☒ SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY AGENDA ITEM #: **14**

☐ FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY

Transportation Corridor Agencies

BOARDS OF DIRECTORS

June 13, 2019

FILE NUMBER: 2019S-007

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY FISCAL YEAR 2020 ANNUAL BUDGET

RECOMMENDATION

San Joaquin Hills Transportation Corridor Agency Recommendation:

Approve Resolution No. S2019-02 entitled "A Resolution of the Board of Directors of the San Joaquin Hills Transportation Corridor Agency Approving the Budget for Fiscal Year 2020" in the amount of $146,137,272.

SUMMARY

Attached are the Fiscal Year 2020 Proposed Budget report and Resolution No. S2019-02.

COMMITTEE REVIEW

All Agency functional areas presented their portion of the budget at the related committee meetings during March and April 2019. The FY20 proposed annual budget was then presented at a workshop during the Joint Operations and Finance Committee Meeting on April 25, 2019. Staff and the Committee discussed various aspects of the FY20 Budget and Initiatives, and the Committee requested that the Agencies' traffic and revenue consultant present and provide additional analysis at the next Committee meeting.

The FY20 proposed annual budget was then presented on May 23, 2019 to the Joint Operations & Finance Committee. Staff and the Committee discussed various aspects of the FY20 Budget and Initiatives, and the Agencies' traffic and revenue consultant discussed the roads' historical performance and presented an update on recent FY19 results and toll elasticity. The Committee requested a memo from the Agencies' traffic and revenue consultant detailing the analysis completed for the FY20 toll rate proposal.

Joint Operations & Finance Committee on May 23, 2019 Recommendation: Staff was seeking Committee approval to recommend this item be presented to the San Joaquin Hills Transportation Corridor Agency Board of Directors at the June 13, 2019 meeting.

MOTION:	O'Neill
SECOND:	Shea
OPPOSED:	Wagner
VOTE:	Passed

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

REVIEWED BY:

Amy Potter

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

APPROVED BY:

Michael A. Kraman

Michael A. Kraman, Chief Executive Officer

Attachments
Budget Narrative
Resolution

San Joaquin Hills
Transportation
Corridor Agency

Chair:
Fred Minagar
Laguna Niguel

Transportation Corridor Agencies™

Foothill/Eastern
Transportation
Corridor Agency

Chair:
Christina Shea
Irvine

June 13, 2019

Re: San Joaquin Hills Transportation Corridor Agency's Fiscal Year 2020 Budget

Dear Chair Minagar and Board Members,

Thank you for your direction and support in the adoption of the attached San Joaquin Hills Transportation Corridor Agency (Agency) Fiscal Year 2020 (FY20) Budget.

Totaling $146 million, the FY20 budget will guide the Agency through the year and into the future by funding and advancing initiatives that support capital improvements, enhance customer service for our more than 1.5 million accountholders and strengthen our financial health.

The budget was developed keeping the following goals in mind:

- Support the Capital Improvement Plan (CIP)
- Provide enhancements to customer service
- Increase revenues to demonstrate the Agency's ability to meet future coverage and debt service requirements
- 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
- Maintain TCA's strong financial position, credit ratings status and meet investor expectations

The toll rates and revenues are set with careful consideration to ensure the Agency can meet the debt service requirements for the coming fiscal year and into the future. The Agency's long-term projections that are part of the bond documents assume inflationary toll rate increases to meet the annual debt payments that were structured to increase each year until reaching maximum annual debt service in 2041. As such there is an expectation of increasing debt service coverage by bondholders and credit rating agencies. The credit rating agencies also expect increasing debt service coverage and cash reserves in order to maintain/improve credit ratings which have a direct impact on the investor pool and financing rates available to the Agency. Therefore, meeting bondholder and credit rating agencies' expectations allows the Agency opportunities to lower debt service through refinancings and obtain project financing at lower rates. In addition, maintaining cash reserves helps protect the Agency and the bondholders during economic downturns and can allow for pay-as-you go funding of projects as appropriate.

TCA's finances are stronger today than at any other time in our 30-year history and the budget for FY20 was designed to keep expenditures flat as our revenues are projected to steadily increase. Our customer base is one of the largest in the US, with the number of TCA accountholders recently surpassing 1.5 million and we recently passed the 5 million mark in One-Time-Tolls.

An important distinction to more traditional infrastructure financing is that TCA's debt is backed by private investors, not taxpayers. In fact, TCA financings are the model for the non-recourse toll road financings that have been executed all across the country to finance highway infrastructure on both public and private roadways. Our excellent credit and solid financial decisions have resulted in being awarded investment-grade ratings by the three major credit rating agencies.

We enter FY20 as a tolling and transportation industry-leading innovator by continuing to bring much-needed traffic relief to Orange County, as evidenced by our 1.5 million tolling accounts. Every day, more than 1,000 new accounts are opened by drivers wanting to drive The Toll Roads, and 325,000 daily trips are taken, which directly correspond to trips not using city streets and congested highways. Customers continue to see the value The Toll Roads provide as the fastest, easiest and most predictable way to get to and through Orange County.

TCA's recent technological innovation is underway as accountholders transition from battery-operated hard-case FasTrak® transponders to new FasTrak sticker transponders that are small, durable and free. The thin, bandage-size transponders adhere to the inside of vehicle windshields to collect tolls. The new sticker transponder will enable all of TCA's 1.5 million accountholders to use all toll facilities in California while simplifying customers' preferred payment options. This change also allows for the elimination of account maintenance fees which are reflected in the proposed budget.

FY19 was also a busy year for The Toll Roads not only with record-breaking ridership but with processing nearly 2 million incoming phone calls. A survey is conducted after customer service calls to provide an assessment of customer's experience and overall customer satisfaction among accountholders and drivers. Results from The Toll Roads' customer service snapshot revealed:

- Accountholders and drivers consistently gave customer service an "A" rating
- 86 percent would recommend The Toll Roads to friends and family
- Average wait time in 2018 was less than two minutes, contributing to the high satisfaction ratings
- 25 percent of account management – customers opening accounts and updating account information such as name, address, payment method, license plate, etc. – are managed through the Call Center

Providing exceptional customer service to residents and visitors who depend on The Toll Road network is a high priority for TCA. In FY19, TCA launched PayNearMe, allowing customers to process payments at 7-Eleven locations across the nation; enhanced The Toll Roads' app to increase functionality and improve usability; and placed an increased emphasis on continued enhancements to our customer care services, part of which is a significant reduction in call wait times and high satisfaction rating.

We continue to move forward and collaborate with external stakeholders, including environmental groups on our plan to open our mitigation sites to the public for recreational uses. Other environmental programs the TCA Board has advanced is an Integrated Pest Management Plan that utilizes organics for its open space management.

We move into FY20 with ambition and driven by initiatives to keep people moving in and around Orange County with congestion-free alternatives to Southern California's gridlocked highways. I thank you for your leadership and the direction you provide as we serve you, your constituents and all of those who drive to and through Orange County.

Sincerely,

Michael A. Kraman
Chief Executive Officer

Enclosures

2020

Fiscal Year Proposed Budget

San Joaquin Hills

Transportation Corridor Agency

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Transportation Corridor Agency

Budget Process and Format

Fiscal Year 2020 Proposed Budget

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Budget Process

The San Joaquin Hills Transportation Corridor Agency's (SJHTCA) Board of Directors and the Master Indentures of Trust (Indentures), established in the context of the Agency's 1997 and 2014 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.

