RESOLUTION NO. F2012-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY APPROVING THE BUDGET FOR FISCAL YEAR 2013

On motion of Board MemberSchwing 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 applicable to governmental entities and all revenues and expenditures must be reported to the Board; and,

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

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

WHEREAS, Article VI, paragraph 6.5 of the Administrative Code of the Agency adopted on January 10, 1991, requires that all expenditures for travel, conference and business-related activities, and reimbursement of Board Members and Agency employees for such expenditures be governed by the Board adopted Travel, Conference and Business 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 FY 2013 (FY13) in the amount of $154,758,294. The approval includes Administration, Planning, Environmental and Construction, Toll Operations expense and Equipment, 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 at the Board meeting on June 14, 2012.

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	$14,626,879
• 241 Completion (excluding related administration)	$10,260,000
• Capital Improvement Plan	$7,515,178
• Other Planning, Environmental and Construction	$1,779,218
• Toll Operations	$15,882,290
• Debt Expenses	$104,694,729

   and subject to controls in place under the 1995 and 1999 Indentures of Trust, the Board approved Contracts and Procurement Manual, Investment Policy, Staffing and Compensation Plan, and finally the Agency's enabling legislation.

3. With the approval of the Chair, the Chief Executive Officer is authorized to execute contracts with appropriate consultants regarding legislative support and legislative strategy; provided that such contracts do not exceed the applicable budget limitations for such activities.

3. Resolves to carry forward the project description and schedule from the current 2010 Regional/Federal Transportation Improvement Program (RTIP) and 2050 Regional Transportation Plan (RTP), and to include the updated schedule and project budget approved by this resolution in subsequent RTIP and RTP updates, including the 2012 RTIP, for the San Diego Association of Governments (SANDAG) region.

4. Resolves to carry forward the project description and schedule from the current 2011 Regional Federal Transportation Improvement Program (RTIP) and 2012-2035 Regional Transportation Plan, and to include the updated schedule and project budget approved by this resolution, in subsequent RTIP and RTP updates, including the 2013 FTIP update, for the Southern California Association of Governments (SCAG) region.

5. Directs staff to forward the approved Annual Budget for FY13 to the trustee.

This Resolution No. F2012-02, shall become effective immediately upon adoption.

Adopted this 14th day of June, 2012, by the Board of Directors of the Foothill/ Eastern Transportation Corridor Agency.

Bill Campbell

Bill Campbell, Chairman
Foothill/Eastern Transportation Corridor Agency

RESOLUTION NO. F2012-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY
APPROVING THE BUDGET FOR FISCAL YEAR 2013

ATTEST:

I, Kathleen Loch, Clerk of the Board of the Foothill/Eastern Transportation Corridor Agency hereby certify that the foregoing Resolution No. F2012-02 was duly adopted on June 14, 2012, by the Board of Directors of the Foothill/Eastern Transportation Corridor Agency by the following vote:

Yes:	Eastman, Voights, Grangoff, Allevato, Bartlett, Campbell, Amante, Beall, Cavecche, Ury, Schwing, Krom
No:	Nelson
Absent:	Dahl, Sarmiento
Abstain:	

Kathleen Loch

Kathleen Loch, Clerk of the Board
Foothill/Eastern Transportation Corridor Agency

Carolyn LeBail

Carolyn LeBail, Assistant Secretary to the Board
Foothill/Eastern Transportation Corridor Agency

FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY

The Toll Roads®

Stop sitting. Get moving.

Fiscal Year 2013 Proposed Budget

San Joaquin Hills
Transportation
Corridor Agency

Chairman:
Scott Schoeffel
Dana Point

Transportation Corridor Agencies

Foothill/Eastern
Transportation
Corridor Agency

Chairman:
Bill Campbell
County of Orange

Dear Chairman Campbell and Board Members:

Re: Foothill/Eastern Transportation Corridor Agency's Fiscal Year 2013 Budget

The Budget proposed for Fiscal Year 2013 has been prepared to continue efficient operation of the 133, 241 and 261 Toll Roads and move two important agency initiatives from the planning stage to implementation -- All Electronic Tolling (AET) and the SR 241 Tesoro Extension.

For the past two years extensive analysis has been conducted to determine the best and most efficient way to operate toll collection into the future. Staff's conclusion is that AET will reduce long-term maintenance and replacement costs and offer more payment alternatives for toll road customers, resulting in a net benefit for revenue. Phase 4 (implementation) is expected to take 16 months beginning in the summer of 2012 and concluding with the full transition to AET in the fall of 2013.

In October 2011, the Board of Directors directed staff to develop engineering plans, complete environmental assessments, and develop a financial strategy to build a five-mile extension of SR 241 from Oso Parkway to the future Cow Camp Road in Rancho Mission Viejo. The project, named the Tesoro Extension, is on track for approvals in late fall 2012 with construction to commence in early 2013. The Tesoro Extension will relieve traffic on I-5 through San Juan Capistrano and provide an alternative route for residents, businesses, and commuters who travel from the Inland Empire via Ortega Highway to Orange County business centers.

We will wrap up FY12 with expenses, net of debt service payments, $10.5 million lower than the FY12 budget, primarily due to the SR 241/91 connector and 241 completion budgets not fully expended. The proposed expenditure budget for Fiscal Year 2013 (FY13) is $154.8 million. The budget, excluding debt payments, is $504,000 higher than the FY12 amended budget due to costs related to the SR 241 Tesoro Extension and implementation of AET.

The proposed budget assumes toll rate increases of $0.25 for cash transactions and five percent for FasTrak® transactions at all locations except Los Alisos Blvd. in Mission Viejo and Oso Parkway in Rancho Santa Margarita. Increases are not proposed for the violation penalty rates or account maintenance fees.

Continuing to increase revenue year-over-year is necessary to meet the agency's growing debt service requirements. With the toll rates proposed, toll revenue is expected to be $107.5 million. In FY09, the agency established an escrow defeasance account so that available surplus funds deposited into the escrow could be used to pay debt service. To meet the debt service coverage requirement of 1.3x use of $13.5 million of escrow defeasance is required in FY13. Continued reliance on this fund should be reduced as it could be considered a credit weakness.

Thomas E. Margro, Chief Executive Officer

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In Fiscal Year 2012, we had a number of accomplishments, especially in the area of customer service. In August a new website design was launched that enables FasTrak® customers to log in to their account directly from the website's home page and includes a new toll calculator that utilizes an interactive map of The Toll Roads. In FY13, we plan to further enhance website navigation and content, utilize search engine optimization (SEO) to maximize The Toll Roads' visibility in search results, and expand the board meeting agenda sections to include agendas, staff reports, minutes, and Board Meeting highlights. We will also expand the account sign-up process for the new License Plate Tolling (LPT) accounts as part of the AET initiative.

In April, a mobile phone app was launched that gives TCA FasTrak customers the ability to manage their account, including adding vehicles and making payments directly from their iPhone or Android.

Ongoing promotions continued to give toll road customers added benefits. The "Drive to win $500 in tolls" promotion rewards drivers who use The Toll Roads the most by adding their name to a monthly drawing to win free tolls each time they pay a toll. The program has been popular with our drivers and as of April, more than 80,400 accountholders were registered for the drawings. The campaign is ongoing and winners include a gas station owner, Camp Pendleton employee, homemaker, accountant, and construction manager. Our "Toll Road Tuesdays" offer also continues to be successful. Every Tuesday cash customers receive a coupon at mainline toll plazas and FasTrak customers are emailed the month's offer if they drive on The Toll Roads the first Tuesday of the month. Some examples of customer offers in FY13 include discounts tickets for Anaheim Ducks, Mountain High Ski Resort, LEGOLAND and the popular Orange County Market Place.

Finally, a long-term goal of partnering with the Automobile Club of Southern California (AAA) was reached in FY12. As part of AAA's "Show Your Card and Save" program AAA members can now receive a 20 percent discount when they sign up for a TCA FasTrak account through the AAA website. Plans to begin issuing FasTrak transponders at AAA offices in Orange County are in the works and could be implemented in FY13.

Staff and I have identified FY13 project initiatives based on input from Board Ad Hoc committees to reach the agency's goals of ensuring the agency's financial flexibility and long term sustainability, excellent customer service, and maintaining the system in a state of good repair. (See appendix A)

Highlights include:

<u>Fully Integrated Long-Range Financial Planning</u>
A Strategic Financial Ad Hoc Committee for the Foothill/Eastern Agency was formed in April and will begin meeting in late June to review various financing options for the Tesoro Extension, and also set a framework for financial policy decisions to ensure sufficient working capital and financial flexibility for the future. The plan includes development of a fully integrated financial model that will facilitate the long-range planning and policy setting process.

<u>241/91 Express Lane Connection</u>
This project is being coordinated with the 91 Express Lanes extension into Riverside County. Preliminary design and environmental clearance should be completed in FY13.

Federal Legislative Program

In FY12, we began focusing on reforms to the National Environmental Protection Act (NEPA) as part of our federal legislative efforts along with close monitoring of the House and Senate's Transportation Bill for changes to the TIFIA program and the proposal for national toll interoperability. On April 25, I testified before a subcommittee of the House Judiciary Committee to support a bill proposed by the US Chamber of Commerce that includes provisions for NEPA reform.

Since October we have briefed and continue to communicate with the senior senator from California and every member of the Orange County Congressional delegation as well as key members representing parts of northern San Diego County on our plans for the Tesoro Extension. I am pleased to report that our plans have been met with enthusiasm and support as well as offers of assistance.

