

Sperry Capital Inc.

August 28, 2024

Mr. Robert L. Davis
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Via email: rdavis1@octa.net

Dear Mr. Davis:

OCTA's July/August 2024 trip to New York City to meet with credit analysts from the three major rating agencies, Moody's Investor's Service ("Moody's"), S&P Global Ratings ("S&P"), and Fitch Ratings ("Fitch") (the "Rating Agencies"), was very successful. Since OCTA's first Measure M1 bond issue in 1991, Board members and staff have clearly established the credibility of OCTA by delivering on its core "Promises Made, Promises Kept" philosophy and providing transparency on OCTA through annual in-person surveillance.

The July 2024 credit update allowed OCTA the opportunity to give in-person presentations to the Rating Agencies and provide updates on the successes and challenges of OCTA's multimodal transportation services and current projects. OCTA provided the Rating Agencies with an update including specific information on the Orange County economy, the 91 Express Lanes, the initial operations of the I-405 Improvement Project and the progress of the OC Streetcar. The team also emphasized OCTA's strong credit metrics, including its exceptional debt service coverage ratios for all OCTA debt obligations as well as OCTA's extremely strong financial position.

The credit analysts thanked OCTA for continuing its commitment to provide annual updates in today's challenging post-COVID economic environment. The Rating Agencies were all complimentary about the quality of the presentation book (July 2024 Credit Update") and the informative discussions held with members of OCTA's Board of Directors and staff.

On Thursday, August 1, 2024, OCTA visited the floor of the New York Stock Exchange and the BNY Cybersecurity Center with BNY, whose liquidity platform OCTA utilizes. OCTA also met with representatives of Stantec, its traffic and revenue consultant on the 91 Express Lanes and 405 Express Lanes, and MetLife Investment Management ("MetLife"), one of OCTA's four portfolio managers.

OCTA met with the following firms in New York on July 31st and August 1st.

Moody's	Moody's rates OCTA's Measure M2 Sales Tax Revenue Bonds Aa2, 91 Express Lanes Bonds Aa3, and the 405 Project 2021 TIFIA loan Baa2.
S&P	S&P Global rates OCTA's Measure M2 Sales Tax Revenue Bonds AA+ and 91 Express Lanes Bonds AA-.
Fitch	Fitch rates OCTA's Measure M2 Sales Tax Revenue Bonds AA+ and 91 Express Lanes Bonds AA-.
BNY	BNY's liquidity platform provides OCTA with enhanced cash management through real-time visibility into cash positions, optimized liquidity, and streamlined investment processes.
Stantec	Stantec is working on updates on their investment grade traffic and revenue forecasts for the 91 Express Lanes and the 405 Express Lanes.
MetLife	MetLife is one of OCTA's four fixed income portfolio managers.



Mr. Robert L. Davis

August 28, 2024

Page 2

OCTA was represented by Chair Tam Nguyen, and Director Michael Hennessey, Chair of the Finance and Administration Committee, as well as OCTA staff members CEO Darrell Johnson, CFO Andy Oftelie, General Manager of Express Lane Programs, Kirk Avila, and Robert Davis, Manager of the Treasury/Public Finance Department at the New York City meetings. OCTA's financial advisory firm, Sperry Capital was represented by Bryant Jenkins, Managing Principal. The Treasury/Public Finance Department, with support from many departments throughout OCTA, worked diligently during Spring and Summer 2024 to update and prepare the comprehensive 68-page, spiral bound PowerPoint presentation, the July 2024 Credit Update, which was presented to the Rating Agencies.

The July 2024 Credit Update was organized as follows:

	<u>Page</u>
Presentation Participants, Overview, Summary	2,3,4
1. Orange County Transportation Authority	5
2. Orange County Economy	13
3. Agency Update	21
4. Measure M Program	31
5. Express Lanes Programs	41
6. Debt Programs and Financing Plans	59

Wednesday July 31 Meetings

Moody's:

OCTA met with Moody's at 9:30 a.m. Moody's was represented in-person by Kurt Kruppenacker (Manager, Americas Project Finance & Infrastructure Team), Cintia Naxima (Assistant Vice President – Analyst, Global Project and Infrastructure Finance Team) and Sara Ponce (Associate Analyst). Moses Kopmar (Vice President-Senior Analyst and Moody's primary analyst for OCTA), participated via videoconference. Chair Nguyen introduced the OCTA team and discussed OCTA's continuity of leadership at the Board level and with its executive staff. He identified the five new Board members on page seven. He highlighted on page 8, "OCTA's continuity is exceptional with almost all executive staff having been at OCTA for longer than a decade with two exceptions who have served for over seven years each."