At the beginning of the process, the executive team set the objectives for FY20 while considering both near-term and long-term Agency goals and direction from the Board of Directors. Department managers reviewed the status of projects for the current year and developed project initiatives for the next fiscal year with the Agency's goals and objectives in mind:

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

The toll rates and revenues are set with careful consideration to ensure the Agency can meet the debt service requirements for the coming fiscal year and into the future. The Agency's long-term projections that are part of the bond documents assume inflationary toll rate increases to meet the annual debt payments that were structured to increase each year until reaching maximum annual debt service in 2041. As such, there is an expectation of increasing debt service coverage by bondholders and credit rating agencies. The credit rating agencies also expect increasing debt service coverage and cash reserves in order to maintain/improve credit ratings which have a direct impact on the investor pool and financing rates available to the Agency. Therefore, meeting bondholder and credit rating agencies' expectations allows the Agency opportunities to lower debt service through refinancings and obtain project financing at lower rates. In addition, maintaining cash reserves helps protect the Agency and the bondholders during economic downturns and can allow for pay-as-you go funding of projects as appropriate.

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 2019. The proposed annual budget was presented to the Joint Operations and Finance Committee at a workshop on April 25, 2019, to obtain direction and feedback. The workshop included a review of toll rates, revenues, and expenditures. Questions received during the workshop were then addressed, and the annual budget was again presented to the Joint Operations and Finance Committee on May 23, 2019. The annual budget is now being presented to the Board of Directors for adoption at the June 13, 2019 Board meeting for the fiscal year starting July 1, 2019. 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 four categories as long as the total budget amount per category is maintained and the expenditures are made within Board approved policies:

- Administration
- Planning, Environmental and Construction
- Toll Operations
- Debt Service

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

Transfers between categories require the Board of Directors' approval.

These budget categories are presented on page 21 along with detail subcategories. Budget categories and subcategories are discussed in the Expenditures Summary section beginning on page 16. 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 FY20 proposed expenditures budget for the SJHTCA totals $146.1 million. The Agency has one enterprise fund that records all activity on the accrual basis of accounting. The Agency establishes a budget for this one fund including Non-Operating and Planning, Environmental and Construction, Toll Operating Expenses and Equipment (Toll Operations), and Debt Service. Expenses directly related to the SJHTCA are charged entirely to the Agency and those incurred on behalf of both the Agency and the Foothill/Eastern Transportation Corridor Agency (F/ETCA) 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 page 21 to illustrate how each budget category and subcategory is allocated between the budget fund categories. A more detailed discussion of the expenditures proposed for FY20 is included in the Sources and Expenditures section of this document beginning on page 7.

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

The proposed FY20 Non-Operating and Planning, Environmental and Construction budget is $10.8 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, 16 miles of the SJHTCA 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, consulting, 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, including the development impact fee program, and are allocated as discussed above.

The primary sources of funds for Non-Operating and Planning, Environmental and Construction Expenses are unrestricted cash on hand from previous years' surplus revenues and development impact fee collections. Surplus revenues are toll, fee and penalty revenues in excess of amounts needed for operating expenses, debt service payments and funding the Indenture required reserves in the year the revenue is collected. The Indentures require surplus revenues in order to meet debt service coverage ratios. The debt service reserve fund requirements totaling $272.4 million have been fully met. 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 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. The Toll Roads were constructed using funds from the sale of bonds that are backed by future toll revenues and development impact fees. Other sources of funds for these activities include investment earnings. See the table on page 30 for detail of unrestricted cash funds.

<u>Toll Operations (budget fund category)</u>

The Toll Operations budget includes funding for the toll operations activities including operating administration costs. The proposed FY20 Toll Operations budget is $26.3 million.

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

Amounts allocated to Toll Operations are costs associated with maintaining and operating the toll equipment, software and systems as well as the customer service centers, toll collection processing, and all other related operating expenses. The major costs budgeted for Toll Operations' activities include the contract costs associated with the operation and maintenance of the Agency's 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, rents, consulting, legal, office expense and marketing are included in this fund category.

Debt Service (budget fund category)

Debt Service includes annual principal and semi-annual accrued interest payments related to long-term debt. A portion of the outstanding bonds are capital appreciation bonds and convertible capital appreciation bonds, which are structured so that the principal amount accretes (increases) each year at the stated interest rate. Debt accretion has been excluded from the budget because it is a non-cash item and is reflected in the budget as part of the principal payments in the years scheduled to be paid. The proposed FY20 budget for Debt Service is $109.0 million.

In 1993, the Agency issued long-term toll revenue bonds to finance construction of the San Joaquin Hills Transportation Corridor. The bonds were initially refinanced in 1997, amended in 2011, and ultimately refinanced in 2014. The 2014 transaction refinanced the debt to 2050, placed the Agency in a solid financial position, significantly improved the Agency's debt metrics and achieved the following:

- Position the Agency for future credit upgrades.
- Provide 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.

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

Debt Service, which is funded from toll revenues and development impact fees, was structured so that payments grow at an average of 2.4% per year until reaching maximum annual debt service of $186 million in FY 2041.

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 110% 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 1.10x and 1.30x debt service coverage, respectively.

When compiling the operations budget, the Agency staff ensures that the revenues and expenses budgeted provide the necessary coverage ratio as defined in the Indentures. The FY20 proposed budget results in an aggregate coverage ratio of 1.56x and a senior lien coverage ratio of 1.81x. A schedule showing the calculation is included on page 29 of this document.

San Joaquin Hills
Transportation Corridor Agency

Sources

and

Expenditures

Fiscal Year 2020 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, 2020.

Total sources include revenues budgeted in FY20 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 FY20 budget as well as future budgets (in thousands).

Estimated Total Funds on Hand at 6/30/19	$ 677,505
July Activity Related to FY19	(37,039)
Adjusted Estimated Total Funds on Hand at 6/30/19	640,466
Less Maintenance Facility Commitment	(8,100)
Less Operating Reserves	(16,824)
Less Arbitrage Tax Rebate Funds	(1,269)
Less Long-Term Debt Service Funds	(87,991)
Less Debt Service Reserves	(272,301)
Estimated Cash Available, excluding Reserves, to Fund Current and Future Budgets	$ 253,981
Cash Restricted For Debt Service	$ 20,595
All Other Cash Available to Fund Current and Future Budgets	233,386
Estimated Cash Available to Fund Current and Future Budgets	$ 253,981

Total expenditures include all FY20 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 FY19 budget, as amended, including transfers within the CEO's authority, staff projected FY19 sources and expenditures based on actuals through March 2019 and the proposed budget for FY20.

San Joaquin Hills Transportation Corridor Agency
Sources and Expenditures of Funds Statement
Fiscal Years 2019 through 2020
($000)

Description	FY 2019 Amended Budget As of 3/31/2019	FY 2019 Estimated Actuals	FY 2020 Proposed Budget
Sources:			
Net Toll Revenue	160,344	158,539	165,757
Penalties	25,800	22,535	22,500
Fees	10,662	11,627	2,170
Development Impact Fees	5,000	5,193	4,000
Interest Earnings	6,929	9,173	12,217
Cash Restricted For Debt Service	19,870	19,870	20,595
All Other Cash Available to Fund Current and Future Budgets	161,804	161,804	233,386
Total Sources of Funds	390,409	388,741	460,625
Expenditures:			
Planning, Environmental and Construction	4,585	1,609	4,583
Planning, Environmental and Construction Administration	2,110	1,642	2,240
Payoff of Pension Liability	-	-	3,973
Toll Operating Administration	8,687	7,938	9,060
Customer Service and Toll Compliance	12,305	11,644	12,703
Toll Systems	1,213	1,160	1,201
Toll Facilities	269	269	399
Operations Equipment and Capital Expenditures	3,954	2,963	2,992
Debt Service	107,535	107,535	108,986
Total Expenditures	140,658	134,760	146,137
Projected Cash Available to Fund Subsequent Budgets	249,751	253,981	314,488
Less Restricted Cash For Future Debt Service	20,595	20,595	21,995
Projected Available Cash	229,156	233,386	292,493

*See changes in net toll revenue and fees discussed in Sources Summary section on pages 11-14.

