☐ **SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY** **AGENDA ITEM #: 13**

☒ **FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY**

Transportation Corridor Agencies

BOARDS OF DIRECTORS

June 11, 2020

FILE NUMBER: 2020F-012

FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY FISCAL YEAR 2021 ANNUAL BUDGET

RECOMMENDATION

Foothill/Eastern Transportation Corridor Agency Recommendation:
Approve Resolution No. F2020-05 entitled "A Resolution of the Board of Directors of the Foothill/Eastern Transportation Corridor Agency Approving the Budget for Fiscal Year 2021" in the amount of $154,335,030.

SUMMARY

Due to the unknown duration and impact of the COVID-19 pandemic, the FY21 Budget reflects a conservative approach that focuses on core operating necessities and reduced expenditures. Attached are the Fiscal Year 2021 Proposed Budget report and Resolution No. F2020-05.

COMMITTEE DISCUSSION

The Fiscal Year 2021 Proposed Budget Report and Resolution No. F2020-05 were provided to the Joint Operations and Finance Committee prior to the meeting on May 28, 2020.

During the Joint Operations and Finance Committee meeting, staff discussed the proposed Fiscal Year 2021 Budget with the Committee. The proposed Fiscal Year 2021 Budget was developed with input and recommendations from the Agencies' committees and includes conservative revenue and expenditure assumptions given the effects of the COVID-19 pandemic. Proposed organizational changes included in the proposed Fiscal Year 2021 Budget, that result in a decrease in the compensation budget, were also discussed with the Committee. The budget, as presented, meets the Agencies' fiduciary responsibilities to the bondholders.

Committee Action: Staff requested the Committee recommend approval of Resolution No. F2020-05 at the June 11, 2020 Board of Directors meeting.

MOTION:	Kring	
SECOND:	Huang	
VOTE:	FOR:	Bartlett, Beall, Huang, Kelley, Kring, Murphy, Penaloza, Puckett, Shea, Taylor, Voigts
	AGAINST:	Muller, Ward
	ABSENT:	Wagner

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

REVIEWED BY:

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

APPROVED BY:

Samuel Johnson, Interim Chief Executive Officer

Attachments:

Annual Budget Narrative FY21
Resolution No. F2020-05

2021

Fiscal Year Proposed Budget

Foothill/Eastern

Transportation Corridor Agency

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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.

The typical budget process begins by setting objectives that consider both near-term and long-term Agency goals and direction from the Board of Directors. Department managers review the status of projects for the current year and develop 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) Maintain credit ratings status and meet investor expectations

The budget process for FY21 has been modified to address the unknown duration and impacts of COVID-19 and reflects a conservative approach that focuses on core operating necessities and reduced expenditures. While many projects and initiatives have been deferred, certain costs related to the advancement of priority projects have been included in the proposed budget, including the completion of the Oso Bridge Project and 241/91 Express Connector Design and Environmental.

Toll rate increases that would normally become effective in July have been deferred to maintain usage levels. Staff will monitor COVID-19 impacts and provide updates to the Board during FY21 and propose budget changes if necessary.

The Agency's history of fiscally responsible management, and the steps taken over the last several years to manage debt, reduce expenditures and improve ridership have positioned the Agency well to deal with the economic challenges of the pandemic. Following the above-stated goals has allowed the Agency to build its reserves, resulting in strong liquidity that will allow the Agency to meet its financial obligations.

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 2020. The proposed annual budget was presented to the Joint Operations and Finance Committee at a workshop on April 29, 2020, to obtain direction and feedback. The workshop included a review of revenue assumptions, expenditures and deferred initiatives. Questions received during the workshop were then addressed, and the annual budget was again presented to the Joint Operations and Finance Committee on May 28, 2020. The annual budget is now being presented to the Board of Directors for adoption at the June 11, 2020 Board meeting for the fiscal year starting July 1, 2020. 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 pages 21-22 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 FY21 proposed expenditures budget for the F/ETCA totals $154.3 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 that includes the following budget fund categories: Non-Operating and Planning, Environmental and Construction, Toll Operating Expenses and Equipment (Toll Operations), and Debt Service. Expenses directly related to the F/ETCA are charged entirely to the Agency and those incurred on behalf of both the Agency and the San Joaquin Hills Transportation Corridor Agency (SJHTCA) are allocated between the F/ETCA and SJHTCA (the Agencies) based on the estimated benefit to each. As part of the annual budget process, allocations between the Agencies are reviewed.

Within each Agency, for funding purposes and calculation of debt coverage, costs are further allocated between Non-Operating and 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 pages 21-22 to illustrate how each budget category and subcategory is allocated between the budget fund categories. A more detailed discussion of the expenditures proposed for FY21 is included in the Sources and Expenditures section of this document beginning on page 8.

Non-Operating and Planning, Environmental and Construction Expenses (budget fund category)

The proposed FY21 Non-Operating and Planning, Environmental and Construction budget is $28.9 million. The budget for Non-Operating and 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.

Non-Operating and Planning, Environmental and Construction Administration costs include office, personnel, legal, staff augmentation, and other customary and normal expenditures associated with the direct management and administration of the Agency's non-operating, planning, environmental and construction related activities, and are allocated as discussed above.

The primary sources of funds for Non-Operating and Planning, Environmental and Construction Expenses are unrestricted cash. Unrestricted cash includes 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 Indentures require surplus revenues in order to meet debt service coverage ratios. The debt service reserve fund requirements totaling $220.8 million have been fully met. Additional reserves are discussed in the Toll Operations section below. Unrestricted cash is 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 (DIFs) 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 current debt service payments. The fees are one-time developer payments that are collected by the County of Orange and member cities when a building permit is issued. F/ETCA was able to construct the roads in advance of collection of the DIFs by issuing toll revenue bonds that will be repaid with the tolls and DIFs collected. Therefore, the fees are to be used to repay the indebtedness incurred to construct the Foothill/Eastern Transportation Corridors that have already been built, as well as to pay the cost of future anticipated improvements, as identified in the Capital Improvement Plan to be presented to the Board of Directors on June 11, 2020. Other sources of funds for these activities include investment earnings. See the table on page 31 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 FY21 Toll Operations budget is $20.8 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. Operating reserves totaling $17.3 million are also maintained in accordance with the Indentures.