In addition, Chair Nguyen summarized the 2024 Board and CEO initiatives as depicted on slide 9. He made a special point to discuss the diversity of Orange County's workforce and diversity found throughout the county as evidenced by OCTA's work with the Women's Transportation Seminar – Orange County, OC Teen Council. Chair Nguyen also shared his personal journey, from applying to the OCTA Diverse Leaders Group to eventually becoming Board Chair, illustrating his dedication to fostering diversity within the organization. Moody's asked Chair Nguyen if there was a common message that summarizes what Orange County's citizens are seeking from OCTA. He replied, "There are three things. First, citizens are grateful for the infrastructure that OCTA has helped to build. Second, citizens are grateful for the community outreach that OCTA has done including using Spanish and Vietnamese. Finally, citizens are grateful for the multimodal transportation opportunity that OCTA provides them, especially helped by getting feedback from the youth in the county."

Director Hennessey updated Moody's on the robust Orange County economy in his opening statement by highlighting, "Although Orange County is only physically 798 miles or 5% of California's physical mass, it

Mr. Robert L. Davis

August 28, 2024

Page 3

punches well above its weight economically.” Director Hennessey used the charts on slide 15 to note that Orange County has the lowest unemployment rate in Southern California. On pages 16 and 17, Director Hennessey highlighted the employment growth changes since 2008 as well as focusing on the positive job growth in the past year. Director Hennessey also discussed how “as of 4Q 2023, 42% of the jobs in Orange County pay more than \$98,000.” Moses Kopmar of Moody’s assessed the specific impact of the University of California, Irvine as an employer in the region, noting that the university employs 21,000 individuals. Director Hennessey completed his section by highlighting the historic levels of home prices in Orange County as well as the population changes over time. In discussing home prices on slide 19, he indicated that “...approximately 15% of Orange County’s population can afford the median home price in Orange County.” Director Hennessey continued to saliently discuss the population changes within the county over the past few decades. Cintia Nazima from Moody’s inquired about how Orange County can sustain growth if more people are commuting in, and not enough housing is being built. To which, Director Hennessey indicated that “...transportation is the answer.” He concluded by outlining that, during the 1970s and 1980s, the county’s population grew at an annual rate of approximately 2.5%. However, this growth rate slowed in the 1990s and has remained minimal since, with a slight decline observed from 2020 to 2024. This decline is partly attributed to the jobs-to-housing imbalance between Orange County and its surrounding counties in Southern California.

CEO Johnson provided the Moody’s analysts with an update on OCTA’s projects, “The 405 is 99% complete. We are anticipating final acceptance by August 26th. There are just a few punch list items left and no anticipated claims from the contractor.” CEO Johnson also briefed the analysts on the OC Streetcar slated for completion next year and the SR-55 Improvements Project. Additionally, CEO Johnson highlighted the trend in bus ridership in Orange County, noting that, as shown on page 26, OCTA’s post-COVID ridership recovery stands at 94%. This is the highest recovery rate compared to other regions in Southern California and surpasses the national trend of 76%. CEO Johnson addressed a query from Moody’s regarding the challenges faced by OCTA and other transit operators in Southern California. He discussed the operator shortage impacting OCTA and others, as well as the funding difficulties associated with joint powers agencies like Metrolink, of which OCTA is a member.

CEO Johnson also spoke about how OCTA was working collaboratively on two other managed lanes projects in Orange County. The 241/91 Express Connector led by the Transportation Corridor Agencies and the I-5 Managed Lanes Project from Red Hill Ave to the Los Angeles County Line led by Caltrans. CEO Johnson emphasized how OCTA worked to share its best-in-class knowledge on express lanes with both project sponsors.

CEO Johnson shared insights with Moody’s analytical team on pages 28-29, discussing OCTA’s budget and its key themes. He emphasized, “When we see something wrong, we take action.” He further explained that “OCTA’s budget reflects our ‘promises made, promises kept’ mantra” and noted that the budget has experienced only minor changes from year to year. Finally on page 30, CEO Johnson discussed coastal rail resiliency including the historical acquisition of the track from AT&SF Railway, the emergency rail repairs made recently and finally indicating that the future costs of a permanent fix as well as other similar issues in San Diego and Los Angeles counties would cost billions and thus require federal and state support.

