472
Current restricted cash and investments		71,756	55,252
Noncurrent restricted cash and investments		361,067	310,073
	$	578,421	462,021

(Continued)

(In thousands)

Cash and investments as of June 30, 2018 consist of the following:

		Cash and cash equivalents	Investments	Total
Deposit accounts	$	3,162	—	3,162
Money market funds		34,195	—	34,195
California Asset Management Trust Cash Reserve Portfolio (CAMP)		—	15,021	15,021
Commercial paper		—	13,086	13,086
Certificates of deposit		—	13,500	13,500
U.S. Treasury securities		17,021	—	17,021
Federal agency, U.S. government-sponsored enterprise, and supranational notes		—	67,048	67,048
Corporate notes		—	48,150	48,150
Investments held with trustee per debt agreements:				
Commercial paper		—	2,025	2,025
U.S. Treasury securities		—	294,388	294,388
Federal agency, U.S. government-sponsored enterprise, and supranational notes		—	33,257	33,257
Corporate notes		—	37,568	37,568
Total	$	54,378	524,043	578,421

(In thousands)

Cash and investments as of June 30, 2017 consist of the following:

		Cash and cash equivalents	Investments	Total
Deposit accounts	$	996	—	996
Money market funds		26,950	—	26,950
Commercial paper		999	2,977	3,976
Certificates of deposit		—	3,000	3,000
U.S. Treasury securities		15,682	5,688	21,370
Federal agency, U.S. government-sponsored enterprise, and supranational notes		—	53,962	53,962
Corporate notes		—	28,218	28,218
Investments held with trustee per debt agreements:				
Commercial paper		—	285	285
U.S. Treasury securities		—	262,607	262,607
Federal agency, U.S. government-sponsored enterprise, and supranational notes		—	39,090	39,090
Corporate notes		—	21,567	21,567
Total	$	44,627	417,394	462,021

(a) Cash Deposits

(i) Custodial Credit Risk Related to Cash Deposits

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the Agency will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party.

At June 30, 2018 and 2017, the carrying amounts of the Agency’s cash deposits were $3,162 and $996, respectively, and the corresponding aggregate bank balances were $3,626 and $1,770, respectively. The differences of $464 and $774 were principally due to outstanding checks. The Agency’s custodial credit risk is mitigated in that the full amounts of the bank balances outlined above were insured by federal depository insurance or collateralized in accordance with Section 53652 of the California Government Code with securities held by the pledging financial institution in the Agency’s name.

(b) Investments

(i) Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Agency mitigates these risks by holding a diversified portfolio of high-quality investments. The Agency's investment policy sets specific parameters by type of investment for credit quality, maximum maturity, and maximum percentage investment. Both the policy and the Agency's debt agreements generally require that all securities must be issued by companies with a long-term debt rating of at least "A" by two of the Nationally Recognized Statistical Rating Organizations (NRSRO) or at least "AA" by one NRSRO. The policy also indicates specific rating requirements for certain types of investments. Further, there are percentage limitations on the purchase of specific types of securities, based on the purchase price of the security as compared to the market value of the total portfolio at the time of purchase. However, the policy does not require sales of individual securities due to subsequent changes in market value that cause their values to exceed the prescribed maximum percentages of the portfolio.

The table below identifies the types of investments that are authorized by the Agency's investment policy and certain provisions of the Agency's policy that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee, which are governed by the provisions of the Agency's debt agreements rather than by the Agency's investment policy.

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
U.S. Treasury bills, notes, and bonds	5 Years	100	100	N/A
Federal agency and U.S. government-sponsored enterprise notes and bonds	5 Years	100	35	N/A
Federal agency mortgage-backed securities	5 Years	20	15	Second highest ratings category by an NRSRO
Supranational agency notes and bonds	5 Years	30	5	Second highest ratings category by an NRSRO

(In thousands)

Authorized investment type		Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
Certificates of deposit	**	5 years	100	5	Long-term debt rating in one of highest ratings categories by two NRSROs
Certificates of Deposit Account Registry Service		5 years	30	5	Long-term debt rating in one of highest ratings categories by two NRSROs
Negotiable certificates of deposit		5 years	30	5	Long-term debt rating in one of highest ratings categories by two NRSROs
Banker's acceptances		180 days	30	5	Drawn on and accepted by a bank that carries the highest short-term ratings category by one NRSRO
Commercial paper		270 days	25	Lesser of 5% of portfolio or 10% of outstanding paper of issuer	Highest short-term rating by an NRSRO
Repurchase agreements		90 days	25	5	N/A
Medium-term maturity corporate notes		5 years	30	5	Long-term debt rating in one of highest ratings categories by two NRSROs

(Continued)

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
State of California Local Agency Investment Fund	N/A	$65 million or 15% of portfolio	5	N/A
County or local agency investment pools	N/A	15	5	N/A
Shares in a California common law trust	N/A	20	5	Highest rating category by an NRSRO
Asset-backed securities	5 Years	20	5	Highest rating by one NRSRO; issuer must also have one of the three highest ratings from two NRSROs
Money market mutual funds	N/A	20	5	Highest applicable rating by two NRSROs
Bonds or notes issued by the State of California, any local agency in the state, or any other state	5 Years	30	5	One of the three highest rating categories by at least two NRSROs

* Excluding amount held by trustee, which are subject to the provisions of the bond indentures.

