SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Financial Statements

June 30, 2023 and 2022

(With Independent Auditor's Report Thereon)

SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Joaquin Hills Transportation Corridor Agency
Irvine, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the San Joaquin Hills Transportation Corridor Agency ("Agency"), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Agency, as of June 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of net pension liability and related ratios, and schedule of Agency contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Crowe LLP

Crowe LLP

Costa Mesa, California
October 12, 2023

This discussion and analysis of the financial performance of the San Joaquin Hills Transportation Corridor Agency (the Agency) provide an overview of the Agency's financial activities for the fiscal years ended June 30, 2023 and 2022. Please read it in conjunction with the Agency's financial statements and accompanying notes.

Background

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

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

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

In 1996, the State Route 73 Toll Road opened to traffic, the first publicly operated toll road in Southern California. It serves as an important, time-saving alternative route to the Interstate 405 and Interstate 5 Freeways. As discussed in "Economic Factors," traffic has steadily recovered from the COVID-19 pandemic resulting in an increase in transactions to 25.7 million during the year ended June 30, 2023, compared to 24.8 million during the year ended June 30, 2022.

Financial Highlights

Tolls, fees, and fines earned in fiscal year 2023 (FY23) totaled $167,634 compared to $158,120 in fiscal year 2022 (FY22), an increase of 6.0%.

As of June 30, 2023 and 2022, the Agency had $511,429 and $532,489, respectively, of restricted cash and investments that were restricted by their purpose or subject to master indentures of trust for the bonds outstanding at each date. The Agency also had $328,266 and $300,407, respectively, of unrestricted cash and investments

The Agency's net position at June 30, 2023 and 2022 was $(1,653,779) and $(1,704,961), respectively. The negative net position results from the inclusion in the Agency's financial statements of its long-term debt obligations (toll revenue bonds), which were used to fund design, planning and construction of the corridors, but not the related capital assets, since ownership of the corridors was transferred to Caltrans upon completion of construction.

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(In thousands)

Overview of the Financial Statements

The Agency's financial statements include its statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to the financial statements. The statements of net position and statements of revenues, expenses, and changes in net position, present the financial picture of the Agency from the economic resources measurement focus using the accrual basis of accounting. The statements of cash flows provide information about the Agency's cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing, and investing activities during the reporting period.

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

Financial Analysis

The following table summarizes the net position of the Agency as of June 30, 2023, 2022, and 2021:

	2023	Percentage increase (decrease)	2022	Percentage increase (decrease)	2021
Assets and deferred outflows:					
Current assets	$ 386,262	9.0 %	$ 354,530	0.5 %	$ 326,431
Capital assets, net	6,988	3.9	6,723	11.9	6,567
Net pension asset	277	(93.6)	4,353	103.5	1,669
Other noncurrent assets	475,207	(4.8)	499,230	4.4	505,814
Deferred outflows	152,620	(5.2)	161,024	(6.7)	75,241
Total assets and deferred outflows	1,021,354	(0.4)	1,025,860	2.1	915,722
Liabilities and deferred inflows:					
Current liabilities *	75,859	(3.5)	78,582	1.2	74,297
Bonds payable	2,467,689	(2.0)	2,519,286	1.8	2,393,981
Note payable to F/ETCA	131,186	1.2	129,633	1.1	129,077
Deferred inflows	399	(88.0)	3,320	57.6	1,579
Total liabilities and deferred inflows	2,675,133	(2.0)	2,730,821	1.7	2,598,934
Net position	$ (1,653,779)	3.0	$ (1,704,961)	(1.5)	$ (1,683,212)

* Excludes current portion of bonds payable which is included within Bonds payable.

The increase in current assets is primarily attributable to the Agency's accumulation of additional cash reserves, as cash generated from operations has continued to surpass its immediate debt service requirements. See note "Debt Administration" for the change in bonds payable and deferred outflows. The decrease in net pension asset is primarily attributable to the Agency's deferred inflows/outflows of resources resulting from differences between projected and actual earnings on pension plan investments per the actuarial valuation of the OCERS pension plan.

(In thousands)

Following is a summary of the Agency's revenue, expenses, and changes in net position for the years ended June 30, 2023, 2022, and 2021:

	2023	Percentage increase (decrease)	2022	Percentage increase (decrease)	2021
Operating revenues:					
Tolls, fees, and fines	$ 167,634	6.0 %	$ 158,120	34.7 %	$ 117,416
Development impact fees	7,553	79.4	4,210	(8.3)	4,590
Total operating revenues	175,187	7.9	162,330	33.1	122,006
Operating expenses	20,537	12.3	18,294	(1.8)	18,637
Operating income	154,650	7.4	144,036	3.5	139,198
Nonoperating expenses, net	(103,468)	(37.6)	(165,785)	28.9	(128,665)
Change in net position	51,182		(21,749)		36,617
Net position at beginning of year	(1,704,961)	(1.3)	(1,683,212)	(1.5)	(1,657,916)
Net position at end of year	$ (1,653,779)	3.0	$ (1,704,961)	(1.3)	$ (1,683,212)

The Agency's revenue consists primarily of tolls, fees, and fines, which comprised 95.7% of total revenue in FY23 as compared to 97.4% in FY22. Tolls, fees, and fines increased by 6.0% in FY23 and 34.7% in FY22. The increase was primarily due to the continued recovery from the COVID-19 pandemic which resulted in reduced traffic on the roads beginning in March of 2020. Development impact fees increased by 79.4% after a decrease of 8.3% in FY22. The development impact fees collected fluctuate from year to year depending on residential and nonresidential development in Orange County within the area of benefit from the San Joaquin Hills Corridor.

Operating expenses were $20,537 in FY23 compared to $18,294 in FY22, an increase of 12.3%. Included in FY23 operating expenses is noncash depreciation expense on capital assets of $894, compared to $824 in FY22, and noncash contra-expense recorded in salaries and wages related to the OCERS pension of ($127), compared to ($1,183) in FY22. Excluding depreciation and the pension contra-expense, operating expenses were $19,770 in FY23 and $18,653 in FY22. The increase in operating expenses is primarily due to the aforementioned increase in traffic and related toll revenue due to continued recovery from COVID-19, which in turn resulted in increased toll compliance and customer service costs, professional services, and insurance costs.

