Approved September 21, 2017

Northern Virginia Transportation Authority

The Authority for Transportation in Northern Virginia

FINANCE COMMITTEE
Thursday, May 18, 2017 1:00PM
3040 Williams Drive, Suite 200
Fairfax, VA 22031

MEETING SUMMARY

I. Call to Order/Welcome — Chairman Parrish

- Chairman Parrish called the meeting to order at 1:03pm.
- Attendees:
  - ✓ Members: Chairman Parrish; Mayor Rishell; Chairman Bulova; Chair Randall; Mayor Silberberg (arrived 1:17pm).
  - ✓ Staff: Monica Backmon (Executive Director); Michael Longhi (CFO); Carl Hampton (Investment & Debt Manager); Peggy Teal (Assistant Finance Officer); Camela Speer (Clerk).
  - ✓ Council of Counsels: Ellen Posner (Fairfax County).
  - ✓ Other Attendees: Noelle Dominguez (Fairfax County); Paul Doku (Fairfax County); Pierre Holloman (Alexandria); Veronica Gulliksen (Prince William); Nikki Speight (Loudoun); JoAnne Carter (PFM); Kristie Choi (PFM).

II. Summary Minutes of the February 16, 2017 Meeting

- <u>Mayor Rishell moved approval of the minutes of February 16, 2017; seconded by Chairman Bulova.</u>

- Mayor Parrish noted that much was accomplished at the February Finance Committee Meeting.

- <u>Motion carried with two (2) yeas and two (2) abstentions [with Chairman Bulova and Chair Randall abstaining as they were not at the February 16, 2017 meeting].</u>

Action Items

III. Policy 9 – Debt Policy (Revisions) — Mr. Longhi, CFO

- Mr. Longhi reviewed the NVTA staff recommendation to place a $120 million cap on the Working Capital Reserve (WCR). He reported the Authority's current financial position and the projected growth of the WCR as reasons for the recommendation. He noted the Authority is currently in a strong liquidity position and projections suggest that by FY2035 the WCR, under currently policy guidelines, will increase by approximately $60. Mr. Longhi added that the Authority currently has $120 million in the WCR for outstanding debt service payments totaling $94 million. He stated that discussions were held with the rating agencies and underwriters, noting that all were comfortable with the recommendation to cap the WCR at $120 million. He added that the policy will be reviewed annually, but no additional adjustments are anticipated for several years.

- <u>Chairman Bulova moved the Finance Committee recommend Authority approval of a $120 million cap on the Regional Revenue Fund; seconded by Mayor Rishell.</u>

- A question was raised regarding the risk of maintaining a $120 million reserve and the State taking those funds from the NVTA because they are not being used. Mr. Longhi responded that a greater concern is the overall liquidity position of the Authority, adding that we are projecting a continued increase in liquidity. He stated that NVTA staff is working to motivate faster spend-down by project sponsors. Mr. Longhi added that all regional revenue funds are appropriated to projects. Ms. Backmon noted that there are two categories of projects, projects that are active but not drawing NVTA funds and projects whose activity is unknown and are not drawing funds.
- Clarification was requested to confirm that speeding up project reimbursements reduces liquidity. Mr. Longhi responded affirmatively and stated he would like to see reimbursements being completed as soon as possible.
- It was asked if implementing a cap on the WCR will increase the amount of Pay-Go funds available for regional projects. Mr. Longhi responded that for the Six Year Program (SYP) alone, the implementation of the cap will mean $18 million in additional Pay-Go funds.
- Mayor Parrish expressed appreciation that NVTA staff had discussed this policy change with the rating agencies. He noted that the policy states that there will be an annual review and acknowledged this is a good idea. Mayor Parrish added the Authority will put this money to good use as there is much that needs to be done.

