SANDAG

South Bay Expressway

BASIC FINANCIAL STATEMENTS

For the Fiscal Year Ended

June 30, 2021

San Diego, California

6289 10/2021

San Diego Association of Governments

South Bay Expressway

San Diego, California

Financial Statements and Independent Auditor's Report

For the year ended June 30, 2021

PREPARED BY THE SAN DIEGO ASSOCIATION OF GOVERNMENTS

FINANCE DEPARTMENT

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San Diego Association of Governments
South Bay Expressway

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of the South Bay Expressway (State Route 125 fund "SR 125"), a major enterprise fund of the San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise SR 125's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility

Our responsibility is to express an opinion on these financial statements 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SR 125, a major enterprise fund of SANDAG, as of June 30, 2021, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the SR 125 Fund and do not purport to, and do not, present fairly the financial position of SANDAG as of June 30, 2021, the changes in its financial position, or, where applicable, its cash flows for the years 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.

Other Matters

Prior-Year Comparative Information

We have previously audited SR 125's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 23, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of plan's proportionate share of net OPEB liability, schedule of the plan's OPEB contributions, schedule of the plan's proportionate share of net pension liability, and schedule of the plan's pension contributions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SR 125'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.

Crowe LLP

Crowe LLP

Costa Mesa, California
December 24, 2021

Management's Discussion and Analysis

As management of the San Diego Association of Governments (SANDAG) South Bay Expressway (State Route 125 [SR 125]), we provide this narrative overview and analysis of the financial activities of SR 125 for the fiscal year ended June 30, 2021. The intent of this analysis is to assist the readers of SR 125 financial statements to better understand the overall financial condition of SR 125.

Financial Highlights

The annual performance has been hampered due to the COVID-19 pandemic, resulting in revenues of 27.8 percent below the annual budget, while operating costs were 17.4 percent under budget during fiscal year (FY) 2021. SR 125 continues to meet debt service obligations and reserve funding commitments.

- SR 125 reported a net position of $179,724,147, of which $95,424,893 is invested in capital assets, $18,642,934 is restricted for debt service; $30,315,681 is restricted for capital expenditures and $35,392,147 is restricted for project spending.

- SR 125 total net position decreased by $12,605,218 in fiscal year 2021.

- SR 125 total debt balance at the end of June 2021 was $211,460,544, a decrease of $6,915,787 compared to the same period in the prior year. The decrease is due to principal payment of $4,535,000 and bond premium amortization of $2,380,787.

- Net investment in capital assets increased by $3,125,109 from a decrease of capital assets net of depreciation and a decrease in bonds payable.

Overview of the Financial Statements

Management's discussion and analysis provided here is intended to serve as an introduction to the SR 125 financial statements. The SR 125 financial statements consist of three components: (1) financial statements; (2) notes to the financial statements; and (3) required supplementary information.

Financial statements. SR 125 is a proprietary fund. Proprietary funds can either be enterprise funds or internal service funds. Enterprise funds are used to report the same functions presented as business-type activities.

The financial statements are designed to provide readers with a broad overview of SR 125's finances, in a manner similar to a private sector business.

The *Statement of Net Position* presents financial information on all of SR 125's assets 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 SR 125 is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing changes in SR 125's net position during the most recent fiscal year. All changes in net position are reported when the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods. This statement reflects the results of SR 125's operations for the period identified and can be used to determine credit worthiness of SR 125 and its ability to successfully recover all its costs through toll revenues and other charges.

The *Statement of Cash Flows* presents information about SR 125's cash receipts and cash payments. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities.

Notes to the financial statements**.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 17 to 43 of this report.

Other information. In addition to the financial statements, required supplemental information can be found on pages 45 to 48 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. SR 125's assets and deferred outflows exceeded liabilities and deferred inflows by $179,724,147 as of June 30, 2021.

SR 125's Net Position

	2021	2020
Current and other assets	$ 103,866,587	$ 114,190,358
Capital assets	309,681,455	310,594,520
Total assets	413,548,042	424,784,878
Deferred outflows of resources	2,760,985	3,327,564
Current liabilities	20,835,278	13,933,253
Noncurrent liabilities	215,282,916	221,530,933
Total liabilities	236,118,194	235,464,186
Deferred inflows of resources	466,686	318,891
Net Position:		
Net investment in capital assets	95,424,893	92,299,784
Restricted for:		
Debt service	18,642,934	18,476,695
Capital expenditures	30,315,681	47,197,962
Project revenue	35,340,639	34,285,520
Customer prepaid accounts	-	69,404
Total net position	$ 179,724,147	$ 192,329,365

As of June 30, 2021, there was a total of $182,220,000 of bond liability with a premium balance of $29,240,544 Restricted net position is predominantly set aside for major maintenance and capital expenditures, a majority of which is anticipated to be spent for toll road improvements over the next several years.

Due to the ongoing COVID-19 pandemic since March 2020, the SR 125 saw a decrease in traffic on the toll road from the COVID-19 lockdown. This drove revenue down $8.4 million and incurred some savings in operating expenses. There was an increase in claims expense of $1.2 million, and an increase of $2.8 million transferred out to capital projects. These factors resulted in a decrease in net position of $12,605,218.

SR 125's Change in Net Position

	2021	2020
Operating revenue	$ 29,483,519	$ 37,883,290
Operating expenses	26,299,909	26,536,953
Operating income	3,183,610	11,346,337
Nonoperating revenues (expenses)	(7,674,178)	(5,623,130)
Income before contributions and transfers	(4,490,568)	5,723,207
Transfers	(8,114,650)	(5,321,060)
Change in net position	(12,605,218)	402,147
NET POSITION:		
Beginning of year	192,329,365	191,927,218
End of year	$ 179,724,147	$ 192,329,365

SR 125 activities. Key drivers to the 71.9 percent decrease in operating income is the 22.2 percent or $8.4 million decrease in operating revenues. The loss of traffic volume due to the COVID-19 pandemic for the entire fiscal period directly impacted operating revenues. During the COVID-19 pandemic, the SR-125 suspended violation billings and collection processes until December 2020. Violation billings and collections processes resumed on January 4, 2021. Operating expenses remain at about the same level as fiscal year 2020 because although the customer service center was closed to the public part of the year, overhead and maintenance expenses were necessary to keep operations open, maintain the roadway, pay salaries and benefits, and other costs related to running the toll road.

As the *Statement of Revenues, Expenses, and Changes in Net Position* (page 12) illustrates, SR 125 collected $29.5 million in operating revenues, which adequately covered operating expenses and debt obligations. The SR 125 was able to effectively manage costs related to the operations of the facility.

Capital Assets and Debt Administration

Capital assets. SR 125 investment in capital assets as of June 30, 2021, amounts to $309,681,455 (net of accumulated depreciation). This investment in capital assets include land, toll road and roadway improvements, building, equipment, vehicles, office furnishings, and construction-in-progress.