Marketing and Outreach

In FY11, a three year marketing plan was launched for The Toll Roads to increase overall usage, to increase awareness by reinforcing the benefits of FasTrak and to position The Toll Roads as a partner within the local community. In FY13 the marketing program will continue with its original goals, but also gear up for the implementation of AET. The AET marketing plan includes three phases – Phase 1) campaign to increase FasTrak accounts prior to the availability of License Plate Tolling (LPT) account options. Phase 2) campaign to convert cash customers to the new LPT accounts which will allow customers to sign up to drive The Toll Roads without the need for a transponder. Instead, a photo will be taken of their license plate and they will have the option of prepaying tolls into their account, have their credit card charged at the end of each day that The Toll Roads are used, or have an invoice mailed to them at the end of each month. Phase 3) Awareness campaign when cash is removed from The Toll Road system. Phase 3 will take place in FY14. The AET marketing program will be supported by a media relations campaign and extensive community outreach.

Marketing research was conducted in FY12 and found that the benefits of FasTrak for FasTrak customers, cash customers and non-users are similar. All groups noted the following as FasTrak benefits:

- No stopping
- Lowest toll
- Interoperability (use of other toll roads/lanes/bridges in California)

Fastrak customers and non-users stated the following as benefits of the proposed License Plate Tolling (LPT) accounts:

- No stopping
- Uses license plate/no transponder needed
- No prepayment required

The information gained from the marketing research will be incorporated into the FY13 marketing program.

The Outreach program for the Tesoro Extension will be robust in FY13. The program began in FY12 after the Board approved the initiative. By September 2012 we will have sponsored 15 booths at community events in Rancho Santa Margarita, San Juan Capistrano, San Clemente and Dana Point. The feed back for the Tesoro Extension has been positive in the community. In FY13 we plan to hold community workshops, distribute YouTube videos to illustrate important elements of the project and continue outreach to stakeholders and the general public through one-on-one meetings, a speakers' bureau and advertising.

Environmental Initiatives

In early 2012, work began on the F/ETCA's newest mitigation site: Strawberry Farms. The 15 acre site is located in the City of Irvine and within the Orange County Coastal Natural Community Conservation Plan/Habitat Conservation Plan (NCCP/HCP). The agency is actively restoring and enhancing 13.3 acres of coastal sage scrub, including areas of cactus scrub and native perennial grassland, within the 15-acre site. The vegetation to be restored and enhanced will provide habitat for several target species of the Coastal NCCP/HCP, including the California gnatcatcher and coastal cactus wren. Staff anticipates completion of the project in late 2018.

In FY12, we prepared a plan to reach consensus with federal and state resource agencies on effective use of the wildlife crossings along SR 241. We performed vegetation monitoring and prepared a final report that documents our compliance in meeting project permit requirements for coastal sage scrub revegetation. We also conducted the final year of study documenting the federally threatened California gnatcatcher birds' use of habitat revegetation.

For the twelfth year in a row, we hosted free, guided spring tours that showcased the various native habitats that were restored, protected and preserved with the construction of the 241 Toll Road. In FY12, new tours were added at the Strawberry Farms Restoration Site and Saddle Creek South/Live Oak Plaza, which was jointly hosted with the Orange County Transportation Authority (OCTA). As seen in previous years, tours are very popular with the community and approximately 60 people took advantage of the opportunity to view native habitat that very few people in Orange County have ever seen.

In FY13, environmental initiatives include a restoration plan for the SR 241 Limestone Mitigation Site, continued restoration of coastal sage scrub and cactus scrub at the Strawberry Farms Restoration Site, and a wildlife fencing retrofit project.

Maintaining the System in a State of Good Repair

To maintain the toll road system, the agency will continue its program to upgrade violation cameras at the Portola North and Irvine West locations in FY13. This will also be the third year of a six year plan to replace toll systems servers. In addition, transponder readers will be replaced with new multimode readers at the Tomato Springs and Orange Grove plazas.

In FY12, the image based toll collection technology demonstration grant project moved forward with the installation of three of four on-road demonstration camera systems which are collecting images. The fourth camera system will be received by the end of FY12. System suppliers are currently tuning their systems for maximum performance in anticipation of the start of the demonstration, scheduled to begin mid-summer 2012. Front and rear images of every vehicle are captured and license plates are read and sent along with the images to the hierarchical image storage system which was also developed under the grant. A demonstration scenario is being developed for the fifth camera system acquired.

The Foothill/Eastern Budget was developed to enable TCA to provide toll road customers an efficient and free-flowing way to travel in Orange County. We've worked hard to manage expenses and are mindful of the challenges we face due to the economy's slow growth. The budget proposed allows the agency to move forward on important projects for our customers and improve mobility in Orange County.

If you have any questions as you review this letter or the enclosed budget package, please feel free to contact me or Chief Financial Officer Jan Mazyck, at 949-754-3432.

Sincerely,

T. E. Margro

Thomas E. Margro
Chief Executive Officer

Foothill/Eastern
Transportation Corridor Agency

Budget Process and Format

Fiscal Year 2013 Proposed Budget

Budget Process

The primary goals within the Foothill/Eastern Transportation Corridor Agency's (F/ETCA) vision statement provide direction to agency staff in preparing the annual operating and capital budget requests. The Master Indentures of Trust (Indentures), established in the context of the agency's 1999 refunding and 1995 bond issuance, 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 coverage ratio that must be obtained each fiscal year and establish financial constraints, which may impact the agency's ability to undertake additional projects.

At the beginning of the process, the executive team sets the objectives for the next fiscal year while considering both near-term and long-term agency goals and direction from the Board of Directors. Based on input received from Board Members during last year's budget process, the FY13 budget process began with a Pro Forma budget presentation at the Operations and Finance Committee meeting on February 1, 2012 to get Board feedback and direction on proposed revenues and expenditures. The agency's traffic consultant attended the meeting and presented an overview of the agency's toll revenue history with an emphasis on the FY12 projected results and toll rate elasticity, and how current economic trends may affect transactions. Staff presented preliminary results for FY12 revenue and expenditures and proposed FY13 project initiatives.

In addition to incorporating Board member input received during the Pro Forma meeting, 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. The finance staff works jointly with each department to compile budget expenditure requests. After all project initiatives and budget requests are reviewed by executive management, the proposed annual budget is presented to the F/ETCA Board of Directors at a workshop to obtain direction and feedback on the proposed budget. This year, the workshop was held in April and included a detailed review of both revenues and expenditures rather than in two separate workshops as in prior years. As with the addition of the Pro Forma presentation, this change in the workshop format and timing was based on prior year Board feedback. Any changes received during the workshop are incorporated into the budget and presented to the Operations and Finance Committee for review and recommendation to the Board of Directors for approval. The Board of Directors adopts the annual budget at the June board meeting for the fiscal year starting the following July. Approval of the budget requires consent of at least two-thirds of the Board Members. Expenditures during the year must be made in accordance with the agency's policies, and expenditures in excess of the total of each budget category as defined in the budget resolution cannot be made without the approval of at least two-thirds of the Board Members at which time a revised and amended budget is submitted to the Board of Directors. 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 adopted on a basis consistent with Generally Accepted Accounting Principles. The chief executive officer (CEO) has the authority to make budget transfers within 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
- 241 Completion Project
- Capital Improvement Plan
- Other Planning, Environmental and Construction
- Toll Operations
- Debt Expenses

All budget appropriations lapse at year-end. Any amounts not accrued at each year-end must be re-appropriated in the next fiscal year.

Budget Format

The Fiscal Year 2013 (FY13) proposed uses budget for the F/ETCA totals $154.8 million. The agency has one enterprise fund that records all activity on the accrual basis of accounting. The agency establishes a budget for this one fund including Planning, Environmental and Construction, Debt Service, and Toll Operating Expenses and Equipment. 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 two agencies based on the estimated benefit to each. Within each agency, for funding purposes and calculation of debt coverage, costs are further allocated between Planning, Environmental and Construction, and Toll Operating Expenses and Equipment, 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 categories. A more detailed discussion of the expenditures proposed for FY13 is included in the Sources and Uses section.

<u>Toll Operations Expenses and Equipment</u>

The Toll Operations Expenses and Equipment budget includes funding for the toll operations activities including operating administration costs. The proposed FY13 Toll Operations Expenses and Equipment budget is $22.3 million.

The primary sources of funds available for Toll Operations Expenses and Equipment are toll revenues, violation and account maintenance fees, grant funds, and interest income from toll operations' related accounts. Previously collected development impact fees are also available for funding operations equipment and capital purchases.

Amounts allocated to Toll Operations Expenses and Equipment are costs associated with maintaining and operating the toll equipment, software and systems as well as the customer service centers, toll collection processing, all other monthly operating expenses, and transitional costs related to Strategic and Policy Planning Study-All Electronic

Tolling (AET). The major costs budgeted for these activities include the contract costs associated with the agency's toll systems lane hardware and software operation and maintenance, currently under contract with TransCore LP (TransCore); toll attendant services currently under contract with Central Parking System, Inc. (CPS); and customer service and toll compliance services currently under contract with VESystems, LLC (VES) which includes operation of the FasTrak® service center and FasTrak toll processing, and review and processing of vehicle plate images and violation collection processing services. AET transitional costs include the addition of VES contract staff during the last three months of the fiscal year to prepare for additional customer service and image processing during the transitional phase of AET and a plan to cover money counting room and on road collection services through the CPS contract if the agency experiences attrition before the complete implementation of AET. Also included in Toll Operations Expense and Equipment are all toll equipment purchases such as transponders, system software, and in-lane toll and violation processing equipment. In addition, a portion of agency administration costs allocated to operation activities including insurance, salaries and benefits, rents, consulting, legal, and office expense are included in this budget category.

