



Northern Virginia Transportation Authority
The Authority for Transportation in Northern Virginia

FINANCE COMMITTEE
Thursday, December 15, 2016 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 1:02pm.
- Attendees:
 - ✓ Members: Chairman Parrish; Council Member Rishell; Chairman Bulova; Chair Randall; Mayor Silberberg (arrived 1:10pm).
 - ✓ 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: Tom Biesiadny (Fairfax County); Paul Doku (Fairfax County); Peter Malgieri (Loudoun); Pierre Holloman (Alexandria); JoAnne Carter (PFM); Kristie Choi (PFM).

II. Summary Minutes of the November 17, 2016 Meeting

- Chairman Bulova moved approval of the minutes of November 17, 2016; seconded by Council Member Rishell. Motion carried with three (3) yeas and one (1) abstention [with Chairman Bulova abstaining as she as not at the November 17, 2016 meeting].

Action Items

III. IRS Section 125 Premium Only Plan

Mr. Longhi, CFO

- Mr. Longhi briefed the Committee on the IRS Section 125 Premium Only Plan, explaining this is commonly known as a cafeteria plan for employee benefits. He noted that having this plan in place allows the organization to pay for employee health insurance costs, and for employees to pay for their share of the health insurance costs, on a pre-tax basis. He added that when the insurance programs were implemented, they were done through the Commonwealth's The Local Choice Program and we have been operating under their Premium Only plan. Most jurisdictions would have implemented their plans in the 1970's or 1980's and the NVTA need to establish a plan is indicative of its recent organizational growth.
- Mr. Longhi stated that with ongoing process of interpreting and implementing the Affordable Care Act (ACA) and potential developments with the ACA in January, it is

prudent for the NVTA to establish its own plan. He noted that setting up a plan requires establishment of the plan documentation and annual verification, adding that this can be done through our payroll company, ADP, for an annual fee of \$350. Mr. Longhi stated that it would take substantially more in terms of staff resources (including participation of the Council of Counsels) to develop and implement the plan internally.

- Chairman Bulova moved the Finance Committee recommend Authority approval of the ADP Premium Only Plan IRS Section 125 Compliance Service with resolution, and authorize the Chief Financial Officer to sign related service documents; seconded by Chair Randall. Motion carried unanimously.

IV. Investment Safekeeping and Custody Service Agreement

Mr. Longhi, CFO

- Mr. Longhi stated that an Investment Safekeeping and Custody Service Agreement is necessary to maintain compliance with the NVTA's investment policy, follow best practices, and meet audit and financial accounting requirements. This service will be used to track NVTA investments. He noted that the NVTA anticipates an investment portfolio of up to approximately \$600 million, tapering to approximately \$450 million as projects become more active. He summarized the Request for Proposal (RFP) process:
 - ✓ Competitive procurement.
 - ✓ Prince William, Arlington, Fairfax and Loudoun Counties assisted in preparation of the RFP.
 - ✓ Proposal evaluation team was comprised of NVTA staff, with representatives from Fairfax and Loudoun Counties.
 - ✓ Negotiations reduced service level cost by approximately \$100,000.
 - ✓ Annual anticipated costs include a \$20,000 service fee and \$5,000 in transaction fees. This year, anticipating implementation in January, costs for FY2017 will be approximately \$12,500.
 - ✓ The evaluation committee unanimously recommended BB&T to provide these services.
- Mr. Longhi noted that there is a budget adjustment included in the motion to cover this year's costs. NVTA staff recommends using unexpended bond council fees of \$12,500. He added that these fees are over budgeted and are not anticipated to be needed this year.
- Chairman Parrish clarified that the budget adjustment is part of the suggested motion for the approval of this agreement.
- Based on a question regarding bond council fees, Mr. Longhi stated that the original estimate for these fees was \$50,000 and noted the FY2018 proposed budget reduces them to \$25,000. He added that when the NVTA does a bond issuance, those bond council fees would be reimbursed from the bond issuance.
- The Committee thanked Mr. Longhi for his clear explanation and the information provided for this agreement.
- Council Member Rishell moved the Finance Committee recommend Authority approval of the selection of BB&T for Investment Safekeeping and Custody Services, and related FY2017 budget adjustment, and authorization for the Chief Financial Officer to sign related banking documents; seconded by Chairman Bulova.

