NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF SIGNIFICANT EVENT
(RATING CHANGE)

NAME OF ISSUER:	FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY
NAME OF ISSUE:	Toll Road Refunding Revenue Bonds ("Senior Lien Bonds") Toll Road Refunding Revenue Bonds ("Junior Lien Bonds")
DATE OF ISSUANCE:	January 2, 2014
BASE CUSIP NO.:	345105

NOTICE IS HEREBY GIVEN pursuant to Section 5 of the Issuer's Continuing Disclosure Certificate that Moody's Investor Service has upgraded the rating it assigns to the Senior Lien Bonds to Baa3 from Ba1 with a stable outlook and the Junior Lien Bonds to Baa3 from Ba1 with a stable outlook.

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Dated: 7/31/17

FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY

CREDIT OPINION
26 July 2017

Update

Rate this Research

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Foothill/Eastern Transportation Corridor Agency, CA

Update - Moody's upgrades Foothill Eastern's (CA) senior and junior debt to Baa3 from Ba1; outlook stable.

Summary Rating Rationale

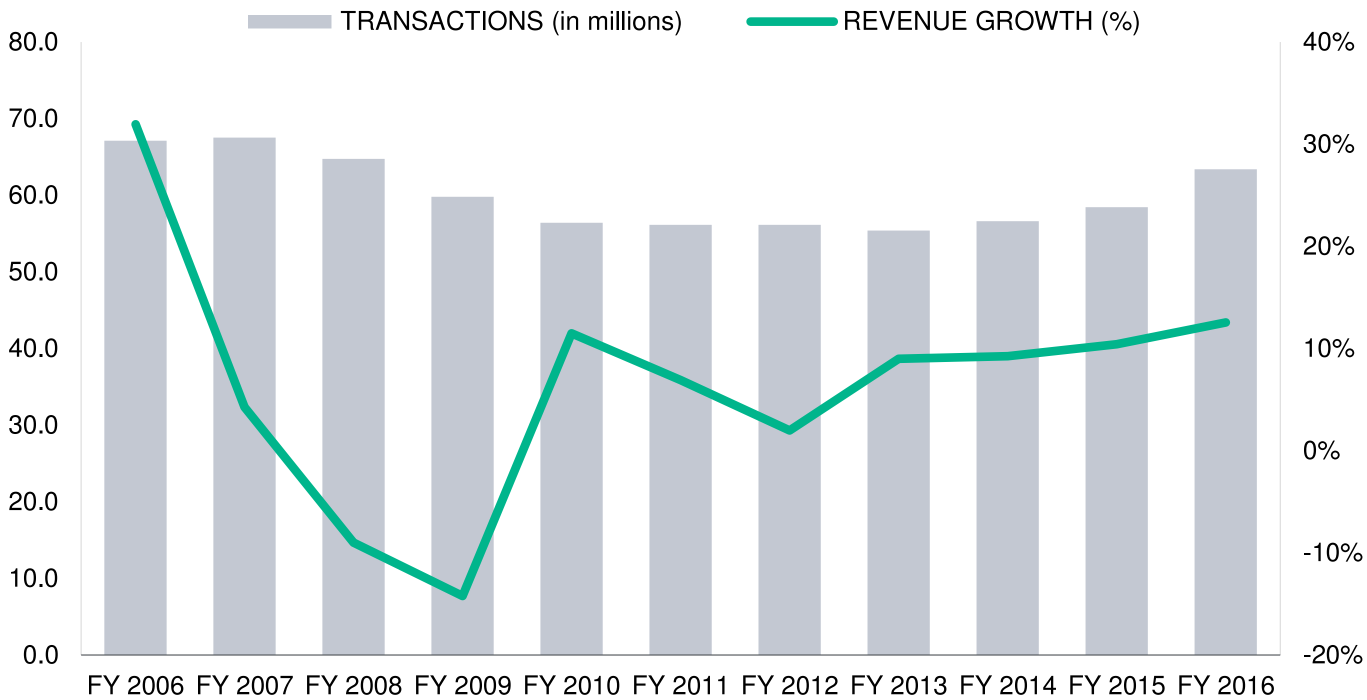
Moody's Investors Service upgraded the senior lien and junior lien bonds of the Foothill/ Eastern Transportation Corridor Agency (CA) (F/ETCA or agency) to Baa3 from Ba1. The rating outlook is stable.

