



Northern Virginia Transportation Authority
The Authority for Transportation in Northern Virginia

FINANCE COMMITTEE
Thursday, September 21, 2017 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 1:00pm.
- Attendees:
 - ✓ Members: Chairman Parrish; Mayor Rishell; Chairman Bulova; Chair Randall.
 - ✓ 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: Noelle Dominguez (Fairfax County); Pierre Holloman (Alexandria); Brittany Martin (Prince William); JoAnne Carter (PFM); Kristie Choi (PFM).
- Mayor Parrish shared his excitement about the NVRTA's potential to make a real difference in Northern Virginia.

II. Summary Minutes of the May 18, 2017 Meeting

- Mayor Rishell moved approval of the minutes of May 18, 2017; seconded by Chairman Bulova. Motion carried unanimously.

Action Items

III. Revenue Projections FY2018 through FY2023

Mr. Longhi, CFO

- Mr. Longhi briefed the Committee on the revenue projections for FY2018-23, noting that this is the first part of a multi-step process to determine the amount of pay-go funding the Authority will have to fund projects over the next six years. He stated that the revenue projections are fundamentally conservative and are based on projections from the jurisdictions for the three revenue sources. The jurisdictional projections are then reviewed and additional inquiries made to ensure accuracy. Mr. Longhi noted that during the process this year, NVRTA staff had questions, but made no changes to the revenue projections provided by the jurisdictions. Once compiled, the complete set of revenue estimates is resent to the jurisdictions so that they can all see the region wide estimates. Mr. Longhi stated that the projections for FY2018-23 are just over \$2 billion in total

income, resulting in \$1.4 billion for 70% and \$626 million for 30% distributions. He noted the individual tax lines have growth rates that vary by jurisdiction by tax. Mr. Longhi stated these revenue estimates are the basis for determining the Pay-Go funds available for the Six Year Program (SYP). He noted that moving from revenue estimates to PayGo requires 11 additional steps adding that factors under review are the de-allocation of funds from the I-66/Route 28 Interchange Project and the tapering of allocated funds in the last three years of the SYP.

- Ms. Backmon stated that Chairman Nohe had requested the de-allocation of the I-66/Route 28 Interchange Project funds be included on the agenda for the October Authority meeting.
- Chairman Bulova moved the Finance Committee recommend to the Authority adoption of the proposed FY2018-2023 revenue projections; seconded by Mayor Rishell.
- A brief discussion followed regarding protecting NVTA funds from being diverted by the General Assembly to WMATA. It was suggested a policy position may be needed to protect NVTA funds. Concerns were expressed regarding “opening” the Authority’s enabling legislation. Ms. Backmon noted discussions are beginning with the Governance and Personnel Committee (GPC) regarding the Authority’s 2018 Legislative Program. It was stated that under current legislation, any diversion of NVTA funds to a non-transportation purpose activates the “kill-switch” and HB 2313 would be automatically repealed. Use of these funds for transportation purposes other than those designated in the legislation would require “opening” the legislation. It was suggested that based on the financial challenges faced by the State, both in resolving the fiscal cliff issue for transit funding and WMATA funding, there will be further discussions regarding HB 2313 funds. It was noted that some WMATA funding, in terms of capital projects would qualify for existing HB 2313 funds.
- Mr. Longhi noted that the NVTA is receiving inquiries regarding the balance of funds being held by the Authority. He stated that all NVTA funds have been allocated to projects and completing these projects takes time. Additionally, the SYP will forward allocate resources for projects, therefore, while funding balances are high, all dollars are allocated.
- Mr. Longhi noted that the conservative process for estimating revenue and determining PayGo is designed to ensure the SYP does not have to be modified for financial reasons, noting the difficulty of such changes for a regional body approving regional projects. He further noted that the process is also designed to cement the Authority’s reputation as a reliable funding source when project sponsors use the SYP to seek matching funds for their projects from other sources.
- Chairman Parrish suggested that this information should be shared with the Authority at the October meeting.
- Motion carried unanimously.

IV. Financial Advisor Service Agreement

Mr. Longhi, CFO

- Mr. Longhi presented the proposed Financial Advisor Service agreement to the Committee. He noted that the Authority had previously ridden on a contract between PFM Advisors, LLC (PFM) and Prince William County (PWC).
- This contract ended in 2017, requiring NVTa to procure a new service agreement. However, PWC lead a joint procurement which included the Potomac and Rappahannock Transportation Commission (PRTC), the Virginia Railway Express (VRE), and the NVTa. PWC leading this effort saved NVTa considerable administrative time and resources.
- Mr. Longhi stated that under a joint procurement, each participant can choose different firms and execute separate contracts. In this procurement, all participants chose PFM. As part of the procurement and in compliance with the Authority's Debt Policy, the NVTa underwent a consulting process with the debt managers from several of the member jurisdictions. Mr. Longhi concluded that after negotiations, the Authority has a strong agreement that will retain PFM as its financial advisor for as long as one plus nine years.
- Chairman Bulova moved the Finance Committee recommend to the Authority approval of the proposed Financial Advisor Contract with PFM Financial Advisors, LLC (PFM); seconded by Chair Randall. Motion carried unanimously.
- Chairman Parrish thanked PFM for their service. Joanne Carter of PFM thanked the Committee for the opportunity to serve.

V. Graphic Design and Printing Service Agreement

Mr. Longhi, CFO

- Mr. Longhi informed the Committee of the need to undertake a formal procurement for graphic design and printing contract. He noted that as part of the FY2018 Operating Budget, the Authority approved a supplement to the Annual Report. That supplement, along with general cost increases in the production of the Annual Report, elevates the cost level of this procurement to require a formal procurement. In an effort to meet Authority procurement policies and maintain efficiency, an opportunity was found to ride a Fairfax County contract for these services. The terms and pricing structure under this contract are beneficial to the Authority. Mr. Longhi concluded that this is not a budget item, just a new procurement to support the existing budget.
- Chairman Bulova moved the Finance Committee recommend to the Authority approval of the proposed Graphic Design and Printing Service Agreement and authorize the Chief Financial Officer to sign acceptance of the cost proposal from HBP, Inc.; seconded by Mayor Rishell. Motion carried unanimously.

VI. TransAction Update (RFP #2015-01) Contract Amendment 2

Mr. Longhi, CFO

- Mr. Longhi explained to the Committee the need to do a second amendment to the TransAction Update contract. He stated this is due to the need to do a Congestion

Reduction Relative to Cost (CRRC) analysis on a potentially large number of projects to be submitted for SYP funding consideration. While the Authority has the staff skills, it does not have the technical ability to do these evaluations. Mr. Longhi stated that this proposal is a challenge as it is difficult to determine the cost without knowing how many projects will need to be evaluated. He added that the contract amendment has been developed so as to not exceed \$160,000.

- Mr. Longhi noted the TransAction Subcommittee, comprised of NVTAs staff and members of the jurisdictions and agencies, has done a really good job of managing this complicated contract. He noted that there are sufficient contingencies and reserves to cover this contract amendment. As there is no budget impact, this is just a request to authorize to the contract amendment.
- Chairman Parrish asked for clarification on the need for the CRRC analysis. Mr. Longhi responded.
- Ms. Backmon stated that each project evaluated for inclusion in the FY 2018-2023 Six Year Program, must undergo the CRRC analysis. She noted that one of the HB 599 performance measures which was incorporated into TransAction, is used to conduct the CRRC evaluation.
- Chairman Bulova moved the Finance Committee recommend to the Authority approval of the attached TransAction Update Contract – Amendment 2 (RFP 2015-01); seconded by Chair Randall. Motion carried unanimously.

VII. Bond Counsel Service Agreement Extension

Mr. Longhi, CFO

- Mr. Longhi briefed the Committee on the Bond Counsel Service Agreement Extension with McGuireWoods. He noted that in addition to the extension, the agreement was also updated to include possible non HB 2313 sources of revenue.
- Mayor Rishell moved the Finance Committee recommend to the Authority, approval of the proposed Bond Counsel Service Agreement with McGuireWoods, LLP; seconded by Chairman Bulova. Motion carried unanimously.

Information/Discussion Items

VIII. Funding The Six Year Program (Presentation/Discussion)

Mr. Longhi, CFO

- Mr. Longhi presented Funding the Six Year Program (SYP) to the Committee. He stated that this will be a three step process, beginning with the collaborative regional revenue estimates, followed by the current discussion of funding plan considerations and ultimately funding recommendations. He highlighted:
 - ✓ Each fiscal year of the SYP requires budget appropriation.
 - ✓ Member jurisdictions and agencies may change their planning and funding priorities over time.

- ✓ Changes to a regional body's capital program with regionally approved projects will present unique challenges, therefore, the goal is to build a conservative and flexible plan.
- ✓ The SYP will cement the NVTA's reputation for reliable future funding.
- ✓ First SYP will cover FY2018-23, with updates every two years.
- ✓ Prior to future updates, revenue estimates will be updated, and debt capacity and out year PayGo taper percentages will be assessed.
- ✓ While a taper percentage has not been set yet, jurisdictions have indicated agreement that such an approach is prudent.
- Ms. Backmon added that the NVTA is planning to update the SYP every two years to synchronize our funding cycle with the Commonwealth's Smart Scale process.
- A question was raised as to how the taper, essentially underspending in the out years, will affect the concern regarding the NVTA's growing cash balance. Mr. Longhi responded that the out years funds will only be projections at that time, as we will not receive those funds until the appropriated fiscal year.
- Mr. Longhi stated that based on SYP project selection by June 2018, conservative revenue estimates, current reserves, and a flexible balance sheet, NVTA staff recommends allocating 100% of PayGo funds for FY2018-20. In FY2021-23, NVTA staff recommends purposefully underspending by a set percentage (the 'taper'). He noted that subsequent SYPs will be programmed with tapers and will be consistent with the first plan. Mr. Longhi stated that no new reserves will be established.
- Mr. Longhi reviewed the SYP funding considerations.
 - ✓ Taper percentage will be based on prudent maximization of PayGo, prior economic trajectories, future economic trajectories and mega projects in the pipeline. It was noted that a key consideration of the plan is that the Authority does not really know what projects will be in the pipeline.
 - ✓ The I-66/Rt. 28 Interchange project that will be constructed as part of the Commonwealth's Transform 66 Outside the Beltway Project, currently has \$300 million of NVTA funds allocated, which if used, would impact the Authority's debt service over the next 20 years. It was noted the Authority cannot reallocate these funds until they are de-allocated from this project.
- Mr. Longhi briefed the Committee on the funding strategies.
 - ✓ Prudently maximize the use of PayGo funds.
 - ✓ Taper years 4, 5, 6, which facilitates future debt financing options and provides additional allocation opportunities in out years.
 - ✓ Additionally the taper provides:
 - Flexibility for economic downturns.
 - Transition to next TransAction update, adoption 2022.
 - Bi-annual SYP updates.
 - Mega projects which might require debt service.
 - ✓ Debt service obligations have first priority on PayGo funds.
 - ✓ Impact of debt service increases on future PayGo levels must be considered.
 - ✓ Debt financing must be used within the constraints of maintaining AA+ ratings.
 - ✓ Debt strategies include long term bonds, short term bonds and interim to permanent strategies.

- ✓ Debt financing is best used when project utility is an immediate need and a project is ready to advance in all material phases; and/or project cost will absorb a disproportionate amount of PayGo if solely cash financed.
- ✓ The level of Authority appropriated, yet unexpended, project balances will inform decisions to utilize debt.
- ✓ Funding utilization will be examined on a project sponsor and project basis.
- ✓ Analysis of the IRS requirements for tax exempt purposes and spend down will be considered as part of any debt utilization decision. It was noted that the Authority had to reorganize the projects in its 1st bond issuance due to money lack of spend down in relation to IRS requirements.
- Mr. Longhi stated that next steps include:
 - ✓ Revenue estimates acceptance and Authority approval.
 - ✓ Discussions on funding strategy guidance.
 - ✓ Fine tuning the taper percentages and PayGo calculations.
- In regard to an inquiry, Mr. Longhi stated that a good funding strategy would be to fund preliminary phases of a very large project with PayGo and consider using debt financing for the later (construction) phases of a project, if necessary. He added that the debt financing would then be built into the outer years of the SYP.
- In response to a question regarding removing a project from the SYP, Mr. Longhi responded that the Authority would need to take action to remove a project from the SYP. Those resources would then become available for future project allocations. A brief conversation followed regarding project removal from the Authority Programs.
- Chairman Parrish asked for clarification regarding disclosure of additional funding sources in the NVTA project application process. Mr. Longhi responded that this is fundamentally important to the SYP, to ensure funding partners are known to order to understand the complete funding picture in terms of partnerships and timing.
- Ms. Backmon added that there will be an extensive application process for the SYP, including the reporting of additional revenue sources on the project, in what fiscal year and for what phase. This will provide a realistic picture of other revenue sources previously committed to a project seeking funding through the SYP. She reiterated that the hope is that with the development of the NVTA's first SYP, jurisdictions and agencies will request NVTA funds in the years they are truly needed, not money bank projects.
- Mr. Longhi stated that the NVTA staff funding recommendation for the SYP will prepare for a variety of contingencies.
- It was discussed that the PayGo recommendation and SYP program funding should be undertaken after the 'Call for Projects' period has closed, thus providing a suitable time for analysis. An expectation that this work would be completed in Spring of 2018 was agreed.
- The importance of coordination with the public comment period was also noted.

IX. Investment Portfolio Report

Mr. Longhi, CFO

- Mr. Longhi presented the Investment Portfolio Report to the Committee, sharing the required reports on investment activities and noting that these set a model for future investment reports to the Committee. He stated that the investment core philosophy is to invest on the basis of safety, liquidity and then yield.
- Mr. Longhi presented the highlights of the report.
 - ✓ Safety is reflected in the composition of the portfolio and shows investment diversification being higher yield than the previous year.
 - ✓ Liquidity is reflected in the portfolio's duration/maturity schedule. Liquidity has been reduced, but is based on project reimbursement needs.
 - ✓ Yield on the portfolio at the end of FY2017 was 1.20%, with a fiscal year average rate of return of 0.74%. Earnings benchmarks are set in Authority's investment policy to provide performance measures.
 - ✓ Authority investment policy is conservative and there is no pressure to make a specific interest number.
- Mr. Longhi reviewed the fiscal implications of the investment portfolio.
 - ✓ FY2017 investment performance will result in \$5.4 million in revenue.
 - ✓ Reported FY2017 revenues are \$4.05 million after mark to market accounting adjustments required by financial reporting standards.
- In response to a question about the meaning of mark to market, Mr. Longhi explained that securities are valued at a point in time. When securities are purchased in an increasing interest rate environment, the interest rates locked into at purchase become less valuable. This loss of value must be taken off the reported interest earnings, through the mark to market process. He further explained that since the securities will be not sold, while the mark to market needs to be shown for reporting purposes, the interest earnings will not be lost.
- The Authority purchases securities based on "hold until maturity", therefore, we do not purchase securities with the intention to sell them. A brief discussion followed regarding mark to market, security earnings and accounting standards.
- Mr. Longhi continued, stating that several factors are anticipated to have a positive impact on the NVTA's FY2018 investment portfolio earnings.
 - ✓ Portfolio will have been invested for a full year.
 - ✓ More investments will be made in fixed income securities versus the LGIP.
 - ✓ Federal action is being taken to stimulate the market, with a possible rate increase in December and more in the next calendar year.
 - ✓ Unlike previous funding cycle years, all FY2018 funds will be received and invested prior to the Six Year Program adoption.
- Chairman Parrish stated that investment earnings are higher than budgeted and inquired as to where the additional earnings from the portfolio will go. Mr. Longhi responded that the earnings will be added to 70% Regional Revenue Fund for the Authority to allocate to projects.

X. Monthly Revenue Report

Mr. Longhi, CFO

- Mr. Longhi presented the fiscal year end 2017 Revenue Report, noting the following highlights:
 - ✓ Overall revenue receipts are 3.54% above estimates.
 - ✓ An additional \$11.3 million goes to Pay-Go funds for SYP.
 - ✓ All jurisdictions received their 30% funds.
 - ✓ Year-to-year revenue comparisons reflect that all three revenue sources are growing.
- A brief discussion regarding Transient Occupancy Tax calculations and the revenue tax type variances followed.

XI. Operating Budget Report

Mr. Longhi, CFO

- Mr. Longhi reviewed the Operating Budget report with the Committee. He thanked the Committee for the advanced funding for GIS mapping initiative. Mr. Longhi expressed appreciation to Ms. Teal for close budget management and planning, noting that the carry-forward estimate from FY2017 to FY2018 was less than \$1,250 off the actual number.

XII. Financial Activities (Verbal Report)

Mr. Longhi, CFO

- Mr. Longhi informed the Committee of upcoming financial activities.
 - ✓ The audit opinion has not been received, but based on the audit review, a clean audit with no comments is anticipated. The implementation of a new investment program created some challenges that the finance team and auditors worked through. The audit presentation to the Committee is anticipated in October and to the Authority in November.
 - ✓ Policy 29 regarding project advancement was previously presented to the Committee and concerns were expressed regarding the 45 day requirement. Upon review of the draft policy and prior policies, it was noted that the length of time allowed until the first reimbursement request might be too long and it may not be prudent for the Authority to allow this length of time prior to the first reimbursement request.
 - ✓ NVTA staff is reviewing draft Policy 29 and will coordinate with jurisdictions and agencies to determine an appropriate timeframe to move projects more quickly through the funding process. There was Committee consensus that NVTA projects need to use funds more quickly and it was noted that NVTA members should help facilitate this effort.
- Ms. Backmon informed the Committee of her meetings with jurisdictions and agencies prior to the SYP process to ensure awareness of process and expectations. Ms. Backmon stated that while there currently is no “use it or lose it” policy for NVTA funds, this might become necessary in the future.
- Ms. Backmon stated that the upcoming Authority meeting will start at 6:30pm and will have many action items, including the adoption of TransAction and the approval of the Call for Regional Transportation Projects for the FY 2018-2023 SYP. She reviewed the upcoming SYP deadlines.

- In response to a question regarding the approval of projects for the I-66 Outside the Beltway Concessionaire Payment Funds, Ms. Backmon responded that this will happen after the State goes to financial close which is anticipated in November.

Adjournment

XIII. Adjournment

- Meeting adjourned at 2:16pm.