

**91 EXPRESS LANES FUND  
(An Enterprise Fund of the Orange  
County Transportation Authority)**

**FRANCHISE AGREEMENT REPORT**

Year Ended June 30, 2009

**91 EXPRESS LANES FUND  
(AN ENTERPRISE FUND OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)**

**FRANCHISE AGREEMENT REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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Board of Directors  
Orange County Transportation Authority  
Orange, California

### **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying special-purpose Franchise Agreement schedules of the Orange County Transportation Authority's 91 Express Lanes Fund (91 Express Lanes Fund), an enterprise fund of the Orange County Transportation Authority (OCTA) as of and for the year ended June 30, 2009, as listed in the table of contents. These special-purpose financial schedules are the responsibility of OCTA's management. Our responsibility is to express an opinion on the financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance that the special-purpose financial schedules are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OCTA's internal control over financial reporting relating to the 91 Express Lanes Fund. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial schedules, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial schedules. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying special-purpose Franchise Agreement schedules were prepared for the purpose of complying with Section 3.6(b) of the Amended and Restated Development Franchise Agreement for State Route 91 Median Improvements dated June 30, 1993 and amended December 20, 2002, between OCTA and the State of California Department of Transportation (Caltrans), and are not intended to present the 91 Express Lanes Fund's financial position as of June 30, 2009, and its changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the accompanying special-purpose Franchise Agreement schedules referred to above, as of June 30, 2009 and for the year then ended, are fairly presented, in all material respects, in conformity with the basis of accounting described in Note 1.

This report is intended solely for the information and use of the Board of Directors, OCTA's management, and Caltrans, and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman McCann P.C.*

Irvine, California  
October 19, 2009

**91 EXPRESS LANES FUND**  
**(AN ENTERPRISE FUND OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)**  
**SCHEDULE OF CHANGES IN CAPITAL COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

Asset Category	Beginning Balance	Additions	Dispositions	Ending Balance	Accumulated Amortization and Depreciation
Toll Facility Franchise	\$ 205,263,668	\$ -	\$ -	\$ 205,263,668	\$ (47,650,494)
Improvements and Equipment	14,139,590	572,611	622,429	14,089,772	(8,479,130)
Total	<u>\$ 219,403,258</u>	<u>\$ 572,611</u>	<u>\$ 622,429</u>	<u>\$ 219,353,440</u>	<u>\$ (56,129,624)</u>

See accompanying notes to the Franchise Agreement Schedules.

**91 EXPRESS LANES FUND**  
**(AN ENTERPRISE FUND OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)**  
**SCHEDULE OF AVAILABLE CASH FLOW - BASE RETURN ON INVESTMENT**  
**FOR THE YEAR ENDED JUNE 30, 2009**

Total Revenues:		
Gross Tolls	\$	43,704,888
Interest on Reserves		930,211
Interest on Cash Balances/Investment		2,221,394
Other Income		32,861
		<u>46,889,354</u>
	Total Revenues	
Operating Costs:		
Contracted Services		6,207,624
Administrative Services		1,762,732
Other		792,251
Insurance		383,545
Professional Services and Fees		6,190,424
General and Administrative		470,641
Net Operating Reserve Fund and Major Maintenance		
Reserve Fund Contributions		2,362,981
		<u>18,170,198</u>
	Total Operating Costs	
Capital Costs:		
Capital Acquisition Costs		572,611
Net Reserve Fund and Supplemental Reserve Fund		
Contributions/(Distributions)		1,643,311
		<u>2,215,922</u>
	Total Capital Costs	
		20,386,120
Available Cash Flow, current period		26,503,234
Base Return Rate		17%
Present Value of Available Cash Flow at Base Return Rate, current period		3,172,875
Cumulative present value of Available Cash Flow retained by OCTA as		
Base Return on Investment, beginning of period		41,715,037
Cumulative present value of Available Cash Flow, end of period		<u>\$ 44,887,912</u>
Available Cash Flow, current period	\$	26,503,234
Change in working capital, current period		1,572,055
Other non-cash operating costs, current year		142,335
Available Cash Flow, current period, calculated on the cash basis	\$	<u>28,217,624</u>

See accompanying notes to the Franchise Agreement Schedules.

**91 EXPRESS LANES FUND**  
**(AN ENTERPRISE FUND OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)**  
**SCHEDULE OF RETURN ON INVESTMENT**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Base Return on Investment
Cumulative present value of Available Cash Flow, end of period	\$ 44,887,912
Less: Capital Cost at acquisition	(205,263,668)
Base Net Present Value and Total Net Present Value, respectively, end of period	\$ (160,375,756)
Cumulative present value of Available Cash Flow retained by OCTA, beginning of period	\$ 41,715,037
Present value of Available Cash Flow retained by OCTA, current period	3,172,875
Cumulative present value of Available Cash Flow retained by OCTA, end of period	\$ 44,887,912

See accompanying notes to the Franchise Agreement Schedules.



