

FINANCE COMMITTEE MONTHLY MEETING
THURSDAY, FEBRUARY 9, 2012
POINT BREEZE HEADQUARTERS BUILDING
BALTIMORE, MARYLAND

OPEN SESSION

MEMBERS ATTENDING:

Peter J. Basso
Mary Beyer Halsey
Arthur Hock

STAFF ATTENDING:

Allen Garmen
Tom Gugel
Sherita Harrison, Esq.
Derek Jones
Gail Moran
John O'Neill
Mike Rice
Marion Robinson
Brenda Cachuela (via phone)
Kitty Sarvinas
Dennis Simpson
Deborah Sharpless
Valerie Smith, Esq.
Cheryl Sparks
Alison Williams

OTHERS ATTENDING

:

Patrick Bradley – MD Aviation Administration
Kathleen Edwards – Public Financial Management
Barbara Fava – Public Financial Management
Dave Fleming – MD Department of Transportation
June Hornick – MD Aviation Administration
Millie Lee – Public Financial Management
Paul Shelton, Esq.– McKennon Shelton & Henn, LLP
Mary Sheppard-Walker, Esq. – McKennon Shelton &
Henn, LLP
Jamie Traudt – Davenport Investments (via phone)

At 9:02 a.m. Committee Chair Jack Basso, called the meeting of the Finance Committee to order.

APPROVAL: MEETING MINUTES – January 12, 2011

Upon motion by Ms. Mary Beyer Halsey and seconded by Mr. Arthur Hock the minutes of the January 12, 2012 Finance Committee were unanimously approved.

CLOSED SESSION

At 9:05 am, following a motion by Ms. Halsey and seconded by Mr. Hock, the committee Members unanimously voted to move into Closed Session pursuant to Section 10-508(a)(6) of the State Government Article of the Annotated Code of Maryland to consider the marketing of public securities for the purpose of (i) the sale and issuance of project and refunding revenue bonds by the MDTA as a conduit financing for the Maryland Aviation Administration (MAA), and (ii) refunding certain transportation facilities projects bonds of the MDTA; and under 10-508(a)(7) to consult with bond counsel regarding a resolution authorizing the Executive Secretary and other appropriate officers and employees to sell and issue the bonds for the conduit financing. In attendance at the entire Closed Session were Members Halsey, Hock, Basso, Deborah Sharpless, Brenda Cachuela (via phone), Alison Williams, Allen Garman, Valerie Smith, Esq., Sherita Harrison, Esq., June Hornick, Dave Fleming, Dennis Simpson, Patrick Bradley, Barbara Fava, Kathleen Edwards, Paul Shelton, Mary Sheppard-Walker, Millie Lee, Jamie Traudt (via phone), and Kitty Sarvinas.

At 9:25 a.m., a motion was made by Ms. Halsey and seconded by Mr. Hock, with the unanimous approval of the committee Members to return to Open Session.

OPEN SESSION

RATIFICATION OF ACTION TAKEN DURING CLOSED SESSION

During the closed session, the Members and identified staff discussed all of the matters identified above. Upon motion by Ms. Halsey and seconded by Mr. Hock, the Members unanimously ratified and recommended for presentation and approval by the full MDTA Board at its next scheduled meeting (i) the marketing of public securities for the sale and issuance of project and refunding bonds by the MDTA as a conduit financing for the MAA; and (ii) a consolidated resolution authorizing the Executive Secretary and other appropriate officers and employees to sell those bonds.

RECOMMEND FOR APPROVAL - MDTA REVENUE BONDS POLICY

Ms. Deborah Sharpless and Ms. Alison Williams provided a revised draft MDTA Revenue Bonds Policy (the "Policy") to the Finance Committee pursuant to a required annual review in order for committee Members to recommend their approval to the MDTA Board.

The original Revenue Bonds Policy was approved by the Finance Committee on January 13, 2011 and was adopted by the MDTA Board on January 27, 2011. It describes the process

followed by MDTA staff, advisors and MDTA Board to authorize the sale and issuance of revenue bonds by MDTA. The intent of the Policy is to document current practices as part of MDTA's Policy system. This Policy addresses the process by which bonds are sold and issued.

The Policy outlines the three (3) major stages of the approval process: (1) financial approval, (2) MDTA Board approval, and (3) bond closing approval. MDTA staff, bond counsel and the financial advisors reviewed the Policy and recommended certain updates and changes. The most significant changes relate to the MDTA Board approval process identified in Policy Statements 7 and 8. Specifically, these sections were updated to reflect the recent additional option to delegate MDTA to the Executive Secretary and the Chief Financial Officer to manage and conduct bond sales, subject to certain sale parameters and reporting requirements and reporting requirements as set forth in an authorizing resolution. These changes allow for more efficiency in finalizing documents and addressing timing issues associated with a bond sale and closing.