SR 125 Capital Assets
(Net of accumulated depreciation)

	2021	2020
Land	$ 1,980,000	$ 1,980,000
Toll road	273,945,303	286,700,883
Roadway improvements	12,067,355	5,797,302
Building	3,256,200	3,336,600
Equipment	97,203	313,446
Vehicles	132,348	224,629
Software	16,809	25,978
Office furnishings	14,115	21,945
Construction-in-progress	18,172,122	12,193,737
SR 125 activities capital assets, net	$ 309,681,455	$ 310,594,520

Additional information on SR 125's capital assets can be found in Note III.G of this report.

Debt Administration

Long-term debt. At the end of June 30, 2021, SR 125 had total debt outstanding of $211,460,544 which is comprised of $182,220,000 tax-exempt toll revenue bonds with a net premium balance of $29,240,544.

	SR 125 activities	
	2021	2020
2017 Series A Toll Revenue Bonds	$ 182,220,000	$ 186,755,000
Premium	29,240,544	31,621,331
Total	$ 211,460,544	$ 218,376,331

SR 125's total debt decreased by $6,915,787 due to principal payment of $4,535,000 and bond premium amortization of $2,380,787 .

Additional information on SR 125 long-term debts can be found in Note III.H of this report.

Economic Factors

The Covid-19 pandemic and employers providing their staff the flexibility to work from home has reduced demand on SR 125 as congestion free and unimpeded access is now available on alternative non-tolled freeways and local streets. Despite the resulting revenue decrease, SR 125 maintains very strong cash balances that will allow for continued operations. Additionally, management identified opportunities to reassign contracted service work to available in-house resources as a way to further reduce operating costs. Capital and major maintenance projects that support the SR 125 transportation facility have continued, but there is flexibility within the capital program that supports continued adaptation to the unknown duration of the pandemic.

Requests for Information

This financial report was designed to provide a general overview of SR 125 finances for all those interested. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chief Financial Officer, San Diego Association of Governments, 401 B Street, Suite 800, San Diego, California 92101, or emailed to the Public Information Officer at pio@sandag.org.

FINANCIAL STATEMENTS

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San Diego Association of Governments
South Bay Expressway
Statement of Net Position
June 30, 2021
(With comparative information for the prior year)

	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents - unrestricted	$ 548,563	$ 3,895,375
Accounts receivable, net	3,344,738	4,105,880
Prepaid items and other assets	1,574,325	526,322
Due from other funds	1,923,240	760,775
Due from other governments	180,134	230,845
Total current assets	7,571,000	9,519,197
Noncurrent assets:		
Cash and cash equivalents - restricted	96,295,587	104,671,161
Non-depreciable capital assets	20,152,122	14,173,737
Depreciable capital assets, net of accumulated depreciation	289,529,333	296,420,783
Total noncurrent assets	405,977,042	415,265,681
Total assets	413,548,042	424,784,878
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	2,253,569	2,787,416
OPEB related	72,113	69,402
Loss on debt refunding	435,303	470,746
Total deferred outflows of resources	2,760,985	3,327,564
LIABILITIES		
Current liabilities:		
Accounts payable	3,800,879	711,633
Accrued liabilities	346,736	332,435
Retentions payable	941,228	243,357
Due to other funds	4,220,632	1,410,335
Due to other governments	181,351	118,797
Transponder deposits	19,585	19,865
Unearned revenue	2,004,367	1,892,956
Accrued interest	4,555,500	4,668,875
Bonds payable due within one year	4,765,000	4,535,000
Total current liabilities	20,835,278	13,933,253
Noncurrent liabilities:		
Bonds payable	206,695,544	213,841,331
Claims payable	1,200,000	238,157
Net pension liability	7,291,998	7,347,695
Net OPEB liability	95,374	103,750
Total noncurrent liabilities	215,282,916	221,530,933
Total liabilities	236,118,194	235,464,186
DEFERRED INFLOWS OF RESOURCES		
Pension related	443,814	286,450
OPEB related	22,872	32,441
Total deferred inflows of resources	466,686	318,891
NET POSITION		
Net investment in capital assets	95,424,893	92,299,784
Restricted for:		
Debt service	18,642,934	18,476,695
Capital expenditures	30,315,681	47,197,962
Project revenue	35,340,639	34,285,520
Customer prepaid accounts	-	69,404
Total net position	$ 179,724,147	$ 192,329,365

See accompanying Notes to the Financial Statements.

San Diego Association of Governments
South Bay Expressway
Statement of Revenues, Expenses, and Changes in Net Position
For the Year ended June 30, 2021
(With comparative information for the prior year)

	2021	2020
OPERATING REVENUES:		
Electronic toll collection	$ 19,178,523	$ 22,153,237
Cash and credit card tolls	8,624,478	9,281,432
Violations	1,302,544	5,063,756
Other	377,974	1,384,865
Total operating revenues	29,483,519	37,883,290
OPERATING EXPENSES:		
Facilities, roadway and landscaping operations	2,130,266	2,469,721
Payroll and other compensation	6,761,756	7,698,183
Administrative	164,479	359,029
Insurance	566,660	511,898
Utilities	406,551	385,649
Professional services	1,859,362	1,112,134
Depreciation	14,410,835	14,000,339
Total operating expenses	26,299,909	26,536,953
Operating income	3,183,610	11,346,337
NONOPERATING REVENUES (EXPENSES):		
Interest income	291,478	1,310,907
Interest expense	(6,765,656)	(6,934,037)
Claims Expense	(1,200,000)	-
Total nonoperating revenues (expenses)	(7,674,178)	(5,623,130)
Income (loss) before contributions and transfers	(4,490,568)	5,723,207
TRANSFERS		
Transfer to SANDAG	(8,114,650)	(5,321,060)
CHANGE IN NET POSITION	(12,605,218)	402,147
NET POSITION:		
Beginning of year	192,329,365	191,927,218
End of year	$ 179,724,147	$ 192,329,365

San Diego Association of Governments
South Bay Expressway
Statement of Cash Flows
For the Year ended June 30, 2021
(With comparative information for the prior year)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	$ 28,471,242	$ 37,616,108
Receipts from rental and miscellaneous income	65,429	45,205
Payments for employee salaries and benefits	(6,132,598)	(7,072,927)
Payments for operations	(2,838,273)	(4,707,211)
Net cash provided by operating activities	19,565,800	25,881,175
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfer to SANDAG	(8,114,650)	(6,042,917)
Transfer from governmental funds	1,647,832	603,094
Net cash used for noncapital financing activities	(6,466,818)	(5,439,823)
CASH FLOWS FROM CAPITAL FINANCING AND RELATED ACTIVITIES:		
Payments for acquisition of construction of capital assets	(11,353,471)	(5,317,848)
Principal payments on debt	(4,535,000)	(4,315,000)
Interest payments on debt	(9,224,375)	(9,445,625)
Proceeds from the disposition of the asset	-	5,500
Net cash used for capital financing and related activities	(25,112,846)	(19,072,973)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	291,479	1,310,907
Net cash from investing activities	291,479	1,310,907
Net change in cash and investments	(11,722,386)	2,679,286
Cash and cash equivalents, beginning of year	108,566,536	105,887,250
Cash and cash equivalents, end of year	$ 96,844,150	$ 108,566,536
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 3,183,610	$ 11,346,337
Adjustments to reconcile net cash provided by operating activities:		
Depreciation	14,410,835	14,000,339
Gain on disposition of capital assets	-	(2,602)
Change in:		
Accounts receivable	607,354	(123,844)
Prepaid expenses and other assets	(1,048,003)	437,953
Due from other governments	50,711	251,909
Accounts payable	687,263	1,233,258
Accrued liabilities and other liabilities	885,206	(1,405,975)
Due to other governments	62,554	(493,775)
Unearned revenue	111,412	67,007
Net pension liability	(55,697)	1,300,356
Pension related deferred outflows	533,847	(679,468)
Pension related deferred inflows	157,364	(28,455)
Net OPEB liability	(8,376)	23,169
OPEB related deferred outflows	(2,711)	(37,736)
OPEB related deferred inflows	(9,569)	(7,298)
Total adjustments	16,382,190	14,534,838
Net cash provided by operating activities	$ 19,565,800	$ 25,881,175
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Bond premium amortization	$ (2,380,787)	$ (2,440,038)
Refunding loss amortization	35,443	36,325
Capital assets purchase included in accounts payable	2,290,093	389,151