** The full amounts of principal and accrued interest must be insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

The investment of debt proceeds and toll revenue held by the Agency's bond trustee is governed by provisions of the debt agreements, rather than by the general provisions of the California Government Code or the Agency's investment policy. The following table identifies the investment types that are authorized for these funds and, if applicable, the specific rating requirements.

Investments authorized by debt agreements	Specific rating requirement
U.S. government obligations	N/A
U.S. federal agency debt instruments	N/A
State and local government debt securities	One of the two highest rating categories by Moody's and S&P, and if rated by Fitch, in one of the two highest rating categories
Certificates of deposit, savings accounts, deposit accounts, or money market deposits insured by the Federal Deposit Insurance Corporation	N/A
Certificates of deposit collateralized by U.S. government or federal agency obligations	N/A
Federal funds or bankers' acceptances	Prime-1 or A3 or better by Moody's, A-1 or A or better by S&P and, if rated by Fitch, F-1 or A or better
Commercial paper	Prime-1 or better by Moody's and A-1 or better by S&P and, if rated by Fitch, F-1 or better
Repurchase agreements with terms up to 30 days, secured by U.S. government or federal agency obligations	A or better by both Moody's and S&P and, if rated by Fitch, A or better
Medium-term corporate notes with maximum maturity of five years	One of the three highest applicable rating categories, or approved in writing, by S&P, and, if rated by Fitch, one of the three highest applicable rating categories

Investments authorized by debt agreements		Specific rating requirement
Money market mutual funds		AAAm-G, AAA-m, or AA-m by S&P and, if rated by Moody's, Aaa, Aa1, or Aa2 and, if rated by Fitch, AAA or AA
Investment agreements	*	N/A

* Investments may be allowed if the Agency certifies to the trustee that the investment was approved in writing by each rating Agency, which has assigned a rating to the Agency's bonds, and by the Agency's bond insurer.

At June 30, 2018 and 2017, all of the Agency's investments were rated at or above the minimum levels required by its investment policy and its debt agreements, as shown below:

	June 30, 2018		June 30, 2017	
Investment type	S&P	Moody's	S&P	Moody's
U.S. Treasury bills and notes	AA+	Aaa	AA+	Aaa
U.S. Treasury State and Local Government Series (SLGS)	AA+	Aaa	AA+	Aaa
Federal agency, U.S. government-sponsored enterprise and supranational notes*	AA+/AAA	Aaa	AA+/AAA	Aaa
Money market funds	AAAm	Aaa -mf	AAAm	Aaa -mf
CAMP	AAA	NR	—	—
Commercial paper:				
Bank of Tokyo-Mitsubishi UFJ Ltd	A-1	P-1	A-1	P-1
General Electric Capital	A-1	P-1	A-1+	P-1
Rabobank Nederland NV	A-1	P-1	—	—
Toyota Motor Corp	A-1+	P-1	A-1+	P-1
Certificates of Deposit:				
Toronto Dominion Holdings	A-1+	P-1	A-1+	P-1
Bank of Montreal Chicago	A-1	P-1	—	—
Bank of Nova Scotia Houston	A-1	P-1	—	—
Royal Bank of Canada	A-1+	P-1	—	—

Investment type	June 30, 2018 S&P	June 30, 2018 Moody’s	June 30, 2017 S&P	June 30, 2017 Moody’s
Corporate notes – medium term:				
Apple Inc	AA+	Aa1	AA+	Aa1
Bank of America Corp	A-	A3	—	—
Berkshire Hathaway Inc	AA	Aa2	AA	Aa2
Charles Schwab Corporation	A	A2	A	A2
ChevronTexaco Corporation	AA-	Aa2	AA-	Aa2
Chubb Corporation	A	A3	—	—
Cisco Systems	AA-	A1	AA-	A1
Deere & Company	A	A2	A	A2
Exxon Mobil Corp	AA+	Aaa	AA+	Aaa
General Dynamics Corp	A+	A2	—	—
General Electric Company	—	—	AA-	A1
Honda Motor Corporation	A+	A2	A+	A1
HSBC USA Corp	A	A2	—	—
IBM Corporation	A+	A1	A+	A1
Intel Corporation	A+	A1	A+	A1
JP Morgan Chase & Company	A-	A3	A-	A3
Northern Trust Corp	A+	A2	—	—
Oracle Corporation	AA-	A1	AA-	A1
Paccar Financial	A+	A1	A+	A1
Pepsico Inc	A+	A1	A+	A1
Pfizer Inc	AA	A1	AA	A1
PNC Financial Services	A	A2	—	—
Qualcomm Inc	—	—	A	A1
State Street Bank	A	A1	—	—
Toyota Motor Corp	AA-	Aa3	AA-	Aa3
US Bancorp	A+/AA-	A1	A+	A1
Visa Inc	A+	A1	A+	A1
Walt Disney Company	A+	A2	A+	A2
Wells Fargo Corporation	A-	A2	A	A2

* Ratings are indicated to the extent available. However, in some instances, discounted federal agency notes are not rated.