Net nonoperating expenses for FY23 include investment income of $10,054, compared to investment losses of ($18,799) in FY22 with the increase due to increased yields attributable to maturities of lower yielding securities and new security purchases invested at higher rates; a reduction in arbitrage rebate expense of $18,492 and cost of bond issuance expense of $5,636 due to the December 2021 bond refunding; interest expense of ($121,468), compared to ($124,408) in FY22; and gain on retirement of bonds income of $7,940 due to the Agency's Open Market Bond Buyback Program activity in FY23.

(In thousands)

Capital Assets, Net

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

		2023	2022	2021
Construction in progress	$	588	2,715	2,177
Right-of-way acquisitions, grading, or improvements		106	106	106
Furniture and equipment		6,294	3,902	4,284
Total capital assets, net	$	6,988	6,723	6,567

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

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

Debt Administration

At June 3, 2023, 2022, and 2021, the Agency had outstanding bonds payable of $2,467,689, $2,519,286, and $2,393,981, respectively. The changes in FY23 are primarily attributable to the accretion of principal on capital appreciation bonds of $12,439 offset by principal payments of $21,627. Additionally, in FY23 the Agency's Open Market Bond Buyback Program resulted in the purchase and retirement of $37,220 of bond principal for a total acquisition price of $29,280, which resulted in a recognized gain on retirement of bonds of $7,940. See next section, "Economic Factors," for the total savings obtained through this program.

The Agency's tolls, fees, fines, and development impact fee revenue, less certain expenses, as defined in the indentures of trust, is pledged to repay these bonds. The Agency has several debt covenants contained in the master indentures of trust. Management of the Agency represents that the Agency was in compliance with all of its covenants as of and for the years ended June 30, 2023, 2022 and 2021.

At June 30, 2023, 2022 and 2021, the Agency had a note payable to F/ETCA of $131,186, $129,633, and $129,077, respectively. As described in note 6(c) to the financial statements, the liability was established when the Agency's board of directors and the board of directors of Foothill/Eastern Transportation Corridor Agency (F/ETCA) approved an agreement that provided for the termination of the Mitigation Payment and Loan Agreement between the agencies, concurrently with the closing of its refinance transaction. The termination agreement also provided for the Agency to pay $120,000, plus accrued interest, to F/ETCA in annual installments beginning January 15, 2025 equal to 50% of the Agency's surplus funds.

More detailed information about the Agency's debt is presented in note 6 to the financial statements.

Economic Factors

The Agency continues to see recovery from the COVID-19 pandemic, evidenced by the 6.0% increase in tolls, fees, and fines in FY23; however, recovery has been slower than expected resulting in total tolls, fees, and fines coming in 7.12% below budget. Due to the Agency's demonstrated financial discipline and actions taken in recent years to further strengthen the finances, the Agency has very strong liquidity and is well positioned to meet its continued financial obligations.

In accordance with the Agency's toll policy, new toll rates were approved by the Agency's board of directors for implementation effective July 1, 2023. New toll rates reflect a 2% inflationary increase at all toll points.

In January 2023, the Board authorized the Agency's Open Market Bond Buyback Program. In February and March 2023, the Agency purchased and retired a portion of its 2021 Bonds on the open market. The $37,220 of outstanding bonds were purchased for a total acquisition price of $29,280, which resulted in a recognized gain on retirement of bonds of $7,940. This resulted in a reduction of the Agency's future debt service interest payments by $34,846.

In December 2021, the Agency exchanged $424,231 of tax-exempt Series 2021 Toll Revenue Refunding Bonds with qualified institutional bondholders, issued $605,065 of federally taxable Series 2021 Toll Road Refunding Revenue Bonds, and issued $96,245 of tax-exempt Series 2021 Toll Road Revenue Refunding Bonds, which were used to refund $618,910 and exchange $428,395 of 2014 Senior Term current interest bonds at lower interest rates ranging from 2.15% to 5%. The favorable interest rates resulted in cash flow savings of approximately $138,660 through the final maturity of the bonds.

Contacting the Agency's Financial Management

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

SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY

Statements of Net Position

June 30, 2023 and 2022

(In thousands)

	2023	2022
Assets:		
Current assets:		
Cash and investments	$ 314,654	$ 286,135
Restricted cash and investments	58,102	56,188
Receivables:		
Accounts, net of allowance of $2,868 and $2,514 respectively	4,943	4,425
Fees	19	—
Interest	2,536	1,898
Due from Foothill/Eastern Transportation Corridor Agency	5,076	5,062
Other assets	932	822
Total current assets	386,262	354,530
Noncurrent assets:		
Cash and investments	13,612	14,272
Restricted cash and investments	453,327	476,301
Unamortized prepaid bond insurance	8,268	8,657
Net pension asset	277	4,353
Capital assets, net	6,988	6,723
Total noncurrent assets	482,472	510,306
Deferred outflows of resources:		
Unamortized deferral of bond refunding costs	150,699	160,397
Pension costs	1,921	627
Total assets and deferred outflows of resources	1,021,354	1,025,860
Liabilities:		
Current liabilities:		
Accounts payable	3,664	3,236
Unearned revenue	25,422	25,527
Employee compensated absences payable	314	392
Interest payable	46,459	49,427
Current portion of bonds payable	20,093	20,988
Total current liabilities	95,952	99,570
Long-term bonds payable	2,447,596	2,498,298
Note payable to Foothill/Eastern Transportation Corridor Agency	131,186	129,633
Total liabilities	2,674,734	2,727,501
Deferred inflows of resources:		
Pension costs	399	3,320
Total liabilities and deferred inflows of resources	2,675,133	2,730,821
Net position:		
Net investment in capital assets	(2,310,002)	(2,352,166)
Restricted	458,323	475,875
Unrestricted	197,900	171,330
Total net position	$ (1,653,779)	$ (1,704,961)

See accompanying notes to financial statements.

SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2023 and 2022

(In thousands)

	2023	2022
Operating revenues:		
Tolls, fees, and fines	$ 167,634	$ 158,120
Development impact fees	7,553	4,210
Total operating revenues	175,187	162,330
Operating expenses:		
Toll compliance and customer service	9,429	9,350
Salaries and wages	4,021	2,909
Professional services	2,357	1,722
Depreciation	894	824
Toll systems	1,247	1,121
Facilities rent	574	581
Insurance	988	791
Toll facilities	249	169
Other operating expenses	778	827
Total operating expenses	20,537	18,294
Operating income	154,650	144,036
Nonoperating revenues (expenses):		
Investment income (loss)	10,054	(18,799)
Insurance recovery income	—	1,350
Miscellaneous income	6	200
Gain on retirement of bonds	7,940	—
Arbitrage rebate	—	(18,492)
Cost of bond issuance	—	(5,636)
Interest expense	(121,468)	(124,408)
Nonoperating expenses, net	(103,468)	(165,785)
Change in net position	51,182	(21,749)
Net position at beginning of period	(1,704,961)	(1,683,212)
Net position at end of period	$ (1,653,779)	$ (1,704,961)

See accompanying notes to financial statements.

SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

	2023	2022
Cash flows from operating activities:		
Cash received from toll road patrons	$ 166,997	$ 157,412
Cash received from development impact fees	7,565	4,210
Cash payments to suppliers	(15,304)	(14,720)
Cash payments to employees	(4,238)	(3,902)
Cash payments for legal settlement	—	(14,500)
Net cash provided by operating activities	155,020	128,500
Cash flows from capital and related financing activities:		
Cash payments for acquisition of capital assets	(1,159)	(978)
Cash received for insurance recovery	—	1,350
Cash received for sale of mitigation credits	—	200
Cash payments for interest and principal	(156,454)	(95,367)
Cash received from other miscellaneous income	6	—
Cash payments in connection with bond refunding transaction	—	(1,224,981)
Cash received from bond refunding transaction	—	1,221,580
Net cash used in capital and related financing activities	(157,607)	(98,196)
Cash flows from investing activities:		
Cash receipts for interest and dividends	12,256	10,674
Cash receipts from the maturity and sale of investments	278,221	410,089
Cash payments for purchase of investments	(309,326)	(431,907)
Net cash used in investing activities	(18,849)	(11,144)
Net increase (decrease) in cash and cash equivalents	(21,436)	19,160
Cash and cash equivalents at beginning of year	151,817	132,657
Cash and cash equivalents at end of year (note 4)	$ 130,381	$ 151,817
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 154,650	$ 144,036
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	894	823
Legal settlement	—	(14,500)
Changes in operating assets and liabilities:		
Accounts receivable	(518)	(923)
Fees receivable	12	—
Due from Foothill/Eastern Transportation Corridor Agency	(14)	(48)
Other assets	(110)	(386)
Accounts payable	428	227
Unearned revenue	(105)	264
Net pension liability/asset	4,076	(2,684)
Deferred inflows of resources related to pensions	(2,921)	1,742
Deferred outflows of resources related to pensions	(1,294)	(5)
Employee compensated absences payable	(78)	(46)
Total adjustments	370	(15,536)
Net cash provided by operating activities	$ 155,020	$ 128,500

(Continued)

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

		2023		2022
Noncash capital and related financing and investing activities:				
Interest expense recorded for accretion of bonds and note payable	$	(12,438)	$	(14,930)
Amortization of bond premium recorded as reduction of interest expense		5,189		3,783
Amortization of deferred bond refunding costs		(9,698)		(7,298)
Amortization of prepaid bond insurance recorded as interest expense		(389)		(203)
Interest accrued on Note Payable to Foothill/Eastern		(1,552)		—
Change in unrealized gain/loss on investments		(3,065)		26,877
Gain on retirement of bonds		7,940		—
Amortization of discount/premium on investments		194		(3,546)

See accompanying notes to financial statements.

(1) Reporting Entity

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

The financial statements comprise the activities of the Agency. There are no other organizations for which the Agency is financially accountable or for which it is fiscally responsible. The Agency and the Foothill/Eastern Transportation Corridor Agency (F/ETCA) are under common management and together are called the Transportation Corridor Agencies (TCA). However, each agency has an independent governing board. Refer to note 2(m) of the financial statements for interagency transactions detail.

During the year ended June 30, 2021, the city of San Clemente voluntarily withdrew from participation in the Agency as a member city. The city of San Clemente remains responsible for remitting development impact fees to the Agency and there is no foreseen financial impact to the Agency due to the withdrawal.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

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

(2) Summary of Significant Accounting Policies (Continued)

(b) Basis of Accounting

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

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

(c) New Accounting Pronouncement

During the year ended June 30, 2023, the Agency implemented GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Implementation of this new pronouncement did not have a significant impact on the Agency's financial statements.

(d) Budget

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

(e) Cash and Cash Equivalents

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

The Agency classifies cash and cash equivalents as current or noncurrent based on intended use and/or restriction for construction or debt service in accordance with GASB Statement No. 62.

(f) Investments

Investments, except for money market funds, are stated at fair value on a recurring basis. Money market funds are recorded at amortized cost.

The Agency classifies investments as current or noncurrent based on intended use and/or restriction for construction or debt service in accordance with GASB Statement No. 62.

(2) Summary of Significant Accounting Policies (Continued)

(g) Receivables

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

(h) Capital Assets

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

As described further in note 5, the San Joaquin Hills Transportation Corridor and the related purchases of rights of way, for which title vests with the California Department of Transportation (Caltrans), are not included as capital assets because the Agency does not have title to these assets. The Agency holds the title and capitalizes these projects while in construction until project completion, at which point the title is transferred to Caltrans to be maintained as part of the state highway system. The costs of normal maintenance and repairs and mitigation that do not add value to the assets or materially extend asset useful lives are not capitalized.

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

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

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

(i) Unearned Revenue

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

(j) Unamortized Deferral of Bond Refunding Costs

Deferred bond refunding costs represent certain costs related to the issuance of bonds. In refunding debt resulting in the legal defeasance of the old debt, the difference in the carrying value of the refunded debt and its reacquisition price is reported as deferred outflows or deferred inflows of resources in the Statements of Net Position and amortized over the life of the old or the new debt, whichever is shorter.

(2) Summary of Significant Accounting Policies (Continued)

(k) Pension Plan

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

(l) Revenue Recognition

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

(m) Transactions with F/ETCA

Expenses directly related entirely to the Agency are charged to the Agency, and those incurred on behalf of both the Agency and F/ETCA are allocated between the two agencies based on the estimated benefit to each. In addition, the Agency has amounts due from F/ETCA related to F/ETCA customers who incur tolls on the Agency's corridor and has amounts due to F/ETCA related to the Agency's customers who incur tolls on state routes 241, 261, and 133 and other expenses. At June 30, 2023 and June 30, 2022, the Agency had tolls due from F/ETCA of $5,076 and $5,062, respectively.