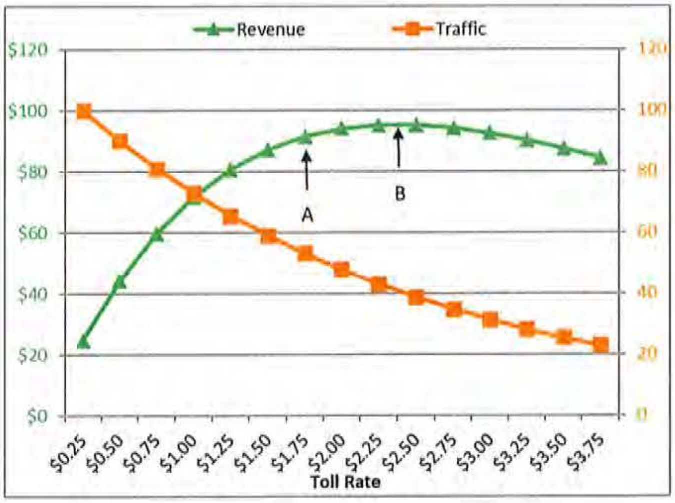
Sources Summary

FY19 transactions and transactional toll revenue are expected to be down approximately 0.3% and up approximately 1.8%, respectively, over FY18. Significant rainfall has negatively impacted transactions and revenue in FY19 and recurring closures for Caltrans guardrail safety improvements and related work may have had an impact as well. The 2014 bond refinance transaction greatly improved debt service coverage margins and the ability to withstand future economic downturns. Regardless, it will be important to continue to take measures ensuring that revenue growth continues in FY20 to meet the Agency's goals.

The SJHTCA 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. Through Fiscal Year 2018-19, the Transportation Corridor Agencies (TCA) issued hardcase transponders to FasTrak account holders. Non-FasTrak account holders paid for tolls incurred either through license plate tolling accounts ("ExpressAccounts") or through a non-account option for infrequent users who contact the Agency within a short period after driving the road to pay tolls incurred ("One-Time-Toll"). The ExpressAccount and the One-Time Toll option enabled customers to use the road without incurring violation penalties.

Beginning in Fiscal Year 2019-20, the TCA will implement new transponder technology primarily consisting of a sticker to be adhered to the inside of the vehicle's windshield in place of the hardcase transponders. In addition, all ExpressAccounts will be 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 hardcase transponders, the TCA will eliminate account maintenance fees and implement a revised discount program for TCA prepaid FasTrak account holders. 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 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. TCA prepaid FasTrak account holders will earn discounts of $1 per transaction if the account incurred more than $40 in tolls on TCA toll roads during the prior month.

Staff works with the Agency's traffic and revenue consultant, Stantec Consulting Services Incorporated (Stantec) to review the effect of prior year toll rates and prepare an analysis for the upcoming year. During our annual toll rate budget review, we analyze our current position on the toll elasticity curve at each mainline plaza. As detailed in the graph below, we strive to be at an optimal toll rate (location "A") which is lower than the revenue maximizing toll rate (location "B"). Maintaining an optimal toll rate provides flexibility to adjust toll rates to generate additional revenue in unforeseen circumstances such as an economic recession. Our long-term projections and those inherent in the bond indentures assume that toll rates will increase roughly at a rate consistent with inflation. If rates increase consistent with inflation, the location where we lie on the toll elasticity curve remains unchanged. Only when rates are increased faster or slower than inflation will our location on the curve move upward or downward. The graph on the next page is a general toll elasticity curve (not specific to any of the Agency's toll locations):



During the April 2019 budget workshop, staff discussed the analysis with the Board and recommended toll rates based on the results of prior year increases and toll elasticity, assumptions included in the bond finance documents, traffic congestion on the system, building cash reserves, and economic factors. At the Board of Directors' request, Stantec presented further analysis at the May 23, 2019 Joint Operations and Finance Committee meeting. The FY20 budget for sources of funds is based on the traffic and revenue consultant's toll rate analysis and feedback received from the Board of Directors (see Net Toll Revenue section below).

At the beginning of FY20, the Agency expects to have total cash adjusted for accrual items of $640.5 million. The expected adjusted cash balance includes debt service reserve and operating reserve funds of $289.1 million and $254.0 million of cash on-hand available to fund the current and future years' budgets. These available funds are primarily from surplus revenues, development impact fees, and interest earnings. During FY20, Net Toll Revenue, Penalties, Fees, Development Impact Fees, and Interest Earnings are budgeted at $206.6 million. Below are brief explanations of each of these funding sources.

Net Toll Revenue

The FY20 budget assumes transactional toll revenue of $174.8 million which includes, on a comparative basis to the prior year, transactional toll revenue budgeted to increase 1.7% based on a 2% inflationary toll rate increase. The balance of the increase is due to a change in the discount program which is offset by a decrease in fee revenue related to the elimination of account maintenance fees. See discussion above and in the Fees section on page 13. The budget for FY20 Net Toll Revenue of $165.8 million, or 80.2% of total revenue, is a combination of the Agency's estimate of transactional toll revenue reduced by estimated processable and unprocessable transactions (offset by toll revenue recovered from processed violations) and non-revenue transactions. The Agency currently waives the penalty for first time violators if the toll is paid within 30 days (see further discussion in the Penalties section on page 12).

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 3.7% of transactional toll revenue or $6.6 million in FY20. Effective January 1, 2019, California law requires 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 could reduce the amount of lost toll revenues from unprocessable transactions and could have a positive impact on the ability to collect violation penalties. Processable transactions offset by toll revenue recovered from processed violations is budgeted at $2.5 million or 1.4% of transactional toll revenue in FY20.

1.7% of the proposed transactional toll revenue increase is achieved by implementing a 2.0% increase at all toll points which is consistent with average inflation assumptions included in the bond finance documents. For TCA prepaid accounts if a $40 toll threshold is met (calculated using the base toll rate for all TCA transactions posted to the account in a month), all transactions the following month will be discounted by $1.00 per transaction.

The proposed toll rates are expected to result in a slight transaction decrease of 0.3% based on the Stantec analysis. This assumes continued economic stability and traffic congestion on routes parallel to the toll roads thereby maintaining the value of time savings obtained by choosing the toll road option.

The table below shows the FY19 current toll rates and the proposed FY20 toll rates by location, split between off-peak, pre- & post-peak, and peak hour if applicable. In summary, rates increase by $0.04 to $0.17 per tolling location.

