

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

Financial Statements

June 30, 2019 and 2018

(With Independent Auditor's Report Thereon)

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the San Joaquin Hills Transportation Corridor Agency (the Agency), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2019 and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Agency as of and for the year ended June 30, 2018, were audited by other auditors whose report dated October 1, 2018 expressed an unmodified opinion on those statements.

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, although not a part of the basic financial statements, is required by 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

Costa Mesa, California
October 24, 2019

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Management's Discussion and Analysis

June 30, 2019 and 2018

(In thousands)

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, 2019 and 2018. 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, with 31,792,694 transactions during the year ended June 30, 2019, compared to 32,265,119 transactions in 2018, and 31,922,586 transactions in 2017.

Financial Highlights

Tolls, fees, and fines earned in fiscal year 2019 (FY19) totaled \$191,476 compared to \$191,234 in fiscal year 2018 (FY18), an increase of 0.1%.

As of June 30, 2019 and 2018, the Agency had \$470,917 and \$432,823, respectively, of restricted cash and investments that were subject to master indentures of trust for the bonds outstanding at each date. The Agency also had \$224,037 and \$145,598, respectively, of unrestricted cash and investments.

The Agency's net position at June 30, 2019 and 2018 was \$(1,694,533) and \$(1,749,052), respectively. The negative net position results from the inclusion in the Agency's financial statements of its long-term debt obligations, 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, 2019, 2018, and 2017:

	<u>2019</u>	<u>Percentage increase (decrease)</u>		<u>2018</u>	<u>Percentage increase (decrease)</u>		<u>2017</u>
Assets and deferred outflows:							
Current assets	\$ 213,126	58.3 %	\$	134,642	38.7 %	\$	97,075
Capital assets, net	5,370	9.9		4,885	(3.8)		5,078
Other noncurrent assets	497,737	9.1		456,391	20.6		378,545
Deferred outflows	86,690	(5.8)		91,991	(5.6)		97,450
Total assets and deferred outflows	<u>802,923</u>	16.7		<u>687,909</u>	19.0		<u>578,148</u>
Liabilities and deferred inflows:							
Current liabilities *	69,156	32.1		52,352	28.8		40,652
Bonds payable	2,302,292	2.0		2,258,187	1.9		2,216,280
Note payable to F/ETCA	121,398	0.2		121,096	0.2		120,795
Net pension liability	4,028	42.5		2,826	(23.2)		3,681
Other long-term liabilities	105	(92.2)		1,342	(23.3)		1,749
Deferred inflows	477	(58.8)		1,158	401.3		231
Total liabilities and deferred inflows	<u>2,497,456</u>	2.5		<u>2,436,961</u>	2.2		<u>2,383,388</u>
Net position	<u>\$ (1,694,533)</u>	(3.1)	\$	<u>(1,749,052)</u>	(3.1)	\$	<u>(1,805,240)</u>

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

The increases in current and other noncurrent assets above are 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.

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June 30, 2019 and 2018

(In thousands)

Following is a summary of the Agency's revenue, expenses, and changes in net position for the years ended June 30, 2019, 2018, and 2017:

	<u>2019</u>	<u>Percentage increase (decrease)</u>	<u>2018</u>	<u>Percentage increase (decrease)</u>	<u>2017</u>
Operating revenues:					
Tolls, fees, and fines	\$ 191,476	0.1 %	\$ 191,234	4.7 %	\$ 182,649
Development impact fees	7,464	9.8	6,798	27.3	5,339
Other revenues	—	(100.0)	1	—	1
Total operating revenues	<u>198,940</u>	0.5	<u>198,033</u>	5.3	<u>187,989</u>
Operating expenses	<u>24,802</u>	12.9	<u>21,965</u>	1.3	<u>21,684</u>
Operating income	174,138	(1.1)	176,068	5.9	166,305
Nonoperating expenses, net	<u>(119,619)</u>	(0.2)	<u>(119,880)</u>	3.0	<u>(116,335)</u>
Change in net position	54,519		56,188		49,970
Net position at beginning of year	<u>(1,749,052)</u>	(3.1)	<u>(1,805,240)</u>	(2.7)	<u>(1,855,210)</u>
Net position at end of year	<u>\$ (1,694,533)</u>	(3.1)	<u>\$ (1,749,052)</u>	(3.1)	<u>\$ (1,805,240)</u>

The Agency's revenue consists primarily of tolls, fees, and fines, which comprised 96.2% of total revenue in FY19, respectively, as compared to 96.6% in FY18. Tolls, fees, and fines increased by 0.1% and 4.7%, respectively, over each of the two preceding years. The increase in 2019 was primarily due to inflationary toll rate increases offset by decreased transactions and revenue resulting from significant rainfall and recurring closures for Caltrans guardrail safety improvements. The increase in 2018 was primarily due to increases in toll transactions and inflationary toll rates. Development impact fees increased from \$6,798 in FY18 to \$7,464 in FY19, or 9.8%, compared to an increase of 27.3% from FY17 to FY18. 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 \$24,802 in FY19 compared to \$21,965 in FY18, an increase of 12.9%. Included in FY19 operating expenses is noncash depreciation expense on capital assets of \$2,468, compared to \$2,484 in FY18. Excluding depreciation, operating expenses were \$22,334 in FY19 and \$19,481 in FY18. The increase in operating expenses is primarily due to the Agency's initiative to replace hard-case transponders with adhesive 6C tags. The new adhesive tags are less costly to procure and will result in future cost savings. California's Office of Administrative Law approved regulatory changes to adopt 6C electronic toll collection on all roads throughout the state starting January 1, 2019. The adhesive 6C tags will allow users to pay tolls electronically across California and the other 6C tolling-technology states. The Agency began mailing the adhesive transponders in June 2019.