See accompanying Notes to the Financial Statements.

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NOTES TO THE FINANCIAL STATEMENTS

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San Diego Association of Governments
South Bay Expressway
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

I. ORGANIZATION AND OPERATIONS

A. General

On December 21, 2011, the San Diego Association of Governments (SANDAG) acquired the rights and interest in a Franchise Agreement (Agreement) between South Bay Expressway, LLC and Caltrans. Under the Agreement, SANDAG has contractual rights to develop and operate the South Bay Expressway (State Route 125 [SR 125]), an 11.2 mile, limited-access toll road in the County of San Diego. The SR 125 fund was established in December 2011 as a proprietary fund under the oversight of SANDAG to operate the toll road. As part of this acquisition, a fair value analysis of the acquired assets and liabilities had been performed as of the valuation date. As a result of this valuation analysis, the purchase price was allocated to the assets and liabilities and those assets and liabilities were recorded at fair value.

B. Organization

The SR 125 is an integral part of the reporting entity of SANDAG, where it is classified as a proprietary fund. The accounts and activities of the SR 125 have been included within the scope of the financial statements of SANDAG because SANDAG has financial accountability and continuing oversight responsibility over SR 125. SR 125's financial statements should be read in conjunction with those of SANDAG. Only the accounts and activities of SR 125 are included herein; therefore, these financial statements do not purport to represent the financial position or results of operations of SANDAG as a whole.

The SANDAG Board of Directors (Board) provides executive oversight and decision making related to SR 125. The SANDAG Executive Team provides management oversight and has established a management team to oversee the day-to-day operations of the toll road.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of SR 125 have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body of established governmental accounting and financial reporting principles. The more significant of SR 125's accounting policies are described below.

A. Measurement focus, basis of accounting, and financial statement presentation

The SR 125 financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the SR 125 are toll revenues. Operating expenses include roadway maintenance, cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Toll revenue includes toll charges earned, net of promotions, and an uncollectible accounts allowance. Customer accounts are opened by the deposit of prepaid tolls into a *FasTrak*® transponder account. Prepaid tolls are held as customer deposits until the customer travels the roadway and incurs a toll charge. At that time, revenues are earned and charged against the customer's account. Revenues from cash-paying customers are recognized at the time the transactions occur. The SR 125 recognizes violation tolls and fines revenues when collected. Violation revenue receivables net of allowance are adjusted annually based on the historical collection percentage.

B. Budgetary information

An annual budget is adopted on a basis consistent with GAAP for the enterprise fund.

C. Assets, liabilities, and net position/fund balance

1. *Cash and cash equivalents*

SR 125 cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Securities purchased with a maturity date greater than three months at the date of acquisition have been classified as investments.

The SR 125 investment policy is consistent with the SANDAG investment policy and is in accordance with California Government Code Section 53601. SR 125 is authorized to invest in the following:

- Treasury obligations
- Federal agencies and United States government-sponsored enterprises
- State municipal obligations
- Local agency obligations
- Repurchase agreements
- Bankers' acceptances
- Commercial paper
- Medium-term notes
- Negotiable and nonnegotiable certificates of deposit
- State of California's Local Agency Investment Fund

- San Diego County Treasurer's pooled investment fund
- Savings/money market accounts
- California Asset Management Program (CAMP)
- Money market funds
- Mortgage and asset-backed obligations
- Supranationals

Authorized Investment Type	Maximum Effective Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Ratings
Treasury obligations	5 Years	N/A	N/A	N/A
Federal agencies and U.S. government sponsored	5 Years	N/A	N/A	N/A
State municipal obligations	5 Years	N/A	N/A	A-1/AA
Local agency obligations	5 Years	N/A	N/A	A-1/AA
Repurchase agreements	90 Days	N/A	N/A	A-1
Bankers' acceptances	180 Days	40%	10%	A-1
Commercial paper	270 Days	25%	10%	A-1
Medium-Term notes	5 Years	30%	10%	A
Negotiable certificates of deposits	5 Years	30%	N/A	A
Nonnegotiable certificates of deposit	5 Years	30%	N/A	N/A
State of California's Local agency investment fund (LAIF)	N/A	Set by LAIF	Set by LAIF	N/A
San Diego county treasurer's pooled investment fund	N/A	Set by LAIF	Set by LAIF	N/A
Savings/money market accounts	5 Years	Not to exceed equity	N/A	N/A
California asset management program	N/A	N/A	N/A	AA/A-2
Money market funds	5 Years	20%	N/A	AAA
Mortgage and asset-backed obligations	5 Years	20%	N/A	AA
Supranationals	5 Years	30%	N/A	AA

SR 125 is a voluntary participant in CAMP, which is an investment pool, offered by the California Asset Management Trust (the "Trust"). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 *et seq*., or the "Act") for the purpose of exercising the common power of its Participants to invest certain proceeds of debt issues and surplus funds. In accordance with Section 53601(p) of the California Government Code, CAMP's investments are limited to investments permitted by subdivisions (a) through (n), inclusive, of Section 53601. SR 125 reports its investments in CAMP pool share at amortized cost provided by CAMP, which is the same as the value of the pool share. On June 30, 2021, the pool had an average maturity of 53 days.

In accordance with GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3), SR 125 adheres to certain disclosure requirements, if applicable for deposit and investment risks. These requirements are specified for the following areas:

- Interest rate risk
- Credit risk
    - Overall
    - Custodial
    - Concentration

2. *Restricted cash and cash equivalents*

Certain cash and cash equivalents are restricted as these assets are either restricted for specific purpose or are used for debt service. Restricted cash consists of cash in the bank, cash in money market accounts, and funds which are restricted in accordance with the debt related Master Indenture. Such restrictions are related to the use of trustee-controlled accounts and the order of priority of withdrawals from such accounts which are subject to the approval of the secured lenders under the bonds payable or their representative agents.

Certain investments are classified as restricted on the Statement of Net Position because their use is limited externally by applicable bond covenants, laws or regulations or there exists an imposed restriction through enabling legislation.