Location	Time/Type	Current Rates*	Recommendation	
			Rate	Change
La Paz	Peak & Off-Peak**	$ 2.45	$ 2.50	$ 0.05
Aliso Creek	Peak & Off-Peak**	$ 3.05	$ 3.11	$ 0.06
El Toro	Peak & Off-Peak**	$ 3.69	$ 3.76	$ 0.07
Catalina View***	Off-Peak	$ 6.49	$ 6.62	$ 0.13
	Peak Hour**	$ 8.48	$ 8.65	$ 0.17
	Pre- & Post-Peak	$ 7.76	$ 7.92	$ 0.16
	Weekend	$ 6.22	$ 6.34	$ 0.12
Newport Coast	Peak & Off-Peak**	$ 3.43	$ 3.50	$ 0.07
Bonita Canyon	Peak & Off-Peak**	$ 2.08	$ 2.12	$ 0.04

* FasTrak prepaid TCA accountholders may qualify for 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 $158.5 million in Net Toll Revenue in FY19. This consists of $167.3 million of transactional toll revenue reduced by estimated processable and unprocessable transactions, and non-revenue transactions of $16.7 million offset by toll revenue collected from processed violations of $7.9 million. Although the estimate is less than the FY19 budget, net toll revenue has increased over the prior year and exceeds the traffic and revenue projections included in the financing documents.

Penalties

Penalties revenue is budgeted for FY20 at $22.5 million, representing 10.9% 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. The Agency will continue initiatives in FY20 to evaluate best practices as part of Customer Service's continuing efforts to resolve outstanding violations.

Penalties revenue for FY19 is estimated to be $22.5 million. The FY20 Penalties budget is intended to be conservative with consideration given to the current trends in collections, the estimated transactions for FY20, the current processable transactions rate at 6.0% of traffic, the existing policy of $57.50 on the first notice of violation and $42.50 on delinquency notice, and the Agency's policy of waiving penalties for first-time violators.

Fees

Fees are budgeted for FY20 at $2.2 million, representing 1.1% of total revenues. Fee revenue for FY19 is estimated to be $11.6 million. The decrease is related to the fact that in FY20, FasTrak monthly account maintenance fees have been eliminated as part of the account simplification discussed in the Sources Summary above. Fee revenue consists of fees related to operations (i.e., invoice fees, suspended account and returned check fees, lost, stolen or damaged transponder fees, and fees related to programs with San Francisco Airport and rental car agencies).

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

Development Impact Fees

The Agency adopted a Development Impact Fee Program in 1986. The fee program is based on the general principle that development within the "area of benefit" of the corridor will benefit from the construction of the corridor. Development Impact Fees (DIF), 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. The Toll Roads were constructed using funds from the sale of bonds that are backed by future toll revenues and development impact fees. Development Impact Fees for FY19 are expected to approximate $5.2 million. The Agency is estimating Development Impact Fees to be $4.0 million for FY20, representing 1.9% of total revenues, based upon recent trends and development.

Interest Earnings

Interest Earnings represent earnings on funds held in trust for bondholders, funds held for operations and funds held in custody accounts at the trustee for the Agency. Budgeted Interest Earnings are based upon the existing investment portfolio. Total Interest Earnings budgeted for FY20 of $12.1 million represent approximately 6.0% of total revenues.

Interest Earnings for FY19 are estimated to be $9.2 million.

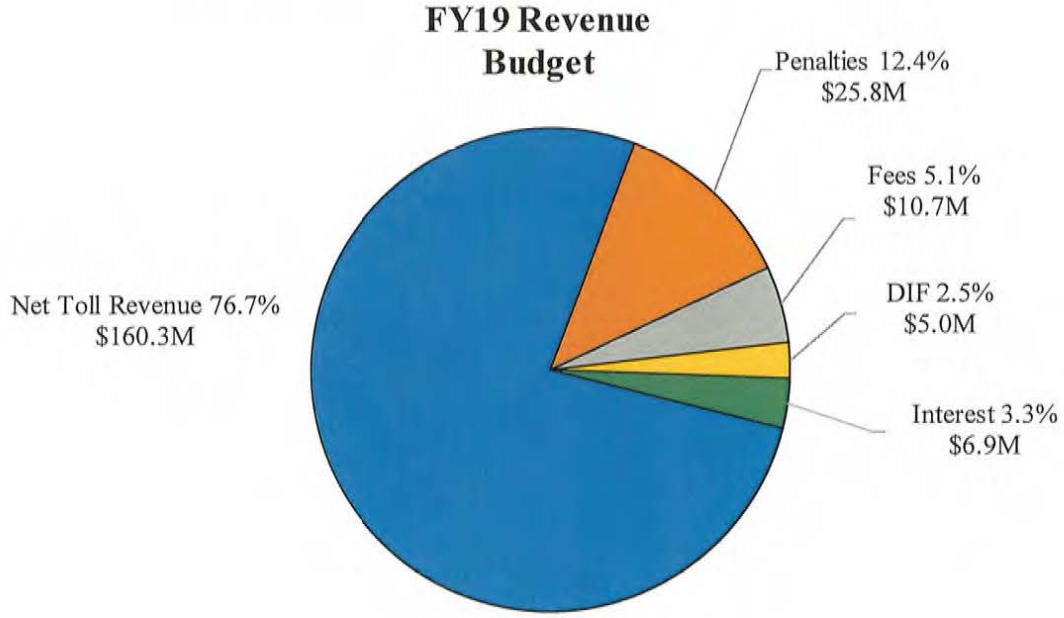
Revenue Pie Chart – FY19 Budget as compared to FY20 Budget

The pie charts on the following page show a comparison of FY19 budgeted revenues to FY20 proposed budget revenues.

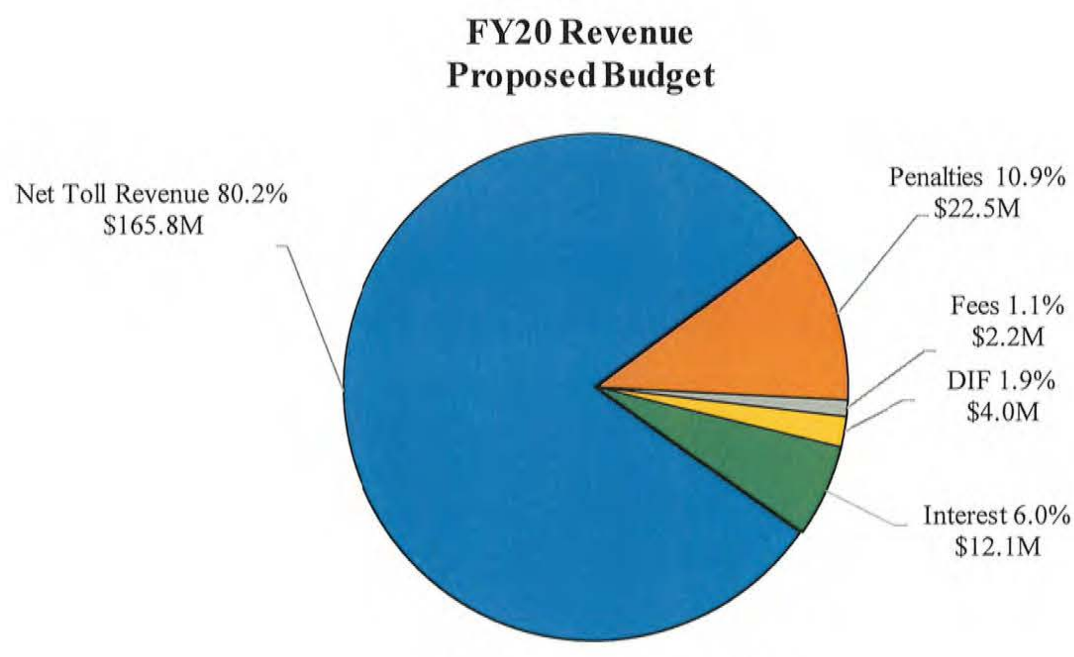
Budgeted revenues decreased $2.1 million to $206.6 million in FY20 from budgeted revenues of $208.7 million in FY19 due to increases in Net Toll Revenue and Interest Earnings offset by decreases in Fees, Penalties, and Development Impact Fees.