CFO Oftelie provided Moody’s with background on OCTA’s Measure M programs based on Measure M1 and Measure M2 history. CFO Oftelie stated that “OCTA is laser focused on meeting our objectives.” CFO Oftelie continued by discussing the conservative budgeting for Measure M projects which did not assume external funding and of course has been supplemented by over \$4 billion of federal and state funds. CFO Oftelie also

Mr. Robert L. Davis
August 28, 2024
Page 4

reviewed the historical Measure M sales tax collections and reiterated that “...only major macroeconomic events have curtailed the growth of sales tax revenues in Orange County.” The CFO also touched upon topics such as the Next10 plan and OCTA’s participation in the Metrolink joint powers agency. CFO Otelie also exuded pride in the agency’s 33rd consecutive year of compliance by the Independent Taxpayers Oversight Committee for Measure M.

Kirk Avila, the General Manager of Express Lanes Programs briefed the credit analysts on OCTA’s 91 Express Lanes and 405 Express Lanes Programs. Mr. Avila stated that the 91 Express Lanes traffic volumes and toll revenues are at an all-time high as seen on pages 45 and 46. Mr. Avila also addressed the ongoing rehabilitation and replacement work on the 91 Express Lanes, including updates to signage and dynamic messaging signs. Additionally, he discussed recent changes resulting from state legislation, such as AB 2594, which mandates that toll operators maintain at least two locations where transactions can be conducted in cash for the unbanked and others who prefer to pay in cash. Mr. Avila remarked that “96% of 91 Express Lanes customers use credit cards linked to their accounts, so this is not a major impact.” Nonetheless, OCTA needed to arrange for another retail location in Corona to allow 91 Express Lanes transactions to be conducted in cash to stay compliant with AB 2594. Mr. Avila also discussed how westbound traffic on the 91 Express Lanes changed after RCTC opened its SR-91 Express Lanes as well as how eastbound peak hours were expanding post COVID. Moody’s Moses Kopmar asked if OCTA was implementing a toll policy based on revenue maximization like RCTC’s SR-91 Express Lanes and Mr. Avila indicated “that our toll rates are all about throughput and volume, not revenue maximization.” Mr. Avila discussed the eight months of operating revenue history of the 405 Express Lanes as shown on page 54. Mr. Avila also foreshadowed the next few months on the 405 Express Lanes including obtaining an updated traffic and revenue study from Stantec and refining the toll rates.

Mr. Davis provided an overview of Section VI, "Debt Programs and Financing Plans," highlighting OCTA’s relatively modest debt profile. He emphasized the agency’s robust debt service coverage ratios across all credits, underscoring its financial stability. To conclude the presentation, Mr. Davis summarized OCTA’s strong cash position and overall solid fundamentals, reinforcing the agency’s fiscal health and resilience.

Moody’s analytical team thanked OCTA for providing the July 2024 Credit Update as well as thanked OCTA for coming to New York for the in-person meeting.

S&P Global:

OCTA met with S&P Global at 12:00 p.m. for a working lunch at their offices at 55 Water Street. The S&P team included Thomas Zemetis (Director and Analytical Lead, U.S. Public Finance), Kayla Smith (Senior Analyst, U.S. Public Finance States and Transportation Team, and S&P’s primary express lanes credit analyst for OCTA), and Quinn Rees (Senior Analyst). At the start of the meeting, the S&P team introduced themselves and then Chair Nguyen introduced the OCTA team.

Chair Nguyen discussed the current 18 member OCTA Board, highlighting the five new members as well as discussing the formal process for placing Caltrans District 12 Director as ex-officio when the appointment is permanent. Chair Nguyen also provided details on page 10 about the diversity of Orange County’s workforce and

Mr. Robert L. Davis
August 28, 2024
Page 5

the county's status as a majority-minority region. Additionally, he shared anecdotes about the diverse backgrounds of employees selected as Employee of the Month by OCTA. Tom Zemetis of S&P asked a clarifying question about whether disadvantaged business enterprises needed to be located in Orange County. CFO Oftelie quickly interjected by indicating that “no, DBE firms did not need to be located in Orange County and clarifying that those requirements typically kick in for federally funded projects.” Chair Nguyen continued by discussing how giving youth free transit rides has led to greater transit ridership and an appreciation for using transit. CEO Johnson indicated that from the 2012 pilot, the free transit for youth under 18 has drawn greater examination as to whether it is worthwhile, but it has benefited OCTA through education about OCTA’s multimodal programs and increased ridership. CFO Oftelie chimed in by stating that “you are more likely to use transit as an adult if you use it as a child.”

