



Northern Virginia Transportation Authority
The Authority for Transportation in Northern Virginia

FINANCE COMMITTEE
Thursday, May 19, 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 1:01pm.
- Attendees:
 - ✓ Members: Chairman Parrish; Chairman Bulova (arrived 1:12pm); Mayor Silberberg; Council Member Rishell.
 - ✓ Staff: Monica Backmon (Executive Director); Michael Longhi (CFO); Peggy Teal (Assistant Finance Officer); Camela Speer (Clerk).
 - ✓ Council of Counsels: Ellen Posner (Fairfax County).
 - ✓ Other Attendees: Tom Biesiadny (Fairfax County); Brent Riddle (Fairfax County); Penny Newquist (Loudoun); Peter Malgieri (Loudoun); Bob Brown (Loudoun); Carl Hampton (Prince William); Tim Leclerc (Prince William); Pierre Holloman (Alexandria); Sarah Crawford (Arlington); Joanne Carter (PFM); Kristy Choi (PFM); Melvin Waldrop (PFM); Maria Sinner (VDOT).

II. Summary Minutes of the March 3, 2016 Meeting

- Council Member Rishell moved approval of the minutes of March 3, 2016; seconded by Mayor Silberberg. Motion carried with two (2) yeas and one (1) abstention [Mayor Silberberg as she was not at the March meeting].

Presentation

III. Debt Scenarios & Capacity Analysis

Mr. Longhi, CFO
Ms. J. Carter, PFM

- Chairman Parrish stated that it has been suggested at the previous Authority meeting that the Finance Committee come to the Authority at its next meeting with a suggested funding amount for the FY2017 Program. He suggested that the Committee not make that recommendation today, for a variety of reasons, but predominately because the public hearing on the 24 candidate projects for the FY2017 Program will not occur until June 9th.
- Mr. Longhi invited Ms. Carter and Ms. Choi with Public Financial Management (PFM) to join him for the presentation. He echoed Chairman Parrish's sentiments, noting that this is a presentation on the Authority's Debt Scenarios & Capacity

Analysis. He requested that the Committee ask for any additional information or additional analysis from the financing team prior to making a financing recommendation to the Authority in June. Mr. Longhi noted there are three parts to the presentation:

- ✓ Preliminary FY2017 project funding timing outline.
- ✓ Update of last year's capacity analysis, with limited scenarios.
- ✓ Review of the funds requested in the FY2017 Program.
- Mr. Longhi added that this is very general information to give the Committee a sense of the steps necessary for various financing options and to provide an overview to new committee members.
- Mr. Longhi explained the funding decision process and finance planning timeline. He noted that several projects are eligible for capital funding. He added that several projects have additional funding sources and all sources will need to be in line as the Authority executes an approved funding plan. Mr. Longhi noted that the financing will support the Authority's project funding selections.
- Ms. Backmon added that the decision to enter the bond market is predicated on the Authority deciding to fund more projects than the available PayGo funds. She added there is \$267 million in FY2017 PayGo funds and almost \$668 million in project requests. She noted that NVTAs staff had provided a recommended funding list and that all 24 candidate projects have been put out for public comment. Ms. Backmon added that the Authority can decide it does not want to enter the bond market at this time, as well. She noted this presentation is an update to the presentation that was made to the I-66 Outside the Beltway Committee last August and that this was being represented as questions were asked by new Authority members.
- Ms. Backmon clarified that the Finance Committee is not being asked to make a financing recommendation today, that this will be asked at the June Finance Committee meeting.

(Chairman Bulova arrived.)

- Mr. Longhi noted that he had received several questions about the debt service coverage, so Ms. Carter and Ms. Choi will review this during their presentation.
- Ms. Carter and Ms. Choi presented the analysis of NVTAs debt capacity.
 - ✓ NVTAs has approximately \$68 million in outstanding debt, with very high credit ratings.
 - ✓ NVTAs has ample debt capacity, but it is important to determine what level of debt capacity should be utilized. Existing revenue streams and financial policies and current credit ratings are used to determine this.
 - ✓ Key assumptions include issuance in FY2018; a similar structure to the FY2014 bonds; 20 year amortization with level debt service structure; current interest rates plus a ½ percent cushion; and the NVTAs revenue forecast.
 - ✓ Analysis was done based on two project funding totals, \$200 million and \$250 million scenarios.
 - Reviewed the levels of debt service coverage in both scenarios.
 - Based on previous assumptions and estimated biennial issuances of \$163 million in the \$200 million scenario and \$158 million in the \$250 million

scenario, the NVTA has a debt capacity of \$1.6 billion through FY2037. Assumption issuance amounts are based on analysis of how much the NVTA could borrow over time and maintain its 2 times debt service coverage, based on previous issuance assumptions.