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 on-road toll equipment and back-office systems; license plate image review processing; customer care and toll compliance services; and credit card processing fees. 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 customer communications 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 FY21 budget for Debt Service is $104.6 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. In FY20, an additional $125 million of Term Rate Bonds were remarketed resulting in approximately $1.9 million of interest savings each year.

In FY20, the Agency also advance refunded $820.3 million of the 2013A senior lien bonds through the issuance of taxable bonds. The refunding reduced debt payments by $330 million without extending the maturity of the bonds. FY21 interest savings from the refunding transaction are approximately $13.5 million.

Following the 2013 refinance, the Agency exceeded projections every year and has received credit rating upgrades. In FY20, the COVID-19 pandemic prevented the Agency from exceeding projections however the refinance and subsequent transactions enabled the Agency to be well positioned from a liquidity standpoint to address operating and debt service challenges, which Fitch Ratings noted in confirming the Agency's current ratings.

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, Agency staff ensures that the revenues and expenses budgeted provide the necessary coverage ratio as defined in the Indentures. Given the COVID-19 pandemic's impact on revenues, the Agency has developed a conservative revenue and expense budget including the use of $18.0 million of unrestricted cash to exclude a portion of debt service payments from the Indenture debt service coverage requirements calculation. Unrestricted cash at the end of FY21 is projected to be $352.9 million after consideration of the $18.0 million to be used for debt service coverage. If FY21 actual revenue results exceed the FY21 budget, then unrestricted cash will only be used to the extent required to meet the Indenture debt service coverage requirements. The FY21 proposed budget results in an aggregate coverage ratio of 1.16x and a senior lien coverage ratio of 1.36x. A schedule showing the calculation is included on page 30 of this document.

Foothill/Eastern
Transportation Corridor Agency

Sources

and

Expenditures

Fiscal Year 2021 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, 2021.

Total sources include revenues budgeted in FY21 as well as available unrestricted cash.

Below is a summary of total funds on hand and the amount of these funds available to fund the FY21 budget as well as future budgets (in thousands).

Estimated total funds on hand at 6/30/20	$ 693,151
July activity related to FY20	(71,754)
Adjusted estimated total funds on hand at 6/30/20	621,397
Less operating reserves	(17,293)
Less debt service reserves	(220,762)
Estimated cash available to fund current and future budgets	$ 383,342
Cash restricted for debt service	$ 4,293
All other cash available to fund current and future budgets	379,049
Estimated cash available to fund current and future budgets	$ 383,342

Total expenditures include all FY21 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 FY20 budget, as amended, including transfers within the CEO's authority, staff projected FY20 sources and expenditures based on actuals through March 2020 and the proposed budget for FY21.

Foothill/Eastern Transportation Corridor Agency
Sources and Expenditures of Funds Statement
Fiscal Years 2020 through 2021
($000)

Description	FY 2020 Amended Budget As of 3/31/2020	FY 2020 Estimated Actuals	FY 2021 Proposed Budget
Sources:			
Net Toll Revenue	177,458	145,302	108,077
Penalties	22,600	18,254	8,960
Fees	2,170	1,311	1,099
Development Impact Fees	12,500	10,979	5,101
Interest Earnings	16,577	12,998	6,260
Other Revenue	706	706	686
Cash on Hand Restricted For Debt Service	2,337	2,337	4,293
All Other Cash Available to Fund Current and Future Budgets	450,648	450,648	379,049
Total Sources of Funds	684,996	642,535	513,525
Expenditures:			
Planning, Environmental and Construction	37,596	24,862	23,601
Planning, Environmental and Construction Administration	24,068	22,238	5,313
Payoff of Pension Liability	8,842	8,666	-
Toll Operating Administration	9,191	7,375	6,965
Toll Customer Service and Toll Compliance	12,239	10,346	8,753
Toll Systems	2,049	1,899	2,296
Toll Facilities	1,107	868	826
Operations Equipment and Capital Expenditures	2,928	1,440	1,974
Debt Service	116,118	106,499	104,607
Total Expenditures	214,138	184,193	154,335
Subtotal	470,858	458,342	359,190
Funds Used in the refunding of the 2013 bonds to obtain net present value savings (See Debt Service on page 6)	75,000	75,000	-
Projected Cash Available to Fund Subsequent Budgets	395,858	383,342	359,190
Less Restricted Cash For Future Debt Service	4,293	4,293	6,328
Projected Available Cash	391,565	379,049	352,862

*See changes in net toll revenue and fees discussed in Sources Summary section on pages 11-16.

Sources Summary

With the economic downturn of the economy due to the COVID-19 pandemic, FY20 transactions and transactional toll revenue are expected to be down approximately 19.5% and 9.7%, respectively, compared to FY19. That being said, the 2013 bond refinance, term rate bond remarketing and 2019 bond refunding transactions enabled the Agency to be well positioned from a liquidity standpoint to address operating and debt service challenges. The Agency has conservatively budgeted revenues in FY21 given the unknown duration of the impacts from the COVID-19 pandemic (discussion in the Budget Process section on page 3 and Net Toll Revenue below).

The F/ETCA toll roads were designed to encourage maximum use of the automatic vehicle identification collection system that allows drivers to pay toll charges without stopping at toll booths.

In Fiscal Year 2019-20, TCA implemented new transponder technology for FasTrak account holders consisting of a sticker to be adhered to the inside of the vehicle's windshield in place of the hardcase transponders. In addition, all license plate tolling accounts ("ExpressAccounts") were converted to FasTrak accounts, thereby allowing all accounts to be interoperable and pay tolls on any California toll facility. In connection with the implementation of the new sticker transponders, which are less expensive to acquire and maintain than the previous hardcase transponders, the TCA eliminated account maintenance fees and implemented a revised discount program for TCA prepaid FasTrak account holders. TCA prepaid FasTrak account holders earn discounts of $1 per transaction if the account incurred more than $40 in tolls on TCA toll roads during the prior month. TCA Prepaid FasTrak account holders will be able to pay tolls by: (i) making a payment by credit card, cash or check to fund a prepaid account from which tolls incurred will be deducted; (ii) maintain a valid credit card or bank account on file from which tolls incurred will be deducted; or (iii) opt for periodic invoices of tolls incurred for which payment will be due immediately upon receipt. For TCA prepaid FasTrak accounts, when the balance of prepaid tolls in a customer's account falls below a minimum threshold, depending on the payment method, the TCA either notifies the customer and requests a replenishment payment or TCA charges the customer's credit card or bank account to replenish the toll prepayment account.