Net Toll Revenue is expected to increase from $160.3 million budgeted in FY19 to $165.8 million in the FY20 budget as a result of current transaction and revenue trends and toll rate and account simplification changes (see Sources Summary on page 10 for more information). Penalties are projected to be lower in FY20 by $3.3 million compared to the FY19 budget as a result of actual violation collections and current transaction and transactional toll revenue trends. See Penalties discussion on page 12 for more information. Fees are budgeted to decrease in FY20 by $8.5 million compared to the FY19 budget based on eliminating monthly account maintenance fees (see Sources Summary on page 10 for more information). FY20 budgeted Development Impact Fees have decreased by $1.0 million from the FY19 budget to $4.0 million based on recent collection trends and development. Interest Earnings are expected to increase by approximately $5.2 million primarily resulting from working with the Agency's investment advisor to maintain an active management strategy which has allowed the Agency to take advantage of the Federal Open Market Committee's past increases in the Federal Funds interest rate.

San Joaquin Hills Transportation Corridor Agency



FY19 Budget Revenue $208.7M



FY20 Budget Revenue $206.6M

Expenditures Summary

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

The budget includes proposed inflationary increases in major operating contracts, operations initiatives, and capital projects costs. Detail of expenditures can be found on pages 20-28.

The FY20 proposed budget for expenses was developed with the Agency's continued commitment to fiscal responsibility and overarching goals.

The proposed budget for FY20 includes total expenditures of $146.1 million. The following are brief explanations of the various expenditures.

Planning, Environmental and Construction (Excluding Administration)

This category mainly consists of costs associated with the Agency's current Capital Improvement Plan including Signage Enhancement, and various studies to monitor the Agency's compliance with permits and other environmental documents. The FY20 proposed budget for these expenses is $4.6 million, approximately 3.1% of the total budget. The funding for these expenses is the cash on hand from Agency surplus revenues and previous development impact fee collections.

The Planning, Environmental and Construction projected actuals for FY19 total $1.6 million. The increase of $3.0 million in the FY20 budget is primarily related to increases in the Signage Enhancement project and the Austin Sand Filter Retrofit project.

Administration

The total proposed budget for Administration expenses is $15.2 million for FY20, or approximately 10.5% of the total proposed budget. The Administration category includes all employee compensation (3.2% of the total budget) as well as overhead-type expenses, such as insurance, legal, office expenses, administrative consulting services, communications, and travel expenses. Rents and leases expense includes the fair market rental lease payments that the Agency pays to the F/ETCA related to its portion of the Pacifica building and related common area maintenance and tenant improvement costs. These costs are budgeted in total but are allocated between the two primary activities of the Agency: Planning, Environmental and Construction and Toll Operations. The allocation of costs between the two types of activities is necessary in determining the appropriate funding source as well as for the calculation of debt service coverage per the Indentures. The resulting allocation can be seen in the columns for each activity on page 21 of this document.

Projected Administration expenses for FY19 total $9.6 million. The increase in the FY20 proposed budget from the FY19 projected actuals is primarily due to the payoff of the pension liability, communications, technology support, Customer Service Center Modernization costs, the Systemwide Traffic Optimization Study, data security services & technology planning, as well as legal costs related to ongoing litigation.

Toll Operations (Excluding Administration)

Toll Operations include toll system costs associated with maintaining the Agency's 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 FY20 budget for these expenses is $17.3 million or 11.8% of the total budget.

Toll Operations, excluding Administration, is projected to total $16.0 million in FY19. The FY20 budget is $1.3 million higher than projected FY19 actuals primarily due to increases in labor to support growth in customers and transactions; credit cards and other costs directly related to revenues; the Customer Service Center Back Office System Replacement Project ramp up; and scheduled Consumer Price Index adjustments for the system lane hardware and software maintenance contracts.

Debt Service

The Debt Service category includes the annual principal and semi-annual interest payments to be made on all outstanding bonds. These payments for FY20 are budgeted at $109.0 million, or 74.6% of the total budget. FY19 Debt Service will total $107.5 million.

Future years' Debt Service, which is primarily funded from toll revenues, was structured so that payments grow at an average of 2.4% per year until reaching maximum annual debt service of $186 million in FY 2041.

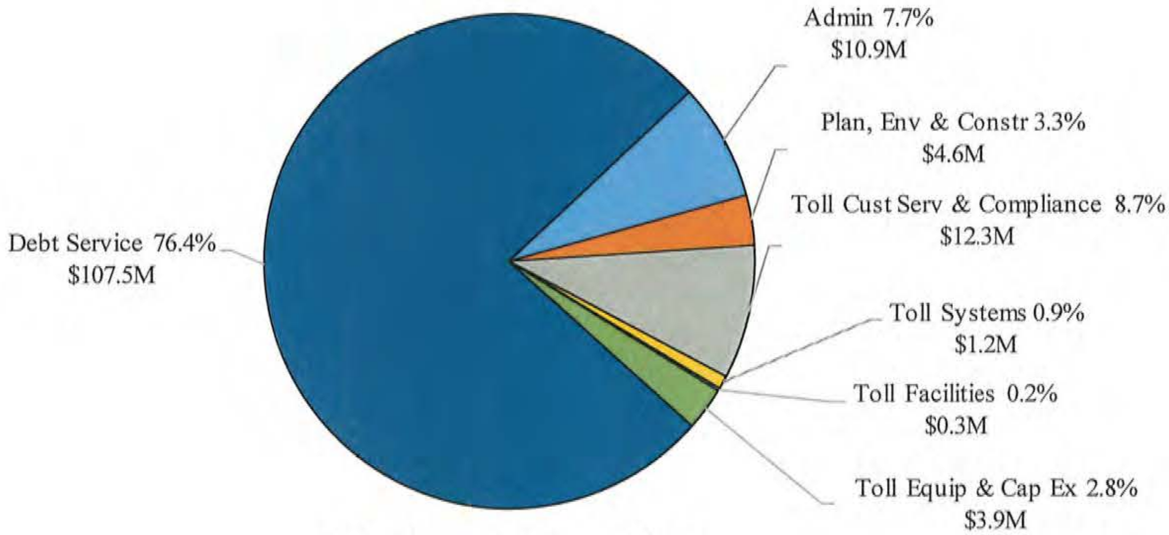
Expenditures of Funds – FY19 Amended Budget as compared to FY20 Budget

The pie charts on the following page show a comparison of the FY19 amended budget and the FY20 proposed budget by type of expense.

The FY20 proposed budget of $146.1 million, as compared to the prior year's amended budget of $140.7 million, shows an increase of $5.4 million, or 3.9%. The net increase is primarily related to the payoff of the pension liability and an increase in Debt Service payments offset by decreases in Toll Operations expenditures related to the 6C transition and account simplification project.