- Chairman Parrish disclosed that he sits on the local Advisory Board to BB&T for the Manassas/Prince William County area. He offered to sign any documentation required for full disclosure. Since no disclosure documents were readily available, Chairman Parrish stated he supported the motion however would abstain from the vote out of an abundance of caution.

(Mayor Silberberg arrived.)

- Motion carried with four (4) yeas and one (1) abstention [with Chairman Parrish abstaining].

Information/Discussion Items

V. **FY2018 – Proposed Local Distribution Fund Budget**

Mr. Longhi, CFO

- Chairman Parrish requested that during upcoming discussions Committee members consider recommending budget items III – VII for approval on the consent agenda for the January Authority meeting, as has been done in the past.
- Mr. Longhi briefed the Committee on the Proposed FY2018 Local Distribution Fund Budget. He noted this is the budget that sets the amount of funding to be distributed to the localities in FY2018. The estimated revenue for FY2018 is \$98.1 million.
- **Mr. Longhi noted the budget language which ensures the distribution to localities is based on the actual amounts received from the Commonwealth and not confined to the estimated revenue.**
- Mr. Longhi noted the estimated revenue increase from the FY2017 revenue amount of \$95.8 million to \$98.1 million due to growth in the revenue base.

VI. **FY2018 – Proposed Regional Revenue Fund Budget**

Mr. Longhi, CFO

- Mr. Longhi briefed the Committee on the FY2018 Regional Revenue Fund Budget. He noted this budget determines the level of PayGo available for FY2018 and reviewed the revenue categories, expenditures and reserve balances that contribute to this budget. Mr. Longhi stepped through the budget document noting, the revenue projection for FY2018 is \$234.5 million, the only expenditures at this point is for debt service and there is a credit adjustment for the Working Capital Reserve resulting in \$248.8 million being available for project funding. He noted this does not include any adjustment for the I-66/Route 28 Interchange Project. It was noted this is anticipated to return \$100 million to available PayGo. Mr. Longhi stated that the expenditure programming element of this budget is the Project Program adoption process.
- Mr. Longhi noted that with the approval of an Investment and Debt Manager position in FY2017 Interest Earned revenue was increased from \$1.9 million to \$3.5 million for FY2017. Additionally, as presented earlier with the services approved by the Finance Committee this revenue is expected to further increase to \$4.5 million. He also noted the FY2018 revenue is currently estimated at \$5.5 million as shown on the proposed budget.

- Mr. Longhi noted that Interest Earned may increase further with additional data subscription services and that the value of those services will be analyzed after the implementation of the current program.
- In response to a question regarding carry forward/released project funds, Mr. Longhi explained that this is revenue that was above projections from prior years and funds from projects that closed out without spending all of their programmed budget. He further noted that the revenue estimation process has been expressly directed to maintain a conservative posture.

VII. FY2018 – Proposed Authority Operating Budget Ms. Backmon, Executive Director

- Ms. Backmon briefed the Committee on the Proposed FY2018 Operating Budget, noting that this is largely the same information presented in November with some fine tuning of the estimates and full fiscal impacts of the base budget changes. The new budget proposals were presented individually for transparency.
- Ms. Backmon noted that most member jurisdictions opt to have their share of the Operating Budget paid from their 30% distributions, however, some jurisdictions do send payments in directly. She stated that for FY2018 the Authority is estimated to receive \$327.1 million in revenue, with \$228.9 million going to the Regional Revenue Fund and approximately \$98.1 million to the member jurisdictions as 30% funds. This represents an estimated net increase in 30% funds from FY2017 to FY2018 of \$2.28 million. Ms. Backmon stated increases to the FY2017 base budget are presented separately from new initiatives in the Proposed FY2018 Operating Budget. She reviewed the base budget increases.
- In response to questions regarding the certain base budget increases, Ms. Backmon clarified:
 - ✓ 4% staff compensation increase is an assumption until FY2018 jurisdictional budgets are available as in prior years, actual compensation changes will be based on the average of the member localities, agencies and similar organizations in the region.
 - ✓ Office lease escalation is an automatic increase based on the NVRTA lease with NVRC.
 - ✓ Each of the base budget changes, increases and decreases were discussed in detail.
 - ✓ It was noted that the table on the last page of the staff report showed the base budget and the new initiatives separately. In addition, the base budget increase or decrease was indexed to the written report for full transparency.
- Committee members were complimentary of the base budget transparency and the organization of the presentation.
- Mr. Longhi reviewed the proposed budget initiatives for FY2018, noting that the base budget is what the Authority needs to maintain status quo. The new budget additions all have functional purposes to support the suggested increase. He further noted that each proposed change is presented in the table at the end of the staff report, indexed to the written report. For transparency, each proposed budget item has a table showing the jurisdictional impact of the individual change.
 - ✓ Communications/Public Outreach

