

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

Financial Statements

June 30, 2020 and 2019

(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 years ended June 30, 2020 and 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 audits. We conducted our audits 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, 2020 and 2019, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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
November 12, 2020

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Management's Discussion and Analysis

June 30, 2020 and 2019

(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, 2020 and 2019. 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 non-tolled 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 was impacted by the COVID-19 pandemic resulting in a decrease in transactions to 25,158,831 during the year ended June 30, 2020, compared to 31,792,694 transactions in 2019, and 32,265,119 transactions in 2018.

Financial Highlights

Tolls, fees, and fines earned in fiscal year 2020 (FY20) totaled \$153,559 compared to \$191,476 in fiscal year 2019 (FY19), a decrease of 19.8% (see discussion of COVID-19 in "Economic Factors").

As of June 30, 2020 and 2019, the Agency had \$514,543 and \$470,917, 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 \$285,794 and \$224,037, respectively, of unrestricted cash and investments.

The Agency's net position at June 30, 2020 and 2019 was \$(1,657,916) and \$(1,694,533), 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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Management's Discussion and Analysis

June 30, 2020 and 2019

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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, 2020, 2019, and 2018:

	<u>2020</u>	<u>Percentage increase (decrease)</u>	<u>2019</u>	<u>Percentage increase (decrease)</u>	<u>2018</u>
Assets and deferred outflows:					
Current assets	\$ 319,528	22.8 %	\$ 260,216	41.3 %	\$ 184,130
Capital assets, net	5,869	9.3	5,370	9.9	4,885
Other noncurrent assets	490,633	8.9	450,647	10.8	406,903
Deferred outflows	80,477	(7.2)	86,690	(5.8)	91,991
Total assets and deferred outflows	<u>896,507</u>	11.7	<u>802,923</u>	16.7	<u>687,909</u>
Liabilities and deferred inflows:					
Current liabilities *	73,441	6.2	69,156	32.1	52,352
Bonds payable	2,352,354	2.2	2,302,292	2.0	2,258,187
Note payable to F/ETCA	127,626	5.1	121,398	0.2	121,096
Net pension liability	—	(100.0)	4,028	42.5	2,826
Other long-term liabilities	—	(100.0)	105	(92.2)	1,342
Deferred inflows	1,002	110.1	477	(58.8)	1,158
Total liabilities and deferred inflows	<u>2,554,423</u>	2.3	<u>2,497,456</u>	2.5	<u>2,436,961</u>
Net position	<u>\$ (1,657,916)</u>	2.2	<u>\$ (1,694,533)</u>	3.1	<u>\$ (1,749,052)</u>

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

The increases in current and other noncurrent 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.

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Management's Discussion and Analysis

June 30, 2020 and 2019

(In thousands)

Following is a summary of the Agency's revenue, expenses, and changes in net position for the years ended June 30, 2020, 2019, and 2018:

	<u>2020</u>	<u>Percentage increase (decrease)</u>	<u>2019</u>	<u>Percentage increase (decrease)</u>	<u>2018</u>
Operating revenues:					
Tolls, fees, and fines	\$ 153,559	(19.8) %	\$ 191,476	0.1 %	\$ 191,234
Development impact fees	7,588	1.7	7,464	9.8	6,798
Other revenues	1	100.0	—	(100.0)	1
Total operating revenues	<u>161,148</u>	(19.0)	<u>198,940</u>	0.5	<u>198,033</u>
Operating expenses	<u>21,950</u>	(11.5)	<u>24,802</u>	12.9	<u>21,965</u>
Operating income	139,198	(20.1)	174,138	(1.1)	176,068
Nonoperating expenses, net	<u>(102,581)</u>	(14.2)	<u>(119,619)</u>	(0.2)	<u>(119,880)</u>
Change in net position	36,617		54,519		56,188
Net position at beginning of year	<u>(1,694,533)</u>	3.1	<u>(1,749,052)</u>	3.1	<u>(1,805,240)</u>
Net position at end of year	<u>\$ (1,657,916)</u>	2.2	<u>\$ (1,694,533)</u>	3.1	<u>\$ (1,749,052)</u>