3. *Non-current restricted cash and cash equivalents*

In accordance with GASB 62, certain restricted cash and cash equivalents are non-current as these funds are restricted as to withdrawal or use for other than current operations, for disbursement in the acquisition or construction of non-current assets, or for the liquidation of long-term debt.

4. ***Fair value measurements***

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are inactive
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect SR 125's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the SR 125's own data.

5. ***Accounts receivable***

Accounts receivable are recognized when invoiced to customers. As of June 30, 2021, an allowance for uncollectible accounts was provided for accounts receivable. The allowance is determined by management to be uncollectible amounts based on historical collection percentages and other information.

6. ***Prepaid expenses and other assets***

Payments made to vendors for services that will benefit periods beyond June 30, 2021, are recorded as prepaid items. The cost of prepaid items is recorded as expenditures when consumed rather than when purchased.

7. ***Capital assets***

Capital assets are reported net of accumulated depreciation, except for construction-in-progress and land which are not depreciated. To meet the criteria for capitalization, an asset must have a useful life in excess of one year and an initial, individual cost equal to or greater than $5,000. Such assets are recorded at historical cost or estimated historical cost if constructed. The purchase of the toll road and related assets were valued on the acquisition date at fair value. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Depreciation of capital assets is computed using the straight-line method over the estimated useful life of the asset as follows:

Assets	Years
Computer equipment and software	3
Office and other equipment	5
Vehicles	5
Roadway improvements	4-10
Toll road	31
Building	50

8. *Other post-employment benefits (OPEB)*

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the SANDAG plan (OPEB Plan), the assets of which are held by the California Employers' Retiree Benefit Trust (CERBT), and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the basis that are reported by CERBT. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 75 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Measurement Period	July 1, 2019 to June 30, 2020

9. *Pensions*

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Measurement Period	July 1, 2019 to June 30, 2020

10. *Deferred outflows/inflows of resources on OPEB and pensions*

Most changes in net OPEB and pension liability are required to be included in OPEB and pension expense in the period of the change such as service cost, interest on the total OPEB and pension liability and changes in benefit terms. The following changes in net OPEB and pension liability are not included in OPEB or pension expense as of the beginning of the measurement period and are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB or pensions:

1) Changes in total OPEB and pension liability arising from differences between expected and actual experience with regard to economic or demographic factors.

2) The effects of changes in assumptions about future economic or demographic factors or of other inputs.

3) Differences between projected and actual investment earnings on OPEB and pension plan investments.

4) Changes in proportionate share of the total OPEB and pension deferral-related items.

The amounts in items 1, 2, and 4 are recognized as pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of employees determined as of the beginning of the measurement period. Item 3 is recognized as pension expense using a systematic and rational method over a closed five-year period.

Deferred outflows of resources are also used to report SR 125's contributions to CalPERS and the Employees Retirement Plans subsequent to the measurement date of the net OPEB and pension liability. They will be recognized as a reduction of the net OPEB and pension liability in the next fiscal year.

11. ***Deferred outflows/inflows of resources on debt refunding***

In November 2017, SR 125 issued toll revenue bonds to refund the TIFIA and *TransNet* loans. The purpose of the refunding was to achieve debt service costs savings, to restructure the repayment of the loans, to change the type of instrument being used, and to retire an indenture in order to remove undesirable covenants when more favorable interest rates and financing terms became available.

In refunding debt resulting in the legal defeasance of the old debt, the difference in the carrying value of the refunded debt and its reacquisition price is reported as deferred outflows or deferred inflows of resources in the Statement of Net Position and amortized over the life of the old or the new debt, whichever is shorter.

12. ***Net position***

The difference between assets and deferred outflows and liabilities and deferred inflows is reported as "Net Position" on proprietary fund financial statements.

Net position is reported as restricted when constraints are placed on net position use by creditors or by law or enabling legislation. The following terms are used in the reporting of net position:

<u>Net investment in capital assets</u> – Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding debt balances that are attributable to the acquisition, construction, or improvement of those assets.

<u>Debt service</u> – Net position restricted for the payments of future debt service.

<u>Capital expenditures</u> – Net position restricted for funding SR 125 toll road major maintenance and capital projects.

<u>Project revenue</u> – Net position restricted for other legally restricted funds.

<u>Customer prepaid</u> – Net position restricted for SR 125 *FasTrak* customers' deposits for future toll payments.

<u>Unrestricted net position</u> – Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the above restricted categories of net position.

13. ***Net position flow assumption***

SR 125 funds outlays for particular purposes from both restricted (e.g., restricted for major maintenance) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is SR 125 policy to consider restricted net position to have been depleted before unrestricted net position is applied.

14. ***Long-term debt***

In the Proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities, net of related original issue premiums and discounts. Bonds issue costs are reported as current period costs and accounting gains and losses resulting from refunding of debts are reported as deferred outflows of resources or deferred inflows of resources in conformity with GASB 65.

15. ***Unearned revenues***

In the Proprietary fund financial statements, unearned revenues are resource inflows that do not meet the criteria for revenue recognition. Unearned revenues arise when resources are received by SR 125 before it has a legal claim to them, such as prepaid tolls held as customer deposits until the customer travels the roadway and incurs a toll charge. When revenue recognition criteria are met, or when SR 125 has a legal claim to the resources, unearned revenue is removed from the Statement of Net Position and the revenue is recognized.

16. ***Estimates***

The preparation of financial statements in conformity with GAAP in the United States requires management to make estimates and assumptions that affect reported amounts of certain assets and liabilities and the related reported amount of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

17. ***Prior year comparative information***

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with SR 125's prior year financial statements, from which this selected financial data was derived.

18. ***Effects of new pronouncements***

There were no new pronouncements in FY2021 that would have a material impact on the SR-125 financial statements.

III. DETAILED NOTES

A. Cash and cash equivalents

Cash and cash equivalents consisted of the following on June 30, 2021:

Investment Type		Balance Amount	Weighted Average Maturity (Days)	NRSRO Rating
Cash and cash equivalents:				
Cash - demand deposits	$	30,980,658	1	Not rated
California Asset Management Program		65,863,492	52	AAAm
Total cash and cash equivalents	$	96,844,150		

On June 30, 2021, SR 125's carrying amount of deposits was $30,980,658 and the bank balance was $30,827,469.

1. *Interest rate risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from the rising interest rates, the SANDAG investment policy, which is adopted by SR 125, limits investments to a maximum maturity of five years from purchase date, unless the Board has granted express authority to make that investment specifically or as a part of an investment program approved by the Board no less than three months prior to the investment. The total portfolio shall not exceed SR 125's anticipated liquidity needs for operations for the next six months. SR 125 is in compliance with all maturity provisions of the investment policy.

2. *Credit risk*

Investments are subject to credit risk, which is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price to decline. SANDAG maintains policies to manage credit risks, which include requiring minimum credit ratings issued by nationally recognized statistical rating organizations for its investments.

