_____SAN JOAQUIN HILLS BOARD OF DIRECTORS
__X__FOOTHILL/EASTERN BOARD OF DIRECTORS

File No. 2016F-027

BOARD MEETING DATE: June 9, 2016

SUBJECT: Foothill/Eastern Transportation Corridor Agency Fiscal Year 2017 Annual Budget

STAFF RECOMMENDATION:

Approve Resolution No. F2016-05 entitled "A Resolution of the Board of Directors of the Foothill/Eastern Transportation Corridor Agency Approving the Budget for Fiscal Year 2017" in the amount of $199,029,444.

CONTRACTOR/CONSULTANT: N/A

BUDGET:
SJH: N/A
F/E: $199,029,444

REPORT WRITTEN BY: Amy Potter, Chief Financial Officer
(949) 754-3498

REVIEWED BY:

Communications ________
Engineering ________
Environmental ________
Finance ________
Strategic Planning ________
Toll Operations ________

SUBMITTED BY:

Michael A. Kraman, Chief Executive Officer

San Joaquin Hills
Transportation
Corridor Agency

Chair:
Ross Chun
Aliso Viejo

Transportation Corridor Agencies™

Foothill/Eastern
Transportation
Corridor Agency

Chair:
Craig Young
Yorba Linda

June 9, 2016

Dear Chairman Young and Foothill/Eastern Transportation Corridor Agency Directors:

I am pleased to present you with the proposed Fiscal Year 2017 budget. The budget was developed through an extensive effort that involved careful review of the Foothill/Eastern Transportation Corridor Agency's (Agency) current expenses, bond indenture requirements, customer service needs, capital projects to improve the driving experience and potential innovations that can move the Agency into the future.

The Agency is now financially solid following the refinancing of the outstanding debt in 2013 and 2015 and continued year-over-year transaction and revenue growth. Transactions and transactional toll revenue for Fiscal Year 2016 are expected to be up by approximately 7.4 percent and 10.3 percent, respectively, over Fiscal Year 2015.

The proposed Fiscal Year 2017 expenditures budget of $199.0 million, is a 22.4 percent increase over the Fiscal Year 2016 budget primarily due to increased expenditures to improve customer service and for capital projects including the 241/91 Express Connector final design and community outreach, final engineering for the Oso Bridge and Gap Closure project, 241 to I-5 Connection strategy and initiation of the CEQA and NEPA process, Phase I for toll booth removal at eight ramps, and final design, fabrication and installation of signage enhancements.

Transactional toll revenues are projected to grow in Fiscal Year 2017 by 4.8 percent through a 2.7 percent increase in transaction growth and a proposed 2.0 percent inflationary toll increase at all toll points. The FasTrak toll rate increase ranges from $0.01 to $0.06 depending on the location and time of day.

The proposed budget also includes a change in allocations between the San Joaquin Hills Transportation Corridor Agency and the Agency based upon the shift towards costs to support customers and the revenue base. As such, the proposed budget includes a shift in allocations to the San Joaquin Hills Transportation Corridor Agency for account maintenance fee revenue and toll operations and administration expenditures.

The Fiscal Year 2017 budget was developed with the following goals in mind:

- Support the credit ratings upgrade strategy and meet investor expectations
- Increase revenues to demonstrate the Agency's ability to meet future coverage and debt service requirements
- Support the Capital Improvement Plan (CIP)
- Provide improvements to customer service
- Build cash reserves to protect against future economic downturns, allow for future pay-as-you-go CIP financing, and preserve the flexibility for early debt repayment

In Fiscal Year 2016 we implemented a new and expanded Board Member committee structure. Thank you for your dedication and involvement in the committees. Your input throughout the year shaped the planning that led to the proposed Fiscal Year 2017 budget – a budget that will allow the Foothill/Eastern Transportation Corridor Agency to move forward to improve mobility in the region.

Sincerely,

Michael A. Kraman
Chief Executive Officer

FOOTHILL/EASTERN
TRANSPORTATION CORRIDOR AGENCY

TRANSPORTATION
CORRIDOR AGENCIES

Fiscal Year 2017 Proposed Budget

Foothill/Eastern
Transportation Corridor Agency

Budget Process and Format

Fiscal Year 2017 Proposed Budget

Budget Process

The Foothill/Eastern Transportation Corridor Agency's (F/ETCA) Board of Directors and the Master Indentures of Trust (Indentures), established in the context of the Agency's 2013 and 2015 bond issuances, provide the financial parameters for the Agency in the development of the budget. The Indentures provide the scheduled future debt service payments and the required debt service coverage 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 set the objectives for FY17 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 credit ratings upgrade strategy and meet investor expectations
(2) Increase revenues to demonstrate the Agencies' ability to meet future coverage and debt service requirements
(3) Support the Capital Improvement Plan (CIP)
(4) Provide improvements to customer service
(5) Build cash reserves to protect against future economic downturns, allow for future pay-as-you-go CIP financing, and preserve the flexibility for early debt repayment

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. The Agency's traffic and revenue consultant attended the March Board meeting and presented an overview of the Agency's toll revenue history, toll rate elasticity, and how current economic trends may affect toll transactions. The proposed annual budget was presented to the F/ETCA Board of Directors at a workshop on April 20, 2016, 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 is now being presented to the Board of Directors for adoption at the June 2016 board meeting for the fiscal year starting July 1, 2016. Approval of the budget requires the consent of at least two-thirds of the Board Members. Expenditures during the year must be made in accordance with the Agency's policies. Expenditures in excess of the total of each budget category, as defined in the budget resolution, cannot be made without the approval of a budget resolution by at least two-thirds of the Board Members. The Agency is required to file copies of the annual budget with the trustee on or before the 20th day of July each fiscal year in accordance with the Indentures.

All budgets are developed on a basis consistent with Generally Accepted Accounting Principles. The Chief Executive Officer (CEO) has the authority to make budget transfers within each of the following six categories as long as the total budget amount per category is maintained and the expenditures are made within Board approved policies:

- Administration
- SR 241 (excluding related administration)
- Capital Improvement Plan
- Other Planning, Environmental and Construction
- Toll Operations
- Debt Service

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

Transfers between categories require the Board of Directors' approval.

These budget categories are presented on pages 22-23 along with detail subcategories. Budget categories and subcategories are discussed in the Expenditures Summary section beginning on page 17. All budget appropriations lapse at year-end and any amounts not accrued at each year-end must be re-appropriated in the next fiscal year.

Budget Format

The FY17 proposed Expenditures budget for the F/ETCA totals $199.0 million. The Agency has one enterprise fund that records all activity on the accrual basis of accounting. The Agency establishes a budget for this one fund including Planning, Environmental and Construction, Toll Operating Expenses and Equipment (Toll Operations), and Debt Service. Expenses directly related to the F/ETCA are charged entirely to the Agency and those incurred on behalf of both the Agency and the San Joaquin Hills Transportation Corridor Agency (SJHTCA) are allocated between the F/ETCA and SJHTCA (the Agencies) based on the estimated benefit to each. As part of the annual budget process, allocations between the Agencies are reviewed. Prior to the All Electronic Tolling (AET) conversion, the on-road infrastructure business model was heavily weighted towards F/ETCA. The conversion to All Electronic Tolling (AET) changed the business model from using on-road infrastructure (cash toll collections) to a centralized back office focus, weighted toward costs to support customers and the revenue base. Given the significant SJHTCA tolls, penalties, and fees revenue growth and a change in business model, a shift in allocations to SJHTCA is appropriate in FY17. As such, the FY17 Budgets for SJHTCA and F/ETCA include a shift in allocations for account maintenance fee revenue and toll operations and administration expenditures to SJHTCA.

Within each Agency, for funding purposes and calculation of debt coverage, costs are further allocated between Planning, Environmental and Construction, and Toll Operations, based on the estimated benefit to each activity. The following discussion presents a broad description of the type of activities included in the three budget fund categories. These three fund categories are represented as separate columns on pages 22-23 to illustrate how each budget category and subcategory is allocated between the budget fund categories. A more detailed discussion of the expenditures proposed for FY17 is included in the Sources and Expenditures section of this document beginning on page 7.

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

Planning, Environmental and Construction Administration costs are defined as office, personnel, legal, consulting, and other customary and normal expenditures associated with the direct management and administration of the Agency's planning, environmental and construction related activities, including the development impact fee program, and are allocated as discussed above.

The primary sources of funds for Planning, Environmental and Construction Expenses are unrestricted cash on hand from previous development impact fee collections and surplus revenues. Surplus revenues are toll, fee and penalty revenues in excess of amounts needed for operating expenses, debt service payments and funding the indenture required reserves in the year the revenue is collected. The debt service reserve fund requirements totaling $220.8 million have been fully met. Surplus revenues are not under bond Indenture requirements (see description of bonds in the Debt Service section below) and may be spent at the Board of Directors' discretion for any lawful purpose. Each year, $5 million of development impact fees received by the Agency is available to fund expenditures or increase the unrestricted cash fund; the balance of development impact fees collected during the year are also made available for the same purpose if they are not needed to fund debt service payments. In addition, funding for these expenses is available from the restricted construction funds obtained during the bond refunding completed in February 2015. Other sources of funds for these activities include investment earnings and grant funds awarded to the Agency. See tables on page 35 for detail of unrestricted cash and the restricted construction 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 FY17 Toll Operations budget is $23.2 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 monthly operating expenses. The major costs budgeted for Toll Operations' activities include the contract costs associated with the operation and maintenance of the Agency's toll systems lane hardware and software; and customer service and toll compliance services which include the operation of the customer service center and toll processing, review and processing of vehicle plate images, and violation collection processing services. Also included in Toll Operations are toll equipment purchases such as transponders, system software, 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, 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. 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 FY17 budget for Debt Service is $112.8 million.