Director Hennessey updated S&P’s analytical team on the robust Orange County economy in his opening statement by highlighting how Orange County is an economic engine in Southern California. On pages 16 and 17, Director Hennessey mentioned the employment growth changes since 2008 as well as the improved job situation during the past year. Tom Zemetis of S&P asked if there was a strategic vision going forward. Director Hennessey mentioned that “Orange County is going to go higher” proven by the strength and resilience of the job market in Orange County. Director Hennessey punctuated his remarks by detailing the resilience in the leisure & hospitality sector as well as in professional services sectors.

CEO Johnson provided an update on OCTA’s projects and offered historical context on Orange County’s development. The county’s infrastructure evolution has transitioned from building highways to focusing on operational efficiencies, and now to improving local streets and roads. CEO Johnson outlined the status of the I-405 Improvement Project, SR-55 Improvements Project, and the OC Streetcar, which is set to open next year. He also discussed the TCA’s 241/91 Express Connector and the Caltrans I-5 Managed Lanes project, highlighting OCTA’s productive collaboration with the lead sponsors. In presenting the FY2024-25 Approved Budget to S&P, CEO Johnson was asked by S&P’s Tom Zemetis about the frequency of budget reviews. CFO Oftelie promptly responded, noting that the Board receives quarterly updates, while internal staff reviews the budget monthly. On page 30, CEO Johnson discussed the need for coastal rail resiliency and explained the situation in San Clemente. S&P asked if the proposed short-term repairs were eligible through the Measure M Program. CEO Johnson indicated that it may be eligible, but OCTA would seek to separate it into manageable projects. He reiterated that any permanent solution would require additional help outside OCTA.

CFO Oftelie discussed the Measure M Programs. CFO Oftelie stated, “Sales tax receipts for fiscal year 2024 are unlikely to meet the forecasted 2.4%.” Kayla Smith of S&P indicated that S&P expected to see softening growth in sales tax revenues during FY2024. CFO Oftelie indicated that sales tax revenue growth is a critical item that is frequently discussed at OCTA to better understand its financial position as well as develop the annual budget. CFO Oftelie guided the S&P analytical team through pages 34 through 37, which showed the historical and projected Measure M2 sales forecast from 2023-24 to 2041. CFO Oftelie also discussed OCTA’s sales tax forecast methodology which entails receiving short term forecasts from MuniServices, and long-term forecasts from UCLA, Cal State Fullerton, and Chapman University, of which OCTA uses the average.

CFO Oftelie finished his section by discussing how the overall Measure M2 program was on track and how many of the key projects are now behind OCTA.

Mr. Robert L. Davis
August 28, 2024
Page 6

Kirk Avila, General Manager of the Express Lanes Programs, updated the S&P analysts on OCTA's Express Lanes Programs. In response to a query from Tom Zemetis on what the daily commuting pattern reflected, Mr. Avila stated that "OCTA evaluates both corridors. In the 91 Express Lanes, Thursday and Friday have experienced greater traffic volumes during peak hours. On the 405 Express Lanes, Wednesday and Thursday have the highest traffic volumes so far."

Robert Davis, Treasury and Public Finance Manager outlined OCTA's debt profile and emphasized the strong debt service coverage ratios of OCTA's debt obligations. In addition, Mr. Davis, in response to a query from S&P on future debt transactions, indicated that OCTA is continuing to evaluate refinancing opportunities if they make economic sense.

S&P Global provided feedback at the end of the meeting that "OCTA Board and management have been proactive and very informative."

Fitch Ratings:

We arrived at Fitch for a 3:00 p.m. meeting. Fitch was represented in-person by Anne Tricerri (Senior Director), and Anita Lin (Director)

Chair Nguyen introduced the OCTA team, providing an overview of the Board composition, executive staff, and the 2024 Board and CEO Initiatives, expressing that it has been "a joy to work with CEO Johnson" on these efforts. He also discussed the diverse community that OCTA serves throughout Orange County. Chair Nguyen explained how OCTA setting free rides for all youth was a great statement for OCTA and has demonstrated leadership as the first organization in Southern California. Chair Nguyen also emphasized the diversity of the communities that OCTA is privileged to serve and how that leads to meaningful engagement with all of OCTA's communities as detailed on page 12.

Director Hennessey updated Fitch on the robust Orange County economy in his opening statement by repeating OCTA's mantra, "Promises made, promises kept." Director Hennessey also emphasized the strength of Orange County's economy as a key catalyst for Southern California. Director Hennessey wisely depicted the charts on slide 15 to note that Orange County has the lowest unemployment rate in Southern California. On pages 16 and 17, Director Hennessey highlighted the employment growth changes since 2008 as well as focusing on the positive job growth in the past year. Director Hennessey completed his section by discussing the historic levels of home prices in Orange County as well as the population changes over time. In discussing population changes on page 20, he noted how the population growth patterns seen decades ago in Orange County have been replaced with slight declines in population within the county more recently.

