

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

MEMORANDUM

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

FROM: Mayor Parrish, Chairman, Finance Committee

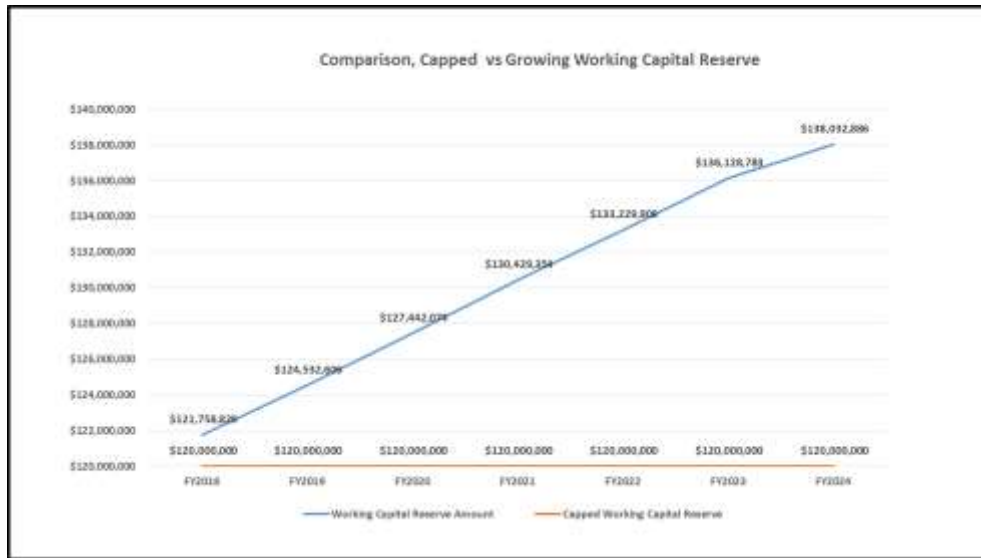
DATE: June 2, 2017

SUBJECT: Policy 9 – Debt Policy (Revision for Working Capital Reserve Cap)

1. **Purpose:** To seek Northern Virginia Transportation Authority (NVTA) approval of a proposed cap to the Regional Revenue Fund Working Capital Reserve in Policy 9 – Debt Policy.
2. **Suggested Motion:** *I move Authority approval of a \$120 million cap on the Regional Revenue Fund – Working Capital Reserve, and related policy change to be effective July 1, 2017.*
3. **Background:**
 - a. The Authority’s Policy 9 - Debt Policy (Section IV, 5, b.) currently requires a Working Capital Reserve (WCR) “...equal to at least six months of the budgeted, annual Regional Revenues.”
 - b. The above policy also notes in the same section: “The WCR is not required by the Master Indenture; rather, it is a policy of the NVTA and is subject to change.”
 - c. The purpose of the WCR is to manage any mismatches in the actual receipt of revenue and the disbursement of funds for debt service or project reimbursements.
 - d. The Authority’s Debt Policy (Section IV, 5, c.) requires the NVTA to revisit the level of the WCR periodically in consideration of actual cash flow patterns and experience, liquidity expectations of the credit rating agencies consistent with the NVTA’s current credit ratings, and actual experience with delays or disruptions, if any, to the Commonwealth’s budget adoption and appropriations process.
 - e. The current WCR formula requires 50% of any year to year revenue increase to be added to the reserve rather than being available for PayGo project use.
 - f. For FY2017, the budgeted WCR requirement is \$120,286,655. For FY2018, the budgeted WCR requirement is \$117,293,829. NVTA staff estimates that revenue estimate revisions will require an increase of the WCR to \$121,758,829 during FY2018.
 - g. Total outstanding debt service payments for FY2018 through FY2034 (final year of debt service) is \$94,333,300.
 - h. As of March 31, 2017, the Authority is in a highly liquid position with cash/investment balances in the Regional Revenue Fund of approximately \$707.6

million. These funds are largely appropriated to regional transportation projects and are awaiting reimbursement requests from project sponsors.

- i. The Authority has experienced no delays or disruptions in the Commonwealth’s budget adoption and appropriation process, since the inaugural debt issuance in December 2014.
- j. Based on current revenue estimates, under the current policy formula, the WCR will increase to approximately \$138 million by FY2024, as shown in the chart below.



4. Discussion:

- a. The Authority and the Authority’s Financial Advisor (PFM) recently had discussions with the three credit agencies that currently rate the Authority (Fitch Ratings, Moody’s Investors Service and Standard and Poor’s) regarding the potential cap of the WCR. The communication with the credit agencies revealed no negative credit pressure based on this proposed change.
 - i. **Fitch Ratings credit rating affirmation of AA+ with stable outlook.** As part of the credit rating discussion undertaken with the credit analyst, the potential of capping the WCR at \$120 million was discussed. Analyst feedback was that at this time, such a cap would have no negative implications on the Authority’s credit rating.
 - ii. **Moody’s Investors Service recently reviewed the Authority’s financial position.** Moody’s did not publish a public surveillance report in conjunction with the review. As part of the credit rating discussion a potential \$120 million cap on the WCR was discussed. The feedback was that at this time, such a cap would have no negative implications on the Authority’s credit rating.
 - iii. **Standard and Poor’s (S&P).** S&P has chosen not to undertake a formal credit review of the Authority. However, Authority staff and PFM have communicated the potential of placing a \$120 million cap on the WCR.

The feedback was that at this time, such a cap would have no negative implications on the Authority's credit rating.

- b. Re-evaluation of the WCR cap.** Any future Debt Policy update/evaluation will include an assessment of the WCR level. Additionally, part of this policy revision requires the WCR to be evaluated at least annually as part of the authority budget process. Further, the Debt Policy in Section IX, Item E., requires a review and update of the entire policy at least every three years. The last policy amendment occurred on June 25, 2015.
- c. Proposed Policy change.** The following is the proposed change to Section IV, 5, b. of the current Debt Policy:

Working Capital Reserve. The NVTA will maintain a Working Capital Reserve ("WCR") account in the NVTA General Fund equal to \$120,000,000.00. ~~at least six months of the budgeted, annual Regional Revenues.~~ Such funds may be used within a fiscal year to manage any mismatches in the actual receipt of revenue and the disbursement of funds for project construction to project implementing entities and to pay debt service. ~~As part of its budget process each year,~~ Not less frequently than annually during the NVTA's budget process, the NVTA will estimate the increase, if any, to the WCR requirement and fund such incremental increase within the course of ~~such~~ the next ensuing fiscal year. To the extent the WCR requirement is forecast to decrease in a given fiscal year, the NVTA may release such amounts within the course of such ensuing fiscal year provided that any debt service or debt service reserve fund requirements are fully funded in accordance with the Master Indenture. The WCR is not required by the Master Indenture; rather, it is a policy of the NVTA and is subject to change.

- 5. Fiscal Implications.** Capping the WCR at \$120 million will result in an increase in available PayGo of approximately \$18 million between FY2018 and FY2024.

Coordination:

NVTA Finance Committee
Financial Advisor – PFM
Bond Counsel
Council of Counsels