The upgrade to Baa3 from Ba1 acknowledges four years in a row of stronger than forecasted traffic and revenue growth, which has helped reduce the required rate of future toll increases to rates that are more in line with inflationary rates in order to maintain adequate debt service coverage ratios going forward. The rating also acknowledges the ongoing growth in the Orange County service area economy, which is expected to continue to contribute to traffic and revenue growth, the agency's strong liquidity profile and growing reserve fund balances as well as steady toll increases over the past eight consecutive years.

The rating continues to reflect a high leverage ratio, accompanied by an escalating debt service profile growing at higher than annual inflationary rates and a deferral of principal repayment resulting from the most recent debt restructuring as a result of inability to meet earlier traffic and revenue projections which constrain the toll road's financial flexibility in the event of economic downturns limiting its timeframe for recovery and resiliency. While short term annual debt service requirements grow at a slower annual rate post restructuring, it remains back loaded and repayment depends on sustained annual traffic and/or revenue growth supported by annual inflationary toll rate increases.

The rating also considers that there are no principal repayments until 2020 and that the majority of principal (72%) is repaid in the last decade of the Caltrans Cooperative Agreement with Caltrans, allowing for stronger coverages over the next decade, but which could be pressured in later periods in the absence of continuous annual growth.

Exhibit 1
Foothill - Eastern Transportation Corridor Agency, CA Annual Transactions and Annual Revenue Growth Rate



Source: Moody's Investors Service

Credit Strengths

- Stronger than forecasted traffic and revenue growth over the FY 2014 through 2017 period
- Independent and demonstrated toll raising ability and above average service area socio-economic indicators
- Termination of the San Joaquin Hills Transportation Corridor Agency ("SJHTCA") mitigation and loan agreement eliminated the obligation to make $1.04 billion in loans to SJHTCA (in effect closing the flow of funds)
- Ample liquidity levels with cash-funded debt service reserve funds (DSRFs) for both senior and subordinated liens
- No current construction risk or ramp up risk, though planned projects may introduce some in the near future

Credit Challenges

- Annual debt service escalates through 2040 and repayment relies on continued revenue growth and annual toll rate increases
- Toll rates are currently among the highest for US toll roads
- Construction of the 241/91 connector and possibly an extension of the 241 to I-5 could add more debt to an already highly leveraged structure and depending on the ultimate costs and the financial feasibility of the projects, it could add pressure to the agency's finances if additional traffic and revenues fail to offset costs.

Rating Outlook

The stable rating outlook is based on the expectation of continued traffic and revenue growth for FY 2018 of above most recent traffic and revenue forecast aided by the 2% approved toll increase for the year coupled with the maintenance of strong levels of unrestricted liquidity.

Factors that Could Lead to an Upgrade

» Accelerated development in the toll road corridor that generates sustained higher than forecasted growth in traffic and revenues

» More rapid amortization of outstanding debt

» Implementation of automatic annual rate increases

» Sustained traffic and revenue growth at higher than forecasted rates

Factors that Could Lead to a Downgrade

» Lower than forecasted traffic and revenue due to slower than expected growth

» Failure to implement rate increases as needed to provide at minimum the covenanted 1.3 times DSCR for senior and 1.15 times for all bonds

» Substantial additional borrowing for and construction of projects not supported by additional traffic and revenue from related projects