In 1995 the Agency issued long-term toll revenue bonds to finance construction of the Foothill/Eastern Transportation Corridors (State Routes 241, 261 and 133). The bonds were initially refinanced in 1999 and ultimately refinanced in 2013 (with a smaller final portion of the 1995 bonds refinanced in 2015). The 2013 transaction refinanced the debt to 2053, placed the Agency in a solid financial position, significantly improved the Agency's debt metrics and achieved the following:

- Positioned the Agency for future credit upgrades
- Provided for inflationary toll rate increases (small annual adjustments rather than infrequent larger lump sum adjustments)
- Created increased margin to build cash reserves to support the Capital Improvement Plan, withstand future economic downturns and allow for potential early debt repayment in the future

Debt Service, which is primarily funded from toll revenues, grows at an average of 3.75% per year until it reaches maximum annual debt service of $227 million in FY 2039.

Per the Indentures, the Agency's Adjusted Net Toll Revenue (toll related revenues plus interest income on certain accounts, less operating expenses) must be at least 115% of the current year's aggregate debt payments (all debt service scheduled for the fiscal year) and at least 130% of the current year's senior lien debt payments. This is often referred to as 1.15x and 1.30x debt service coverage, respectively.

When compiling the operations budget, the Agency staff ensures that the revenues and expenses budgeted provide the necessary coverage ratio as defined in the Indentures. The

FY17 Proposed Budget results in an aggregate coverage ratio of 1.41x and a senior lien coverage ratio of 1.60x. A schedule showing the calculation is included on page 34 of this document.

Foothill/Eastern
Transportation Corridor Agency

Sources

and

Expenditures

Fiscal Year 2017 Proposed Budget

Sources and Expenditures

The Sources and Uses of Funds Statement summarizes the Agency's projected total sources and expenditures for the year ending June 30, 2017.

Total sources include revenues budgeted in FY17 as well as cash on hand from development impact fees and surplus revenues collected and available to the Agency from previous years, and amounts in the debt service accounts.

Below is a summary of total funds on hand and the amount of these funds available to fund the FY17 budget as well as future budgets (in thousands).

Estimated Total Funds on Hand at 6/30/16	$	540,710
July Activity Related to FY16		(61,447)
Adjusted Estimated Total Funds on Hand at 6/30/16		479,263
Less Operating Reserves		(17,203)
Less Debt Service Reserves		(220,762)
Estimated Cash Available, excluding Reserves, to Fund Current and Future Budgets	$	241,298

Cash Restricted For Debt Service	$	11,146
All Other Cash Available to Fund Current and Future Budgets		230,152
Estimated Cash Available to Fund Current and Future Budgets	$	241,298

Total expenditures include all FY17 budgeted expenses requiring a cash outlay.

The Sources and Uses of Funds Statement below shows sources less cash expenditures to arrive at cash available to fund subsequent budgets.

The following statement includes the approved FY16 budget, as amended, including transfers within the CEO's authority, staff projected FY16 sources and expenditures based on actuals through March 2016 and the proposed budget for FY17.

Foothill/Eastern Transportation Corridor Agency
Sources and Uses of Funds Statement
Fiscal Years 2016 through 2017
($000)

Description	FY 2016 Amended Budget As of 3/31/16	FY 2016 Estimated Actuals	FY 2017 Proposed Budget	
Sources:				
Net Toll Revenue	123,652	133,291	139,668	
Penalties	14,300	18,310	19,200	
Fees	13,000	14,459	10,387	*
Development Impact Fees	15,000	24,988	19,000	
Interest Earnings	2,652	3,667	3,756	
Other Revenue	471	471	605	
Cash on Hand Restricted For Debt Service	21,388	21,388	11,146	
All Other Cash Available to Fund Current and Future Budgets	183,258	183,258	230,152	
Total Sources of Funds	373,721	399,832	433,914	
Expenditures:				
Planning, Environmental and Construction	14,709	13,933	53,720	
Planning, Environmental and Construction Administration	8,620	6,694	9,312	
Toll Operating Administration	7,925	6,985	8,343	
Toll Customer Service and Toll Compliance	12,726	12,752	9,976	
Toll Systems	2,411	2,280	2,156	
Toll Facilities	806	723	762	
Operations Equipment	2,623	2,397	1,990	
Debt Service	112,770	112,770	112,770	
Total Expenditures	162,590	158,534	199,029	
Projected Cash Available to Fund Subsequent Budgets	211,131	241,298	234,885	
Less Restricted Cash For Future Debt Service	11,146	11,146	4,275	
Projected Available Cash	199,985	230,152	230,610	

*FY16 to FY17 change due to shift in allocation (as discussed on page 3)

Sources Summary

With the continued recovery of Southern California's economy, FY16 transactions and transactional toll revenue are expected to be up approximately 7.4% and 10.3%, respectively, over FY15. The 2013 bond refinance transaction greatly improved debt service coverage margins and the ability to withstand future economic downturns. Regardless, it will be important to continue to take measures to ensure that revenue growth continues in FY17 to meet the Agency's goals.

The Agency has also used customer incentives and promotions to maintain and build transactions and revenues. Given the purpose of promotions is to increase revenue, tolls used as incentives for promotions will be recorded as an offset to revenue in accordance with accounting principles and the Indentures. In FY17, marketing incentive programs will continue to be implemented to convert customers who pay online with One-Time-Toll to FasTrak or ExpressAccounts. In addition, paid advertising will continue to emphasize increased awareness of the Toll Roads value proposition.

Staff works with the Agency's traffic and revenue consultant, Stantec Consulting Services Incorporated (Stantec) to review the results of prior year toll rates and run various toll rate scenarios for the upcoming year. During the April 2016 budget workshop, staff presented these scenarios to the Board and recommended toll rates based on the results of prior year increases and toll elasticity, assumptions included in the bond finance documents, building cash reserves, and economic factors. The FY17 budget for sources of funds is based on the traffic and revenue consultant's toll rate recommendation and feedback received from the Board of Directors during the budget workshop (see Net Toll Revenue section below).

At the beginning of FY17, the Agency expects to have total cash adjusted for accrual items of $479.3 million. The expected adjusted cash balance includes debt service reserve and operating reserve funds of $238.0 million and $241.3 million of cash on-hand available to fund the current and future years' budgets. These available funds are primarily from development impact fees, surplus revenues and interest earnings. During FY17, Net Toll Revenue, Penalties, Fees, Development Impact Fees, Interest Earnings, and Other Revenue are budgeted at $192.7 million. Below are brief explanations of each of these funding sources.

<u>Net Toll Revenue</u>

The FY17 budget assumes transactional toll revenue of $146.2 million which represents a 4.8% increase over projected FY16 transactional toll revenue. The budget for FY17 Net Toll Revenue of $139.7 million, or 72.5% 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. As a result of the conversion to AET and the resulting shift in payment patterns, including some patrons who may have previously paid with cash but are now initially identified instead as processable violation transactions, toll revenue recovered during the violation process is appropriately classified as Net Toll Revenue. The Agency currently waives the penalty for first time violators if the toll is paid within 30 days.

Unprocessable violations (primarily vehicles with no license plates) and non-revenue transactions (primarily California Highway Patrol, Caltrans, and Agency vehicles used on the road for operations and maintenance) are expected to occur at a rate of 2.5% of transactional toll revenue or $3.6 million in FY17. Processable transactions offset by toll revenue recovered from processed violations is budgeted at $2.9 million or 2.0% of transactional toll revenue in FY17.

The proposed 4.8% transactional toll revenue increase is achieved by implementing a 2.0% FasTrak rate increase. The non-FasTrak rates increase at amounts that maintain the $1.00 differential between the FasTrak and the non-FasTrak rates.

Total transactions as a result of toll rate increases are expected to result in transaction growth of 2.7% based on the Stantec analysis. The growth rate assumes continued economic improvement and an increase in traffic congestion on routes parallel to the toll roads thereby increasing the value of time savings obtained by choosing the toll road option.

The table below shows the FY16 current toll rates and the proposed FY17 toll rates by location, split between non-FasTrak and FasTrak, and peak/off-peak if applicable. In summary, FasTrak and non-FasTrak rates increase by $0.01 to $0.06 per tolling location.

