

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

MEMORANDUM

TO: Chairman Martin E. Nohe and Members
Northern Virginia Transportation Authority

FROM: Mayor Parrish, Chairman, Finance Committee

DATE: October 5, 2016

SUBJECT: Transportation Projects Reserve – Advisory Panel Proposed Policy

1. **Purpose:** Present Advisory Panel draft Transportation Projects Reserve Policy for the Regional Revenue Fund as reviewed and recommended by the NVTa Finance Committee.
2. **Suggested Motion:** *I move the Authority approval of the draft Transportation Projects Reserve Policy in a form approved by the Council of Counsels.*
3. **Background:** The Finance Committee requested staff research and report on the establishment of two reserve funds. One reserve would be for project contingency (Contingency Reserve) and the other to set aside funds for future large scale projects (Transportation Project Reserve). The Executive Director established an Advisory Panel to examine and make recommendations on both reserves. Participation on the Advisory Panel was open to representatives of all member jurisdictions. Participation of jurisdiction transportation and finance representatives was especially welcomed.

After several meetings the Advisory Panel prepared a draft policy for the Transportation Projects Reserve utilizing a reserve of debt capacity as an alternative to reserving PayGo capacity in the form of a cash reserve. The Advisory Panel also formulated a recommendation on the Contingency Reserve which is presented in a separate report.

4. **Comments:** The Finance Committee expressed an interest in establishing a cash reserve (Transportation Projects Reserve) within the Regional Revenue Fund to permit the Authority to set aside funds for future large scale projects. The Advisory Panel made the following observations related to such a reserve:
 - a. **Funding the Reserve** – The reserve is recommended to be established through a reservation of debt capacity. Since the debt capacity is supported by the Regional Revenue Fund, the reserve can only be used for transportation projects or debt service payments, consistent with the provisions in HB 2313 (2013).
 - b. **Reserve Level** - A reserve size of at least \$100 million was considered as a bench mark as that amount is indicative of a large transportation project.
 - c. **Project Eligibility** - To ensure compliance with HB 2313 projects must undergo all required screening and ranking processes before funding from the reserve could be approved by the Authority.

- d. **PayGo Impact** – Using FY2017 as an example, the current FY2017 Regional Revenue Fund budget has \$267 million for PayGo after paying debt service on the Series 2014 Bonds and other obligations:
 - i. If the reserve were to be funded at \$100 million in 1 year, PayGo availability for that year would be reduced by approximately 38%.
 - ii. If the reserve were to be funded over three years, (\$33.3 million per year totaling \$100 million), PayGo availability would be reduced by approximately 13% a year for three years.
- e. **Debt Capacity** – Debt financing is typically employed for projects with significant project costs and/or for which PayGo resources are not available in a single year. As shown in the May 19, 2016 ‘Debt Capacity Analysis’ presentation prepared for the Authority by our Financial Advisor PFM, the Authority currently has a significant amount of unused debt capacity.
- f. **Reserving Debt Capacity** – Reserving a percentage of debt capacity for transportation projects would hold resources in reserve for future large scale projects.
 - i. Establishing this reserve by reserving debt capacity would eliminate any immediate impact on PayGo projects.
 - ii. As shown in the May 19, 2016 ‘Debt Capacity Analysis’ prepared for the Authority by PFM (Attachment A), the Authority’s estimated debt capacity through 2037 is approximately \$1.8 billion. For example, if the Authority were to reserve 5.5% of its total debt capacity for the reserve, that amount would be equal to \$99 million.
 - iii. Any project under consideration would be required to go through the mandatory screening processes. Therefore, determining and executing a plan of finance for that project could be done concurrently with the project screening. The plan of finance would only be executed if the project received Authority approval.
 - iv. The long term impact on PayGo available funds for projects would be attributable to the annual debt service payments on future bond issuances.
- g. **Reserve Capacity Evaluation** – The Transportation Projects Reserve and amount of debt capacity reserved for its use will be evaluated as part of the annual Regional Revenue Fund budget evaluation and adoption process.

5. Advisory Panel Recommendation. The Advisory Panel recommends a strategy of reserving debt service capacity in an amount of \$100,000,000, or 5.6% of the Authority’s FY2016 through FY2037 estimated capacity of \$1.8 billion as the funding mechanism for the reserve, as shown in Attachment B.