- <u>Motion carried unanimously.</u>

IV. Policy 17 - Capital Asset Accounting (Revisions) — Mr. Longhi, CFO

- Mr. Longhi recommended revisions to the Capital Asset Accounting Policy. He stated these changes are largely due to the Authority establishing a reserve for equipment replacement as part of the FY2017 budget and to outline what NVTA staff can use the reserve for. He reviewed the revisions:
  - ✓ The reserve is only to be used to replace existing outdated or non-operational equipment, furniture and fixtures.
  - ✓ Recycling was added as the appropriate way to dispose of equipment.
  - ✓ Minor clarifications and updates.
  - ✓ Mr. Longhi made a specific note that with the implementation of the GIS Technology Plan, the Northern Virginia Regional Commission (NVRC) agreed to share their GIS plotter with the NVTA. It is anticipated that the NVTA will become the predominant user of the plotter and, therefore, will cause substantial wear on the equipment. The agreement with the NVRC is that the NVTA will replace the plotter when necessary and replacement will come from this reserve. It was noted that this equipment

sharing allows the NVTA to avoid substantial floor space lease costs that would be incurred by owning the plotter.

(Mayor Silberberg arrived.)

- Chair Randall moved the Finance Committee recommend Authority approval of the revisions to Policy 17 – Capital Asset Accounting; seconded by Mayor Rishell. Motion carried unanimously.

V. Policy 29 – Project Activation and Progress (New) Mr. Longhi, CFO

- Mr. Longhi briefed the Committee on the draft Policy 29 – Project Activation and Progress. He stated this new policy stems from two prior policies, Policies 24 & 25, both of which deal with funding program years FY2017 and earlier. This policy will become effective with FY2018 projects and beyond. Mr. Longhi reviewed the requirements of the previous policies, to include Standard Project Agreement (SPA) activation within six months of funding allocation and first project reimbursement requests within 36 months. He stated that Policy 29 would adjust the timing of the first reimbursement request to 24 months, adding that there has been no objection to this from several discussions with the Regional Jurisdiction and Agency Coordinating Committee (RJACC). Mr. Longhi added that there is a third element in the draft policy that is not included in the previous policies, but was discussed at the RJACC meetings. This gives the Authority an additional 45 days to make a reimbursement if the Appendix B for the project, the cash-flow statement, is out-of-date. He noted that for the FY2015-16 Program there is approximately $118 million in out-of-date Appendix B's. He stated that with the current liquidity position, reimbursements will not be delayed. He added that reimbursements will not be delayed just because we can, but only in the event that in order to make a reimbursement, an investment would need to be liquidated prior to its maturity. Mr. Longhi stated that the Appendix B's provide the project spend-down plans and are critical to cash and liquidity management. He added that there is a policy regarding Appendix B's that makes the process very easy for project sponsors to update.
- The Committee engaged in a robust discussion with the following points being made.
  - ✓ Appendix B breaks out the total cost of the project, other funding sources, and anticipated reimbursement schedule. Project reimbursement schedules range from all costs in one year to anticipated expenses over six years.
  - ✓ Currently the NVTA has 20 days in which to reimburse a project sponsor.
  - ✓ The 45 day provision in the draft policy only applies to projects that have not provided up to date Appendix B's to the NVTA.
  - ✓ The objective of the draft policy is to encourage better cash-flow accuracy from project sponsors and to protect the NVTA when a normal liquidity level is achieved in future years. It is also to encourage accurate project readiness information in the submission of projects for funding.
  - ✓ Under the draft policy, reimbursements would only be delayed if there was a liquidity issue or if the SPA documents were out of date.
  - ✓ Per the SPAs, project sponsors are required to provide accurate cash flow estimates, Appendix B's, for their projects.