Key Indicators

Exhibit 2

Foothill / Eastern Transportation Corridor Agency, CA

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Transactions ('000)	67,135	67,559	64,742	59,780	56,395	56,161	56,173	55,389	56,638	58,416	63,376
Total Transactions Annual Growht (%)	4.2%	0.6%	-4.2%	-7.7%	-5.7%	-0.4%	0.0%	-1.4%	2.3%	3.1%	8.5%
5-Year Traffic CAGR (%)	4.1%	3.8%	2.9%	-0.1%	-2.6%	-3.5%	-3.6%	-3.1%	-1.1%	0.7%	2.4%
Annual Revenue Growth (%)	5.7%	9.6%	-3.8%	-8.1%	6.0%	0.5%	7.0%	4.3%	6.9%	5.9%	12.2%
Debt Outstanding ($'000)	2,117,818	2,176,054	2,223,837	2,268,136	2,299,783	2,338,023	2,372,023	2,404,474	2,464,333	2,393,437	2,419,232
Days Cash on Hand	3,137	2,288	2,895	2,105	2,209	1,656	2,743	2,932	2,178	2,752	3,470
Total Debt Service Coverage By Net Revenues (x)	1.82x	1.97x	1.76x	1.24x	1.15x	1.06x	1.12x	1.13x	2.23x	1.55x	1.72x
Debt to Operating Revenues (x)	16.19x	15.95x	17.92x	21.31x	19.37x	18.42x	18.33x	17.04x	15.99x	14.06x	12.63x

Source: Moody's Investors Service

Recent Developments

The $125M of Series 2013 B-1 Term Rate Bonds are subject to tender on January 15, 2018. The Agency is looking to remarket the series with a fixed rate until the final maturity date of January 15, 2053. The remarketing is expected to occur in late August and will generate savings versus an internal long-term interest rate assumption. The Series 2013 B-1 Bonds are Senior Lien obligations and carry the same rating as the parity Senior Lien obligations.

Transactions increased 8.5% to 63.3 million in FY 2016, almost fully recovered to 2008 level of 64.7 million. Toll revenues (including fees and fines) increased 11.8% in the same period. Unaudited toll revenues for FY 2017 indicate a 7.4% revenue growth for the year. Debt Service Coverage ratios for FY 2016 were 1.97x and 1.72x on a senior and total basis respectively.

The board approved a 2% toll increase for FY 2018 which went into effect July 1, 2017, similar to the increases for FY 2017 and FY 2016.

The agency continues in conversations with the Orange County Transportation Authority (OCTA) associated with the 241/91 connector, including the financing plan which may include debt and pay-go funding alternatives.

Detailed Rating Considerations

Revenue Generating Base

The toll road is located in the affluent Anaheim/Santa-Ana MSA where the economy continues to perform better than the rest of the state of California, driven by health-care, leisure/hospitality, high tech start-ups, and manufacturing. The area is characterized for above-average share of high-wage jobs, which are growing at a much faster pace than the nation.

The unemployment rate in Anaheim/Santa-Ana/Irvine was 4% in 2016, its lowest level in the last 6 years. The tech sector is a major driver of growth, supported by a highly educated population, and the concentration of universities and venture capital investment in the area should continue to drive long-term growth.

The service area expansion is expected to moderate with job growth slowing to an average pace as tech hiring cools and affordability limits housing demand. The University of California is expected to support long-term gains through innovative research and a steady supply of highly educated workers. In the longer-term, Anaheim/Santa-Ana/Irvine economic performance is expected to come in line with the U.S. as the area's high costs prevent it from above-average gains.

Traffic growth has been strong in the past three years as the service area is now in expansion fully recovered from the economic recession, employment and high wage jobs are performing better than the national average, as are residential and commercial developments.

Operational and Financial Performance

Higher than forecasted traffic and revenues during the past four consecutive years (FY 2014-FY 2017) of 8.8% on average per year versus the 2013 Stantec T&R study has resulted in actual revenues for FY 2016 which are already above the forecast for FY 2017. FY 2016 toll revenues were 12.9% higher at $141.8 million versus forecasted $126 million. As a result of this higher revenue generation, the continued future required rate of revenue growth is now lower. Based on a Moody's sensitivity of continued future growth of 2% which is lower than the estimated inflationary growth rate of 2.5%, senior and total DSCRs would be on average 1.4x and 1.3x respectively over the remaining life of the debt, illustrating the need for continued modest annual revenue growth over the remaining debt life.

This higher revenue growth is due to higher transaction growth than anticipated, aided by toll rate increases over the past eight consecutive years, including the most recent 2% increase approved and in effect as of July 1st, 2018. Toll rate increases require two thirds board approval and board members are appointed by members (cities) of the agency.