Planning, Environmental, and Construction Expenses

The budget for Planning, Environmental, and Construction Expenses includes construction, ongoing environmental mitigation and other environmental services, such as slope maintenance and special studies, and all non-operating administration costs. These expenses are recorded in the agency's financial statements as an addition to construction in progress, when appropriate, until the roads are transferred to Caltrans, as required. It is at the point of transfer to Caltrans that the costs of the project are then expensed on the financial statements as a contribution to Caltrans. To date, 35 miles of the F/ETCA toll system have been transferred to Caltrans. The costs associated with such projects are budgeted in the year the disbursement is made, not when the project is transferred to Caltrans. The proposed budget for these activities and projects to be disbursed in FY13 totals $27.8 million.

Planning, Environmental and Construction Administration costs are defined as office, personnel, legal, consulting, and other customary and normal expenditures associated with the direct management and administration of the agency's planning, environmental and construction related activities including the development impact fee program. Many of these expenses are allocated between the agency and SJHTCA and between Toll Operations as discussed above. The allocation between Planning, Environmental and Administration and Toll Operations for this agency is shown in the schedule on page 28 of this document.

The primary sources of funds for Planning, Environmental and Construction Expenses are cash on hand from previous development impact fee collections and agency directed surplus revenues. Agency directed 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 was collected. The reserve fund requirement has been fully met. Agency directed surplus revenues are no longer under bond Indenture requirements (see description of bonds below) and may be spent at the Board of Directors' discretion. Each year, the first $5 million of development impact fees received by the agency is available to fund expenditures or increase the agency directed surplus revenue fund; the balance of development impact fees collected during the year are also made available for the same purpose if they are not needed to fund debt service payments. Other sources of funds for these activities include investment earnings and grant funds awarded to the agency.

Debt Expenses

Debt Expenses include principal payments and accrued interest related to long-term debt. A portion of the outstanding bonds are capital appreciation bonds and convertible capital appreciation bonds, which are structured so that the principal amount accretes (increases) each year at the stated interest rate. Accretion can be simply described as deferred interest that is added to the bonds' principal balance and is recorded as interest expense and an increase to debt on the financial statements. Debt accretion has been excluded from the budget because it is a non-cash item and is reflected in the budget as part of the principal payments in the years scheduled to be paid. The proposed FY13 budget for Debt Expenses is $104.7 million.

In FY95 the agency issued $1.3 billion in long-term toll revenue bonds to finance construction of the Foothill/Eastern Transportation Corridors (State Routes 241, 261 & 133). During August 1999, the agency issued fixed rate, tax-exempt toll road refunding revenue bonds in the aggregate amount of $1.6 billion to advance refund all but $180 million of the 1995 issuance of long-term toll road revenue bonds.

The 1999 bonds, which pay interest semi-annually, are to be repaid primarily from toll revenues. The bonds are due and payable on dates ranging from January 15, 2004 to January 15, 2040. The interest on the remaining 1995 bonds is due semi-annually. 1995 bond interest payments are fully funded by capitalized interest through January 1, 2032. The remaining principal balance of 1995 bonds is due and payable on January 1, 2035.

In FY09, the agency established an escrow defeasance account so that available surplus funds deposited with the trustee into the escrow fund could be used instead of current year toll revenues to pay debt service. The FY13 budget includes a transfer of $13.5 million into the escrow defeasance fund and designation of same amount to payment of debt service due in FY13.

Coverage Ratio

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 130% of the current year's net debt payments (debt service scheduled for the fiscal year less amounts designated to be paid from the escrow defeasance account and capitalized interest). This is often referred to as 1.3x debt service coverage. 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 attached proposed revenue and uses budgets for debt service and operating expenses result in a coverage ratio of 1.32 when including the use of $13.5 million of escrow defeasance to pay a portion of debt service due in FY13. A schedule showing the calculation is included on page 39 of this document.

Foothill/Eastern
Transportation Corridor Agency

Sources

and

Uses

Fiscal Year 2013 Proposed Budget

Sources and Uses

The sources and uses of funds statement summarizes the agency's projected total sources and uses for the year ending June 30, 2013.

Total sources include revenues budgeted in FY13 as well as cash on hand from development impact fees and surplus revenues collected and available to the agency from previous years, capitalized interest funds for 1995 bond payments and amounts in the 1999 debt service accounts.

Below is a summary of total funds on hand and the amount of these funds available to fund the FY13 budget as well as future budgets (in thousands).

Estimated Total Funds on Hand at 6/30/12	$	595,729
July Activity Related to FY 12		(48,619)
Adjusted Estimated Total Funds on Hand at 6/30/12		547,110
Less Operating Reserves		(18,208)
Less Debt Service Reserves		(297,900)
Estimated Cash Available to Fund Current and Future Budgets	$	231,002
Cash on Hand Restricted For Debt Service (Current and Future)	$	110,789
All Other Cash Available to Fund Current and Future Budgets		120,213
Estimated Cash Available to Fund Current and Future Budgets	$	231,002

Total uses include all budgeted expenses requiring a cash outlay.

The statement of sources and uses of funds show sources less cash uses to arrive at cash available to fund subsequent budgets.

The following statement includes the approved FY12 budget, as amended, including transfers within the CEO's authority, staff projected FY12 sources and uses based on actuals through March 2012 and the proposed budget for FY13.

Foothill/Eastern Transportation Corridor Agency
Sources and Uses of Funds
Fiscal Years 2012 through 2013
($000)

Description	FY 2012 Amended Budget @ 3/31/12	FY 2012 Estimated Actuals	FY 2013 Proposed Budget
Sources:			
Net Toll Revenue	99,642	103,611	107,535
Fees and Penalties	17,700	18,900	19,200
Development Impact Fees	5,700	4,300	6,800
Interest Earnings	12,366	12,210	11,208
Grants	7,774	580	75
Other Revenue	431	930	352
Cash on Hand Restricted For Debt Service	110,089	110,089	110,789
All Other Cash Available to Fund Current and Future Budgets	120,515	120,515	120,213
Total Sources of Funds	374,217	371,135	376,172
Cash Uses:			
Planning, Environmental and Construction Administration	7,598	6,332	8,244
Planning, Environmental and Construction	18,710	10,781	19,554
Toll Operating Administration	6,906	6,390	6,383
Toll Customer Service and Toll Compliance	7,925	7,731	8,100
Toll Systems	3,342	3,248	3,405
Toll Collections	2,186	2,177	2,309
Toll Facilities	1,044	922	998
Operations Equipment	1,848	1,472	1,070
Debt Service	101,080	101,080	104,695
Total Cash Uses	150,639	140,133	154,758
Projected Cash Available to Fund Subsequent Budgets	223,578	231,002	221,414
Less Restricted Cash For Future Debt Service	113,666	110,789	113,399
Projected Available Cash	109,912	120,213	108,015
Total Budget	150,639	140,133	154,758

Sources Summary

Over the past several years the economy has presented financial challenges with respect to transactions and toll revenue, and although toll rate increases implemented in FY12 are expected to result in an increase in transactional toll revenue over FY11 of 7%, it will be important to continue to take measures to ensure that revenue growth is maintained. The agency operates in a fiscally conservative manner and has substantially reduced operating expenses while still providing customers with the best service possible. The expense reductions are discussed in more detail in the Uses Summary section of this document. In addition to expense reductions, the agency has adjusted toll rates and fees where possible and the agency needs to continue to plan for the future and adjust rates and increase ridership in order to achieve revenues at a level that supports the agency's debt obligations.

The agency has also focused on customer incentives and promotions to maintain and build transactions and revenues. The expense section includes a discussion of the incentive programs proposed for FY13.

During the April 20, 2012 budget workshop, staff presented the Board with recommended options for toll rates. The FY13 budget for sources of funds is based on the staff recommendation made to the Board during that workshop.

At the beginning of FY13, the agency expects to have $231 million of cash on-hand available to fund the current and future years' budgets. These funds are primarily from development impact fees, surplus revenues, capitalized interest, and interest earnings. During FY13, Toll Revenues, Fees and Penalties, Development Impact Fees, Interest Earnings, Grants, and Other Revenue are budgeted at $145.2 million. Below is a brief explanation of each of these funding sources.

<u>Toll Revenues</u>

The budget for FY13 Net Toll Revenue of $107.5 million, or 74.1% of total revenue, is a combination of the agency's estimate of transactional toll revenue reduced by estimated violations. The FY13 budget assumes gross transactional toll revenue of $111.3 million, which equates to 74.6% of the 1999 traffic and revenue projection for FY13 and which represents a 3.8% increase over projected FY12 transactional toll revenue.

The proposed 3.8% increase is achieved by implementing staff recommended toll rate increases of $0.25 for cash transactions and a 5% increase, rounded to the nearest $0.05, for FasTrak transactions at all locations except for Los Alisos and Oso ramps which remain at the same toll rate. Total transactions as a result of toll rate increases are expected to result in a traffic diversion of -1.9% based on a study analyzing the impact of various toll rate options performed by Stantec Consulting Services Incorporated (Stantec). Violations for FY13 are assumed to occur at a rate 3.4% of transactional toll revenue based on current trends, or $3.8 million of which $2.5 million, or 2.2% of transactional toll revenue represents unprocessable violations (primarily vehicles with no license plates) and non-revenue transactions (primarily toll attendants driving to the toll plaza for their shift work purposes, California Highway Patrol, Caltrans, and agency vehicles used on the road for operations and maintenance).

The agency estimates that it will receive a total of $103.6 million in Net Toll Revenue in FY12. This consists of $107.2 million of transactional toll revenue reduced by estimated violations of $3.6 million.