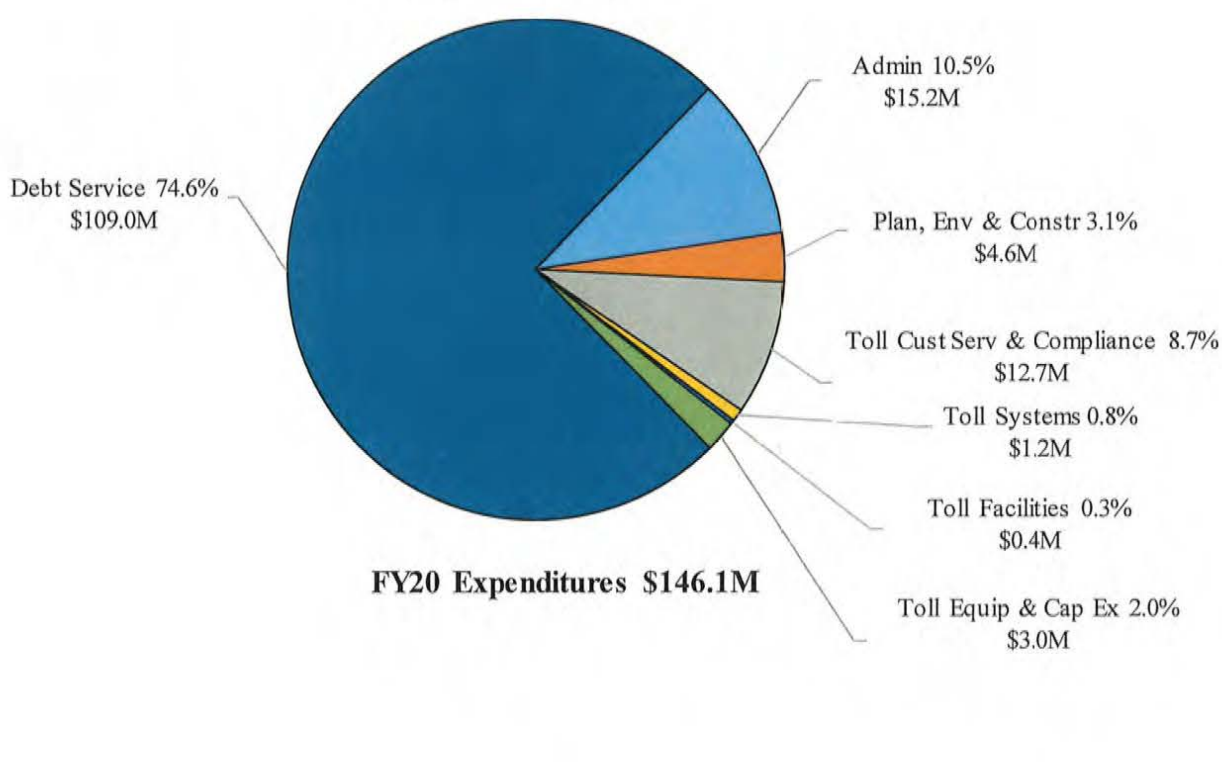
San Joaquin Hills Transportation Corridor Agency

FY19 Expenditures Budget



FY19 Expenditures $140.7M

FY20 Expenditures Proposed Budget



FY20 Expenditures $146.1M

Expenditures Detail

The schedule on the following pages details the budget as summarized on pages 22-28 into more specific categories (budget subcategories). Many of the Administration subcategories are allocated between Planning, Environmental and Construction and Toll Operations expenses.

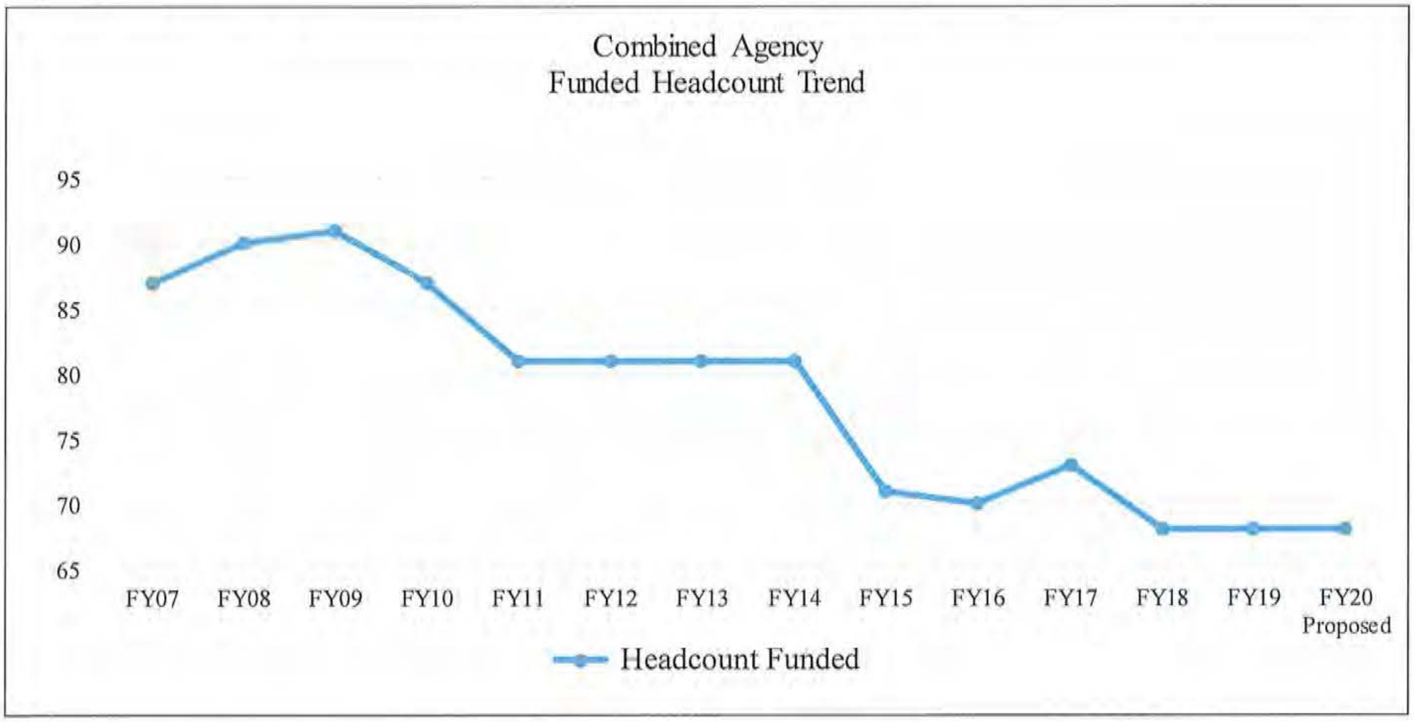
San Joaquin Hills Transportation Corridor Agencies
Fiscal Year 2020 Proposed Budget
($000)

Category	Budget Fund Categories: Non-Operating, Plan, Environ & Construction	Toll Operations Exp & Equip	Debt Service	Total
Administration:				
Regular Salaries	741	2,632	-	3,373
Internship Program	9	31	-	40
Board Compensation	15	54	-	69
Benefits	278	972	-	1,250
Payoff of Pension Liability	3,973	-	-	3,973
Employer Taxes	13	47	-	60
Insurance	63	740	-	803
Legal Expense	213	1,007	-	1,220
Telephone/Comm	12	43	-	55
Office Expense	58	323	-	381
Staff Education, Seminar, Membership, Conferences	30	60	-	90
Agency Membership & Sponsorship	7	167	-	174
Customer Education / Website	1	71	-	72
Communications	128	546	-	674
Financial & Administrative	255	259	-	514
Technology Support	22	158	-	180
Strategic Planning & Advocacy	21	393	-	414
Other Professional Services	90	367	-	457
Publications & Subscriptions	2	8	-	10
Rents & Leases	120	588	-	708
Transportation & Travel	24	113	-	137
Office Equipment	4	7	-	11
Pacifica Fixed Assets	134	474	-	608
Total Administration	6,213	9,060	-	15,273
Planning, Environmental and Construction:				
Capital Improvement Plan (CIP):				
Signage Enhancement	2,264	-	-	2,264
Total Capital Improvement Plan	2,264	-	-	2,264
Other Planning, Environmental and Construction:				
Mitigation & Permits	40	-	-	40
Environmental Lands Management	250	-	-	250
Environmental Staff Augmentation	155	-	-	155
Engineering Staff Augmentation	1,066	-	-	1,066
Regional Traffic Data and Reporting	388	-	-	388
Other Construction	420	-	-	420
Total Other Planning, Environ and Constr	2,319	-	-	2,319
Total Planning, Environmental and Construction	4,583	-	-	4,583
Toll Operations:				
Customer Service and Toll Compliance	-	12,703	-	12,703
Toll Systems	-	1,201	-	1,201
Toll Facilities	-	399	-	399
Subtotal Toll Operations	-	14,303	-	14,303
Operations Equipment and Capital Expenditures:				
Transponder Equipment	-	1,069	-	1,069
Toll Equipment & Capital Expenditures	-	1,923	-	1,923
Total Equipment	-	2,992	-	2,992
Total Toll Operations	-	17,295	-	17,295
Debt Service	-	-	108,986	108,986
Total Expenditures	10,796	26,355	108,986	146,137