Location	Time/Type	Current Rates	Proposed 2% Increase	
			Rate	Change
Tomato Springs	Non-FasTrak Off-Peak	$ 3.40	$ 3.45	$ 0.05
	FasTrak Off-Peak	$ 2.40	$ 2.45	$ 0.05
	Non-FasTrak Peak*	$ 3.65	$ 3.70	$ 0.05
	FasTrak Peak	$ 2.65	$ 2.70	$ 0.05
Portola North	Non-FasTrak Off-Peak	$ 2.46	$ 2.49	$ 0.03
	FasTrak Off-Peak	$ 1.46	$ 1.49	$ 0.03
	Non-FasTrak Peak*	$ 2.88	$ 2.92	$ 0.04
	FasTrak Peak	$ 1.88	$ 1.92	$ 0.04
Alton	Non-FasTrak*	$ 2.46	$ 2.49	$ 0.03
	FasTrak	$ 1.46	$ 1.49	$ 0.03
Portola South	Non-FasTrak*	$ 1.67	$ 1.68	$ 0.01
	FasTrak	$ 0.67	$ 0.68	$ 0.01
Los Alisos	Non-FasTrak*	$ 1.57	$ 1.58	$ 0.01
	FasTrak	$ 0.57	$ 0.58	$ 0.01
Antonio	Non-FasTrak*	$ 1.67	$ 1.68	$ 0.01
	FasTrak	$ 0.67	$ 0.68	$ 0.01
Oso	Non-FasTrak*	$ 2.36	$ 2.39	$ 0.03
	FasTrak	$ 1.36	$ 1.39	$ 0.03
Windy Ridge	Non-FasTrak Off-Peak	$ 3.55	$ 3.60	$ 0.05
	FasTrak Off-Peak	$ 2.55	$ 2.60	$ 0.05
	Non-FasTrak Peak*	$ 3.81	$ 3.87	$ 0.06
	FasTrak Peak	$ 2.81	$ 2.87	$ 0.06
Orange Grove	Non-FasTrak Off-Peak	$ 2.76	$ 2.80	$ 0.04
	FasTrak Off-Peak	$ 1.76	$ 1.80	$ 0.04
	Non-FasTrak Peak*	$ 3.03	$ 3.07	$ 0.04
	FasTrak Peak	$ 2.03	$ 2.07	$ 0.04
Irvine Ranch	Non-FasTrak Off-Peak	$ 2.46	$ 2.49	$ 0.03
	FasTrak Off-Peak	$ 1.46	$ 1.49	$ 0.03
	Non-FasTrak Peak*	$ 2.88	$ 2.92	$ 0.04
	FasTrak Peak	$ 1.88	$ 1.92	$ 0.04
Portola (West)	Non-FasTrak*	$ 2.46	$ 2.49	$ 0.03
	FasTrak	$ 1.46	$ 1.49	$ 0.03
Irvine Blvd. (East)	Non-FasTrak*	$ 1.94	$ 1.96	$ 0.02
	FasTrak	$ 0.94	$ 0.96	$ 0.02
Irvine Blvd. (West)	Non-FasTrak*	$ 1.94	$ 1.96	$ 0.02
	FasTrak	$ 0.94	$ 0.96	$ 0.02
Irvine Blvd. (West) NB On	Non-FasTrak*	$ 2.46	$ 2.49	$ 0.03
	FasTrak	$ 1.46	$ 1.49	$ 0.03
Portola (West) SB On	Non-FasTrak*	$ 2.46	$ 2.49	$ 0.03
	FasTrak	$ 1.46	$ 1.49	$ 0.03

* One Time Toll (OTT) rate
3-4 Axle Vehicles 2 Times Rate
5+ Axle Vehicles 4 Times Rate

The Agency estimates that it will receive a total of $133.3 million in Net Toll Revenue in FY16. This consists of $139.5 million of transactional toll revenue reduced by estimated processable and unprocessable transactions of $11.8 million offset by toll revenue collected from processed violations of $5.6 million.

Penalties

Penalties revenue is budgeted for FY17 at $19.2 million, representing 10.0% of total revenues and consists of violation penalties related to toll violations. The intent of violation penalties is to act as a deterrent and ensure collection of toll revenues. Penalties revenue is recorded as collected. As mentioned in the Net Toll Revenue section above, the toll related to a violation is properly classified in Net Toll Revenue. The Agency continues its efforts in signing former cash patrons up for accounts and informing infrequent users of the available payment options in order to avoid handling through the violation process. The implementation of agreements with major rental car companies in April 2016 allows rental car drivers to pay tolls through their rental agreement to prevent violations. The Agency will continue initiatives in FY17 to attempt to address violations, such as signage enhancements, and providing materials to support communication to the tourism industry. However, violations were trending upward prior to the AET implementation and it appears the impact of the improving economy on local traffic has influenced the continuing trend seen in violations.

Penalties revenue for FY16 is estimated to be $18.3 million. The FY17 Penalties budget is based on the current trends in collections, the estimated transactions for FY17, 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

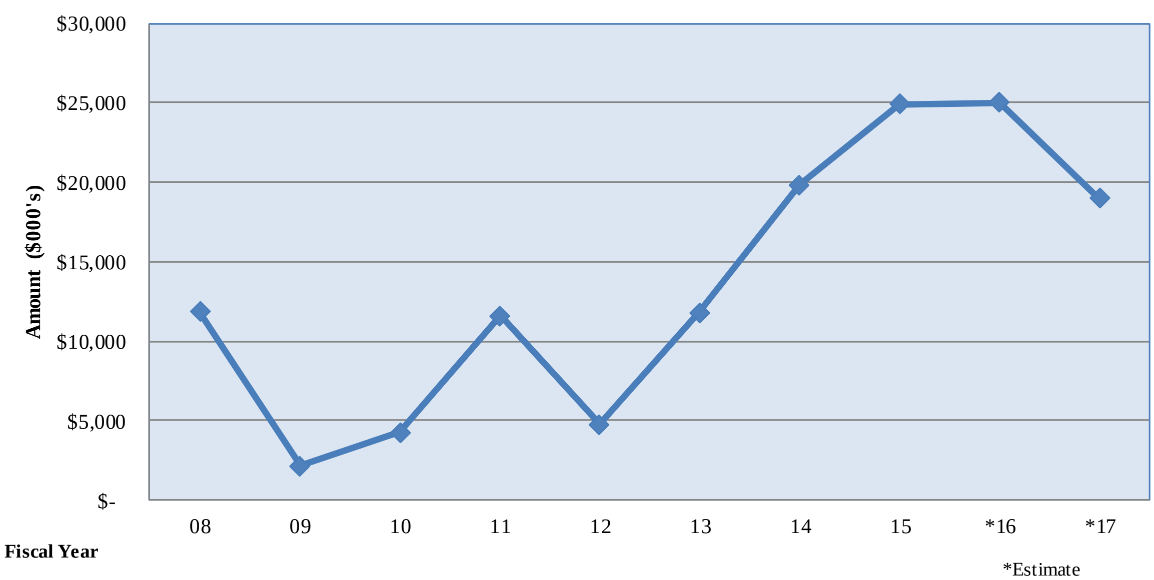
Fees are budgeted for FY17 at $10.4 million, representing 5.4% of total revenues. Fees revenue consists of $8.0 million for account maintenance fees from FasTrak account holders, and $2.4 million of other miscellaneous fees related to operations (i.e., invoice fees, suspended account and returned check fees, lost, stolen or damaged transponder fees, and fees related to programs with San Francisco Airport and rental car agencies). The decrease in account maintenance fees in F/ETCA relates to the appropriate change in allocation for FY17 as discussed on page 3.

Fees revenue for FY16 is estimated to be $14.5 million. The FY17 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 development within the "area of benefit" of the corridor will benefit from the construction of the corridor. Development Impact Fees (DIF) are assessed on new residential and non-residential (commercial, industrial, etc.) development. Development Impact Fees for FY16 are expected to approximate $25.0 million. The Agency is estimating Development Impact Fees to be $19.0 million for FY17, representing 9.9% of total revenues, based upon recent trends and development. The following chart is provided to illustrate the historical trend of Development Impact Fees collected.

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 upon the existing investment portfolio. Total Interest Earnings budgeted for FY17 of $3.8 million represent approximately 1.9% of total revenues.

Interest Earnings for FY16 are estimated to be $3.7 million.

Other Revenue

Other Revenue of $0.6 million, represent 0.3% of total revenues and is for rental income of office space leased to SJHTCA in the Pacifica building owned by F/ETCA. Estimated

FY16 Other Revenue of $0.6 million includes rental income of $0.4 million and miscellaneous receipts of $0.2 million.

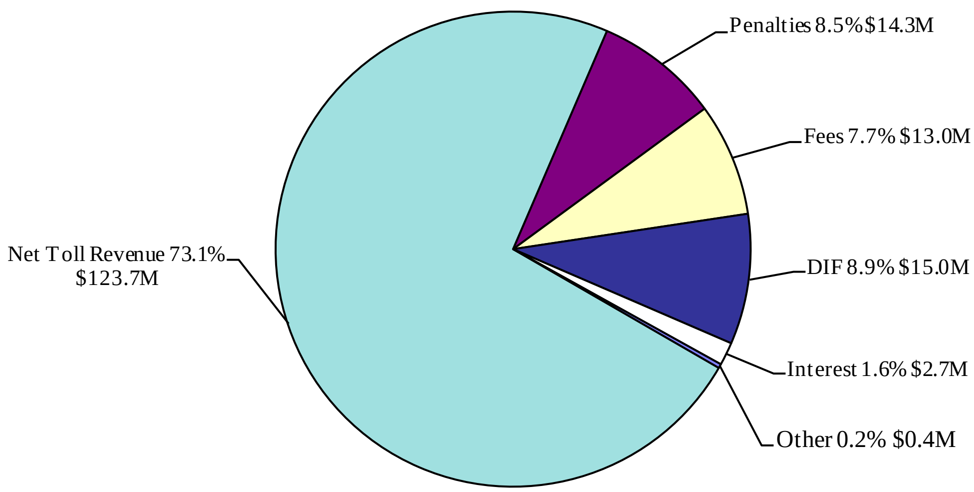
Revenue Pie Chart – FY16 Budget as compared to FY17 Budget

The following chart represents a comparison of FY17 proposed budgeted revenues to FY16 budgeted revenues.

Budgeted revenues increased $23.6 million to $192.7 million in FY17 from budgeted revenues of $169.1 million in FY16 due to an increase in Net Toll Revenue, Penalties, Development Impact Fees, and Interest Earnings.