The FY21 budget defers toll rate increases that would take effect in July in accordance with the Agency's two percent inflationary toll rate policy. This will allow for analysis of COVID-19 pandemic impacts and is aimed toward maintaining ridership usage levels.

At the beginning of FY21, the Agency expects to have total cash adjusted for accrual items of $621.4 million. The expected adjusted cash balance includes debt service reserve and operating reserve funds of $238.1 million and $383.3 million of cash on-hand available to fund the current and future years' budgets (See page 9 for further details). During FY21, Net Toll Revenue, Penalties, Fees, Development Impact Fees, Interest Earnings, and Other Revenue are budgeted at $130.3 million. Below are brief explanations of each of these funding sources.

<u>Net Toll Revenue</u>

The FY21 budget includes transactional toll revenue of $112.0 million which is a 24.9% decrease as compared to the FY20 estimate of $149.2 million. Due to the unknown duration and impact of the COVID-19 pandemic, revenue assumptions are based on a conservative recovery of revenue that gradually improves throughout the fiscal year and ends up at 72% of pre-COVID forecasted revenue by the end of the fiscal year.

The budget for FY21 Net Toll Revenue of $108.1 million, or 83.1% 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 (see further discussion in the Penalties section on page 13-14).

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 0.8% of transactional toll revenue or $0.9 million in FY21. Effective January 1, 2019, California law required licensed vehicle dealerships to provide temporary paper license plates if permanent license plates are not available at the time a vehicle is sold. Such requirement has reduced the amount of lost toll revenues from unprocessable transactions and has had a positive impact on the ability to collect violation penalties. Processable transactions offset by toll revenue recovered from processed violations is budgeted at $3.0 million or 2.7% of transactional toll revenue in FY21.

TCA prepaid accounts that meet a $40 toll threshold (calculated using the base toll rate for all TCA transactions posted to the account in a month), receive a $1.00 discount on transactions in the following month.

The table on the following page shows the FY20 current toll rates that will remain unchanged and be used as FY21 toll rates by location, split between off-peak, pre- & post-peak, and peak hour if applicable.

Location	Time/Type	Current Rates*	No Toll Rate Change	
			Rate	Change
Tomato Springs***	Off-Peak	$ 3.59	$ 3.59	$ -
	Pre- & Post-Peak	$ 3.85	$ 3.85	$ -
	Peak Hour**	$ 4.04	$ 4.04	$ -
Portola North	Off-Peak	$ 2.59	$ 2.59	$ -
	Pre- & Post-Peak	$ 3.04	$ 3.04	$ -
	Peak Hour**	$ 3.04	$ 3.04	$ -
Alton	Peak & Off-Peak**	$ 2.59	$ 2.59	$ -
Portola South	Peak & Off-Peak**	$ 1.74	$ 1.74	$ -
Los Alisos	Peak & Off-Peak**	$ 1.64	$ 1.64	$ -
Antonio	Peak & Off-Peak**	$ 1.74	$ 1.74	$ -
Oso	Peak & Off-Peak**	$ 2.49	$ 2.49	$ -
Windy Ridge***	Off-Peak	$ 3.74	$ 3.74	$ -
	Pre- & Post-Peak	$ 4.03	$ 4.03	$ -
	Peak Hour**	$ 4.23	$ 4.23	$ -
Orange Grove***	Off-Peak	$ 2.92	$ 2.92	$ -
	Pre- & Post-Peak	$ 3.19	$ 3.19	$ -
	Peak Hour**	$ 3.36	$ 3.36	$ -
Irvine Ranch***	Off-Peak	$ 2.59	$ 2.59	$ -
	Pre- & Post-Peak	$ 3.04	$ 3.04	$ -
	Peak Hour**	$ 3.19	$ 3.19	$ -
Portola (West)	Peak & Off-Peak**	$ 2.59	$ 2.59	$ -
Irvine Blvd. (East)	Peak & Off-Peak**	$ 2.04	$ 2.04	$ -
Irvine Blvd. (West)	Peak & Off-Peak**	$ 2.04	$ 2.04	$ -
Irvine Blvd. (West) NB On	Peak & Off-Peak**	$ 2.59	$ 2.59	$ -
Portola (West) SB On	Peak & Off-Peak**	$ 2.59	$ 2.59	$ -

* FasTrak prepaid account holder 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 $145.3 million in Net Toll Revenue in FY20. This consists of $149.2 million of transactional toll revenue reduced by estimated processable and unprocessable transactions, and non-revenue transactions of $8.8 million offset by toll revenue collected from processed violations of $4.9 million.

Penalties

Penalties revenue is budgeted for FY21 at $9.0 million, representing 6.9% 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. 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 has expanded toll account programs with major rental car agencies thereby improving customer service and reducing potential violations.

Penalties revenue for FY20 is estimated to be $18.3 million. The FY21 Penalties budget is intended to be conservative with consideration given to the impact of the COVID-19 pandemic current trends in collections, the estimated transactions for FY21, the current processable transactions rate at 5.0% of traffic, the existing policy of $57.50 on the first notice of violation and $42.50 on delinquency notice, and the Agency's policy of waiving penalties for first-time violators.

Fees

Fees are budgeted for FY21 at $1.1 million, representing 0.8% of total revenues. Fee revenue for FY20 is estimated to be $1.3 million. The decrease is related to the anticipated impact of the COVID-19 pandemic on FY21, Fee revenue consists of fees related to operations (i.e., invoice fees, suspended account and returned check fees, sales of switchable hardcase transponders, and fees related to programs with rental car agencies).

The Agencies provide all accountholders with electronic account activity statements. If an accountholder would prefer 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), assessed on new residential and non-residential (commercial, industrial, etc.) development, are highly cyclical as they are based on market conditions. The fees are one-time developer payments that are collected by the County of Orange and member cities when a building permit is issued. F/ETCA was able to construct the roads in advance of collection of the DIFs by issuing toll revenue bonds that will be repaid with the tolls and DIFs collected. Therefore, the fees are to be used to repay the indebtedness incurred to construct the Foothill/Eastern Transportation Corridors that have already been built, as well as to pay the cost of future anticipated improvements, as identified in the Capital Improvement Plan. Development Impact Fees for FY20 are expected to approximate $11.0 million. The Agency is estimating Development Impact Fees to be $5.1 million for FY21, representing 3.9% of total revenues, based upon recent trends and development given the impacts of the COVID-19 pandemic.