Fees and Penalties

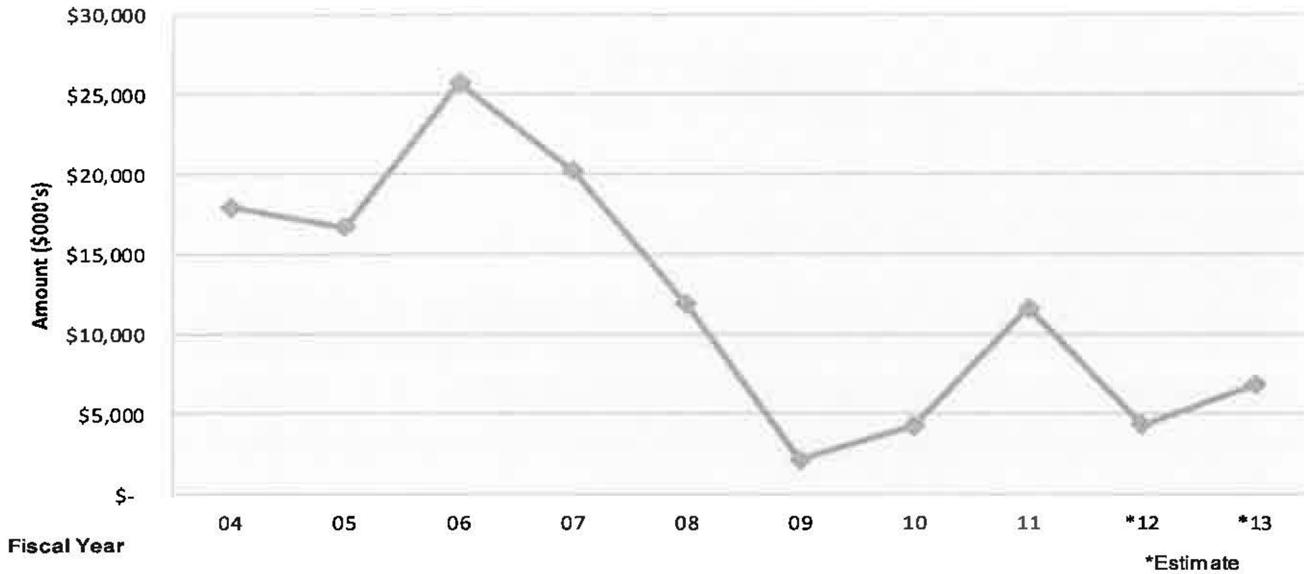
Fees and Penalties revenue are being budgeted for FY13 at $19.2 million, representing 13.2% of total revenues. Fees and Penalties revenue consist of $9 million for estimated amounts to be collected for the recovery of lost tolls from toll violations, and fees and penalties related to the violations, account maintenance fees of $9.1 million from FasTrak account holders, and other miscellaneous fees related to operations (i.e., 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) of $1.1 million.

Actual Fees and Penalties revenue for FY12 are estimated to be $18.9 million. The FY13 Fees and Penalties budget is based on the current trends in collections, the estimated transactions for FY13, the current pursuable violation rate at 1.2% of traffic, and a staff recommendation to not change the violation penalty amounts from the current rates of $57.50 on the first notice of violation and $42.50 on delinquency notice. The budget for account maintenance fees is based on the agency's current policy in which a fee of $2.00 per transponder is charged to FasTrak account holders in each month where monthly tolls incurred on F/ETCA or SJHTCA facilities are less than the threshold of $25 per transponder. When an account has multiple transponders, the aggregate tolls incurred by an account are considered when determining whether any account maintenance fees are charged.

Development Impact Fees

The agency adopted a Development Impact Fee Program in 1986. The fee program is based on the general principle that future development within the "area of benefit" of the Corridor will benefit from the construction of the Corridor. Development impact fees are assessed on new residential and non-residential (commercial, industrial, etc.) development. Development Impact Fees for FY12 are expected to approximate $4.3 million. The agency is estimating development impact fees to be $6.8 million for FY13 representing 4.7% of total revenues, which assumes increased activity related to the Rancho Mission Viejo development. The following chart is provided to illustrate the historical trend of development impact fee collections.

FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY
Development Impact Fees
Ten Year Trend



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 on projected average balances and an estimated average yield of approximately 2% on all funds. Total Interest Earnings budgeted for FY13 of $11.2 million represent approximately 7.7% of total revenues.

Interest Earnings for FY12 are estimated to reach $12.2 million. The decrease in the FY13 budget compared to the FY12 estimate is primarily due to the assumption that interest rates for FY13 will continue to be extremely low resulting in a lower average yield on reinvestments.

Grants and Other Revenues

Grants and Other Revenues of $427,000, represent 0.3% of total revenues. Grant revenue consists of $75,000 for a federal Intelligent Transportation Systems (ITS) grant awarded for upgrading toll collection systems.

Other Revenue budgeted for FY13 is for rental income of $352,000 for the office space leased to SJHTCA. Other Revenues represent 0.2% of total revenues. Estimated FY12 Grants and Other Revenues are $1.5 million consisting of $396,000 in rental income from the San Joaquin Hills Transportation Corridor Agency, $580,000 grant revenue, and $528,000 of insurance settlement proceeds for the December 2010 mudslide.

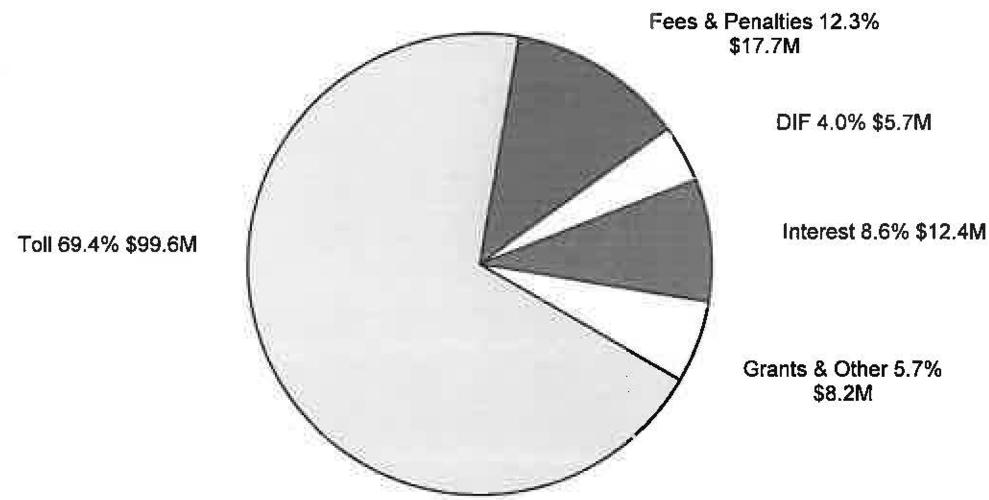
Revenue Pie Chart

The following chart represents a comparison of FY13 proposed budgeted revenues to FY12 budgeted revenues as amended.

Budgeted revenues increased $1.6 million to $145.2 million in FY13 from budgeted revenues of $143.6 million in FY12 due to an increase in Toll Revenue, Fees and Penalties, and Development Impact Fees, offset by a decrease in Interest, and Grants and Other Revenue.

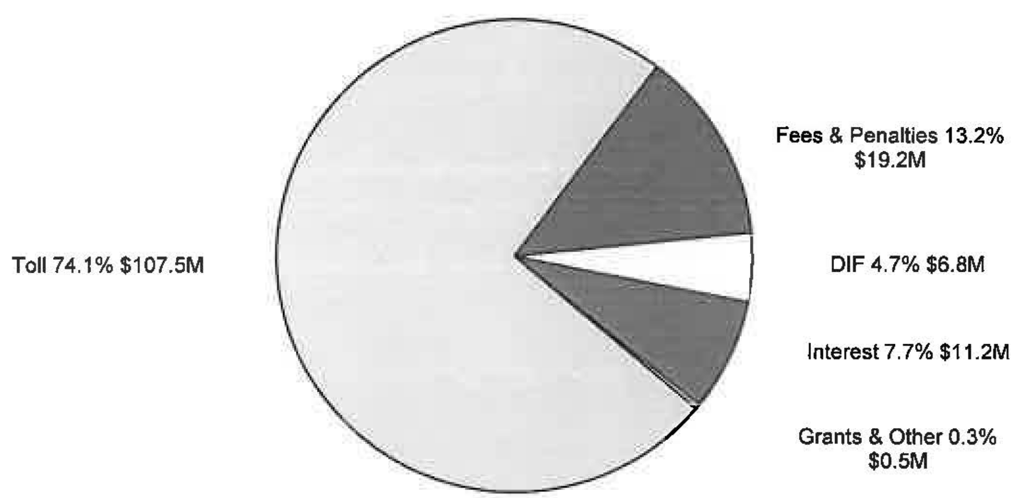
Toll Revenues are expected to increase from $99.6 million budgeted in FY12 to $107.5 million in the FY13 budget as a result of current transaction and revenue trends and toll rate recommendations. Fees and Penalties are projected to be higher in FY13 by $1.5 million compared to the FY12 budget as a result of actual violation collections. Development Impact Fees have increased by $1.1 million from the FY12 budget to $6.8 million based on recent collection trends and anticipated development activity. Grants and Other Revenue decreased $7.7 million compared to the FY12 budget primarily due to the SAFETEA-LU grant for reimbursement of expenditures for design/build services and right of way acquisitions related to the 241 completion that was budgeted in FY12 and not in FY13, and completion of the ITS grant project in FY13. Interest Earnings are expected to decrease as a result of lower average yields on reinvestments that will occur in FY13 as a result of current market conditions.