Although this period of higher than forecasted growth is viewed positively, Moody's also acknowledges that given a growing debt service profile through 2039, and accreting debt through 2020, FETCA has more limited financial flexibility and a shorter timeframe for traffic and revenue recovery in the event of more significant traffic and revenue declines from economic shocks versus other toll roads with lower leverage and more manageable debt service profiles. In the period from 2007 through 2011, traffic declined by more than 16%, albeit it has mostly recovered by FY 2016. This is partially mitigated by the now somewhat lower required continued rate of future revenue growth and strong unrestricted liquidity of 3,470 days cash.

Fiscal year 2016 traffic transactions were up 8.5% surpassing the 3.1% growth rates of FY 2015 and 2.3% of FY 2014. The five year compound annual growth rate (CAGR) for FY 2016 was 3.1%. Toll revenues grew 12.2% in FY 2016 to $141.8 million. Based on unaudited results for FY 2017, toll revenues have surpassed the projected FY 2018's forecast of $146 million based on the forecast provided in 2014.

As a result of strong transaction growth and revenue growth that is higher than budgeted, financial metrics show improvement with Moody's calculated DSCR on a net Revenues basis of 1.97 times for Senior Lien and 1.72 times for total debt service in FY 2016. On a bond ordinance basis, senior and total DSCR for FY 2016 were 1.90 times and 1.66 times respectively, which only include development impact fees (DIF) in excess of $5 million. DIF revenues in FY 2016 were $28.3 million versus $24.9 million in FY 2015. Debt to operating revenues remains high, at 13.8% as of FY 2016 and is expected to remain above 10x through 2029.

The agency's current operating expenses cover tolling equipment systems and management only as Caltrans pays for all maintenance, construction and repair expenses per the cooperative agreement under which TCAs were financed. The agency along with San Joaquin Hills Transportation Agency converted to all electronic toll collection on May 14, 2014. We expect that this conversion will facilitate future toll rate adjustments as well as continue to lower operating costs.

LIQUIDITY

The agency's liquidity position has been strengthening over the past few years on account of higher than forecasted revenue and transaction growth. As of the end of FY 2016, the agency had 3,470 days cash or around $205 million, versus 2,752 in FY 2015. In addition the agency has a $15 million use and occupancy fund, as well as the senior and junior lien debt service reserve accounts.

Liquidity is not as strong when compared to the agency's debt outstanding as unrestricted cash to debt was 8.5% as of FY 2016 owing to the accreting debt profile, with no principal payments until 2020. Total debt service estimated for FY 2018 is around $112 million.

Debt and Other Liabilities

As of FY 2016 the agency had approximately $2.4 billion outstanding, $2.27 billion of which was senior lien and a smaller portion of $198 million of junior lien debt.

Series 2015 A Issued: $87,007,699 Outstanding: $87,007,699

Series 2013 A, B and C Issued: $2,274,617,000 Outstanding: $2,274,617,000

Post financial restructuring in 2013, no principal will be due until 2020, with final maturity in 2053.

DEBT STRUCTURE

There is potential for additional debt for the 241/91 connector and the Southern extension of the Foothill system expansion projects; however, we note that a plan of finance has not yet been developed. The agency is proceeding with planning work for the 241/91 connector which is estimated to cost $180 million, but with financing costs to be shared with the Orange County Transportation Authority (OCTA-toll revenue bonds rated A1, stable).

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

Foothill Eastern's long-term defined benefit pension and health care liabilities are not a major factor in our assessment of its credit profile. Moody's adjusted net pension liability (ANPL) in FY 2016 for Foothill Eastern is similar compared to its reported net pension liability of $8.9 million. Unfunded pension liabilities have only a nominal impact on Foothill Eastern's financial metrics given its sizeable total debt outstanding of over $2.4 billion that is expected to increase over the next several years. Moody's adjusts the reported pension liabilities of entities that report under governmental accounting standards, to enhance comparability across rated issuers.

Under governmental pension accounting, liabilities are discounted using an assumed rate of investment return on plan assets. Under our adjustments, we value liabilities using a market based discount rate for high quality taxable bonds, a proxy for the risk of pension benefits.

Management and Governance

The agency is a joint exercise of powers agency organized under state law and governed by an independent board comprised of local government representatives. The F/ETCA board has representative members from the cities of Anaheim, Dana Point, Irvine, Lake Forest, Mission Viejo, Orange, Rancho Santa Margarita, San Clemente, San Juan Capistrano, Santa Ana, Tustin, Yorba Linda, County of Orange 3rd, 4th and 5th Districts. Eight of the SJHTCA member agencies also sit on the F/ETCA board.

Legal Security

The bonds are secured by net toll road revenues and other revenues (mainly account maintenance fees, violation fees and fines, investment income and DIFs collected above $5 million annually), and a cash funded debt service reserve fund (DSRF) funded at the lesser of the standard three-prong test for both the senior and junior lien bonds. Security also includes a Use and Occupancy Fund and a Revenue Guarantee Account.

Use of Proceeds

Not applicable.

Obligor Profile

The Foothill/Eastern Transportation Corridor consists of 36 miles of high speed, electronically tolled four-to-six lane roads. The two toll roads that make up the corridor were partially opened in 1995 and fully completed in February 1999. In 1999 the agency restructured its debt and extended principal maturities by five years to improve the DSCR due to slower than projected traffic and revenue ramp-up.

In November 2005 the agency entered into a mitigation and loan agreement with the San Joaquin Hills Transportation Corridor Agency (SJHTCA) to offset the forecasted toll revenue diversion impact of the Foothill South extension to complete the 241 toll road and the connection to I-5. To-date the agency has made $120 million in mitigation payments to SJHTCA. With the 2014 debt restructuring for SJHTCA, the mitigation agreement has been terminated, and SJHTCA will repay the mitigation payments to F/ETCA beginning in 2025, if surplus funds are available. The mitigation agreement would have allowed F/ETCA to provide up to $1.04 billion in loans to help SJHTCA meet its rate covenant.

In 2013 the agency restructured nearly all of its then outstanding debt to reduce and level debt structure by extending final maturity by 13 years to 2053 similar to an extension of the Caltrans Cooperative Agreement. Caltrans remains the owner of the toll road asset and pays for all non-toll collection-related operations and maintenance expenses.

Other Considerations: Mapping to the Grid

Note: The grid is a reference tool that can be used to approximate credit profiles in the toll road sector in most cases. However, the grid is a summary that does not include every rating consideration. Please see our Government Owned Toll Roads Rating Methodology for information about the limitations inherent to grids.

The Baa3 rating assigned differs from the scorecard outcome of Baa1 because of escalating debt service and debt accretion not captured in historical metrics, as well as the fact that annual debt service extends to 2053, the final term of the extended cooperative agreement with Caltrans.

Exhibit 3

Government Owned Toll Roads Methodology Scorecard Factors

Factor	Subfactor	Score	Metric
1. Market Position	a) Asset Type	Baa	
	b) Operating History	Baa	
	c) Competition	A	
	d) Service Area Characteristics	Aa	
2. Performance Trends	a) Annual Traffic Transactions	A	
	b) Traffic Profile	Aaa	
	c) Five Year Traffic CAGR	Aa	
	d) Ability and Willingness to Increase Toll Rates	A	
3. Financial Metrics	a) Debt Service Coverage Ratio	A	1.72
	b) Debt to Operating Revenue	Caa	12.63%
4. Capacity, Capital Plan and Leverage	a) Asset Condition/Capital Needs	A	
	b) Limitations to Growth/Operational Restrictions	A	
Notching Considerations		**Notch**	
	1 - Debt Service Reserve Fund level		
	2 - Open/Closed Flow of Funds	-0.5	
	3 - Days Cash on Hand	1	
	4 - Other Financial, Operating and Debt Factors	-1	
Scorecard Indicated Rating:		**Baa1**	

Source: Moody's Investors Service

Methodology

The principal methodology used in this rating was Government Owned Toll Roads published in November 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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