A note payable to F/ETCA was established when the Agency's board of directors and the board of directors of F/ETCA approved an agreement that provided for the termination of the Mitigation Payment and Loan Agreement between the agencies, concurrently with the closing of its refinance transaction. The termination agreement also provided for the Agency to pay $120,000 to F/ETCA, in annual installments beginning January 15, 2025 equal to 50% of the Agency's surplus funds, plus accrued interest. At June 30, 2023 and June 30, 2022, the Agency had a note payable outstanding of $131,186 and $129,633, respectively.

(n) Net Position

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

Net investment in capital assets: Represents the Agency's capital assets, net of accumulated depreciation and unamortized bond refunding costs, reduced by the outstanding principal balances of debt attributable to the acquisition, construction, and improvement of the Agency's capital assets and capital assets related to construction, rights-of-way, grading, and improvements that were transferred to Caltrans in previous years. See note 5.

Restricted: Represents the Agency's assets subject to externally imposed conditions, related primarily to restricted bond proceeds and the Agency's tolls, fees, fines, and development impact fee revenue, less certain expenses, in accordance with the Agency's master indentures of trust.

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

(In thousands)

(2) Summary of Significant Accounting Policies (Continued)

(o) Use of Estimates

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

(p) Reclassifications

Certain amounts reported in the prior period have been reclassified to conform to the current period presentation. There was no impact on total net position or changes in net position as a result of these reclassifications.

(3) Development Impact Fees

The sources of development impact fees for the years ended June 30, 2023 and 2022 were as follows:

	2023	2022
City of Irvine	$ 2,855	$ 93
City of Santa Ana	1,965	209
City of San Juan Capistrano	1,090	1,293
City of Laguna Niquel	819	707
City of Costa Mesa	492	1,077
City of Newport Beach	200	98
City of Dana Point	71	40
City of San Clemente	49	604
City of Laguna Hills	10	—
City of Aliso Viejo	2	42
County of Orange	—	47
	$ 7,553	$ 4,210

(4) Cash and Investments

Cash and investments as of June 30, 2023 and June 30, 2022, are classified in the accompanying financial statements as follows:

	2023	2022
Current cash and investments	$ 314,654	$ 286,135
Noncurrent cash and investments	13,612	14,272
Current restricted cash and investments	58,102	56,188
Noncurrent restricted cash and investments	453,327	476,301
	$ 839,695	$ 832,896

(In thousands)

(4) Cash and Investments (Continued)

Cash and investments as of June 30, 2023 consist of the following:

	Cash and cash equivalents	Investments	Total
Deposit accounts	$ 9,488	$ —	$ 9,488
Money market funds	4,657	—	4,657
California Asset Management Trust Cash Reserve Portfolio (CAMP)	65,774	—	65,774
LAIF	777	—	777
Federal agency, U.S. government-sponsored enterprise, and supranational notes	—	41,331	41,331
Commercial paper	—	25,748	25,748
Corporate notes	—	91,477	91,477
U.S. Treasury securities	—	102,511	102,511
Certificates of deposit	—	11,987	11,987
Investments held with trustee per debt agreements:			
U.S. Treasury securities	32,546	373,197	405,743
Money market funds	17,139	—	17,139
Federal agency, U.S. government-sponsored enterprise, and supranational notes	—	21,942	21,942
Commercial paper	—	2,680	2,680
Corporate notes	—	38,441	38,441
Total	$ 130,381	$ 709,314	$ 839,695

(In thousands)

(4) Cash and Investments (Continued)

Cash and investments as of June 30, 2022 consist of the following:

	Cash and cash equivalents	Investments	Total
Deposit accounts	$ 8,842	$ —	$ 8,842
Money market funds	35,156	—	35,156
California Asset Management Trust Cash Reserve Portfolio (CAMP)	27,025	—	27,025
LAIF	68,137	—	68,137
Commercial paper	—	8,465	8,465
Certificates of deposit	—	20,868	20,868
Federal agency, U.S. government-sponsored enterprise, and supranational notes	—	78,730	78,730
Corporate notes	—	63,263	63,263
Investments held with trustee per debt agreements:			
U.S. Treasury securities	12,657	443,869	456,526
Federal agency, U.S. government-sponsored enterprise, and supranational notes	—	28,517	28,517
Corporate notes	—	37,367	37,367
Total	$ 151,817	$ 681,079	$ 832,896

(a) Cash Deposits

Custodial Credit Risk Related to Cash Deposits

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

The Agency's custodial credit risk is mitigated in that the full amounts of the deposit accounts above are insured by federal depository insurance or collateralized in accordance with Section 53652 of the California Government Code with securities held by the pledging financial institution in the Agency's name.

(In thousands)

(4) Cash and Investments (Continued)

(b) Investments

(i) Interest Rate Risk

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

A summary of the Agency's investments held at June 30, 2023 that are governed by the Agency's investment policy and its bond agreements, including money market funds of $21,796, U.S. Treasury securities of $32,546, CAMP of $65,774 and LAIF of $777 that are considered cash equivalents, is as follows:

		Remaining maturity (in years)	
Investment type	**Total**	**Less than one**	**One to five**
U.S. Treasury securities	$ 508,254	$ 86,103	$ 422,151
Federal agency, U.S. government-sponsored enterprise, and supranational notes	63,273	46,089	17,184
Corporate notes	129,918	66,344	63,574
Money market funds	21,796	21,796	—
Commercial paper	28,428	28,428	—
CAMP	65,774	65,774	—
LAIF	777	777	—
Certificates of deposit	11,987	11,987	—
Total	$ 830,207	$ 327,298	$ 502,909

(In thousands)

(4) Cash and Investments (Continued)

(b) Investments (Continued)

(i) Interest Rate Risk (Continued)

A summary of the Agency's investments held at June 30, 2022 that are governed by the Agency's investment policy and its bond agreements, including money market funds of $35,156 and U.S. Treasury securities of $12,657 , CAMP of $27,025 and LAIF of $68,137 that are considered cash equivalents, is as follows:

		Remaining maturity (in years)	
Investment type	**Total**	**Less than one**	**One to five**
U.S. Treasury SLGS	$ 130,688	$ —	$ 130,688
Other U.S. Treasury securities	325,838	69,765	256,073
Federal agency, U.S. government-sponsored enterprise, and supranational notes	107,322	56,258	51,064
Corporate notes	100,555	17,286	83,269
Money market funds	35,156	35,156	—
Commercial paper	8,465	8,465	—
CAMP	27,025	27,025	—
LAIF	68,137	68,137	—
Certificates of deposit	20,868	20,868	—
Total	$ 824,054	$ 302,960	$ 521,094

(ii) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. The Agency's investment policy sets specific parameters by type of investment for credit quality, maximum maturity, and maximum percentage investment. Both the policy and the Agency's debt agreements generally require that all securities must be issued by companies with a long-term debt rating of at least "A" by two of the Nationally Recognized Statistical Rating Organizations (NRSRO) or at least "AA" by one NRSRO.