- PayGo capacity through FY2037 is \$3.9 billion.
- ✓ A question was raised as to whether additional scenarios were considered, for example \$300 million. Mr. Longhi responded that those numbers were considered in the August presentation, but that \$300 million seemed too high for this issuance. Ms. Carter explained the level of debt service on a \$300 million issuance. She noted that under this scenario, the biennial issuance amount would be \$150 million.
- ✓ It was clarified that the available PayGo funds decline over time based on the debt service coverage.
- ✓ A question was asked about the history of the NVTA debt policy. Mr. Longhi responded that many of the most conservative features of the member jurisdictions' debt policies were the basis for the NVTA debt policy. Ms. Carter explained that the policy was crafted prior to the NVTA having a bond rating, so the financial policy served the purpose of being an adopted, best foot forward representation to the credit agencies on how the NVTA intended to manage its finances. She added that the initial goal of the policy was to garner the best credit ratings possible to minimize financing costs. Mr. Longhi added that, as the analysis shows, we can have a very conservative financial policy and still have a tremendous amount of resources to use.
- ✓ Ms. Carter stated that another consideration in the capacity analysis is the protection of the NVTA's credit ratings. She noted the factors in place to protect this:
 - NVTA's debt policy.
 - NVTA's indenture documents that are in place to protect existing bond holders as NVTA continues to issue debt.
- ✓ Ms. Carter suggested that in terms of credit considerations, there is no negative credit pressure based on the borrowing scenarios presented. She added that the credit agencies anticipated the NVTA would actively leverage its revenue stream through future debt issuances and built this into the inaugural credit ratings.
- Ms. Carter summarized that the NVTA has significant debt capacity, and if it does choose to issue debt, it has significant PayGo capacity. She added that PFM believes there are no credit concerns and the proposed program would maintain compliance with debt service coverage costs.
- It was clarified that the available PayGo amount is impacted by the total bond issuance and the annual debt service amounts.
- Ms. Backmon noted that the FY2017 Program is the last under TransAction 2040 and it is anticipated that the next NVTA funding program will be a Six Year Program. She added that we need to be cognizant of how much we borrow now, in the event the Authority chooses to issue bonds.
- It was noted that the rating agencies don't see much difference between the two borrowing scenarios of \$200 million versus \$250 million.

- Mr. Longhi stated that it is important to have a balance of PayGo and bond funds as there are valid and worthy projects that are not eligible for bond funding.
- It was noted that there will be future needs that we cannot anticipate and we need to be aware that future funding decisions will be impacted by debt decisions made now.
- It was stated that HB 2313 gave the NVTa recurring revenue that can be leveraged for appropriate projects, so we need to adopt a very sound program that takes advantage of that opportunity, but is also conservative like our jurisdictions.
- Mr. Longhi stated that the Authority is at a one-time only point in time. The Finance Committee and ultimately the Authority is now determining the pace of programming funds in the future. Other than the FY2014 bonds, there is no earlier or outstanding debt. He noted this is the launching point and it is up to the Authority to decide how to use this.
- Chairman Parrish reminded the Committee that the Authority needs to determine what it wants to be when it grows up and this is one of those steps. He noted the Authority has a unique opportunity to make a real difference in Northern Virginia and we need to do it well. He added that there is not another entity like this and there are people throughout the nation that are watching the NVTa to see what we do and how we accomplish our mandate.
- A question was raised as to how an increase in regional income will impact the debt service coverage ratio. Ms. Carter explained that the revenue projections are very conservative assumptions, so increased incomes are possible and will improve the ratios.
- Ms. Carter explained that all assumptions in the analysis were for fixed rate bonds. It was asked if the assumed interest rates in the analysis could be impacted by the timing of the debt issuance. Ms. Carter responded that they could and this is a risk. If interest rates go up, it will reduce the NVTa debt capacity. She added that this analysis will be reviewed every year, based on long-term and short-term historical averages. Ms. Carter clarified that rate risk is inherent in the plan. Chairman Parrish suggested that based on this, some NVTa members might suggest we borrow the money today and not wait. Ms. Carter responded that we need to be careful to borrow at the right time and when the Authority needs the money.
- It was requested that four scenarios to be included in future presentations.
- Mr. Longhi reviewed the factors that should be considered for the use of this debt capacity for the FY2017 Program.
 - ✓ FY2017 Program is a one year program.
 - ✓ Last year that will use TransAction 2040 as the regional plan.
 - ✓ Update to TransAction is expected to be adopted in fall 2017.
 - ✓ The update will be the first NVTa regional plan that will have resources behind it. TransAction 2040 was not undertaken with a revenue stream available.
 - ✓ First Capital Improvement Plan (CIP) for FY2018-2023 will be based on the TransAction update.
 - ✓ Any resources, PayGo or debt capacity not committed in FY2017 will be available for FY2018 and beyond.