(ii) Custodial Credit Risk

Custodial credit risk for investments is the risk that the Agency will not be able to recover the value of investment securities that are in the possession of an outside party. All securities owned by the Agency are deposited in the Agency’s trustee bank with the exception of a money market account that is deposited in the Agency’s primary bank. Securities are not held in broker accounts.

(In thousands)

(iii) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency mitigates this risk by matching maturity dates, to the extent possible, with the Agency's expected cash flow.

A summary of the Agency's investments held at June 30, 2018 that are governed by the Agency's investment policy and its bond agreements, including money market funds of $34,195 and U.S. Treasury securities of $17,021 that are considered cash equivalents, is as follows:

		Remaining maturity (In years)			
Investment type	**Fair value**	**Less than one**	**One to two**	**Two to five**	**More than five**
U.S. Treasury SLGS	$ 190,577	—	—	—	190,577
Other U.S. Treasury securities	120,832	39,887	17,524	63,421	—
Federal agency, U.S. government-sponsored enterprise, and supranational notes	100,305	18,221	43,307	38,777	—
Corporate notes	85,718	18,505	17,768	49,445	—
Money market funds	34,195	34,195	—	—	—
Commercial paper	15,111	15,111	—	—	—
CAMP	15,021	15,021	—	—	—
Certificates of deposit	13,500	13,500	—	—	—
Total	$ 575,259	154,440	78,599	151,643	190,577

(In thousands)

A summary of the Agency's investments held at June 30, 2017 that are governed by the Agency's investment policy and its bond agreements, including money market funds of $26,950, commercial paper of $999, and federal agency securities of $15,682 that are considered cash equivalents, is as follows:

		Remaining maturity (In years)			
Investment type	**Fair value**	**Less than one**	**One to two**	**Two to five**	**More than five**
U.S. Treasury SLGS	$ 192,237	—	—	—	192,237
Other U.S. Treasury securities	91,740	48,369	1,991	30,208	11,172
Federal agency, U.S. government-sponsored enterprise, and supranational notes	93,052	17,883	16,066	59,103	—
Corporate notes	49,785	13,466	14,699	21,620	—
Money market funds	26,950	26,950	—	—	—
Commercial paper	4,261	4,261	—	—	—
Certificates of deposit	3,000	3,000	—	—	—
Total	$ 461,025	113,929	32,756	110,931	203,409

At June 30, 2018 and 2017, with the exception of investments issued or explicitly guaranteed by the U.S. government and money market mutual funds, there were no investments in any issuers that accounted for 5% or more of the Agency's total investments.

(iv) Fair Value Measurements

Because investing is not a core part of the Agency's mission, the Agency has determined that the disclosures related to these investments only need to be disaggregated by major type and has chosen a tabular format for disclosing the levels within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets.
- Level 2 inputs are significant other observable inputs.
- Level 3 inputs are significant unobservable inputs.

Debt securities classified as Level 2 in the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Commercial paper is valued based on quoted prices in active markets of similar securities.

(In thousands)

At June 30, 2018 and 2017, the Agency had the following fair value measurements:

	June 30, 2018			
Investment type	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
U.S. Treasury SLGS	$ 190,577	—	190,577	—
Other U.S. Treasury securities	120,832	—	120,832	—
Federal agency, U.S. government-sponsored enterprise, and supranational notes	100,305	—	100,305	—
Corporate notes	85,718	—	85,718	—
Commercial paper	15,111	—	15,111	—
Certificates of deposit	13,500	—	13,500	—
	$ 526,043	—	526,043	—

Excluded from the table above are money market funds of $34,195, which are reported at amortized cost, and funds on deposit with CAMP of $15,021, which are not subject to fair value measurement categorization.