The investment of debt proceeds and toll revenue held by the Agency's bond trustee is governed by provisions of the debt agreements, rather than by the general provisions of the California Government Code or the Agency's investment policy.

At June 30, 2023 and 2022, all of the Agency's investments were rated at or above the minimum levels required by its investment policy and debt agreements.

(4) Cash and Investments (Continued)

(a) Investments (Continued)

(iii) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Agency mitigates these risks by holding a diversified portfolio of high-quality investments. Further, the Agency’s investment policy generally limits the amount of the portfolio that can be invested in a single issuer to no more than 5% of the portfolio, with the exception of securities and deposits issued or guranteed by the U.S. Treasury, federal agency institutions, and government sponsored enterprises.

At June 30, 2023, with the exception of investments issued or explicitly guaranteed by the U.S. government, money market mutual funds, and external investment pools, there were no investments in any issuers that accounted for 5% or more of the Agency’s total investments.

At June 30, 2022, with the exception of investments issued or explicitly guaranteed by the U.S. government, money market mutual funds, and external investment pools, there were no investments in any issuers that accounted for 5% or more of the Agency’s total investments, other than investments with Federal Home Loan Bank represented approximately 6% of the Agency’s total investments, as permitted by the Agency’s investment policy and the applicable bond indentures.

(iv) Custodial Credit Risk

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

(In thousands)

(4) Cash and Investments (Continued)

(b) Investments (Continued)

(v) Fair Value Measurements

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

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

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

At June 30, 2023 and June 30, 2022, the Agency had the following fair value measurements :

		June 30, 2023		
Investment type	**Fair value**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Federal agency, U.S. government-sponsored enterprise, and supranational notes and bonds	$ 63,273	$ —	$ 63,273	$ —
Corporate notes	129,918	—	129,918	—
U.S. Treasury securities	508,254	—	508,254	—
Certificates of deposit	11,987	—	11,987	—
Commercial paper	28,428	—	28,428	—
Total	$ 741,860	$ —	$ 741,860	$ —

Excluded from the table above are money market funds of $21,796, which are reported at amortized cost, and funds on deposit with CAMP of $65,774 and LAIF of $777, which are not subject to fair value measurement categorization.

(In thousands)

(4) Cash and Investments (Continued)

(b) Investments (Continued)

(v) Fair Value Measurements (Continued)

		June 30, 2022		
Investment type	**Fair Value**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
U.S. Treasury SLGS	$ 130,688	$ —	$ 130,688	$ —
Other U.S. Treasury securities	325,838	—	325,838	—
Federal agency, U.S. government-sponsored enterprise, and supranational notes	107,322	—	107,322	—
Corporate notes	100,555	—	100,555	—
Commercial paper	8,465	—	8,465	—
Certificates of deposit	20,868	—	20,868	—
	$ 693,736	$ —	$ 693,736	$ —

Excluded from the table above are money market funds of $35,156, which are reported at amortized cost, and funds on deposit with CAMP of $27,025 and LAIF of $68,137, which are not subject to fair value measurement categorization.

(In thousands)

(5) Capital Assets

Capital assets activity for the year ended June 30, 2023 was as follows:

	Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Construction in progress	$ 2,715	$ 465	(2,592)	$ 588
Right-of-way acquisitions, grading, or improvements	106	—	—	106
Furniture and equipment	2,374	233	—	2,607
Non-depreciable capital assets	$ 5,195	$ 698	$ (2,592)	$ 3,301
Furniture and equipment	$ 13,717	$ 3,053	$ (391)	$ 16,379
Accumulated depreciation	(12,189)	(894)	391	(12,692)
Depreciable capital assets, net	$ 1,528	$ 2,159	$ —	$ 3,687
Capital assets, net	$ 6,723	$ 2,857	$ (2,592)	$ 6,988

Capital assets activity for the year ended June 30, 2022 was as follows:

	Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Construction in progress	$ 2,177	$ 538	$ —	$ 2,715
Right-of-way acquisitions, grading, or improvements	106	—	—	106
Furniture and equipment	2,151	223	—	2,374
Non-depreciable capital assets	$ 4,434	$ 761	$ —	$ 5,195
Furniture and equipment	$ 13,956	$ 218	$ (457)	$ 13,717
Accumulated depreciation	(11,823)	(823)	457	(12,189)
Depreciable capital assets, net	$ 2,133	$ (605)	$ —	$ 1,528
Capital assets, net	$ 6,567	$ 156	$ —	$ 6,723

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

(In thousands)

(5) Capital Assets (Continued)

Transfers/Deletions

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

(6) Long-Term Obligations

The following is a summary of changes in long-term obligations during the month ended June 30, 2023:

	Balance at beginning of year	Additions/ accretions	Reductions	Balance at end of year	Due within one year
Series 2021 current interest toll road refunding revenue bonds:					
Senior lien bonds	$ 1,125,541	$ —	$ (37,220)	$ 1,088,321	$ —
Series 2014 current interest toll road refunding revenue bonds:					
Junior lien bonds	293,910	—	—	293,910	—
Series 1997A toll road refunding revenue bonds:					
Restructured convertible capital appreciation bonds	768,700	—	—	768,700	—
Capital appreciation bonds	227,147	12,439	(21,627)	217,959	20,093
Subtotal	$ 2,415,298	$ 12,439	$ (58,847)	$ 2,368,890	$ 20,093
Plus unamortized bond premiums	103,988	—	(5,189)	98,799	
Total bonds payable	2,519,286	12,439	(64,036)	2,467,689	
Note payable to F/ETCA (Direct)	129,633	1,553	—	131,186	
Total long-term obligations	$ 2,648,919	$ 13,992	$ (64,036)	$ 2,598,875	

(Continued)

(In thousands)

(6) Long-Term Obligations (Continued)

The following is a summary of changes in long-term obligations during the year ended June 30, 2022:

	Balance at beginning of year	Additions/ accretions	Reductions	Balance at end of year	Due within one year
Series 2021 current interest toll road refunding revenue bonds:					
Senior lien bonds	$ —	$ 1,125,541	$ —	$ 1,125,541	$ —
Series 2014 current interest toll road refunding revenue bonds:					
Senior lien bonds	1,047,305	—	(1,047,305)	—	—
Junior lien bonds	293,910	—	—	293,910	—
Series 1997A toll road refunding revenue bonds:					
Restructured convertible capital appreciation bonds	766,851	1,849	—	768,700	—
Capital appreciation bonds	222,568	12,524	(7,945)	227,147	20,988
Subtotal	$ 2,330,634	$ 1,139,914	$ (1,055,250)	$ 2,415,298	$ 20,988
Plus unamortized bond premiums	63,347	96,039	(55,398)	103,988	
Total bonds payable	2,393,981	1,235,953	(1,110,648)	2,519,286	
Note payable to F/ETCA (Direct)	129,077	556	—	129,633	
Total long-term obligations	$ 2,523,058	$ 1,236,509	$ (1,110,648)	$ 2,648,919	

(a) Toll Road Revenue Bonds

In February and March 2023, the Agency purchased and retired a portion of its 2021 Bonds on the open market. The $37,220 of outstanding bonds were purchased for a total acquisition price of $29,280, which resulted in a recognized gain on retirement of bonds of $7,940.

In December 2021, the Agency exchanged $424,231 of tax-exempt Series 2021 Toll Road Revenue Refunding Bonds with qualified institutional bondholders, issued $605,065 of federally taxable Series 2021 Toll Road Refunding Revenue Bonds, and issued $96,245 of tax-exempt Series 2021 Toll Road Revenue Refunding Bonds (collectively, “2021 Bonds”). The proceeds of the issuance were used to refund $618,910 and exchange $428,395 of certain 2014 Senior Term current interest bonds.

The reacquisition price of the refunded bonds exceeded their net carrying amount by $93,075; this amount was considered a deferred outflow of resources for accounting purposes and is being amortized through 2050, the remaining period during which the refunded bonds were scheduled to be repaid. In addition, the Agency incurred bond insurance premiums of $8,860, which are being amortized over the life of the 2021 Bonds. The 2021 Bonds were issued at a total premium of $96,039 and mature in annual installments from January 2027 to January 2050. Interest on the 2021 Bonds is payable semiannually at rates ranging from 2.15% to 5%. The 2021 Bonds are subject to early redemption on or after January 15, 2032 at the option of the Agency by payment of principal and accrued interest.

(6) Long-Term Obligations (Continued)

(a) Toll Road Revenue Bonds (Continued)

A portion of the net proceeds of the bond refunding totaling $600,913 from the issuance of the federally taxable bonds were used to purchase U.S. government securities, which were placed in an irrevocable escrow fund to be used for the debt service payments related to the portion of the 2014 bonds which are to be refunded in their entirety on January 15, 2025. The transaction resulted in a present value savings of approximately $96,900 and cash flow savings of approximately $138,660. As of June 30, 2023 and June 30, 2022, the amount of the 2014 bonds outstanding, which were eliminated from the financial statements as a result of the December 2021 refunding, was $543,997 and $545,032, respectively.

The following information has been provided for additional historical context and details for our current outstanding bonds:

In November 2014, the Agency issued $1,098,850 of Series 2014 Senior Lien Current Interest Toll Road Refunding Revenue Bonds (2014 Senior Bonds) and $293,910 of Junior Lien Current Interest Toll Road Refunding Revenue Bonds (2014 Junior Bonds) (collectively, the 2014 Bonds); the proceeds of the issuance were used to refund certain outstanding bonds. The reacquisition price of the refunded bonds exceeded their net carrying amount by $109,326; this amount is considered a deferred loss for accounting purposes, and is being amortized through 2036, the remaining period during which the refunded bonds were scheduled to be repaid. The 2014 Bonds were issued at a premium of $78,347, which is being amortized over the life of the bonds.

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

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

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

(6) Long-Term Obligations (Continued)

(a) Toll Road Revenue Bonds (Continued)

A portion of the Series 1997 bonds was used to purchase U.S. government securities, which were placed in an irrevocable escrow fund to be used for the debt service payments related to the refunded portion of the 1993 bonds. As of June 30, 2023 and June 30, 2022, the amounts of the refunded bonds outstanding, which were previously eliminated from the financial statements as a result of the refunding, are $689,503 and $762,386, respectively.

Included in principal at June 30, 2023 and June 30, 2022, are $694,053 and $689,747, respectively, related to accreted principal on convertible capital appreciation bonds and capital appreciation bonds.

(b) Note Payable to F/ETCA

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

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

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

(In thousands)

(6) Long-Term Obligations (Continued)

(c) Scheduled Debt Service

The following is a summary of the annual debt service requirements by fiscal year for the Agency's long-term debt obligations, exclusive of the note payable to F/ETCA and related interest, as of June 30, 2023:

	Principal	Interest	Junior lien interest	Total	Total including sinking fund payments
2024	20,093	86,793	15,430	122,316	108,539
2025	77,049	92,811	15,430	185,290	111,424
2026	52,565	93,929	15,430	161,924	114,644
2027	17,367	87,002	15,430	119,799	119,799
2028	26,451	85,754	15,430	127,635	127,635
2029 – 2033	161,157	451,206	77,151	689,514	689,514
2034 – 2038	361,445	388,694	76,952	827,091	827,091
2039 – 2043	588,356	279,089	63,930	931,375	931,375
2044 – 2048	775,790	133,428	32,059	941,277	941,277
2049 – 2050	288,617	13,754	1,754	304,125	304,125
	$ 2,368,890	1,712,460	328,996	4,410,346	4,275,423

The 2014 master indenture established an internal sinking fund to provide for a portion of the payments due on the 1997 capital appreciation bonds, beginning in 2022 and included within the table above. A total of $178,593 will be deposited into the sinking fund in fiscal years 2017 through 2021 and fiscal year 2031, and will reduce the Agency's need to fund the amounts listed above in fiscal years 2022 through 2026 and fiscal year 2032. As of June 30, 2023, a balance of $140,582 has been accumulated in the sinking fund and is included within noncurrent restricted cash and investments.

(7) Commitments and Contingencies

(a) Toll Collection and Revenue Management System Agreements

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

(b) Corridor Operations Facility Lease

In January 2000, the Agency relocated to the corridor operations facility and signed an operating lease agreement with F/ETCA. Lease payments are based on the estimated fair market rental value and are adjusted annually. The Agency incurred lease expense for the year ended June 30, 2023 and 2022 of $574 and $581, respectively. The Agency's commitment for the year ending June 30, 2023 is $574.