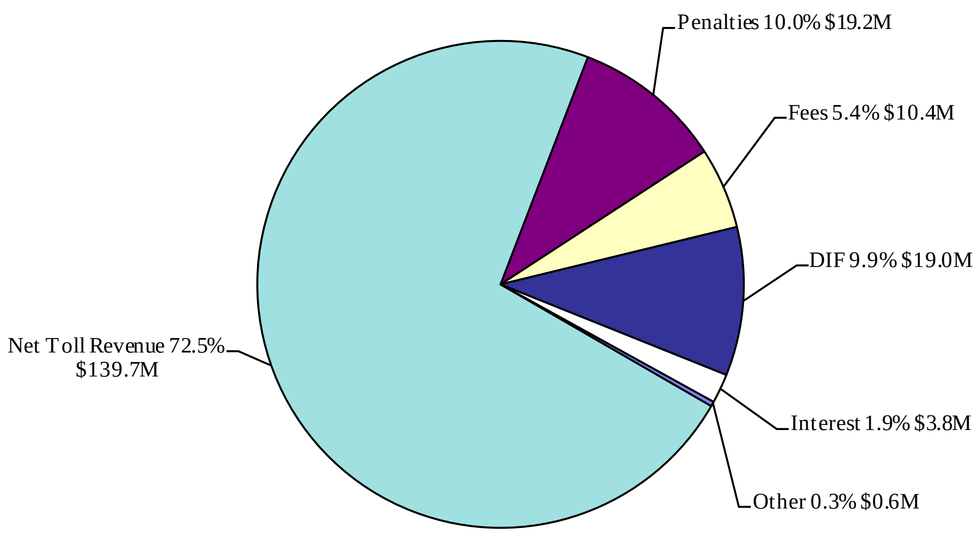
Net Toll Revenue is expected to increase from $123.7 million budgeted in FY16 to $139.7 million in the FY17 budget as a result of current transaction and revenue trends and toll rate changes. Penalties are projected to be higher in FY17 by $4.9 million compared to the FY16 budget as a result of actual violation collections and current transaction and transactional toll revenue trends. See Penalties discussion on page 13 for more information. Fees will decrease in FY17 by $2.6 million compared to the FY16 budget due to a change in allocation for FY17 as discussed on page 3. Development Impact Fees have increased by $4.0 million from the FY16 budget to $19.0 million based on recent collection trends and development. Interest Earnings are expected to increase by approximately $1.1 million due to a change in investment strategy.

Foothill/Eastern Transportation Corridor Agency
FY 2016 Revenue
Budget



Total FY16 Budget Revenue $169.1M

FY 2017 Revenue
Proposed Budget



Total FY17 Budget Revenue $192.7M

Expenditures Summary

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

As a result of the improving economy and a steady return of revenues to levels recorded prior to the economic downturn in FY08, the Agency prepared the FY17 expense recommendation considering the cost impact of increasing transactions and revenues. In addition, the budget includes proposed inflationary increases in major operating contracts, operations initiatives, capital projects costs, and staffing to manage the growth in operations and capital project initiatives.

The FY17 proposed budget for expenses was developed with the Agency's continued commitment to fiscal responsibility and overarching goals.

The proposed budget for FY17 includes total expenditures of $199.0 million. The following are brief explanations of the various expenditures.

Planning, Environmental and Construction (Excluding Administration)

This category mainly consists of costs associated with the Agency's current Capital Improvement Plan including the 241/91 Express Connector, Oso Bridge and Gap Closure, Los Patrones Parkway Coordination, 241 to I-5 Connection, Toll Booth Removal, and Signage Improvements projects as well as mitigation land acquisition and conveyance support. The proposed budget for Planning, Environmental and Construction is $53.7 million for FY17, or approximately 26.9% of the total budget. The funding for these expenses is the cash on hand from previous development impact fee collections and Agency directed surplus revenues. The Planning, Environmental and Construction projected actuals for FY16 total $13.9 million. The increase of $39.7 million in the FY17 budget is primarily related to the projects listed above, and an environmental increase due to mitigation and land acquisition and conveyance support.

Administration

The total proposed budget for Administration expenses is $17.7 million for FY17, or approximately 8.9% of the total proposed budget. The Administration category includes all employee compensation (3.3% of the total budget) as well as overhead-type expenses, such as insurance, legal, office expenses, administrative consulting services, marketing, building services, and travel expenses. These costs are budgeted in total but are allocated between the two primary activities of the Agency: Planning, Environmental and Construction and Toll Operations. The allocation of costs between the two types of activities is necessary in determining the appropriate funding source as well as for the calculation of debt service coverage per the Indentures. The resulting allocation can be seen in the columns for each activity on pages 22-23 of this document. The total for each line item is shown in the last column of the same schedule.

Projected Administration expenses for FY16 total $13.6 million. The increase in the FY17 proposed budget from the FY16 projected actuals is due to a net increase in the number of positions budgeted in FY17 for salaries and benefits and a merit pool (see discussion on page 27), offset by seven positions unfilled for all or part of FY16 due to turnover and recruitment (see discussion on page 24). In addition, a portion of the Pacifica building HVAC system upgrades not spent in FY16 are re-budgeted in FY17. Other increases include consulting and legal expenses for SR 241 that were not spent in FY16 and have been re-budgeted in FY17 as well as additional strategic planning consulting in FY17.

Toll Operations (Excluding Administration)

Toll Operations include toll system costs associated with maintaining the Agency's system lane hardware and software currently under contract with TransCore LP, customer service center, toll processing, image based transaction processing, and violation collection processing costs associated with FasTrak and non-FasTrak customers. The customer service and violation processing contract expired on June 30, 2015. Since that time, the Agency has utilized an interim contract to maintain the existing back office software and Agency staffing costs to employ customer service and violation processing staff on an interim basis while the Agency continues to work through procurement for a new back office system and customer service, violation processing, and operations system maintenance contracts. The FY17 proposed budget includes these same services while the long term contracts are procured. 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 FY17 budget for these expenses is $14.9 million or 7.5% of the total budget.

Toll Operations, excluding Administration, is projected to total $18.2 million in FY16. The FY17 budget is $3.3 million lower than projected FY16 actuals due to revised allocations between the Agencies that reflects the cost associated with supporting customers and the revenue base (as discussed on page 3), offset by increases for improved customer service and other customer service and compliance costs directly related to revenues.

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 FY17 are budgeted at $112.8 million, or 56.7% of the total budget. Debt Service, which is primarily funded from toll revenues, grows at an average of 3.75% per year until it reaches maximum annual debt service of $227 million in FY 2039.

Debt Service for FY16 will total $112.8 million and consists of interest payments only.

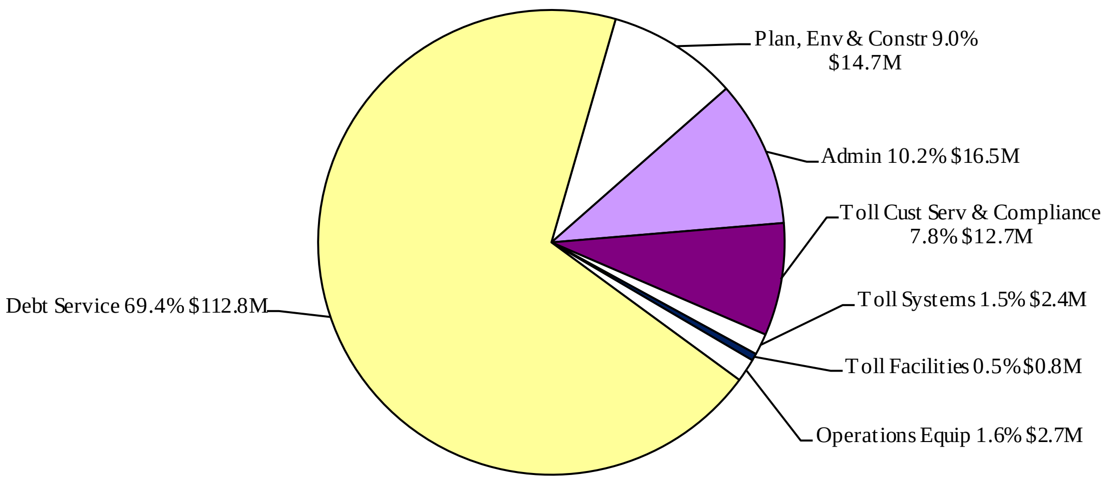
Expenditures of Funds – FY16 Amended Budget as compared to FY17 Budget

The following charts represent a comparison of the FY16 amended budget and the FY17 proposed budget by type of expense.

The FY17 proposed budget of $199.0 million, as compared to the prior year's amended budget of $162.6 million, shows an increase of $36.4 million or 22.4%. A comparison of the two budgets excluding Debt Service results in an increase of $36.4 million, or 73.1%. The net increase is primarily related to an increase in the Planning, Environmental, and Construction budget, which includes the 241/91 Express Connector, Oso Bridge and Gap Closure, Los Patrones Parkway Coordination, 241 to I-5 Connection, Toll Booth Removal, and Signage Improvements projects, and mitigation land acquisition and conveyance support.