- Mr. Longhi noted that the Planning and Programming Committee (PPC) will meet on July 1 to consider project recommendations. He stated that the total funding request for candidate projects is \$668 million and the May 12, 2016, draft NVTA staff recommendation totals \$493 million. However, the Authority's contribution to the Route 28/I-66 Interchange project was capped at \$300 million, therefore, \$70 million must be backed out of these totals. This makes the current NVTA staff recommendation \$423 million. The available PayGo is \$266 million, leaving a gap of approximately \$156 million. Mr. Longhi added that these numbers will be updated upon the recommendation of the PPC.
- Mr. Longhi reviewed three levels of financing scenarios and related costs for the FY2017 Program. For comparison, he added the financing information for previous programs:
 - ✓ In the FY2014 Program, the Authority adopted \$196 million worth of projects. Of those, approximately \$74 million were debt financed.
 - ✓ In the FY2015-16 Program the Authority adopted \$346 million, approximately \$173 per year, funded through PayGo.
- Mr. Longhi concluded by asking the Committee members what additional information they would like prepared for their consideration at the next meeting.
- Chairman Parrish asked if there was anything the Committee should consider prior to the May NVTA meeting.
- Ms. Backmon stated that the Authority had adopted a non-binding resolution stating it would consider funding a project directly or indirectly related to the I-66 Outside the Beltway project. She explained that the I-66/Route 28 Interchange project was submitted to the NVTA's call-for-projects at a total cost of \$493 million. She added that the State has requested the public funds necessary for the I-66 Outside the Beltway project be a 50/50 split between the NVTA and the State. She noted that the State's draft Six Year Program shows this project proposed for funding at \$300 million. Ms. Backmon added that assuming this is the amount the State provides for funding, the I-66/Route 28 project cost would be adjusted to reduce it by \$70 million, reducing the overall total request for the FY2017 Program. She noted this is important because even without the \$70 million, there are not enough PayGo funds to fund every request. She added that it is anticipated that this adjustment will be made prior to the July 1, 2016, PPC meeting.
- Chairman Parrish suggested that the Finance Committee wait to make a recommendation on funding considerations until after the public comments are received.
- A brief conversation followed regarding the I-66/Route 28 Interchange project, how this fits into the I-66 Outside the Beltway project and how the Authority would fund the interchange as part of the larger I-66 project. It was noted that the NVTA's contribution had been capped by the State at \$300 million and that the Authority would not fund the project at an amount higher than the State was putting into the total project.

Action Items

- Mr. Longhi briefed the Committee on the option to adopt a lower Virginia Retirement System (VRS) annual contribution rate. He noted that the General Assembly has allowed VRS participants to opt to contribute a lower rate of 8.53% for FY2017, as compared to the current rate of 9.48%. He suggested the following reasons not to do this:
 - ✓ Will reduce the operating budget by approximately \$9000, but will increase our future liabilities by not only this amount, but the interest not earned on this amount.
 - ✓ Will have to recognized, based on the Government Accounting Standards Board's (GASB) supplementary information requirements, that we have an unfunded liability with growth from FY2017-18.
 - ✓ The original cost has already been budgeted.
- Mr. Longhi noted the decision of which rate to use rests with the governing body.
- Mr. Longhi noted the staff recommendation is that the Finance Committee recommend to the Authority that it not adopt the Alternate Employer Contribution Rate.
- Chairman Bulova moved that the Finance Committee recommend to the Authority that no action be taken to adopt the Alternate Employer Contribution Rate provided for in the 2016 Appropriation Act, Item 465(I); seconded by Council Member Rishell.
- A question was asked whether lowering the contribution rate would be a step toward underfunding the VRS fund. Mr. Longhi responded that it would be.
- Motion carried unanimously.