Net nonoperating expenses for FY19 include investment income of \$15,750, compared to \$1,263 in FY18 with the increase due to higher reinvestment rates and incorporating more higher yielding non-government securities and short-term liquidity pools into the Agency's portfolio; a reduction in the arbitrage rebate expense of \$1,238, compared to \$407 in FY18; interest expense of \$122,010, compared to \$119,427 in FY18; and legal settlements of \$14,597. Legal settlements include a tentative settlement of \$14,500 for a class action lawsuit alleging that the Agency, along with other California toll operators, violated California Streets and Highways

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(In thousands)

Code 31490 by transmitting drivers' personal information for purposes of toll collection and enforcement, interoperability and communications with customers. The settlement will eliminate the costs of ongoing litigation, minimize the Agency's risk profile, and help protect the Agency against future potential claims. Net nonoperating expenses for FY18 also include \$2,123 of costs incurred in connection with the removal of some of the Agency's toll booths.

Capital Assets, Net

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Construction in progress	\$ 185	73	-
Right-of-way acquisitions, grading, or improvements	106	106	119
Furniture and equipment	<u>5,079</u>	<u>4,706</u>	<u>4,959</u>
Total capital assets, net	<u>\$ 5,370</u>	<u>4,885</u>	<u>5,078</u>

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 30, 2019, 2018, and 2017, the Agency had outstanding bonds payable of \$2,302,292, \$2,258,187, and \$2,216,280, respectively. The net changes during 2019 and 2018 were primarily attributable to accretion of principal on capital appreciation bonds totaling \$50,540 and \$47,897, respectively, offset by principal payments of \$4,185 and \$3,740.

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, 2019, 2018 and 2017.

At June 30, 2019, 2018 and 2017, the Agency had a note payable to F/ETCA of \$121,398, \$121,096 and \$120,795, 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 to F/ETCA, in annual installments beginning January 15, 2025 equal to 50% of the Agency's surplus funds, plus accrued interest.

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(In thousands)

Economic Factors

After consideration of toll rate recommendations from the Agency's traffic consultant and the potential effects of traffic diversion, new toll rates were approved by the Agency's board of directors for implementation effective July 1, 2019. New toll rates reflect a 2% inflationary increase at all toll points that will result in a \$0.17 increase for peak hour toll rates at the mainline plaza and a projected 1.7% increase in transactional toll revenue for FY20.

The Agency's board of directors also approved a \$3,895 payment to OCERS to pay off the unfunded actuarial accrued liability (UAAL). The payment was executed on July 1, 2019. This payment reduced the Agency's pension liability and in turn reduced the employer contribution rates by an average of approximately 10.5% for FY20.

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.

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Statements of Net Position
June 30, 2019 and June 30, 2018
(In thousands)

	2019	2018
Assets:		
Current assets:		
Cash and investments	\$ 128,278	50,274
Restricted cash and investments	68,939	71,756
Receivables:		
Accounts, net of allowance of \$2,268 and \$2,407 respectively	5,103	4,550
Other	2,293	1,356
Due from Foothill/Eastern Transportation Corridor Agency	7,633	6,075
Other assets	880	631
Total current assets	213,126	134,642
Noncurrent assets:		
Cash and investments	95,759	95,324
Restricted cash and investments	401,978	361,067
Capital assets, net	5,370	4,885
Total noncurrent assets	503,107	461,276
Deferred outflows of resources:		
Unamortized deferral of bond refunding costs	85,587	91,210
Pension costs	1,103	781
Total assets and deferred outflows	802,923	687,909
Liabilities:		
Current liabilities:		
Accounts payable	3,913	2,257
Unearned revenue	19,262	18,680
Employee compensated absences payable	347	281
Interest payable	31,134	31,134
Reserve for settlement	14,500	—
Current portion of bonds payable	1,068	4,064
Total current liabilities	70,224	56,416
Net pension liability	4,028	2,826
Arbitrage rebate liability	105	1,342
Long-term bonds payable	2,301,224	2,254,123
Note payable to Foothill/Eastern Transportation Corridor Agency	121,398	121,096
Total liabilities	2,496,979	2,435,803
Deferred inflows of resources:		
Pension costs	477	1,158
Total liabilities and deferred inflows	2,497,456	2,436,961
Net position:		
Net investment in capital assets	(2,211,335)	(2,162,092)
Restricted	413,900	388,899
Unrestricted	102,902	24,141
Total net position	\$ (1,694,533)	(1,749,052)

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, 2019 and 2018

(In thousands)

	2019	2018
Operating revenues:		
Tolls, fees, and fines	\$ 191,476	191,234
Development impact fees	7,464	6,798
Other revenues	—	1
Total operating revenues	198,940	198,033
Operating expenses:		
Toll compliance and customer service	11,672	10,458
Salaries and wages	4,318	3,729
Toll systems	1,141	989
Depreciation	2,468	2,484
Professional services	2,125	1,563
Insurance	639	651
Facilities rent	706	671
Toll facilities	186	195
Communications	870	701
Other operating expenses	677	524
Total operating expenses	24,802	21,965
Operating income	174,138	176,068
Nonoperating revenues (expenses):		
Investment income	15,750	1,263
Loss on disposition of capital assets	—	(2,123)
Settlement expense	(14,597)	—
Adjustment of arbitrage rebate liability	1,238	407
Interest expense	(122,010)	(119,427)
Nonoperating expenses, net	(119,619)	(119,880)
Change in net position	54,519	56,188
Net position at beginning of year	(1,749,052)	(1,805,240)
Net position at end of year	\$ (1,694,533)	(1,749,052)