Foothill/Eastern Transportation Corridor Agency
FY 2012 Revenue
Amended Budget
($000)



Total Revenue $143,613

Foothill/Eastern Transportation Corridor Agency
FY 2013 Revenue
Proposed Budget
($000)



Total Revenue $145,170

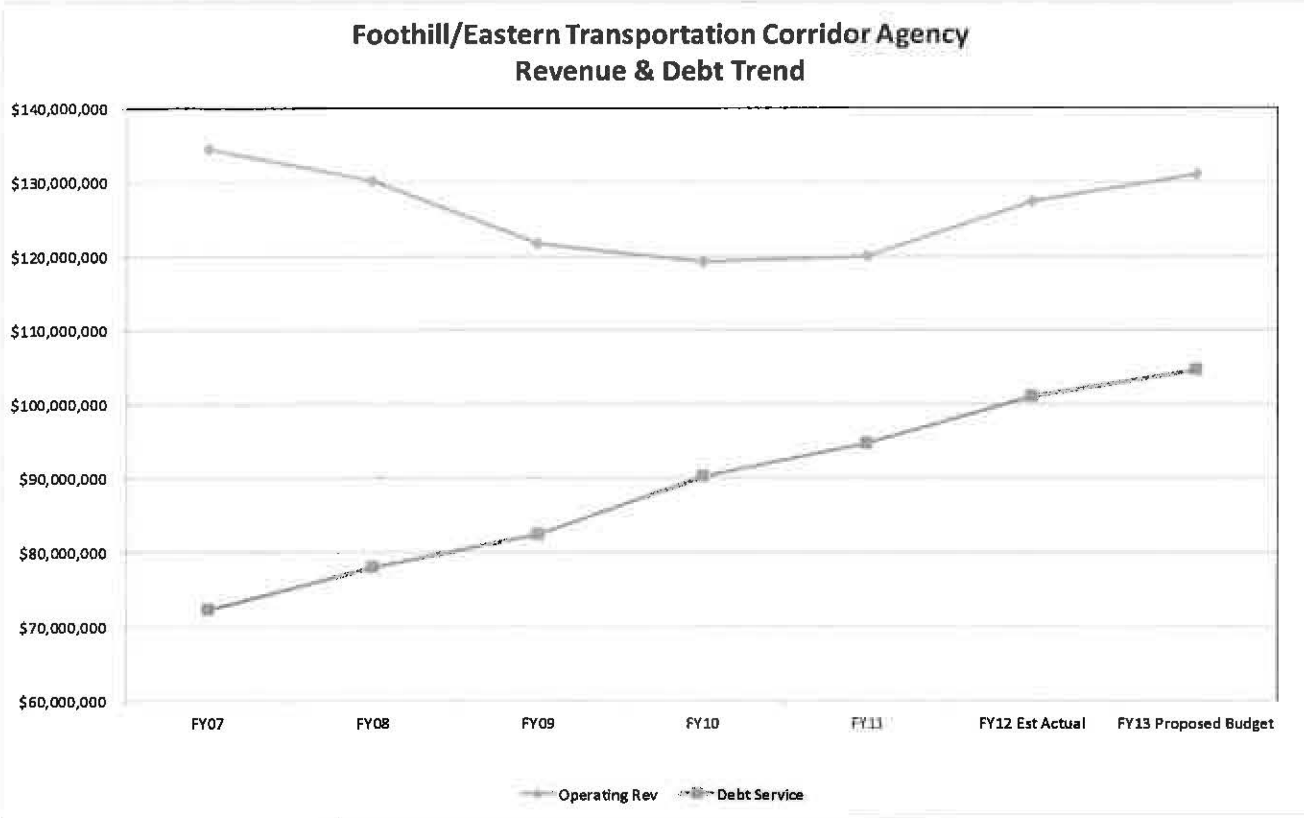
Uses Summary

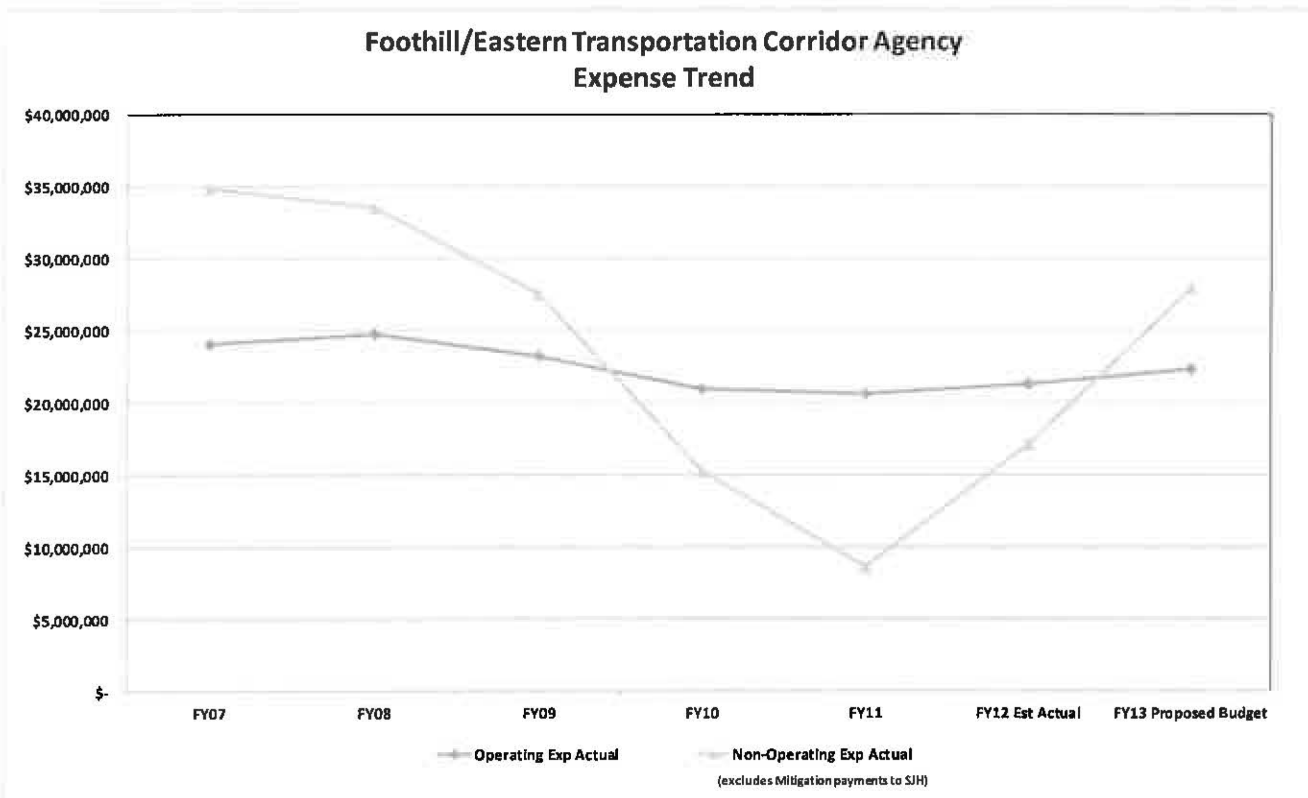
The Agency has worked diligently over the past four years to decrease operating expenses and reduce headcount while continuing to provide great customer service. As we reduce expenses, we are mindful that we must also plan for the future by ensuring that equipment, systems and facilities continue to be in a good state of repair. While we have focused our near term attention to the current economic situation, we also need to continue to work towards the future needs of the agency to improve efficiencies, increase transactions and revenues, and enhance regional and local mobility.

In response to the economic situation experienced over the last several years, the agency significantly reduced budgeted expenses and staffing levels, and staff has continued to hold actual expenses below the reduced budgets. While the focus was on reducing expenditures, the agency also continued to maintain the system which included violation camera improvements, transponder reader replacements, and on road building roof improvements. During the Fiscal Year, the Board directed staff to develop engineering plans, complete environmental assessments, and develop a financial strategy to build the SR 241 Tesoro Extension, and the analysis of AET to improve operating efficiencies progressed.

The proposed expenditures for FY13 continue to reflect the reductions in operating expenditures and the number of employees, while also including expenditures that will help to achieve the longer term goals and needs of the agency. The FY13 budget for expenses was developed with four main goals: (1) Ensuring the agency's financial flexibility and long term sustainability, (2) Continuing excellent customer service, (3) Keeping the system and facilities in a state of good repair, and (4) Enhancing regional and local mobility by working towards completion of the toll road system.

The charts on the next page show operating revenues compared to debt and the trend of operating and non-operating actual expenditures.


Foothill/Eastern Transportation Corridor Agency
Revenue & Debt Trend
$140,000,000
$130,000,000
$120,000,000
$110,000,000
$100,000,000
$90,000,000
$80,000,000
$70,000,000
$60,000,000
FY07
FY08
FY09
FY10
FY11
FY12 Est Actual
FY13 Proposed Budget
Operating Rev
Debt Service


Foothill/Eastern Transportation Corridor Agency
Expense Trend
$40,000,000
$35,000,000
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$-
FY07
FY08
FY09
FY10
FY11
FY12 Est Actual
FY13 Proposed Budget
Operating Exp Actual
Non-Operating Exp Actual
(excludes Mitigation payments to SJH)

The proposed budget for FY13 includes total uses of $154.8 million. The following is a brief explanation of the various uses.

Planning, Environmental and Construction (Excluding Administration)

This category mainly consists of costs associated with the agency's current capital improvement plan including the 241 completion and SR 241 Tesoro Extension. The proposed budget for Planning, Environmental and Construction is $19.6 million for FY13, or approximately 12.7% of the total budget. The funding for these expenses is the surplus revenues from previous years, including unspent development impact fees.

The Planning, Environmental and Construction projected actuals for FY12 total $10.8 million. The increase of $8.8 million in the FY13 budget is primarily due to the environmental and design costs related to the SR 241 Tesoro Extension, design and implementation of the agency's all electronic tolling project, and expenses re-budgeted in FY13 for the design phase of the SR 241/91 connector project which was not fully expended in FY12.