The Agency's revenue consists primarily of tolls, fees, and fines, which comprised 95.3% of total revenue in FY20, respectively, as compared to 96.2% in FY19. Tolls, fees, and fines decreased by 19.8% and increased by 0.1%, respectively, over each of the two preceding years. The decrease in 2020 was primarily due to the COVID-19 pandemic which resulted in reduced traffic on the roads beginning in March of 2020 following the governor's stay-at-home order. Development impact fees increased from \$7,464 in FY19 to \$7,588 in FY20, or 1.7%, compared to an increase of 9.8% from FY18 to FY19. 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 \$21,950 in FY20 compared to \$24,802 in FY19, a decrease of 11.5%. Included in FY20 operating expenses is noncash depreciation expense on capital assets of \$1,656, compared to \$2,468 in FY19. Excluding depreciation, operating expenses were \$20,294 in FY20 and \$22,334 in FY19. The decrease in operating expenses is primarily due to the aforementioned reduced traffic and related toll revenue due to COVID-19, which in turn resulted in lower toll compliance and customer service costs as well as professional services. 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.

Net nonoperating expenses for FY20 include investment income of \$28,126, compared to \$15,750 in FY19, with the increase due to increased cash balances and an increase in earnings rates; the elimination of the arbitrage rebate liability of \$105, compared to \$1,238 in FY19, due to current yields; interest expense of \$130,807, compared to \$122,010 in FY19; and legal settlements of \$5 compared to \$14,597 in FY19, due to the \$14,500 accrual for the legal settlement in FY19. Legal settlements in FY19 include a tentative settlement

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June 30, 2020 and 2019

(In thousands)

of \$14,500 for a class action lawsuit alleging that the Agency, along with other 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. 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 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 liability 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. 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>2020</u>	<u>2019</u>	<u>2018</u>
Construction in progress	\$ 947	185	73
Right-of-way acquisitions, grading, or improvements	106	106	106
Furniture and equipment	4,816	5,079	4,706
Total capital assets, net	<u>\$ 5,869</u>	<u>5,370</u>	<u>4,885</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, 2020, 2019, and 2018, the Agency had outstanding bonds payable of \$2,352,354, \$2,302,292, and \$2,258,187, respectively. The net changes during 2020 and 2019 were primarily attributable to accretion of principal on capital appreciation bonds totaling \$53,411 and \$50,540, respectively, offset by principal payments of \$1,100 and 4,185.

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, 2020, 2019 and 2018.

At June 30, 2020, 2019 and 2018, the Agency had a note payable to F/ETCA of \$127,626, \$121,398, and \$121,096, 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

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June 30, 2020 and 2019

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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.

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

Economic Factors

After the Agency adopted new toll rates to reflect a 2% inflationary increase for FY20, transactional toll revenue was trending up compared to FY19 until government action taken in response to the COVID-19 pandemic resulted in significantly reduced traffic throughout the region. On March 19, 2020, the governor implemented a stay-at-home order which resulted in traffic reaching a low point at the end of March and then steadily increasing beginning in late April. In response, the board of directors approved a very conservative budget for FY21. As of the date of this report, actual transactions and revenue have significantly exceeded these budgeted amounts. 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.