- ✓ Per the SPAs, reimbursement requests that are approved will be reimbursed within 20 days. Requests that are not approved do not currently have a timeline for payment.
- ✓ This draft policy would give the NVTA an additional 45 days to make a reimbursement payment if the SPA documents were out of date.
- ✓ NVTA staff wants project sponsors to get reimbursed promptly.
- ✓ The draft policy only applies to FY2018 projects and beyond, it is not retrospective to existing funding programs.
- ✓ The NVTA staff has been asked by several NVTA Members what is being done to move projects along. This draft policy is intended to demonstrate a policy framework to move projects forward and give a level of seriousness to projects sponsors to provide accurate cash-flow estimates.
- ✓ Appendix B's help to keep the NVTA up-to-date on project progress.
- ✓ The NVTA has a fiscal responsibility to move projects as quickly as possible.
- ✓ NVTA staff will not wait 45 days to make a reimbursement just because it can. Projects will continue to be reimbursed as quickly as cash flow allows.
- ✓ There was a concern expressed that the draft policy might negatively impact smaller jurisdictions.
- ✓ The 45 days was determined by liquidity and investments often being done in 30 – 90 day increments. Out-of-date Appendix B's as of March 2017 result in an interest earnings loss of approximately $150,000 per quarter, and will increase significantly as the investment program is fully implemented. Moving reimbursements to a 90 day period would provide assurance, from a liquidity perspective, that investments can be liquidated without losses. However, 90 days is too long to for reimbursements. It was determined that 45 additional days to the original 20 days was sufficient.
- ✓ NVTA staff will work to ensure project sponsors do not need to draw on reserves while awaiting a reimbursement.
- ✓ Project sponsors are currently being reimbursed within 20 days, even if they have not provided up-to-date Appendix B's.
- ✓ There was general agreement from most Committee members that draft Policy 29 is appropriate and that it would be helpful, when working with the General Assembly, to have a policy structure that encourages projects to advance more quickly.
- ✓ It is important to communicate to project sponsors that it is important for them to communicate accurately about their project progress and to get projects completed.
- ✓ The NVTA's goal is to have every funded project come to fruition, what we do not want is for projects to stall and not know why.
- ✓ Project sponsors are typically submitting project reimbursements more than 65 days after the expense has been incurred, and often more like six months after the expense has been incurred.
- ✓ It is beneficial to NVTA finance staff to have project sponsors update Appendix B's regularly.

- <u>Mayor Rishell moved the Finance Committee recommend Authority approval of draft Policy 29 – Project Activation and Progress; seconded by Chair Randall.</u>

- Concerns were expressed regarding the additional 45 days for reimbursement.
- Support was expressed for requiring project sponsors to provide updated Appendix B's.

- It was suggested that a caveat might be added to the policy to state reimbursements will be made as quickly as reasonable, if documentation is in order.
- Concern was expressed that in the future NVTA may choose to wait 45 days for reimbursement, if that is the policy.
- Mr. Longhi reiterated that this policy provides for reimbursements within 20 days for all projects that have up-to-date Appendix B's. The additional 45 days for reimbursements is only applicable to projects that do not have up-to-date Appendix B's, therefore, NVTA staff does not have accurate cash flow projections and may not have the cash on hand.
- Chairman Parrish suggested that the proposed caveat may already be contained in the draft policy.

- <u>With Committee consensus, Chairman Parrish withdrew the motion and recommended postponement of the item to the next Finance Committee meeting.</u>

- Chairman Parrish requested NVTA staff review the language in the draft policy to address the concern raised during the meeting.