The portfolio is diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Credit requirements listed in the investment policy apply at the time of purchase. In the event a security held by SR 125 is subject to a credit rating change that brings it below the minimum credit ratings specified for purchase, the Chief Financial Officer shall review the security. The course of action to be followed will then be decided by the Chief Financial Officer and either the Executive Director or the Chief Deputy Executive Director on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price of the security. Any credit rating changes below the minimum credit ratings specified for purchase will be reported to the Board of Directors along with the findings and any actions taken.

The SR 125 portfolio is in compliance with all minimum rating requirements of the investment policy and did not experience any credit rating changes that brought the security below the minimum credit ratings.

3. *Concentration of credit risk*

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issuers. The SR 125 maintains investment policies that establish thresholds for holdings of individual securities. The SR 125 did not have any holdings meeting or exceeding the allowable threshold levels as of June 30, 2021.

As of June 30, 2021, with the exception of investments that are explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments, SANDAG did not have any investments with more than 5 percent of the total investments under one issuer.

4. *Custodial credit risk*

The California Government Code requires California banks and savings and loan associations to secure SANDAG cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the SANDAG name.

The market value of pledged securities must equal at least 110 percent of SANDAG cash deposits. California law also allows institutions to secure SANDAG deposits by pledging first trust deed mortgage notes having a value of 150 percent of SANDAG total cash deposits. SANDAG may waive collateral requirements for cash deposits, which are fully insured up to $250,000 by the Federal Deposit Insurance Corporation. SANDAG, however, has not waived the collateralization requirements.

B. Fair value measurements

The SR 125 categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The SR 125 did not invest in securities that qualify for the reporting of fair value measurements as of June 30, 2021.

C. Receivables

To ensure collection of toll revenue, the SR 125 uses a violation enforcement system capable of identifying vehicle license plates at any operating speed. Persons who fail to pay their tolls may be charged a penalty in addition to the toll. The SR 125 accrues violation revenue in an amount management expects to collect the following fiscal year.

Receivables as of June 30, 2021, were $5,448,112 which is primarily comprised of $3,313,388 violations fines receivable, net of an allowance for doubtful accounts. Gross violation receivables as of June 30, 2021 was $57,464,586 with an estimated uncollectible allowance of $54,151,198.

D. Due to/from other funds

Due to/from other funds represent repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. The reimbursement is reported as expenditures or expenses in the reimbursing fund and a reduction of expenditures or expenses in the fund that initially incurred the expense.

Due from other funds to the SR125 totaled $1,923,240 for the fiscal year and June 30, 2021.

- $213,347 net due from the I-15 Fastrak for fiber optic gap closures
- $24,667 net due from the I-15 Fastrak for toll interoperability reimbursement
- $1,685,226 due from SANDAG for advancement of operating expense reimbursement

Due to other funds to the SR125 totaled $4,220,632 for the fiscal year and June 30, 2021.

- $4,137,916 due to the SANDAG for capital project expenses
- $82,716 due to the I-15 Fastrak for toll interoperability reimbursement

E. Due to/from other governments

Due from other governments represent revenue receivables due from the Department of Motor Vehicles and the Franchise Tax Board collected on behalf of SR 125. Monthly interoperable toll transactions between the SR 125 and other California tolling agencies are also recorded as due to/from other governments.

F. Transfers in/out

Transfers to SANDAG consisted of transactions related to capital improvements that increase access to the SR 125 such as tollway-to-freeway connectors that better integrate the SR 125 into the San Diego region's transportation network as well as interchange improvements that provide local road access to the SR 125. These capital projects will increase traffic capacity and operational efficiencies while also maintain the system in a state of good repair.

Transfers from the SR 125 capital reserve to fund capital projects totaled $8,114,650 for the fiscal year end June 30, 2021.

- Transfer of $2,902,740 for the design and construction of the SR 125 connectors southbound to westbound SR 905.

- Transfer of $791 for the design of the Joint Transportation Operation Center which will combine management and operation functions in a single facility.
- Transfer of $2,589 for the upgrade of the contract management system.
- Transfer of $4,995,152 for the design and construction of the SR11 Otay Mesa East Port of Entry (POE) segment 2A to enhance regional mobility, fuel economic growth, and binational trade between the United States and Mexico.
- Transfer of $213,378 for Fiber Optic Gap Closures.

G. Capital assets

Capital asset activity at June 30, 2021, was as follows:

	Beginning Balance	Increases	Reclassed to FA	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 1,980,000	$ -	$ -	$ 1,980,000
Construction-in-progress	12,193,737	13,497,770	(7,519,385)	18,172,122
Total capital assets, not being depreciated	14,173,737	13,497,770	(7,519,385)	20,152,122
Capital assets, being depreciated:				
Office equipment	273,741	-	-	273,741
Computer equipment	954,200	-	-	954,200
Vehicles	643,868	-	-	643,868
Fixed operating equipment	174,267	-	-	174,267
Software	226,676	-	-	226,676
Roadway improvements	7,480,389	7,519,385	-	14,999,774
Toll road	395,423,000	-	-	395,423,000
Building	4,020,000	-	-	4,020,000
Total capital assets, being depreciated	409,196,141	7,519,385	-	416,715,526
Less accumulated depreciation for:				
Office equipment	(251,796)	(7,830)	-	(259,626)
Computer equipment	(654,730)	(209,745)	-	(864,475)
Vehicles	(419,239)	(92,281)	-	(511,520)
Fixed operating equipment	(160,291)	(6,498)	-	(166,789)
Software	(200,698)	(9,169)	-	(209,867)
Roadway improvements	(1,683,087)	(1,249,332)	-	(2,932,419)
Toll road	(108,722,117)	(12,755,580)	-	(121,477,697)
Building	(683,400)	(80,400)	-	(763,800)
Total accumulated depreciation	(112,775,358)	(14,410,835)	-	(127,186,193)
Total capital assets, being depreciated, net	296,420,783	(6,891,450)	-	289,529,333
Capital assets, net	$ 310,594,520	$ 6,606,320	$ (7,519,385)	$ 309,681,455

Effective December 21, 2011, SANDAG entered into an Asset Purchase and Sale Agreement to acquire the rights and interest in a Franchise Agreement with Caltrans. The Franchise Agreement gives the holder the right to operate a toll road (SR 125) in San Diego, California.

The fair value of the consideration paid was $341.5 million. The consideration consisted of a cash payment of $238.3 million, an additional cash component, held in escrow, in the amount of $7.5 million, a promissory note with a principal amount of $1.4 million and an assumption of indebtedness in the amount of $94.2 million. The fair value of the total invested capital, including equity and assumed debt was $402.9 million as of the valuation date and was allocated to each asset type shown in the above schedule.

In November 2017, the SR 125 refunded all acquisition debts by issuing $194,140,000 toll revenue bonds.

H. Long-term debt

1. *The 2017 Series A Toll Revenue Bonds*

In November 2017, the SR 125 issued $194,140,000 of 2017 Series A toll revenue bonds for the purpose of providing funds to refinance indebtedness incurred by the SR 125 in connection with the acquisition of the South Bay Expressway and to pay the cost of issuance of the 2017 Bonds. The 2017 Series A toll revenue bonds included a premium of $38,102,982 and carried an overall all-in interest rate of 3.33 percent with a final maturity date of July 1, 2042.