Administration

The total proposed budget for Administration expenses is $14.6 million for FY13, or approximately 9.4% of the total proposed budget. The Administration category includes all employee compensation as well as overhead-type expenses, such as insurance, legal, office expenses, administrative consulting services, marketing, building services, and travel expenses. These costs are budgeted in total but are allocated between the two primary activities of the agency: Planning, Environmental and Construction and Toll Operations. The allocation of costs between the two types of activities is necessary in determining the appropriate funding source as well as for the calculation of debt service coverage per the Indentures. The resulting allocation can be seen in the columns for each activity on page 28 of this document. The total for each line item is shown in the last column of the same schedule.

Projected Administration expenses for FY12 total $12.7 million. The increase in the FY13 proposed budget from the FY12 projected actuals is mainly due to budgeting for various as-needed other consulting and legal expenses for the 241 completion and SR 241 Tesoro Extension that were not spent in FY12. The balance of the variance primarily relates to increases in amounts budgeted for catastrophic and general liability insurance premiums and salary and benefit costs. The majority of the variance that is related to salaries and benefits is due to staff turnover that resulted in some positions not filled for part of FY12 along with employees who were out on disability during FY12.

Toll Operations Categories (Excluding Administration)

The Toll Operations categories include costs associated with toll collection services provided by the current toll attendant contractor, CPS, as well as costs associated with the agency's cash collection and counting efforts, toll system costs associated with maintaining the agency's Toll Collection and Revenue Management System (TCARMS) currently under contract with TransCore, and functions currently under contract with VES, including customer service costs associated with FasTrak customers, and toll compliance costs associated with processing and collection of toll violations and image based transactions. Also included in this category are toll facilities costs for maintaining the agency's toll booths and buildings utilized in the operation of the road, and toll equipment such as transponders, TCARMS system hardware, and software costs. The proposed FY13 budget for these expenses is $15.9 million or 10.3% of the total budget.

Toll Operations Expenses, excluding Administration, are projected to total $15.5 million in FY12. The FY13 budget is $332,000 higher than projected FY12 actuals due to expenditures related to AET transitional costs and scheduled Consumer Price Index adjustments to the major toll operations contracts, offset by lower costs budgeted for the federal Intelligent Transportation Systems grant mostly spent in FY12.

Debt Expenses

The Debt Service category includes the principal and semi-annual interest payments to be made on all outstanding bonds. These payments for FY13 are budgeted at $104.7 million of which $82.2 million will be paid from net revenues, $9 million from capitalized interest and $13.5 million from escrow defeasance funds.

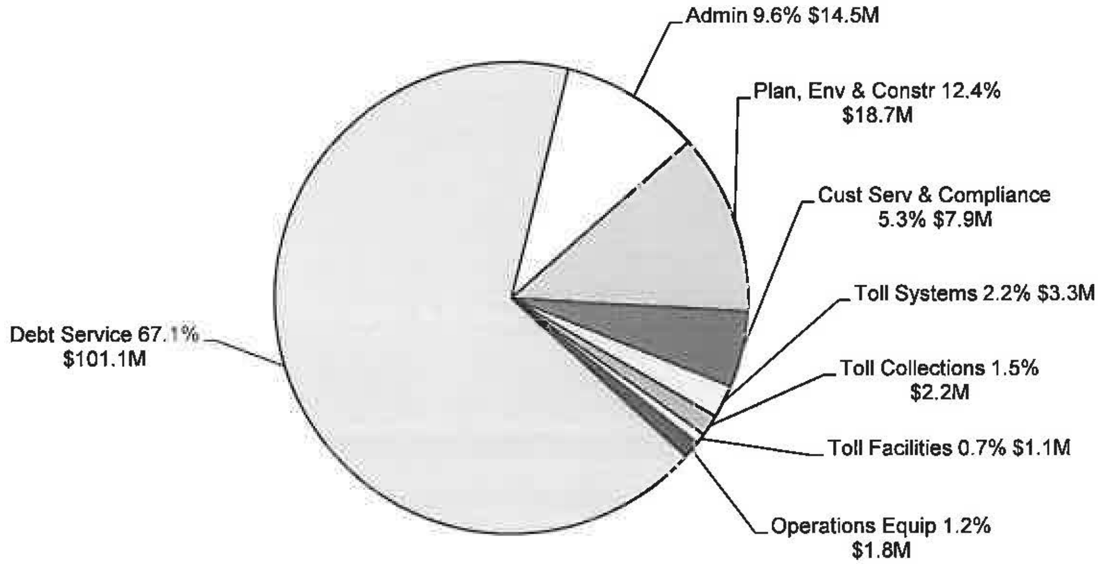
Actual Debt Expenses for FY12 are projected to total $101.1 million consisting of interest and principal payments. The increase in the FY13 budget is a result of higher scheduled debt payments in FY13.

Uses of Funds
The following charts represent a comparison of the FY12 budget and the FY13 proposed budget by type of expense.

The FY13 proposed budget of $154.8 million as compared to the prior year's amended budget of $150.6 million, shows an increase of $4.2 million or 2.8%. A comparison of the two budgets excluding Debt Service results is an increase of $504,000, or 1.0%. The net increase can primarily be attributed to an increase in the budget for Planning, Environmental and Construction (including Administration), consisting of environmental and design costs related to the SR 241 Tesoro Extension project and implementation of AET, offset by a decrease consisting of 241 completion and SR241/91 Connector project budgets that were not spent in FY12.

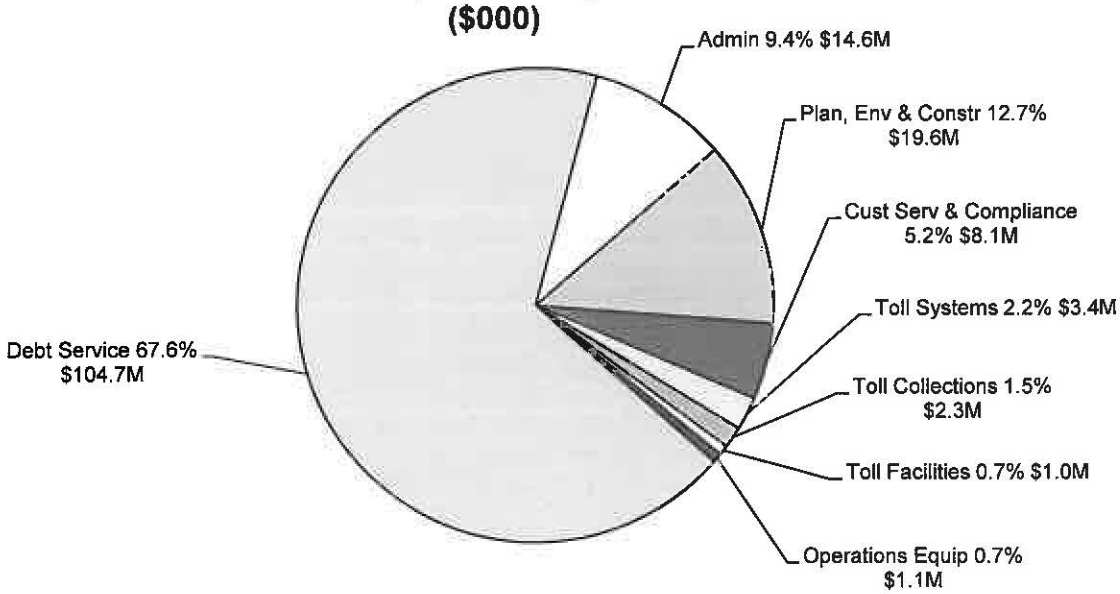
Debt service payments for FY13 show an increase of $3.6 million, reflecting the change from $101.1 million in FY12 to $104.7 million in FY13.

Foothill/Eastern Transportation Corridor Agency
FY 2012 Uses of Funds
Amended Budget
($000)



Total Uses $150,639

Foothill/Eastern Transportation Corridor Agency
FY 2013 Uses of Funds
Proposed Budget
($000)



Total Uses $154,758

Uses Detail

The schedule on the following pages detail the budget as summarized on pages 21 to 26 into more specific categories. Many of the Administration categories are allocated between planning, environmental and construction and toll operating expenses.

Foothill/Eastern Transportation Corridor Agencies
Fiscal Year 2013 Proposed Budget
($000)

Category	Plan & Environ & Admin	Operations & Admin	Debt Service	Total
Administration:				
Regular Salaries	2,409	2,432	-	4,841
Board Compensation	42	42	-	84
Benefits	1,021	964	-	1,985
Employer Taxes	47	49	-	96
Insurance	147	867	-	1,014
Legal Expense	106	155	-	261
Telephone/Comm	53	50	-	103
Office Expense	118	146	-	264
Educ, Seminar, Membership, Mtgs	44	61	-	105
Temporary Help	-	1	-	1
Consulting and Other Services	225	410	-	635
Marketing	7	664	-	671
Publications & Subscriptions	3	3	-	6
Rents & Leases	43	11	-	54
Building Services	243	240	-	483
Transportation & Travel	124	123	-	247
Office Equipment	21	39	-	60
Pacifica Fixed Assets	103	126	-	229
Subtotal Administration	4,756	6,383	-	11,139
241 Completion & SR 241 Tesoro Extention Admin:				
Administration	2,248	-	-	2,248
Legal	1,240	-	-	1,240
Subtotal 241 Completion & SR 241 Tesoro Exten Adm	3,488	-	-	3,488
Total Administration	8,244	6,383	-	14,627
Planning, Environmental and Construction:				
241 Completion & SR 241 Tesoro Extension:				
Design/Program Mgmt	3,800	-	-	3,800
Design Special Studies & Other	920	-	-	920
Design Contingency & Consultants	500	-	-	500
Design General Engineering Cost	500	-	-	500
Environmental	3,090	-	-	3,090
ROW Acquisitions, Appraisals & Other	-	-	-	-
Design/Build	1,450	-	-	1,450
Total 241 Completion & SR 241 Tesoro Extension	10,260	-	-	10,260
Capital Improvement Plan (CIP):				
SR241/91 Connector	1,366	-	-	1,366
Strategic & Policy Planning Study (AET)	5,904	-	-	5,904
ETC Toll Plaza Water Service	233	-	-	233
241 Southbound Widening	10	-	-	10
Windy RidgeToll Plaza FasTrak Lanes	-	-	-	-
241 Widening-133 to Chapman (Loma Segment)	3	-	-	3
241/61 East Orange Interchange	-	-	-	-
Total Capital Improvement Plan	7,516	-	-	7,516
Other Planning, Environmental and Construction:				
Environmental	1,587	-	-	1,587
Design/Program Mgmt	180	-	-	180
Design Special Studies & Other	-	-	-	-
ROW Acquisitions, Appraisals & Other	11	-	-	11
Total Other Planning, Environ and Constr	1,778	-	-	1,778
Total Planning, Environmental and Construction	19,554	-	-	19,554