Coordination:

NVTA Finance Committee

Contingency and Transportation Project Reserve Advisory Panel

NVTA Financial Advisor – Public Financial Management (PFM)

Council of Counsel

Attachments:

A: Debt Scenarios & Capacity Analysis, prepared by PFM, May 19, 2016

B: Transportation Projects Reserve – Debt Capacity Reserve



Debt Capacity Analysis

prepared for

Northern Virginia Transportation Authority

Finance Committee

May 19, 2016

Presented by
JoAnne Carter, Managing Director

Public Financial Management, Inc.
4350 N. Fairfax Dr., Suite 580
Arlington, VA 22203



The PFM Group
Public Financial Management, Inc.
PFM Asset Management LLC
PFM ADVISORS

Key Assumptions

- Assumes bond issuance during FY 2018
 - Timing of issuance would be planned to match construction cash flow
- Issuance of senior lien bonds with fully bond-funded Debt Service Reserve Fund (“DSRF”)
- 20 year amortization with a level debt service structure
- Current interest rates plus a 50bps cushion
- Preliminary revenue estimate for FY 2016 totaling \$218.2 million (70% Regional Revenues)
- Revenue forecasts for out years reflect recent estimates developed with revenue estimation committee

Scenario Summary

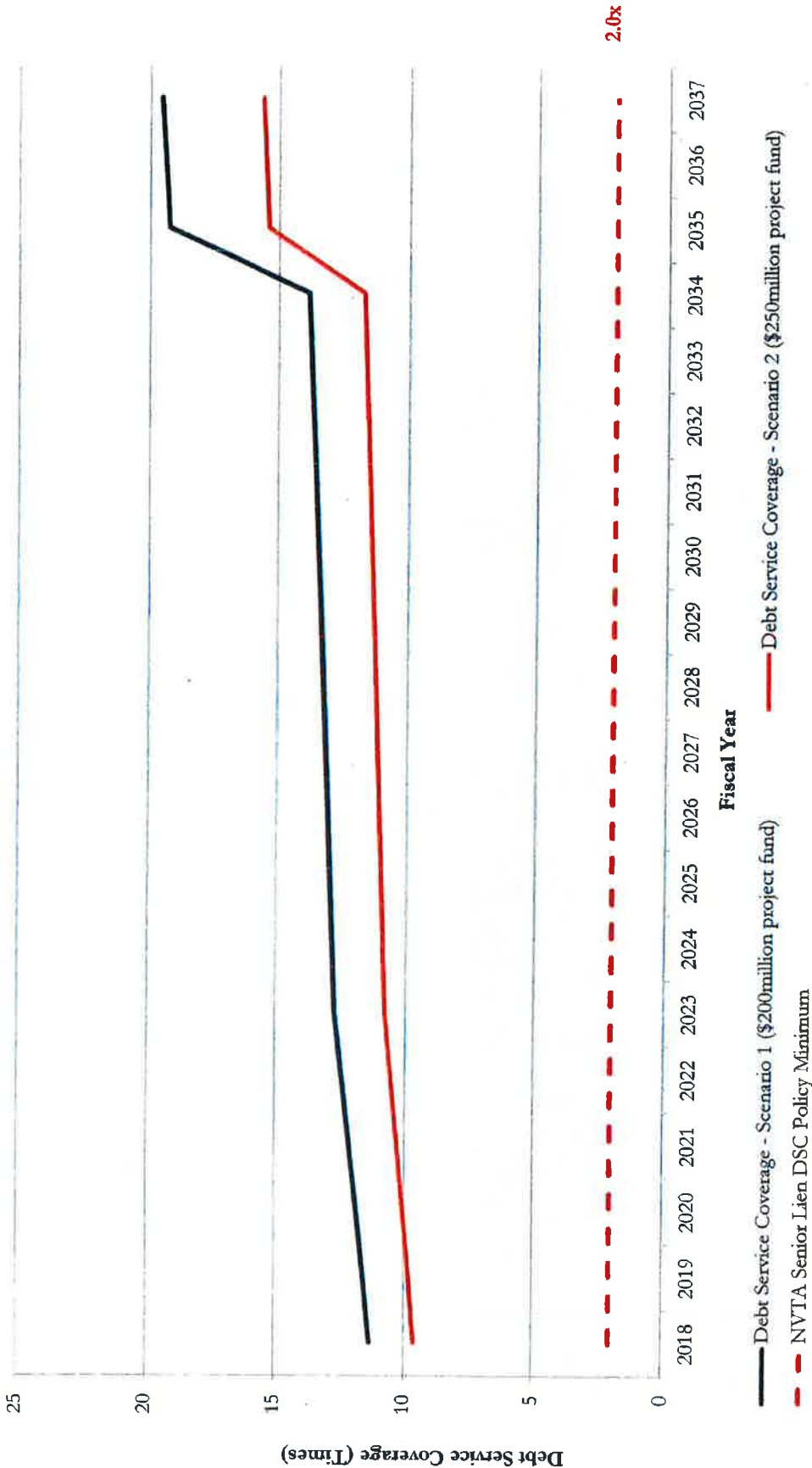
NVTA's debt policy uses debt service coverage ("DSC") as the primary metric for measuring the affordability of its debt and capacity for new debt.