The principal requirements to maturity for the 2017 Series A bonds, are as follows:

Maturity Fiscal Year (Jan 1, Jul 1)	Principal Amount	Interest Amount
2022	$ 4,765,000	$ 8,991,875
2023	5,010,000	8,747,500
2024	5,265,000	8,490,625
2025	5,535,000	8,220,625
2026	5,820,000	7,936,750
2027 - 2031	33,905,000	34,887,375
2032 - 2036	43,535,000	25,255,625
2037 - 2041	55,905,000	12,887,375
2042 - 2043	22,480,000	1,038,000
Total	$ 182,220,000	$ 116,455,750

Under GASB 88, the 2017 Series A toll revenue bonds are classified as other debts. Toll revenues are pledged as collateral for these bonds. There is no unused line of credit on these bonds. In the event of default, the SR 125's revenue and other funds shall be under the control of and applied by the Trustee under the provision of the Indenture. There is no right of acceleration with respect to the debt.

2. *Changes in long-term debt*

Long-term debt activity for the year ended June 30, 2021, is as follows:

	Beginning balance July 1, 2020	Additions	Reductions	Ending Balance June 30, 2021	Due Within One Year
2017 Series A Toll Revenue Bonds	$ 186,755,000	$ -	$ (4,535,000)	$ 182,220,000	$ 4,765,000
Premium	31,621,331	-	(2,380,787)	29,240,544	-
Total	$ 218,376,331	$ -	$ (6,915,787)	$ 211,460,544	$ 4,765,000

3. *Pledged revenue*

SR 125 has debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity table presented in the accompanying notes. The purpose for which the proceeds of the related debt service payments as a percentage of pledged gross revenue are indicated in the table below. These percentages also approximate the relationship of debt service to pledged revenues for the remainder of the term of the commitment.

SR 125 pledged its toll revenue to repay the toll revenue bonds. These bonds were used to refinance the TIFIA and *TransNet* loans.

The table below presents the SR 125's pledged revenue, annual debt service and debt service coverage for the fiscal year ended June 30, 2021.

Description of Pledged Revenue	FY 2021 Amount of Pledged Revenue	FY 2021 Debt Service Payments	Debt Service as a Percentage of Pledged Revenue
Net Project Revenue	$ 17,885,923	$ 13,759,375	77%

I. Risk Management

SANDAG has a self-insured retention (deductible) for Bodily Injury and Property Damage Liability (including General Liability and Automobile Liability) claims of $500,000 per occurrence. Amounts in excess of the self-insurance are covered by commercial excess insurance up to $50,000,000.

Liabilities are recorded when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The ultimate amount of losses incurred is dependent on future developments. The amounts reported in the accompanying financial statement have been determined based upon information from SANDAG legal counsel. For business reasons, SANDAG elected not to trigger an insurance event, but rather to report $1,200,000 of claims liability in FY21.

	2021	2020
Claims payable, beginning of year	$ 238,157	$ 500,000
Current year claims and changes in estimates	1,200,000	-
Current year claims payments	(238,157)	(261,843)
Claims payable, end of year	$ 1,200,000	$ 238,157

J. Commitments and Contingencies

As of June 30, 2021, SR 125's commitments to vendors and consultants for capital projects which are in various stages of development are as follows:

Projects	Contract Amount	Remaining
Back office system	$ 8,035,098	$ 2,275,916
Roadway tolling system	20,191,167	9,438,460
Ramp pavement overlay	14,550,000	6,820,000
Total	$ 42,776,265	$ 18,534,376

K. Other postemployment benefits

1. *Plan description*

In March 1986, pursuant to requirements of the state retirement system in which SANDAG participates, SANDAG adopted a policy to provide post-retirement health care benefits to retired employees through the California Public Employees' Retirement System (CalPERS), an agent multiple-employer benefit plan (plan) that covers all SANDAG employees and is administered by the California Employer's Retiree Benefits Trust (CERBT). SR 125 is considered a separate employer of the SANDAG plan and therefore reports as a cost-sharing plan.

Commencing with the January 1, 2009 benefit year, SANDAG provides a fixed dollar amount contribution equal to a maximum of $250 per month per each eligible retiree. The maximum of $250 per month has not been increased in subsequent years, and any future increases would be at the discretion of SANDAG. Eight retirees were grandfathered into their 2007 SANDAG contribution with a 5 percent increase for 2007 and 2008. For these retirees, amounts in excess of the SANDAG fixed dollar contribution will be placed in a tax-free health reimbursement account. In future years, the SANDAG contribution may be subject to the CalPERS minimum required employer contribution ($139 per month in 2020, $143 per month in 2021 and subject to annual adjustments to reflect Medical Portion of CPI). There were no changes in the benefit terms from the prior period.

Eligibility for the SANDAG contribution requires retirement and receipt of pension income under CalPERS while receiving coverage under the CalPERS Health Program. Covered employees who terminate employment with SANDAG prior to meeting CalPERS eligibility for retirement (attainment of at least age 50 and at least 5 years of CalPERS credited service) are not eligible for continuation of medical coverage except as provided under COBRA. An eligible retiree can elect to contribute to the cost of continuing spouse and other eligible dependent coverage at retirement. Surviving spouses are eligible for the SANDAG contribution upon the death of the retiree.

2. *Contributions*

Contributions to retirees are a fixed dollar amount equal to a maximum of $250 per month per each eligible retiree. The exception to this contribution is for eight retirees who were grandfathered into their 2007 SANDAG contribution with an increase in each year thereafter, to maintain a comparable benefit level. The expenditure was recorded when the Annual Required Contribution of the employer was paid. For the fiscal year ended June 30, 2021, total cash contributions were $39,230.

3. *Net OPEB liability*

The SANDAG net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2020 based on the following actuarial methods and assumptions:

Actuarial Assumptions:	
Discount Rate	6.50%
Inflation	2.50%
Salary Increase	2.75%, in aggregate plus Merit
Investment Rate of Return	6.50%
Mortality Rate Table[1]	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover[2]	Derived using CalPERS' Membership Data for all funds
Healthcare Cost Trend Rate	6.5% PPO / 6.5% HMO decreasing to 5.0% PPO / 5.0% HMO

1 The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2017 experience study report.

2 The Pre-Retirement Turnover table used was developed using the most recent (2017) CalPERS pension plan valuation.

There were no changes of assumption from the previous measurement date. There were no events occurring between the measurement date and the reporting date that would have an impact on the OPEB liability.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long-term expected real rate of return
Global Equity	40.0%	5.50%
Global Debt Securities	43.0	2.35
Inflation Assets	5.0	1.50
Commodities	4.0	1.75
REITs	8.0	3.65
Total	**100%**	

Long-term expected rate of return is 6.50%.

4. *Discount rate*

The discount rate used to measure the total OPEB liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that SANDAG continues to fully fund its retiree health benefits through the CERBT under its investment allocation strategy 2. The rate reflects the CERBT published median interest rate for strategy 2 with an additional margin for adverse deviation.