(7) Commitments and Contingencies (Continued)

(c) Commitment

The Agency has agreed with Caltrans to provide a maintenance facility for State Route 73. As of June 30, 2023, the Agency has earmarked approximately $8.1 million for this project.

(d) Litigation

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

(e) Risk Management

The Agency maintains insurance coverage for various risks, including, but not limited to, property, liability, earthquake, and flood coverage. Coverage is purchased in accordance with the Agency's master indentures of trust, as applicable. No losses have exceeded insurance coverage in the past three fiscal years.

(8) Employees' Retirement Plans

Defined Contribution Plan – The Agency sponsors a defined contribution plan under the provisions of Internal Revenue Code Section 457 that permits employees to defer portions of their pretax compensation. The Agency provides matching contributions to a related Section 401(a) plan, at a rate of 50% of the employees' deferral contributions, up to a maximum of 2% of each employee's related compensation. In connection with this plan, the Agency incurred $54 and $44 of expense for the years ended June 30, 2023 and 2022, respectively. Benefit terms, including contribution rates, for the 401(a) plan are established and may be amended by the Agency. The 401(a) plan is administered by Mission Square Retirement.

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

(a) Benefits

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

Amounts payable for retired members are subject to annual cost-of-living adjustments based upon changes in the Consumer Price Index for the prior calendar year. Adjustments are limited to a maximum increase or decrease of 3% per year. Any increase greater than 3% is banked and may be used in years when the CPI is less than 3%. The increase is established and approved annually by the Board of Retirement.

(8) Employees' Retirement Plans (Continued)

(b) Contributions

Employer and employee contribution requirements are determined as percentages of covered payroll amounts and vary based upon the age of each employee at the date of entering membership in OCERS or a reciprocal plan. Employer contribution rates are determined using the entry age normal actuarial cost method based upon a level percentage of payroll. Employer contribution rates ranged from 11.99% to 63.25% for the year ended December 31, 2022, and from 11.93% to 67.55% for the year ended December 31, 2021. Employee contributions are established by the OCERS Board of Retirement and guided by applicable state statutes. Employee contribution rates ranged from 9.59% to 17.27% for the year ended December 31, 2022, and from 9.72% to 17.22% for the year ended December 31, 2021.

The contributions from the Agency recognized by the Plan, measured as the total amounts of additions to the Plan's fiduciary net position for the years ended December 31, 2022 and 2021, were $346 and $331, respectively, and equaled 100% of the required contributions, and represented 11.6% and 12.4% of the Agency's covered payroll, respectively.

The actuarially determined contributions from the Agency for the years ended June 30, 2023 and 2022, were $346 and $331, respectively and represented 11.6% and 12.4%, respectively of the Agency's covered payroll.

The Agency paid off its portion of TCA's unfunded actuarial accrued liability (UAAL), totaling $3,895, on July 1, 2019. This is included in the Agency's total contributions during the year ended June 30, 2020.

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

For purposes of reporting under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* OCERS arranged for determination of the Plan's collective net pension liability; deferred outflows and inflows of resources related to pensions; and pension expense, as well as the proportionate share of each amount applicable to the Plan's participating employers, using measurement dates of December 31, 2022 and 2021, with respective actuarial valuations as of December 31, 2021 and 2020 and standard procedures to roll forward to the respective measurement dates that correspond with the Agency's reporting dates of June 30, 2023 and 2022. The proportionate share of the total pension liability attributable to TCA has been determined by OCERS's actuary based upon actual employer contributions within each rate group and TCA is the only employer within its rate group.

(In thousands)

(8) Employees' Retirement Plans (Continued)

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

TCA's proportionate share is further allocated between the Agency and F/ETCA on the basis of their respective shares of covered payroll to determine the amounts reportable by the Agency, as indicated below:

	June 30, 2023	June 30, 2022
Collective net pension liability (asset) - OCERS	$ 5,391,006	$ 2,050,238
Proportionate share attributable to Transportation Corridor Agencies	(660)	(10,882)
Share allocable to San Joaquin Hills Transportation Corridor Agency	(277)	(4,353)
Agency's proportion (percentage) of the collective net pension liability	-0.01%	-0.21%
Collective deferred outflows of resources - OCERS	$ 1,376,478	$ 443,275
Proportionate share attributable to Transportation Corridor Agencies	4,142	1,119
Share allocable to San Joaquin Hills Transportation Corridor Agency	1,740	448
Collective deferred inflows of resources - OCERS	$ 245,240	$ 2,644,140
Proportionate share attributable to Transportation Corridor Agencies	950	8,301
Share allocable to San Joaquin Hills Transportation Corridor Agency	399	3,320
Collective pension expense	$ 728,323	$ (121,127)
Proportionate share attributable to Transportation Corridor Agencies	697	(1,613)
Share allocable to San Joaquin Hills Transportation Corridor Agency	293	(645)

The Agency's deferred outflows of resources related to pensions as of June 30, 2023 and 2022 are attributable to the following:

	2023	2022
Net difference between projected and actual earnings on pension plan investments	$ 1,495	$ —
Changes of assumptions	44	173
Differences between expected and actual experience	201	274
Contributions to the plan subsequent to the measurement date of the collective net pension liability	181	180
Total deferred outflows of resources related to pensions	$ 1,921	$ 627

(In thousands)

(8) Employees' Retirement Plans (Continued)

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

The Agency's deferred inflows of resources related to pensions as of June 30, 2023 and 2022 are attributable to the following:

	2023	2022
Differences between expected and actual experience	$ 399	$ 445
Net difference between projected and actual earnings on pension plan investments	—	2,875
Total deferred inflows of resources related to pensions	$ 399	$ 3,320

The Agency's balances of deferred outflows and deferred inflows of resources as of June 30, 2023 will be recognized as changes to the net pension liability/asset as follows:

Year ending June 30:	
2024	$ 78
2025	189
2026	392
2027	874
2028	(11)
	$ 1,522

(d) Actuarial Assumptions and Other Inputs

The following significant methods and assumptions were used to measure the Plan's total pension liability as of December 31, 2022 and 2021:

- Actuarial experience study – Three-year period ended December 31, 2019
- Inflation rate of 2.5%.
- Projected salary increases for general members of 4.00% to 11.00% and safety members from 4.60% to 15.00%.
- Mortality rate based on Pub-2010 mortality tables, projected generationally using two-dimensional MP-2019 scale, adjusted separately for healthy and disabled for both general and safety members.