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 and the impacts of the COVID-19 pandemic on current interest rates. Total Interest Earnings budgeted for FY21 of $6.3 million represent approximately 4.8% of total revenues.

Interest Earnings for FY20 are estimated to be $13.0 million.

Other Revenue

Other Revenue of $686,000 represents 0.5% of total revenues and is for rental income of office space leased to SJHTCA in the Pacifica building owned by F/ETCA. Estimated FY20 Other Revenue of $706,000 includes rental income and miscellaneous receipts.

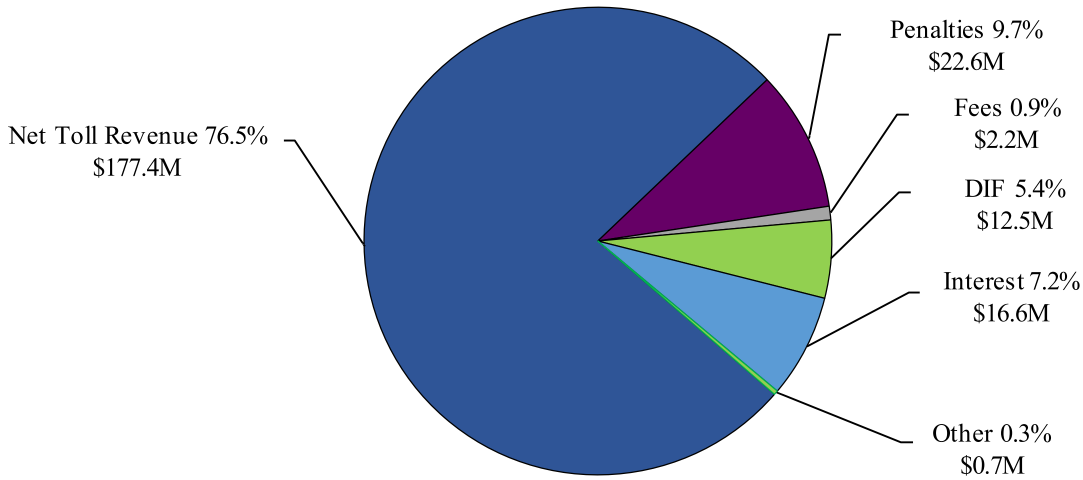
Revenue Pie Chart – FY20 Budget as compared to FY21 Budget

The pie charts on the following page show a comparison of FY20 budgeted revenues to FY21 proposed budget revenues.

Budgeted revenues decrease $101.7 million to $130.3 million in FY21 from budgeted revenues of $232.0 million in FY20 due to the Agency developing a conservative revenue budget in FY21 given the COVID-19 pandemic (see discussion in the Budget Process section on page 3 and the Net Toll Revenue section on pages 11-12)

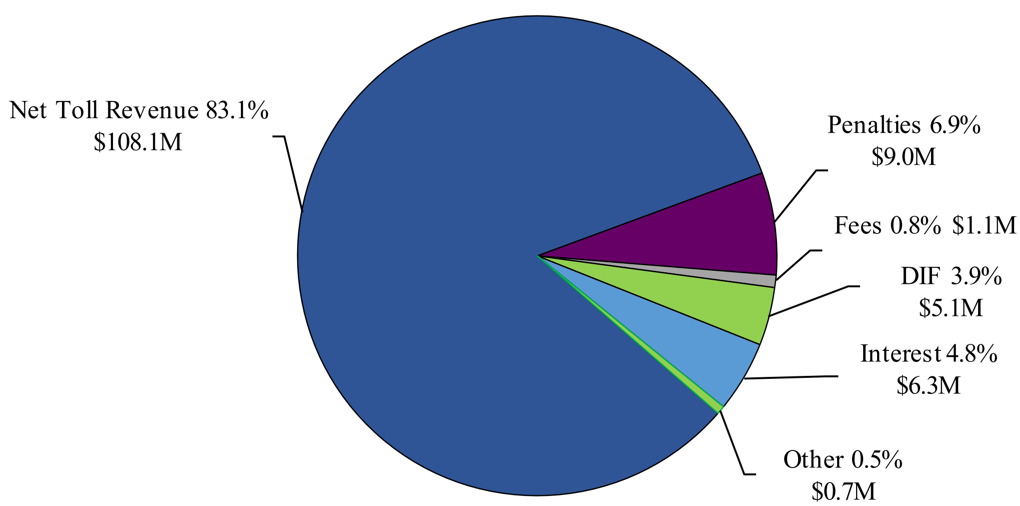
Foothill/Eastern Transportation Corridor Agency

FY20 Revenue Budget



FY20 Budget Revenue $232.0M

FY21 Revenue Proposed Budget



FY21 Budget Revenue $130.3M

Expenditures Summary

In response to the past economic downturns, 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 and revenue driven growth in recent years. Given the COVID-19 pandemic, the Agency has significantly decreased expenditures for FY21 by deferring projects to future years wherever possible and to address the impacts of the pandemic on revenue related expenditures such as credit card fees. In addition, the budget maximizes internal resources and significantly reduces consulting costs. The FY21 proposed budget for expenses was developed with the Agency's continued commitment to fiscal responsibility.

The proposed budget for FY21 includes total expenditures of $154.3 million. Detail of expenditures can be found on pages 21-29. 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, the Oso Bridge, and Signage Enhancement projects. The Agency is deferring a number of projects to future years in an effort to reduce expenditures during the COVID-19 pandemic. Deferred projects include the SR 241 Loma Segment Widening, the Austin Sand Filter construction phase, the Saddle Club Recreational Pilot Program, the SR 241 Wildlife Fence Extension Study, as well as other projects.

The proposed budget for Planning, Environmental and Construction is $23.6 million for FY21, or approximately 15.3% 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 FY20 total $24.9 million. The decrease of $1.3 million in the FY21 budget is primarily related to the significant FY20 construction progress of the Oso Bridge project that is expected to be completed in FY21, the F/ETCA Board of Directors' decision to have the County of Orange lead any additional efforts related to the South County Traffic Relief Effort's identified Alternative 22 Untolled (Los Patrones Parkway Extension), and projects being deferred as a result of the COVID-19 pandemic (as discussed above). The decrease in the Planning, Environmental and Construction budget is partially offset by the planned start of final design of the 241/91 Express Connector in FY21.