5. *Changes in proportionate share of net OPEB liability*

The summary of changes in net OPEB liability for the SR 125 are as follows:

	6/30/2021	6/30/2020	Change
Proportionate share	$ 95,374	$ 103,750	$ (8,376)
Proportionate share (%)	6.67%	6.67%	0.00%

The SR 125's proportion of the net OPEB liability is based on its contributions relative to the total contributions for the period ended June 30, 2020.

6. *Sensitivity of the net OPEB liability to changes in the discount rate*

The following presents the net OPEB liability of the SR 125 plan as of the measurement date, calculated using the discount rate of 6.50 percent, as well as if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate.

	Discount Rate		
	1% Decrease (5.50%)	**Current** (6.50%)	**1% Increase** (7.50%)
Proportionate share of collective net OPEB liability	$ 150,748	$ 95,374	$ 48,775

7. *Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates*

The following presents the net OPEB liability of the SR 125 as of the measurement date, calculated using the current healthcare cost trend rates (HMO and PPO), as well as if it were calculated using rates that are one percentage point lower or one percentage point higher than the current rate.

	Healthcare Cost Trend Rates		
	1% Decrease	**Current**	**1% Increase**
	(5.00%HMO / 5.50%PPO decreasing to 4.00%HMO / 4.00%PPO	(6.50%HMO / 6.50%PPO decreasing to 5.00%HMO / 5.00%PPO	(7.00%HMO / 7.50%PPO decreasing to 6.00%HMO / 6.00%PPO
Proportionate share of collective net OPEB liability	$ 50,667	$ 95,374	$ 157,700

8. *OPEB plan fiduciary net position*

The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94429-2703 or by visiting its website at calpers.ca.gov.

9. *Recognition of deferred outflows and deferred inflows of resources*

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss.

Net difference between projected and actual earnings on OPEB plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) (10 years at June 30, 2020)

10. *OPEB expense and deferred outflows/inflows of resources related to OPEB*

For the fiscal year ended June 30, 2021, SR 125 recognized OPEB expense of $18,574 for the plan. SR 125 reports other amounts for the plan as deferred outflows and deferred inflows of resources related to OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 39,230	$ -
Change in proportionate share	5,493	(19,861)
Change of assumptions	-	(830)
Difference between expected and actuarial experience	25,647	(2,181)
Net difference between projected and actual earnings on OPEB plan investments	1,743	-
Total	$ 72,113	$ (22,872)

SR 125 reported $39,230 deferred outflows of resources related to employer contributions subsequent to the measurement date which will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB for SR 125 will be recognized as OPEB expense as follows:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2022	$ (6,194)
2023	(5,845)
2024	3,829
2025	4,277
2026	3,547
Thereafter	10,397
Total	**$ 10,011**

L. Pension plan

Qualified permanent and probationary employees are eligible to participate in pension benefits through the California Public Employees' Retirement System (CalPERS).

1. *Plan description*

SANDAG provides the plan to its employees and employees of the SR 125 and the plan is classified as a cost-sharing plan for the SR 125. The benefit pension plan is administered by CalPERS. CalPERS acts as a common investment and administrative agent for its participating public employers within the State of California. An agent multiple-employer plan is one in which the assets of the multiple employers are pooled together for investment purposes, but separate accounts are maintained for each individual employer.

Benefit provisions under the plan are established by state statute and local government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

2. *Benefits provided*

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, which include public employees and their beneficiaries. SANDAG has three classes of plan members, based on date of hire. Benefits for all plan members are based on years of credited service, equal to one year of full-time employment.

The plan's provisions and benefits in effect at June 30, 2021, are summarized as follows:

Hire date	Prior to 10/27/12	After 10/27/12[1]	On or after 1/1/13[2]
Benefit formula	2.7% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule (# years of service)	5 yrs	5 yrs	5 yrs
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 60	52 - 62
Monthly benefits, as a % of eligible compensation	2.7%	2.0%	2.0%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	10.320%	10.320%	10.320%

1 Includes those hired on or after January 1, 2013, who are current members of CalPERS (or a reciprocal agency) and have not had a break in service with a CalPERS agency of greater than six months.

2 Applicable to employees who are not members of CalPERS (or a reciprocal system) at the time of hire or have had a break in service greater than six months from a CalPERS agency.

The Plan also provides optional benefits for survivor and disability benefits. The benefit provisions and all other requirements are established by contracts with CalPERS in accordance with the provisions of the Public Employees' Retirement law.

CalPERS issues an annual audited stand-alone financial report and a copy can be obtained by submitting a written request to CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709 or by visiting its website at calpers.ca.gov.

3. *Contributions*

All employer contribution rates are actuarially determined annually and become effective July 1 following the notice of change in the rate in accordance with Section 20814(c) of the California Public Employees' Retirement Law (PERL). The employer and employee contributions are a percentage of the covered payroll, which is based on pensionable earnings. The rates are defined by law and are based on the employer's benefit formula as determined by periodic actuarial valuations. These contributions are deposited in a fund established for each entity for the purpose of creating actuarial reserves for future benefits. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

For the reporting fiscal year 2021, the required contributions were actuarially determined by the funding valuation reports dated June 30, 2019. The actuarially required contribution rate was 23.470% of covered payroll and actual contributions totaled $948,320 for the SR 125. This rate includes the mandatory employee contribution rate that is currently paid by the SR 125 for all eligible members. PEPRA members pay 6.75% of covered payroll which is 56.69% of the total normal cost of 11.906%. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

4. *Net pension liability*

The Plan's net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The total pension liability was rolled forward to determine the June 30, 2020 total pension liability.

5. *Actuarial methods and assumptions used to determine total pension liability*

The June 30, 2020 (the measurement date), total pension liability was based on the following actuarial methods and assumptions applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.15% Net of Pension Plan Investment Expenses; includes inflation
Mortality Rate Table[1]	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

[1]The mortality table used was developed based on CalPERS-specific data. The probabilities of mortaility are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-Retirement mortality rates include 15 years of projected mortality improvement using 90% of scale MP 2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality, and retirement rates. The Experience Study report can be accessed on the CalPERS website at calpers.ca.gov under Forms and Publications.

6. *Changes of assumptions*

In 2020, there were no changes of assumptions.

7. ***Discount rate***

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects long-term expected real rate of return by asset class.

Asset Class[1]	Assumed Asset Allocation	Real Return Years 1 - 10[2]	Real Return Years 11+[3]
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0	1.00	2.62
Inflation Assets	-	0.77	1.81
Private Equity	8.0	6.30	7.23
Real Assets	13.0	3.75	4.93
Liquidity	1.0	-	(0.92)

[1] In the System's ACFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

[2] An expected inflation of 2.00% used for this period.

[3] An expected inflation of 2.92% used for this period.

8. *Subsequent events*

There were no subsequent events that would materially affect the results presented in this disclosure.

9. *Pension plan fiduciary net position*

The plan fiduciary net position (assets) disclosed in the SANDAG GASB 68 report may differ from the plan assets reported in the SANDAG actuarial valuation report due to several reasons. First, CalPERS must keep Reserves for Deficiencies and Fiduciary Self Insurance. These amounts are excluded for rate-setting purposes in the actuarial valuation report while required to be included for GASB 68 reporting purposes. In addition, differences may result from early Annual Comprehensive Financial Report closing and final reconciled reserves.