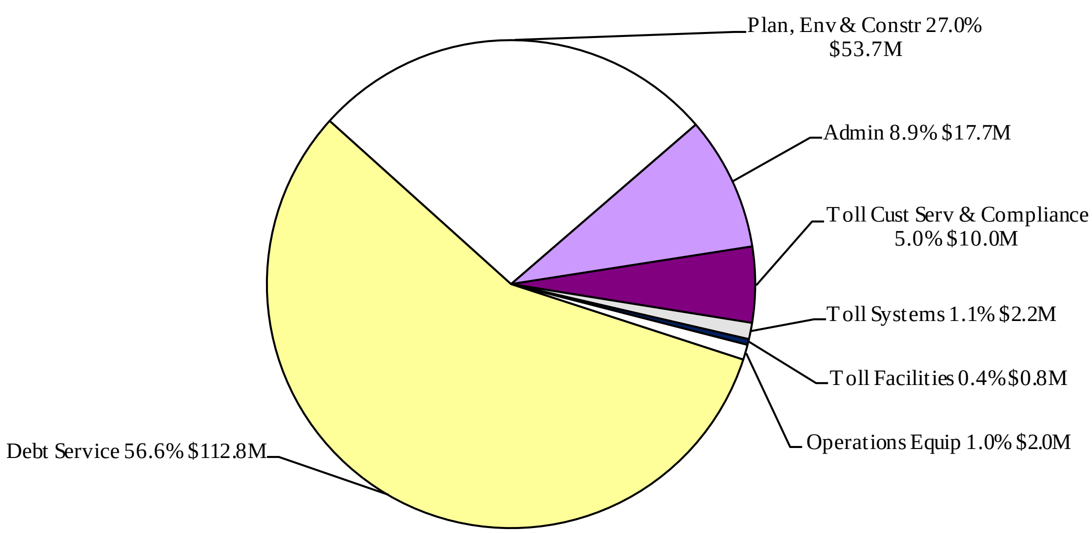
The Debt Service category includes the semi-annual interest and annual principal payments on the 2013 and 2015 outstanding bonds. In FY17, only semi-annual interest payments on the 2013 bonds are scheduled to be paid. These payments are budgeted at $112.8 million for FY17 and FY16. Future years' scheduled Debt Service increases annually at an average of 3.75% per year until it reaches maximum annual debt service of $227 million in FY 2039.

Foothill/Eastern Transportation Corridor Agency
FY 2016 Expenditures
Amended Budget



Total FY16 Total Expenditures $162.6M

FY 2017 Expenditures
Proposed Budget



Total FY17 Total Expenditures $199.0M

Expenditures Detail

The schedule on the following pages details the budget as summarized on pages 24 to 33 into more specific categories (budget subcategories). Many of the Administration subcategories are allocated between Planning, Environmental and Construction and Toll Operations expenses.

Foothill/Eastern Transportation Corridor Agencies
Fiscal Year 2017 Proposed Budget
($000)

Budget Category and Subcategory	Budget Fund Categories: Plan, Environ & Construction	Toll Operations Exp & Equip	Debt Service	Total
Administration:				
Regular Salaries & Temporary Help	1,941	2,722	-	4,663
Board Compensation	40	49	-	89
Benefits	773	992	-	1,765
Employer Taxes	37	53	-	90
Insurance	196	880	-	1,076
Legal Expense	358	414	-	772
Telephone/Comm	32	52	-	84
Office Expense	106	222	-	328
Educ, Seminar, Membership, Mtgs	81	94	-	175
Consulting and Other Services	616	816	-	1,432
Marketing	-	710	-	710
Publications & Subscriptions	3	3	-	6
Rents & Leases	32	39	-	71
Building Services	282	346	-	628
Transportation & Travel	111	120	-	231
Office Equipment	22	21	-	43
Pacifica Fixed Assets	663	810	-	1,473
Subtotal Administration	5,293	8,343	-	13,636
SR 241 Administration:				
Administration	3,244	-	-	3,244
Legal	775	-	-	775
Subtotal 241 SR Admin	4,019	-	-	4,019
Total Administration	9,312	8,343	-	17,655
Planning, Environmental and Construction:				
SR 241:				
Design/Program Mgmt	3,320	-	-	3,320
Design Special Studies & Other	2,403	-	-	2,403
Design Contingency	220	-	-	220
Design General Engineering Cost	625	-	-	625
Environmental	12,913	-	-	12,913
ROW Acquisitions, Appraisals & Other	11,089	-	-	11,089
Construction Management & Other Construction	300	-	-	300
Total SR 241	30,870	-	-	30,870
Capital Improvement Plan (CIP):				
Wildlife Safety Fencing	60	-	-	60
241/91 Express Connector	13,770	-	-	13,770
Toll Booth Removal	2,957	-	-	2,957
Signage Improvements	2,988	-	-	2,988
241 Widening-133 to Chapman (Loma Segment)	3	-	-	3
Total Capital Improvement Plan	19,778	-	-	19,778
Other Planning, Environmental and Construction:				
Environmental	910	-	-	910
Design/Program Mgmt	973	-	-	973
Design Special Studies & Other	460	-	-	460
ROW Acquisitions, Appraisals & Other	329	-	-	329
Other Construction FETC	400	-	-	400
Total Other Planning, Environ and Constr	3,072	-	-	3,072
Total Planning, Environmental and Construction	53,720	-	-	53,720

Foothill/Eastern Transportation Corridor Agencies
Fiscal Year 2017 Proposed Budget
($000)

	Budget Fund Categories			
Budget Category and Subcategory	**Plan, Environ & Construction**	**Toll Operations Exp & Equip**	**Debt Service**	**Total**
Toll Operations:				
Customer Service & Toll Compliance	-	9,976	-	9,976
Toll Systems	-	2,156	-	2,156
Toll Facilities	-	762	-	762
Subtotal Toll Operations	-	12,894	-	12,894
Operations Equipment:				
Transponder Equipment		1,772	-	1,772
Toll Equipment		218	-	218
Total Equipment	-	1,990	-	1,990
Total Toll Operations	-	14,884	-	14,884
Debt Service	-	-	112,770	112,770
Total Expenditures	63,032	23,227	112,770	199,029

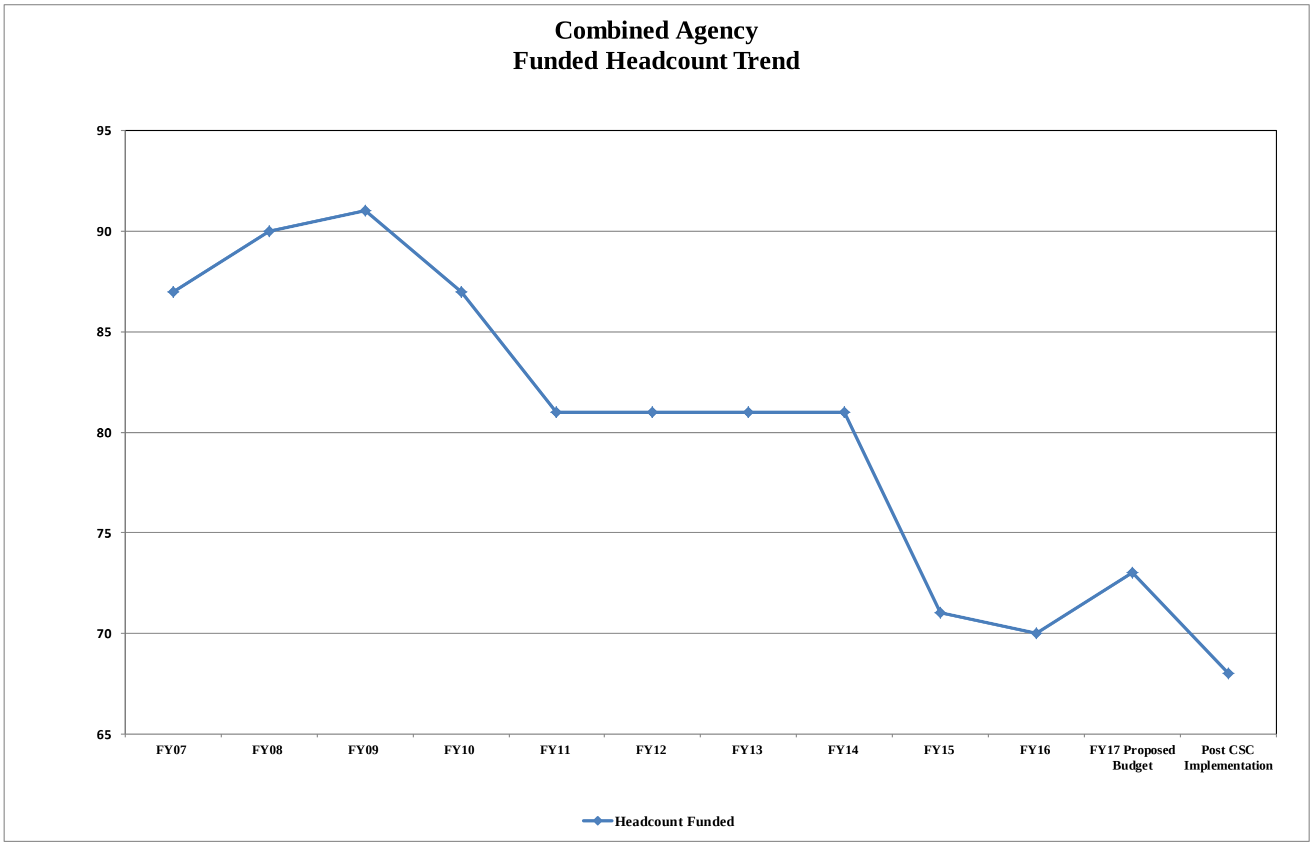
Staffing

The policies of the Transportation Corridor Agencies (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 recommended staffing plan for FY17 is 73 funded positions and is allocated 61% to this Agency and 39% to SJHTCA. The FY17 budget includes seven promotions and four headcount additions to support growth in operations and capital projects initiatives:

- Manager, Customer Service
- Program Manager, Customer Service Revenue Management
- Director, Human Resources
- Corridor Manager

Five positions included in the total will be eliminated when the Customer Service Contract (CSC) is in place, reducing headcount to 68 positions. The interim customer service and violation processing staffing plan is not included in compensation (Administration category) but rather is included in toll operations costs because it is considered an interim cost that replaces the historical and future planned contracted services cost. These costs are discussed under the Toll Operations (Excluding Administration) section. The following chart shows the change in funded headcount from 2007 through 2016 and the projected 2017 headcount on a combined Agency basis (F/ETCA and SJHTCA) as well as the reductions that will occur when the CSC is in place. The decrease in FY15 was due to the end of cash toll collections.



The following functional area organization chart illustrates the duties and responsibilities for each executive's division and the number of full time equivalent positions.