**91 EXPRESS LANES FUND**  
**(AN ENTERPRISE FUND OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)**  
**SCHEDULE OF PROJECT FUNDS DISTRIBUTION AND RECONCILIATION OF CASH BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Retained by OCTA			Paid to Caltrans		Total
	Available Cash Flow	Base Return	Incentive Return	Variable Franchise Fee	Excess Franchise Fee	
Balances, beginning of period	\$ 41,715,037	\$ 41,715,037	\$ -	\$ -	\$ -	\$ 41,715,037
Available Cash Flow, current period	3,172,875	3,172,875	-	-	-	3,172,875
Balances, end of period	<u>\$ 44,887,912</u>	<u>\$ 44,887,912</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,887,912</u>

Reconciliation of Cash Balances:

Cash, beginning of period	\$ 52,833,188
Total Revenues	46,889,354
Total Operating Costs	(18,170,198)
Less:	
Capital Costs	(572,611)
Interest Expense	(15,028,418)
Payment of Long-term Debt	(4,345,000)
Amortization of Premium on Toll Road Revenue Refunding Bonds	(252,541)
Increase in Capital Reserves	(1,643,311)
Payment on Advances from Other Funds	(20,000,000)
Transfers to Other Funds	(3,024,000)
Add:	
Accrued Interest on Subordinated Debt due to Other OCTA funds	2,543,125
Amortization of Deferred Amount on Refunding of Taxable Debt	1,067,806
Amortization of Cost of Issuance on Toll Road Revenue Refunding Bonds	142,335
Federal operating assistance grants received	9,780
Other changes in Assets and Liabilities	2,892,842
Cash, end of period	<u>\$ 43,342,351</u>

See accompanying notes to the Franchise Agreement Schedules.

**91 EXPRESS LANES FUND**  
**(AN ENTERPRISE FUND OF THE ORANGE COUNTY TRANSPORTATION AUTHORITY)**  
**SCHEDULE OF CHANGES IN RESERVE BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

Description:	Beginning Balance	Additions	Reductions	Ending Balance	Interest Earned
Operating:					
Major Maintenance Reserve Fund	\$ 7,786,666	\$ 2,318,401	\$ -	\$ 10,105,067	\$ 118,401
Operating Reserve Fund	3,178,127	44,580	-	3,222,707	44,580
Capital:					
Reserve Fund	12,634,944	533,812	(323,919)	12,844,837	533,812
Supplemental Reserve Fund	10,384,076	1,433,418	-	11,817,494	233,418
Total	<u>\$ 33,983,813</u>	<u>\$ 4,330,211</u>	<u>\$ (323,919)</u>	<u>\$ 37,990,105</u>	<u>\$ 930,211</u>

See accompanying notes to the Franchise Agreement Schedules.



## **NOTES TO FRANCHISE AGREEMENT SCHEDULES**

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### **I. BASIS OF PRESENTATION**

The accompanying schedules have been prepared in accordance with Section 3.6(b) of the Franchise Agreement between the California Private Transportation Company, L.P. (CPTC) and the State of California Department of Transportation (Caltrans). On January 3, 2003, the Orange County Transportation Authority (OCTA) purchased from the CPTC its interest in the Franchise Agreement for a toll facility on a 10-mile segment of the Riverside Freeway/State Route (SR) 91 between Interstate 15 and the Costa Mesa Freeway/SR 55.

These schedules are not intended to be a presentation in conformity with accounting principles generally accepted in the United States; however, certain financial information has been derived from the audited financial statements of the 91 Express Lanes Fund, an enterprise fund of the Orange County Transportation Authority which accounts for the toll facility operations. The accompanying schedules have been prepared using the accrual basis of accounting, except for interest expense and depreciation and amortization expense, which are not included in operating costs, and have been reconciled to the cash basis of accounting where appropriate.

#### **AVAILABLE CASH FLOW**

Available Cash Flow, as defined by the Franchise Agreement, is for a Fiscal Year, Total Revenues minus Operating Costs and Capital Costs, as defined. A reconciliation of Available Cash Flow, calculated using the accrual basis of accounting, to Available Cash Flow, calculated using the cash basis of accounting, has been presented in accordance with the Franchise Agreement. Available Cash Flow may be retained by OCTA, as successor interest to CPTC, until such time as the Base Net Present Value, as defined, is zero or greater, after which OCTA must pay a portion of these excess amounts to Caltrans as franchise fees.