	Existing Only	Scenario 1 (\$200 million)	Scenario 2 (\$250 million)
Min DSC	41.3x	11.3x	9.6x
Avg DSC	46.9x	13.8x	11.6x
Max DSC	50.5x	19.5x	15.6x

$$\text{Debt Service Coverage} = \frac{\text{NVTA Regional Revenue (70\%)}}{\text{Debt Service}}$$

Forecasted Debt Service Coverage

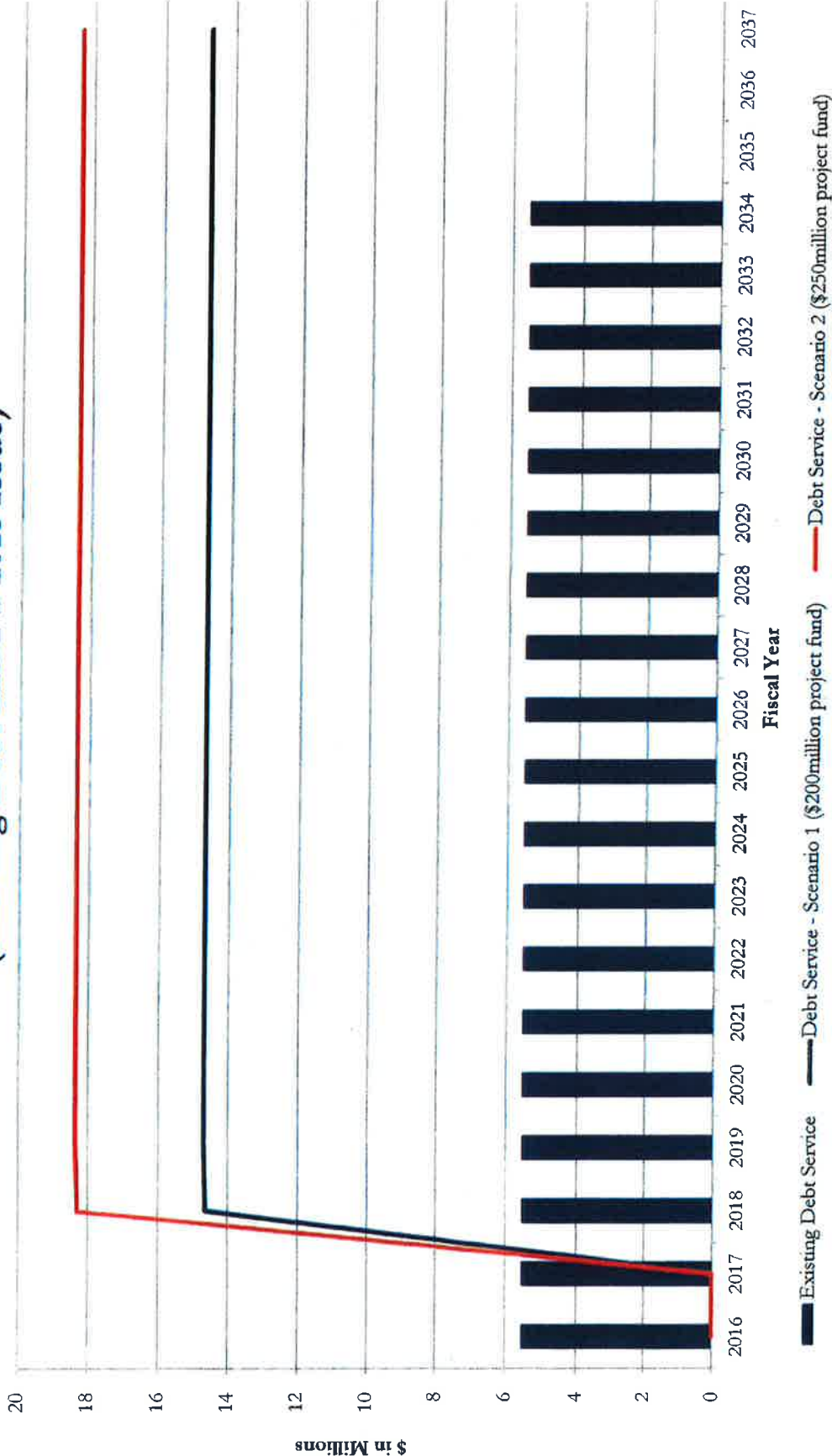
Forecasted Debt Service Coverage
(Existing Debt and FY 2018 Issue)



