OCTA

November 3, 2025

To: Executive Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Policy and Framework for the Use of 405 Express Lanes Excess Toll Revenue

Overview

The 405 Express Lanes, implemented through the Interstate 405 Improvement Project, opened on December 1, 2023. The Orange County Transportation Authority operates the lanes through tolling authority provided by the California Transportation Commission and under a 40-year lease with the California Department of Transportation. In December 2024, the Board of Directors approved guiding principles for the use of excess toll revenue and directed staff to develop supporting policies for the expenditure plan. Board of Directors' approval is requested for the policy and framework to guide the use of excess toll revenue, which may be available beginning in 2029.

Recommendations

A. Approve the policy and framework for the use of 405 Express Lanes excess toll revenue.

B. Direct staff to return with a draft 405 Express Lanes Excess Toll Revenue Expenditure Plan.

Background

The Orange County Transportation Authority (OCTA), in cooperation with the California Department of Transportation (Caltrans) and the cities of Costa Mesa, Fountain Valley, Huntington Beach, Seal Beach, and Westminster, implemented the Interstate 405 (I-405) Improvement Project (Project). The Project spans the corridor between State Route 73 and Interstate 605 (I-605), approximately 14 miles in length.

Key Project improvements included:

- One general purpose lane in each direction from Euclid Street to I-605, consistent with Measure M2 Project K.
- One additional lane in each direction, that combines with the existing high-occupancy vehicle lane to create dual express lanes in each direction, known as the 405 Express Lanes.
- The 405 Express Lanes commenced operations on December 1, 2023.

The OCTA Board of Directors (Board) first approved the 405 Express Lanes Toll Policy (Toll Policy) in 2016 and subsequently updated it in July 2023, when opening toll rates were also established. The Toll Policy emphasizes safety, performance, throughput, and financial viability, and is guided by the following goals:

- Ensure a safe, reliable, and congestion-free commute for express lanes users.
- Maintain optimal traffic flow at free-flow speeds.
- Encourage higher average vehicle occupancy.
- Balance capacity and demand to serve customers who pay tolls as well as people who rideshare or use transit.
- Generate enough revenue to maintain financial sustainability of the 405 Express Lanes.
- Fulfill all financial covenants.
- Allocate any net excess toll revenue toward improvements along the I-405 freeway corridor, after meeting all debt and reserve obligations and in accordance with legal requirements.

OCTA operates and maintains the 405 Express Lanes under a toll operating and lease agreement with Caltrans, executed in March 2017. The term of the agreement is 40 years, which commenced when the 405 Express Lanes opened on December 1, 2023, and will conclude on November 30, 2063.

The agreement outlines how excess toll revenue, which are funds that remain after covering operations, maintenance, debt repayment costs, enforcement, repair, rehabilitation, reserves, and administrative costs, can be used. The funds become accessible only after the development of an expenditure plan, created in partnership with Caltrans and approved by the Board. The agreement further states that beginning five years before any excess toll revenue is expected to be available OCTA, in partnership with Caltrans, shall develop and annually update a ten-year expenditure plan. Based on recent projections, the excess toll revenue could be available as early as 2029. Accordingly, work began on developing principles and a framework for the expenditure plan in 2024.

In addition to the aforementioned agreement, in 2017, OCTA entered into a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan agreement with the federal government to construct the 405 Express Lanes, This agreement also bears requirements for the use of excess toll revenues:

- For the first five years after tolling begins, any excess toll revenue must be held in a distribution lock-up fund managed by a trustee bank.
- After this period, if all loan conditions are met, 50 percent of excess toll revenue must go towards repaying the TIFIA loan.
- The remaining 50 percent may be directed by OCTA to transportation improvements within the I-405 freeway corridor.
- Once the loan is fully repaid, OCTA will have access to 100 percent of the excess toll revenue until the end of tolling authority on November 30, 2063.

An update to the traffic and revenue forecast was completed in May 2025. The new forecast incorporated the first full year of operational data from the 405 Express Lanes to derive the updated figures. OCTA's cash flow model has been updated to reflect the new 405 Express Lanes revenue forecast. The current model projects that there would be approximately $150 million in excess revenue available in 2029. Per the TIFIA loan half of the excess revenue must be utilized to pay down the loan while the other half of the revenue can be utilized for transportation improvements within the corridor.

Beyond the terms of the TIFIA loan, the use of excess toll revenue must also comply with other statutory requirements detailed in state and federal law, including:

- Streets and Highways Code Section 149.7, as created by AB 194 (Chapter 687, Statutes of 2015), the primary authorizing legislation for the 405 Express Lanes. Provisions require excess revenue to be used in the corridor are generated pursuant to an expenditure plan adopted by the sponsoring agency's governing board.
- Government Code Section 14106, as created by AB 2250 (Chapter 500, Statutes of 2014), which again emphasizes that the toll revenue from an express toll lane must be expended only within the respective corridor in which the managed lane is located.
- 23 USC 129(a)(3), the primary federal authority for toll facilities on the interstate system, which restricts excess toll revenue to purposes authorized under Title 23, governing federal-aid highway programs.

On December 9, 2024, the Board approved the 405 Express Lanes Excess Toll Revenue Principles (included as Attachment A) which laid the foundation for the future expenditure plan. The Board also directed staff to develop a draft 405 Express Lanes Excess Toll Revenue Policy.

This report presents the initial policy and framework for the use of excess toll revenues and starts the process for developing the expenditure plan.

Discussion

To inform the development of the draft policy and framework for the use of the 405 Express Lanes excess toll revenue, staff considered the principles presented to and approved by the Board in December 2024, and reviewed similar policies and frameworks from other regions, including the policy for the use of excess 91 Express Lanes toll revenue. As background, OCTA acquired the 91 Express Lanes from the California Private Transportation Company in early 2003 to remove the non-compete clause, enabling capital improvements to be made along the State Route 91 corridor. The use of excess toll revenue generated by the 91 Express Lanes has been beneficial to improving travel along the corridor between Orange and Riverside counties. Staff also considered prior OCTA actions and statutory requirements as noted above.

The draft policy, provided in Attachment B, is organized into three key sections:

1. Definition of the 405 Corridor Investment Zone

The first section defines the 405 Corridor Investment Zone. The proposed zone is centered around the 405 Express Lanes and includes a three-mile buffer around the lanes within Orange County. The transportation modeling shows nearly 70 percent of trips in 2045 fall inside the three-mile radius, or "bubble”. A significant number of trips also extend south along I-405 beyond the buffer to Interstate 5. Including this additional section of I-405 along with the three-mile buffer provides a comprehensive area for reinvestment consideration (see map in Attachment C).

2. General Policy for Use of Excess Toll Revenue

The second section outlines the general policy framework for the 405 Express Lanes Excess Toll Revenue Expenditure Plan. The section defines "excess toll revenue" to include funds remaining after covering the costs of express lanes improvements as well as operations, maintenance, and debt service.

The policy states:

“The Orange County Transportation Authority (OCTA) is committed to reinvesting toll revenue from the 405 Express Lanes in ways that benefit all who travel the I-405 freeway corridor. In accordance with California state law, including the requirements of AB 194 (Chapter 687, Statutes of 2015), excess toll revenue – defined as funds remaining after covering the costs of operations, maintenance, 405 Express Lanes improvements, and debt service – will be used to support a balanced and sustainable transportation system within the 405 Corridor Investment Zone. Transportation investment priorities are expected to be developed and refined through 405 corridor plan(s).

Generally, priority will be given to transportation improvements that:

- Relieve congestion on the I-405, ensuring that toll revenue benefit all corridor users, not just 405 Express Lanes customers;
- Advance currently planned and future freeway and roadway improvement projects within the 405 Corridor Investment Zone;
- Invest in transit, signal synchronization, active transportation, and first/last-mile improvements that strengthen corridor-wide mobility options and encourage ridesharing; and,
- Improve the 405 Express Lanes driver experience, including enhanced access, connectivity, safety, and travel-time reliability;

All funded transportation improvements should demonstrate benefits to the I-405 freeway system and align with OCTA's adopted planning documents, such as the Renewed Measure M Transportation Investment Plan, the Long-Range Transportation Plan, and Regional Transportation Plan as informed by the California Transportation Plan, as well as the agency's goals for equitable, sustainable, and efficient transportation. This approach ensures that toll revenue serves the broader public interest, consistent with the intent of AB 194 and state oversight."

3. Implementation Guidelines

The final section presents the guiding precepts or framework for developing the 405 Express Lanes Excess Toll Revenue Expenditure Plan, including:

- The role of a dedicated 405 Corridor Plan, the Long-Range Transportation Plan, the Regional Transportation Plan and other planning documents;
- How transportation improvements will be identified, evaluated, and recommended;
- Formation of a Technical Advisory Committee;
- Establishment of a reserve and planning set-aside;
- Frequency of plan updates;
- Requirements for matching funds and leveraging other resources;
- Maintenance of effort expectations for Caltrans and state funding; and
- Use of oversight tools, including audits, to ensure transparency and accountability.

This structured approach will help ensure that toll revenue is invested responsibly, in alignment with regional transportation goals and in adherence with applicable legislation.

Staff met with Caltrans District 12 in August and September 2025, and with the cities of Costa Mesa, Fountain Valley, Huntington Beach, Seal Beach, Westminster, and the County of Orange in September, to review and obtain input on the future 405 Express Lanes Excess Toll Revenue Expenditure Plan.

To date, OCTA staff, Caltrans, and the agencies that met with OCTA staff prior to development of this report were able to agree on most points. However, areas that staff was not able to incorporate into the draft policy and framework are provided in Attachment D.

Next Steps

Staff will use the approved policy and framework as a guide for developing the 405 Express Lanes Excess Toll Revenue Expenditure Plan, which will be brought forward for Board consideration later this fiscal year. The tentative timeline for the process includes the following key milestones:

1. Continue working in partnership with Caltrans to develop the 405 Express Lanes Excess Toll Revenue Expenditure Plan.
2. Late 2025 – Submit the draft 405 Express Lanes Excess Toll Revenue Expenditure Plan to Caltrans for review.
3. Early 2026 – Present the draft expenditure plan to the Executive Committee.
4. Early 2026 – Present the draft expenditure plan to the Board for review and action.

Summary

The draft policy and framework for the use of 405 Express Lanes excess toll revenue is presented for Board consideration.

Attachments

A. Principles for 405 Express Lanes Excess Toll Revenue, (Approved December 9, 2024)
B. DRAFT - Policy and Framework for the Use of 405 Express Lanes Excess Toll Revenue
C. DRAFT - Map of 405 Corridor Investment Zone
D. DRAFT - Policy and Framework for the Use of 405 Express Lanes Excess Toll Revenue Stakeholder Discussion Points

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