The mortality assumptions were based, respectively, on the results of the actuarial experience studies for the period January 1, 2017 through December 31, 2019 using the Pulic Retirement Plans Mortality tables (Pub-2010) published by the Society of Actuaries. Within the Pub-2010 family of mortality tables, OCERS has adopted both the General and Safety Amount-Weighted Above-Median Mortality Tables (adjusted for OCERS experience), projected generationally using the two-dimensional mortality improvements scale MP-2019.

(8) Employees' Retirement Plans (Continued)

(d) Actuarial Assumptions and Other Inputs (Continued)

The discount rate used to measure the Plan's total pension liability as of December 31, 2022 and 2021 was 7.00%. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made at actuarially determined contribution rates. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return should be determined without reduction for plan administrative expense. The investment return assumptions are net of administrative expenses, assumed to be 11 basis points for each year. The investment rate of return assumptions remained the same for reporting purposes due to the immaterial impact administrative expenses has on the overall assumed rate of return. The long-term expected rates of return on plan investments were determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation and deducting expected investment expenses. Additional information on the target allocation and projected arithmetic real rate of return for each major asset class is available in the OCERS' Annual Comprehensive Financial Report for the year ended December 31, 2022.

(In thousands)

(8) Employees' Retirement Plans (Continued)

(d) Actuarial Assumptions and Other Inputs (Continued)

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

	December 31, 2022 and 2021	
	Target allocation	**Long-term expected real rate of return**
Asset Class:		
Large Cap Equity	23.10%	5.43%
Small Cap Equity	1.90%	6.21%
International Developed Equity	13.00%	6.67%
Emerging Markets Equity	9.00%	8.58%
Core Bonds	9.00%	1.10%
High Yield Bonds	1.50%	2.91%
TIPS	2.00%	0.65%
Emerging Market Debt	2.00%	3.25%
Corporate Credit	1.00%	0.53%
Long Duration Fixed Income	2.50%	1.44%
Real Estate	3.01%	4.42%
Private Equity	13.00%	9.41%
Value Added Real Estate	3.01%	7.42%
Opportunistic Real Estate	0.98%	10.18%
Energy	2.00%	9.68%
Infrastructure(Core Private)	1.50%	5.08%
Infrastructure(Non-Core Private)	1.50%	8.92%
CTA- Trend following	2.50%	2.38%
Global Macro	2.50%	2.13%
Private Credit	2.50%	5.47%
Alternative Risk Premia	2.50%	2.50%
Total	100.00%	

(In thousands)

(8) Employees' Retirement Plans (Continued)

(d) Actuarial Assumptions and Other Inputs (Continued)

The following table presents the Agency's proportionate share of the Plan's net pension liability, calculated using the discount rates used in each year's actuarial valuation (7.0% for 2022 and 2021), as well as what its proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower (6.0%) or one percentage point higher (8.0%) than the assumed discount rate:

	June 30	
	2023	**2022**
Net pension (asset)/liability, as calculated:		
With assumed discount rate	$ (277)	$ (4,353)
With a 1% decrease	3,194	(1,173)
With a 1% increase	(3,108)	(6,944)

(e) Plan's Fiduciary Net Position

OCERS provides publicly available financial information, including comprehensive annual financial reports and actuarial valuations at www.ocers.org. Detailed information about the Plan's fiduciary net position is included in the comprehensive annual financial report for the fiscal year ended December 31, 2022, which may also be obtained by calling (714) 558-6200.

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Required Supplementary Information

(In thousands)

(Unaudited)

Schedule of Net Pension Liability and Related Ratios

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Agency's proportion (percentage) of the collective net pension liability	-0.01%	-0.21%	-0.04%	0.06%	0.06%	0.06%	0.07%	0.07%	0.06%
Agency's proportionate share (amount) of the collective net pension liability	$ (277)	$ (4,353)	$ (1,669)	$ (820)	$ 4,028	$ 2,826	$ 3,681	$ 3,795	$ 3,126
Agency's covered payroll	$ 2,969	$ 2,675	$ 2,895	$ 3,323	$ 2,639	$ 2,584	$ 2,523	$ 2,005	$ 1,831
Agency's proportionate share of the collective net pension liability as a percentage of its covered payroll	-9%	-10%	-58%	-25%	153%	109%	146%	189%	171%
Plan's fiduciary net position as a percentage of the total pension liability	101.1%	119.2%	107.1%	103.4%	71.8%	76.8%	69.9%	67.1%	69.4%

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

Change in Assumptions and Methods

2020

- Actuarial experience study – Three-year period ended December 31, 2019
- The inflation rate was decreased from 2.75% to 2.5%.
- Projected salary increases for general members of 4.25% to 12.25% changed to 4.00% to 11.00% and safety members changed from 4.75% to 17.25% to 4.60% to 15.00%.
- Mortality rate tables changed to Pub-2010 mortality tables, projected generationally using two-dimensional MP-2019 scale, adjusted separately for healthy and disabled for both general and safety members. Previously, mortality rate tables were based, respectively, on the results of the actuarial experience studies for the period January 1, 2014 through December 31, 2016 using the Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected generationally using the two-dimensional Scale MP-2016.

2017

- The assumed rate of return was decreased from 7.25% to 7.00%.
- The inflation rate was decreased from 3.00% to 2.75%.
- Projected salary increases for general members of 4.25% to 13.50% changed to 4.25% to 12.25% and safety members changed from 5.00% to 17.50% to 4.75% to 17.25%.
- Mortality rate tables changed to a Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table, projected generationally using two-dimensional MP-2016 scale, adjusted separately for healthy and disabled for both general and safety members.
- Impact due to assumption changes to be phased-in over three years.

(Continued)

SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY

Required Supplementary Information

(In thousands)

(Unaudited)

Schedule of Agency Contributions

	Fiscal year ended June 30,								
	2023	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Actuarially determined contributions	$ 346	$ 331	$ 330	$ 583	$ 627	$ 632	$ 670	$ 467	$ 384
Contributions recognized	(346)	(331)	(330)	(4,478)	(627)	(632)	(670)	(467)	(384)
Contribution deficiency (excess)	$ —	$ —	$ -	$ (3,895)	$ —	$ —	$ —	$ —	$ —
Agency's covered payroll	$ 2,969	$ 2,675	$ 2,895	$ 3,323	$ 2,639	$ 2,584	$ 2,523	$ 2,005	$ 1,831
Contributions recognized as a percentage of covered payroll	11.6%	12.4%	11.4%	134.8%	23.8%	24.4%	26.6%	23.3%	21.0%

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