<u>Information/Discussion Items</u>

VI. Funding The Six Year Program Mr. Longhi, CFO

- Mr. Longhi briefed the Committee on the funding process for the Six Year Program (SYP). He reviewed:
  - ✓ The background considerations for how the SYP will be funded.
  - ✓ Pay-Go availability determinations and utilization.
  - ✓ Debt capacity and utilization, noting that issuing debt reduces Pay-Go funds and is not good practice when cash is available.
  - ✓ Revenue estimates will be updated at least once prior to the SYP adoption.
  - ✓ This will be the first SYP. Therefore, it has the importance of potentially addressing six years of projects at one time.
  - ✓ First SYP will approve six years of projects at one time, then at least one year will be added to the Program in each subsequent year.
  - ✓ It was noted member jurisdictions and agencies often adjust their own Capital Improvement Plans through changing the scheduled timing of their own projects. The conservative planning for the Authority's SYP recognizes such adjustments would be more challenging when projects are awarded by a regional body to multiple jurisdictions and agencies over a continuing six year cycle.
  - ✓ Significant effort is going into staff's draft funding proposal to ensure that the Authority is looked at as being able to provide a 'reasonable expectation' that it's future year project funding commitments can be relied on.
  - ✓ In order to accomplish the reasonable expectation it was suggested that:
    - ➢ SYP years one through three (FY2018 through FY2020) could be programmed at 100% of estimated PayGo as revenue variances during the period are likely to be positive (adding resources) rather than negative (reducing resources).

- ➢ SYP years four, five and six (FY2021, 2022 & 2023) could be programmed at a declining percentage of estimated PayGo to reduce the risk of long term estimate variance. As an example only:
    1. Program year four at 90% of estimated PayGo.
    2. Program year five at 80% of estimated PayGo.
    3. Program year six at 75% of estimated PayGo.
- ✓ Reduction in out-year (years 4, 5 and 6) PayGo utilization, facilitates the option for debt service payments, if the Authority decides to use debt financing in the future.
- ✓ The next TransAction update (after the one currently in process) is expected to be initiated early in 2020 and prospectively adopted in fall of 2022. Not programming all of plan years four, five and six could facilitate the transition to the updated plan.
- ✓ As the SYP matures and plan year four becomes plan year three, the Authority can determine if then current estimates support accelerating already approved projects or potentially adding projects (in compliance with HB 2313 and other legislative requirements).
- ✓ A major goal is to always add projects to the SYP, not delay or defer projects.

- Mr. Longhi concluded that this process will be used to create a funding strategy to support the SYP.
- There were no objections to the strategies proposed and there was Committee consensus to move forward.

VII. Investment Portfolio Report Mr. Longhi, CFO

- Mr. Longhi reviewed and explained the elements of the Investment Portfolio Report.
- A question was raised as to whether there are any investments in China or the Middle East. Mr. Longhi responded that all investments are domestic.
- It was asked if these are preferred bonds. Mr. Longhi responded that they are all highly rated domestic bonds.
- Mr. Longhi thanked the Committee for approving the acquisition of the investment software, which is critical to the last report in the package presented (GASB 40 Report). He added that many organizations only do the GASB 40 report once per year, but for transparency and accountability NVTA staff will report monthly.
- Mr. Longhi noted the GASB 40 Report is typically the first investment report auditors request when starting an audit and while it is complex to maintain and produce, it represents a level of credibility for the program.
- The Authority portfolio is achieving a 1.15% rate of return with the implementation of the investment program. The rates of return of the four benchmarks for the end of April are:
    - Fed Funds Rate: 0.90%
    - Treasury 90 Day T-Bill: 0.88%
    - Virginia Local Government Investment Pool: 0.89%
    - Virginia State Non-Arbitrage Program: 1.09%
- NVTA staff expect the portfolio performance to exceed initial FY2017 projections of $1.9 million and revised projections of $4.5 million by an additional $500,000 to $700,000.

- Mr. Longhi noted that in approximately 60 days, the NVTA placed approximately $485 million in investments. He thanked the NVTA Finance staff for accomplishing this.

VIII. Monthly Revenue Report Mr. Longhi, CFO

- The final items were discussed briefly, noting that the financial reports were all positive and that the Credit Rating Affirmation had been discussed earlier in the meeting.

IX. Operating Budget Report Mr. Longhi, CFO

X. Credit Rating Affirmation Mr. Longhi, CFO

Adjournment

XI. Adjournment

- Meeting adjourned at 2:15pm.