#### **BASE RETURN RATE**

The Base Return Rate, as defined by the Franchise Agreement, is 17% adjusted annually by 20% of the increase in the average yield of five-year United States Treasury securities between November 1995 (month preceding acceptance date of the toll facility) and the last month of each fiscal year following the acceptance date, if applicable. No adjustment was made to the Base Return Rate for the year ended June 30, 2009.

#### **INCENTIVE RETURN RATE**

As defined by the Franchise Agreement, Incentive Return Rate represents the Base Return Rate plus an increase, if Annual Peak Hour Vehicle Occupant Volume for the current period exceeds the Base Peak Hour Vehicle Occupant Volume, which represents the average levels experienced during the first two years of operations (1996 and 1997) of 13,358.

Annual Peak Hour Vehicle Occupant Volume is the product of multiplying the Peak Hour Vehicle Count and the Estimate of Average Vehicle Occupants. The Peak Hour Vehicle Count is defined as the total

number of vehicles passing through the Combined Transportation Facility during the 50<sup>th</sup> busiest hour of the period, and the Estimate of Average Vehicle Occupants is the average number of persons per vehicle. The Peak Hour Vehicle Count is determined by OCTA, as calculated by its contracted operator. The Estimate of Average Vehicle Occupants is calculated by OCTA's contracted operator.

OCTA has elected to use the Base Rate of Return as specified in the Franchise Agreement. As such, the calculation of the Annual Peak Hour Vehicle Occupant Volume and Incentive Return Rate for the current period has not been included in the schedules.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **CAPITAL COSTS**

Capital Costs, as defined by the Franchise Agreement, includes costs related to the study, design, development, construction, acquisition, installation, modification, repair, reconstruction, replacement, and rehabilitation of the toll facility, as well as OCTA's continued compliance with the terms of the Franchise Agreement, as defined. Leasehold improvements and equipment include the costs to construct the electronic toll and traffic management system (ETTM) replacement, which identifies and reports traffic statistics generated from customer travel through the toll facility, and the costs to acquire transponders, which are electronic tags issued to customers for individual toll tracking by the ETTM.

Capital Costs at acquisition represents OCTA's purchase price of \$207,500,000 for the toll facility interest, adjusted for certain assets acquired and the assumption of certain liabilities at the acquisition date.

## 3. TOLL ROAD REVENUE REFUNDING BONDS

On January 3, 2003, OCTA acquired certain restricted investments set aside for capital maintenance and debt service coverage in accordance with certain debt indenture requirements. On November 12, 2003, OCTA issued \$195,265,000 in Toll Road Revenue Refunding Bonds (91 Express Lanes) Series 2003-A, Series 2003-B-1 and Series 2003-B-2 to refinance the \$135,000,000 taxable 7.63% Senior Secured Bonds and to reimburse OCTA for a portion of its prior payment of the costs of acquiring the Toll Road and certain other property and interests associated with the Toll Road. The Series 2003-A Bonds were issued as fixed rate bonds, the Series 2003-B-1 Bonds and the Series 2003-B-2 Bonds were issued as adjustable rate bonds.

On November 24, 2008, OCTA remarketed \$100,000,000 in Toll Road Revenue Refunding Bonds (91 Express Lanes) Series 2003-B-1 and Series 2003-B-2 (collectively the "Series 2003 B Bonds") that were issued on November 12, 2003. The Series 2003 B Bonds were originally issued as adjustable rate bonds. In connection with the mandatory tender of the Series 2003 B Bonds required by the Indenture, the interest rate was converted to a Long Term Interest Rate equal to the Orange County Investment Pool (OCIP) Rate, or 3.85%. The Series 2003 B Bonds are subject to mandatory tender for repurchase by or for the benefit of OCTA on December 19, 2010.



## NOTES TO FRANCHISE AGREEMENT SCHEDULES

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As a means to lower its borrowing costs, when compared against fixed rate bonds at the time of issuance in November 2003, OCTA entered into two parity interest rate swaps totaling \$100,000,000 in connection with its \$195,265,000 Toll Road Revenue Refunding Bonds. \$95,265,000 was issued on a fixed rate basis and \$100,000,000 was issued on a variable rate basis. The Series 2003-B-1 swap was for \$75,000,000 and the counterparty is Lehman Brothers Special Funding Incorporated (Lehman Brothers). The Series 2003-B-2 swap was for \$25,000,000 and the counterparty was Bear Stearns Capital Markets Incorporated. On May 30, 2008, JP Morgan completed its acquisition of The Bear Stearns Companies Incorporated. As a result of the merger, JP Morgan assumed the \$25,000,000 interest rate swap between OCTA and Bear Stearns Capital Markets Incorporated. The effective rate on the parity swaps was to effectively change OCTA's variable rate bonds to a synthetically fixed rate of 4.06227%.

