

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

**FRANCHISE AGREEMENT REPORT**

Year Ended June 30, 2007

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

FRANCHISE AGREEMENT REPORT

FOR THE YEAR FISCAL ENDED JUNE 30, 2007

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To the 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 91 Express Lanes Fund (91 Express Lanes Fund), an enterprise fund of the Orange County Transportation Authority (Authority) as of and for the year ended June 30, 2007, as listed in the table of contents. These special-purpose financial schedules are the responsibility of the Authority'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 the Authority'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 the Authority 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, 2007, 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, 2007 and for the year then ended, are fairly presented, in all material respects, in conformity with the basis of accounting described in Note 1.



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

*Morgan Hill Management P.C.*

Irvine, California  
October 19, 2007

**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, 2007**

Asset Category	Beginning Balance	Additions	Dispositions	Ending Balance	Accumulated Amortization and Depreciation
Toll Facility Franchise	\$ 205,263,668	\$ -	\$ -	\$ 205,263,668	\$ (32,988,803)
Improvements and Equipment	10,717,760	3,651,000	32,263	\$ 14,336,497	(6,595,359)
Total	<u>\$ 215,981,428</u>	<u>\$ 3,651,000</u>	<u>\$ 32,263</u>	<u>\$ 219,600,165</u>	<u>\$ (39,584,162)</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, 2007**

<b>Total Revenues:</b>	
Gross Tolls	\$ 49,838,090
Interest on Reserves	1,366,046
Interest on Cash Balances/Investment	2,129,717
Other Income	51,278
Total Revenues	<u>53,385,131</u>
<b>Operating Costs:</b>	
Contracted Services	5,630,442
Administrative Services	1,603,719
Professional Services and Fees	5,305,433
General and Administrative	623,209
Insurance	351,679
Other	967,459
Net Operating Reserve Contribution	2,152,953
Total Operating Costs	<u>16,634,894</u>
<b>Capital Costs:</b>	
Capital Acquisition Costs	3,651,000
Net Capital Reserve Contribution/(Distribution)	1,565,560
Total Capital Costs	<u>5,216,560</u>
Total Costs	21,851,454
Available Cash Flow, current period	31,533,677
Base Return Rate	17%
Present Value of Available Cash Flow at Base Return Rate, current period	5,167,737
Cumulative present value of Available Cash Flow retained by OCTA as	
Base Return on Investment, beginning of period	<u>32,138,763</u>
Cumulative present value of Available Cash Flow, end of period	<u>\$ 37,306,500</u>
Available Cash Flow, current period	\$ 31,533,677
Change in working capital, current period	(471,877)
Other non-cash operating costs, current year	142,335
Available Cash Flow, current period, calculated on the cash basis	<u>\$ 31,204,135</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, 2007**

	Base Return on Investment
Cumulative present value of Available Cash Flow, end of period	\$ 37,306,500
Less: Capital Cost at end of period	(219,600,165)
Base Net Present Value and Total Net Present Value, respectively, end of period	\$ (182,293,665)
Cumulative present value of Available Cash Flow retained by OCTA, beginning of period	\$ 32,138,763
Present value of Available Cash Flow retained by OCTA, current period	5,167,737
Cumulative present value of Available Cash Flow retained by OCTA, end of period	\$ 37,306,500

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, 2007**

	Available Cash Flow	Retained by OCTA		Paid to Caltrans		Total
		Base Return	Incentive Return	Variable Franchise Fee	Excess Franchise Fee	
Balances, beginning of period	\$ 32,138,763	\$ 32,138,763	\$ -	\$ -	\$ -	\$ 32,138,763
Available Cash Flow, current period	\$ 5,167,737	\$ 5,167,737	\$ -	\$ -	\$ -	\$ 5,167,737
Balances, end of period	\$ 37,306,500	\$ 37,306,500	\$ -	\$ -	\$ -	\$ 37,306,500

**Reconciliation of Cash Balances:**

Cash, beginning of period	\$ 29,998,979
Total Revenues	53,385,131
Total Operating Costs	(16,634,894)
Less:	
Capital Costs	(3,651,000)
Interest Expense	(10,663,145)
Payment of Long-term Debt	(4,115,000)
Amortized Premium on Toll Road Revenue Refunding Bonds	(252,541)
Increase in Capital Reserves	(1,565,560)
Payment on Advances from Other Funds	(12,000,000)
Add:	
Deferred Interest on Subordinated Debt due to Other OCTA funds	1,827,166
Amortized Deferred Amount on Refunding of Taxable Debt	1,067,806
Amortized Cost of Issuance on Toll Road Revenue Refunding Bonds	142,335
Other changes in Assets and Liabilities	(673,575)
Cash, end of period	<u>\$ 36,865,702</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, 2007**

Description:	Beginning Balance	Additions	Reductions	Ending Balance	Interest Earned
Operating:					
Major Maintenance Reserve Fund	\$ 3,120,910	\$ 1,999,967	\$ -	\$ 5,120,877	\$ 199,967
Operating Reserve Fund	2,891,356	152,986	-	3,044,342	152,986
Capital:					
Reserve Fund	12,634,812	648,014	(647,533)	12,635,293	648,014
Supplemental Reserve Fund	7,236,229	1,565,079	-	8,801,308	365,079
Total	<u>\$ 25,883,307</u>	<u>\$ 4,366,046</u>	<u>\$ (647,533)</u>	<u>\$ 29,601,820</u>	<u>\$ 1,366,046</u>

See accompanying notes to the Franchise Agreement schedules.

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

**NOTES TO FRANCHISE AGREEMENT SCHEDULES**

**FOR THE YEAR ENDED JUNE 30, 2007**

**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, 2007.

**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.

## NOTES TO FRANCHISE AGREEMENT SCHEDULES

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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 toll 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. 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. 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.

As a means to lower its borrowing costs, when compared against fixed rate bonds at the time of issuance in September 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

## NOTES TO FRANCHISE AGREEMENT SCHEDULES

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2003-B-2 swap was for \$25,000,000 and the counterparty is Bear Stearns Capital Markets Incorporated (Bear Stearns). The effective rate on the parity swaps was to effectively change OCTA's variable rate bonds to a synthetic fixed rate of 4.06227%.

Four reserve funds were created per the Revenue Refunding Bonds indenture agreement, which includes the Reserve Fund, Supplemental Reserve Fund, Major Maintenance Reserve Fund, and Operating 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, 2007, the Reserve Fund Requirement was equal to \$12,634,792.30. 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 and through January 2012, OCTA shall deposit into the Supplemental Reserve Fund \$100,000 per month, or until the Supplemental Reserve Fund equals \$12,634,792.30. 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 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. OCTA shall deposit into the Major Maintenance Reserve Fund \$100,000 per month commencing January 2004 and through December 2006 and \$200,000 per month commencing January 2007 and through December 2009 or until the Fund equals \$10,000,000. The Major Maintenance Reserve Fund shall be used for the payment of Capital Expenditures. OCTA shall deposit into the Operating Reserve Fund \$115,000 per month commencing January 2004 and 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. This balance requirement was met in December 2005. Such reserve amounts have been deducted from 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.

#### 4. 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 carries two two-year extension options through January 2, 2015, subject to Board of Directors approval. For fiscal year 2007, OCTA paid \$5,591,649 to Cofiroute for contracted services.

**NOTES TO FRANCHISE AGREEMENT SCHEDULES**

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5. AMOUNTS PAID TO GOVERNMENTAL ENTITIES

For the year ended June 30, 2007, OCTA paid \$327,850 to the California Highway Patrol for police services and \$142,480 to Caltrans for repairs and other road maintenance costs.