



Northern Virginia Transportation Authority
The Authority for Transportation in Northern Virginia

FINANCE COMMITTEE
Thursday, September 20, 2018
1:00 PM
3040 Williams Drive, Suite 200
Fairfax, VA 22031

MEETING SUMMARY

I. Call to Order/Welcome

Mayor Rishell

- Mayor Rishell called the meeting to order at 1:09 PM.
- Attendees:
 - ✓ Members: Mayor Rishell; Chairman Parrish (arrived 1:29 PM); Chairman Bulova; Mayor Silberberg
 - ✓ Staff: Monica Backmon (Executive Director); Michael Longhi (CFO); Richard Stavros (Investment & Debt Manager); Peggy Teal (Assistant Finance Officer); Yolanda Thomas-Jones (Clerk).
 - ✓ Council of Counsels: Ellen Posner (Fairfax County);
 - ✓ Other Attendees: Stephanie Pomeroy (Prince William Dept of Transportation); Mark Schofield (VRE); Joanna Easton (Prince William County Finance); Brad Norris (Prince William County Finance); Isabelle DeVooght (Prince William County Finance); Tarrence Moorer (City of Alexandria); JoAnne Carter (PFM); Noelle Dominguez (Fairfax County).

II. Summary Minutes of the June 6, 2018 Meeting

- Mayor Silberberg moved approval of the minutes of June 6, 2018; seconded by Chairman Bulova. Motion carried unanimously.

Discussion Items

III. Investment Monitoring, Strategy and Services

Mr. Stavros, Investment & Debt Manager

- Mr. Longhi introduced Mr. Stavros; the Authority's new Investment & Debt Manager, noting his educational and professional experience.
- Mr. Longhi addressed the commencement of FY2018 financial statement audit
 - ✓ Each year the auditors focused on certain areas and this year the focus was on the investment portfolio.
 - ✓ The auditors' inquiry surrounded the management and mitigation of risk in the Investment Portfolio considering the size of the portfolio.
 - ✓ Mr. Longhi assured the auditors that staff has recognized the need to add additional tools to assist in the management of the portfolio with specific concentration on the reduction of risk.

- ✓ Mr. Longhi shared Mr. Stavros' background is in portfolio analytics mainly in the private sector. Mr. Stavros has been testing different portfolio analytic services since his start in July 2018.
- Mr. Stavros facilitated a presentation on investment management tools to advance the Authority's Investment Policy primary objectives of:
 - ✓ Safety
 - ✓ Liquidity
 - ✓ Yield
- The presentation addressed the increasing size of the investment portfolio (approaching \$1 billion) and the corresponding need to ensure suitable tools are available to monitor the securities for safety and liquidity priorities.
- In reference to Safety and Liquidity, Mr. Stavros stated analysis is a strength to any portfolio; insight and understanding of the investments allows for critical decisions that can enhance the opportunities or reduce the risks.
- Mr. Stavros mentioned his career highlights over the last ten years.
 - ✓ Portfolio analytics with the use of modeling have provided advanced insights in the market allowing investors to reposition institution portfolios thus avoiding losses and reducing risk.
- Mr. Longhi added the investment portfolio is growing faster than initially projected. After the first three months of FY2019, the portfolio has exceeded the cash level predicted for FY2019 based on project spend-outs. Effectively making it a \$1 billion portfolio. In addition, there are 70 different instruments in the portfolio. Mr. Longhi mentioned staff is looking at making investment placements within the next 30 to 60 days of \$150 million in \$5 to \$20 million blocks thus increasing the number of securities requiring monitoring.
 - ✓ Mr. Longhi stated the service tools are needed to monitor the status of the securities in the portfolio.
 - ✓ As an example, Mr. Longhi shared a possible scenario of one of security experiencing a credit downgrade from AAA to double AA. The security would still be within the policy and may still be a fine investment, but it is important for staff to understand the reason behind the downgrade to understand future risk.
- Mr. Stavros followed on with Yield, noting the best way to optimize a conservative portfolio is to buy instruments at an optimal price. He pointed out that if the Authority is in the market and can obtain an instrument at a good price, the yield is being optimized and therefore improving the portfolio with more funds going to transportation.
- Mr. Stavros is evaluating three top investment management platforms, noting each of their strengths and weaknesses:
 - ✓ S&P Capital IQ's strength is portfolio analytics including a library of financial data. The weakness is S&P does not offer trade or transaction analytics.
 - ✓ ICE's (InterContinental Exchange) strength is transaction and price analysis. The weakness is ICE does not offer portfolio analytics or archival data.
 - ✓ Bloomberg's strength is trade/portfolio analytics. Bloomberg is not as robust as ICE on transaction analytics.
- Mr. Stavros mentioned the primary areas of research preceded the auditor's questions to staff about the need for real-time information.
 - ✓ S&P Capital IQ and Bloomberg have real-time updates.
 - ✓ The Public Institution Manager should always optimize the portfolio, getting the most that they can from public funds and returns.