- There was a general discussion about the amount of communications and public outreach product that is expected to get the Authority's message out professionally. These communications products include:
 - Annual Reports and the annual report to the General Assembly - Joint Commission on Transportation Accountability
 - Editorials and Speaker's Notes, presentations for Authority Members with audiences being the general public, interest and advocacy groups, media outlets, editorial screeners as well as coordination with member jurisdiction and agency communications teams.
 - Currently this effort is supported through the NVTA administrative assistant/clerk to the board, the CFO (sometimes as much as 30% of a work week) and the Executive Director.
- Mr. Longhi noted the prior Committee discussion where it was requested the Executive Director be allowed to implement this proposal through either the direct hire of a part time employee or a competitively procured service contract. He noted the cost is basically equal under either approach. However, the direct hire would provide more direct and focused attention and a greater customized product.
- The Committee discussed the benefits of a direct hire over a contract service and it was generally agreed this approach is contingent upon being able to find the right person.
- The Committee questioned why the costs for either approach would be the same. Mr. Longhi responded that a contract is a single cost whereas a direct hired would encounter costs for office space and equipment, noting that the majority of these costs (compensation, space) will be repetitive.
- In response to further questions, Mr. Longhi responded:
 - Current preference is to hire a part-time individual for up to 29 hours per week.
 - Recommendation for communications/public outreach individual or contract will come back to the Finance Committee, once the Executive Director has determine the best approach after seeking a qualified staff hire.
 - The Committee had further discussion that this could be an ideal position for a person with existing experience who was also pursuing graduate studies, or a person undergoing a career transition. It was agreed if a direct hire approach was used, a three year commitment should be sought.
 - All anticipated expenses for either individual or contractual agreement are included in budget estimate.
- At this point, 29 hours per week of effort are anticipated to be adequate. However, based on need and benefit, the hours could be expanded. It was agreed that this initiative is necessary and will require whomever is handling communications to learn the NVTA culture.
- ✓ Multimodal Transportation Trends in Northern Virginia, Supplement to the Annual Report. This item was discussed as forming a baseline of multimodal transportation trends in Northern Virginia, drawing on existing available data sources including member jurisdictions. The reporting will focus on the region as a whole, TransAction

- corridors and member jurisdictions. The costs are primarily related to data consolidation and presentation in the NVTA Annual Report.
- ✓ Custody and Safekeeping Services. It was noted this is a proposed new initiative, but effectively becomes adopted as part of the Committee approval of Agenda Item IV as previously discussed under Action Items.
 - ✓ Portfolio Tracking Software. The importance of this software was discussed as it relates to the NVTA Investment Policy compliance, compliance with the State Code and regulatory requirements as well as the annual financial statement audit.
 - There was consensus that this is important, especially for the Finance Committee in its oversight role of investment activity.
 - ✓ Planning Technology (Technology Plan). This proposal was described as equipping NVTA staff (who currently have the required technical skills and experience) with GIS mapping tools to include limited modelling and analysis. It was noted this will be part of a multi-year technology plan which will seek to continue the use of data captured through the TransAction update process and make it available for subsequent use in future fiscal years.
 - It was agreed that better mapping capabilities, particularly interactive mapping, are necessary and valuable to members and constituents.
 - ✓ Transportation Planning Intern Program. It was noted that this item was presented verbally at the last meeting. In response to Committee requests as to what this program would look like and especially addressing concerns that it be additive to staffing resources not distracting the NVTA planners from their core duties. Specific items discussed:
 - Firm cost figures
 - Support to be provided by the interns for various committee meetings
 - Opportunities to reduce staff workload through the interns while at the same time giving those same individuals an opportunity to have a front row seat to regional transportation planning and to see the chief elected officials working in close collaboration.
- Ms. Backmon stated that NVTA staff will meet with jurisdictional staff in coming weeks to review the proposed FY2018 Operating Budget. It was suggested this was important and needed to be done prior to the January Authority meeting.
 - Appreciation was expressed for the detail, clarity and transparency of the budget proposal. With special appreciation expressed for noting the jurisdictional cost impact of each budget proposal as well as changes to the base budget.
 - There was Committee consensus that the FY2018 Operating Budget item not be placed on the Consent Agenda at the January Authority meeting, to allow for complete transparency and to show the level of detail presented, discussed and acted upon by the Finance Committee.
 - Mr. Longhi concluded that the FY2018 Operating Budget new initiatives increase totals \$191,000.
 - There was Committee consensus to recommend approval of the Proposed FY2018 Operating budget as presented.

