Approved November 17, 2016

Northern Virginia Transportation Authority
The Authority for Transportation in Northern Virginia

FINANCE COMMITTEE
Thursday, September 22, 2016 1:00PM
3040 Williams Drive, Suite 200
Fairfax, VA 22031

MEETING SUMMARY

I. Call to Order/Welcome Chairman Parrish

- Chair Parrish called the meeting to order at 1:11pm.
- Attendees:
  - ✓ Members: Chairman Parrish; Chairman Bulova (arrived 1:16pm); Chair Randall; Mayor Silberberg (arrived 1:14pm); Council Member Rishell.
  - ✓ Staff: Monica Backmon (Executive Director); Michael Longhi (CFO); Carl Hampton (Investment & Debt Manager); Peggy Teal (Assistant Finance Officer).
  - ✓ Council of Counsels: Ellen Posner (Fairfax County); Rob Dickerson (Prince William).
  - ✓ Other Attendees: Board Member Fisette; Tom Biesiadny (Fairfax County); Noelle Dominguez (Fairfax County); Raul Doku (Fairfax County); Mark Thomas (Fairfax County); Penny Newquist (Loudoun); Tim LecLerc (Prince William); Pierre Holloman (Alexandria); Mary Touhy (Herndon); Khadra Abdulle (VRE); Joanne Carter (PFM); Kristy Choi (PFM).

II. Summary Minutes of the June 16, 2016 Meeting

- <u>Chair Randall moved approval of the minutes of June 16, 2016; seconded by Council Member Rishell. Motion carried with two (2) yeas and one (1) abstention [Chairman Parrish as he was not at the June meeting].</u>

Action Items

III. Transportation Projects Reserve – Advisory Panel Proposed Policy

Mr. Biesiadny

- Mr. Biesiadny briefly reviewed the history of the establishment of the Transportation Projects Reserve and the Contingency Reserve funding, noting that an Advisory Panel had been convened to examine and make recommendations on both funds. He stated that the intent behind the Transportation Projects Reserve was to determine whether some portion of PayGo money should be set aside for large major projects.

(Chairman Bulova and Mayor Silberberg arrived.)

- Mr. Biesiadny reviewed the Advisory Panel discussions and highlighted:
  - ✓ Concern was expressed about the perception of having $100 million in cash set aside and not being used.
  - ✓ The panel received a presentation on the Authority's debt capacity, which is currently about $1.8 billion.
  - ✓ The Advisory Panel recommended that the Authority set aside $100 million in debt capacity, instead of Pay-Go funds.
  - ✓ This would provide a reserve to deal with large projects, or unexpected occurrences. This would provide resources to address these issues without leaving $100 million sitting in the bank that is not working for the Authority.
  - ✓ If these bonds are not issued, then there are no debt service payments either.
  - ✓ Projects under consideration for this reserve would need to go through the NVTA project selection process with all other projects for funding consideration.
- Chairman Parrish clarified that while this reserve may provide funding for a large project, that project will still have to go through the NVTA funding process to receive funds.
- It was noted that this approach does not leave funds unallocated to projects.
- It was additionally noted that this approach does not reduce PayGo resources for future projects.

- <u>Council Member Rishell moved the Finance Committee recommend Authority approval of the draft Transportation Projects Reserve, in a form approved by the Council of Counsels; seconded by Chairman Bulova. Motion carried unanimously.</u>

IV. Contingency Reserve – Advisory Panel Recommendation Mr. Biesiadny

- Mr. Biesiadny stated that the Advisory Panel spent more time discussing the Contingency Reserve than the Transportation Projects Reserve. He noted that the original intent behind this reserve was to have funds available to finish an NVTA approved project, if it had significant, unexpected cost overruns that would otherwise keep the project from getting finished. He noted that the suggestion was that it was important for the Authority to know that their projects can get completed. Mr. Biesiadny reviewed the Advisory Panel's discussion and highlighted:
  - ✓ There was general consensus that project sponsors should be including adequate contingency reserves as part of their project budgets.
  - ✓ If a project does have a cost overrun, it is the responsibility of the project sponsor to identify funds to cover the overrun.
  - ✓ Cost overruns could be met by applying for additional NVTA money. The SPA has a provision for these requests.
  - ✓ Concern was expressed that if a Contingency Reserve is established, there is the potential for under requesting funding knowing that there can be another opportunity to ask in the future.
  - ✓ Based on the Authority's rating of projects by congestion reduction relative to cost, there may be some incentive to lower the cost of a project. We do not want project sponsors to do this, and want them to provide adequate cost estimates, including contingency for each project.

- ✓ In order not to incentivize this behavior, the general consensus was that the Authority should not establish a Contingency Reserve and if there is a need, or cost overrun, then the project sponsor can go through the process to ask for additional money. This request would still need to go through all the NVTA project funding processes.
- A question was raised as to whether the Panel had considered establishing a small Contingency Reserve, suggesting that it is reasonable that there are times when a project could run over by $1-5 million for many reasons. It was suggested that the amount of the reserve could be small and that there could be limits on the amount of times an entity could request funds from this reserve. Mr. Biesiadny responded that this was not discussed and noted that the initial set aside had been 3.8% of the Regional Revenue Fund. He stated that the consensus was that project budgets should include their own contingencies, and if done correctly, this should cover most costs. If it does not, other funding sources can be considered, or the project sponsor can reapply to the Authority for additional funding.
- It was noted that small cost overruns can usually be covered by jurisdictions and that all jurisdictions do receive 30% funds.
- Chairman Parrish stated that by not approving the Contingency Reserve, funds will need to be moved from the existing Contingency Reserve to the Regional Revenue Fund.
- It was asked what cost overruns the NVTA has experienced to date. Mr. Longhi stated that the NVTA has not formally experienced any cost overruns. No entity has submitted a request for cost overruns, but based on conversations, some bids have come in above those that were estimated at the time of project submission. Ms. Backmon noted that the SPA process does allow a project sponsor to submit a request for additional funding to the NVTA Executive Director and that she would then make a recommendation to the Finance Committee. She added that cost is a consideration when the Authority funds projects based on the greatest level of congestion reduction relative to cost. Ms. Backmon stated that to date, the jurisdictions have all received their 30% funds and these can be used to match projects funds. She noted that she has had some conversations with project sponsors who are experiencing some cost overruns, but they had been worked out without having to make an official request to the Authority. Ms. Backmon stated that one project sponsor did have a cost overrun for which they applied for funding in the FY2017 process.

- <u>Chairman Bulova moved the Finance Committee recommend Authority approval of the elimination of the Contingency Reserve and recommend authorizing the NVTA CFO to undertake the necessary accounting transactions to reflect the elimination of the Contingency Reserve; seconded by Council Member Rishell. Motion carried unanimously.</u>

- Mr. Biesiadny recognized and thanked the members of the Advisory Panel.

V. Budget Adjustment – Exchange of Funding Source on FY2014 Projects

Mr. Longhi, CFO

- Mr. Longhi stated that this budget adjustment is a transfer of bond proceeds from projects that are not making expenditures to projects that are making expenditures. He noted that this is to ensure that the NVTA is compliant with the Internal Revenue Services (IRS) regulation that 85% of bond proceeds from tax exempt debt be expended within three years of issuance. He noted:

- ✓ This is a very proactive measure to ensure that we meet the guideline.
- ✓ This does not change any terms of the projects or any funding levels for the projects.
- ✓ In December 2014, the Authority issued Tax Exempt Revenue Bonds for the FY2014 Program.
- ✓ As of September 2016, four of the projects initially assigned funding from the Series 2014 bonds had not submitted any requests for reimbursement, and the jurisdictions and agencies managing these projects indicated that they will not request reimbursement for most of these funds by December 2017, which is the cut-off date for the three year regulation.
- ✓ IRS regulations require an issuer to certify reasonable expectations to spend a minimum of 85% of bond proceeds within three years. The best way to address this is by spending the money and this budget adjustments seeks to ensure this.
- ✓ Transferring a portion of the Authority's 2014 Revenue Bonds to fund a set of projects that were initially cash funded is appropriate and will enable the expenditure of the Series 2014 proceeds in time to comply with the IRS regulations.
- ✓ Authority staff has identified projects which are eligible for capital funding.
- ✓ The transfer of the funding source effectively really just allows us to change a code on the projects in the accounting system.
- ✓ There has been extensive coordination with Bond Counsel, NVTA Council of Counsels, jurisdictions and VDOT.

- Mr. Longhi stated that had he been engaged in the 2013 decision of which FY2014 Program projects to fund through bonds, he very well would have accepted these same projects.
- Chairman Parrish summarized that no funding amounts are changing and that this is a matter of timing more than anything else.

- <u>Chair Randall moved the Finance Committee recommend Authority approval of the budget transfer of bond proceeds from Series 2014 bond funded projects into cash funded projects as presented, and the replacement of these proceeds by the transfer of Authority FY2014 PayGo funding as presented; seconded by Mayor Silberberg. Motion carried unanimously.</u>

VI. Budget Adjustment – FY2017 Revenue and Working Capital Reserve

Mr. Longhi, CFO

- Mr. Longhi stated that the FY2016 revenue amounts have been finalized and there is a positive variance to budget of $21.4 million. Of this variance, 30% or $6.5 million has already been disbursed to member jurisdictions in accord with HB 2313. He added that there is language inserted in the 30% budget each year to allow the flow of these funds automatically. The 70% amount is recognized within the Regional Revenue Fund and this amount is $14.9 million. This variance triggers a change in the starting balance for the adopted FY2017 Regional Revenue Fund balance. That starting balance requires an additional contribution to the Working Capital Reserve.

- Mr. Longhi summarized that the action is to recognize the $14.9 million as increased revenue and to make a contribution of $7.4 million to the Working Capital Reserve.

- Chairman Bulova moved the Finance Committee recommend Authority approval of a $7,472,264.85 increase to the FY2017 Regional Revenue Fund Budget – Working Capital Reserve, with this increase to be funded from FY2016 carryover; seconded by Chair Randall. Motion carried unanimously.

VII. Legislative Services Contract Mr. Longhi, CFO

- Mr. Longhi briefed the Committee on the status of the Legislative Services Contract that was authorized as part of the FY2017 Operating Budget for $60,000. He reviewed the procurement process, noting that 13 firms expressed interest and seven firms submitted proposals. Of those firms, five were determined to have submitted responsive and responsible proposals eligible for consideration by the RFP evaluation team. Mr. Longhi reviewed the make-up of the RFP evaluation team and noted that this team also assisted with the development of the Scope of Work and other portions of the RFP. Based on the evaluation of the firm's technical proposals, noting that during the first round costs were not known to the evaluation team, it was determined that three firms should move forward into the oral presentation/best and final offer negotiation stage of the procurement process. Mr. Longhi stated that a single firm, McGuireWoods Consulting LLC, was unanimously selected for award of the contract. He concluded that with the Finance Committee approval, and subject to the satisfactory completion of contract terms, the contract with McGuireWoods Consulting will be submitted for Authority approval at their October 2016 meeting. He noted that although negotiations have not been fully completed, and will not be until Council of Counsels is fully satisfied, taking this action now will allow us to start this service in October versus November. It is anticipated that McGuireWoods will start work for the Authority on the 2017 Legislative Program.
- Chairman Parrish stated that based on the service contract requirements, and the satisfactory conclusion of terms, it is being suggested that the Finance Committee recommend approval to the Authority for the October meeting. Mr. Longhi clarified that this will be contingent upon successfully negotiating the final contract terms.

- Council Member Rishell moved the Finance Committee recommend to the Authority approval of the proposed Legislative Services Agreement with McGuireWoods Consulting LLC, subject to the satisfactory conclusion of contract terms; seconded by Chairman Bulova. Motion carried unanimously.

Information/Discussion Items

VIII. Plan of Finance for FY2017 Project Program Mr. Longhi, CFO

- Mr. Longhi briefed the Committee on the Plan of Finance for the FY2017 Program. He noted that:

- ✓ The FY2017 Program funding is $466 million, including $200 million to be acquired through bonds.
- ✓ Using the draft spending plans submitted with some of the project requests, NVTA staff estimates that bond funds to support the FY2017 Program will not be needed until the later part of FY2018.
- ✓ VDOT has not yet tendered a spending plan for the I-66 project, but based on our experience, we anticipate a $10 million expenditure in FY2017, a $190 million in FY2018 and $100 million in FY2019. He noted that these are NVTA projections that have been shared with VDOT so that they are aware. VDOT is not in a position to make a projection yet, due to the P3 acquisition being scheduled for October.
- ✓ Review of the draft cash flow projections of all approved projects and the estimated Regional Revenue Fund revenues of the Authority shows that the current and future cash balances will remain very strong.
- ✓ Indications from the review of the revenues, project cash flows and projected cash balances currently point toward the earliest need to issue bonds being late FY2018.
- ✓ Final SPA submissions are anticipated in January 2017, at which time we will reevaluate this. However, it is anticipated that if the cash flow needs change, they will likely shift to a later time.
- ✓ Deferring the issuance of bonds to FY2018, or later, will create several beneficial effects, including deferring debt service obligations and IRS spend down timing, as well as creating greater flexibility in dealing with the overall funding picture for the Authority.
- ✓ Debt service savings through postponement of the bond issuance will be approximately $16 million each year it is delayed.
- ✓ We anticipate VDOT will ask for an extension on their SPA submittal.
- ✓ NVTA staff is examining interim financing options to include a line of credit, a short term variable rate note, or a commercial paper program.
- ✓ Interim financing will allow the Authority to borrow money only as the projects are using it; and then, at a point in time chosen by the Authority. Eventually, the short term borrowing will be wrapped into a long term debt issuance. This will also create greater flexibility, may lower the overall cost of borrowing, defer some debt service expenses and ensure compliance with IRS regulations.

- Mr. Longhi stated that the next steps will be continuing to monitor project spending patterns, while evaluating available financing options with the Authority's Financial Advisor. He stated that staff will come back to the Committee on the timing and any financing options after the FY2017 Program SPAs are received.
- Chairman Parrish asked if there would be a short discussion of this at the October Authority meeting. Mr. Longhi confirmed there would be.
- It was clarified that if short term financing options were exercised and they were rolled into the overall debt services at a later time, it may lower the overall cost of borrowing.
- Mr. Longhi added that we want the borrowing of money to be consistent with the need, and then to stretch out that timing. He noted that currently short term borrowing is less expensive than long term borrowing, and that it typically is. He noted that interim financing will only be used as long as it makes financial sense.

IX. Draft Project Advancement Policy — Mr. Longhi, CFO

- Mr. Longhi stated that the Authority assigns funding to a project with the clear expectation of progress as outlined in the SPA Project Description/Scope of Work, and is appropriated at the point that the Authority approves the project. The SPA contains Appendix B which is the cash flow projection for the project.
- Mr. Longhi stated that the Draft Project Advancement Policy is similar to previous policies passed by the Authority which seek to make sure projects are moving forward. He reviewed the three points that indicate a project is not moving forward.
  1. SPA not received within six months of NVTA Program adoption.
  2. No project activation or progression within six months of executed SPA. Project activation or progression is documented through the monthly project updates submitted to the NVTA in the Executive Director's report to the Authority.
  3. Project sponsor has not submitted an initial reimbursement request within 24 months of the project's approval.
- Mr. Longhi added that if a project sponsor is unable to complete project activation, either due to circumstances within or outside of the sponsor's control, the best interest of the Authority may be served by cancelling the project and the appropriation. If this occurs, the funds go back into the Regional Revenue Fund and are eligible for future project assignments. In all cases, agreement will be sought with the implementing jurisdiction or agency. Mr. Longhi stated that the goal of the Authority staff is to see projects completed, however, there may be circumstances for which we need to be prepared.
- Mr. Longhi stated that a new item, not included in previous policies, is that expenditure reimbursement requests presented later than scheduled, as documented in the SPA, result in a disruption of the Authority's investment program. When expenditure reimbursements are not received as scheduled, we don't know when they will be requested. This provision encourages project sponsors to keep their Appendix B's up-to-date. It is critical for the Authority to be able to manage our significant levels of cash. Therefore, expenditure reimbursements presented later than they were scheduled may require an additional 45 days to complete the reimbursement. Reimbursements are usually completed within 20 days.
- Mr. Longhi added that the draft policy will be coordinated with additional committees and the Council of Counsels. Upon completion of these reviews, the policy will come back to the Finance Committee for final recommendation to the Authority.
- It was noted that projects do need to move forward and it was agreed that this policy will assist with this. It was noted that it is important that there be discussion with the jurisdictions to ensure there are not good reasons for projects not advancing.
- It was asked how the staff plans to communicate with jurisdictions about how this will impact them. Mr. Longhi replied that we will be transparent with the jurisdictions and agencies as we develop this policy. Ms. Backmon added that as part of the Executive Director's report, there is a monthly project status update for each project. She stated that this gives us an idea of the progress of all projects.
- It was noted that the policy does contain language to allow a project sponsor to request an extension of time for any project that may miss the activation or progression milestones.

X. NVTA Monthly Revenue Report — Mr. Longhi, CFO

- Mr. Longhi briefed the Committee on the Monthly Revenue Report. He highlighted:
  - ✓ The Authority distributed $94.4 million in 30% funds in FY2016. Certification, compliance, banking and related processes have all gone smoothly.
  - ✓ In FY2017, all jurisdictions, except three, continue to receive their 30% funds. NVTA staff is in close communication with the three that have not completed their certification. It is anticipated all jurisdictions will meet the certification deadline and receive their funds.

XI. NVTA Operating Budget Report — Mr. Longhi, CFO

- Mr. Longhi briefed the Committee on the final FY2016 Operating Budget Report. He stated that the expenditure transfer of $124,700 for Financial Advisor Services and Bond Counsel fees was absorbed in the budget without using the Operating Reserve. There is a positive carryforward that is greater than projections by $74,000.

XII. Financial Activities Update — Mr. Longhi, CFO

- Mr. Longhi briefed the Committee on additional major financial activities.
  - ✓ FY2016 Financial Statement Audit activities are almost complete. It is anticipated that we will receive an unqualified (clean) audit opinion with no management comments. The Authority must formally accept the audit report and staff proposes placing the acceptance as an action item under Consent on the Authority's October agenda, under the conditions that the final report is unqualified, free of management comments and includes only routine recommendations. There was general agreement to do this.
  - ✓ Other financial activities discussed include:
    - ➢ NVTA staff is working to implement the Authority's Investment Program.
    - ➢ Initial focus is on depository placements, such as money fund demand accounts and Certificates of Deposit.
    - ➢ A safekeeping/custody agreement will be put in place to hold Authority investments and to operate as a transfer agent. After reviewing the option of riding a member jurisdiction's contract, it was determined this would not be a good fit for the Authority. Anticipate issuing an RFP for this service which will take an additional 60-90 days.
    - ➢ Hosted a regional investment managers meeting to exchange information and establish relationships.
    - ➢ Currently participating in the VML/VACo Virginia Investment Program (VIP).
    - ➢ Hosted several VIP investment events with a focus on studying the potential of establishing a daily liquidity fund.
    - ➢ Investment reports will be forthcoming to the Finance Committee once the safekeeping/custody agreement is in place.
  - ✓ Working with jurisdictional staff on review of revenue estimates and adding FY2024 to projections.

- ✓ Staff will seek Finance Committee budget guidance at the October committee meeting.
- ✓ We are in development of a draft set of principles to guide future Authority decisions on issues such as project funding cycles, use of debt capacity and reserve amounts. These principles are designed to provide additional guidance for decisions, not to change, or be a substitute for existing policies.

- The Committee recommended additional items to be included on the Consent Agenda for the October Authority meeting:
  - ✓ Budget Adjustment – Exchange of Funding Source on FY2014 Projects
  - ✓ Budget Adjustment – FY2017 Revenue and Working Capital Reserve

- Chairman Parrish stated that the next meeting of the Finance Committee is scheduled during the Governor's Transportation Conference. He suggested the meeting be rescheduled for October 27, 2016, at 2pm. There was general consensus to do this.

Adjournment

XIII. Adjournment

- Meeting adjourned at 2:05pm.