- ✓ S&P Capital IQ and Bloomberg systems will alert for different opportunities.
 - ✓ ICE gives a level of price transparency that is optimal and unprecedented. This tool can save the NVTA between \$120,000 and \$140,000 just by knowing where to buy and sell. Mr. Longhi noted the estimate \$120,000 to \$140,000 is conservative due to the portfolio growing in size.
 - ✓ Mr. Longhi added, that after Arlington County brought in one of these systems, about half of the 12 brokers stopped doing business with the County because they did not want to compete at the more aggressive price points.
 - ✓ Mayor Silberberg asked what happens to a broker at that point and questioned would one stop doing business with them. Mr. Longhi replied in the affirmative stating that, they would stop getting transactions.
 - ✓ Mr. Stavros highlighted that Bloomberg and S&P Capital IQ can customize models in ways that cannot be done with other platforms, detailing numerous transaction benefits provided by the services.
 - ✓ Mr. Longhi mentioned the investment philosophy is safety, liquidity then yield and that the services support the strategy for the Authority's Five Year Strategic Plan Goal related to excellent stewardship of taxpayer dollars.
 - ✓ All three services are subscription based and can be cancelled with a reduction in portfolio size.
 - ✓ Mr. Longhi estimated a minimum range for the portfolio would be \$460 million.
 - ✓ Mr. Longhi noted that staff will talk with other jurisdictions and the Authority will be hosting a regional meeting of investment managers in late October to exchange strategies and ideas.
- Chairman Bulova inquired if expediting drawdowns is how the Authority gets to the \$460 million range for the portfolio. Mr. Longhi explained this prior statement was a prediction, based on optimal spend downs.
 - Chairman Bulova asked how the financial advisor fit into making portfolio decisions. Mr. Longhi responded, the relationship with PFM is focused on debt issuance not investment management.
 - Chairman Bulova inquired about the cost associated with this service (meaning the investment subscriptions). Mr. Longhi responded that the cost is between \$20,000 and \$65,000.
 - Chairman Bulova asked would the costs be included in FY2019 Operating Budget. Mr. Longhi, responded that it could potentially be included in the FY2019 Operating Budget through a transfer from the operating reserve.
 - Mr. Longhi noted he was expecting a recommendation from the auditors, to make sure we have the tools to manage the portfolio.
 - Mr. Longhi noted that when the auditors asked what the plans were to strengthen the oversight of the portfolio holdings, staff was able to point to the analysis already started by Mr. Stavros, through the trial subscriptions.
 - Mayor Silberberg stated that if more money could be put into the system, to produce greater earnings it can later be drawn down to have more multimodal transportation purposes.
 - Ms. Backmon noted that NVTA pays for projects adopted in funding programs on a reimbursement basis. When the Authority adopts a funding program and the Standard Project Agreements are executed, the NVTA does not remit payment until an invoice is submitted. Mr. Longhi, reiterated that the NVTA does not issue grants, everything is done

on a reimbursement basis. Last year interest earnings were estimated at \$5.5 million, we actually made \$9.5 million dollars. Mr. Longhi mentioned the estimated interest earnings for FY 2019 is \$10 million. For the Six Year Program, 44 projects at \$1.285 billion is roughly \$30 million per project.

- Ms. Backmon added that the purpose of Draft Policy 29, is to ensure that funding allocated to projects are utilized in a timely manner and if that cannot be accomplished, the funding previously allocated to projects would essentially roll back into the 70% fund. Those monies would be available to fund additional projects which is critical since the Authority's loss of the two revenue streams.
- Mr. Longhi noted NVTa is using these large cash balances in other ways. For example, had the Finance Committee taken a normal approach to funding the Six Year Program, there would be a \$194 million interest expense over 20 years. Mr. Longhi spoke with the auditors about the NVTa approach to appropriating funds. After some discussion, so they could understand the unique situation the Authority is in, the auditors said they would raise no objections as long as total revenue was not over appropriated.
- Chairman Parrish mentioned he would expect the NVTa to have an average cash balance of \$450 million. Mr. Longhi agreed based on initial project cash flows submitted with applications. However, actual experience has resulted in much slower spending patterns.

IV. Project Monitoring and Management System (PMMS) Update

Mr. Longhi, CFO

- Mr. Longhi discussed that the procurement timeline for the PMMS has been compressed as much as prudent and staff was looking for the Committee's guidance on options to expedite the procurement so as to allow a longer product development period.
- Mr. Longhi noted the schedule compression was due to delays in the adoption of the FY2019 Operating Budget while the Committee waited to see the results of the 2018 General Assembly Session. The delays resulted in the loss of approximately 60 days in preparing the PMMS procurement.
 - ✓ The PMMS request for proposals (RFP) was issued on September 5th, approximately two months later than preferred to give the strongest possibility for the Application Automation Phase to be ready in time for the July 2019 Call for Projects.
 - ✓ Written questions from prospective contractors were due on September 14th.
 - ✓ The mandatory pre-proposal conference occurred on September 17th.
 - ✓ Proposals are due on October 5th.
 - ✓ Initial proposal evaluations occur such that short-listed firms are notified on October 11th.
 - ✓ Proposal 'Best and Final' presentations occur October 15th and 16th.
 - ✓ Next Finance Committee meeting is scheduled for October 18th.
 - ✓ Next Authority meeting is scheduled for November 8th, with the November Finance Committee meeting scheduled for November 15th.
 - ✓ Mr. Longhi noted if we took the traditional approach of presenting the recommended contractor at the November 15th Finance Committee meeting, Authority action would not occur until December 13th. Resulting in a loss of 30 days in product development time.
 - ✓ Further delays in the PMMS procurement cycle will reduce the time the selected contractor has to complete the on-line Application Automation Phase by July 2019.

- ✓ With concurrence of the Finance Committee, NVTA staff will prepare a Closed Session briefing on the PMMS procurement for the Committee's October 18th meeting.
- ✓ A closed session is required as contract negotiations are not expected to have concluded so shortly after the 'Best and Final' presentations on October 15th and 16th.
- ✓ At the closed session briefing, the Finance Committee will be able to provide guidance to NVTA staff on presenting a contract recommendation to the Authority on November 8th rather than December 13th.
- ✓ Reducing the procurement cycle by one month will allow additional time for the development and delivery of the Automated Application Phase.
- Mayor Rishell confirmed the proposals from the potential submitters are due on October 5, 2018. Mr. Longhi confirmed the date.
- Chairman Bulova asked if Mr. Longhi would have a list available for the October 18 Finance Committee meeting. Mr. Longhi confirmed a list should be available. However, Mr. Longhi stated that he is uncertain of where the recommendation would be as the Best and Final Offer presentations are on October 15th and 16th.
- Mr. Longhi noted that if after the Best and Final Offers are reviewed staff felt we are too far apart to make a recommendation there would be no need for a closed session.
- Chairman Parrish expressed he thought this was a good approach and the Committee recommended the closed session on October 18, 2018, if doable.

V. Review of NVTA Office Lease

Mr. Longhi, CFO

- Mr. Longhi provided the Committee information regarding the Authority's office lease and renewal options in preparation for Committee guidance on the FY2020 Operating Budget
- Mr. Longhi provided the background of the NVTA Office Lease.
 - ✓ The current office lease is a sublease from the Northern Virginia Regional Commission (NVRC) which holds a ten-year lease with TransWestern.
 - ✓ The current 5 year office lease went into effect on October 6, 2014.
 - ✓ Total leased space has increased consistent with increases in NVTA staffing.
 - ✓ The current lease is for 4,725 square feet of space (including common areas and the building core).
 - ✓ The current lease will expire on October 31, 2019 (FY2020}.
 - ✓ Relocation concurrent with the expiration of the current lease is an option.
 - ✓ Relocation is a lengthy process, so a review of options with cost comparisons was undertaken at this time, prior to preparations for the FY2020 Operating Budget.
- Mr. Longhi provided a cost analysis:
 - ✓ The current NVRC sublease extends through October 2019 for 4,725 square feet at the rates of
 - ✓ \$28.54 per square foot per year for FY2019 (\$134,851.50 per year).
 - ✓ \$29.25 per square foot per year for FY2020 (\$138,206.25 per year).
 - ✓ Annual cost escalations are 2.5% per year under the existing contract; renewal of the current sublease is expected to continue to be at a 2.5% annual escalation.
- Mr. Longhi provided the lease rates for surrounding areas.
 - ✓ The current average pricing for office lease space in the area is in the range of \$27 to \$35 per square foot.
 - ✓ The FY2020 lease rate under the current contract is close to the midpoint of April 2018 rates for office space in the area.

- ✓ The estimates are based on prior escalation experience suggest the new lease escalation rate will be in the same range as current rates.
- Mr. Longhi noted the estimated cost of relocating to new office space (including building renovations, furnishings and technology) is approximately \$630,000.
- Mr. Longhi mentioned the advantages of renewing the current lease.
 - ✓ There is the opportunity to add more office space as required. Additional space is currently available within and outside the NVRC lease footprint, adjacent to the existing NVTA space.
 - ✓ NVTA can maintain access to conference rooms and audio visual equipment.
 - ✓ NVTA can maintain access to equipment shared with NVRC such as the GIS plotter.
 - ✓ The annual increase in pricing will continue to be 2.5% per year.
 - ✓ NVTA lease payments reduce the financial obligations of NVRC.
 - ✓ NVRC uses a direct cost approach to the lease arrangements with NVTA (no markup).
 - ✓ The relocation search, contract negotiations, space outfitting and move would create significant strains on NVTA staff capacity to attend to existing primary mission critical duties.
 - ✓ Mr. Longhi recommended the lease renewal, the Finance Committee agreed.

VI. Draft Policy 29- Project Activation, Monitoring and De-Appropriation

Mr. Longhi, CFO

- Mr. Longhi noted that a recap of the jurisdiction and agency comments was scheduled for the beginning of Fall 2018. However, this deadline this will not be met due to the turn-over of two staff positions, Investment Debt Manager and Communication Manager.
- Mr. Longhi noted jurisdiction and agency coordination is important and the process is going to take more time than anticipated. Chairman Parrish, while noting his city has a project that is not progressing as originally scheduled, stated this is an important policy issue.
- Ms. Backmon acknowledged that Chairman Parrish has mentioned the need for projects to advance as scheduled on several occasions. She reinforced his observations noting:
 - ✓ The Authority now has four funding programs.
 - ✓ There are projects in the FY 2014 Program that have not advanced for various reasons.
- Chairman Parrish acknowledge his concern for the needed transportation projects and the citizens who are paying taxes and will benefit from the projects.
- Chairman Parrish noted he is in support of Policy 29.
- Chairman Parrish requested that the NVTA help the jurisdictions and agencies realize the importance of spending the money the way it was agreed upon. Chairman Bulova agreed noting the balance between pressuring the localities and encouraging them to draw-down within realistic timetables.
- Mr. Longhi noted that Draft Policy 29 highlights communication. The PMMS will allow the Authority to monitor the projects and create reports. The reports will indicate if a project is not progressing over an extended period of time. If this is the case, a decision will need to be made to determine if the project is viable or still desirable from a jurisdiction perspective.
- Ms. Backmon added that communication is very important and built into the policy draft. When the Authority knows the project status, it can share with the public and Authority members. She noted that staff anticipates that there will be several continuation projects submitted for the FY 2024-2025 Call For Projects. If the project was funded previously,

and there is no advancement on the project, then the Authority will need to determine if the project is at a stage to receive additional funding.