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, 2020 and June 30, 2019
(In thousands)

	2020	2019
Assets:		
Current assets:		
Cash and investments	\$ 275,560	\$ 209,814
Restricted cash and investments	34,964	34,493
Receivables:		
Accounts, net of allowance of \$2,225 and \$2,268 respectively	3,324	5,103
Other	2,210	2,293
Due from Foothill/Eastern Transportation Corridor Agency	2,543	7,633
Other assets	927	880
Total current assets	319,528	260,216
Noncurrent assets:		
Cash and investments	10,234	14,223
Restricted cash and investments	479,579	436,424
Net pension asset	820	—
Capital assets, net	5,869	5,370
Total noncurrent assets	496,502	456,017
Deferred outflows of resources:		
Unamortized deferral of bond refunding costs	79,964	85,587
Pension costs	513	1,103
Total assets and deferred outflows	896,507	802,923
Liabilities:		
Current liabilities:		
Accounts payable	2,228	3,913
Unearned revenue	25,192	19,262
Employee compensated absences payable	387	347
Interest payable	31,134	31,134
Reserve for settlement	14,500	14,500
Current portion of bonds payable	12,024	1,068
Total current liabilities	85,465	70,224
Net pension liability	—	4,028
Arbitrage rebate liability	—	105
Long-term bonds payable	2,340,330	2,301,224
Note payable to Foothill/Eastern Transportation Corridor Agency	127,626	121,398
Total liabilities	2,553,421	2,496,979
Deferred inflows of resources:		
Pension costs	1,002	477
Total liabilities and deferred inflows	2,554,423	2,497,456
Net position:		
Net investment in capital assets	(2,266,521)	(2,211,335)
Restricted	449,659	413,900
Unrestricted	158,946	102,902
Total net position	\$ (1,657,916)	\$ (1,694,533)

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, 2020 and 2019

(In thousands)

	2020	2019
Operating revenues:		
Tolls, fees, and fines	\$ 153,559	\$ 191,476
Development impact fees	7,588	7,464
Other revenues	1	—
Total operating revenues	161,148	198,940
Operating expenses:		
Toll compliance and customer service	10,110	11,672
Salaries and wages	4,427	4,318
Toll systems	1,064	1,141
Depreciation	1,656	2,468
Professional services	2,382	2,125
Insurance	634	639
Facilities rent	709	706
Toll facilities	229	186
Communications	170	870
Other operating expenses	569	677
Total operating expenses	21,950	24,802
Operating income	139,198	174,138
Nonoperating revenues (expenses):		
Investment income	28,126	15,750
Settlement expense	(5)	(14,597)
Elimination of arbitrage rebate liability	105	1,238
Interest expense	(130,807)	(122,010)
Nonoperating expenses, net	(102,581)	(119,619)
Change in net position	36,617	54,519
Net position at beginning of period	(1,694,533)	(1,749,052)
Net position at end of period	\$ (1,657,916)	\$ (1,694,533)

See accompanying notes to financial statements.

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

Statement of Cash Flows

For the years ended June 30, 2020 and 2019

(In thousands)

	2020	2019
Cash flows from operating activities:		
Cash received from toll road patrons	\$ 166,358	\$ 189,947
Cash received from development impact fees	7,476	7,409
Cash received from other revenue	1	—
Cash payments to suppliers	(17,603)	(16,704)
Cash payment to pension fund for unfunded actuarial accrued liability	(3,895)	—
Cash payments to employees	(4,225)	(4,053)
Net cash provided by operating activities	148,112	176,599
Cash flows from capital and related financing activities:		
Cash payments for acquisition of capital assets	(2,155)	(2,953)
Cash payments for interest and principal	(68,895)	(71,980)
Net cash used in capital and related financing activities	(71,050)	(74,933)
Cash flows from investing activities:		
Cash receipts for interest and dividends	13,331	7,610
Cash receipts from the maturity and sale of investments	381,061	167,791
Cash payments for purchase of investments	(468,860)	(284,914)
Net cash used in investing activities	(74,468)	(109,513)
Net increase (decrease) in cash and cash equivalents	2,594	(7,847)
Cash and cash equivalents at beginning of year	46,531	54,378
Cash and cash equivalents at end of year (note 4)	\$ 49,125	\$ 46,531
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 139,198	\$ 174,138
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,656	2,468
Changes in operating assets and liabilities:		
Accounts receivable	1,779	(553)
Fees receivable	(112)	(53)
Due from Foothill/Eastern Transportation Corridor Agency	5,090	(1,558)
Other assets	(45)	(249)
Accounts payable	(1,690)	1,559
Unearned revenue	5,930	582
Net pension liability/asset	(4,848)	1,202
Deferred outflows of resources related to pensions	591	(322)
Deferred inflows of resources related to pensions	524	(681)
Employee compensated absences payable	39	66
Total adjustments	8,914	2,461
Net cash provided by operating activities	\$ 148,112	\$ 176,599

