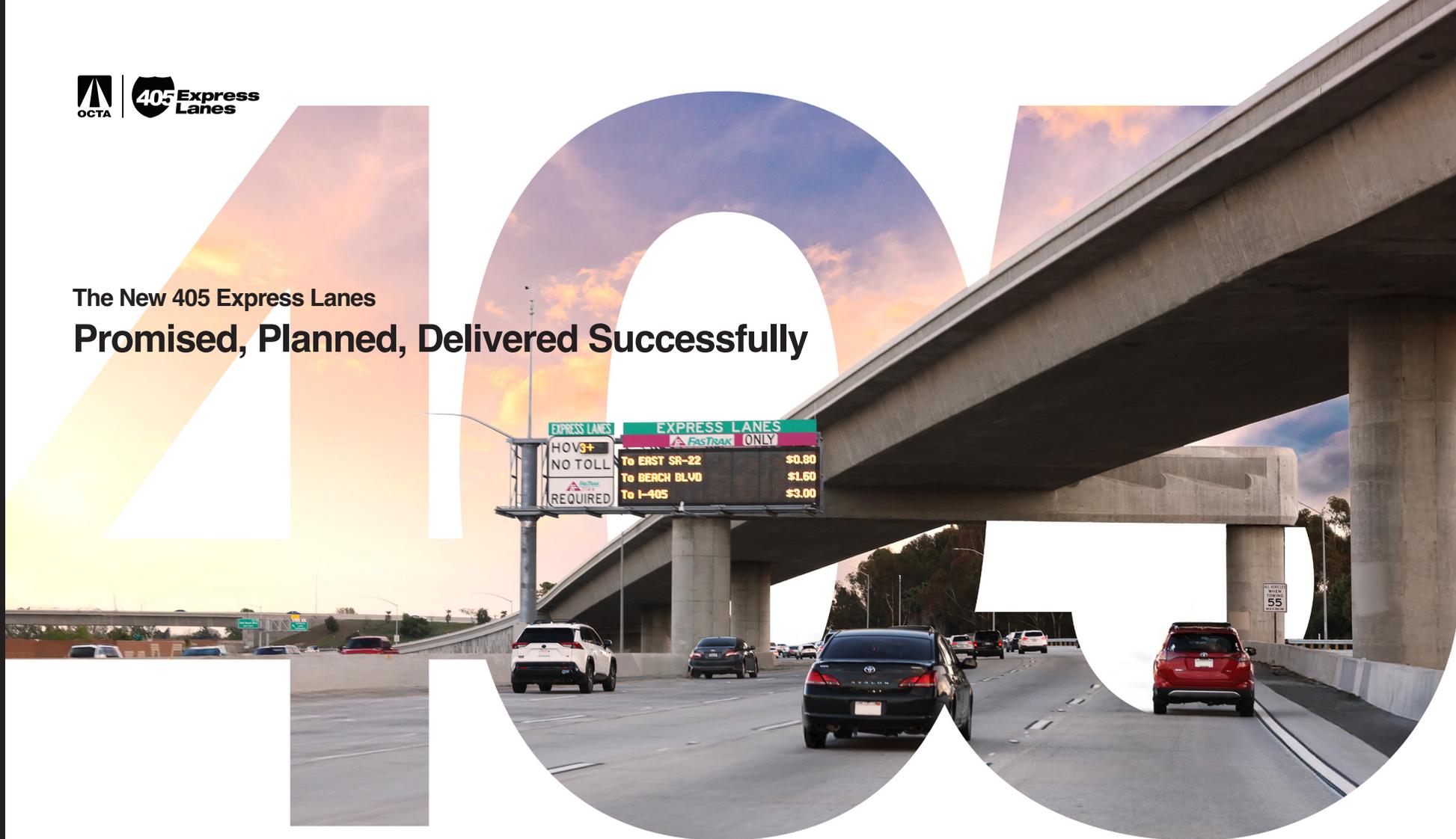




The New 405 Express Lanes Promised, Planned, Delivered Successfully



550 South Main Street
P.O. Box 14184
Orange, California 92863-1584

octa.net
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405 Express Lanes
Fiscal Year 2023-24 Annual Report

Life. On time.

405 Express Lanes
Fiscal Year 2023-24 Annual Report

12



The 405 Express Lanes officially opened to serve drivers on December 1, 2023.

2023

Dear Friend,

We're proud to present the first annual report for the 405 Express Lanes, a 14-mile time-saving travel alternative built in the center of Interstate 405 (I-405) between Costa Mesa and the Los Angeles County line.

During the first fiscal year of operation, since opening in December 2023, 405 Express Lanes customers took over 8.7 million trips on this free-flowing, congestion-free option featuring state-of-the-art tolling technology and free High Occupancy Vehicle (HOV) lanes. In addition, thanks to the Orange County Transportation Authority's (OCTA) overarching I-405 Improvement Project, drivers are seeing reduced travel times whether or not they choose to take the express lanes.



The express lanes portion of the overall project is paid through a \$629 million federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan that will be repaid solely by drivers who choose to pay a toll. Toll revenue collected beyond what it costs to repay the loan will fund transportation improvements for everyone who travels through the 405 corridor – whether or not they choose to use the express lanes.

This successful model of congestion management pricing was pioneered by OCTA on the 91 Express Lanes, the first all-electronic tolling facility, which OCTA has owned since 2003.

Sincerely,



Darrell E. Johnson
Chief Executive Officer
Orange County Transportation Authority



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Introduction

In December 2023, OCTA unveiled a new, reliable travel option along 14 miles of one of the nation's busiest freeways. Drivers between Los Angeles and Orange counties now have a welcome way to bypass congestion, get to work without hassle, and live life on time.

The 405 Express Lanes is part of the I-405 Improvement Project, one of the nation's largest freeway design/build projects and the largest undertaking in OCTA's history. In addition to the managed lanes, the improvement project added one regular lane in each direction between Fountain Valley and Seal Beach to improve travel times and accommodate an expected growth in employment, population, and housing throughout the region.

Built in the median of the newly improved I-405, the 405 Express Lanes includes two lanes in each direction between Costa Mesa and the Los Angeles County border, traveling through six Orange County cities. This proven approach combats traffic gridlock with the added benefit of using toll revenue for future transportation

improvements in the area for all drivers. Construction was completed on schedule and within budget, a true demonstration of OCTA's longstanding history of efficiently delivering projects.