Information/Discussion Items

V. Draft Revisions to NVT A Policy 17- FY2017 Program First Drawdown

Mr. Longhi, CFO

- Mr. Longhi briefed the Committee on the draft revisions to Policy 17–FY2017 Program Drawdown Policy. He noted the following:
 - ✓ Policy 17 only applies to the FY2017 Program.
 - ✓ Policy 17 requires that the first drawdown for a project approved as part of the FY2017 Program must be made by June 30, 2019; and attempts to measure project progress based on the first request for expense reimbursement.
 - ✓ This policy works in conjunction with Policy 16 – Standard Project Agreement Activation within six months of project/program approval in ensuring projects move forward.
 - ✓ Policy 17, in conjunction with Policy 16, currently results in progress milestones at 6 months and 3 years.
 - ✓ The goal of the revisions to Policy 17 is to provide an opportunity for progress to be recognized and documented between these two milestones and to ensure that projects are indeed active and progressing.

- ✓ Methodology to be used to track this is the monthly Executive Director's report which provides monthly project tracking.
- ✓ Projects that are not moving forward will be evaluated and discussed with project sponsors prior to being brought to the Finance Committee.
- Ms. Backmon added that the current policy, as adopted, requires the first drawdown be requested by June 30, 2019. She added that there is concern that a project sponsor might submit an invoice for staff time and consider the requirement met, but we need projects to actively advance. She noted that some projects are active and using other funds, like RSTP funds first, because there is a sunset provision on some of the other funding sources. However, this policy is to address those projects that are not active.
- It was suggested that the statement in section II.E. be changed from 'and' to 'or', as previously stated in the policy. Ms. Backmon responded affirmatively and added the revisions were recommended for adoption by the Governance and Personnel Committee.
- It was asked if expenses like design and land acquisition would be appropriate to show project advancement. Ms. Backmon responded affirmatively. Mr. Longhi cited an example that land acquisition might be held up by litigation, but this is still a sign of activity and progress.
- Chairman Parrish suggested it is the Authority's job to spend our money to reduce congestion and we need to do this as quickly as possible.

VI. NVTA Monthly Revenue Report

Mr. Longhi, CFO

- Mr. Longhi briefed the Committee on the Monthly Revenue Report. He noted that the State may need to make budget adjustments based on a declining revenue picture. He stated that this is mostly based on income taxes, so does not impact the NVTA revenues. He noted some of these reports indicate a sales tax decline, but added that the NVTA is not seeing that decline in our revenues. Mr. Longhi stated we currently have a 1.36% variance in sales tax. He stated the NVTA is in a good place and he is comfortable that the Authority will not experience the some challenges as the State.
- It was noted that the revenue report shows revenues through February.

VII. NVTA Operating Budget Report

Mr. Longhi, CFO

- Mr. Longhi stated that the operating budget revenue is at 100%, and as of April expenses represent 72% of the adjusted expenditure budget. No further changes are expected to the Operating Budget at this time.

VIII. Financial Activities Update

Mr. Longhi, CFO

- Mr. Longhi noted that as stated in the Bylaws the Finance Committee also serves as the NVTA's Audit Committee.
- Mr. Longhi stated that the NVTA's auditor will be present at the June Finance Committee meeting to have a brief discussion. He noted that this is to ensure that the CFO is not the only person talking to the auditor. He stated that Chairman

Parrish has the auditor's contact information, so if the Committee has any concerns, there can be direct communications with the auditor. Likewise, if the auditor has concerns, he can communicate directly to the Committee. Chairman Parrish noted this is the correct approach.

- Mr. Longhi thanked the Committee for the support on the new positions in the NVTAs FY2017 Operating Budget. He noted that the hiring process for the Investment and Debt Manager is complete and a hiring panel which included Josephine Gilbert (Fairfax County) and David Hodgkins (City of Fairfax) conducted the interviews. The panel was unanimous in its selection. Mr. Longhi introduced Carl Hampton, currently with Prince William County, as the NVTAs new Investment and Debt Manager as of July 18, 2016.
- The Committee recognized Mr. Hampton at the meeting and welcomed him to the Authority.

Adjournment

IX. Adjournment

- Meeting adjourned at 2:27pm.