Note: Assumes only the existing Series 2014 debt service and the assumed FY 2018 bond issue's debt service (at varying project fund amounts). No additional debt is assumed beyond FY 2018.

Forecasted Debt Service

Existing & Forecasted Debt Service
(Existing Debt and FY 2018 Issue)



Note: Assumes only the existing Series 2014 debt service and the assumed FY 2018 bond issue's debt service (at varying project fund amounts). No additional debt is assumed beyond FY 2018.

Estimated Debt & PAYGO Capacity

- Senior lien bonds with fully funded bond-funded DSRF
- 20 year amortization, level debt service structure
- 20 year historical average interest rates plus a spread of 50bps
- Next issuance in FY 2019 and assumed issuance every other year in equal amounts
- Debt service coverage maintained at or above 2.1x

	FY 2018 Bond Issue			Estimated Remaining Bonding Capacity through 2037	FY 2017-FY2037 Estimated Remaining PAYGO Capacity ¹	Estimated Biennial Issuance
	FY 2018 Project Fund	Maximum Annual Debt Service ("MADS")	Min DSC			
Scenario 1	\$200 million	\$14.7 million	11.3x	\$1.6 billion	\$3.9 billion	\$163 million
Scenario 2	\$250 million	\$18.4 million	9.6x	\$1.6 billion	\$3.9 billion	\$158 million

¹ Total of 70% revenues remaining after debt service is paid.

Debt Capacity Summary

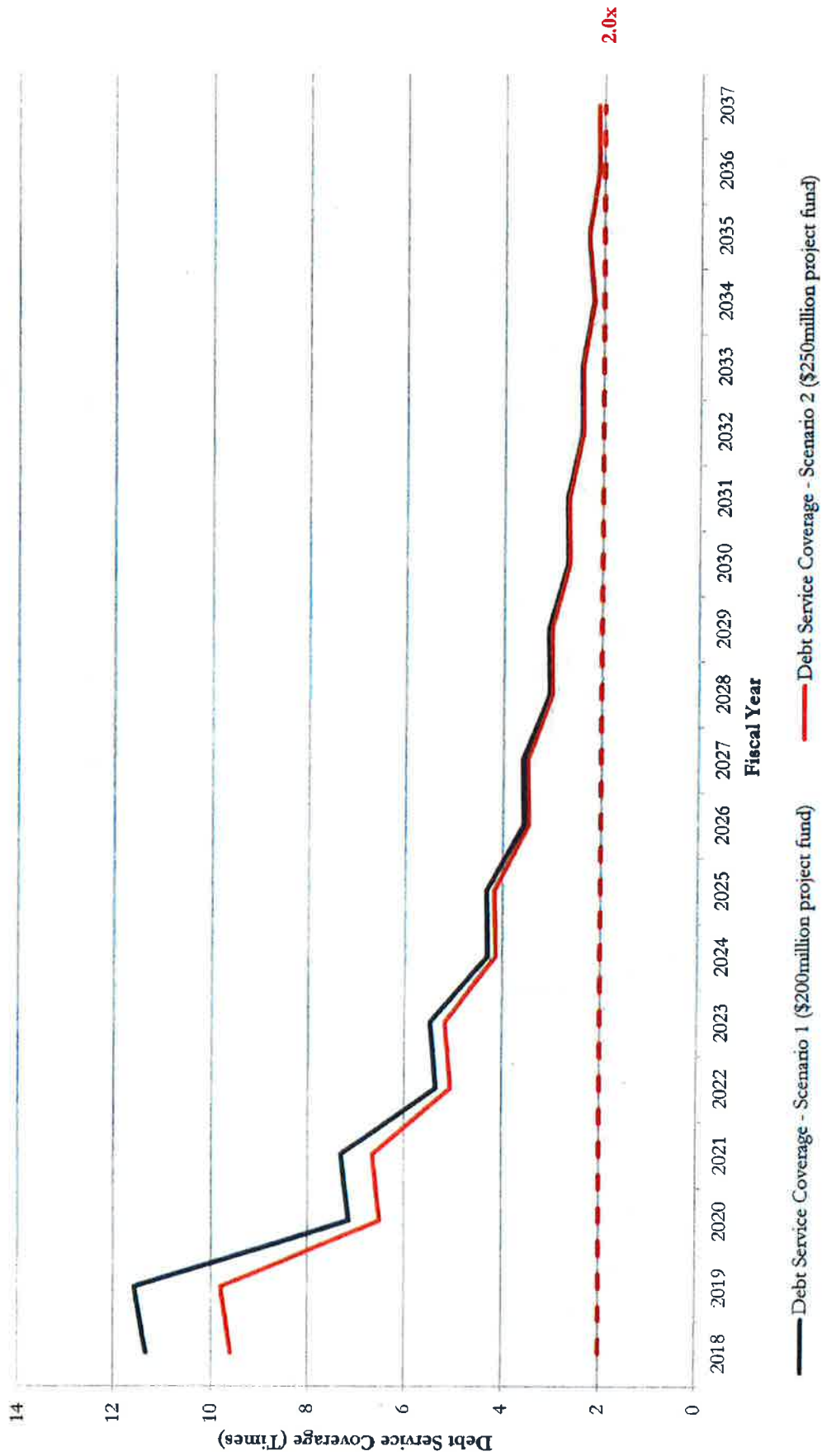
Debt capacity analysis assumes NVTa remains above its 2.0x debt policy threshold for debt service coverage.