In addition to the regular duties and responsibilities that are required to manage the Agencies, there are a number of project initiatives that staff work on each year to achieve the Agency goals and objectives. Some of the longer term projects have been included on the organization chart. A more detailed description of these projects has been included in the attached FY17 Project Initiatives document.

TCA Organizational Structure
Fiscal Year 2017

SJHTCA Board

F/ETCA Board

Chief Executive Officer
3 FTEs

Communications & Marketing
7.25 FTEs

- Communications Strategy
- Marketing
- Media Relations
- Special Events
- Website
- Graphics
- Presentations
- Publications
- E-newsletters
- Social Media
- Accountholder Communication
- Tourism Visitor Outreach
- Toll Roads Rewards Program
- Environmental Outreach
- 241/91 Express Connector Outreach
- Sponsorships

Finance, Contracts, HR & Administration
30.5 FTEs

- Finance
- Treasury
- Accounting
- Insurance Administration
- 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
- Contracts & Procurement
- Administration
- Human Resources
- Recruiting
- Benefits & Compensation
- Employee Relations
- Training & Development
- Compliance

Toll Operations & IT
17 FTEs

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

Engineering & Facilities
8.5 FTEs

- SR 241
- Capital Improvement Plan
- Special Projects
- Design
- Engineering
- Construction Management
- Real Property
- Caltrans Interface
- DBE Program
- Facilities Maintenance

Environmental Planning
2.5 FTEs

- SR 241
- Habitat Stewardship
- Environmental Compliance
- Regional Transportation Plan Coordination
- Project Permitting
- Intergovernmental Project Review
- Mitigation Land Transfer
- NCCP/HCP Compliance
- Wildlife Safety Fencing
- Open space acquisition

Strategy & Public Affairs
3.5 FTEs

- SR 241
- Community Relations/Outreach
- State & Federal Legislative Affairs
- Government Affairs
- Speakers Bureau

Administration - Compensation (Regular Salaries and Benefits)

The Agency employee compensation budget is $6.5 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. FY17 benefits are 37.9% of salaries.

In June 2012, the Board of Directors requested the Agencies analyze the compensation and benefits package provided to employees. The Joint Compensation Ad Hoc Committee was formed and worked with a consultant and staff on this analysis. In April 2013, based on the results of the analysis of current benefits comparisons to public and private sector practices, the Board approved the elimination of the Agency's subsidization of employee contributions to the Orange County Employees Retirement System (OCERS) by up to 7%, thereby shifting costs from the employer to the employee. The reduction in the benefit has occurred over a three year period, reducing the amount paid by the Agency. In addition, the Comprehensive Annual Leave (CAL) accrual rates for employees were reduced to align with the market. The reduction in the CAL time accrual rates was effective July 1, 2014.

The FY17 employer contributions to OCERS have been budgeted at 26.37% for legacy employees and 22.63% 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 12.78% that represents payment of the Agencies' unfunded actuarial accrued liability (UAAL). The Agencies' UAAL is presently estimated at approximately $10.7 million. The UAAL is amortized over 20 years. The Agencies monitor the UAAL and believe that it is manageable as it is paid each year as part of the employer contribution.

In FY16, the Agency is in process of completing a detailed classification study through a consultant. Draft results recommend an average 5.7% increase to salary ranges and propose 17 salary ranges as compared to the 14 current salary ranges. 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 based on merit increases and/or promotions.

A 4.0% merit pool of $170,522 based on the current public and private sector data, with an emphasis on like agencies, 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, Very Successful, Successful and Needs Improvement. The merit increase will be assigned according to ratings category and is expected to range from 2.5% for a successful rating to 5% for an exceptional rating. A 2.0% non-base building performance incentive pool of $85,261 has been included in the budget and is linked to the FY17 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.

Based on research conducted during the compensation and benefits review, most of the TCA member agencies who have adopted the phase-out of employer paid employee pension contributions have implemented the plan along with an increase to salary to offset the effect on the employee often through a cost of living increase. The Agency has not proposed this type of salary increase to offset the reduction in benefits but has included a proposed merit and performance incentive pool for the reasons stated above.

TCA has contained costs through a net reduction in headcount (81 to 73) since FY11 and reduced benefits (OCERS/CAL). Our philosophy and approach to contract out many of our services continues to keep our salaries/benefits lower and manageable.

Administration - Insurance

Insurance expense is included at $1.1 million, 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 January 2016 Board of Directors meeting. Policies are marketed and placed by the Agency's insurance broker, Alliant Insurance Services, Inc. who provides all of the Agencies' insurance procurement needs. All insurance is maintained in accordance with the requirements of the Indentures and as prudent business activities dictate.

Administration - Legal Expenses

Legal Expenses, excluding amounts related to the SR 241, are included at $0.8 million, approximately 0.4% 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 have requested the assistance. Composite rates for general counsel are now $240 per hour effective 11/1/15. Negotiated blended rates related to AET, complex contract issues, and certain real estate issues are $300 per hour. In addition, litigation rates are billed at prevailing rates that vary between $325 and $800 per hour depending on the level of experience of the attorney involved, and state lobbyists bill at a rate of $445 per hour. Below is a breakdown of legal expenses by major category:

Contracts	$	234,000
General/Other		150,000
Toll Operations		123,000
Human Resources Legal		122,000
Financing		64,000
Development Impact Fees		50,000
Environmental		30,000
Construction		2,000
Total	$	772,000

Administration - Consulting and Other Services

The Consulting Services category amounts to $1.4 million, which represents approximately 0.7% of the total budget and, as detailed below, includes service fees, maintenance and third party assistance contracts for both recurring needs and special projects, such as payroll processing, investment and financial advisory services, and annual audit services. It also includes a state and national interoperability consultant and testing support, printing and distribution of publications, federal and state advocacy, and community relations/public relations services.

Financial Consulting	$	708,000
Communications & 241/91 Express Connector Outreach		350,000
Strategic Planning		196,000
Payroll & Personnel Services		62,000
Audit Services		55,000
Other Consulting		36,000
Toll Operations Services		25,000
Total	$	1,432,000

Administration - Marketing

Total expenditures for marketing and advertising are budgeted at $0.7 million, representing 0.4% of the total budget. This includes amounts paid for the Agency's marketing consultant for creating and placing radio and digital advertising, designing and printing direct mail and account statement inserts; website design and programming services; and email communication to FasTrak and ExpressAccount holders including The Toll Roads Rewards program. These efforts are geared toward increasing account signups and toll road ridership. Following is the budget associated with these expenses:

Marketing Consultant	$	650,000
Website Development		45,000
Accountholder Email Communications		15,000
Total	$	710,000

Administration - Building Services

Building Services is budgeted at $0.6 million, approximately 0.3% of the total budget. This category includes all operating costs associated with the Agency's operations facility (Pacifica building) and the San Clemente Information Center including utilities, janitorial services, landscaping services, and maintenance and repairs as listed below:

Pacifica Building Maintenance Services	$ 201,000
Pacifica Utilities	422,000
San Clemente Utilities & Building Maintenance Services	5,000
Total	$ 628,000

Planning, Environmental and Construction - SR 241

The SR 241 costs (including related administrative costs) are budgeted at $34.9 million representing 17.5% of the proposed budget. The primary costs for this category are the continued development of engineering plans for the Oso Bridge and Gap Closure project, along with coordination on the development of Los Patrones Parkway by the County of Orange and Rancho Mission Viejo, pre-financing costs which include mitigation land acquisition, environmental planning, engineering work to support outreach efforts, legal, and advocacy consultants. Related administrative expenses consist of legislative services, strategy consultants, community outreach consulting, community relations, and advertising. These projects are outlined in the Capital Improvement Plan adopted by the Board of Directors on May 12, 2016 and summarized below:

SR 241:		
Engineering/Design Oversight	$	6,568,000
Environmental		12,913,000
Right of Way		11,089,000
Construction		300,000
Subtotal SR241	$	30,870,000
Administrative and Legal Expenses		4,019,000
Grand Total	$	34,799,000

Planning, Environmental and Construction - Capital Improvement Plan

The Capital Improvement Plan, excluding the SR 241 to I-5, is budgeted at $19.8 million and represents 9.9% 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 Transportation Authority (OCTA), Riverside County Transportation Commission (RCTC), and Caltrans on a direct tolled connector from the SR 241 to the 91 Express Lanes, the Signage Improvements project, and the Toll Booth Removal project. These projects are outlined in the Capital Improvement Plan approved by the Board of Directors on May 12, 2016 and summarized below:

241/91 Express Connector	$ 13,770,000
Signage Improvements	2,988,000
Toll Booth Removal	2,957,000
Wildlife Safety Fencing-Monitoring	60,000
241 Widening-133 to Chapman (Loma Segment)	3,000
Total	$ 19,778,000

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

Other Planning, Environmental and Construction costs (excluding SR 241) are budgeted at $3.1 million, or 1.5% of the total budget. Expenditures budgeted mainly include design/program management, traffic trend and capacity analyses, Changeable Message Sign (CMS) equipment replacement, and continued monitoring and habitat management for nearly 1,800 acres of mitigation area required for the 241, 261 and 133 Toll Roads. Monitoring and habitat management includes the Limestone Canyon Mitigation Area, and Live Oak Plaza, coordination with the Southern California Association of Governments, San Diego Association of Governments, and OCTA to ensure the Agency's projects are described accurately in regional transportation plans, as well as project initiatives for the Strawberry Farms Mitigation Site.

Design Program/Management	$	973,000
Mitigation & Permits		708,000
Traffic Trends/Capacity Analyses		460,000
CMS Equipment Replacement		400,000
Right of Way, Surveying & Title		329,000
Staff Assistance & Other Environmental		202,000
Total	$	3,072,000

Toll Operations - Toll Customer Service and Toll Compliance

The Toll Customer Service and Toll Compliance category totals $10.0 million, approximately 5.0% of the total budget, and primarily includes funding for the service center operations and toll compliance activities comprised of an interim contract to maintain the existing back office software and for interim customer service and violation processing staffing costs. Also included in this category are credit card processing fees assessed on all FasTrak, ExpressAccount, and violation credit card transactions, printing, postage, and mailing services, judgment recovery and collection costs, CHP violation enforcement, telephone expenses, and consulting costs for the customer service center request for proposal process. Fees are included in this category for the Costco, AAA, and Albertsons FasTrak enrollment programs. The budget associated with these expenses is detailed below:

Customer Service Center	$	3,873,000
Credit Card Processing Fees		3,434,000
Postage & Printing		1,939,000
Enforcement Services-CHP, Judgment Recovery & Other		730,000
Total	$	9,976,000

Toll Operations - Toll Systems

The Toll Systems category totals $2.2 million, or approximately 1.1% of the total budget and, as detailed below, primarily consists of fees for the software and hardware maintenance and operation contract with TransCore. Also included in this category are toll system spare parts and repairs, software licenses, and various computer maintenance contracts.

On-Road Toll System Maintenance	$	1,653,000
System Maintenance & Support		503,000
Total	$	2,156,000

Toll Operations - Toll Facilities

This category is budgeted at $0.8 million representing 0.4% 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	$	451,000
On Road Building Maintenance Services		311,000
Total	$	762,000

Toll Operations – Operations Equipment

The Toll Operations Equipment budget is $2.0 million, or 1.0% of the total budget. Toll Operations Equipment primarily consists of FasTrak transponder costs. Other Equipment includes a mobile app enhancement, vehicle signature recognition (fingerprinting) software for image review, a Traffic Vehicle Management System (TVMS) replacement, on road Bluetooth communications, servers, and a service vehicle.

Transponders	$	1,772,000
Other Equipment		218,000
Total	$	1,990,000

Debt Service

The Debt Service category totals $112.8 million or 56.7% of the total budget and in FY17 includes interest payments on the Agency's outstanding bonds. The debt service will be paid from net revenues with $56.4 million to be paid on each January 15, 2017 and July 15, 2017.

A Revenue Guarantee Fund was established at the time of the 2013 financing. Revenue Guarantee Funds were set aside to pay debt service. When Revenue Guarantee Funds are not needed to make debt service payments, the funds become unrestricted after the debt service is paid. In FY17, the Agency expects that $7.4 million will become unrestricted related to FY17 debt service. However, as shown below, the Revenue Guarantee Funds are used in the calculation of debt service coverage ratios as defined in the Indentures.

The FY17 budgeted aggregate and senior lien debt service coverage ratios shown below meet the Indenture requirements of 1.15x and 1.30x, respectively. The budgeted coverage is 1.41x and 1.60x, 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 pages 22-23).

Debt Coverage Calculation Fiscal Year 2017

	FY17 Budget (In Thousands)
Adjusted Net Toll Revenues	
Total Toll Revenues Including Fees and Penalties	169,255
Interest Earnings	2,206
Current Expenses - Funded From Toll Revenue	(23,227)
Adjusted Net Toll Revenues	148,234
Aggregate Net Debt Service	
Annual Aggregate Debt Service	112,770
Less Revenue Guarantee Funds	(7,340)
Net Aggregate Debt Service	105,430
Aggregate Coverage Ratio (1.15x requirement)	1.41
Senior Lien Net Debt Service	
Annual Senior Lien Debt Service	100,006
Less Revenue Guarantee Funds	(7,340)
Net Senior Lien Debt Service	92,666
Senior Lien Coverage Ratio (1.30x requirement)	1.60

Estimated Unrestricted Cash and Restricted Construction Funds

Below is the FY17 budgeted activity and estimated ending balances for unrestricted cash (as described in more detail on page 4) and restricted construction funds. The restricted construction fund was initially funded in 2015 with the $33.5 million net present value savings of the final refunding of the 1995 bonds. The restricted construction funds have been used for construction purposes only as defined in the tax certificate issued during the refunding:

Estimated Unrestricted Cash
($000)

Estimated Available Cash at 6/30/16	208,395
Planning, Environmental and Construction and Related Administration	(41,476)
Surplus Revenue including release of Revenue Guarantee Funds *	43,242
DIF Revenue and Interest Income	20,449
Estimated Available Cash at 6/30/17	230,610

* Per the Indentures, when Revenue Guarantee Funds are not needed by the Agency to make debt service payments, the funds become unrestricted after the debt service is paid. In FY17, the Agency expects that $7.4 million will become unrestricted related to FY17 debt service.

Estimated Restricted Construction Funds
($000)

Estimated Restricted Construction Funds at 6/30/16	21,472
Planning, Environmental and Construction and Related Administration	(21,556)
Interest	84
Estimated Restricted Construction Funds at 6/30/17	-

RESOLUTION NO. F2016-05

A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY
APPROVING THE BUDGET FOR FISCAL YEAR 2017

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

WHEREAS, Section VI, paragraph 6.1 of the Second Amended and Restated Joint Exercise of Powers Agreement creating the Foothill/Eastern Transportation Corridor Agency (the "JPA"), requires the adoption upon the approval of not less than two-thirds (2/3) of the Board Members, an annual budget for the ensuing fiscal year, pursuant to procedures developed by the Board; and

WHEREAS, Section VI, paragraph 6.3 of the JPA requires all funds to be placed in object accounts and the receipt, transfer or disbursement of such funds during the term of the JPA shall be accounted for in accordance with Generally Accepted Accounting Principles (GAAP) applicable to governmental entities and all revenues and expenditures must be reported to the Board; and,

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

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

WHEREAS, Article VI, paragraph 6.5 of the Administrative Code of the Agency adopted on January 10, 1991, requires that all expenditures for travel, conference and business-related activities, and reimbursement of Board Members and Agency employees for such expenditures be governed by the Board adopted Travel and Expense Policy;

NOW, THEREFORE the Board of the Foothill/Eastern Transportation Corridor Agency does resolve, declare, determine and order as follows:

1. Approves the annual budget for Fiscal Year 2017 (FY17) in the amount of $199,029,444. 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 FY17 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	$17,655,103
• SR 241 (excluding related administration)	$30,870,341
• Capital Improvement Plan	$19,777,835
• Other Planning, Environmental and Construction	$3,071,807
• Toll Operations	$14,884,046
• Debt Service	$112,770,312

   and subject to controls in place under the 2013 and 2015 Indentures of Trust, the Board approved Contracts and Procurement Manual, Investment Policy, Staffing and Compensation Plan, and finally the Agency's enabling legislation.

3. Resolves to carry forward the project description from the current 2014 Regional Transportation Improvement Program (RTIP) and 2015 San Diego Forward Regional Transportation Plan/Sustainable Communities Strategy (RTP), and to include the updated schedule and project budget approved by this resolution in subsequent RTIP and RTP updates, for the San Diego Association of Governments (SANDAG) region.

4. Resolves to carry forward the project description from the current 2015 Federal Transportation Improvement Program (FTIP) and 2016 Regional Transportation Plan/Sustainable Communities Strategy, and to include the updated schedule and project budget approved by this resolution in subsequent RTIP and RTP updates, for the Southern California Association of Governments (SCAG) region.

5. Directs staff to forward the approved Annual Budget for FY17 to the trustee.

This Resolution No. F2016-05, shall become effective immediately upon adoption.

Adopted this 9th day of June, 2016, by the Board of Directors of the Foothill/Eastern Transportation Corridor Agency.

Craig Young, Chairman
Foothill/Eastern Transportation Corridor Agency

RESOLUTION NO. F2016-05

A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY
APPROVING THE BUDGET FOR FISCAL YEAR 2017

ATTEST:

I, Martha M. Ochoa, Clerk of the Board of the Foothill/Eastern Transportation Corridor Agency hereby certify that the foregoing Resolution No. F2016-05 was duly adopted on June 9, 2016, by the Board of Directors of the Foothill/Eastern Transportation Corridor Agency by the following vote:

Yes:	Young, Bartlett, Bilodeau (Alternate for Nelson), Kring, Martinez, Murphy, Muller, Puckett, Sachs, Shea, Spitzer, Voigts
No:	Ferguson, Ward
Absent:	Beall
Abstain:	None

Martha M. Ochoa

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

Sherri McKaig

Sherri McKaig
Assistant Secretary to the Board
Foothill/Eastern Transportation Corridor Agency

FISCAL YEAR 2017 PROJECT INITIATIVES

The Agencies' major project initiatives are summarized below with additional detail by functional area beginning on page 2.

241 / 91 Express Connector

Coordinated capital project with OCTA, RCTC and Caltrans to connect the 241 Toll Road directly into the 91 Express Lanes to and from the east. Activities for FY17 include completing the PA/ED phase, developing a finance plan, starting final design and initiating public outreach efforts.

Oso Bridge & Los Patrones

Coordination with the County and RMV on the Los Patrones Parkway project. TCA will focus on the Oso Bridge and Gap components and resolving 241 completion obstacles.

241 to I-5 Connection

Continue progress on addressing South County mobility issues created by congestion on the I-5 Freeway. Advance the community outreach and stakeholder process including technical support leading to the initiation of a new NEPA/CEQA environmental process. Acquire available open space and mitigation property.

Transparency & Communication

Continue Agencies' focus on improved transparency to the public. Complete revisions to the Administrative Codes. Fully implement joint board meeting procedures and electronic board management software including live webcasting of monthly board meetings.

Customer Service Improvement

Implement changes to customer service activities with the goal of improving customer service. Customer service operations, back office systems, mobile app, imaging and phone system related procurements are planned for FY17.

Financial Stability/Sustainability

With the successful restructure and refinancing of the Agencies' debt, support activities that will strengthen the Agencies' finances. Continue the Agencies' credit rating upgrade strategy and develop a long-range finance plan to support the Agencies' Capital Improvement Plan.

Environmental Stewardship

Recognize TCA's 25 years of environmental stewardship. Pursue opportunities for the transfer of mitigation properties for long-term management. Continue and enhance the Environmental Newsletter. Monitor the effectiveness of the wildlife safety fence.

Improve On-Road Experience

Pursue opportunities to address on-road customer issues to include: Catalina View congestion; signage standardization and enhancements; toll booth removal; N241 to E91 evening queue jumping; S133 to N405 morning backup; and 73 cell coverage.

Regional Partnerships

Strengthen partnerships with OCTA, Caltrans and SCAG as well as the County and business community. Provide regional leadership with regards to tolling and interoperability policy. Advance technical research for origin-destination traffic optimization. Develop a regional framework for a cooperative approach to SoCal FasTrak marketing.

Design & Construction			
Project Initiative	F/ETCA Project Budget	SJHTCA Project Budget	Project Scope
Toll Booth Removal	$2,947,000	$2,578,000	Phase 1 of project consists of design and construction projects for removing toll booths at two+ lane on- and off-ramps.
241/91 Express Connector	$13,771,000	-	Complete Project Approval/Environmental Document and commence final engineering.
Oso Bridge & Gap Closure	$3,483,000	-	Complete final engineering.
73 Northbound Widening	-	$489,000	Develop project initiation document.
Origin/Destination Studies / Traffic Optimization	$400,000	$240,000	Continue development of traffic trend tracking system to improve system efficiency. Perform market share analysis and conduct toll analyses to optimize traffic/efficiency of Toll Road system.
TCA Infrastructure Inventory	$20,000	$20,000	Continue improvements to Agency as-built platform.
Signage Enhancements	$3,450,000	$1,800,000	Complete final design and implement sign improvements. Design for four new CMS and replace one CMS unit.
N5-N133 and S133-S5 Ramp Reconstruction	-	-	Work with Caltrans construction to minimize impacts to Toll Road customers.
73/Laguna Canyon CD Road Improvements	-	-	Work with Caltrans construction to minimize impacts to Toll Road customers.
Eliminate Jamboree Ramps from CIP	-	-	Work with stakeholders on elimination of planned 73/Jamboree improvements.
241 Bee Canyon Interchange	-	-	Coordinate with stakeholders.
405 HOT Lanes	-	-	Work with OCTA on 405 impacts to 73.

Environmental			
Project Initiative	**F/ETCA Project Budget**	**SJHTCA Project Budget**	**Project Scope**
Mitigation Sites	$574,000	-	On-going open space management and tasks related to TCA's mitigation sites, including but not limited to, restoring native habitats, implementing existing management requirements per agreements with USFWS and CDFW, amending and updating current resource management plans for resource agencies approval, and continuing the required cowbird trapping program.
SR 241 Wildlife Safety Fencing	$60,000	-	Monitoring results of wildlife fencing by UC Davis. Year 1 of 3.
Oso Bridge & Gap Closure	$150,000	-	Environmental work for the Oso Bridge and Gap Closure Project
Mitigation Property Acquisition and Transfer Plan	$9,388,000	$4,063,000	Environmental review, including biological assessments, preparation of resource management plans and real property consulting services for acquisition and conveyance of agencies mitigation properties.
Regional Transportation Studies	$70,000	$10,000	Coordination with other regional transportation agencies
SR 241 Strategy	$6,933,000	-	Environmental services for the SR 241 to I-5 Connection, including but not limited to, consulting and facilitation services for NEPA and CEQA, and initiation of permitting and funding of resource agency personnel.

Toll Operations & IT

Project Initiative	F/ETCA Project Budget	SJHTCA Project Budget	Project Scope
Customer Service Center (CSC) System Replacement	$1,455,000	$1,515,000	Replace the CSC back office system and software. Total project estimate = $6.6M.
Mobile App Version 3.0	$66,000	$69,000	Design and develop app improvements to support 1) anonymous payments through Apple Pay, Google Play, etc., using finger print authorization; 2) automatic trip identification and seamless payment; 3) loyalty programs and other enhancements.
Back Office System Enhancements	$49,000	$51,000	Provide interfaces for business intelligence reporting tool and implementation of third-party collection services.
Vehicle Signature Recognition (Fingerprinting)	$39,000	$40,000	Incorporate software and automatic processes into the image review system to reduce the number of manual reviews and thereby reduce costs.
Expand Cash Payment Network	$19,000	$20,000	Enable customers to use the MoneyGram network at Walmart, CVS, Albertson's, and some 7-11s.
Tolling Interoperability - State and National	$30,000	$30,000	Support state and national interoperability efforts, including staff time, consultant support and testing.
Agenda Management System Enhancements	$48,000	$48,000	Modify system and incorporate additional tools and/or functionality to further streamline work processes, ease/improve Board member usability and foster public transparency.
Customer Service Kiosk	$12,000	$3,000	Dual efforts for implementing a self-service Kiosk in Pacifica lobby for customer service to accommodate customer overflow during busy times and to develop exterior displays and solutions for customers who come to the service center during off-hours.
Customer Service PBX System Enhancements	$99,000	$103,000	Implement system enhancements, training and third-party services to manage workloads; monitor interactions and improve customer service functions through new management and customer survey tools.
Go Green Printing Initiative	-	-	Implementation of Green initiatives to reduce printing and postage expenses by transitioning customer statements and notifications to electronic media; text messages and computer activated voice calls.

Communications & Marketing

Project Initiative	F/ETCA	SJHTCA	Project Scope

	Project Budget	Project Budget	
Marketing – Account Sign Up and Ridership	$650,000	$650,000	Paid advertising to educate and increase awareness of The Toll Roads value proposition, increase the number of accounts, increase ridership and revenue, improve awareness of how to pay for infrequent drivers and visitors. A procurement process is currently underway for a new marketing firm to provide media buying and creative marketing services.
241/91 Express Connector Outreach for SEIR/SEIS	$250,000	-	Public Outreach Firm: includes community ascertainment, collateral development and printing, public meeting coordination and logistics, interface with Caltrans, community issue coordination and response, mailing/email list development and dissemination of information, speakers bureau management and project webpage management. Contingency included for potential change of hearing date.
Website Initiatives	$45,000	$45,000	Website design projects and maintenance. FY17 projects include toll calculator revisions, coordination for interactive board meeting agenda page with outside vendor, interactive map for environmental initiatives page, ongoing user experience and analysis for improved customer service.
Organization and Community Outreach/Special Events	$51,000	$43,000	Chambers of commerce and community outreach costs associated with memberships, sponsorships, booth expenses, giveaways, toll sponsorships for events. Special events and awareness for TCA milestones and anniversaries.
Tourism/Visitor and Rental Car Outreach and Programs	$38,000	$38,000	Materials to support communication to rental car drivers and tourists. Distribution of pricing maps to visitor destinations/hotel concierges. Regional map advertising.
Email Newsletters and Brochures	$37,000	$31,000	Printing/postage/iContact. Monthly email to 300,000+ account holders. Six editions of Viewsletter shift to only electronic distribution in FY17. Budget includes design, photography and printing for 30th anniversary brochure/report and an update to the TCA brochure.
Environmental Communication Program	$37,000	$26,000	Writer, printing of materials including 25th anniversary book, special event, paleontology contract
Toll Booth Removal Communication and Neighborhood Notification	$6,000	$2,000	Removal of toll booths will create opportunities to relocate booths to new locations, photo opportunities and news. Budget includes cost of notifying homeowners near ramp locations about work that will take place near their homes and night-time work hours.
Regional FasTrak Marketing	$13,000	$13,000	Coordination with OCTA, LA Metro, RCTC and SANDAG to provide a unified message on the benefits and value of paying tolls with a FasTrak account.

Strategic Planning			
Project Initiative	F/ETCA Project	SJHTCA Project	Project Scope

	Budget	Budget	
Federal Advocacy Program	$301,000	$24,000	Work with legislators, administration, regulatory agencies, committee members & staff. Primary focus on environmental streamlining, TIFIA and tracking the transportation bill. Also including National Interoperability, the allocation of the $8 Million earmark and tracking transportation funding & initiatives.
State Advocacy Program	$273,000	$98,000	Primary state lobbying efforts. Includes legislator, administration and regulatory education and relationships, and tracking bills that could impact TCA business operations or ability to complete mission.
241 Strategy	$3,154,000	–	SR 241 to I-5 Connection related outreach efforts with key stakeholder groups. Also includes Issues Management and Consensus Planning / Community Ascertainment Study implementation and strategic communications consulting. Support ongoing stakeholder program to find a transportation solution that will improve regional mobility.

Finance, Administration & Contracts

Project Initiative	F/ETCA Project Budget	SJHTCA Project Budget	Project Scope
Project Financing – 241/91 Express	-	-	Develop finance plans for 241/91 Express Connector project

Connector			
Long-term Financial Planning	-	-	Develop financial strategies related to the Agencies' Capital Improvement Plan and enhancements to the current debt structure
Investor Relations Program	-	-	Implement investor relations program
Credit Rating Agency Upgrade Strategy	-	-	Evaluate and implement strategies to assist the Agencies in obtaining credit rating upgrades
Business Intelligence Tools	$37,500	$37,500	Needs assessment and implementation of operational and financial data analysis tools
Human Resources and Payroll System Upgrade Implementation	-	-	Implementation of Human Resources efficiency tools