(In thousands)

Investment type		Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		June 30, 2017			
U.S. Treasury SLGS	$	192,237	—	192,237	—
Other U.S. Treasury securities		91,740	—	91,740	—
Federal agency, U.S. government-sponsored enterprise, and supranational notes		93,052	—	93,052	—
Corporate notes		49,785	—	49,785	—
Commercial paper		4,261	—	4,261	—
Certificates of deposit		3,000	—	3,000	—
	$	434,075	—	434,075	—

Money market funds in the amount of $26,950 are excluded from the table above because they are reported at amortized cost.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2018 was as follows:

		Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Construction in progress	$	—	73	—	73
Right-of-way acquisitions, grading, or improvements		119	—	(13)	106
Furniture and equipment		15,228	2,231	(390)	17,069
		15,347	2,304	(403)	17,248
Accumulated depreciation		(10,269)	(2,484)	390	(12,363)
	$	5,078	(180)	(13)	4,885

(In thousands)

Capital assets activity for the year ended June 30, 2017 was as follows:

		Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Right-of-way acquisitions, grading, or improvements	$	119	—	—	119
Furniture and equipment		13,923	1,911	(606)	15,228
		14,042	1,911	(606)	15,347
Accumulated depreciation		(8,576)	(2,220)	527	(10,269)
	$	5,466	(309)	(79)	5,078

Right-of-way acquisitions, grading, and improvements include easements and environmental mitigation parcels. Furniture and equipment include transponders, toll and violations collection equipment, buildings, vehicles, and leasehold improvements.

Transfer of Ownership

Ownership of the San Joaquin Hills Transportation Corridor construction, rights-of-way, grading, and improvements were transferred to Caltrans during the year ended June 30, 1997, upon satisfaction of all conditions contained within the Cooperative Agreement between the Agency and Caltrans. The Agency incurs additional costs for improvements and enhancements to the thoroughfares previously transferred to Caltrans. These improvements and enhancements are covered by separate project-specific cooperative agreements with Caltrans and are transferred to Caltrans and recognized as contribution expense.

(In thousands)

(6) Long-Term Obligations

The following is a summary of changes in long-term obligations during the year ended June 30, 2018:

	Balance at beginning of year	Additions/ accretions	Reductions	Balance at end of year	Due within one year
Series 2014 current interest toll road refunding revenue bonds:					
Senior lien bonds	$ 1,047,305	—	—	1,047,305	—
Junior lien bonds	293,910	—	—	293,910	—
Series 1997A toll road refunding revenue bonds:					
Restructured convertible capital appreciation bonds	605,899	36,757	—	642,656	—
Capital appreciation bonds	196,819	11,140	(3,740)	204,219	4,064
Subtotal	2,143,933	47,897	(3,740)	2,188,090	$ 4,064
Plus unamortized premium on 2014 bonds	72,347	—	(2,250)	70,097	
Total bonds payable	2,216,280	47,897	(5,990)	2,258,187	
Note payable to F/ETCA	120,795	301	—	121,096	
Total long-term obligations	$ 2,337,075	48,198	(5,990)	2,379,283	

(In thousands)

Following is a summary of changes in long-term obligations during the year ended June 30, 2017:

	Balance at beginning of year	Additions/ accretions	Reductions	Balance at end of year	Due within one year
Series 2014 current interest toll road refunding revenue bonds:					
Senior lien bonds	$ 1,065,140	—	(17,835)	1,047,305	—
Junior lien bonds	293,910	—	—	293,910	—
Series 1997A toll road refunding revenue bonds:					
Restructured convertible capital appreciation bonds	571,249	34,650	—	605,899	—
Capital appreciation bonds	190,042	10,742	(3,965)	196,819	3,632
Subtotal	2,120,341	45,392	(21,800)	2,143,933	$ 3,632
Plus unamortized premium on 2014 bonds	74,597	—	(2,250)	72,347	
Total bonds payable	2,194,938	45,392	(24,050)	2,216,280	
Note payable to F/ETCA	120,495	300	—	120,795	
Total long-term obligations	$ 2,315,433	45,692	(24,050)	2,337,075	

(a) Toll Road Revenue Bonds

In October 1997, the Agency issued convertible capital appreciation bonds and capital appreciation bonds. In May 2011, bondholders consented to amending the master indentures and approved a supplemental indenture to amend certain terms of $430 million of the convertible capital appreciation bonds (Restructured Bonds) that had maturity dates in 2018, 2020, 2022, 2023, and 2024. The primary change in terms for these bonds was to extend the originally scheduled maturity dates to 2037, 2038, 2040, 2041, and 2042, respectively. The Restructured Bonds ceased to bear interest on July 15, 2011 and a 10-year accretion period through July 15, 2021 began during which interest on the bonds is scheduled to accrue at the same rates, ranging from 5.65% to 5.75% compounded semiannually, as had applied prior to the amendment. Commencing January 15, 2022, interest on the accreted value of the bonds is scheduled to be payable semiannually. The bonds were scheduled to mature in annual installments from January 15, 2037 to 2042, subject to early redemption from mandatory sinking fund payments beginning January 15, 2037 by payment of accrued interest and principal with no premium. In connection with the 2014 transaction described below, the terms of the Restructured Bonds were amended to provide for interest rates that range from 5.90% to 6.00%; adjusted maturity dates that range from January 15, 2038 to 2046; and an increase of $12,400, in the aggregate maturity value, to $768,700.