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

	2019	2018
Cash flows from operating activities:		
Cash received from toll road patrons	\$ 189,947	204,780
Cash received from development impact fees	7,409	6,784
Cash received from other revenue	—	1
Cash payments to suppliers	(16,607)	(16,097)
Cash payments to employees	(4,053)	(3,825)
Net cash provided by operating activities	176,696	191,643
Cash flows from capital and related financing activities:		
Cash payments for acquisition of capital assets	(2,953)	(2,304)
Cash payments related to the disposition of capital assets	—	(2,110)
Cash payments for interest and principal	(71,980)	(71,536)
Cash payment for legal settlement	(97)	—
Net cash used in capital and related financing activities	(75,030)	(75,950)
Cash flows from investing activities:		
Cash receipts for interest and dividends	7,610	3,494
Cash receipts from the maturity and sale of investments	167,791	110,249
Cash payments for purchase of investments	(284,914)	(219,685)
Net cash used in investing activities	(109,513)	(105,942)
Net increase (decrease) in cash and cash equivalents	(7,847)	9,751
Cash and cash equivalents at beginning of year	54,378	44,627
Cash and cash equivalents at end of year (note 4)	\$ 46,531	54,378
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 174,138	176,068
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,468	2,484
Changes in operating assets and liabilities:		
Accounts receivable	(553)	(741)
Fees receivable	(53)	(14)
Due from Foothill/Eastern Transportation Corridor Agency	(1,558)	2,400
Other assets	(249)	(102)
Accounts payable	1,656	(243)
Unearned revenue	582	11,887
Net pension liability	1,202	(855)
Deferred outflows of resources related to pensions	(322)	(163)
Deferred inflows of resources related to pensions	(681)	927
Employee compensated absences payable	66	(5)
Total adjustments	2,558	15,575
Net cash provided by operating activities	\$ 176,696	191,643

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Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Noncash capital and related financing and investing activities:		
Amortization of bond premium recorded as reduction of interest expense	\$ 2,250	2,250
Amortization of deferred bond refunding costs	(5,623)	(5,622)
Interest expense recorded for accretion of bonds and note payable	(50,842)	(48,198)
Change in unrealized gain/loss on investments	6,376	(3,409)
Amortization of discount/premium on investments	1,373	923
Adjustment of arbitrage rebate liability	1,237	407
Reserve for settlement	(14,500)	—

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2019 and 2018

(In thousands)

(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 Clemente, 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(l) of the financial statements for interagency transactions detail.

(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. In April 2018, GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements (GASB No. 88). GASB No. 88 requires additional debt-related disclosures be included in the notes to the financial statements, including related to unused lines of credit; assets pledged as collateral; events of default and termination events that would trigger finance-related consequences; and significant subjective acceleration clauses. GASB No. 88 is effective for reporting periods beginning after June 15, 2018 and does not have a material impact on the Agency's disclosures.

(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. 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.

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Notes to Financial Statements

June 30, 2019 and 2018

(In thousands)

(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) 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 at least two-thirds of the board members, at which time a revised and amended budget is required to be submitted to the board of directors. 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.

(d) 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.

(e) 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 how readily the investment is expected to be converted to cash and whether any restrictions limit the Agency's ability to use the resources.

(f) 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.

(g) 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

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(In thousands)

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 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.

(h) Unearned Revenue

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

(i) Unamortized Deferral of Bond Refunding Costs

Deferred bond refunding costs represent certain costs related to the issuance of bonds. These costs have been recorded as deferred outflows of resources, and are being amortized over the remaining period during which the refunded bonds were scheduled to be repaid, as more fully detailed in note 6.

(j) 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.

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(k) 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.

(l) 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, 2019 and 2018, the Agency had tolls due from F/ETCA of \$7,633 and \$6,075, 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, 2019 and 2018, the Agency had a note payable outstanding of \$121,398 and \$121,096, respectively.

(m) 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.

(n) 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.

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(In thousands)

(3) Development Impact Fees

The sources of development impact fees for the years ended June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
City of Irvine	\$ 2,261	3,195
City of Santa Ana	1,855	284
City of Aliso Viejo	1,492	254
City of San Juan Capistrano	795	628
City of Dana Point	736	96
City of San Clemente	145	520
County of Orange	84	126
City of Laguna Hills	77	—
City of Laguna Niguel	12	1,137
City of Newport Beach	7	533
City of Costa Mesa	—	25
	<u>\$ 7,464</u>	<u>6,798</u>

(4) Cash and Investments

Cash and investments as of June 30, 2019 and 2018 are classified in the accompanying financial statements as follows:

	<u>2019</u>	<u>2018</u>
Current cash and investments	\$ 128,278	50,274
Noncurrent cash and investments	95,759	95,324
Current restricted cash and investments	68,939	71,756
Noncurrent restricted cash and investments	401,978	361,067
	<u>\$ 694,954</u>	<u>578,421</u>

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(In thousands)

Cash and investments as of June 30, 2019 consist of the following:

	Cash and cash equivalents	Investments	Total
Deposit accounts	\$ 1,718	—	1,718
Money market funds	37,036	—	37,036
California Asset Management Trust Cash Reserve Portfolio (CAMP)	—	7,976	7,976
Commercial paper	—	9,461	9,461
Certificates of deposit	—	56,000	56,000
U.S. Treasury securities	—	—	—
Federal agency, U.S. government-sponsored enterprise, and supranational notes	—	74,159	74,159
Corporate notes	—	69,998	69,998
Investments held with trustee per debt agreements:			
CAMP	—	15,381	15,381
Commercial paper	—	1,149	1,149
U.S. Treasury securities	7,777	338,337	346,114
Federal agency, U.S. government- sponsored enterprise, and supranational notes	—	25,040	25,040
Corporate notes	—	50,922	50,922
Total	\$ 46,531	\$ 648,423	\$ 694,954

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(In thousands)

Cash and investments as of June 30, 2018 consist of the following:

	Cash and cash equivalents	Investments	Total
Deposit accounts	\$ 3,162	—	3,162
Money market funds	34,195	—	34,195
California Asset Management Trust Cash Reserve Portfolio (CAMP)	—	15,021	15,021
Commercial paper	—	13,086	13,086
Certificates of deposit	—	13,500	13,500
U.S. Treasury securities	17,021	—	17,021
Federal agency, U.S. government-sponsored enterprise, and supranational notes	—	67,048	67,048
Corporate notes	—	48,150	48,150
Investments held with trustee per debt agreements:			
Commercial paper	—	2,025	2,025
U.S. Treasury securities	—	294,388	294,388
Federal agency, U.S. government- sponsored enterprise, and supranational notes	—	33,257	33,257
Corporate notes	—	37,568	37,568
Total	\$ 54,378	524,043	578,421

(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.

At June 30, 2019 and 2018, the carrying amounts of the Agency's cash deposits were \$1,718 and \$3,162, respectively, and the corresponding aggregate bank balances were \$2,597 and \$3,626, respectively. The differences of \$879 and \$464 were principally due to outstanding checks. The Agency's custodial credit risk is mitigated in that the full amounts of the bank balances outlined 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.

(b) Investments

(i) Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an

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investment in a single issuer. The Agency mitigates these risks by holding a diversified portfolio of high-quality investments. 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 policy also indicates specific rating requirements for certain types of investments. Further, there are percentage limitations on the purchase of specific types of securities, based on the purchase price of the security as compared to the market value of the total portfolio at the time of purchase. However, the policy does not require sales of individual securities due to subsequent changes in market value that cause their values to exceed the prescribed maximum percentages of the portfolio.

The table below identifies the types of investments that are authorized by the Agency's investment policy and certain provisions of the Agency's policy that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee, which are governed by the provisions of the Agency's debt agreements rather than by the Agency's investment policy.

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
U.S. Treasury bills, notes, and bonds	5 Years	100	100	N/A
Federal agency and U.S. government-sponsored enterprise notes and bonds	5 Years	100	35	N/A
Federal agency mortgage- backed securities	5 Years	20	15	Second highest ratings category by an NRSRO
Supranational agency notes and bonds	5 Years	30	5	Second highest ratings category by an NRSRO

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<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio*</u>	<u>Maximum percentage investment in one issuer</u>	<u>Specific rating requirement</u>
Certificates of deposit	** 5 Years	100	5	Long-term debt rating in one of highest ratings categories by two NRSROs
Certificates of deposit account registry service	5 Years	30	5	Long-term debt rating in one of highest ratings categories by two NRSROs
Negotiable certificates of deposit	5 Years	30	5	Long-term debt rating in one of highest ratings categories by two NRSROs
Banker's acceptances	180 Days	30	5	Drawn on and accepted by a bank that carries the highest short-term ratings category by one NRSRO
Commercial paper	270 Days	25	Lesser of 5% of portfolio or 10% of outstanding paper of issuer	Highest short-term rating by an NRSRO
Repurchase agreements	90 Days	25	5	N/A
Medium-term maturity corporate notes	5 Years	30	5	Long-term debt rating in one of highest ratings categories by two NRSROs

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<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio*</u>	<u>Maximum percentage investment in one issuer</u>	<u>Specific rating requirement</u>
State of California Local Agency Investment Fund	N/A	\$65 million or 15% of portfolio	5	N/A
County or local agency investment pools	N/A	15	5	N/A
Shares in a California common law trust	N/A	20	5	Highest rating category by an NRSRO
Asset-backed securities	5 Years	20	5	Highest rating by one NRSRO; issuer must also have one of the three highest ratings from two NRSROs
Money market mutual funds	N/A	20	5	Highest applicable rating by two NRSROs
Bonds or notes issued by the State of California, any local agency in the state, or any other state	5 Years	30	5	One of the three highest rating categories by at least two NRSROs

* Excluding amount held by trustee, which are subject to the provisions of the bond indentures.

** The full amounts of principal and accrued interest must be insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

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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. The following table identifies the investment types that are authorized for these funds, and if applicable, the specific rating requirements.