Administration

The total proposed budget for Administration expenses is $12.3 million for FY21, or approximately 7.9% of the total proposed budget. The Administration category includes all employee compensation (4.1% of the total budget) as well as overhead-type expenses, such as insurance, legal, office expenses, administrative staff augmentation services, financial systems, and building services. The Agency is deferring a number of expenditures to future years in an effort to reduce expenditures during the COVID-19 pandemic. Deferred expenditures include the Pacifica building improvements, accounting system needs assessment, the business continuity assessment and additional capacity for the Agency's business intelligence system. The Agency has also reduced expenditures in the Strategic Planning and Communications and Outreach functions by planning to utilize internal staff to complete the work required at this time. In addition, the Agency's External Affairs team has worked to reduce Agency Membership and Sponsorships to focus these expenditures in areas most needed.

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 pages 21-22 of this document.

Projected Administration expenses for FY20 total $38.3 million. The decrease of $26.0 million in the FY21 proposed budget from the FY20 projected actuals is primarily due to a conservative budget as a result of the COVID-19 pandemic with expenditures being reduced and projects being deferred as well as one-time FY20 expenditures related to a legal settlement, payoff of the pension liability, the Term Rate Bonds Remarketing, and 6C Transition Support expenditures not reoccurring in FY21.

Toll Operations (Excluding Administration)

Toll Operations include toll system costs associated with maintaining the Agency's on-road system of lane hardware and software currently under contract with TransCore LP; customer care and toll compliance services currently under contract with Faneuil, Inc.; back-office system operation and maintenance under contract with BRiC-TPS LLP; and license plate image review 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 FY21 budget for these expenses is $13.8 million or 9.0% of the total budget. The Agency is deferring a number of expenditures to future years in an effort to reduce expenditures during the COVID-19 pandemic. Deferred expenditures include a toll systems upgrade/replacement needs assessment and an upgrade to the interface between the toll system and the back-office system.

Toll Operations, excluding Administration, is projected to total $14.7 million in FY20. The FY21 budget is $0.9 million lower than projected FY20 actuals primarily due to a conservative budget as a result of the COVID-19 pandemic with expenditures being reduced and projects being deferred and decreases in customer care and toll compliance services, credit card fees and other costs directly related to the conservative revenue budget.

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 FY21 are budgeted at $104.6 million, or 67.8% of the total budget. FY20 Debt Service will total $106.5 million.

Expenditures of Funds – FY20 Amended Budget as compared to FY21 Budget

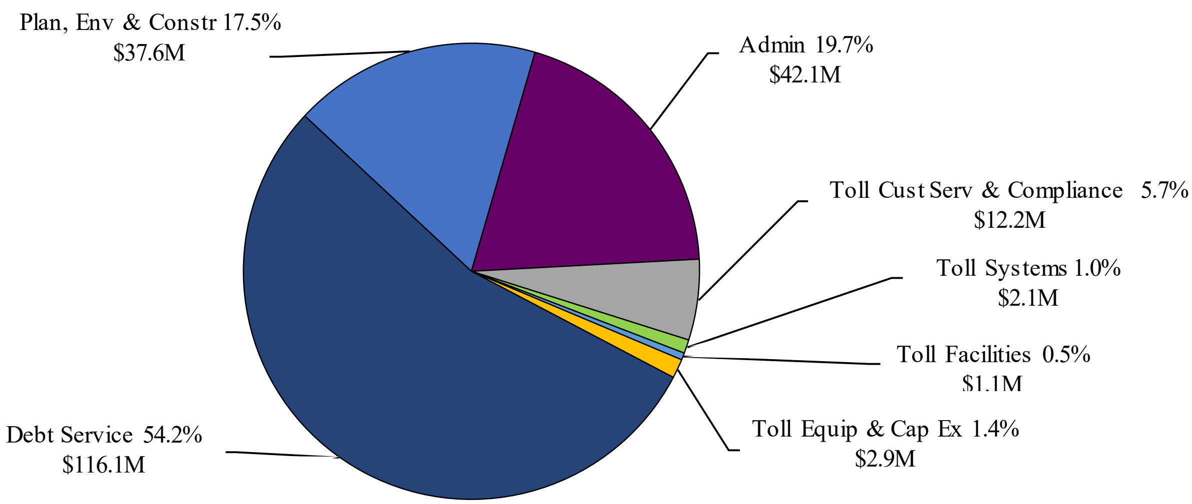
The pie charts on the following page show a comparison of the FY20 amended budget and the FY21 proposed budget by type of expense.

The FY21 proposed budget of $154.3 million, as compared to the prior year's amended budget of $214.1 million, shows a decrease of $59.8 million or 27.9%. The decrease in the FY21 proposed budget excluding debt service is $48.3 million or 49.3%. The net decrease is primarily due to a decrease in the Administrative budget due to one-time FY20 expenditures such as the pension liability payoff a decrease in the Planning, Environmental and Construction budget related to the planned completion of the Oso Bridge project in FY21 and the F/ETCA Board's decision to have the County of Orange lead any additional efforts related to the South County Traffic Relief Effort's identified as Alternative 22 Untolled (Los Patrones Parkway Extension); a decrease in Debt Service payments due to the FY20 term rate bonds remarketing and the 2019 bond refunding; and a conservative budget as a result of the COVID-19 pandemic with expenditures being reduced and projects being deferred. The budgeted decrease in expenditures is partially offset by the planned start of final design for the 241-91 Express Connector project in FY21.

The Debt Service category includes the semi-annual interest and annual principal payments on the 2013, 2015 and 2019 outstanding bonds. These payments are budgeted at $104.6 million for FY21 and $116.1 million for FY20. The term rate bonds remarketing and 2019 bond refunding transactions completed in FY20 reduced the debt service in FY21 by $15.4 million.

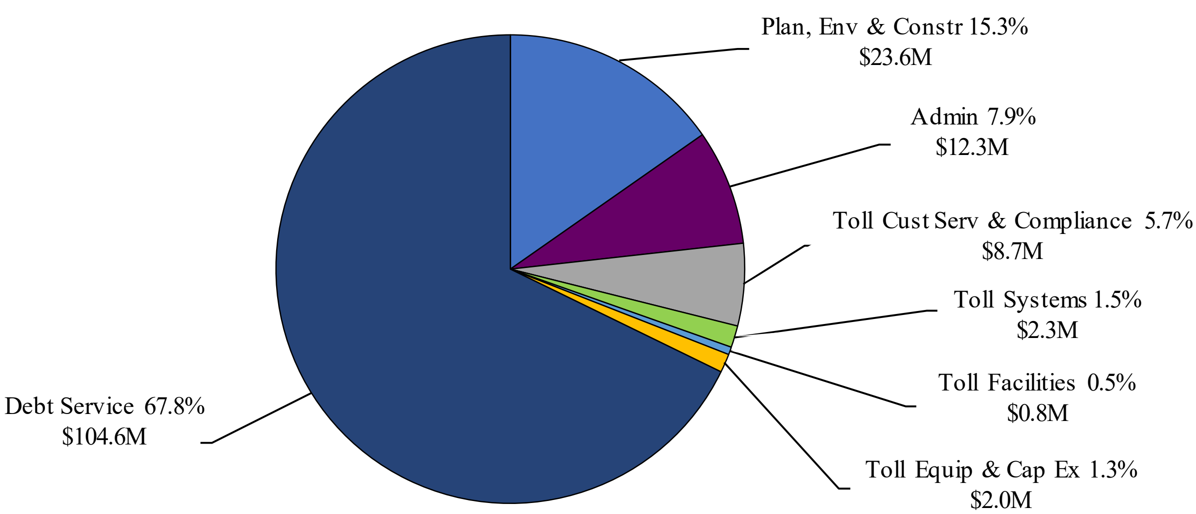
Foothill/Eastern Transportation Corridor Agency

FY20 Expenditures
Budget



FY20 Budget Expenditures $214.1M

FY21 Expenditures
Proposed Budget



FY21 Budget Expenditures $154.3M

Expenditures Detail

The schedule on the following pages details the budget as summarized on pages 23-29 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 2021 Proposed Budget
($000)

Budget Category and Subcategory	Budget Fund Categories: Non-Operating, Plan, Environ & Construction	Toll Operations Exp & Equip	Debt Service	Total
Administration:				
Regular Salaries	2,296	2,566	-	4,862
Temporary Help	14	16	-	30
Board Compensation	32	36	-	68
Benefits	627	711	-	1,338
Employer Taxes	38	47	-	85
Insurance	229	867	-	1,096
Legal Expense	446	1,113	-	1,559
Telephone/Comm	37	42	-	79
Office Expense	221	284	-	505
Staff Education, Seminar, Membership, Conferences	63	57	-	120
Agency Membership & Sponsorship	63	93	-	156
Customer Education / Website	3	4	-	7
Communications and Outreach	17	2	-	19
Financial & Administrative	348	215	-	563
Technology Support	51	147	-	198
Advocacy	21	194	-	215
Other Professional Services	104	118	-	222
Publications & Subscriptions	3	4	-	7
Building Services	233	263	-	496
Transportation & Travel	69	99	-	168
Office Equipment	21	57	-	78
Pacifica Fixed Assets	27	30	-	57
Subtotal Administration	4,963	6,965	-	11,928
SR 241 Administration:				
Legal	350	-	-	350
Subtotal 241 SR Admin	350	-	-	350
Total Administration	5,313	6,965	-	12,278

Continued on next page.

Foothill/Eastern Transportation Corridor Agencies
Fiscal Year 2021 Proposed Budget
($000)

Budget Category and Subcategory	Budget Fund Categories: Non-Operating, Plan, Environ & Construction	Toll Operations Exp & Equip	Debt Service	Total
Planning, Environmental and Construction:				
SR 241:				
Oso Bridge	5,570	-	-	5,570
Total SR 241	5,570	-	-	5,570
Capital Improvement Plan (CIP):				
241/91 Express Connector	15,103	-	-	15,103
Signage Enhancement	638	-	-	638
Total Capital Improvement Plan	15,741	-	-	15,741
Other Planning, Environmental and Construction:				
Mitigation & Permits	85	-	-	85
Environmental Lands Management	651	-	-	651
Environmental Staff Augmentation	12	-	-	12
Engineering Staff Augmentation	1,120	-	-	1,120
Regional Traffic Data and Reporting	272	-	-	272
Other Construction	150	-	-	150
Total Other Planning, Environ and Constr	2,290	-	-	2,290
Total Planning, Environmental and Construction	23,601	-	-	23,601
Toll Operations:				
Customer Service & Toll Compliance	-	8,753	-	8,753
Toll Systems	-	2,296	-	2,296
Toll Facilities	-	826	-	826
Subtotal Toll Operations	-	11,875	-	11,875
Operations Equipment:				
Transponder Equipment	-	144	-	144
Toll Equipment and Capital Expenditures	-	1,830	-	1,830
Total Equipment	-	1,974	-	1,974
Total Toll Operations	-	13,849	-	13,849
Debt Service	-	-	104,607	104,607
Total Expenditures	28,914	20,814	104,607	154,335

Staffing

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

The recent appointment of a new Interim CEO has created an opportunity to take a fresh look at the organizational structure, and as a result the following classification changes have been included in the FY21 budget.

The Associate Graphic Designer position that had been removed from the staffing plan in FY20 and replaced with independent contractor services has been added back to the staffing plan based on the determination that this position is more effectively managed as a staff position, and therefore would create risk in complying with independent contractor rules.

The Chief External Affairs Officer position has been eliminated from the plan supporting the reclassification of the Manager, Customer Experience Communications to Director, Communications (Internal & External) as an enhanced staff resource to provide an even greater emphasis on the communications function while retaining the separate Legislative Affairs and Government Relations roles.

The staffing plan also includes reclassifications of six existing positions including: an existing chief-level executive position will be reallocated to Deputy Chief Executive Officer to provide enhanced support to the CEO and Board and also allow for appropriate delegation of day-to-day duties; the Assistant to the CEO will be upgraded to a dual-concept role to include Assistant Clerk of the Board; two existing Accountant positions will be reallocated to Financial Analyst as their roles have grown over time to support higher level management decision-making tools in addition to basic accounting duties; two existing Contract Administrator positions will be reallocated to Senior Contract Administrator as their job duties have also grown over time to perform the most complex assignments and serve as mentors to junior staff.

The recommended staffing plan for FY21 is 66 funded positions and is allocated 60% to this Agency and 40% to SJHTCA. The headcount is flat year-over-year, but represents a decrease in total compensation (i.e., salaries and benefits) of $1.1M in total, with $682k decrease for this Agency.

Administration - Compensation (Regular Salaries and Benefits)

The Agency employee compensation budget is $6.3 million. TCA salaries are normally 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. As a result of the COVID-19 pandemic, the Agency is not including merit increases or a performance incentive pool in the FY21 budget.

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. FY21 benefits are 27.5% of salaries.

The FY21 employer contributions to the Orange County Employee Retirement System (OCERS) have been budgeted at 14.51% for legacy employees and 11.13% for employees hired on or after January 1, 2013 under the Public Employees' Pension Reform Act – PEPRA. In FY20, the Agencies paid off the unfunded actuarial accrued liability (UAAL). The Agency's portion of the FY20 UAAL payoff was $8.8 million.

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 FY20, salary ranges were adjusted by 2%. For FY21, the staffing plan includes no salary range adjustments given the COVID-19 pandemic.

TCA has contained costs through a net reduction in headcount (81 to 66) 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 $1.1 million, approximately 0.7% 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 2020 Board of Directors meeting. Policies are marketed and placed by the Agency's insurance broker, Alliant Insurance Services, Inc., who provides all 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 $1.6 million, approximately 1.0% 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 $270 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	$ 553,000
General Counsel	544,000
Contracts	175,000
Financing	100,000
Human Resources	90,000
Development Impact Fees	72,000
Environmental	25,000
Total	$ 1,559,000

Administration – Office Expense

Office Expense is budgeted at $505,000, approximately 0.3% of the total budget. The following is the budget associated with these expenses:

Software/Cloud Hosting	$	329,000
General Office Expenses		113,000
Marketing Materials		61,000
Postage		2,000
Total	$	505,000

Administration – Financial & Administrative

Financial & Administrative is budgeted at $563,000, approximately 0.4% of the total budget, and, as detailed below, includes costs for both recurring needs and special projects, such as payroll processing, investment and financial advisory services, annual audit services, and other financial and administrative support.

Investment Advisory Services	$	228,000
Finance Advisors		81,000
Rating Agencies		60,000
Annual Audit		60,000
Staffing Services		27,000
Traffic & Revenue Consultant for Budget Planning		31,000
Trustee Fees		28,000
Payroll Services		28,000
Other Financial & Administrative Consulting		20,000
Total	$	563,000

Administration – Technology Support

Technology Support is budgeted at $198,000, approximately 0.1% of the total budget. This category includes data security services & technology planning efforts, and National Interoperability consulting.

Administration – Advocacy

Strategic Planning & Advocacy is budgeted at $215,000, approximately 0.1% of the total budget. This category includes state and federal advocacy support.

State Advocacy	$	117,000
Federal Advocacy		98,000
Total	$	215,000

Administration – Other Professional Services

Other Professional Services is budgeted at $222,000, approximately 0.1% of the total budget. The following is the budget associated with these expenses:

Financial Accounting System Upgrade	$	161,000
Business Intelligence		50,000
Security System Maintenance		11,000
Total	$	222,000

Administration - Building Services

Building Services is budgeted at $496,000, approximately 0.3% of the total budget. This category includes all operating costs associated with the Agency's operations facility (Pacifica building) including utilities, janitorial services, landscaping services, and maintenance and repairs as listed below:

Pacifica Utilities	$	345,000
Pacifica Building Maintenance Services		151,000
Total	$	496,000

Planning, Environmental and Construction – SR 241: Oso Bridge

The SR 241 Planning, Environmental and Construction costs (including related legal administrative costs) are budgeted at $5.9 million representing 3.8% of the proposed budget. The primary costs for this category are the construction towards the FY21 completion of the Oso Bridge project, and legal expenses connected to the South County Traffic Relief Effort. The Oso Bridge project is outlined in the Capital Improvement Plan to be presented to the Board of Directors on June 11, 2020 and summarized below:

Oso Bridge	$	5,570,000
SR 241 Legal		350,000
Total	$	5,920,000

Planning, Environmental and Construction - Capital Improvement Plan

The Capital Improvement Plan, excluding the SR 241: Oso Bridge project and legal expenses associated to the South County Traffic Relief Effort project, is budgeted at $15.7 million and represents 10.2% 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 project management, environmental, design, construction management, construction, and all other related costs. The two main CIP projects include the coordinated efforts with the Orange County Transportation Authority (OCTA), Riverside County Transportation Commission (RCTC), and Caltrans on a direct tolled connector from the SR 241 to the 91 Express Lanes and the Signage Enhancement project. The FY21 budget includes $15.1 million for the final design of the direct tolled connector from the SR 241 to the 91 Express Lanes in order to keep in line with the project's planned schedule and installation of channelizers on northbound SR 241 at Windy Ridge. These projects are outlined in the Capital Improvement Plan to be presented to the Board of Directors on June 11, 2020 and summarized below:

241/91 Express Connector	$	15,103,000
Signage Enhancements		638,000
Total	$	15,741,000

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

Other Planning, Environmental and Construction costs are budgeted at $2.3 million, or 1.5% of the total budget. Expenditures budgeted mainly include engineering design program management, regional traffic data and reporting, 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 Upper Chiquita, Saddle Club, Limestone Canyon, and Live Oak Plaza. Additional activities include on-going 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. Other Construction includes allowance for maintenance and repairs of Agency-owned roadway facilities that are related to our tolling operations such as channelizers at our toll points facilities and toll payment information signs.

Engineering Staff Augmentation	$	1,120,000
Environmental Lands Management		651,000
Regional Traffic Data and Reporting		272,000
Other Construction		150,000
Mitigation & Permits		85,000
Environmental Staff Augmentation		12,000
Total	$	2,290,000

Toll Operations - Toll Customer Service and Toll Compliance

The Toll Customer Service and Toll Compliance category totals $8.7 million, approximately 5.7% of the total budget, and primarily includes funding for the service center operations and toll compliance activities comprised of customer care and payment 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 review costs for Global Agility Inc. Also included in this category are credit card processing fees assessed on all credit card transactions, printing, postage, and mailing services, judgment recovery and collection costs, CHP violation enforcement, and telephone system expenses. Fees are included in this category for the Costco, AAA, and Albertsons FasTrak enrollment programs. The budget associated with these expenses is detailed below:

Customer Service Contract	$	3,442,000
Credit Card Processing Fees		2,232,000
Customer Service System Maintenance		1,241,000
Postage & Printing		1,121,000
Enforcement Services & Other		486,000
Other Customer Service		231,000
Total	$	8,753,000

Toll Operations - Toll Systems

The Toll Systems category totals $2.3 million, or approximately 1.5% 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	$	2,027,000
Computer/Software Maintenance & Support		249,000
Projects		20,000
Total	$	2,296,000

Toll Operations - Toll Facilities

This category is budgeted at $826,000 representing 0.5% 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	$	460,000
On Road Building Maintenance Services		366,000
Total	$	826,000

Toll Operations Equipment & Capital Expenditures

The Toll Operations Equipment & Capital Expenditures budget is $2.0 million, approximately 1.3% of the total budget. Toll Operations Equipment & Capital Expenditures primarily consists of sticker tag and hardcase 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.

CSC Back Office System Replacement Project	$	1,779,600
Transponders		144,000
Other Equipment		50,400
Total	$	1,974,000

Debt Service

The Debt Service category totals $104.6 million, or 67.8% of the total budget and includes interest and principal payments on the Agency's outstanding bonds. The debt service to be paid is $56.6 million on January 15, 2021 and $48.0 million on July 15, 2021.

The FY21 budgeted aggregate and senior lien debt service coverage ratios shown on page 30 meet the Indenture requirements of 1.15x and 1.30x, respectively. The budgeted coverage is 1.16x and 1.36x, respectively, and does include the use of unrestricted cash for debt service coverage. Given the COVID-19 pandemic's impact on revenues, the Agency has developed a conservative revenue and expense budget including the use of $18.0 million of unrestricted cash to exclude a portion of debt service payments from the Indenture debt service coverage requirements calculation. Unrestricted cash at the end of FY21 is projected to be $352.9 million after consideration of the $18.0 million to be used for debt service coverage. The budget coverage ratios mentioned above and on page 30 consider the use of this unrestricted cash. If FY21 actual revenue results exceed the FY21 budget, then unrestricted cash will only be used to the extent required to meet the Indenture debt service coverage requirements.

The use of unrestricted cash to reduce debt service is reflected on the following page and the resulting Net Debt Service is shown in the debt coverage calculation on page 30:

	FY21 Budget (000's)
Debt Service	$ 104.6
Cash Deposit to Meet FY21 Debt Service Coverage Requirements	(18.0)
Net Debt Service	$ 86.6

On the following page, 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 21-22).

Debt Coverage

Debt Coverage is defined in the Bond Indentures and is budgeted with consideration of the expectations of bondholders and credit rating agencies. See discussion of goals and objectives on page 3.

Debt Coverage Calculation Fiscal Year 2021

	FY21 Budget ($000)
Adjusted Net Toll Revenues	
Total Toll Revenues Including Fees and Penalties	118,136
Interest Earnings *	3,202
Current Expenses - Funded From Toll Revenue	(20,814)
Adjusted Net Toll Revenues	100,524
Aggregate Net Debt Service	
Aggregate Net Debt Service	86,607
Aggregate Coverage Ratio (1.15x requirement)	1.16
Senior Lien Net Debt Service	
Senior Lien Net Debt Service	73,843
Senior Lien Coverage Ratio (1.30x requirement)	1.36

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

Estimated Unrestricted Cash Fund

Below is the FY21 budgeted activity and estimated ending balance for the unrestricted cash fund (as described in more detail on page 5). Unrestricted cash is budgeted in consideration of the goals and objectives discussed in more detail on page 3.

Estimated Available Unrestricted Cash @ 6/30/20		$ 379,049
DIF Revenue and Interest Income		8,070
Construction & Administration		(28,914)
FY21 principal pre-funded in FY20 per indentures		4,293
FY22 principal pre-funded in FY21 per indentures		(6,327)
Cash Deposit to Meet FY21 Debt Service Coverage Requirements	(18,000)	
Adjusted Net Toll Revenues less Net Debt Service	14,691	
Cash Used to Fund Debt Service Payments		(3,309)
Estimated Available Unrestricted Cash @ 6/30/21		$ 352,862

RESOLUTION NO. F2020-05

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY APPROVING THE BUDGET FOR FISCAL YEAR 2021

On motion of Board Member Kathy Ward, 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, amended on June 9, 2016, amended on February 14, 2019, and further amended on November 14, 2019, 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 2021 (FY21) in the amount of $154,335,030. 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 toll rates, fees, and fines, as presented in the FY21 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	$12,278,521
• SR 241 (excluding related administration)	$5,569,643
• Capital Improvement Plan	$15,740,750
• Other Planning, Environmental and Construction	$2,290,158
• Toll Operations	$13,849,025
• Debt Service	$104,606,933

and subject to controls in place under the 2013, 2015, and 2019 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 2019 Federal Transportation Improvement Program (FTIP) and 2020 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 2021 FTIP and the Southern California Association of Governments adopted 2020 RTP/SCS.

4. Directs staff to forward the approved Annual Budget for FY21 to the trustee.

This Resolution No. F2020-05, shall become effective immediately upon adoption.

Adopted this 11th day of June 2020, by the Board of Directors of the Foothill/Eastern Transportation Corridor Agency.

Christina Shea, Chair
Foothill/Eastern Transportation Corridor Agency

RESOLUTION NO. F2020-05

A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY
APPROVING THE BUDGET FOR FISCAL YEAR 2021

ATTEST:

I, Mark Mahan, CMC, Clerk of the Board of the Foothill/Eastern Transportation Corridor Agency hereby certify that the foregoing Resolution No. F2020-05 was duly adopted on June 11, 2020, by the Board of Directors of the Foothill/Eastern Transportation Corridor Agency by the following vote:

Yes:	Board Members Bartlett, Beall, Huang, Kelley, Kring, Muller, Murphy, Penaloza, Taylor, Voigts, Wagner, and Ward; Alternate Jabbar; Vice Chair Puckett and Chair Shea
No:	None
Absent:	None
Abstain:	None

Mark Mahan
Clerk of the Board
Foothill/Eastern Transportation Corridor Agency