CEO Johnson briefed Fitch on OCTA's agency update. CEO Johnson described the pride of the successful opening of the I-405 Improvement Project last December 1st along with progress in other projects such as the SR-55 Improvements Project and the OC Streetcar. On page 26, CEO Johnson discussed the challenges of post-pandemic bus demand, "OCTA is now at 94% of pre-pandemic service levels." Fitch indicated amazement at that statistic and asked for further details. CEO Johnson stated "we accomplished this by increasing our bus fleet's on time performance, enhancing operator and passenger safety, and increasing frequency. In the next 12 months, we will have more service than pre-COVID."

Mr. Robert L. Davis

August 28, 2024

Page 7

CFO Oftelie introduced the section on Measure M Programs and sales tax revenue trends. He discussed the post-pandemic surge in sales tax collections and explained how OCTA had updated its Next 10 Delivery Plan to incorporate the 2023 sales tax forecast. Despite anticipating slower growth in sales tax revenue compared to the last three years, OCTA remains well-positioned to deliver the full Measure M2 program. Anne Tricerri inquired about the reasons behind the negative growth in sales tax revenue, to which CFO Oftelie responded, “we shot up so fast after the start of the pandemic, it was likely to come back down to more reasonable year over year growth rates.” Fitch also asked why the bus ridership was so much better than commuter rail entities to which CFO Oftelie indicated was a result of the essentiality of bus service to most bus riders compared to commuter rail service to more of their user base.

Kirk Avila, General Manager of Express Lanes Programs briefed the analysts on OCTA’s Express Lanes Programs. Fitch has rated OCTA’s 91 Express Lanes since 2003 and currently rates the 91 Express Lanes AA-.

Mr. Avila discussed the record traffic volumes and net toll revenues from the 91 Express Lanes as well as the successful opening of the 405 Express Lanes. He also covered some of the slight revisions planned for in the coming year. Anita Lin inquired about the increase in average tolls for the eastbound 91 Express Lanes, as noted on page 48. Mr. Avila also noted the significant change in traffic patterns, and indicated that the causation was likely the opening of RCTC’s Express Lanes significantly increasing eastbound demand.

Robert Davis, Treasury and Public Finance Manager briefed Fitch on OCTA’s debt obligations and strong debt service coverage levels. Mr. Davis put an excellent coda on the day by discussing OCTA’s cash balance as of June 30, 2024, which stands at \$2.58 billion and demonstrates the financial strength and prudence of OCTA’s Board and employees.

Wednesday July 31 Meetings

BNY:

BNY was represented by Ken Buterbaugh (Director, BNY Markets), Delaney Gardiner (Managing Director, BNY Markets), Morgan McCracken (Vice President, Supporting Banker), and Alexander Bird (Senior Vice President, Dreyfus Cash Solutions). The BNY meeting began with a visit to the floor of the New York Stock Exchange. The BNY representatives then provided an overview of current short-term market conditions relevant to OCTA’s liquid portfolio. The meeting concluded with a tour of BNY’s impressive cybersecurity operations center, which safeguards trillions of dollars every second.

Stantec:

Stantec was represented by Rick Gobeille (Senior Principal), Sheldon Mar, (Project Manager), Adam Mangano-Drenkard (Technical Lead), Daniel Specter (Technical Lead), Masroor Mohammed (Transportation Planner), Henderson Bruney (Transportation Intern). The Stantec representatives presented updated information on both the 91 Express Lanes and the 405 Express Lanes. They also provided useful insights into how the updated 405 traffic and revenue study will be conducted.

MetLife:

MetLife was represented by Scott Pavlak (Portfolio Manager, Head of Short Duration Fixed Income), Erin Klepper

Mr. Robert L. Davis
August 28, 2024
Page 8

(Portfolio Specialist, Short Duration Fixed Income), John Palphreyman (Portfolio Manager, Short Duration Fixed Income) and David Wheeler (Credit Sector Strategist). The MetLife representatives presented an overview of short duration portfolio management.

Summary:

The success of the in-person July 2024 Credit Update and the length of this year's Board memo reflects the unbridled passion of Chair Nguyen, Director Hennessey, and the professionalism of OCTA's staff. The comprehensive 68-slide July 2024 Credit Update contained valuable information for the Rating Agencies. OCTA's presentations were well received and appreciated. The credit analysts were very pleased that OCTA presented its July 2024 Credit Update in-person.

Sincerely,



T. Bryant Jenkins
Managing Principal