- Mr. Longhi mentioned the analysis completed for the Two Year Update to the SYP shows the unofficially projected revenue could potentially be more than absorbed by continuation requests for current projects.
- Mayor Rishell asked should the process include elected officials being brought into the discussion. Ms. Backmon responded that it would be best to come to a consensus amongst staff as a first step. However, she never wants Authority members to be surprised regarding issues with their projects.

VII. Investment Portfolio Report

Mr. Stavros, Investment & Debt Manager

- Mr. Longhi acknowledged Mr. Stavros' hard work analyzing and consolidating the report from the Portfolio Tracking System. The narrative section of the report gives the Finance Committee the commitment that everything is within policy.
- Mr. Stavros presented the Investment Portfolio Report for essential things to know about the portfolio.
 - ✓ He acknowledged that investment safety is the prime directive for the portfolio. Liquidity is next to ensure funds are available for project reimbursements.
 - ✓ The portfolio has grown \$30 million since last meeting. It is primarily in liquid AAA and AA corporate bonds with 50% of the portfolio in 0-3 month maturities.
 - ✓ FY 2018 portfolio performance was affected by the investment program suspension in June/July 2018 that took place with the retirement of the former Investment & Debt Manager.
 - ✓ However, the portfolio recovered lost performance with the restart of the investment program in late August 2018 outperforming 3 of 4 benchmarks. Pointing to Section IV of the report, during the period, the portfolio sought further diversification in its corporate debt portfolio, adding investment grade consumer staples, technology and energy holdings (Johnson & Johnson, Microsoft, Berkshire Hathaway, Chevron, etc.), as well as adding high grade commercial paper (J.P. Morgan) and one-year Treasuries.
 - ✓ Noting Sections V and VI of the report, Mr. Stavros pointed out all of NVTA's investment purchases are held in a third party custody account and NVTA's deposit type investments are protected through the Commonwealth of Virginia collateralization program or FDIC Insurance.
- Mr. Longhi addressed the Reposition Plan of the investments.
 - ✓ NVTA undertook an investment in the VIP 1-3 prior to having established an internal investment program. An analysis of the NVTA Portfolio finds that the VIP 1-3 High Quality Bond Fund is significantly underperforming similar investments and has certain features (issue shares/price point) that make the investment incompatible with NVTA's current investment goals.
 - ✓ In April 2018, there was \$75 million in the fund, which was reduced by \$30 million in May 2018. The fund experienced a market loss that was recouped immediately by reinvesting the \$30 million in other instruments.
 - ✓ The Reposition Plan intends to exit the \$46 million position in the VIP 1-3 Fund which will incur a realized mark-to-market loss of \$753,222. Based on current portfolio performance, we expect to recover this loss in a minimum of 7-8 months. The recovery analysis is based on the return of a 1-Year U.S. Treasury Bond yielding 2.55% (market price at this reporting). Thereafter, these funds will earn almost 6 times over the VIP 1-

- 3 historical performance.
- Chairman Parrish summarized:
 - ✓ The investment is not performing as well as expected or other investments.
 - ✓ Mr. Longhi recommends that we pull out the cash and ultimately it will return more money to the NVTAs as a result.
- Mayor Silberberg asked if there is a part of the investment policy that makes such action automatic for underperforming instruments. Mr. Longhi replied it is not automatic as staff needs to assess if the instrument is in a short term negative position or a sustained one. The policy actually discourages trying to time the market. Had the Federal Reserve not made increases the position would be performing differently.
- Mr. Longhi also noted one of the portfolio strategies that is used is to always look at the lowest performing segments and look to improve them. This is consistent with a hold to maturity investment philosophy.