Staffing

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

The recommended staffing plan for FY20 is 68 funded positions and is allocated 40% to this Agency and 60% to F/ETCA. The following chart shows the change in funded headcount from 2007 through 2019 and the projected 2020 headcount on a combined Agency basis (F/ETCA and SJHTCA). The decrease in FY15 was due to the end of cash toll collections.



Administration - Compensation (Regular Salaries and Benefits)

The Agency employee compensation budget is $4.7 million. TCA salaries are reviewed each year through the annual performance review process. The Agency does not provide for any type of automatic step or Cost of Living Adjustment (COLA) increases.

Benefits include contributions to a cafeteria plan (medical, dental, and vision) and retirement plans. In general, budgeted benefits are determined by applying estimated rates for these plans to estimated headcount. If benefit rates come in lower than expected, the budget is not spent. FY20 benefits are 36.9% of salaries.

The FY20 employer contributions to the Orange County Employees Retirement System (OCERS) have been budgeted at 26.00% for legacy employees and 22.51% for employees hired on or after January 1, 2013 under the Public Employees' Pension Reform Act – PEPRA. Each of these rates includes a component of 11.49% that represents payment of the Agencies' unfunded actuarial accrued liability (UAAL). The Agency's UAAL is estimated as of December 31, 2017, OCERS' latest published report at the time of budget preparation, at approximately $4.5 million. The UAAL is amortized over 20 years. The Agencies monitor the UAAL and believe that it is manageable as it is paid each year as part of the employer contribution.

In FY16, the Agency completed a detailed classification study of salary ranges through a consultant and FY17 salary ranges were adjusted based on the results of the study. In FY19, salary ranges were adjusted by 2%. For FY20, the staffing plan includes a 2% adjustment to salary ranges which is lower than current public and private sector data. The recommendation to revise the Agency's salary ranges does not in itself, result in any change to individual employee salaries. Employee salary adjustments are only based on merit increases and/or promotions.

A 4.0% merit pool of $119,762 based on the current public and private sector data, with an emphasis on like organizations, has been included in the budget. The recommended merit pool will allow the Agency to remain competitive, reward employees for their performance, and help retain current employees. The annual review process includes: employee input on the employee's perspective of accomplishments and future goals, supervisor review and evaluation of employee accomplishments and establishment of goals for the next year, executive team member review of all performance reviews for the department, human resources review of all employee performance reviews for consistency, and submittal of performance reviews to the CEO for approval. The performance reviews are rated based on employee performance and include the following rating categories: Exceptional, Exceeds Expectations, Successful/Fully Competent, Development Needed, and Unsatisfactory. The merit increase will be assigned according to the ratings category and is expected to range from 0% to 6%. A 3.0% non-base building performance incentive pool of $89,927 has been included in the budget and is linked to the FY20 Agency initiatives. This will allow the CEO to reward outstanding achievement on special projects and/or initiatives in accordance with the Agencies' performance incentive award policy.

TCA has contained costs through a net reduction in headcount (81 to 68) since FY12 and reduced benefits by shifting pension and health benefits costs to employees and reduction of accrued leave. Our philosophy and approach to contract out many of our services continues to keep our salaries/benefits lower and manageable.

Administration – Payoff of Pension Liability

The payoff of the pension liability is budgeted at $4.0 million, approximately 2.7% of the total budget. TCA is a plan participant in the pension system administered by OCERS. There is currently a funding gap between the funds available in OCERS to pay benefits owed to current retirees and employees compared to the amount saved in the plan, resulting in a UAAL. The UAAL amount is charged to participating employers as an added cost beyond the "normal" employer contribution. As discussed with the Joint Operations & Finance Committee on May 23, 2019, paying off TCA's current UAAL represents good public policy related to fiscal responsibility for pension obligations, will result in a net present value savings, and allows the funds to be invested through pooled funds managed by OCERS.

Administration - Insurance

Insurance expense is budgeted at $803,000, approximately 0.5%of the total budget. The major components of insurance include earthquake, property, general and excess liability, cyber, and workers' compensation coverage as detailed in the annual Current Insurance Coverage Report which was provided at the February 2019 Board of Directors meeting. Policies are marketed and placed by the Agency's insurance broker, Alliant Insurance Services, Inc., who provides all of the

Agencies' insurance procurement needs. All insurance is maintained in accordance with the requirements of the Indentures and as prudent business activities dictate.

Administration - Legal Expenses

Legal Expenses are budgeted at $1.2 million, 0.8% 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 $262 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	$ 698,000
General Counsel	164,000
Contracts	142,000
Financing	90,000
Development Impact Fees	50,000
Human Resources	36,000
6C Transition Project	25,000
Environmental	15,000
Total	$ 1,220,000

Administration – Communications

Communications is budgeted at $674,000, approximately 0.5% of the total budget. This includes amounts paid for the Agency's communications contractor for writing fact sheets and press releases, developing content for social media and the TCA website, assisting with management of the Latin Advisory Board, conducting Community Outreach and engagement on the Signage Enhancement project as well as environmental efforts like mitigation sites.

Communications / Public Relations Support	$ 608,000
Diversity Consultant / Technical Writer	46,000
Environmental / Construction Outreach	15,000
Annual Report	5,000
Total	$ 674,000

Administration – Financial & Administrative

Financial & Administrative is budgeted at $514,000, 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	$	155,000
Business Continuity Consulting		92,000
Finance Advisors		20,000
Rating Agencies		74,000
Annual Audit		74,000
Staffing Services		20,000
Traffic & Revenue Consultant		30,000
Trustee Fees		30,000
Payroll Services		15,000
Other Financial & Administrative Consulting		4,000
Total	$	514,000

Administration – Technology Support

Technology Support is budgeted at $180,000, approximately 0.1% of the total budget. This category includes data security services & technology planning efforts, National Interoperability consulting, and Business Intelligence consulting.

Administration – Strategic Planning & Advocacy

Strategic Planning & Advocacy is budgeted at $414,000, approximately 0.3% of the total budget. This category includes state and federal advocacy support and strategic outreach consulting.

State Advocacy	$	224,000
Strategic Outreach		100,000
Federal Advocacy		90,000
Total	$	414,000

Administration – Other Professional Services

Other Professional Services is budgeted at $457,000, approximately 0.3%of the total budget. The following is the budget associated with these expenses:

6C Transition Support	$	277,000
Systemwide Optimization Study		180,000
Total	$	457,000

Administration - Rents and Leases

The budget for Rents and Leases totals $708,000, representing 0.5% of the total budget. This category is related to the Agency's rental payments to the F/ETCA for its allocation of space in the Pacifica building and common area maintenance. The lease agreement calls for lease payments to be set annually based upon a current survey of fair market rates of comparable "all-in" leases in the Irvine area.