Upon motion by Mr. Hock and seconded by Ms. Halsey the committee Members unanimously voted to recommend the Policy for approval by the full MDTA Board at its next scheduled meeting.

RECOMMEND FOR APPROVAL - GARVEE DEBT SERVICE

Ms. Sharpless briefed the Finance Committee on the GARVEE bonds debt service.

The MDTA's cash is invested in various investment instruments, resulting in interest earnings. The extension of investments includes bond proceeds, including the Series 2007 and 2008 GARVEE bond proceeds. Since 2007, the MDTA has earned nearly \$10 million in interest on the GARVEE bond proceeds.

In February 2011, the MDTA Board approved the use of the GARVEE premiums totaling \$34,988,069 and interest earned totaling \$9,511,931 to pay GARVEE debt service totaling \$44.5 million. This approval was connected to the settlement of the Konterra condemnation case resulting in a tri-party agreement between MDOT/SHA, Konterra, and Prince George's County. The agreement entailed the construction of multiple roads, interchanges and intersections, dismissal of the condemnation case, and donation of land by Konterra. The portion of the agreement applicable to the MDTA included the donation of land for contracts C, D, and E, dismissal of the condemnation case; construction of modified contracts D; and funding of the Contee Road interchange. Due to trust agreement constraints, the MDTA was unable to fund the Contee Road interchange directly. Therefore, SHA agreed to fund the interchange in exchange for the MDTA's payment of GARVEE debt service in the amount of \$44.5 million.

The Finance Division desires to close out the GARVEE accounts. These accounts cannot be closed until estimates are true up to actual costs (e.g. issuance costs) and all proceeds and interest earning are fully spent. Presently, an estimated \$200,000 in interest

earnings remains in the accounts. According to bond counsel, the remaining interest may be used to fund construction costs or debt service.

Ms. Sharpless requested that the Finance Committee recommend approval to allow the MDTA to fund a portion of GARVEE debt service from interest earned on GARVEE bond proceeds above the amount previously approved on February 24, 2011.

Upon motion by Ms. Halsey and seconded by Mr. Hock, the Members unanimously voted to recommend that the MDTA's use of interest earned on GARVEE bond proceeds to fund a portion of the GARVEE debt service in an amount above the amount the MDTA Board previously approved on February 24, 2011 be approved by the full MDTA Board at its next scheduled meeting.

UPDATE – INVESTMENT COMMITTEE REPORT

Ms. Sharpless along with Barbara Fava, Kathleen Edwards, and Allen Garman provided an update on the Investment Report for the second quarter of fiscal year 2012. In addition, Barbara Fava and Allen Garman presented the activities of the Investment Committee for the second quarter of fiscal year 2012.

On a quarterly basis, MDTA's Investment Committee reports to the Finance Committee the activities of the prior quarter. The Committee will present the MDTA's investment strategies and performance, market conditions, strategy, and the strategy for the upcoming quarter.

Ms. Sharpless spoke about the agenda and each person who would be presenting the items. Mr. Garmen started the presentation with a market update, which has continued to be weak in the U.S. economy. He also discussed how the European sovereign debt/banking crisis has driven a flight to quality rally in treasuries. Over the past 12-months, 2-year treasury yields have fallen 63 basis points. Mr. Garmen also reviewed the trading activity for the quarter.

Ms. Fava detailed the strategy from the last quarter, the performance of the unrestricted Funds, the Debt Service Reserve Funds and the Matched Funding.

Mr. Garmen also discussed the SBA Pool Securities. The U.S. Small Business Administration (SBA), an independent agency of the United States, was created by the Small Business Act and derives its present MDTA from the Small Business Act and the Small Business Investment Act of 1958. A portion of SBA's basic mission is to make or guarantee loans to small businesses through state and local development companies. The full faith and credit of the United States is pledged to the guaranteed by SBA of the timely payment of principal and interest due on each debenture. These SBA Pool Securities are structured as a pool of underlying small business loans. He also discussed the risk/return characteristics and investment portfolio considerations. Mr. Garman also indicated that there are no state statutes that would prevent MDTA from purchasing SBA Pool securities; however, MDTA's Investment

Policy strictly prohibits asset and mortgage-backed securities due to their inherently more complex and less predictable return characteristics.

Ms. Sharpless asked the Members if they had any objections to the purchase of any SBA Pool Securities. After a brief discussion, the Members advised they had no objections.

Ms Sharpless then presented the Investment Process and Controls Policy to the Members. The Members commented that they and the Investment Committee had done a good job with the investments.

UPDATE – HATEM BRIDGE

John O'Neill and Cheryl Sparks presented to the Members the transition from use of the AVI decal to the E-ZPass transponder at the Hatem Bridge.

