FIELDMAN | ROLAPP
& ASSOCIATES

MEMORANDUM

Date: June 18, 2018

To: Eric Sund, Assistant City Manager
City of San Clemente

From: Daniel L. Wiles, Principal
Marisa Colcord, Associate
Fieldman, Rolapp & Associates, Inc.

Re: Foothill/Eastern TCA and San Joaquin Hills TCA: History and Attributes of Debt and Recent Financial Results

---

You have asked that we develop a summary description that provides a historical review of the debt financings executed to develop and maintain the Transportation Corridor Agencies toll road systems and provide a picture of the current financial state of those agencies. We have reviewed the relevant documents related to the agencies as publically available through the Municipal Securities Rulemaking Board and provide brief descriptions below.

Foothill/Eastern Transportation Corridor Agency (F/ETCA)

In 1995, F/ETCA issued $1.508 billion of bonds in its primary capital financing. This financing was comprised of a variety of municipal debt instruments in different series with final maturity in 2040: fixed interest rate current interest bonds (CIBs), fixed interest rate convertible capital appreciation bonds (zero coupon bonds convertible to current interest bonds, or CCABs), fixed interest rate capital appreciation bonds (zero coupon bonds, or CABs), and variable interest rate bonds. All of the 1995 debt is currently considered legally defeased, or no longer outstanding, due to subsequent refinancing transactions in 1999 and 2015 providing for future payments via funds set aside in escrow.

In 1999, F/ETCA issued an aggregate $1.588 billion transaction to both raise additional new money for capital projects and refund approximately $775 million of prior 1995 variable rate debt to take advantage of lower interest rates. This financing was also a combination of CIBs, CCABs, and CABs. All of the 1999 debt was subsequently repaid in full on February 1, 2014 as a result of the 2014 transaction.

In 2014, F/ETCA issued an aggregate $2.275 billion transaction to refinance the remaining fixed rate 1999 debt and simultaneously restructure its debt profile to reduce the annual revenue growth required to adequately repay its debt obligations (reduction to 2.3% from 4%). This transaction was a combination of CIB, CCAB, CAB senior lien debt, or debt that would be repaid first from F/ETCA revenues, as well as junior lien bonds, or debt that would be repaid after payment of the senior debt from F/ETCA revenues, and variable rate bonds. Currently, there is approximately $2.85 billion in 2014 debt outstanding, which includes interest appreciated over time as principal. As a part of the negotiations to extend the ability to collect tolls to support bonds with an extended maturity, F/ETCA agreed to make payments to Caltrans for maintenance on the toll roads from 2040 to 2053 (initially $14 million annually, escalating to $18.9 million in 2053). Such payments to Caltrans may be supplemented by advance payments made from surplus TCA revenues.

In 2015, F/ETCA issued approximately $194 million in senior lien CABs to refinance all of the remaining 1995 fixed rate debt. F/ETCA will not begin repaying the 2015 debt until full accretion of principal and interest beginning in 2033, with final maturity in 2035. All 2015 debt will mature before scheduled Caltrans repayments.

Currently, F/ETCA's Senior Lien credit ratings are lowest investment grade: Baa3 (Moody's), BBB- (S&P and Fitch). F/ETCA's Junior lien credit ratings are one notch below (non-investment grade).

F/ETCA's total principal amount of bonds outstanding as of June 1, 1998 was $1.26 billion. F/ETCA's total principal amount of bonds outstanding as of June 1, 2018 was $3.05 billion.

San Joaquin Hills Transportation Corridor Agency (SJHTCA)

In 1993, SJHTCA issued $1.079 billion in bonds as its primary capital financing. This financing was comprised of fixed rate CIBs, CCABs and CABs, with final maturity in 2033. A portion of the 1993 debt was legally defeased, or considered no longer outstanding, on October 21, 1997 as a result of the 1997 transaction, with the remaining 1993 debt repaid in full on December 8, 2014 as a result of the 2014 transaction.

In 1997, SJHTCA issued an aggregate $1.448 billion transaction to refund approximately $858 million of 1993 debt (leaving approximately $220.2 million in 1993 principal outstanding), with final maturity in 2036. This transaction was comprised of fixed rate CIBs, CCABs and CABs. All CIBs were repaid in full on December 8, 2014 as a result of the 2014 transaction. Currently, approximately $1.99 billion of 1997 debt is outstanding, which includes interest appreciated over time as principal.

In 2014, SJHTCA issued an aggregate $1.393 billion transaction, split into senior and junior lien fixed rate CIBs, which refunded the remaining 1993 debt and a portion of the 1997 debt (approximately $1.129 billion in aggregate). The 2014 transaction restructured SJHTCA's debt profile by extending its final maturity of debt to 2050, resulting in lower annual growth needs to meet its debt repayment obligations. Currently, approximately $1.34 billion of 2014 debt is outstanding, which includes interest appreciated over time as principal.

Additionally, on November 10, 2004 SJHTCA entered into a mitigation agreement with F/ETCA. SJHTCA is required to begin using surplus funds to repay $120 million plus interest to F/ETCA starting January 15, 2025.

Currently, credit ratings on SJHTCA's 2014 senior lien bonds are the lowest investment grade: BBB- (S&P and Fitch). Moody's did not rate the 2014 bonds, but maintains credit ratings on the 1997 Bonds at Ba2 (non-investment grade). All junior lien debt ratings by S&P and Fitch are one notch below the senior lien bonds (non-investment grade).

SJHTCA's total principal amount of bonds outstanding as of June 1, 1998 was $1.67 billion. SJHTCA's total principal amount of bonds outstanding as of June 1, 2018 was $3.38 billion.

Common Credit Issues to Both Systems

Project based financings often use highly deferred debt service to monetize anticipated growth and often involve use of capital appreciation bonds that do not require payment of current interest. CABs carry a higher interest cost, but allow project financing to include principal repayment in future years that is not supported by current projected revenues.

Both systems were initially financed based on projections that overstated initial demand and growth in toll revenues. The inability of each system to support current debt service and maintain required coverage required restructuring in subsequent years. Given that the initial financings optimized the projected revenues, the practical alternative for restructuring was to extend the final maturity for each system, which allowed the development of debt service schedule that required lower growth rates to support and eased the annual debt burden of each system considerably.

Recent Financial Results

Each TCA is required to provide continuing disclosure to bondholders and the overall market on the financial information and operating data of the respective system. The five year data exhibits significant growth and demonstrates the impact that the debt refinancings had on each system. We note that "Unrestricted Funds Balance" does not represent all cash and investments.

Foothill/Eastern TCA Historic Operating Results, Debt Service Coverage & Unrestricted Fund Balance

	2013	2014*	2015	2016	2017
Enhanced Adjusted Toll Net Revenues	$112,252,843	$77,370,143	$148,971,044	$169,185,924	$173,132,025
Senior Lien Debt Service	$82,195,229	$48,234,334	$85,186,013	$88,866,013	$92,666,013
Junior Lien Debt Service	$0	$6,843,083	$12,764,300	$12,764,300	$12,764,300
Aggregate Debt Service	$82,195,229	$55,077,417	$97,950,313	$101,630,313	$105,430,313
Aggregate Debt Service Coverage	1.37	1.40	1.52	1.66	1.64
Senior Lien Debt Service Coverage	1.37	1.60	1.75	1.90	1.87
Net Revenues After Aggregate Debt Service	$30,057,614	$22,292,726	$51,020,731	$67,555,611	$67,701,712
Unrestricted Funds Balance	$121,499,000	$129,900,000	$151,348,000	$205,664,000	$269,715,000

* FY 2014 Net Revenues adjusted to reflect bond refinancing that occurred with 7 months left in the fiscal year.
Source: Foothill/Eastern TCA FY 2017 Continuing Disclosure Annual Report filing, www.emma.msrb.org

San Joaquin Hills TCA Historic Operating Results, Debt Service Coverage & Unrestricted Fund Balance

	2013	2014	2015**	2016	2017
Enhanced Adjusted Toll Net Revenues	$104,338,616	$119,195,382	$90,587,140	$157,924,880	$164,310,685
Senior Lien Debt Service	$93,187,269	$94,767,268	$38,001,896	$91,444,750	$91,059,913
Junior Lien Debt Service	$0	$0	$10,672,607	$15,430,275	$15,430,275
Aggregate Debt Service	$93,187,269	$94,767,268	$48,674,503	$106,875,025	$106,490,188
Aggregate Debt Service Coverage	1.12	1.26	1.86	1.48	1.54
Senior Lien Debt Service Coverage	N/A	N/A	2.38	1.73	1.80
Net Revenues After Aggregate Debt Service	$11,151,347	$24,428,114	$41,912,637	$51,049,855	$57,820,497
Unrestricted Funds Balance	$23,583,000	$24,563,000	$35,660,000	$62,503,000	$96,696,000

* FY 2015 Net Revenues adjusted to reflect bond refinancing that occurred with 8 months left in the fiscal year.
Source: San Joaquin Hills TCA FY 2017 Continuing Disclosure Annual Report filing, www.emma.msrb.org