The 405 Express Lanes maximizes the number of vehicles traveling on this stretch of highway and was innovatively designed and constructed primarily within the existing freeway footprint to minimize the project's impacts on residents, businesses, and the corridor cities that span the project area.

Within the first seven months of operations, the monthly transactions grew from 3.8 million in December to 5.2 million in June. It was clear that the 405 Express Lanes made a difference in the lives of residents, commuters, and visitors who can now better access many different destinations in Orange County.

The 405 Express Lanes is modeled after the successful 91 Express Lanes, operated by OCTA since 2003.





The 405 Express Lanes eases the commute throughout the 14-mile stretch from Orange County to the Los Angeles County line.

A Promise of a Smooth Journey: Delivered Through Innovative Tolling Policies and Practices

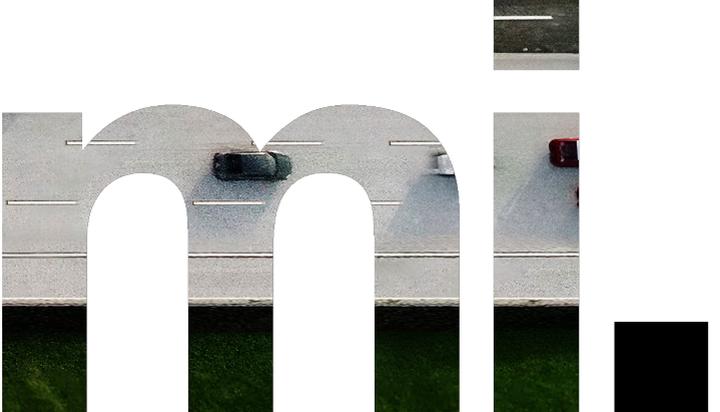
Like the successful and highly respected 91 Express Lanes, the 405 Express Lanes uses innovative practices and strategies.

The 405 Express Lanes employs congestion management pricing to ensure that the lanes remain free-flowing, even during peak hours. By varying toll prices according to demand, the system efficiently manages the volume of vehicles in the express lanes, optimizing usage, and enhancing overall traffic efficiency.

Information collected by the electronic tolling system is transmitted to the state-of-the-art back-office system for customer account billing or violation processing, if needed.

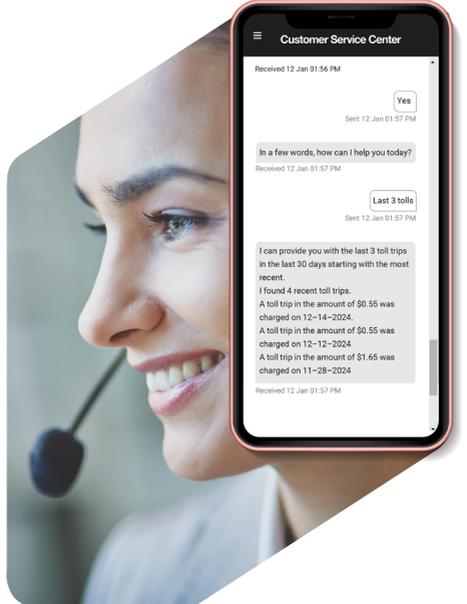
Throughout the 14-mile stretch, nine changeable message signs display pricing to keep customers informed about the current toll rates. Other devices – including eight toll read sites that detect license plates and transponders, nine electronic toll collection sites that determine pricing, and 52 closed-circuit television cameras – work together to capture information necessary for toll lane management.

In addition, free HOV tolling policies incentivize carpooling and reduce the number of single-occupancy vehicles on the road as well as providing discounts to qualified Clean Air Vehicles (CAVs). This tailored approach to tolling for HOVs and CAVs demonstrates OCTA's commitment to encouraging more environmentally friendly travel options and reducing traffic congestion.





Our service center answers approximately 25,000 inquiries and requests for help each and every month.



A Promise to Make Life Easier in Every Way Possible: Delivered by Our New Customer Service Center

To serve the new 405 Express Lanes, OCTA opened a new customer service and walk-in center in Costa Mesa in late November 2023.

The center supports transponder fulfillment, customer service, information technology, finance, management, and other operational services.

Customers can interact with service agents seamlessly using their preferred communication option, including in-person visits at the walk-in center, or by phone, email, chat or social media. Each month, the customer service center receives approximately 25,000 contacts through these various channels.

To serve the diverse needs of Orange County, the center currently employs a bilingual workforce fluent in Spanish and Vietnamese, and also utilizes third-party live translation services.

A Promise of Responsible Financial Stewardship: Delivered Through Innovative Financing

An innovative financing strategy assured funding for the 405 Express Lanes and provides benefits to the community.

To finance the entire 405 Improvement Project, including the 405 Express Lanes, OCTA secured and later refinanced a \$629 million federal loan through TIFIA.

The original TIFIA loan was estimated to save about \$300 million over the life of the loan compared to traditional bond financing. OCTA later reset the interest rate to 1.95%, a first-of-its-kind strategy that will help save an additional \$158 million over the life of the loan.

The TIFIA loan will be repaid solely using the revenue collected from drivers who choose to use the 405 Express Lanes. Toll revenue collected beyond what it costs to repay the loan will fund transportation improvements for everyone who travels through the 405 corridor – whether or not they use the Express Lanes. The interest rate savings will allow more money to be available sooner to make those additional improvements along I-405.

Combined with other innovative financing strategies, the TIFIA loan enabled OCTA to save \$509 million on the I-405 Improvement Project.



Strategic, responsible and innovative financing will save taxpayers approximately \$509 million.

IN SAVINGS





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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Orange County Transportation Authority
Orange, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the 405 Express Lanes Fund (405 EL), a major enterprise fund of the Orange County Transportation Authority (OCTA) as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the 405 EL's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the 405 EL, a major enterprise fund of OCTA, as of June 30, 2024, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matters

As discussed in Note 1, the financial statements present only the 405 EL and do not purport to, and do not, present fairly the financial position of OCTA as of June 30, 2024, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OCTA's internal control, as it relates to the 405 EL. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 405 EL's financial statements. The management's discussion and analysis, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2024 on our consideration of OCTA's internal control over financial reporting, as it relates to the 405 EL, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OCTA's internal control over financial reporting or on compliance, as it relates to the 405 EL. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCTA's internal control over financial reporting and compliance, as it relates to the 405 EL.