- Chairman Parrish as noted earlier proposed items III, IV, V, VI be placed on Consent with Item VII as an Action on the agenda for the January Authority meeting. There was Committee consensus to do this.

VIII. Financial Statement Audit Services

Mr. Longhi, CFO

- Mr. Longhi stated that the Authority's financial statement audit services with PBMares had previously been contracted through a rider on the Fairfax Water Authority contract. This contract rider expires at the end of this fiscal year. He noted that in February 2015, the Northern Virginia Transportation Commission (NVTC), the Potomac and Rappahannock Transportation Commission (PRTC) and the Virginia Railway Express (VRE) jointly issued a competitive RFP for financial statement auditing services and Mr. Longhi served on the selection committee for this process. Mr. Longhi proposed that NVTA ride this contract, specifically with VRE, instead of issuing a new RFP and duplicating this process. He outlined the advantages to this recommendation:
 - ✓ Staff time savings.
 - ✓ Meets requirements for public procurement.
 - ✓ Allows NVTA to be in the same contractual cycle as PRTC, VRE and NVTC, therefore the competitive procurement process will be done for all four organizations the next time contracts are up for renewal.
- Mr. Longhi stated that PBMares has provided a cost quote for the audit services. He noted that the budgeted amount for these services is approximately \$3,000 more than this quote, explaining that staff always over budgets for audit fees to allow additional funding in the event that the Finance Committee in its role as audit committee has a question it wants the auditors to examine.
- Mr. Longhi concluded that the budgeted amount for these services in FY2018 is \$28,000 adding that with the Committee's recommendation we can either proceed with an independent procurement, or bring a contract rider to the Committee for approval.
- A question was raised as to the anticipated contract costs should the NVTA do its own competitive procurement. Mr. Longhi responded that the PBMares proposal is significantly less than the other cost proposals received through the recent transportation agency RFP. He suggested that in a new competitive procurement process, PBMares would likely submit the same cost proposal, but we do not know what other firms would propose. He added that we do not have complex audit needs, noting that the price structure in the transportation agency contracts was done on a component basis that allows the NVTA pricing to occur.
- There was consensus from the Committee to ride the existing contract with VRE with the expectation that an Action Item would be presented at the next Finance Committee meeting.

IX. Call/Defeasance Options for Series 2014 Bonds

Mr. Longhi, CFO

- Mr. Longhi stated that the I-66/Route 28 Interchange Project is anticipated to not require the NVTA funds allocated to it, which will be confirmed in July 2017 when the Commonwealth reaches financial close. This results in \$100 million being returned to the Regional Revenue Fund to become part of available PayGo. It also negates the need

to issue \$200 million in bonds. He emphasized the State has requested the Authority not take action on the project funding until it reaches financial close, scheduled for July 2017. Mr. Longhi stated that there are two potential uses for the \$100 million anticipated to be released. It can either go into the PayGo funds to be used for future funding programs, or a portion of these funds can be set aside and held to preserve options to call, or defease, the Series 2014 bonds at a later date and time. He noted that several defeasance options were considered by NVTAs staff and PFM. Mr. Longhi presented the three most beneficial options to the Committee.