VIII. Monthly Revenue Report Mr. Longhi, CFO

- Mr. Longhi updated the Finance Committee on monthly revenue receipts and 30% funds distributed to member localities, noting this is effectively the close out report for FY 2018.
- Mr. Longhi highlighted Attachment A of the staff report:
 - ✓ FY 2018 ended with a 3.8% positive variance. That brings \$12.6 million into the next Two Year Update.
 - ✓ Grantor's Tax had a 21% variance above estimate.
 - ✓ Sales Tax outperformed the estimate by less than 1%.
 - ✓ TOT outperformed the estimate by 3.7%.
 - ✓ Noting two takeaways:
 - When you have only one revenue you are subject to the variation within that revenue, meaning with three revenues variances would tend to cancel each other out.
 - Grantors and TOT (growing revenues) were taken away from the Authority in order to fund a fixed amount to Metro. There was a combined growth of those two revenues of roughly 24% above estimate. Significant future year revenue and flexibility was lost.
- Mr. Longhi doesn't anticipate any changes to existing revenues, but Sales tax has to be re-examined in context.
- Chairman Parrish asked was there in anything in the legislation that named the use of the additional growth in TOT and Grantors.
- Mr. Longhi acknowledged Council of Counsel (Ellen Posner) who responded that she was not aware of anything expressly stated in the legislation. Chairman Parrish expressed a concern that two growing revenues were removed from NVTAs to fund a fixed dollar amount for Metro.
- Chairman Bulova noting this was interesting and we should not lose sight of it given the Governor has expressed an interest in addressing the NVTAs funding issue.
- Chairman Parrish suggested the issue be brought by staff to the Governance and Personnel Committee as part of the 2019 General Assembly Session preparations. There was agreement to the direction.

IX. Operating Budget Report

Mr. Longhi, CFO

- Mr. Longhi updated the Finance Committee on the Authority's Operating Budget noting this is also effectively the closeout report for FY 2018. Specific reference was made to:
 - ✓ Operating revenue is at 100% of estimate.
 - ✓ Several budget transfers were approved related to resources needed for the 2018 General Assembly Session.
 - ✓ The NVTA website redesign completed during FY 2018 exceeded the budget by \$3,367 the excess costs were offset by savings in other areas.
 - ✓ Four of NVTA's computers required replacement before the end of FY 2018 resulting in a cost of \$8,714 being applied to the equipment reserve. These machines were originally purchased at the same time.
 - ✓ Ended the year with positive \$20,000 expense balance on the \$1.9 million budget.

X. Chairman Comments

Chairman Parrish

- Chairman Parrish asked for an update on the audit.
 - ✓ Mr. Longhi noted the auditors typically pick an area for extra focus each year. This year investments received significant focus, which is understandable given the growth in size and complexity of the portfolio.
 - ✓ Mr. Longhi noted the auditors questioned several corporate bonds which were misclassified by the Authority's custody agent as foreign bonds. The classification error was disturbing since foreign bonds are not only out of policy, but also out of State Code.
 - ✓ Mr. Longhi noted it took approximately 1 month to get the misclassification corrected with the custodial bank and complimented Mr. Stavros on the thoroughness of the work he undertook to educate the custodial bank.
 - ✓ Chairman Parrish asked for confirmation that the bonds in question were at all times allowable and appropriate for the portfolio. Mr. Longhi confirmed that was correct.
 - ✓ Mr. Longhi summarized that the expectation is for an unqualified (clean) audit opinion.
- Chairman Parrish asked the plans for upcoming revenue estimates.
 - ✓ Mr. Longhi advised that the revenue estimate process will start this Fall and will extend to FY2025 so as to support the Two Year Update to the Six Year program.
 - ✓ He also noted the reliance on a single revenue (sales tax) will require a greater level of effort to be conservative yet reasonable in projections.

XI. Adjourned 2:29 PM

Next Meeting
October 11, 2018