Administration - Pacifica Fixed Assets

The Pacifica Fixed Assets category is budgeted at $608,000, representing approximately 0.4% of the total budget. This includes tenant improvements to the Pacifica building not included in rent above. This category is related to expenditures qualifying for capitalization and includes design services for the Customer Service Center Modernization project.

Planning, Environmental and Construction - Capital Improvement Plan

The Capital Improvement Plan is budgeted at $2.3 million and represents 1.5% of the total budget. This category consists of the Signage Enhancement project outlined in the Capital Improvement Plan to be presented to the Board of Directors on June 13, 2019.

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

This category totals $2.3 million or 1.6% of the total budget and includes funding for design program management, the Austin Sand Filter retrofit, regional traffic data and reporting, title and survey work related to mitigation parcels, in-house consulting assistance, and coordination with the Southern California Association of Governments and OCTA to ensure the Agency's projects are described accurately in regional transportation plans.

Design Program Management	$ 1,066,000
Austin Sand Filter Retrofit	420,000
Regional Traffic Data and Reporting	388,000
Environmental Lands Management	250,000
Environmental Staff Augmentation	155,000
Mitigation & Permits	40,000
Total	$ 2,319,000

Toll Operations - Toll Customer Service and Toll Compliance

The Toll Customer Service and Toll Compliance category totals $12.7 million, approximately 8.7% 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. 6C transition and account simplification project costs include postage, printing, call center labor and transponder fulfillment. Fees are included in this category for the Costco, AAA, and Albertsons FasTrak enrollment programs. The budget associated with these expenses is detailed below:

Credit Card Processing Fees	$ 3,991,000
Customer Service Contract	4,191,000
Postage & Printing	1,685,000
Customer Service System Maintenance	1,120,000
6C Transition Project	836,000
Enforcement Services & Other	586,000

Other Customer Service	294,000
Total	$ 12,703,000

Toll Operations - Toll Systems

The Toll Systems category totals $1.2 million, or approximately 0.8% of the total budget and, as detailed below, primarily consists of fees for the tolling systems software and hardware maintenance and operation contract with TransCore LP. Also included in this category are toll system spare parts and repairs, software licenses, and various computer maintenance contracts.

On-Road Toll System Maintenance	$	1,014,000
Computer/Software Maintenance & Support		139,000
Projects		48,000
Total	$	1,201,000

Toll Operations - Toll Facilities

This category is budgeted at $399,000 representing 0.3% 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 Building Maintenance Services	$	261,000
On Road Utilities		138,000
Total	$	399,000

Toll Equipment & Capital Expenditures

The Toll Equipment & Capital Expenditures budget is $3.0 million, approximately 2.0% of the total budget. Toll Equipment & Capital Expenditures primarily consists of current and 6C Transition Project 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	$	1,891,000
6C Transition Project		600,000
Transponders		469,000
Other Equipment		32,000
Total	$	2,992,000

Debt Service

The Debt Service category totals $109.0 million or 74.6% of the total budget and in FY20 includes interest and principal on the Agency's outstanding bonds. The debt service is $75.1 million on January 15, 2020 and $33.9 million on July 15, 2020.

The FY20 budgeted aggregate and senior lien debt service coverage ratios shown on the following page meet the Indenture requirements of 1.10x and 1.30x, respectively. The budgeted coverage is 1.56x and 1.81x, respectively, and does not include the use of reserves or escrow defeasance. Adjusted Net Toll Revenues only includes revenues and interest earnings in certain accounts per the Indentures. Development impact fees are not included in the calculation. While development impact fees are not included in the budget calculation of the debt service coverage ratios, the Indentures allow for development impact fees that are remaining after each debt service payment to be added to the calculation thereby enhancing the debt service coverage calculation. The Indentures refer to this as Enhanced Adjusted Net Toll Revenues and this enhanced calculation will be used for actual debt service coverage covenant reporting. Current expenses include expenditures that are allocated to operations (as shown in the second column of the schedule on page 21).

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 2020

	FY20 Budget ($000)
Adjusted Net Toll Revenues	
Total Toll Revenues Including Fees and Penalties	190,427
Interest Earnings *	5,640
Current Expenses - Funded From Toll Revenue	(26,355)
Adjusted Net Toll Revenues	169,712
Aggregate Net Debt Service	
Aggregate Debt Service	108,986
Aggregate Coverage Ratio (1.10x requirement)	1.56
Senior Lien Net Debt Service	
Senior Lien Debt Service	93,556
Senior Lien Coverage Ratio (1.30x requirement)	1.81

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

Estimated Unrestricted Cash Fund

Below is the FY20 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 Unrestricted Cash
($000)

Estimated Available Cash at 6/30/19	231,114
Planning, Environmental and Construction and Related Administration	(6,823)
Payoff of Pension Liability	(3,973)
Surplus Revenue	62,122
DIF Revenue and Interest Income	10,054
Estimated Available Cash at 6/30/20	292,493

RESOLUTION NO. S2019-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY
APPROVING THE BUDGET FOR FISCAL YEAR 2020

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

WHEREAS, Section VI, paragraph 6.1 of the Second Amended and Restated Joint Exercise of Powers Agreement creating the San Joaquin Hills 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, and further amended on February 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 San Joaquin Hills Transportation Corridor Agency does resolve, declare, determine and order as follows:

1. Approves the annual budget for Fiscal Year 2020 (FY20) in the amount of \$146,137,272. The approval includes Administration, Planning, Environmental and Construction, Toll Operations, Debt expenses, the proposed staffing plan as described in the budget, and projected Revenues, including without limitation the adoption of the "proposed" toll rates, fees, and fines, as presented in the FY20 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	\$15,273,097
• Planning, Environmental and Construction	\$4,582,737
• Toll Operations	\$17,295,055
• Debt Service	\$108,986,383

   and subject to controls in place under the 1997 and 2014 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 2016 Regional Transportation Plan/Sustainable Communities Strategy (RTP/SCS), and to include the updated schedule and project budget approved by this resolution in all subsequent FTIP updates including the 2020 FTIP, and, and all RTP/SCS updates including the 2020 RTP/SCS, for the Southern California Association of Governments (SCAG) region.

4. Directs the staff to forward the approved Annual Budget for FY20 to the trustee.

This Resolution No. S2019-02, shall become effective immediately upon adoption.

Adopted this 13th day of June, 2019, by the Board of Directors of the San Joaquin Hills Transportation Corridor Agency.

Fred Minagar, Chair
San Joaquin Hills Transportation Corridor Agency

RESOLUTION NO. S2019-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY
APPROVING THE BUDGET FOR FISCAL YEAR 2020

ATTEST:

I, Martha M. Ochoa, Secretary/Clerk of the Board of the San Joaquin Hills Transportation Corridor Agency hereby certify that the foregoing Resolution No. S2019-02 was duly adopted on June 13, 2019, by the Board of Directors of the San Joaquin Hills Transportation Corridor Agency by the following vote:

Yes:	Director Bane, Director Bartlett, Director Foley, Director Heft, Director Kelley, Chair Minagar, Alternate Moore, Director Munzing, Director O'Neill, Director Penaloza, Director Shea, Director Viczorek
No:	Director Maryott, Director Wagner
Absent:	Vice-Chair Conners
Abstain:	NONE

Martha M. Ochoa

Martha M. Ochoa
Secretary/Clerk of the Board
San Joaquin Hills Transportation Corridor Agency