	Existing Only	Scenario 1 (\$200 million)	Scenario 2 (\$250 million)
Min DSC	41.3x	2.1x	2.1x
Avg DSC	46.9x	4.5x	4.2x
Max DSC	50.5x	11.6x	9.8x

$$\text{Debt Service Coverage} = \frac{\text{NVTa Regional Revenue (70\%)}}{\text{Debt Service}}$$

Forecasted Debt Service Coverage Multi-Year Issuance

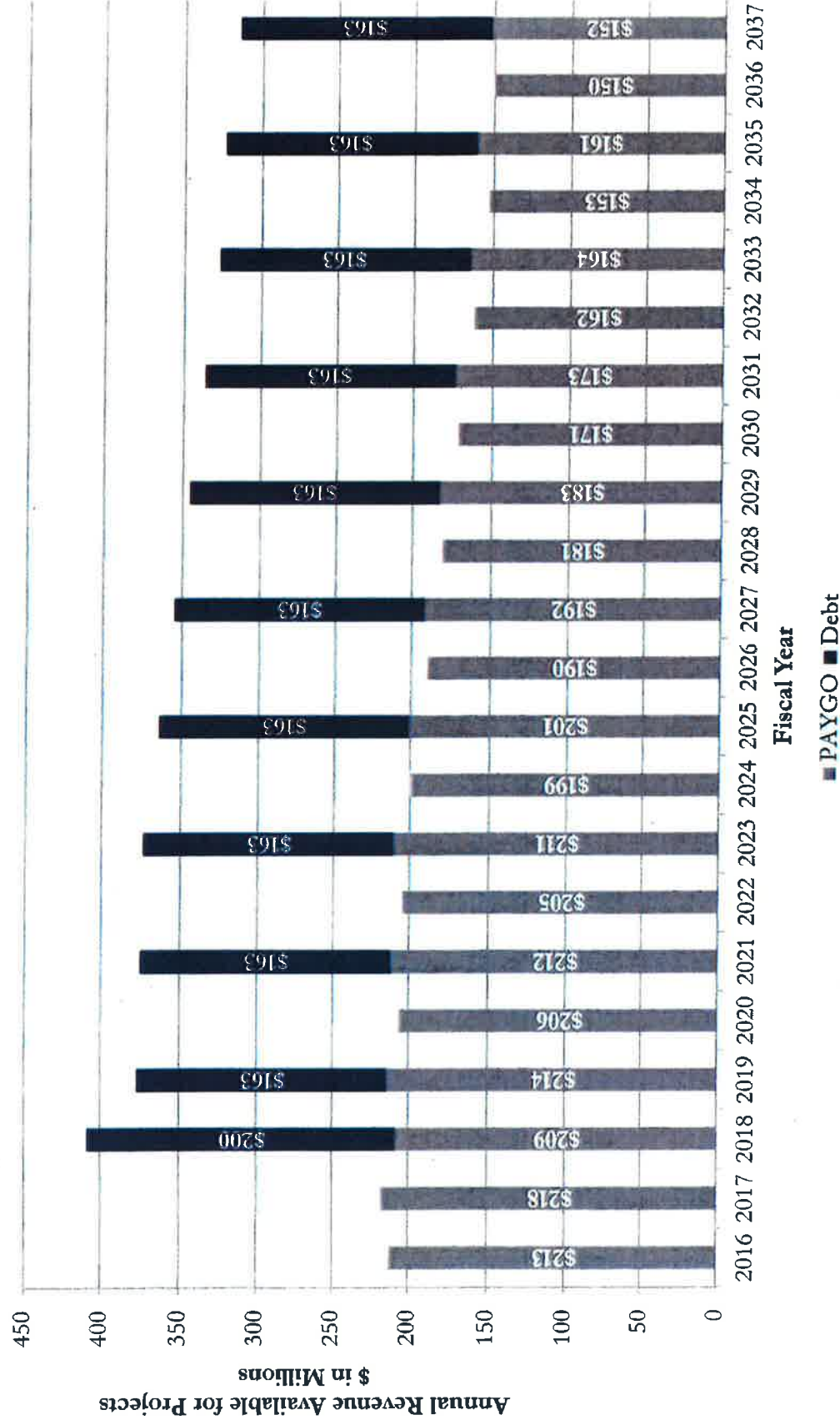
Forecasted Debt Service Coverage
(Existing Debt & New Issue + Future Issues)