- ✓ Scenario 1 – Refinance the 2014 bonds at the call date of June 1, 2024, by issuing new 2024 refunding bonds to refinance the outstanding amount of the Series 2014 bonds. This can be done without reserving funds. This option is estimated to generate \$5.7 million, or 13.3% net present value (NPV) savings, well above the NVTAs policy of 3%. It would also generate \$7.4 million in gross savings.
 - Mr. Longhi added that this scenario is for comparison only, no decision on the released \$100 million will preclude the Authority’s ability to do this when the time comes.
 - Mr. Longhi clarified that this option would only be executed if the interest rates at the time were favorable. This is an option if interest rates are lower, but not if they are higher.
- ✓ Scenario 2 – Place approximately \$51.5 million in an irrevocable escrow account to affect a legal defeasance of all the callable bonds. At that point, the \$51.5 million is committed. This option is estimated to:
 - Generate \$4.3 million in NPV savings, or 10%, and \$20 million in gross savings.
 - Eliminate any other options for the use of the \$51.5 million and is an irrevocable decision.
- ✓ Scenario 3 – This option is the NVTAs staff preferred recommendation. Hold \$42.8 million of the released cash for the potential to perform a cash call in 2024. This means we do not make any statement that obligates the Authority to call the bonds until we get close to June 1, 2024, but we have the money in reserve to do so. It is expected that during this time period the NVTAs will have at least potentially two or more new debt issuances. This option is estimated to:
 - Generate interest earnings on the \$42.8 million for approximately 7.5 years of \$6.4 million
 - Completely pay off Series 2014 bonds and increase our debt capacity
 - Generate a debt service savings of \$4.9 million NPV savings, or 11.5%, representing \$12.6 million in gross savings
 - Generate a minimum overall gross benefit of \$19 million.
- ✓ This \$42.8 million set aside will be for a potential cash call, but if it is needed for any other purpose the Authority still has full access to these funds. As an example, should we be in a higher interest rate environment in 2024 it may make sense to leave Series 2014 bonds alone and use this money to offset the amount of new debt that we would be looking at issuing.
 - Mr. Longhi noted that the interest rate on the Series 2014 bonds is 3.07%.
 - A question was raised as to whether the best solution for reducing congestion is to put this money in PayGo. Mr. Longhi responded that option definitely needs to

be discussed, but the finance team will bring options to the Committee for consideration.

- There was a brief conversation regarding timing and options for funding projects, as well as timing for providing the set aside for Scenario 3. Ms. Backmon clarified that this is only a Committee discussion, there is plenty of time before a decision needs to be made. There was agreement that this is a good discussion to have and that it needs to continue.
- Chairman Parrish asked that there be further discussion on this item.
- Mr. Longhi concluded that the first decision is whether make the funds available immediately for PayGo, or whether to set a portion of the funds as a reserve. He stated that if there are enough eligible projects for the FY2018 Program to benefit from the whole \$350 million, then there is no question, this is how the funds should be used. It was noted that project funds need to be spent, and there needs to be evidence of this, but there also needs to be projects that are ready to use the funds. Mr. Longhi stated that this discussion is complex, adding that there is an opportunity to make \$19 million on a \$42.8 million investment. However, we do not want to see projects that are eligible and ready not get funded.
- Chairman Parrish suggested this conversation be continued in July. Mr. Longhi offered to provide some if/then scenarios for these options to the Committee.
- Mr. Longhi and Ms. Backmon offered to speak to jurisdictional staff directly regarding any questions on this matter.
- Chairman Parrish suggested this conversation could be added to the ongoing FY2018 budget discussions with jurisdictional staff.

X. NVTM Monthly Revenue Report

Mr. Longhi, CFO

- Mr. Longhi reported revenues are currently 2.34% above budget estimates, with no adjustments projected at this time.

XI. NVTM Operating Budget Report

Mr. Longhi, CFO

- Mr. Longhi stated that all Operating Budget revenue has been collected, noting that as of November we are 42% through the year and have used 36% of the budget.

Other Discussions:

- Mayor Silberberg stated that she has a conflict with the January 19, 2017 Finance Committee meeting. Chairman Parrish directed staff to consider whether there was a need to reschedule the January meeting and report back to the Committee.
- The Committee engaged in a conversation regarding the I-66 Outside the Beltway Project agreement and the concession allowing for trucks to use the Express Lanes. Multiple concerns were voiced.
- Chairman Parrish clarified that the Finance Committee recommended adoption of the FY2018 Operating Budget and requested it be placed as a regular action item on the Authority's January agenda. It was noted that jurisdictional staff still need an opportunity to review.

Adjournment

XII. Adjournment

- Meeting adjourned at 2:45pm.