On November 23, 2005, Lehman Brothers Holding Inc. named Lehman Brothers Commercial Bank as the counterparty for the interest rate swap replacing Lehman Brothers Special Financing Inc. On September 15, 2008, Lehman Brothers Holding Inc. declared bankruptcy. As of the audit report date, Lehman Brothers Commercial Bank had not declared bankruptcy.

On October 2, 2008, OCTA provided a Notice of Event of Default and Reservation of Rights letter to Lehman Brothers Special Financing and Lehman Brothers Commercial Bank regarding the rating downgrade and the missed counterparty payment of \$228,340 on October 1, 2008. On February 15, 2009 and August 15, 2009, OCTA did not remit payment to Lehman Brothers as part of the swap agreement because of Lehman Brother's Event of Default. OCTA continues to work with general counsel and bond counsel to determine the impact of the bankruptcy on OCTA's interest rate swap.

#### 4. RESERVES

Section 9.7 of the Franchise Agreement allows for the establishment of limited cash reserves for major maintenance, debt service, capital improvements and working capital needs. Pursuant to the 2003 Toll Road Revenue Refunding Bonds Master Indenture of Trust, the following four reserve funds were created:

- *RESERVE FUND* – The balance in the Reserve Fund is required to be at least equal to the Reserve Fund Requirement. As of the date of issuance of the Series 2003 Bonds, and for the fiscal year ending June 30, 2009, the Reserve Fund Requirement was equal to \$12,634,792.
- *SUPPLEMENTAL RESERVE FUND* – The Supplemental Reserve Fund was initially funded with \$6,000,000 from the proceeds of the issuance of the Series 2003 Bonds. Commencing January 2006 through January 2012, OCTA shall deposit into the Supplemental Reserve Fund \$100,000 per month, or until the Supplemental Reserve Fund equals \$12,634,792. The Supplemental Reserve Fund may be released to OCTA if one of two conditional requirements are met: (i) for the two consecutive 12 month periods following the completion of the General Purpose Lanes Capacity Project, the aggregate amount of the Adjusted Net Toll Revenues is not less than 1.75 times Annual Debt Service; or (ii) as of July 1, 2017, the aggregate amount of the Adjusted Net Toll Revenues is not less than 2.5 times Annual Debt Service for the prior two Fiscal Years and the aggregate amount of the projected Adjusted

## NOTES TO FRANCHISE AGREEMENT SCHEDULES

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Net Toll Revenues is not less than 2.0 times Annual Debt Service for the next two Fiscal Years based upon an opinion from a Traffic Consultant.

- *MAJOR MAINTENANCE RESERVE FUND* – OCTA shall deposit into the Major Maintenance Reserve Fund \$100,000 per month commencing January 2004 through December 2006 and \$200,000 per month commencing January 2007 through December 2009 or until the Major Maintenance Reserve Fund equals \$10,000,000. The Major Maintenance Reserve Fund shall be used for the payment of Capital Expenditures. The Major Maintenance Reserve Fund balance requirement has been satisfied.
- *OPERATING RESERVE FUND* – OCTA shall deposit into the Operating Reserve Fund \$115,000 per month commencing January 2004 through December 2006, or until the Operating Reserve Fund equals \$2,750,000. The Operating Reserve Fund shall be used for the payment of Current Expenses. The Operating Reserve Fund balance requirement has been satisfied.

Reserve fund contributions and distributions have been included in Operating Costs and Capital Costs in the calculation of Available Cash Flow for purposes of determining Base Return on Investment and Reasonable Return on Investment.

Detailed information on debt and reserves may be found in OCTA's Comprehensive Annual Financial Report, which may be obtained from its executive office: 550 South Main Street, Orange, CA 92863.

### 5. OPERATOR AGREEMENT

In connection with the purchase of the toll facility interest, OCTA entered into an operating agreement with Cofiroute Global Mobility (Cofiroute), to provide operating services in the annual amount of \$4,994,000 plus inflation for three initial years with two one-year extension options, subject to Board of Directors approval. The agreement was in effect from January 3, 2003 through January 2, 2006. Cofiroute is responsible for the day-to-day operations of the toll facility. On January 6, 2006, OCTA entered into a second operating agreement with Cofiroute, effective January 3, 2006 through January 2, 2011. The annual amount of the base contract is \$5,448,768 plus inflation adjustments after the first year. The agreement carried two two-year extension options through January 2, 2015. On April 27, 2009, the Board of Directors approved a subsequent amendment, which authorizes the addition of two five-year extension options beginning January 3, 2011 through January 2, 2021.

### 6. AMOUNTS PAID TO GOVERNMENTAL ENTITIES

For the year ended June 30, 2009, OCTA paid \$292,669 to the California Highway Patrol for police services and \$160,006 to Caltrans for repairs and other road maintenance costs.