Investments authorized by debt agreements	Specific rating requirement
U.S. government obligations	N/A
U.S. federal agency debt instruments	N/A
State and local government debt securities	One of the two highest rating categories by Moody's and S&P, and if rated by Fitch, in one of the two highest rating categories
Certificates of deposit, savings accounts, deposit accounts, or money market deposits insured by the Federal Deposit Insurance Corporation	N/A
Certificates of deposit collateralized by U.S. government or federal agency obligations	N/A
Federal funds or bankers' acceptances	Prime-1 or A3 or better by Moody's, A-1 or A or better by S&P and, if rated by Fitch, F-1 or A or better
Commercial paper	Prime-1 or better by Moody's and A-1 or better by S&P and, if rated by Fitch, F-1 or better
Repurchase agreements with terms up to 30 days, secured by U.S. government or federal agency obligations	A or better by both Moody's and S&P and, if rated by Fitch, A or better
Medium-term corporate notes with maximum maturity of five years	One of the three highest applicable rating categories, or approved in writing, by S&P, and, if rated by Fitch, one of the three highest applicable rating categories

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Investments authorized by debt agreements	Specific rating requirement
Money market mutual funds	AAA-m-G, AAA-m, or AA-m by S&P and, if rated by Moody's, Aaa, Aa1, or Aa2 and, if rated by Fitch, AAA or AA
Investment agreements	* N/A

* Investments may be allowed if the Agency certifies to the trustee that the investment was approved in writing by each rating agency, which has assigned a rating to the Agency's bonds, and by the Agency's bond insurer.

At June 30, 2019 and 2018, all of the Agency's investments were rated at or above the minimum levels required by its investment policy and its debt agreements, as shown below:

Investment type	June 30, 2019		June 30, 2018	
	S&P	Moody's	S&P	Moody's
U.S. Treasury bills and notes	AA+	Aaa	AA+	Aaa
U.S. Treasury State and Local Government Series (SLGS)	AA+	Aaa	AA+	Aaa
Federal agency, U.S. government-sponsored enterprise, and supranational notes	AA+/AAA	Aaa	AA+/AAA	Aaa
Money market funds	AAA-m	Aaa -mf	AAA-m	Aaa -mf
CAMP	AAA	NR	AAA	NR
Commercial paper:				
Bank of Tokyo- Mitsubishi UFJ Ltd	-	-	A-1	P-1
General Electric Co	-	-	A-1	P-1
JP Morgan Chase & Company	A-1	P-1	-	-
MUFG Bank LTD/NY	A-1	P-1	-	-
Rabobank USA Fin Corp	-	-	A-1	P-1
Toyota Motor Corp	A-1+	P-1	A-1+	P-1
Certificates of Deposit:				
Toronto Dominion Holdings	A-1+	P-1	A-1+	P-1
Bank of Montreal Chicago	A-1	P-1	A-1	P-1
Bank of Nova Scotia Houston	A-1	P-1	A-1	P-1
Royal Bank of Canada	A-1+	P-1	A-1+	P-1
Svenska Handelbanken NY	A-1+	P-1	-	-
Westpac Banking Corp	A-1+	P-1	-	-
Nordea Bank ABP New York	A-1+	P-1	-	-

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<u>Investment type</u>	<u>June 30, 2019</u>		<u>June 30, 2018</u>	
	<u>S&P</u>	<u>Moody's</u>	<u>S&P</u>	<u>Moody's</u>
Corporate notes – Medium term:				
Apple Inc	AA+	Aa1	AA+	Aa1
Bank of America Corp	A-	A2	A-	A3
Berkshire Hathaway Inc	AA	Aa2	AA	Aa2
Charles Schwab Corporation	A	A2	A	A2
ChevronTexaco Corporation	AA	Aa2	AA-	Aa2
Chubb Corporation	A	A3	A	A3
Cisco Systems	AA-	A1	AA-	A1
Deere & Company	A	A2	A	A2
Exxon Mobil Corp	AA+	Aaa	AA+	Aaa
General Dynamics Corp	A+	A2	A+	A2
Honda Motor Corporation	A+	A2	A+	A2
HSBC USA Corp	A	A2	A	A2
IBM Corporation	A	A1	A+	A1
Intel Corporation	A+	A1	A+	A1
JP Morgan Chase & Company	A-	A2	A-	A3
Northern Trust Corp	A+	A2	A+	A2
Oracle Corporation	AA-	A1	AA-	A1
Paccar Financial	A+	A1	A+	A1
Pepsico Inc	A+	A1	A+	A1
Pfizer Inc	AA	A1	AA	A1
PNC Financial Services	A	A2	A	A2
State Street Bank	A	A1	A	A1
Toyota Motor Corp	AA-	Aa3	AA-	Aa3
US Bancorp	A+/AA-	A1	A+/AA-	A1
United Parcel Service	A+	A1	-	-
Visa Inc	AA-	Aa3	A+	A1
Walt Disney Company	A+	A2	A+	A2
Wal-Mart Stores	AA	Aa2	—	—
Wells Fargo Corporation	A-	A2	A-	A2

* Ratings are indicated to the extent available. However, in some instances, discounted federal agency notes are not rated.

At June 30, 2019 and 2018, 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.

(ii) *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

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Agency are deposited in the Agency's trustee bank with the exception of a money market account that is deposited in the Agency's primary bank. Securities are not held in broker accounts.