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Statements of Cash Flows

For the years ended June 30, 2020 and 2019

(In thousands)

	2020	2019
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)	(5,623)
Interest expense recorded for accretion of bonds and note payable	(59,639)	(50,842)
Change in unrealized gain/loss on investments	15,876	6,376
Amortization of discount/premium on investments	191	1,373
Elimination of arbitrage rebate liability	105	1,237
Reserve for settlement	—	(14,500)

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2020 and 2019

(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.

(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.

(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

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Notes to Financial Statements

June 30, 2020 and 2019

(In thousands)

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 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.

(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.

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.

(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 intended use and/or restriction for construction or debt service in accordance with GASB Statement No. 62.

(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 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

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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.

(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. 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 Statement of Net Position and amortized over the life of the old or the new debt, whichever is shorter.

(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.

(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.

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(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, 2020 and 2019, the Agency had tolls due from F/ETCA of \$2,543 and \$7,633, 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, 2020 and 2019, the Agency had a note payable outstanding of \$127,626 and \$121,398, 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.

(o) 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.

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(p) Recent Events

In December 2019, a novel strain of coronavirus (COVID-19) surfaced in Wuhan, China, and has spread around the world with resulting business and social disruption. COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. TCA has been closely monitoring the impact of the COVID-19 pandemic on vehicle transactions and revenue. As COVID-19 measures increased during March 2020, following the governor's stay-at-home order, transactions continued to decline and reached a low point at the end of March during the current fiscal year. Beginning in late April 2020 and through the date of this report, vehicle transactions have increased as businesses have begun to reopen. With total cash and investments as of June 30, 2020, TCA's liquidity is more than sufficient to meet the FY 2021 Board approved budgeted obligations. Further, FY 2021 toll revenues have exceeded the FY 2021 Board approved budgeted toll revenue through the date of this report. During this evolving situation, TCA will continue to analyze the impact on its financial position.

(3) Development Impact Fees

The sources of development impact fees for the years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
City of Irvine	\$ 4,604	\$ 2,261
City of Costa Mesa	1,570	—
City of San Juan Capistrano	561	795
City of San Clemente	381	145
City of Dana Point	338	736
City of Laguna Hills	75	77
County of Orange	46	84
City of Laguna Niguel	12	12
City of Newport Beach	—	7
City of Santa Ana	—	1,855
City of Aliso Viejo	—	1,492
	<u>\$ 7,588</u>	<u>\$ 7,464</u>

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(4) Cash and Investments

Cash and investments as of June 30, 2020 and 2019 are classified in the accompanying financial statements as follows:

	<u>2020</u>	<u>2019</u>
Current cash and investments	\$ 275,560	\$ 209,814
Noncurrent cash and investments	10,234	14,223
Current restricted cash and investments	34,964	34,493
Noncurrent restricted cash and investments	479,579	436,424
	<u>\$ 800,338</u>	<u>\$ 694,954</u>

Cash and investments as of June 30, 2020 consist of the following:

	<u>Cash and cash equivalents</u>	<u>Investments</u>	<u>Total</u>
Deposit accounts	\$ 4,552	\$ —	\$ 4,552
Money market funds	20,307		20,307
California Asset Management Trust Cash Reserve Portfolio (CAMP)	—	23,023	23,023
LAIF		43,107	43,107
Commercial paper	—	16,977	16,977
Certificates of deposit	—	9,000	9,000
Federal agency, U.S. government-sponsored enterprise, and supranational notes	—	130,760	130,760
Corporate notes	—	56,211	56,211
Investments held with trustee per debt agreements:			
CAMP	—	15,244	15,244
Commercial paper	950	—	950
U.S. Treasury securities	23,316	380,567	403,883
Federal agency, U.S. government- sponsored enterprise, and supranational notes	—	31,869	31,869
Corporate notes	—	44,455	44,455
Total	<u>\$ 49,125</u>	<u>\$ 751,213</u>	<u>\$ 800,338</u>

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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
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	\$ <u>46,531</u>	\$ <u>648,423</u>	\$ <u>694,954</u>

(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, 2020 and 2019, the carrying amounts of the Agency's cash deposits were \$4,552 and \$1,718, respectively, and the corresponding aggregate bank balances were \$4,668 and \$2,597, respectively. The differences of \$116 and \$879 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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Authorized investment type		Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
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	\$75 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, 2020 and 2019, 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, 2020		June 30, 2019	
	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	Aaa	AAA	Aaa
CAMP	AAA	NR	AAA	NR
Commercial paper:				
JP Morgan Chase & Co	-	-	A-1	P-1
MUFG Bank Ltd/NY	A-1	P-1	A-1	P-1
Toyota Motor Corp	A-1+	P-1	A-1+	P-1
Certificates of Deposit:				
Bank of Montreal Chicago	-	-	A-1	P-1
Bank of Nova Scotia Houston	-	-	A-1	P-1
Nordea Bank ABP New York	-	-	A-1+	P-1
Royal Bank of Canada	-	-	A-1+	P-1
Svenska Handelsbanken NY	-	-	A-1+	P-1
Toronto Dominion Holdings	A-1+	P-1	A-1+	P-1
Westpac Banking Corp NY	-	-	A-1+	P-1

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<u>Investment type</u>	<u>June 30, 2020</u>		<u>June 30, 2019</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-	A2
Berkshire Hathaway	AA	Aa2	AA	Aa2
Caterpillar Inc.	A	A3	-	-
Charles Schwab Corp/The	A	A2	A	A2
ChevronTexaco Corp	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	Aa1	AA+	Aaa
General Dynamics Corp	-	-	A+	A2
Honda Motor Corporation	-	-	A	A2
HSBC Holdings PLC	A-	A2	A	A2
IBM Corp	A	A2	A	A1
Intel Corp	A+	A1	A+	A1
JP Morgan Chase & Co	A-	A2	A-	A2
Merck & Company	AA-	A1	-	-
Northern Trust Corp	A+	A2	A+	A2
Oracle Corp	-	-	AA-	A1
Paccar Financial	-	-	A+	A1
Pepsico Inc	A+	A1	A+	A1
Pfizer Inc.	-	-	AA	A1
PNC Financial Services Group	A	A2	A	A2
State Street Bank	A	A1	A	A1
Toyota Motor Corp	A+	A1	AA-	Aa3
TWDC Enterprises	-	-	A	A2
United Parcel Service	-	-	A+	A1
US Bancorp	A+/AA-	A1	A+/AA-	A1
Visa Inc	AA-	Aa3	AA-	Aa3
Wal-Mart Stores	AA	Aa2	AA	Aa2
Wells Fargo Corp	A-	A2	A-	A2

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

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At June 30, 2020, 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 and Federal Farm Credit Bank that represented approximately 10% and 6%, respectively, of the Agency's total investments, as permitted by the Agency's investment policy and the applicable bond indentures.

At June 30, 2019, 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 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.

(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, 2020 that are governed by the Agency's investment policy and its bond agreements, including money market funds of \$20,307, U.S. Treasury securities of \$23,316 and commercial paper of \$950 that are considered cash equivalents, is as follows:

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Investment type	Total	Remaining maturity (in years)			
		Less than one	One to two	Two to five	More than five
U.S. Treasury SLGS	\$ 90,126	\$ —	\$ —	\$ —	\$ 90,126
Other U.S. Treasury securities	313,757	84,535	22,818	160,173	46,231
Federal agency, U.S. government-sponsored enterprise, and supranational notes	162,629	28,607	40,935	93,087	—
Corporate notes	100,666	40,401	15,009	45,257	—
Money market funds	20,307	20,307	—	—	—
Commercial paper	17,925	17,925	—	—	—
CAMP	38,267	38,267	—	—	—
LAIF	43,107	43,107	—	—	—
Certificates of deposit	9,000	9,000	—	—	—
Total	<u>\$ 795,785</u>	<u>\$ 282,149</u>	<u>\$ 78,762</u>	<u>\$ 298,517</u>	<u>\$ 136,357</u>

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:

Investment type	Total	Remaining maturity (in years)			
		Less than one	One to two	Two to five	More than five
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>

(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.

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- 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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At June 30, 2020 and 2019, the Agency had the following fair value measurements :

		June 30, 2020		
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	\$ 90,126	\$ —	\$ 90,126	\$ —
Other U.S. Treasury securities	313,757	—	313,757	—
Federal agency, U.S. government-sponsored enterprise, and supranational notes	162,630	—	162,630	—
Corporate notes	100,666	—	100,666	—
Commercial paper	17,925	—	17,925	—
Certificates of deposit	9,000	—	9,000	—
	<u>\$ 694,105</u>	<u>\$ —</u>	<u>\$ 694,105</u>	<u>\$ —</u>

Excluded from the table above are money market funds of \$20,307, which are reported at amortized cost, and funds on deposit with CAMP of \$38,267 and LAIF of \$43,107, which are not subject to fair value measurement categorization.

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		June 30, 2019		
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	\$ 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	—
	\$ 632,843	\$ —	\$ 632,843	\$ —

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.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2020 was as follows:

	Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of period
Construction in progress	\$ 185	\$ 762	\$ —	\$ 947
Right-of-way acquisitions, grading, or improvements	106	—	—	106
Furniture and equipment	14,936	1,393	(460)	15,869
	15,227	2,155	(460)	16,922
Accumulated depreciation	(9,857)	(1,656)	460	(11,053)
	\$ 5,370	\$ 499	\$ —	\$ 5,869

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

	<u>Balance at beginning of year</u>	<u>Additions</u>	<u>Transfers/ deletions</u>	<u>Balance at end of year</u>
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>

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.

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

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June 30, 2020 and 2019

(In thousands)

(6) Long-Term Obligations

The following is a summary of changes in long-term obligations during the year ended June 30, 2020:

	<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	681,640	41,350	—	722,989	—
Capital appreciation bonds	211,590	12,061	(1,100)	222,552	12,024
Subtotal	<u>2,234,445</u>	<u>53,411</u>	<u>(1,100)</u>	<u>2,286,756</u>	<u>\$ 12,024</u>
Plus unamortized premium on 2014 bonds	<u>67,847</u>	<u>—</u>	<u>(2,250)</u>	<u>65,597</u>	
Total bonds payable	2,302,292	53,411	(3,350)	2,352,353	
Note payable to F/ETCA (Direct)	121,398	6,228	—	127,626	
Total long-term obligations	<u>\$ 2,423,690</u>	<u>\$ 59,639</u>	<u>\$ (3,350)</u>	<u>\$ 2,479,979</u>	

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	<u>70,097</u>	<u>—</u>	<u>(2,250)</u>	<u>67,847</u>	
Total bonds payable	2,258,187	50,540	(6,435)	2,302,292	
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>	

**SAN JOAQUIN HILLS TRANSPORTATION
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(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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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, 2020 and 2019, the amounts of the refunded bonds outstanding, which were previously eliminated from the financial statements as a result of the refunding, are \$825,997 and \$847,033, respectively.

Included in principal at June 30, 2020 and 2019 are \$625,573 and \$572,503, 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.

**SAN JOAQUIN HILLS TRANSPORTATION
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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, 2020:

	<u>Principal</u>	<u>Interest⁽¹⁾</u>	<u>Junior lien interest⁽¹⁾</u>	<u>Total</u>	<u>Total including sinking fund payments</u>
2021	\$ 12,024	52,728	15,430	80,182	111,786
2022	7,297	98,959	15,430	121,686	114,664
2023	18,793	101,140	15,430	135,363	117,621
2024	17,012	102,001	15,430	134,443	120,666
2025	65,236	116,999	15,430	197,665	123,799
2026 – 2030	148,202	505,372	77,151	730,725	683,445
2031 – 2035	216,837	491,146	77,152	785,135	785,135
2036 – 2040	405,971	401,470	73,572	881,013	881,013
2041 – 2045	606,273	275,100	49,143	930,516	930,516
2046 – 2050	789,110	93,752	13,402	896,264	896,264
	<u>\$ 2,286,756</u>	<u>2,238,667</u>	<u>367,570</u>	<u>4,892,993</u>	<u>4,764,910</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, 2020, a balance of \$147,245 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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(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, 2020 and 2019 of \$709 and \$706, respectively. The Agency's commitment for the year ending June 30, 2021 is \$692.

(c) Commitment

The Agency has agreed with Caltrans to provide a maintenance facility for State Route 73. As of June 30, 2020, 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, and found that the Agency's penalties did not violate the excessive fines clause in the State or Federal Constitution. In January 2020, the Court confirmed that the majority of the Agency's enforcement related practices did not violate California Streets and Highways Code 31490. 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 \$50 and \$49 of expense for the years ended June 30, 2020 and 2019, 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

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(In thousands)

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.

(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 12.46% to 62.38% for the year ended December 31, 2019, and from 10.88% to 62.81% for the year ended December 31, 2018. Employee contributions are established by the OCERS Board of Retirement and guided by applicable state statutes. Employee contribution rates ranged from 9.61% to 17.15% for the year ended December 31, 2019, and from 8.62% to 16.39% for the year ended December 31, 2018. 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, 2019 and 2018, were \$4,478 and \$627, respectively, and equaled 100% of the required contributions, and represented 134.8% and 23.8% of the Agency's covered payroll, respectively.

The actuarially determined contributions from the Agency for the years ended June 30, 2020 and 2019, were \$429 and \$589, respectively and represented 12.9% and 22.5%, 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

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(In thousands)

measurement dates of December 31, 2019 and 2018, with respective actuarial valuations as of December 31, 2018 and 2017 and standard procedures to roll forward to the respective measurement dates that correspond with the Agency's reporting dates of June 30, 2020 and 2019. 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 SJHTCA on the basis of their respective shares of covered payroll to determine the amounts reportable by the Agency, as indicated below:

	June 30,	
	2020	2019
Collective net pension liability - OCERS	\$ 5,075,682	\$ 6,197,202
Proportionate share attributable to Transportation Corridor Agencies	(1,753)	13,254
Share allocable to San Joaquin Hills Transportation Corridor Agency	(820)	4,028
Agency's proportion (percentage) of the collective net pension liability	-0.02%	0.06%
Collective deferred outflows of resources - OCERS	\$ 503,281	\$ 1,203,926
Proportionate share attributable to Transportation Corridor Agencies	1,496	2,555
Share allocable to San Joaquin Hills Transportation Corridor Agency	458	880
Collective deferred inflows of resources - OCERS	\$ 907,538	\$ 544,673
Proportionate share attributable to Transportation Corridor Agencies	2,857	1,543
Share allocable to San Joaquin Hills Transportation Corridor Agency	1,002	477
Collective pension expense	\$ 590,748	\$ 783,713
Proportionate share attributable to Transportation Corridor Agencies	1,061	1,846
Share allocable to San Joaquin Hills Transportation Corridor Agency	502	737

The Agency's deferred outflows of resources related to pensions as of June 30, 2020 and 2019 are attributable to the following:

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(In thousands)

	2020	2019
Net difference between projected and actual earnings on pension plan investments	\$ —	\$ 436
Changes of assumptions	270	404
Differences between expected and actual experience	188	40
Contributions to the plan subsequent to the measurement date of the collective net pension liability	55	223
Total deferred outflows related to pensions	\$ 513	\$ 1,103

The Agency's deferred inflows of resources related to pensions as of June 30, 2020 and 2019 are attributable to the following:

	2020	2019
Differences between expected and actual experience	\$ 329	\$ 420
Net difference between projected and actual earnings on pension plan investments	662	—
Changes of assumptions or other inputs	10	57
Total deferred inflows related to pensions	\$ 1,001	\$ 477

The amount of \$55, representing as of June 30, 2020 the Agency's balance of deferred outflows of resources related to contributions subsequent to the measurement date, will be recognized as a reduction/increase of the net pension liability/asset in the year ending June 30, 2021. The other amounts of the Agency's balances of deferred outflows and deferred inflows of resources as of June 30, 2020 will be recognized as changes to the net pension liability/asset as follows:

Year ending June 30:	
2021	\$ (208)
2022	(154)
2023	20
2024	(240)
2025	38
	\$ (544)

**SAN JOAQUIN HILLS TRANSPORTATION
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Notes to Financial Statements

June 30, 2020 and 2019

(In thousands)

(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, 2019 and 2018:

- 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.

The discount rate used to measure the Plan's total pension liability as of December 31, 2019 and 2018 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 13 and 12 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.

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(In thousands)

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:

Asset Class:	December 31, 2019 and 2018	
	Target Allocation	Long-term Expected Real Rate of Return
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	100.00%	

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 2020 and 2019), 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	
	2020	2019
Net pension (asset)/liability, as calculated:		
With assumed discount rate	\$ (820)	\$ 4,028
With a 1% decrease	2,709	6,111
With a 1% increase	(3,690)	2,334

(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

**SAN JOAQUIN HILLS TRANSPORTATION
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position is included in the comprehensive annual financial report for the fiscal year ended December 31, 2019, which may also be obtained by calling (714) 558-6200.

**SAN JOAQUIN HILLS TRANSPORTATION
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Required Supplementary Information
Schedule of Net Pension Liability and Related Ratios
(Amounts in thousands)
(Unaudited)

	Plan year ended December 31,				
	2019	2018	2017	2016	2015
Agency's proportion (percentage) of the collective net pension liability	-0.02%	0.06%	0.06%	0.07%	0.07%
Agency's proportionate share (amount) of the collective net pension liability	\$ (820)	\$ 4,028	\$ 2,826	\$ 3,681	\$ 3,795
Agency's covered payroll	3,323	2,639	2,584	2,523	2,005
Agency's proportionate share of the collective net pension liability as a percentage of its covered payroll	-25%	153%	109%	146%	189%
Plan's fiduciary net position as a percentage of the total pension liability	-0.04%	70.03%	74.93%	71.16%	67.10%

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
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Required Supplementary Information

Schedule of Agency Contributions

(Amounts in thousands)

(Unaudited)

	Fiscal year ended June 30,				
	2020	2019	2018	2017	2016
Actuarially determined contributions	\$ 583	\$ 627	\$ 632	\$ 670	\$ 467
Contributions recognized	(4,478)	(627)	(632)	(670)	(467)
Contribution deficiency (excess)	<u>\$ (3,895)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
 Agency's covered payroll	 \$ 3,323	 \$ 2,639	 \$ 2,584	 \$ 2,523	 \$ 2,005
Contributions recognized as a percentage of covered payroll	134.8%	23.8%	24.4%	26.6%	23.3%

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.