Costa Mesa, California
October 31, 2024

Crowe LLP

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*



Board of Directors
Orange County Transportation Authority
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 405 Express Lanes Fund (405 EL), a major enterprise fund of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the 405 EL's financial statements, and have issued our report thereon dated October 31, 2024. As discussed in Note 1, the financial statements present only the 405 EL and do not purport to, and do not, present fairly the financial position of OCTA, the changes in its financial position, or where applicable, its cash flows in conformity with accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCTA's internal control over financial reporting and compliance (internal control), as it relates to the 405 EL, as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCTA's internal control, as it relates to the 405 EL. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control, as it relates to the 405 EL.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 405 EL's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Costa Mesa, California
October 31, 2024

Crowe LLP

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) For the Fiscal Year Ended June 30, 2024

As management of the 405 Express Lanes Fund (405 EL), an enterprise fund of the Orange County Transportation Authority, we offer readers of the 405 EL financial statements this narrative overview and analysis of the 405 EL’s financial activities for the fiscal year ended June 30, 2024. We encourage readers to consider the information on financial performance presented in conjunction with the financial statements that begin on page 19.

Financial Highlights

a. At the end of fiscal year 2023–24, the total net position of the 405 EL was \$(97,468,761) and consisted of net investment in capital assets of \$(12,071,482) and unrestricted net position of \$(85,397,279). Net position increased \$134,827,861 during fiscal year 2023–24, which represents an increase of 58.0% from the fiscal year 2022–23 ending net position. The increase is primarily due to interfund transfer from the Local Transportation Authority (LTA) fund for TIFIA loan allocation between general purpose lanes and express lanes related construction expenses.

b. In fiscal year 2023–24, total operating revenues of the 405 EL was \$17,180,154. The I-405 Express Lanes improvement project is a 16-mile improvement of the San Diego Freeway (I-405) between State Route 73 (SR-73) and Interstate 605 (I-605). The 405 EL was completed and opened to public on December 1, 2023. No comparison was made between current fiscal year and the prior fiscal year, as fiscal year 2023–24 is the first year of operations.

c. Total operating expenses increased by \$21,764,948, which represents an 849.9% increase from fiscal year 2022–23, primarily attributed to operation costs including management and operational services, administrative overhead, professional services, and depreciation expense incurred since the commencement of 405 Express Lanes operations in fiscal year 2023–24, which were not present in the previous fiscal year.

d. At the end of fiscal year 2023–24, investment earnings increased by \$2,558,219, which represents a 300.2% increase compared to fiscal year 2022–23. The increase in investment earnings is a result of interest earned from the interfund transfer from the LTA fund for TIFIA loan allocation between general purpose lanes and express lanes related construction expenses.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the 405 EL’s financial statements. The financial statements are comprised of the fund financial statements and notes to the financial statements.

The statement of net position presents information on all of the 405 EL’s assets, deferred outflows of resources, deferred inflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the 405 EL is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the 405 EL’s net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The 405 EL fund financial statements can be found on pages 19–20 of this report. Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 21–26 of this report.

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) For the Fiscal Year Ended June 30, 2024

405 EXPRESS LANES FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the 405 EL’s financial position. At June 30, 2024, the 405 EL’s net position was \$(97,468,761), an increase of \$134,827,861 or 58.0% from June 30, 2023. Our analysis below focuses on net position (Table 1) and changes in net position (Table 2) of the 405 EL’s financial activities.

**405 EXPRESS LANES FUND
NET POSITION**

	TABLE 1	
	2024	2023
Current and other assets	\$ 102,554,296	\$ 493,748
Non current receivables, net	44,892	—
Capital assets, net	462,486,871	444,598,459
Total assets	565,086,059	445,092,207
Total deferred outflows of resources	106,810,152	—
Current liabilities	15,747,967	19,722,687
Long-term liabilities	746,506,787	626,005,547
Total liabilities	762,254,754	645,728,234
Total deferred inflows of resources	7,110,218	31,660,595
Net position:		
Net investment in capital assets	(12,071,482)	(30,112,588)
Unrestricted	(85,397,279)	(202,184,034)
Total net position	\$ (97,468,761)	\$ (232,296,622)

In fiscal year 2023–24, total assets increased by \$119,993,852 which represents an increase of 27.0% from fiscal year 2022–23, primarily due to an increase of \$89,657,153 in cash and investments resulted by interfund transfer from LTA fund and an increase of \$17,888,412 in capital assets. Total liabilities increased by \$116,526,520 or 18.0% primarily due to recognition of Public–Public Partnerships (PPP) liabilities related to the I-405 Improvement Projects.

The 405 EL’s net investment in capital assets was \$(12,071,482) in fiscal year 2023–24 compared to \$(30,112,588) in fiscal year 2022–23. The 405 EL’s net position reflects its investment in capital assets (i.e., land; improvements; infrastructure; computer hardware and software; equipment; furniture and fixtures; and intangible assets), less any related outstanding debt used to acquire these assets. The 405 EL uses these capital assets to provide improved mobility for 405 EL customers and commuters along the SR-405 corridor. The increase of \$18,041,106 in net investment in capital assets was primarily due to increase in capital assets acquired to support the operations of the 405 EL.

Restricted net position, representing resources subject to external restrictions on how they may be used, represented 0.0% of the total net position at June 30, 2024. The TIFIA loan requires mandatory debt service payments at a minimum and scheduled debt service payments to the extent that additional funds are available. Annual debt service

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) For the Fiscal Year Ended June 30, 2024

payment will commence on June 1, 2028 through June 1, 2058. During the period prior to the TIFIA Debt Service Payment Commencement Date, the TIFIA Mandatory Debt Service shall be deemed to be zero per the TIFIA loan indenture. Funds set aside for scheduled debt service payment was zero due to no excess toll revenue were available for transfer to the TIFIA designated funds and accounts; toll revenue collected in the year was first applied towards the operation and maintenance expenditures of the Toll Road in accordance with the TIFIA loan requirement.

Unrestricted net position represents the portion of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. Unrestricted net position increased from \$(202,184,034) at June 30, 2023 to \$(85,397,279) at June 30, 2024. This increase of \$116,786,755 was primarily due to interfund transfer from the LTA fund for TIFIA loan allocation between general purpose lanes and express lanes related construction expenses.