Note: Assumes bond issuance every other year between 2019 and 2037 (at varying project fund amounts).

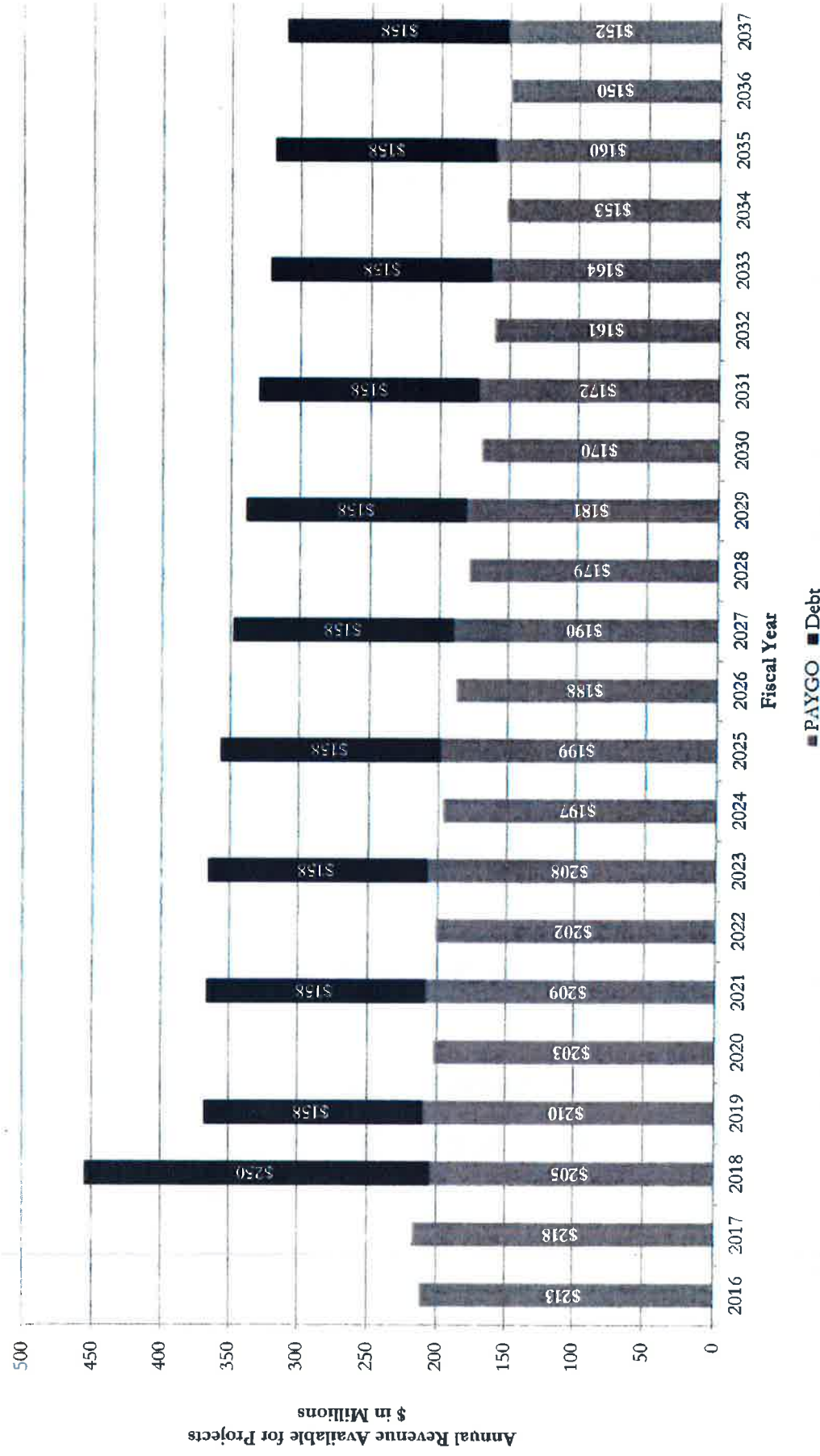
Future Debt & PAYGO Capacity under Scenario 1