In November 2014, the Agency issued $1,098,850 of Series 2014 Senior Lien Current Interest Toll Road Refunding Revenue Bonds (2014 Senior Bonds) and $293,910 of Junior Lien Current Interest Toll Road Refunding Revenue Bonds (2014 Junior Bonds) (collectively, the 2014 Bonds); the proceeds of the issuance were used to refund the certain outstanding bonds. The reacquisition price of the refunded bonds exceeded their net carrying amount by $111,826; this amount is considered a deferred loss for accounting purposes, and is being amortized through 2036, the remaining period during which the refunded bonds were scheduled to be repaid. The 2014 Bonds were issued at a premium of $78,347, which is being amortized over the life of the bonds.

The 2014 Senior Bonds are scheduled to mature in installments through January 2050, and interest is payable semiannually at 5.00%. The 2014 Junior Bonds are scheduled to mature in installments from January 2037 through January 2049, and interest is payable semiannually at 5.25%. The 2014 Senior Bonds are scheduled to mature after 2028, and the 2014 Junior Bonds are subject to early redemption on or after January 15, 2025, at the option of the Agency, by payment of principal and accrued interest.

The 1997 convertible capital appreciation bonds not amended by the supplemental indenture accrued interest at rates ranging from 5.60% to 5.75% compounded semiannually, through January 15, 2007. Interest is payable semiannually based on accreted value of the bonds on that date. The remaining outstanding bonds are scheduled to mature in installments through 2021, but are subject to early redemption, at the option of the Agency, beginning January 15, 2014, by payment of accrued interest, principal, and a premium of up to 2.00%.

The remaining outstanding balance of the 1997 capital appreciation bonds accrues interest at rates ranging from 4.20% to 5.67% compounded semiannually. The bonds mature in annual installments through January 15, 2036.

A portion of the Series 1997 bonds was used to purchase U.S. government securities, which were placed in an irrevocable escrow fund to be used for the debt service payments related to the refunded portion of the 1993 bonds. As of June 30, 2018 and 2017, the amounts of the refunded bonds outstanding, which were previously eliminated from the financial statements as a result of the refunding, are $863,514 and $874,116, respectively.

Included in principal at June 30, 2018 and 2017 are $524,827 and $479,422, respectively, related to accreted principal on convertible capital appreciation bonds and capital appreciation bonds.

(b) Debt Compliance

The Agency is subject to debt service coverage ratio requirements of 1.3x for its Senior Lien Bonds and 1.1x for the Junior Lien Bonds.

The master indentures of trust require the trustee to hold bond proceeds, pledged revenue, and any other amounts pledged for repayment of the bond debt described above. The balance of pledged funds held by the trustee is included in restricted cash and investments.

(c) Note Payable to F/ETCA

On November 10, 2005, the Agency's board of directors and the board of directors of F/ETCA entered into a Mitigation Payment and Loan Agreement (the Agreement). The terms of the Agreement called for F/ETCA to make payments to the Agency totaling $120,000 over four years to mitigate for the anticipated loss of revenue due to the construction of the 241 to I-5 connection project. All scheduled payments totaling $120,000 were made by F/ETCA as of June 2009. In addition, F/ETCA committed to provide loans, subject to the terms of the Agreement, on an as-needed basis, up to $1,040,000 to assist the Agency in achieving its debt service coverage ratio. However, no amounts were borrowed.

The Agreement was designed to meet the near-term needs of each agency while preserving the flexibility to continue to pursue alternatives. The Agreement provided that F/ETCA loans would be made only to the extent that surplus revenue was available and all findings and determinations required by law were met, including California Government Code Section 66484.3, paragraph (f), which required that the following findings must be met before F/ETCA could make a loan: 1) F/ETCA will benefit mutually financially by sharing and/or loaning revenue with the Agency, 2) F/ETCA possesses adequate financial resources to fund all costs of construction of existing and future projects that it plans to undertake prior to the final maturity of the loan, and 3) funding the loan will not materially impair F/ETCA's financial condition or operations during the term of the loan. The Agency's obligation to repay the loans was, in turn, secured by and payable only from its toll stabilization and surplus revenue funds. The Agreement also stipulated that F/ETCA would not be obligated to make loans to the Agency prior to securing the necessary funds for constructing the 241 to I-5 connection project unless F/ETCA has determined that it would not build the project. If the commencement and diligent pursuit of the construction of the 241 to I-5 connection project did not occur by June 30, 2015, the mitigation payments would be added to the principal amount of the loan.