**405 EXPRESS LANES FUND
CHANGES IN NET POSITION**

	TABLE 2	
	2024	2023
Revenues:		
Operating revenues:		
Tolls, fees, and fines	\$ 17,180,154	\$ —
Operating expenses:		
Management and operational services	4,051,845	—
Administrative overhead	3,353,436	1,734,096
Other operating expenses	234,335	9,279
Insurance claims and premiums	62,613	—
Professional services	7,978,487	683,140
General and administrative	330,901	12,017
Depreciation and amortization	8,314,212	122,349
Total operating expenses	24,325,829	2,560,881
Operating loss	(7,145,675)	(2,560,881)
Nonoperating revenues (expenses):		
Investment earnings	3,410,506	852,287
Interest income	11,848,417	5,950,402
Other	1,492,264	118
Total nonoperating revenues	16,751,187	6,802,807
Income before transfers	9,605,512	4,241,926
Transfers from other OCTA funds	125,222,349	—
Changes in net position	134,827,861	4,241,926
Total net position – beginning	(232,296,622)	(236,538,548)
Total net position – ending	\$ (97,468,761)	\$ (232,296,622)

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) For the Fiscal Year Ended June 30, 2024

The 405 EL’s total operating revenues increased by 100.0%, while total operating expenses increased by 849.9%. The increase in operating revenues is due to the opening of 405 Express Lanes in December 2023. Total traffic volume on the 405 EL during fiscal year 2023–24 was 8,655,968 trips. Investment earnings increased by \$2,558,219 which represents a 300.2% increase compared to fiscal year 2022–23 as a result of interest earned from the interfund transfer from the LTA fund for TIFIA loan allocation between general purpose lanes and express lanes related construction expenses.

Capital Assets

As of June 30, 2024, the 405 EL had \$462,486,871 net of accumulated depreciation and amortization, invested in a broad range of capital assets including: land, improvements, infrastructure, computer hardware and software, equipment, furniture and fixtures, and intangible right-to-use asset (Table 3). The total increase in the 405 EL’s capital assets for fiscal year 2023–24 was \$17,888,412.

**405 EXPRESS LANES FUND
CAPITAL ASSETS, NET OF DEPRECIATION AND AMORTIZATION**

	TABLE 3	
	2024	2023
Land	\$ 27,438,468	\$ —
Construction in progress	160,020	437,230,269
Improvements	1,085,916	1,107,969
Infrastructure	401,682,063	—
Computer hardware and software	26,199,110	—
Equipment, furniture, and fixtures	419,623	420,858
Intangible right-to-use (building)	5,501,671	5,839,363
Total capital assets, net	\$ 462,486,871	\$ 444,598,459

The 405 EL has outstanding capital expense commitments, the most significant of which are \$4,572,372 and \$1,247,448 for the electronic toll and traffic management (ETTM) and back-office system, respectively. Major capital asset additions during fiscal year 2023–24 included \$10,720,635 and \$8,469,378 primarily due to the ETTM system and back-office system, respectively. Net capital assets increased by \$17,888,412 primarily due to additional payments made in current year for the ETTM system and back-office system. Total construction in progress decreased by \$437,070,249 as a result of the opening of the 405 Express Lanes; capital assets in construction in progress status were placed into service and reclassified to their respective asset accounts. More detailed information about the 405 EL’s capital assets is presented in note 5 to the financial statements.

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) For the Fiscal Year Ended June 30, 2024

Debt Administration

As of June 30, 2024, the 405 EL had \$632,355,394 in long-term debt outstanding of TIFIA loan compared to \$620,188,702 at June 30, 2023. The increase is due to current year's interest being accreted to principal in the amount of \$12,166,692. Additional information on long-term debt can be found in note 8 to the financial statements.

Economic and Other Factors

The 405 EL makes up \$44,875,532 or 2.55% of OCTA's fiscal year 2024–25 adopted revenue budget. In fiscal year 2024–25, budgeted toll revenue is forecasted to increase by 91.4% from the fiscal year 2023–24 budgeted value. This increase is because the 405 EL was officially opened for public use on December 1, 2023. The budgeted average long term rate of growth for toll road revenue beyond fiscal year 2024–25 is 2.6%.

The majority of expenses related to the 405 EL within the fiscal year 2024–25 budget are ongoing general costs related to day to day operations of the toll facility. Since the 405 EL is a fully electronic toll facility, motorists pay tolls through the convenient use of windshield-mounted FasTrak® transponders that automatically deduct toll charges from a prepaid account. At the end of fiscal year 2023–24, there were 9,066 active customer accounts, with 16,271 transponders assigned to those accounts.

The 405 Express Lanes Fund will be responsible for managing the operational and capital expenses associated with the 405 EL.

Contacting 405 EL's Management

This financial report is designed to provide a general overview of the 405 EL's finances for all those with an interest in the government's finances and to demonstrate the 405 EL's accountability for the money it receives. Questions related to any of the information provided in this report or requests for additional information should be addressed to the Finance and Administration Division at the Orange County Transportation Authority, 550 South Main Street, P.O. Box 14184, Orange, California 92863-1584.

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
STATEMENT OF NET POSITION For the Fiscal Year Ended June 30, 2024

Assets	
Current Assets:	
Cash and investments	\$ 89,706,701
Receivables:	
Interest	848,791
Violations, net	552,444
Other, net	11,209,510
Condemnation deposits	203,200
Other assets	33,650
Total current assets	102,554,296
Non current Assets:	
Receivable violations, net	44,892
Capital assets, net:	
Non depreciable	27,598,488
Depreciable and amortizable	434,888,383
Total noncurrent assets	462,531,763
Total Assets	565,086,059
Deferred Outflows of Resources	
Deferred outflows – PPP	106,810,152
Total Deferred Outflows of Resources	106,810,152
Liabilities	
Current Liabilities:	
Accounts payable	14,703,345
Accrued interest payable	30,441
Due to other governments	486,857
Unearned revenue	452,281
Other liabilities	18,739
Lease liabilities – due within one year	56,304
Total current liabilities	15,747,967
Noncurrent Liabilities:	
Lease liabilities – due in more than one year	5,760,541
Long-term debt – TIFIA loan – due in more than one year	632,355,394
Long-term liabilities – PPP asset due to transferor	108,390,852
Total noncurrent liabilities	746,506,787
Total Liabilities	762,254,754
Deferred Inflows of Resources	
Deferred inflows on refunding	7,110,218
Total Deferred Inflows of Resources	7,110,218
Net Position	
Net investment in capital assets	(12,071,482)
Unrestricted	(85,397,279)
Total Net Position	\$ (97,468,761)

See accompanying notes to the financial statements.

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30, 2024

Operating revenues:	
Tolls, fees, and fines	\$ 17,180,154
Operating expenses:	
Management and operational services	4,051,845
Administrative overhead	3,353,436
Other operating expenses	234,335
Insurance claims and premiums	62,613
Professional services	7,978,487
General and administrative	330,901
Depreciation and amortization	8,314,212
Total operating expenses	24,325,829
Operating loss	(7,145,675)
Nonoperating revenues (expenses):	
Investment earnings	3,410,506
Interest income	11,848,417
Other	1,492,264
Total nonoperating revenues	16,751,187
Income before transfers	9,605,512
Transfers from other OCTA funds	125,222,349
Change in net position	134,827,861
Total net position – beginning	(232,296,622)
Total net position – ending	\$ (97,468,761)

See accompanying notes to the financial statements.

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
STATEMENT OF CASH FLOWS For the Year Ended June 30, 2024

Cash flows from operating activities:	
Receipts from customers and users	\$ 5,844,328
Payments to suppliers	(12,328,411)
Payments for OCTA interfund services used	(3,353,436)
Other revenues received	1,492,264
Net cash used for operating activities	(8,345,255)

Cash flows from noncapital financing activities:	
Transfers from other funds	125,222,349
Advance to/from other funds	(4,812,301)
Net cash provided by noncapital financing activities	120,410,048

Cash flows from capital and related financing activities:	
Interest paid on long-term debt	(419,723)
Acquisition and construction of capital assets	(24,381,201)
Net cash used for capital and related financing activities	(24,800,924)

Cash flows from investing activities:	
Investment earnings	2,393,284
Net cash provided by investing activities	2,393,284

Net increase in cash and cash equivalents	89,657,153
Cash and cash equivalents at beginning of year	49,548
Cash and cash equivalents at end of year	\$ 89,706,701

Reconciliation of cash and cash equivalents to statement of net position:	
Cash and investments	\$ 89,706,701
Restricted cash and investments	—
Total cash and cash equivalents	\$ 89,706,701

See accompanying notes to the financial statements.

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
STATEMENT OF CASH FLOWS For the Year Ended June 30, 2024

Reconciliation of operating income to net cash used for operating activities:	
Operating loss	\$ (7,145,675)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	8,314,212
Nonoperating revenues	1,492,264
Change in assets and liabilities:	
Violations receivables, net	(597,336)
Other receivables, net	(11,209,510)
Other assets	(96,263)
Amortization of prepaid insurance	62,613
Accounts payable	457,892
Due to other governments	(94,472)
Unearned revenue	452,281
Other liabilities	18,739
Total adjustments	(1,199,580)
Net cash used for operating activities	\$ (8,345,255)

Noncash capital, financing and investing activities:	
Long-term liabilities – PPP asset due to transferor	\$ 108,390,852
Amortization of deferred outflows related to PPP	(1,580,700)
Interest accretion on TIFIA loan	12,166,692
Capital assets accrued in accounts payable	3,478,008

See accompanying notes to the financial statements.

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2024

1. REPORTING ENTITY

Officially inaugurated on December 1, 2023, the 405 Express Lanes (405 EL) span a four-lane, High-Occupancy Toll corridor along I-405, extending from SR-55 to I-605. The 405 Express Lanes being under the jurisdiction of Caltrans, OCTA has entered into a cooperative agreement with Caltrans to delineate the roles and responsibilities of each agency. The 405 Express Lanes are owned by Caltrans but transferred to OCTA for a 40-year term, commencing on December 1, 2023, which was the first day of public use and toll operations. See note 5 for further information on this transaction. These financial statements include only the activities of the 405 Express Lanes Fund, an enterprise fund of OCTA. These financial statements are not intended to present the activities of OCTA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 405 Express Lanes Fund are in conformity with generally accepted accounting principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Basis of Accounting

The financial statements of the 405 Express Lanes Fund are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues, consisting substantially of tolls and fees, are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Toll amounts are collected from customers on a prepaid basis, and unearned tolls are reported as unearned revenue. Toll revenue is recognized when the customers utilize the toll road facility.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the 405 Express Lanes Fund are charges to customers for use of the toll facility and are presented net of discounts and allowances. Operating expenses for the 405 Express Lanes Fund include the cost of services, administrative expenses, and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the 405 Express Lanes Fund's policy to use restricted resources first and then unrestricted resources as they are needed.

Cash and Investments

The 405 Express Lanes Fund participates in OCTA's Commingled Investment Pool. OCTA maintains cash and investments in accordance with an Investment Policy (Policy) adopted initially by OCTA's Board of Directors (Board) on May 8, 1995, and most recently amended on July 1, 2023. The Policy complies with, or is more restrictive than, the California Government Code (Code). At June 30, 2024 the investment portfolios were maintained at U.S. Bank, N.A. as custodial bank. OCTA's Commingled Investment Pool is managed by four private sector investment managers. Separate investment manager accounts are maintained for the proceeds of bond issues, with the earnings for each bond issue accounted for separately. Cash from other OCTA revenue sources is commingled for investment purposes in the OCTA Commingled Investment Pool, with investment earnings allocated to the different accounts based on average daily account balances.

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2024

OCTA holds investments that are measured at fair value on a recurring basis. OCTA categorizes the fair value measurements of its investments based on the hierarchy established by GAAP. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are inputs—other than quoted prices included in Level 1—that are observable including quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active; Level 3 inputs are unobservable inputs. Refer to the OCTA Annual Comprehensive Financial Report (ACFR) for details on valuation techniques and fair value hierarchy.

Investments in U.S. government and U.S. agency securities, medium-term notes, repurchase agreements, variable and floating rate securities, mortgage and asset-backed securities and corporate notes are carried at fair value based on quoted prices of similar assets, except for money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at purchase date, which are carried at amortized cost which approximates fair value.

The Policy requires that assets in the portfolio consist of the following investments, with maximum permissible concentrations based on book value, and may be more restrictive than applicable state statutes for the following investment types: OCTA notes and bonds, U.S. treasuries, federal agencies, municipal debt, banker's acceptances, commercial paper, negotiable certificates of deposit, repurchase agreements, medium-term notes, money market and mutual funds, mortgage or asset-backed securities, supranationals, Local Agency Investment Fund (LAIF), Orange County Investment Pool (OCIP), investment pools, variable and floating rate securities, bank deposits and derivatives. All investments are subject to a maximum maturity of five years, unless specific direction to exceed the limit is given by the Board and as permitted by the Code. OCTA policy is to invest only in high-quality instruments as permitted by the Code, subject to the limitations of the Policy.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, OCTA considers all short-term investments with an initial maturity of three months or less to be cash equivalents. All deposits, commercial paper, money market funds, certificates of deposit, and the 405 Express Lanes Fund's share of the OCTA Commingled Investment Pool represent cash and cash equivalents for cash flow purposes.

Restricted Cash and Investments

The 405 Express Lanes will have up to two internal reserve accounts as well as three reserve accounts required due to outstanding debt to be held by the trustee. The type and amount of the internal reserve accounts will be determined at a future date as OCTA evaluates the available revenue to fund the accounts based on first satisfying the TIFIA loan requirements. Permitted investments per the debt covenants include: Government obligations, certificates of deposit that are collaterally secured by Government obligations, repurchase agreements, investment agreements, and money market funds that invest solely in obligations of the United States of America.

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2024

Receivables

Violations receivables include an estimate for outstanding unpaid violations that the 405 Express Lanes Fund anticipates to collect. Since the 405 Express Lanes has only been in operation for less than a year, there is no sufficient collection history to determine the collection percentage. Due to the similarities between the 91 and 405 Express Lanes, OCTA used the collection percentage from the 91 Express Lanes to estimate the outstanding unpaid violations for the 405 Express Lanes for fiscal year 2023–24. For violations less than or equal to 90 days old, the receivable is estimated based on a 12-month average of violations collection rate from the 91 Express Lanes, and is recorded net of an allowance for uncollectible accounts of \$2,062,867 at June 30, 2024. For unpaid violations in excess of 90 days, the receivable is estimated using a three-year average of violations collection rate from the 91 Express Lanes and is recorded net of uncollectible accounts as the majority is not considered probable of collection. Violation receivable estimation will utilize collection data of the 405 Express Lanes as historical data becomes available.

Other receivables include amounts due from other California toll road agencies related to their customers' use of the 405 Express Lanes, as well as amounts owed from customers, net of an allowance for uncollectible accounts of \$0 at June 30, 2024. An estimated \$44,892 of violation and customer receivables are not expected to be collected within one year. The 405 Express Lanes utilizes an outside collection agency to assist in the recovery of unpaid customer balances and violations exceeding 90 days.

Due from Other Governments

Due from other governments include receivables due from other government agencies.

Condemnation Deposits

Condemnation deposits are required by the law for eminent domain acquisition of real property proceedings. Payments are issued to the State Treasury and the amount is determined by the court. Deposits are retained in the State Condemnation Deposits fund until the court orders payment to the grantor (property owner).

Other Assets

Other assets include prepaid expenses and refundable deposits.

Capital Assets

Capital assets are tangible and intangible assets, which include land, construction in progress, leasehold improvements, infrastructure, equipment, computer and software, furniture and fixtures, and intangible right-to-use assets. Capital assets are defined by the 405 Express Lanes Fund as assets with an initial, individual cost of more than \$5,000 and a useful life in excess of one year. The 405 Express Lanes does not capitalize transponders as the new 6C sticker and switchable transponders have a perpetual lifespan due to their design. In addition, customers are not required to return the transponders upon closing their toll accounts; therefore, the 6C transponders are not capitalized. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. The 405 Express Lanes also records the value of intangible right to use assets based on the underlying leased asset in accordance with GASB Statement No. 87, Leases. The intangible right to use intangible asset is amortized each year for the shorter of lease term or useful life of asset.

Capital assets are depreciated/amortized using the straight-line method over the following estimated useful lives:

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2024

Capital Asset Type	Useful Life
Leasehold improvements	20 years
Infrastructure	40–50 years
Computer hardware and software	3 years
Equipment, furniture and fixtures	3–10 years
Intangible right-to-use assets	20 years

Leases

OCTA adopted GASB Statement No. 87 Leases for the fiscal year ended June 30, 2022. The 405 Express Lanes Fund recorded lease liabilities and lease assets at the commencement of the lease term. The lease liabilities are measured at the present value of payments expected to be made during the lease term less any lease incentives. The lease assets are measured at the amount of the initial measurement of the lease liabilities, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. As of June 30, 2024, the 405 Express Lanes Fund has one item that qualifies for reporting in this category. It is the deferred outflows related to Public–Public Partnership Arrangements (PPP) between OCTA and the State of California, Department of Transportation (Caltrans). Under the agreement, OCTA will design and build the I-405 Improvement Project, and be responsible for the operation of I-405 Toll Facility for 40 years commencing as of the first day on which the Toll Facility opens for public use and toll operations. OCTA will set, collect, and retain tolls during this period. At the end of the 40 years term, all property owned by OCTA and which is related to the Toll Facility, shall automatically become the property of Caltrans. The estimated carrying value of the I-405 Toll Facility is recognized as deferred outflows of the PPP arrangement.

Due to Other Governments

Due to other governments include payables due to other government agencies.

Risk Management

The 405 Express Lanes Fund purchases commercial property insurance including fire, flood and earthquake coverage, which also covers business interruption related to the operation of the toll facility. Additionally, the 405 Express Lanes Fund participates in OCTA's self-insurance general liability program. Liability claims are resolved by OCTA and are an expense of the 405 Express Lanes Fund.

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2024

Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources and is classified into three categories:

- *Net investment in capital assets* – Reflects net position of the 405 Express Lanes Fund invested in capital assets and the intangible asset net of related debt. This net position is not accessible for other purposes.
- *Restricted net position* – Represents net position not accessible for general use, with the use subject to restrictions enforceable by third parties. The net position for the 405 Express Lanes is restricted by the TIFIA Loan Master Indenture for debt service, capital, and operating expenses.
- *Unrestricted net position* – Represents net position available for general use.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures during the reporting period. As such, actual results could differ from those estimates.

Administrative Services Costs

OCTA allocates indirect costs related to administrative services from certain funds to benefiting funds. For fiscal year 2023–24, \$3,353,436 of administrative services were charged to the 405 EL and are reported as operating expenses in the statement of revenues, expenditures and changes in net position.

3. CASH AND INVESTMENTS

Cash and investments are comprised of the following at June 30, 2024:

Cash	
Petty cash	\$ 550
Deposits	1,432,571
Total cash	1,433,121
Investments	
With OCTA Commingled Investment Pool	88,218,391
With trustee	55,189
Total investments	88,273,580
Total cash and investments	\$ 89,706,701

Total deposits and investments are reported in the financial statements as:

Unrestricted cash and investments	\$ 89,706,701
Restricted cash and investments	—
Total cash and investments	\$ 89,706,701

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2024

As of June 30, 2024, the 405 Express Lanes Fund had the following investments:

Investment	Fair Value	Yield	Interest Rate	Maturity	Weighted Average Maturity (Years)
OCTA Commingled Investment Pool	\$ 88,218,391			Refer to the OCTA Annual Comprehensive Financial Report for information related to the OCTA Commingled Investment Pool.*	
Held by trustee:					
Money Market Funds*	55,189	4.930%	4.930%	7/01/2024	0.003
Total investments	\$ 88,273,580				

Portfolio Weighted Average 2.256

*Money market funds and commercial paper are measured at amortized cost which approximates fair value.

As of June 30, 2024, the 405 Express Lanes Fund had \$88,218,391 invested in the OCTA's Commingled Investment Pool (CIP). OCTA's CIP investments are carried at fair value except for money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at purchase date carried at amortized cost which approximates fair value.

Deposits and withdrawals in the OCTA's CIP are made on the basis of \$1.00 (cost basis) and not fair value. Accordingly, the 405 Express Lanes Fund's investment in the OCTA's CIP at June 30, 2024 is uncategorized, not defined as a Level 1, Level 2, or Level 3 input.

Refer to the OCTA Annual Comprehensive Financial Report for fiscal year 2023–24 for details on valuation techniques, fair value hierarchy, interest rate risk, variable rate notes and custodial credit risk related to the OCTA's CIP underlying investments.

Credit Risk

The Policy sets minimum acceptable credit ratings for investments from any of the three nationally recognized rating services: Standard & Poor's Corporation (S&P), Moody's Investors Service (Moody's), and Fitch Ratings (Fitch). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F1 (Fitch), while an issuer of long-term debt must be rated no less than an "A" by two of the three rating services. OCTA's CIP is not rated.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of fair value of the 405 Express Lanes Fund's portfolio at June 30, 2024 (NR means Not Rated):

Investments	S&P	Moody's	% of 405 EL Fund
OCTA Commingled Investment Pool	NA	NA	99.94%
Held by trustee:			
Money Market Funds	AAA	Aaa	0.06%
Total			100.000%

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2024

Concentration of Credit Risk

At June 30, 2024, OCTA did not exceed the Policy maximum concentrations. Issuer/Counter-Party Diversification Guidelines for All Securities Except U.S. Treasuries and U.S. Government Agency Securities:

- Any one corporation, bank, local agency, special purpose vehicle or other corporate issuer name for one or more series of securities shall not exceed 5% of the portfolio.

Issuer/Counter-Party Diversification Guidelines for OCTA's Debt:

- OCTA can purchase all or a portion of the Orange County Transportation Authority's debt, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate, providing the purchase does not exceed 25% of the Maximum Portfolio and when authorized by the Internal Revenue Service.

There is no issuer exceeding 5% of the fair value of the 405 Express Lanes Fund's portfolio at June 30, 2024.

4. INTERFUND ACTIVITIES

During fiscal year 2023-24, the LTA Fund transferred \$125,222,349 to 405 Express Lanes Fund for TIFIA loan allocation between general purpose lanes- and express lanes-related construction expenses.

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2024

5. CAPITAL ASSETS

Capital asset activity for the 405 Express Lanes Fund for the year ended June 30, 2024 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ —	\$ 27,438,468	\$ —	\$ 27,438,468
Construction in progress	437,230,269	—	(437,070,249)	160,020
Total capital assets, not being depreciated and amortized	437,230,269	27,438,468	(437,070,249)	27,598,488

Capital assets, being depreciated:

Improvements	1,147,748	35,897	—	1,183,645
Infrastructure	—	406,287,092	—	406,287,092
Computer hardware and software	—	27,910,896	—	27,910,896
Equipment, furniture and fixtures	456,644	64,650	—	521,294
Intangible right-to-use (building)	5,913,279	—	(44,830)	5,868,449
Total capital assets, being depreciated and amortized	7,517,671	434,298,535	(44,830)	441,771,376

Less accumulated depreciation and amortization for:

Improvements	(39,779)	(57,950)	—	(97,729)
Infrastructure	—	(4,605,029)	—	(4,605,029)
Computer hardware and software	—	(1,711,786)	—	(1,711,786)
Equipment, furniture and fixtures	(35,786)	(65,885)	—	(101,671)
Intangible right-to-use (building)	(73,916)	(292,862)	—	(366,778)
Total accumulated depreciation and amortization	(149,481)	(6,733,512)	—	(6,882,993)
Total capital assets, being depreciated and amortized, net	7,368,190	427,565,023	(44,830)	434,888,383
Total capital assets, net	\$ 444,598,459	\$ 455,003,491	\$ (437,115,079)	\$ 462,486,871

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2024

6. PUBLIC-PUBLIC PARTNERSHIPS (PPP)

In March 2017, OCTA entered into an agreement with the State of California, Department of Transportation (Caltrans), under which OCTA will design and build the I-405 Improvement Project, and be responsible for the operation of I-405 Toll Facility for 40 years commencing as of the first day on which the Toll Facility opens for public use and toll operations. OCTA will set, collect, and retain tolls during this period. At the end of the term of this agreement, all property owned by OCTA and which is related to the Toll Facility, shall automatically become the property of Caltrans. With the implementation of GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, OCTA has identified this arrangement as a PPP.

On December 1, 2023, the I-405 Improvement Project reached substantial completion and the 405 Express Lanes opened to public use. The value of the Toll Facility associated with the PPP arrangement recognized on December 1, 2023 was \$431,959,386. As of June 30, 2024, OCTA has recognized a liability measured based on the estimated carrying value of the Toll Facility at the end of the 40-year term for \$108,390,852 and deferred outflows of resources related to the I-405 Improvement Projects in the amount of \$106,810,152.

7. LEASES

OCTA adopted GASB Statement No. 87, Leases, effective fiscal year ended June 30, 2022. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The 405 Express Lanes has one leasing arrangement, summarized below:

Lessee:

The 405 Express Lanes entered into a lease agreement for the use of 405 Express Lanes Costa Mesa office space for 240 months, beginning April 1, 2023. The lease terminates March 31, 2043. At June 30, 2024, the balance of intangible right to use asset and lease liabilities were \$5,501,671 and \$5,816,845, respectively. During fiscal year 2023-24, the 405 Express Lanes recorded \$366,778 in amortization expense and \$367,114 in interest expense for the right to use the office space. The 405 Express Lanes used an incremental discount rate of 6.28%, based on an estimated incremental borrowing rate.

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2024

Remaining obligations associated with these leases are as follows:

Year ending June 30,	Principal	Interest	Total
2025	\$ 56,304	\$ 363,696	\$ 420,000
2026	84,070	359,555	443,625
2027	97,801	353,699	451,500
2028	112,633	347,333	459,966
2029	146,258	339,105	485,363
2030–2043	5,319,779	2,863,458	8,183,237
Total	\$ 5,816,845	\$ 4,626,846	\$ 10,443,691

The amortized right-to-use assets activity for the year ended June 30, 2024, is as follows:

Lessee Activities	Beginning Balance	Additions	Reductions	Ending Balance
Intangible right-to-use assets:				
Office space	\$ 5,839,363	\$ (292,862)	(44,830)	\$ 5,501,671
Total	\$ 5,839,363	\$ (292,862)	(44,830)	\$ 5,501,671

Lease liability activities associated with these leases are as follows:

Lease Liabilities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Buildings:					
405 EL Customer Service Center	\$ 5,869,731	—	\$ (52,886)	\$ 5,816,845	\$ 56,304
Total	\$ 5,869,731	\$ —	\$ (52,886)	\$ 5,816,845	\$ 56,304

8. LONG-TERM DEBT

TIFIA Loan

On September 9, 2021, OCTA and the Department of Transportation Build America Bureau Credit Programs Office (Bureau) executed a TIFIA loan for \$628,930,000 as a direct borrowing with an interest rate of 1.95%. The proceeds financed a portion of the costs for the I-405 Improvement project.

During the construction of the I-405 Improvement project, and for a period of up to five years following the substantial completion, interest on the TIFIA loan is accreted and added to the initial TIFIA loan. The loan requires mandatory debt service payments at a minimum and scheduled debt service payments to the extent that additional funds are available. Annual debt service payment will commence on June 1, 2028 through June 1, 2058. OCTA prepaid \$15,218,705 of principal on the TIFIA loan in fiscal year 2022-23. As of June 30, 2024, the unused balance under the loan agreement is \$0. The outstanding balance of the TIFIA loan is \$632,355,394 which includes interest accretion of \$18,644,099 through June 30, 2024.

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2024

The TIFIA loan is secured solely by toll revenues of the I-405 Express Lanes, which commenced operations in December 2023. The loan is non-recourse debt and is issued on a senior lien basis. The credit rating on the TIFIA loan is Baa2 (Moody's). The legal documents for the TIFIA loan contain provisions with finance-related consequences, that if an event of default occurs and continues, the trust estate shall be under the control of the trustee. Also, under the TIFIA Loan Agreement interest increases to the Default Rate, and the US Department of Transportation has the option of holding up loan disbursements. The OCTA's legal documents also contain acceleration clauses, whereas the OCTA's obligations shall automatically become due and payable.

In accordance with the projected TIFIA loan maturity schedule, the annual debt service requirements to maturity for the TIFIA loan payable throughout the term of the loan are as follows:

Year ending June 30,	Principal	Interest	Total
2025	—	—	—
2026	—	—	—
2027	—	—	—
2028	—	6,588,588	6,588,588
2029	—	13,159,126	13,159,126
2030–2058	675,752,649	261,963,800	937,716,449
Total	\$ 675,752,649	\$ 281,711,514	\$ 957,464,163

Changes in Long-Term Obligations

Long-term liabilities activity for the year ended June 30, 2024, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
TIFIA loan principal	\$ 613,711,295	\$ —	\$ —	\$ 613,711,295	\$ —
TIFIA loan accreted interest	6,477,407	12,166,692	—	18,644,099	—
Total long-term debt	\$ 620,188,702	\$ 12,166,692	\$ —	\$ 632,355,394	\$ —

Pledged Revenue

The 405 Express Lanes debt issuance outstanding is secured solely by the pledging of toll revenues. Pursuant to the TIFIA loan agreement, beginning in the first full fiscal year following the substantial competition date for the I-405 improvement project, OCTA will covenant to adopt a toll policy that shall be sufficient to produce net revenue for each fiscal year at least equal to 1.35 times annual debt service on Senior Lien Bonds. Annual debt service payment for the TIFIA loan will commence on June 1, 2028.

Pledged revenue for the year ended June 30, 2024, is as follows:

	Annual Amount of Net Pledged Revenue	Annual Debt Service Payments	Pledged Revenue Coverage	Required Debt Coverage
405 Express Lanes Net Toll Road Revenue	\$4,576,402	\$ —	0.00	1.35

405 EXPRESS LANES FUND An Enterprise Fund of the Orange County Transportation Authority
NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2024

9. COMMITMENTS AND CONTINGENCIES

Operator Agreement

OCTA entered into an agreement with WSP USA Services on January 14, 2022 to provide operating services and back-office system implementation services for the 405 Express Lanes. The initial term of the agreement is for eight years and six months through July 14, 2030 with a maximum obligation of \$106,069,864. The agreement carried two extension options with option term 1 for up to three years and option term 2 for up to two years.

Purchase Commitments

The 405 Express Lanes has various outstanding contracts. Total purchase commitments at June 30, 2024 were \$160,653,288. The most significant are with WSP USA Services Inc for the operations of the 405 Express Lanes and implementation of back-office system, with Kapsch TrafficCom for toll lanes integrator services, and with California Highway Patrol (CHP) for patrol services.

10. EFFECT OF NEW PRONOUNCEMENTS

GASB Statement No. 99

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 100

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The implementation of this Statement did not have a material effect on the financial statements.

2024 OCTA Board of Directors

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Vice Chair

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