Total Amounts Available for NVT A Projects
Scenario 1 (\$200 million project fund in FY 2018)



Future Debt & PAYGO Capacity under Scenario 2

Total Amounts Available for NVT A Projects
Scenario 2 (\$250 million project fund in FY 2018)



Credit Considerations

- NVTAs additional bonds test in the Indenture and its debt service coverage threshold adopted debt policy protects NVTAs & investors from over-leveraging
- Rating agencies fully anticipated NVTAs to actively leverage its revenue stream in the future as its CIP evolves
 - Moody's: "While coverage levels are expected to decline ...even if NVTAs fully funded 100% of projects that are currently under evaluation, debt service coverage would still remain a strong 3.1 times, exceeding NVTAs's senior lien debt service target of 2.0 times."
 - Fitch: "Risk to overleveraging is addressed through a fairly strong additional bonds test (ABT)...currently roughly \$840 million in projects identified for such review...if entirely bond financed, would result in MADS close to \$70 million according to Fitch estimates and DSC of 2.9x from fiscal 2014 pledged revenues..."
 - S&P: "...projects under consideration for funding in fiscal years 2015 and 2016 total \$769.6 million. If NVTAs were to fund 100% of currently identified projects in full with debt only, we understand projected DSC would remain more than 3.1x."
- Communication with credit analysts regarding the Authority's capital improvement plan is important
- PFM believes no negative credit pressure exists based on preliminary analysis