(iii) 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, 2019 that are governed by the Agency's investment policy and its bond agreements, including money market funds of \$37,036 and U.S. Treasury securities of \$7,777 that are considered cash equivalents, is as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Remaining maturity (in years)</u>			
		<u>Less than one</u>	<u>One to two</u>	<u>Two to five</u>	<u>More than five</u>
U.S. Treasury SLGS	\$ 190,577	—	—	—	190,577
Other U.S. Treasury securities	155,537	56,043	53,130	33,548	12,816
Federal agency, U.S. government-sponsored enterprise, and supranational notes	99,199	43,809	26,451	28,939	—
Corporate notes	120,920	23,287	45,631	52,002	—
Money market funds	37,036	37,036	—	—	—
Commercial paper	10,610	10,610	—	—	—
CAMP	23,357	23,357	—	—	—
Certificates of deposit	56,000	56,000	—	—	—
Total	<u>\$ 693,236</u>	<u>250,142</u>	<u>125,212</u>	<u>114,489</u>	<u>203,393</u>

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A summary of the Agency's investments held at June 30, 2018 that are governed by the Agency's investment policy and its bond agreements, including money market funds of \$34,195, and U.S. Treasury securities of \$17,021 that are considered cash equivalents, is as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Remaining maturity (in years)</u>			
		<u>Less than one</u>	<u>One to two</u>	<u>Two to five</u>	<u>More than five</u>
U.S. Treasury SLGS	\$ 190,577	—	—	—	190,577
Other U.S. Treasury securities Federal agency, U.S. government-sponsored enterprise, and supranational notes	120,832	39,887	17,524	63,421	—
Corporate notes	100,305	18,221	43,307	38,777	—
Money market funds	85,718	18,505	17,768	49,445	—
Commercial paper	34,195	34,195	—	—	—
CAMP	15,111	15,111	—	—	—
Certificates of deposit	15,021	15,021	—	—	—
Total	<u>\$ 575,259</u>	<u>154,440</u>	<u>78,599</u>	<u>151,643</u>	<u>190,577</u>

(iv) *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.

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(In thousands)

At June 30, 2019 and 2018, the Agency had the following fair value measurements :

<u>Investment type</u>	<u>Fair value</u>	<u>June 30, 2019</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
U.S. Treasury SLGS	\$ 190,577	—	190,577	—
Other U.S. Treasury securities	155,537	—	155,537	—
Federal agency, U.S. government-sponsored enterprise, and supranational notes	99,199	—	99,199	—
Corporate notes	120,920	—	120,920	—
Commercial paper	10,610	—	10,610	—
Certificates of deposit	56,000	—	56,000	—
	<u>\$ 632,843</u>	<u>—</u>	<u>632,843</u>	<u>—</u>

Excluded from the table above are money market funds of \$37,036, which are reported at amortized cost, and funds on deposit with CAMP of \$23,357, which are not subject to fair value measurement categorization.

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(In thousands)

Investment type	Fair value	June 30, 2018		
		Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs (Level 3)
U.S. Treasury SLGS	\$ 190,577	—	190,577	—
Other U.S. Treasury securities	120,832	—	120,832	—
Federal agency, U.S. government-sponsored enterprise, and supranational notes	100,305	—	100,305	—
Corporate notes	85,718	—	85,718	—
Commercial paper	15,111	—	15,111	—
Certificates of deposit	13,500	—	13,500	—
	<u>\$ 526,043</u>	<u>—</u>	<u>526,043</u>	<u>—</u>

Excluded from the table above are money market funds of \$34,195, which are reported at amortized cost, and funds on deposit with CAMP of \$15,021, which are not subject to fair value measurement categorization.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2019 was as follows:

	Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Construction in progress	\$ 73	112		185
Right-of-way acquisitions, grading, or improvements	106			106
Furniture and equipment	17,069	2,841	(4,974)	14,936
	17,248	2,953	(4,974)	15,227
Accumulated depreciation	(12,363)	(2,409)	4,915	(9,857)
	<u>\$ 4,885</u>	<u>544</u>	<u>(59)</u>	<u>5,370</u>

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(In thousands)

Capital assets activity for the year ended June 30, 2018 was as follows:

	Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Construction in progress	\$ —	73	—	\$ 73
Right-of-way acquisitions, grading, or improvements	119		(13)	106
Furniture and equipment	15,228	2,231	(390)	17,069
	15,347	2,304	(403)	17,248
Accumulated depreciation	(10,269)	(2,484)	390	(12,363)
	<u>\$ 5,078</u>	<u>(180)</u>	<u>(13)</u>	<u>\$ 4,885</u>

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.

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.

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(In thousands)

(6) Long-Term Obligations

The following is a summary of changes in long-term obligations during the year ended June 30, 2019:

	<u>Balance at beginning of year</u>	<u>Additions/ accretions</u>	<u>Reductions</u>	<u>Balance at end of year</u>	<u>Due within one year</u>
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	642,656	38,984	-	681,640	—
Capital appreciation bonds	204,219	11,556	(4,185)	211,590	1,068
Subtotal	<u>2,188,090</u>	<u>50,540</u>	<u>(4,185)</u>	<u>2,234,445</u>	<u>\$ 1,068</u>
Plus unamortized premium on 2014 bonds	70,097	-	(2,250)	67,847	
Total bonds payable	<u>2,258,187</u>	<u>50,540</u>	<u>(6,435)</u>	<u>2,302,292</u>	
Note payable to F/ETCA (Direct)	121,096	302	-	121,398	
Total long-term obligations	<u>\$ 2,379,283</u>	<u>50,842</u>	<u>(6,435)</u>	<u>2,423,690</u>	

Following is a summary of changes in long-term obligations during the year ended June 30, 2018:

	<u>Balance at beginning of year</u>	<u>Additions/ accretions</u>	<u>Reductions</u>	<u>Balance at end of year</u>	<u>Due within one year</u>
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	605,899	36,757	-	642,656	—
Capital appreciation bonds	196,819	11,140	(3,740)	204,219	4,064
Subtotal	<u>2,143,933</u>	<u>47,897</u>	<u>(3,740)</u>	<u>2,188,090</u>	<u>\$ 4,064</u>
Plus unamortized premium on 2014 bonds	72,347	-	(2,250)	70,097	
Total bonds payable	<u>2,216,280</u>	<u>47,897</u>	<u>(5,990)</u>	<u>2,258,187</u>	
Note payable to F/ETCA (Direct)	120,795	301	-	121,096	
Total long-term obligations	<u>\$ 2,337,075</u>	<u>48,198</u>	<u>(5,990)</u>	<u>2,379,283</u>	

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

Notes to Financial Statements

June 30, 2019 and 2018

(In thousands)

(a) Toll Road Revenue Bonds

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 scheduled to be 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.

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 the certain outstanding bonds. The reacquisition price of the refunded bonds exceeded their net carrying amount by \$111,826; 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 Senior Bonds are scheduled to mature in installments through January 2050, and interest is payable semiannually at 5.00%. 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 Senior Bonds are scheduled to mature after 2028, and 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.

The 1997 convertible capital appreciation bonds not amended by the supplemental indenture accrued interest at rates ranging from 5.60% to 5.75% compounded semiannually, through January 15, 2007. Interest is payable semiannually based on accreted value of the bonds on that date. The remaining outstanding bonds are scheduled to mature in installments through 2021, but are subject to early redemption, at the option of the Agency, beginning January 15, 2014, by payment of accrued interest, principal, and a premium of up to 2.00%.

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.

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(In thousands)

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, 2019 and 2018, the amounts of the refunded bonds outstanding, which were previously eliminated from the financial statements as a result of the refunding, are \$847,033 and \$863,514, respectively.

Included in principal at June 30, 2019 and 2018 are \$572,503 and \$524,827, 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.

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(In thousands)

(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, 2019:

	<u>Principal</u>	<u>Interest⁽¹⁾</u>	<u>Junior lien interest⁽¹⁾</u>	<u>Total</u>	<u>Total including sinking fund payments</u>
2020	\$ 1,068	52,397	15,430	68,895	108,986
2021	11,384	53,367	15,430	80,181	111,785
2022	6,905	99,350	15,430	121,685	114,663
2023	17,783	102,151	15,430	135,364	117,622
2024	16,094	102,920	15,430	134,444	120,667
2025 – 2029	172,017	533,747	77,151	782,915	661,769
2030 – 2034	183,511	504,854	77,151	765,516	765,516
2035 – 2039	352,175	432,349	75,559	860,083	860,083
2040 – 2044	559,344	315,703	55,389	930,436	930,436
2045 – 2049	766,014	143,899	20,601	930,514	930,514
2050	148,150	3,705	—	151,855	151,855
	<u>\$ 2,234,445</u>	<u>2,344,442</u>	<u>383,001</u>	<u>4,961,888</u>	<u>4,873,896</u>

⁽¹⁾ Includes payments scheduled on January 1 and January 15 of the indicated fiscal year and July 1 and July 15 of the following fiscal year, to coincide with the annual debt service calculations used for covenant compliance purposes.

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, 2019, a balance of \$107,381 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.

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(In thousands)

(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 years ended June 30, 2019 and 2018 of \$706 and \$671, respectively. The Agency's commitment for the year ending June 30, 2020 is \$708.

(c) Commitment

The Agency has agreed with Caltrans to provide a maintenance facility for State Route 73. As of June 30, 2019, the Agency has earmarked approximately \$8 million for this project.

(d) Litigation

The Agency established a \$14,500 reserve for a tentative settlement of a class action lawsuit that was approved by the board of directors and is still subject to approval by the Court. In 2015, a class of drivers filed a complaint alleging that the Agency, along with other California toll operators, violated due process and assessed excessive fines during the toll collection process. In 2016, the plaintiffs amended their complaint to include a claim alleging that the California toll operators violated California Streets and Highways Code 31490 by transmitting drivers' personal information for purposes of toll collection and enforcement, interoperability and communications with customers. In 2018, the Court certified a limited class relating to the alleged violation of California Streets and Highways Code 31490, but has not yet ruled on liability. The settlement will eliminate the costs of ongoing litigation, minimize the Agency's risk profile, and help protect the Agency against future potential claims. The Agency is a defendant in various other 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 \$49 and \$47 of expense for the years ended June 30, 2019 and 2018, respectively.

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

**SAN JOAQUIN HILLS TRANSPORTATION
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Notes to Financial Statements

June 30, 2019 and 2018

(In thousands)

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.

(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 10.88% to 62.81% for the year ended December 31, 2018, and from 11.40% to 61.89% for the year ended December 31, 2017. Employee contributions are established by the OCERS Board of Retirement and guided by applicable state statutes. Employee contribution rates ranged from 8.62% to 16.39% for the year ended December 31, 2018, and from 8.75% to 16.35% for the year ended December 31, 2017. 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, 2018 and 2017, were \$627 and \$632, respectively, and equaled 100% of the required contributions, and represented 23.8% and 24.4% of the Agency's covered payroll, respectively.

The contributions from the Agency for the years ended June 30, 2019 and 2018, were \$589 and \$625, respectively and represented 22.5% and 24.7%, respectively of the Agency's covered payroll.