On August 14, 2014, the Agency's board of directors and the board of directors of F/ETCA approved an agreement that provided for termination of the Agreement concurrently with the closing of the refinance transaction described above in note 6(a). The termination agreement also provided for the Agency to pay $120,000 to F/ETCA, in annual installments beginning January 15, 2025 equal to 50% of the Agency's surplus funds as defined in the agreement. Interest accrual based on the average annual yield of the State of California Pooled Money Investment Account commenced upon closing of the transaction, and interest is payable annually beginning January 15, 2025.

(In thousands)

(d) Scheduled Debt Service

The following is a summary of the annual debt service requirements by fiscal year for the Agency's long-term debt obligations, exclusive of the note payable to F/ETCA and related interest, as of June 30, 2018:

		Principal	Interest(1)	Junior lien interest(1)	Total	Total including sinking fund payments
2019	$	4,064	52,486	15,430	71,980	107,535
2020		1,011	52,454	15,430	68,895	108,986
2021		10,777	53,974	15,430	80,181	111,785
2022		6,534	99,721	15,430	121,685	114,663
2023		16,828	103,106	15,430	135,364	117,622
2024–2028		154,054	544,282	77,151	775,487	640,564
2029–2033		155,230	514,064	77,151	746,445	746,445
2034–2038		311,787	451,760	76,615	840,162	840,162
2039–2043		504,720	359,303	61,179	925,202	925,202
2044–2048		700,640	201,565	28,307	930,512	930,512
2049–2050		322,445	14,632	878	337,955	337,955
	$	2,188,090	2,447,347	398,431	5,033,868	4,981,431

(1) Includes payments scheduled on January 1 and January 15 of the indicated fiscal year and July 1 and July 15 of the following fiscal year to coincide with the annual debt service calculations used for covenant compliance purposes

The 2014 master indenture established an internal sinking fund to provide for a portion of the payments due on the 1997 capital appreciation bonds beginning in 2022 and included within the table above. A total of $178,593 will be deposited into the sinking fund in fiscal years 2017 through 2021 and fiscal year 2031, and will reduce the Agency's need to fund the amounts listed above in fiscal years 2022 through 2026 and fiscal year 2032. As of June 30, 2018, a balance of $69,870 has been accumulated in the sinking fund and is included within noncurrent restricted cash and investments.

(7) Commitments and Contingencies

(a) Toll Collection and Revenue Management System Agreements

The Agency and F/ETCA have entered into agreements with contractors for various services, including toll collection systems operation and maintenance. The agreements expire on various dates through June 30, 2025 and are cancelable by the Agency, without further obligation, with advance written notice.

(b) Corridor Operations Facility Lease

In January 2000, the Agency relocated to the corridor operations facility and signed an operating lease agreement with F/ETCA. Lease payments are based on the estimated fair market rental value and are adjusted annually. The Agency incurred lease expense for the years ended June 30, 2018 and 2017 of $671 and $605, respectively. The Agency's commitment for the year ending June 30, 2019 is $731.

(c) Commitment

The Agency has agreed with Caltrans to provide a maintenance facility for State Route 73. As of June 30, 2018, the Agency has earmarked approximately $8 million for this project.

(d) Litigation

The Agency is a defendant in various legal actions. Management believes that the ultimate resolution of these actions will not have a significant effect on the Agency's financial position or results of operations.

(e) Risk Management

The Agency maintains insurance coverage for various risks, including, but not limited to, property, liability, earthquake, and flood coverage. Coverage is purchased in accordance with the Agency's master indentures of trust, as applicable.

(8) Employees' Retirement Plans

Defined Benefit Plan – Qualified permanent employees of the Agency participate in a cost-sharing multiple-employer defined benefit pension plan (the Plan) administered by OCERS, a public employee retirement system established in 1945. The Plan is subject to the provisions of the County Employees Retirement Law of 1937 (California Government Code Section 31450 et. seq.), the California Public Employees' Pension Reform Act of 2013 (Government Code Section 7522 et. seq.), and other applicable statutes.

(a) Benefits

The Plan provides retirement, disability, and death benefits to eligible plan members and their beneficiaries. Monthly retirement benefits are determined by benefit formulas that depend upon the classification of employees, the date of entering membership in OCERS or a reciprocal plan, retirement age, years of service, and final average compensation. The Agency's members hired prior to January 1, 2013 are subject to a benefit formula of 2.0% of final average compensation per year of service, based upon retirement at age 55. Members hired on or after January 1, 2013 are subject to a benefit formula of 2.5% at 67.

Amounts payable for retired members are subject to annual cost-of-living adjustments based upon changes in the Consumer Price Index for the prior calendar year. Adjustments are limited to a maximum increase or decrease of 3% per year.

(In thousands)

(b) Contributions

Employer and employee contribution requirements are determined as percentages of covered payroll amounts and vary based upon the age of each employee at the date of entering membership in OCERS or a reciprocal plan. Employer contribution rates are determined using the entry age normal actuarial cost method based upon a level percentage of payroll. Employer contribution rates ranged from 11.40% to 61.89% for the year ended December 31, 2017, and from 11.79% to 62.66% for the year ended December 31, 2016. Employee contributions are established by the OCERS Board of Retirement and guided by applicable state statutes. Employee contribution rates ranged from 8.75% to 16.35% for the year ended December 31, 2017, and from 8.73% to 16.50% for the year ended December 31, 2016. The contributions from the Agency recognized by the Plan, measured as the total amounts of additions to the Plan's fiduciary net position for the years ended December 31, 2017 and 2016, were $632 and $670, respectively, and equaled 100% of the required contributions, and represented 24.4% and 26.6% of the Agency's covered payroll, respectively.

(c) Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources

For purposes of reporting under GASB Statement No. 68, Accounting and Financial Reporting for Pensions, OCERS arranged for determination of the Plan's collective net pension liability; deferred outflows and inflows of resources related to pensions; and pension expense, as well as the proportionate share of each amount applicable to the Plan's participating employers, using measurement dates of December 31, 2017 and 2016, with respective actuarial valuations as of December 31, 2016 and 2015 and standard procedures to roll forward to the respective measurement dates that correspond with the Agency's reporting dates of June 30, 2018 and 2017. The proportionate shares of these amounts attributable to the Transportation Corridor Agencies have been determined by OCERS's actuary based upon actual employer contributions within each rate group and further allocated between the Agency and F/ETCA on the basis of their respective shares of covered payroll to determine the amounts reportable by the Agency, as indicated below:

	June 30	
	2018	**2017**
Collective net pension liability – OCERS	$ 4,952,099	5,191,217
Proportionate share attributable to Transportation Corridor Agencies	10,243	12,423
Share allocable to the San Joaquin Hills Transportation Corridor Agency	2,826	3,681
Agency's proportion (percentage) of the collective net pension liability	0.06%	0.07%
Collective deferred outflows of resources – OCERS	$ 795,890	570,539
Proportionate share attributable to Transportation Corridor Agencies	1,622	1,133
Share allocable to the San Joaquin Hills Transportation Corridor Agency	508	316

(In thousands)

		June 30	
		2018	**2017**
Collective deferred inflows of resources – OCERS	$	1,178,768	756,043
Proportionate share attributable to Transportation Corridor Agencies		3,249	886
Share allocable to the San Joaquin Hills Transportation Corridor Agency		1,158	231
Collective pension expense – OCERS	$	529,375	600,371
Proportionate share attributable to Transportation Corridor Agencies		1,331	2,032
Share allocable to the San Joaquin Hills Transportation Corridor Agency		504	797

The Agency's deferred outflows of resources related to pensions as of June 30, 2018 and 2017 are attributable to the following:

		2018	**2017**
Net difference between projected and actual earnings on pension plan investments	$	—	260
Changes of assumptions		459	—
Differences between expected and actual experience		49	56
Contributions to the plan subsequent to the measurement date of the collective net pension liability		273	302
Total deferred outflows related to pensions	$	781	618

The Agency's deferred inflows of resources related to pensions as of June 30, 2018 and 2017 are attributable to the following:

		2018	**2017**
Differences between expected and actual experience	$	568	101
Net difference between projected and actual earnings on pension plan investments		469	—
Changes of assumptions or other inputs		121	130
Total deferred inflows related to pensions	$	1,158	231

(Continued)

(In thousands)

The amount of $273, representing as of June 30, 2018 the Agency's balance of deferred outflows of resources related to contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. The other amounts of the Agency's balances of deferred outflows and deferred inflows of resources as of June 30, 2018 will be recognized as net reductions of pension expense as follows:

Year ending June 30:		
2019	$	(118)
2020		(164)
2021		(216)
2022		(163)
2023		11
	$	(650)

(d) Actuarial Assumptions and Other Inputs

The following significant methods and assumptions were used to measure the Plan's total pension liability as of December 31, 2017 and 2016:

- Actuarial experience study – Three-year periods ended December 31, 2016 and 2013, respectively
- Inflation rate – 2.75% and 3.00%, respectively
- Projected salary increases – 4.25% to 17.50%, depending upon service and nature of employment
- Cost-of-living adjustments – 2.75% and 3.00%, respectively

The mortality assumptions were based, respectively, on the results of the actuarial experience studies for the period January 1, 2014 through December 31, 2016 using the Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected generationally using the two-dimensional Scale MP-2016 and for the period January 1, 2011 through December 31, 2013 using the RP-2000 Combined Healthy Mortality Table projected with the Society of Actuaries Scale BB to 2020. The mortality assumptions were then customized to account for the Plan's membership experience.

The discount rates used to measure the Plan's total pension liability were 7.00% and 7.25% at December 31, 2017 and 2016, respectively. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made at actuarially determined rates. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return should be determined without reduction for plan administrative expense. The investment return assumptions are net of administrative expenses, assumed to be 14 and 16 basis points, respectively. The investment rate of return assumptions remained the same for reporting purposes due to the immaterial impact administrative expenses has on the overall assumed rate of return. The long-term expected rates of return on plan investments were determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation and deducting expected investment expenses.

(In thousands)

The target allocation and projected arithmetic real rate of return for each major asset class, after deducting inflation but before deducting investment expenses, used in the derivation of the long-term expected rate of return assumptions for each measurement date are summarized in the following table:

	December 31, 2017		December 31, 2016	
	Target allocation	Long-term expected real rate of return	Target allocation	Long-term expected real rate of return
Asset class:				
Global equity	35.00%	6.38%	— %	— %
Core bonds	13.00	1.03	10.00	0.73
High yield bonds	4.00	3.52	—	—
Bank loan	2.00	2.86	—	—
TIPS	4.00	0.96	—	—
Emerging market debt	4.00	3.78	3.00	4.00
Real estate	10.00	4.33	10.00	4.96
Core infrastructure	2.00	5.48	—	—
Natural resources	10.00	7.86	—	—
Risk mitigation	5.00	4.66	—	—
Mezzanine/distressed debts	3.00	6.53	—	—
Private equity	8.00	9.48	6.00	9.60
Large cap U.S. equity	—	—	14.90	5.92
Small/Mid cap U.S. equity	—	—	2.73	6.49
Developed international equity	—	—	10.88	6.90
Emerging international equity	—	—	6.49	8.34
Global bonds	—	—	2.00	0.30
Diversified credit (U.S.)	—	—	8.00	4.97
Diversified credit (Non-U.S.)	—	—	2.00	6.76
Hedge funds	—	—	7.00	4.13
GTAA	—	—	7.00	4.22
Real return	—	—	10.00	5.86
Total	100.00 %		100.00 %	

(In thousands)

The following table presents the Agency's proportionate share of the Plan's net pension liability, calculated using the discount rates used in each year's actuarial valuation (7.0% for 2018 and 7.25% for 2017), as well as what its proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower (6.0% and 6.25%, respectively) or one percentage point higher (8.0% and 8.25%, respectively) than the assumed discount rate:

		June 30	
		2018	**2017**
Net pension liability, as calculated:			
With assumed discount rate	$	2,826	3,681
With a 1% decrease		4,618	5,366
With a 1% increase		1,370	2,294

(e) Plan's Fiduciary Net Position

OCERS provides publicly available financial information, including comprehensive annual financial reports and actuarial valuations at www.ocers.org. Detailed information about the Plan's fiduciary net position is included in the comprehensive annual financial report for the fiscal year ended December 31, 2017, which may also be obtained by calling (714) 558-6200.

Defined Contribution Plan – The Agency also sponsors a defined contribution plan under the provisions of Internal Revenue Code Section 457 that permits employees to defer portions of their pretax compensation. The Agency provides matching contributions to a related Section 401(a) plan, at a rate of 50% of the employees' deferral contributions, up to a maximum of 2% of each employee's related compensation. In connection with this plan, the Agency incurred $47 and $46 of expense for the years ended June 30, 2018 and 2017, respectively.

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Required Supplementary Information

Schedule of Net Pension Liability and Related Ratios

(Amounts in thousands)

(Unaudited)

	Plan year ended December 31			
	2017	2016	2015	2014
Agency's proportion (percentage) of the collective net pension liability	0.06%	0.07%	0.07%	0.06%
Agency's proportionate share (amount) of the collective net pension liability	$ 2,826	3,681	3,795	3,126
Agency's covered payroll	2,584	2,523	2,005	1,831
Agency's proportionate share of the collective net pension liability as a percentage of its covered payroll	109%	146%	189%	171%
Plan's fiduciary net position as a percentage of the total pension liability	74.93%	71.16%	67.10%	69.42%

Note – GASB Statement No. 68 requires a 10-year schedule presenting the items above. The applicable information has been presented for the periods since the statement was adopted, and will be supplemented as the same information becomes available for future periods.

See accompanying independent auditors' report.

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Required Supplementary Information

Schedule of Agency Contributions

(Amounts in thousands)

(Unaudited)

		Fiscal year ended June 30			
		2018	2017	2016	2015
Actuarially determined contributions	$	632	670	467	384
Contributions recognized		(632)	(670)	(467)	(384)
Difference	$	—	—	—	—
Agency's covered payroll	$	2,584	2,523	2,005	1,831
Contributions recognized as a percentage of covered payroll		24.4%	26.6%	23.3%	21.0%

Note – GASB Statement No. 68 requires a 10-year schedule presenting the items above. The applicable information has been presented for the periods since the statement was adopted, and will be supplemented as the same information becomes available for future periods.

See accompanying independent auditors' report.