The Hatem Bridge AVI decal customers must switch to an E-ZPass transponder prior to September 30, 2012. The customers can select Plan A or B. Under Plan A, the transponder is valid at the Hatem Bridge only. It is the same cost as the decal, \$10 per year now and increases to \$20 per year on July 1, 2013. It covers two-axle vehicles only. There are no fees or prepaid toll deposits and the transponder are free until Jan 31, 2013. This plan cannot be used at other toll facilities or with other E-ZPass discount plans. Plan B costs the same as the decal - \$10 per year for unlimited trips and the cost also increases to \$20 dollars on July 1, 2013. It only covers two axle vehicles. However, Plan B is an add-on to a standard E-ZPass Maryland account and is subject to a transponder charge (for a new account) and there is a prepaid toll deposit and account maintenance fee. There is a 10% discount off cash rate at all Maryland toll facilities (except the Intercounty Connector - MD200) and the customer is eligible for other E-ZPass discount plans. The customer will receive the account statements through U.S.mail or e-mail.

MDTA has created an educational brochure to explain Plans A & B to interested customers. It also explains how and where to sign up for E-Z Pass and, and answers frequently asked questions. There are two open houses and several community out reach events planned. Additional staff has been assigned to assist. In addition, online sales for Plan A & B will start on February 13, 2012.

Ms. Sparks noted that the residents have been cordial and very receptive during this process.

UPDATE – TRAFFIC AND REVENUE.

Ms. Sharpless reported that the revenues for the month of January were \$29.5 million, which is up \$8.6 million from the previous year. Revenues for the fiscal year-to-date were \$200.1 million, which is up \$17.3 million from the previous year. Fiscal year-to-date revenues were \$1.2 million above or 0.6% above the current Jacobs' revenue forecast.

Tom Gugel reported that transactions for the month of January were 8.7 million, which is up 0.2 million versus the previous year. Fiscal year-to-date system transactions were 69.3 million, which are down 0.7 million from the previous year. Fiscal year-to-date system transactions are 2 million or 2.9% above the current Jacobs transaction forecast.

UPDATE – E-ZPASS LEGISLATION

Derek Jones and Mr. Gugel briefed the Members on the legislation proposed by the MDTA to rectify unpaid tolls by amending the current toll citation statute.

The MDTA and MDOT staff and attorneys have drafted legislation to address inconsistencies between the current statute and the MDTA's business practice for collection of video and unpaid tolls. An understanding of the need for the legislation and the MDTA's direction in handling toll violators requires discussion of uncollected tolls, current statute requirements, and past and current business practices.

Uncollected tolls result from (1) the failure to capture usable images of license plates; (2) the failure to locate the registered owner of the vehicle; or (3) the failure of the registered owner to pay the outstanding toll once contacted.

The sections of the Transportation Article governing the handling of toll violators define a toll violator. Section 21-1414 defines a toll violator as an individual that fails to pay a toll at the time of use, which is inconsistent with MDTA's video tolling procedure. The statute also requires the immediate issuance of a civil citation. The customers are not provided a grace period to pay without incurring the cost of the civil citation penalty, but are allowed to request a court trial. Non-payment of the toll and citation penalty may result in suspension of the customer's vehicle registration.

The MDTA has never followed the practice of issuing citations and, therefore, never afforded customers the opportunity to appear in court. Various methods and timing were used to notify customers of tolls due and the classification of these customers as toll violators. Prior to May 2010, the MDTA suspended the vehicle registration of toll violators for failure to pay after a specified number of notices. These practices were adopted to be customer focused and less punitive.

The proposed legislation will balance customer service with the right to a court trial and aggressive collection tools. The legislation redefines a toll violator as an individual that fails to pay outstanding tolls after a specified period. This change is consistent with video tolling in which the customer passes through a toll collection facility without making payments and, based on a photograph of the vehicle and license tag, the vehicle's registered owner is mailed a notice of the toll due and when payment is due. A citation (and right to a district court trial) will only be issued if the registered owner fails to make payment after receiving the invoice within the allotted time frame.

This bill will be a departmental bill. At this time, the MDTA and MDOT staff are seeking additional sponsors of the proposed legislation and the Department of Legislative Services analyst has been informed of this issue. MDTA staff will begin to update COMAR to match and support the proposed legislation; and the current tolling system is being modified to accommodate the new citation processes and to improve interfaces with the Maryland District Courts and Maryland Motor Vehicle Administration..

Gail Moran discussed the process to obtain a sponsor. Ms. Moran also indicated that the Governor's staff has sent the proposed legislation to Legislative Staff for assistance in finalizing the draft bill. Several legislators have indicated their support for the bill but are apprehensive about certain aspects. Senator Jamie Raskin has expressed potential interest in sponsoring the bill. MDTA staff is scheduling a meeting with Senator Brian Frosh.

Upon motion by Ms. Halsey and second by Mr. Hock, the meeting of the Finance Committee was adjourned by consensus at 10:55 a.m.