(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, 2018 and 2017, with respective actuarial valuations as of December 31, 2017 and 2016 and standard procedures to roll forward to the respective measurement dates that correspond with the Agency's reporting dates of June 30, 2019 and 2018. 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. TCA's proportionate share is further allocated between the Agency and F/ETCA on the basis of

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June 30, 2019 and 2018

(In thousands)

their respective shares of covered payroll to determine the amounts reportable by the Agency, as indicated below:

	June 30,	
	2019	2018
Collective net pension liability - OCERS	\$ 6,197,202	4,952,099
Proportionate share attributable to Transportation Corridor Agencies	13,254	10,243
Share allocable to San Joaquin Hills Transportation Corridor Agency	4,028	2,826
Agency's proportion (percentage) of the collective net pension liability	0.06%	0.06%
Collective deferred outflows of resources - OCERS	\$ 1,203,926	795,890
Proportionate share attributable to Transportation Corridor Agencies	2,555	1,622
Share allocable to San Joaquin Hills Transportation Corridor Agency	880	508
Collective deferred inflows of resources - OCERS	\$ 544,673	1,178,768
Proportionate share attributable to Transportation Corridor Agencies	1,543	3,249
Share allocable to San Joaquin Hills Transportation Corridor Agency	477	1,158
Collective pension expense	\$ 783,713	529,375
Proportionate share attributable to Transportation Corridor Agencies	1,846	1,331
Share allocable to San Joaquin Hills Transportation Corridor Agency	737	504

The Agency's deferred outflows of resources related to pensions as of June 30, 2019 and 2018 are attributable to the following:

	2019	2018
Net difference between projected and actual earnings on pension plan investments	\$ 436	-
Changes of assumptions	404	459
Differences between expected and actual experience	40	49
Contributions to the plan subsequent to the measurement date of the collective net pension liability	223	273
Total deferred outflows related to pensions	<u>\$ 1,103</u>	<u>\$ 781</u>

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Notes to Financial Statements

June 30, 2019 and 2018

(In thousands)

The Agency's deferred inflows of resources related to pensions as of June 30, 2019 and 2018 are attributable to the following:

	2019	2018
Differences between expected and actual experience	\$ 420	568
Net difference between projected and actual earnings on pension plan investments	-	469
Changes of assumptions or other inputs	57	121
Total deferred inflows related to pensions	\$ 477	\$ 1,158

The amount of \$223, representing as of June 30, 2019 the Agency's balance of deferred outflows of resources related to contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. The other amounts of the Agency's balances of deferred outflows and deferred inflows of resources as of June 30, 2019 will be recognized as net reductions of pension expense as follows:

Year ending June 30:		Amount
2020	\$	73
2021		21
2022		73
2023		247
2024		(11)
	\$	403

(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, 2018 and 2017:

- Actuarial experience study – Three-year period ended December 31, 2016
- Inflation rate – 2.75%
- Projected salary increases – 4.25% to 17.25%, depending upon service and nature of employment
- Cost-of-living adjustments – 2.75%

The mortality assumptions 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.

**SAN JOAQUIN HILLS TRANSPORTATION
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June 30, 2019 and 2018

(In thousands)

The discount rate used to measure the Plan's total pension liability as of December 31, 2018 and 2017 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 12 and 13 basis points, respectively. 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.

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, 2018 and 2017	
	Target allocation	Long-term expected real rate of return
Asset Class:		
Global Equity	35.00%	6.38%
Core Bonds	13.00%	1.03%
High Yield Bonds	4.00%	3.52%
Bank Loan	2.00%	2.86%
TIPS	4.00%	0.96%
Emerging Market Debt	4.00%	3.78%
Real Estate	10.00%	4.33%
Core Infrastructure	2.00%	5.48%
Natural Resources	10.00%	7.86%
Risk Mitigation	5.00%	4.66%
Mezzanine/Distressed Debts	3.00%	6.53%
Private Equity	8.00%	9.48%
Total	<u>100.00%</u>	

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

Notes to Financial Statements

June 30, 2019 and 2018

(In thousands)

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 2019 and 2018), 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	
	2019	2018
Net pension liability, as calculated:		
With assumed discount rate	\$ 4,028	2,826
With a 1% decrease	6,111	4,618
With a 1% increase	2,334	1,370

(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, 2018, which may also be obtained by calling (714) 558-6200.

(9) Subsequent Events

The Agency's board of directors approved a \$3,895 payment to OCERS to pay off the Agency's portion of TCA's UAAL. UAAL occurs when actual experience, e.g. investment rate of return, retirement rates, mortality rates, etc., is less favorable than the actuarial assumptions. The payment was executed on July 1, 2019. This payment reduced the Agency's net pension liability and in turn reduced the employer contribution rates.

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

Required Supplementary Information
Schedule of Net Pension Liability and Related Ratios
(Amounts in thousands)
(Unaudited)

	Plan year ended December 31,				
	2018	2017	2016	2015	2014
Agency's proportion (percentage) of the collective net pension liability	0.06%	0.06%	0.07%	0.07%	0.06%
Agency's proportionate share (amount) of the collective net pension liability	\$ 4,028	2,826	3,681	3,795	3,126
Agency's covered payroll	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	153%	109%	146%	189%	171%
Plan's fiduciary net position as a percentage of the total pension liability	70.03%	74.93%	71.16%	67.10%	69.42%

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.

See accompanying independent auditor's report

Change in Assumptions and Methods

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.

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

Required Supplementary Information

Schedule of Agency Contributions

(Amounts in thousands)

(Unaudited)

	Fiscal year ended June 30,				
	2019	2018	2017	2016	2015
Actuarially determined contributions	\$ 627	632	670	467	384
Contributions recognized	(627)	(632)	(670)	(467)	(384)
Difference	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Agency's covered payroll	\$ 2,639	2,584	2,523	2,005	1,831
Contributions recognized as a percentage of covered payroll	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.

See accompanying independent auditor's report.

Change in Assumptions and Methods

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.