Foothill/Eastern Transportation Corridor Agencies
Fiscal Year 2013 Proposed Budget
($000)

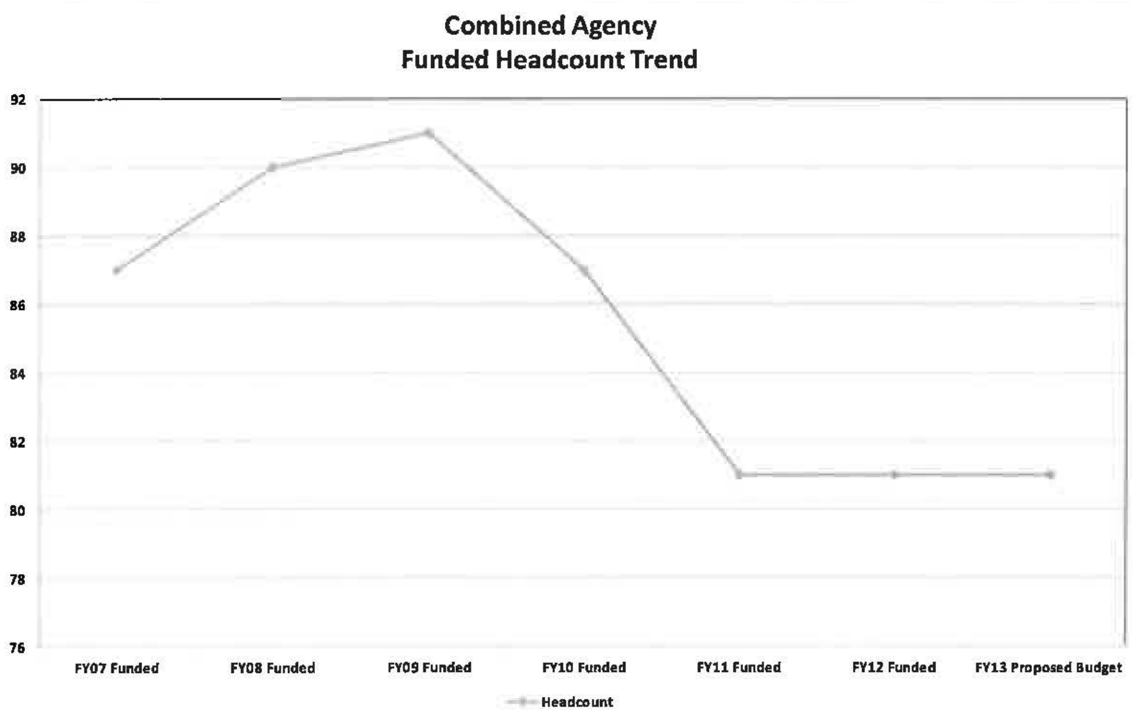
Category	Plan & Environ & Admin	Operations & Admin	Debt Service	Total
Toll Operations:				
Customer Service & Toll Compliance	-	8,100	-	8,100
Toll Systems	-	3,405	-	3,405
Toll Collections	-	2,309	-	2,309
Toll Facilities	-	998	-	998
Subtotal Toll Operations	-	14,812	-	14,812
Operations Equipment:				
Transponder Equipment	-	583	-	583
Toll Equipment	-	487	-	487
Total Equipment	-	1,070	-	1,070
Total Toll Operations	-	15,882	-	15,882
Debt Service	-	-	104,695	104,695
Total Cash Uses	27,798	22,265	104,695	154,758
Non-cash Uses				
Debt Accretion	-	-	-	-
Total Uses	27,798	22,265	104,695	154,758

Staffing

The policies of the TCA require approval by the Boards of Directors for all new classifications, salary grade assignment of 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 staffing plan for FY12 included 81 funded positions. The recommended staffing plan for FY13 remains at 81 funded positions.

The following chart shows the change in funded headcount from 2007 through 2013 on a combined agency basis (F/ETCA and SJHTCA).



A functional area organization chart is included on the following page. The chart illustrates the duties and responsibilities for each executive's division and the number of funded positions and the calculated full time equivalents.

In addition to the regular duties and responsibilities that are required to manage the agencies, there are a number of project initiatives that staff works on each year to achieve the agency goals and objectives. Some of the longer term projects have been included on the chart. A more detailed description of these projects along with a number of additional project initiatives for FY13 has been included as Appendix A.

TCA Organizational Structure
Fiscal Year 2013

Boards of Directors

Chief Executive Officer
(3 FTEs)
3 Positions

Legal
(Contracted Service)

Communications & Public Affairs
(9 FTEs)
9 Positions

- Communications Strategy
- Marketing
- Media Relations
- Community Relations/Outreach
- Special Events
- Website
- Graphics
- Presentations
- Government Affairs
- Publications/Newsletters
- e-newsletters
- Issue Management
- Speakers Bureau
- San Clemente Information Center
- Legislative Affairs
- Social Media

Finance, IT & Administration
(25.95 FTEs)
27 Positions

- Finance
- Treasury
- Accounting
- Insurance Administration
- Administration
- Human Resources
- Data Management
- Information Technologies
- Auditing
- Budgeting
- Bond Counsel Interface
- Capital Markets Rep.
- Compliance
- Toll Operations Accounting/ Reconciliation/Auditing
- Financial Reporting and Cash Flow Management
- Development Impact Fee Program Management
- Legislative Financial Support

Toll Operations
(29 FTEs)
29 Positions

- Revenue Collection
- Customer Services
- Toll Systems Maintenance
- Interoperability
- All Electronic Tolling Initiative
- Infrastructure Preservation
- Facilities Maintenance
- Walk-In Customer Service
- Cash Security
- Cash Processing
- Toll Systems Development
- Toll Compliance & CHP Program
- Legislative Support
- National Toll Standards

Engineering, Contracts & Environmental Planning
(13 FTEs)
13 Positions

- 241 Completion Project Development
- 241 Completion & Tesoro Extension Environmental Processing
- Tesoro Extension Development
- Capital Improvement Plan (CIP)
- Habitat Stewardship
- Environmental Compliance
- Special Projects
- Design
- Engineering
- Construction Management
- Real Property
- Caltrans Interface
- Contracts & Procurement
- DBE Program

Compensation (Regular Salaries and Benefits)

The agency employee compensation budget is $6.9 million or 4.4% of the total budget. The budget includes amounts for salary and benefits of current and projected staff made pursuant to the Employee Handbook and Personnel Policies. TCA salaries are reviewed each year through the annual merit review process. The Agency does not provide for any type of automatic step or COLA increases. Base salaries have not increased since July 2008. The recommended merit pool will be funded from continued savings on six positions vacated in the Voluntary Separation Program. That Program required that any position approved for a voluntary separation incentive remain vacant for at least one year. These six positions are recommended to remain vacant again this fiscal year, resulting in FY13 savings to this agency of approximately $433,000 in salaries and benefits.

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 budgeted salaries. If positions are not filled, or if benefit rates come in lower than expected, the budget is not spent. FY13 benefits are 41.0% of salaries.

Insurance

Insurance expense is included at $1 million, approximately 0.7% of the total budget. The major components of insurance include earthquake, property, general and excess liability, and workers' compensation coverage as detailed in the annual Current Insurance Coverage Report which will be provided at the upcoming July board 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 as part of a two-year fixed priced contract that expires in February 2014. All insurance is maintained in accordance with the requirements of the Indentures and as prudent business activities dictate.

Legal Expenses

Legal Expense, excluding amounts related to the 241 completion and SR 241 Tesoro Extension, is included at $261,000, approximately 0.2% 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, and claims litigation. Legal expenses are invoiced separately by individual matter, or type of legal issue, and are managed very carefully by the individual department managers who have requested the assistance. Below is a breakdown of legal expenses by major category:

General/Other	$100,000
Contracts	62,000
Legislation	25,000
Development Impact Fees	25,000

Financing	23,000
Toll Operations	15,000
Environmental	7,000
Construction	2,000
Condemnation	2,000
Total	$261,000

Consulting and Other Services

The Consulting Services category amounts to $635,000, which represents approximately 0.4% of the total budget and, as detailed below, includes service fees, maintenance and third party assistance contracts for both recurring needs and special projects, such as ADP for payroll processing and KPMG, LLP for annual audit services. It also includes financial planning, printing and distribution of publications, video production, federal lobbying, and community relations/public relations services.