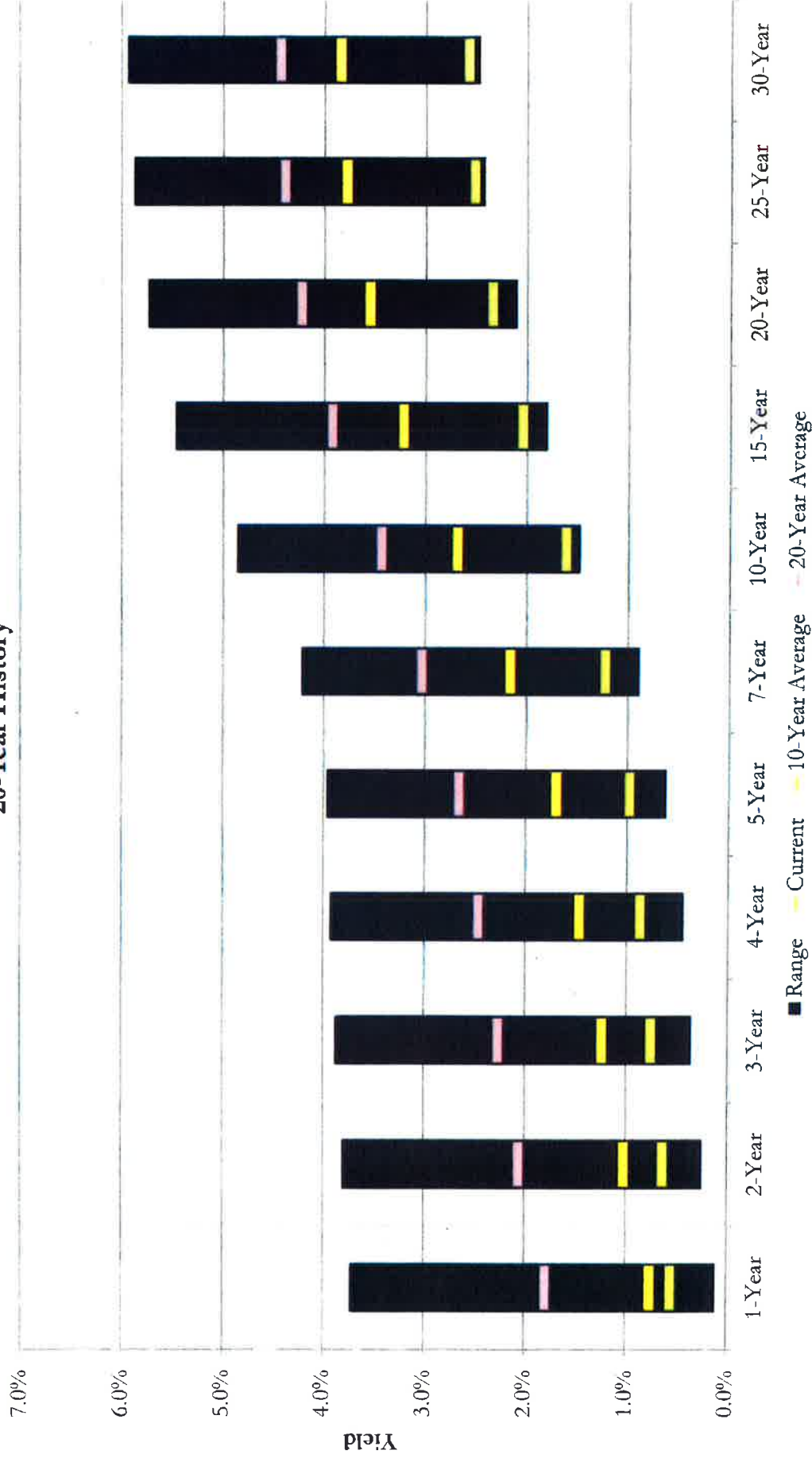
Conclusion

- NVTa has significant debt capacity
- Even with a bond issue at various amounts contemplated, NVTa would maintain debt and PAYGO capacity for future projects
- Debt service coverage would remain healthy above 2.0x under any scenario
- While communication with credit agencies is critical, PFM views no negative credit pressure based on range of current borrowing scenarios

Appendix

Municipal Yield Curve Changes

Triple-A Rated GO Bond Yields
20-Year History



Note: Market conditions as of May 9, 2016.

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

Policy XXX – Transportation Projects Reserve

Debt Capacity Reserve Policy

- I. **Purpose.** The purpose of this policy is to ensure resources are available for future large scale projects as approved by the Authority in accordance with HB 2313 (2013).
- II. **Policy.** The Authority establishes a Transportation Projects Reserve to ensure capacity for future large scale projects as approved by the Authority in accordance with HB 2313 (2013).
- III. **Specific Provisions of Policy.**
- a. **Transportation Project Reserve Priority** – The Transportation Projects Reserve will be in addition to and will only be permitted when all other reserves required in the NVTa Debt Policy (Policy Number 9) are at or above their policy requirements.
 - b. **Funding the Reserve** – The reserve will be funded through a reservation of debt capacity in an amount of \$100,000,000 which is currently 5.6% of the Authority's estimated debt capacity of \$1.8 billion, calculated as of FY2016, and measured through FY2037.
 - c. **Reserve Capacity Evaluation** – The Transportation Projects Reserve and amount of debt capacity reserved for its use will be evaluated as part of the annual Regional Revenue Fund budget evaluation and adoption process.
 - d. **Project Eligibility** - To ensure compliance with HB 2313 all projects must undergo all required screening and ranking processes before funding through the reserve will be approved by the Authority. All projects funded through this reserve must otherwise also be eligible for funding through the NVTa's Debt Policy.

Approved by the Finance Committee:

Approved by Northern Virginia Transportation Authority: