

FINANCE COMMITTEE MONTHLY MEETING
TUESDAY, NOVEMBER 12, 2013
POINT BREEZE HEADQUARTERS BUILDING
BALTIMORE, MARYLAND

OPEN SESSION

MEMBERS ATTENDING:

Jack Basso
Mary Beyer Halsey
Arthur Hock

STAFF ATTENDING:

Suhair Alkhatib
Yaw Berkoh
David Chapin
Joyce Diepold
Luther Dolcar
George Fish
Patrick Fleming
Allen Garman
Bruce Gartner
Jaclyn Hartman
Sherita Harrison, Esq.
Jody McCurley
Kitty Sarvinas
Larry Schwager
Dennis Simpson
Cheryl Sparks
Christina Thompson
Russell Walto

OTHERS ATTENDING:

Brenda Cachuela – MDOT
Michelle Chalmers – CliftonLarsonAllen
Carlos DeJesus – Areas USA
Karen Kahl – RK&K
Steven Kantor – First Southwest
Keith Novak – CliftonLarsonAllen
Jacquelyn Seneschal – Parsons Brinckerhoff
Janie Tiedeman – URS
Jamie Traudt – Davenport & Company

At 9:00 a.m., Member Jack Basso, Chair of the Finance Committee, called the meeting of the Finance Committee to order.

Approval – Meeting Minutes – October 8, 2013

Member Basso called for the approval of the minutes of the October 8, 2013, open meeting of the Finance Committee. Member Mary Beyer Halsey made a motion to approve the minutes and Member Art Hock seconded the motion. The minutes were unanimously approved as submitted.

Update – Independent Auditor’s Report – Financial Statements, SSAE 16 and Single Audit Report

Ms. Jaclyn Hartman introduced Michelle Chalmers and Keith Novak from CliftonLarsonAllen (CLA). Ms. Hartman also introduced staff from the Division of Finance.

Mr. Novak gave a brief overview of the FY 2013 Audits. This was the sixth year that CLA has audited the Maryland Transportation Authority (MDTA). The areas of audit emphasis were: investments, fixed assets, debt, new bond issuances and refinancings. Revenue, including E-ZPass operations, intergovernmental agency relationships and financial reporting were also audited. Mr. Novak also indicated that CLA found no weaknesses or significant deficiencies. CLA noted one suggestion to management to strengthen its internal controls which was to review the construction in progress Excel file more frequently and compare it to the General Ledger to ensure that it is being properly updated.

The Statement on Standards for Attestation Engagements (SSAE) 16 audit was conducted in accordance with SSAE 16, *Reporting on Controls at a Service Organization*. The audit period was from July 1, 2013, through June 30, 2013, and the thirteen control objectives asserted by Xerox were the same as the prior year.

There were no qualifications within the report. Only one exception was noted within Control Objective 2: application and system software changes. It noted that for seven (7) of the twenty-five (25) change requests sampled, no documentation related to the authorization of the change from MDTA was retained. Also, one exception was noted within Control Objective 4: data and program backup regarding the success/failure e-mails for data backups that are reported on a daily basis and reviewed by Xerox technical personnel and management. The exception noted that there was no evidence of a complete backup for one (1) of the twenty-five (25) days sampled. However, it was noted that the backups for that day were successfully completed and no data was lost.

Regarding the MDTA Complementary User Entity Controls (CUECs), CLA performed testing around CUECs as per the Engagement Letter and Task Orders. Three (3) findings were noted. These include: four (4) individuals, all police officers, did not have documented approval for their access to the Fort McHenry Tunnel (FMT) computer room; two (2) individuals were listed as having physical access to the FMT computer room, while also being listed as terminated from employment during the fiscal year; and, that documentation

relating to the authorization of seven (7) of twenty-five (25) change requests for VECTOR was not retained. It was not verified if the seven (7) change requests had been formally approved for promotion to production.

For the Single Audit report, one program (Homeland Security Program – Public Assistance Grant for Hurricane Sandy) was tested. No findings were noted as a result of the testing.

Member Basso commended the staff for progress in the financial audits and thanked CLA for the in depth work.

In regard to the audited financial statements, Ms. Hartman said that the Division of Finance and the Office of Engineering and Construction are working together to improve the closing of capital projects. At Member Basso's request, Ms. Hartman agreed to provide periodic updates to the members as the audit exceptions are resolved.

Recommend for Approval – I-95 Travel Plazas Public-Private Partnership Lease and Concession Agreement Project Update and Contract Modification

Mr. Bruce Gartner gave a brief update on the topic, indicating that the project is progressing as planned and the new Maryland House travel plaza will tentatively open on Tuesday, January 14, 2014.

Mr. Gartner introduced Mr. George Fish of MDTA and Carlos DeJesus from Areas USA. Mr. Fish is seeking a recommended approval from the Finance Committee to the full MDTA Board to proceed with a contract modification to the I-95 Travel Plazas Public-private Partnership Lease and Concession Agreement and to delegate authority to the Executive Secretary to finalize and execute approval documents for the modification.

Construction is further along for the Maryland House Sunoco Convenience Store (C-Store) and fueling plaza. Final fire and health inspections are scheduled. Sunoco and Areas were tentatively planning to open the C-Store and fueling plaza in early December. However, it has been determined that the Sunoco will open with the main Plaza building.

It has also been decided to close the Chesapeake House concurrently with the opening of Maryland House to better serve the customers. This approach differs from what was originally contemplated when the agreement was drafted, and therefore, a modification to the Agreement is needed, which requires the MDTA Board's approval.

Member Basso called for a motion to recommend approval of the modification to the full MDTA Board at its next scheduled meeting. Member Hock made a motion and Member Halsey seconded the motion, which was then unanimously approved.

Update – All Electronic Tolling (AET) Conversion and Prioritization Report

Mr. Russ Walto introduced Karen Kahl of RK&K and Janie Tiedeman of URS. MDTA has been successfully using E-ZPass since the late 1990s, and consistent with the larger industry trend, has completed a study of transitioning completely to All Electronic Tolling (AET). The advantages of AET include: reduced travel time for customers; increased safety/reduced crashes; alignment with the national practice; potential long-term reduction in toll collection and maintenance costs; and the potential for variable-priced tolling.

The team compared the seven legacy facilities and established an order based on consideration of the following parameters: engineering issues/constructability, costs and impacts to implement AET, traffic composition, and revenue. Based on the results of this study, two plazas were programmed for conversion: US 40/Hatem Bridge and MD 695/Key Bridge. The timing of the conversion of the other five facilities will be determined after the first two are implemented.

Recommend for Approval – Final FY 2014-2019 Consolidated Transportation Program

Mr. Dennis Simpson is seeking a recommendation for approval for the proposed final FY 2014-2019 Consolidated Transportation Program (CTP). The final CTP was presented to the Capital Committee on November 7, 2013, and will be presented to the full MDTA Board for final approval on November 21, 2013.

Mr. Suhair Alkhatib presented the increases and decreases in the CTP to the Members. The proposed final FY 2014-2019 CTP reflects an increase of \$47.1 million in the six-year budget over the same six-year period in the draft FY 2014-2019 CTP. The budget increase is the result of the following:

- Decrease in the Intercounty Connector (ICC) project cost by \$12.5 million due to reductions in right-of-way and Contracts B and C remaining contingencies;
- Increase in the I-95 Express Toll Lanes (ETL) project cost by \$15.4 million due to increased cost for KH-1403 (north of MD 43 to north of Joppa Road) and KH-1303 (I-695 unbraiding);
- Increase in the remainder of CTP (all projects excluding ICC, ETL and Reserves) budget by \$166.1 million (this includes an increase in preliminary engineering and right-of-way funding for Nice Bridge replacement project by \$50 million);
- Decrease in reserves by \$152.1 million (System preservation allocated and unallocated reserves were reduced by \$152.1 million to fund project additions and changes); and
- Increase in the final FY 2014-FY2019 CTP budget by \$34.6 million due to roll over of FY 2013 unspent funds.

Member Basso called for a motion to recommend the Final FY 2014-FY2019 CTP to the full MDTA Board for approval at its next scheduled meeting. Member Halsey made a motion, and Member Hock seconded the motion, which was then unanimously approved.

Recommend for Approval – FY 2015 Preliminary Operating Budget

Ms. Chris Thompson requested the recommendation of the FY 2015 Preliminary Operating Budget to the full MDTA Board for approval. This is a preliminary budget to be submitted to the legislature.

The FY 2015 budget amounts to \$287.3 million, which represents an \$18 million or 6.7% increase over the FY 2014 budget. The major areas of increase include salaries and benefits, on-call construction and E-ZPass. Salaries and benefits are mandated costs totaling \$5.3 million, including \$2.9 million for a cost-of-living increase and steps and placing Facility Maintenance Techs at Step 5 per an agreement with the union. Health insurance goes up about \$1 million for inflation, an increase of an average of \$100 per employee. Pension costs go up by \$1.1 million due to higher salaries.

On-call construction costs increase to more accurately reflect actual spending. E-ZPass Service Center costs increased. The citation process will cause additional types of correspondence to be sent and the Notice of Toll Due (NOTD) goes from \$1 per notice to \$1.51 per transaction. E-ZPass credit card fees increase as a result of the toll increase. Other increases include engineering professional services, replacement IT, replacement equipment, reciprocity fees, transponders, maintenance services, insurance and inspections.

An approval was requested with the caveat that this budget may change slightly prior to submission to the legislature for a few outstanding items. Currently, negotiations are ongoing with FOP 34, the MDTA Police's collective bargaining unit. Also, the Department of Budget and Management usually updates pension rates around mid-December. The Finance Committee will be advised of any changes.

Member Basso called for a motion to recommend the FY 2015 Preliminary Operating Budget with the contingency to the full MDTA Board for approval at its next scheduled meeting. Member Hock made a motion, and Member Halsey seconded the motion, which was then unanimously approved.

Recommend for Approval – Financial Forecast

Mr. David Chapin asked the Finance Committee to recommend that the MDTA Board approve at its next scheduled meeting the Financial Forecast reflecting the proposed Final FY 2014-2019 CTP and the FY 2015 Preliminary Operating Budget.

The forecast indicates that the MDTA will remain above its financial goals and its trust agreement rate covenant throughout the FY 2014-FY2019 period. Assuming revenues and expenses materialize as projected, the first toll increase required would be in FY 2022. There is no substantial change in debt service coverage or the rate covenant ratio since the July forecast. The amount of debt that would be issued has increased by approximately \$30 million.

Mr. Chapin indicated that the final version of the forecast to be reviewed at the MDTA Board meeting and the one submitted to the legislature in January 2014, may change slightly from this version. MDTA staff will update the Members on any substantial changes.

Member Basso called for a motion to recommend the Financial Forecast to the full MDTA Board for approval at its next scheduled meeting. Member Halsey made a motion, and Member Hock seconded the motion, which was then unanimously approved.

Update – Cash Flow and Capital Spending

Mr. Allen Garman reviewed actual capital spending versus estimates and projected cash balances for FY 2014 and FY 2015. Capital spending for fiscal year-to-date through October totaled \$114.8 million, or 70%, of the spending projections based on the Draft FY 2014-2019 CTP. Over the prior four fiscal years, capital spending has ranged from 59% to 82% of projections, averaging 71%. Net of spending, investment income, and excess operating income, the MDTA's aggregate cash balances available for capital spending fell by \$15.5 million in October. With the full depletion of Series 2010 bond proceeds in June, capital projects funding shifted to the cash-funded Capital account. As part of the State's \$265 million commitment to the ICC financing plan, MDTA is currently drawing on the final \$21 million installment. To date, \$384 million has been drawn on the \$516 million TIFIA loan. MDTA intends to first spend down a portion of unrestricted cash and then draw the remaining \$132 million available under the loan in FY 2015. No other financings are likely needed through FY 2015.

Update – Investment Committee Report

Members of the Investment Committee reviewed market conditions, portfolio strategies, total return performance, and trade allocations. Mr. Garman highlighted certain market drivers that may influence portfolio performance in coming months, including the economy, fiscal policy, and Federal Reserve monetary policy. Mr. Garman and Mr. Jamie Traudt explained the Investment Committee's decision to reduce portfolio interest rate risk in the trailing quarter ended September 30. Mr. Garman advised of recommended actions related to a downgraded municipal bond holding and highlighted recent total return swap trades.

Recommend for Approval – Modification of the Investment Policy

Mr. Garman explained that the Investment Committee recommends adding clarifying language to the Investment Policy that specifically permits holding downgraded municipal bonds for a reasonable time to mitigate any loss. Following recent downgrades of a municipal bond holding to AA+ from AAA by S&P and Fitch, the Investment Committee members' recognized the need for clarifying language in the Investment Policy pertaining to the ability to hold a downgraded security. The current policy does not mandate that downgraded positions be sold, but it is silent on management's authority to prudently evaluate options. Based on the review by the Investment Committee, including input from the two financial advisory firms, bond counsel, and legal counsel, the Investment Policy should be modified to include clarifying language regarding the credit rating of securities "at time of purchase" as well as language regarding MDTA's ability to hold a downgraded security for a reasonable time to mitigate any investment loss.

Member Basso called for a motion to recommend the modified language to the Investment Policy to the full MDTA Board for approval at its next scheduled meeting. Member Halsey made a motion, and Member Hock seconded the motion, which was then unanimously approved.

** Member Hock briefly stepped out of the meeting at 10:31 am and returned at 10:32 am.

Update – Video Toll and Citations Project

Ms. Jacquelyn Seneschal updated the Finance Committee on the issues and activities underway to support the implementation of the video toll and citation process approved under House Bill 420.

Some of the activities that took place in October 2013 were: implementation of new Notice of Toll Due for new video toll transactions; implementation of new IVR and website changes; publication of final COMAR provisions; and beginning of report monitoring and financial review.

In November 2013, the following activities are occurring: implementation of the citation module began; training was conducted for image certification; and a process was developed for handling mail returned without a forwarding address.

Activities expected to occur in December and January will include: the completion of Notice of Toll Due for video tolls observed July – October 2013; obtaining final approval from the Motor Vehicle Administration and the State's Central Collection Unit of electronic processes; deployment of updated court process module; implementation of court processes; and scheduling of the first court dates.

Update – Traffic and Revenue

Ms. Joyce Diepold reported that the system revenues for the month of October were \$47.3 million, which is up \$14.2 million from the previous year. Revenues for the fiscal year-to-date were \$200.5 million, which is up \$57.4 million from the previous year. Fiscal year-to-date revenues are \$10.3 million, or 5.4%, above the current Jacobs Base Case revenue forecast.

Ms. Diepold also reported that transactions for the month of October were 9.6 million, which is down 0.2 million from the previous year. Fiscal year-to-date system transactions were 40.2 million, which is up 0.1 million from the previous year. Fiscal year-to-date system transactions are 2.3 million, or 6.1%, above the current Jacobs Base Case transaction forecast.

Ms. Hartman advised that the annual update to the Traffic and Revenue report will be presented at the December meeting. Member Halsey requested that the Members receive a copy of the report in advance of the meeting so the Members have sufficient time to review it.

There being no further business, the meeting of the Finance Committee was adjourned at 10:59 a.m., following a motion by Member Hock and seconded by Member Halsey.