Payroll & Personnel Services	$142,000
Finance Advisors	96,000
Audit Services	69,000
Trustee Fees	60,000
Publication & Video Production	51,000
Community Outreach	48,000
Rating Agencies	37,000
Traffic & Revenue Consultant	36,000
Fed Lobbying-Not Related to 241 Completion Initiatives	36,000
Bloomberg Investing Services	14,000
Financial Consulting	12,000
Public Relations Consulting & Research	12,000
Disadvantaged Business Enterprise Program	12,000
Internal Software Maintenance & Programming	10,000
Total	$635,000

Marketing Consultant

Total expenditures for Marshall Advertising & Design (Marshall), the agency's Marketing Consultant, are budgeted at $671,000, representing 0.4% of the total budget, excluding the SR 241 Tesoro Extension advertising and AET marketing. This includes amounts paid for radio and cable TV commercials, on-line advertising, and customer communications. In addition, during FY13, the not to exceed contract also includes website design and programming services that F/ETCA is unable to do in house. Following is the budget associated with these expenses:

Marketing Consultant	$656,000
Website Development	12,000

Marketing Research	3,000
Total	$671,000

Building Services

Building Services is budgeted at $483,000, approximately 0.3% of the total budget. This category includes all operating costs associated with the agency's corridor operations facility (Pacifica building) and the San Clemente Information Center including utilities, janitorial services, landscaping services, and maintenance and repairs as listed below:

San Clemente Service Center Utilities, Repair & Maintenance	$9,000
Pacifica Building:	
Utilities	187,000
Janitorial	80,000
Unanticipated & Emergency Repairs	40,000
Landscaping & Pest Control	32,000
Carpet Cleaning	28,000
Heating & Air Conditioning Services	26,000
Other Repair & Maintenance; locks, elevator, generator, etc.	24,000
Electrical, Light & Plumbing Repair & Maintenance	19,000
Security System Repair & Maintenance	12,000
Parking & Window Maintenance	11,000
Structure & Roof Repair & Maintenance	10,000
Association Fees & Assessment Tax	5,000
Total	$483,000

241 Completion

The 241 completion and SR 241 Tesoro Extension costs (including related administrative costs) are budgeted at $13.7 million representing 8.9% of the proposed budget. Costs include engineering/design oversight, environmental planning, design/build services, right of way, legal, and administrative expenses consisting of legislative services, community outreach consulting, community relations, and advertising as budgeted below:

Tesoro Extension:	
Engineering/Design Oversight	$1,600,000
Environmental	2,480,000
Design/Build Services	1,450,000
Administrative Expenses	1,297,000
Legal Expenses	928,000
Total Tesoro Extension	$7,755,000
Remainder of 241 Completion:	
Engineering/Design Oversight	$4,120,000
Environmental	610,000

Administrative Expenses	951,000
Legal Expenses	312,000
Total Remainder of 241 Completion	$5,993,000
Grand Total 241 Completion	$13,748,000

Capital Improvement Plan

The Capital Improvement Plan (CIP), excluding the 241 completion and SR 241 Tesoro Extension, is budgeted at $7.5 million and represents 4.9% of the total budget. This category is comprised of projects for the 241, 261, and 133 Toll Roads and includes annual funding for the projects, including program management, environmental, design, construction management, construction, and all other related costs. The three main CIP projects include the coordinated efforts with the Orange County Transit Authority (OCTA) on a direct connector from the SR 241 to the 91 Express Lanes, the implementation phase of AET, and a permanent domestic water connection near the southbound Tomato Springs Mainline Toll Plaza. These costs are outlined in the Capital Improvement Plan approved by the Board of Directors on May 10, 2012 and summarized below:

Strategic & Policy Planning Study (AET)	$5,904,000
SR241/91 Connector	1,366,000
ETC Toll Plaza Water Service	233,000
241 Southbound Widening	10,000
241 Widening-133 to Chapman (Loma Segment)	3,000
Total	$7,516,000

Other Planning, Environmental and Construction

Other Planning, Environmental and Construction costs are budgeted at $1.8 million, or 1.1% of the total budget (excluding 241 completion), and primarily consist of $1.6 million for funding continued monitoring and habitat management for nearly 1,800 acres of mitigation area required for the 241, 261 and 133 Toll Roads and includes the right-of-way slopes, Limestone Canyon Mitigation Area, Upper Chiquita Canyon, and Live Oak Plaza, as well as project initiatives for the Strawberry Farms Mitigation Site and SR 241 wildlife fencing. Design/Program management, special studies, right of way, and other are budgeted at $191,000.

Toll Customer Service and Toll Compliance

The Toll Customer Service and Toll Compliance category totals $8.1 million, approximately 5.2% of the total budget, and primarily includes funding for the service center operations and toll compliance contract with VES, including a project initiative in the amount of $81,000 related to technical projects, credit card processing fees assessed on all FasTrak and violation credit card transactions, and transitional operating costs related to the implementation of all electronic tolling. Also included in this category are printing, postage, and mailing services, judgment recovery and collection costs, CHP violation enforcement, and telephone expenses. Customer incentive offers included in this category include ongoing Costco and AAA member discounts and quarterly promotions to increase ridership and reduce operating costs. The budget associated with these expenses is detailed below:

Toll Enforcement & Customer Serv Center Contract-VES	$3,618,000
Credit Card Processing Fees	2,521,000
Postage & Printing	931,000
Enforcement Services-CHP, Judgment Recovery & Other	511,000
Customer Incentives, Supplies, & Equipment Maintenance	210,000
AET Transitional Costs	171,000
Telecommunications-Customer Service Center	138,000
Total	$8,100,000

Toll Systems

The Toll Systems category totals $3.4 million, or approximately 2.2% of the total budget and, as detailed below, primarily consists of fees for the current TCARMS contractor, TransCore, for the maintenance and operation of the TCARMS software and hardware. Also included in this category are TCARMS spare parts and repairs, software licenses, and various computer maintenance contracts.

TCARMS Software Maintenance & Operation	$1,680,000
TCARMS Hardware Maintenance	1,284,000
TCARMS Spare Parts	272,000
Total	$3,405,000

Toll Collections

This category totals $2.3 million, representing 1.5% of the total budget and, as detailed below, is primarily for the current toll attendant personnel contract with CPS. This category also includes armored truck services, security, transitional operating costs related to the implementation of all electronic tolling, and other collection supplies and maintenance such as coin vault and cash counting equipment repairs and maintenance, uniforms, and moneybags.

Toll Attendant Contract - CPS	$2,122,000
AET Transitional Cost	66,000
Armored Truck Services	65,000
Security	30,000
Other Collection Supplies & Maintenance	26,000
Total	$2,309,000

Toll Facilities

This category is budgeted at $998,000 representing 0.6% of the total budget, and accounts for all costs associated with maintaining the agency's toll plazas such as utilities, janitorial services, and other various supplies and repairs as further detailed below:

On Road Utilities	$581,000
Other On Road Building Maintenance & Repair	98,000
On Road Janitorial	74,000
On Road Maint-County of Orange Public Works	66,000
Heating & Air Conditioning Services	61,000
On Road Landscaping	50,000
Generator Maintenance, Fuel & Permits	29,000
Toll Ramp Lighting, Repair & Maintenance	24,000
Toll Booth Mainline Repair & Maintenance	15,000
Total	$998,000

Toll Operations Equipment

The Toll Operations Equipment budget is $1.1 million, or 0.7% of the total budget. The budget breakdown below includes purchases of transponders, and other equipment purchases as detailed in the FY13 project initiatives document:

Transponders	$583,000
Violation Camera Updates	183,000
AVI Reader Replacement	112,000
Intelligent Transportation System	75,000
Server Replacements	44,000
AET Office & Computer Equipment	30,000
On Road Service Vehicle	26,000
Network Switches	17,000
Total	$1,070,000

Debt Service

The Debt Service category totals $104.7 million or 67.6% of the total budget and includes interest and principal payments on the agency's outstanding bonds. Expenditures in FY13 include a principal payment on the 1999 bonds of $15.7 million due on January 15, 2013 and interest payments for the outstanding debt of $89 million. Of the required payments, $9 million will be paid from a capitalized interest fund established at the time of the 1999 financing and $13.5 million will be paid from escrow defeasance funds.

See reconciliation of Debt Expenses – Cash versus Accrual on page 40 for more information on debt.

The FY13 budgeted debt service coverage ratio shown below meets the Indenture requirement of 1.3x. Adjusted Net Toll Revenues only includes certain revenues per the Indentures and interest earnings in certain accounts and development impact fees are not included in the calculation. Current expenses include expenditures that are allocated to operations, excluding costs reimbursable by grant funds.

The calculation includes escrow defeasance funds of $13.5 million; however there will be $23.1 million of revenues that will flow back to the agency's available cash as "surplus revenues" which represents the difference between the coverage requirement and actual debt service.

Debt Coverage Calculation Fiscal Year 2013

	FY13 Budget (In Thousands)
Adjusted Net Toll Revenues	
Total Toll Revenues Including Fees and Penalties	126,735
Interest Earnings	4,175
Current Expenses - Funded From Toll Revenue	(22,190) *
Adjusted Net Toll Revenues	108,720
Net Debt Service	
Annual Debt Service	104,695
Less Capitalized Interest	(9,000)
Less Escrow Defeasance	(13,500)
Net Debt Service	82,195
Coverage Ratio	1.32

* Excludes $75 of expeditures reimburseable by grant funds

Foothill/Eastern Transportation Corridor Agency
Reconciliation of FY 2013 Debt Expenses
Cash versus Accrual Basis
($000)

	Interest	Principal	Accretion	Total
Cash Basis				
July 2012 and January 2013 Payments	89,395	15,705	-	105,100
Total Cash Basis Debt Expenses	**89,395**	**15,705**	**-**	**105,100**
Accrual Basis				
January 2013 and July 2013 Payments	88,990	15,705	-	104,695
Non cash Accretion			48,156	48,156
Total Accrual Basis Debt Expenses	**88,990**	**15,705**	**48,156**	**152,851**
Less: Capitalized Interest	(9,000)	-		
Less: Escrow Defeasance	(13,500)	-		
Debt Expenses Used in Calculation of Coverage	**66,490**	**15,705**		**82,195**