10. *Changes in proportionate share of net pension liability*

The following table displays the SR 125 aggregate changes in proportionate share of the net pension liability recognized over the measurement period of July 1, 2019 to June 30, 2020:

	6/30/2021	6/30/2020	Change
Proportionate share	$ 7,291,998	$ 7,347,695	$ (55,697)
Proportionate share (%)	12.52%	13.20%	-0.68%

The proportion of the net pension liability of the plan is measured as of June 30, 2020, and the total pension liability for the plan to calculate the net pension liability was determined by an actuarial valuation of June 30, 2019, rolled forward to June 30, 2020, using standard update procedures. SR 125's proportion of the net pension liability was based on its contributions relative to the total contributions for the period ended June 30, 2020.

11. *Sensitivity of the net pension liability to changes in the discount rate*

The following presents the net pension liability of the plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1 (8.15%)
Proportionate share of collective net pension liability	$ 10,573,261	$ 7,291,998	$ 4,578,103

12. *Recognition of gains and losses*

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Source	Amortization Period
Net Difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

The EARSL for the Plan for the measurement period ending June 30, 2020 is 4.6 years, which was obtained by dividing the total service years of 3,866 (the sum of remaining service lifetimes of the active employees) by 846 (the total number of participants: active, inactive, and retired). Inactive employees and retirees have remaining service lifetimes equal to zero. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

13. *Pension expense and deferred outflows and deferred inflows of resources related to pensions*

For the reporting period ended June 30, 2021, SR 125 recognized a pension expense of $1,583,834 for the plan.

Deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

SR 125 reports deferred outflow and deferred inflow of resources related to pensions as of June 30, 2021 as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 149,033	$ (69,357)
Differences between expected and actual experience	146,856	(78,226)
Change in proportionate share	863,268	(296,231)
Employer contributions for fiscal year 2021	948,320	-
Net difference between projected and actual earnings on pension plan investments	146,092	-
Total	$ 2,253,569	$ (443,814)

The SR 125 reports a total of $948,320 as deferred outflows of resources related to employer contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the SR 125 will be recognized as pension expense as follows:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2022	$ 355,506
2023	306,912
2024	187,634
2025	11,383
Total	**$ 861,435**

REQUIRED SUPPLEMENTARY INFORMATION

San Diego Association of Governments
South Bay Expressway
Required Supplementary Information
For the Fiscal Year Ended June 30, 2021

A. Other Post-Employment Benefits (OPEB) Plan:

Schedule of the Plan's Proportionate Share of Net OPEB Liability
Last Ten Years[1]

Measurement Period	2019 - 2020	2018 - 2019	2017 - 2018	2016 - 2017
Proportion of the collective net OPEB liability	6.67%	6.67%	6.15%	9.48%
Proportionate share of the collective net OPEB liability	$ 95,374	$ 103,750	$ 80,581	$ 141,225
Covered-employee payroll	$ 3,642,675	$ 3,223,183	$ 2,852,000	$ 2,529,029
Proportionate share of the collective net OPEB liability as a percentage of covered-employee payroll	2.54%	3.20%	2.80%	5.58%
Plan fiduciary net position as a percentage of the total OPEB liability	80.00%	76.80%	77.50%	72.71%

Notes to Schedule

Changes in Assumptions: In 2020, inflation rate remained at 2.50%. Salary increase remained at 2.75%.

[1] Ten years has not been presented as Governmental Accounting Standards Board 75 was implemented for the fiscal year ended June 30, 2018.

San Diego Association of Governments
South Bay Expressway
Required Supplementary Information, Continued
For the Fiscal Year Ended June 30, 2021

Schedule of the Plan's OPEB Contributions
Last Ten Years[2]

	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Actuarially Determined Contribution	$ 39,230	$ 35,056	$ 31,666	$ 48,746
Contributions in Relation to the Actuarially Determined Contribution	(39,230)	(35,056)	(31,666)	(48,746)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$ 3,750,752	$ 3,642,675	$ 3,223,183	$ 2,852,000
Contributions as a Percentage of Covered-Employee Payroll	1.046%	0.962%	0.982%	1.709%

Notes to Schedule

The actuarial methods and assumptions used to set the actuarially determined contributions for FY 2021 were from the June 30, 2019 actuarial valuations.

[2] Ten years has not been presented as Governmental Accounting Standards Board 75 was implemented for the fiscal year ended June 30, 2018.

San Diego Association of Governments
South Bay Expressway
Required Supplementary Information, Continued
For the Fiscal Year Ended June 30, 2021

B. Pension Plan:

Schedule of the Plan's Proportionate Share of Net Pension Liability
Last Ten Years[3]

Measurement Period	2019 - 2020	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016	2014 - 2015
Proportion of the collective net pension liability	12.52%	13.20%	11.48%	9.82%	9.82%	9.82%
Proportionate share of the collective net pension liability	$ 7,291,998	$ 7,347,695	$ 6,047,339	$ 5,159,078	$ 4,633,003	$ 3,848,466
Covered payroll	$ 4,137,222	$ 3,790,886	$ 3,084,079	$ 2,619,733	$ 2,517,267	$ 2,371,292
Proportionate share of the collective net pension liability as a percentage of covered payroll	185.83%	193.83%	196.08%	196.93%	184.05%	162.29%
Plan fiduciary net position as a percentage of the total pension liability	69.91%	69.62%	69.21%	67.47%	67.16%	70.71%

Notes to Schedule

Benefit Changes: There were no changes in benefits for the years presented.

Changes in Assumptions: In 2020, there were no changes. In 2019, there were no changes. In 2018, inflation rate decreased from 2.75 percent to 2.50 percent. In 2017, the discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

[3] Ten years has not been presented as Governmental Accounting Standards Board 68 was implemented for the fiscal year ended June 30, 2015.

San Diego Association of Governments
South Bay Expressway
Required Supplementary Information, Continued
For the Fiscal Year Ended June 30, 2021

Schedule of the Plan's Pension Contributions
Last Ten Years[4]

	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Actuarially Determined Contribution	$ 948,320	$ 914,273	$ 678,954	$ 507,192	$ 493,636	$ 460,106	$ 452,514
Contributions in Relation to the Actuarially Determined Contribution	(948,320)	(914,273)	(678,954)	(507,192)	(493,636)	(460,106)	(452,514)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 4,040,519	$ 4,137,222	$ 3,790,886	$ 3,084,079	$ 2,619,733	$ 2,517,267	$ 2,371,292
Contributions as a Percentage of Covered Payroll	23.470%	22.099%	17.910%	16.445%	18.843%	18.278%	19.083%

Notes to Schedule

The actuarial methods and assumptions used to set the actuarially determined contributions for FY 2021 were from the June 30, 2019 actuarial valuations report.

[4] Ten years has not been presented as Governmental Accounting Standards Board 68 was implemented for the fiscal year ended June 30, 2015.

SANDAG