FINANCE COMMITTEE MONTHLY MEETING
TUESDAY, JUNE 10, 2014
POINT BREEZE HEADQUARTERS BUILDING
BALTIMORE, MARYLAND

OPEN SESSION

MEMBERS ATTENDING:	Jack Basso Mary Beyer Halsey Arthur Hock
STAFF ATTENDING:	Suhair Alkhatib David Chapin Joyce Diepold Allen Garman Sherita Harrison, Esq. Jaclyn Hartman Doug Hutcheson Jeanne Marriott Jessica Mettle Kitty Sarvinas Deb Sharpless Dennis Simpson Cheryl Sparks Chris Thompson Alison Williams
OTHERS ATTENDING:	Sam Sidh, MDOT

At 9:04 a.m. Member Jack Basso, Chair of the Finance Committee, asked for a motion to call the Finance Committee Meeting to order. Member Mary Halsey made the motion and Member Art Hock seconded the motion, and the motion was unanimously passed.

Approval – Meeting Minutes – May 13, 2014 Open Session

Member Basso called for the approval of the Open Minutes of the May 13, 2014 Finance Committee meeting. Member Hock made a motion to approve the minutes, and Member Halsey seconded the motion. The minutes were unanimously approved as submitted.

Recommend for Approval – Contract No. 20140023 – Investment Services with Bloomberg Finances, L.P.

Mr. Allen Garman requested a recommendation for approval from the Finance Committee to the full MDTA Board for Contract No. 20140023, Investment Services with Bloomberg Finances, L.P. Approval of this contract is contingent upon the approval by the Board of Public Works.

Mr. Garman stated that Bloomberg's investment services supports the buying and selling of investment securities through MDTA's approved brokers. Bloomberg is the industry standard for securities trading, analytics, and market/economic data. The existing sole-source contract expires on July 10, 2014. The new contract will provide for two terminals and the required dedicated telecommunications line for two years. The total monthly cost is $4,295.00, and the total amount of this contract shall not exceed $103,080.00.

Access to the Bloomberg service has improved MDTA's investment management process by facilitating greater access to bond market information, analytics and electronic trading through the dealer network. There are no other providers of a similar comprehensive product in the industry.

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

Recommend for Approval – Independent Registered Municipal Advisor Exemption Certificates and Delegation of Authority for Future Exemptions

Mr. Allen Garman requested a recommendation for approval from the Finance Committee to the full MDTA Board to execute certain municipal advisor exemption certificates related to the Security Exchange Commission's (SEC) municipal advisor rules and to delegate authority to the Executive Director to review and execute future exemption certificates.

Mr. Garman stated that in response to the financial crisis, the Dodd-Frank Wall Street Reform and Consumer Protection Act amended portions of SEC Rule 15B of the 1934 Act to require registration of Municipal Advisors, a previously unregulated group. The Municipal Securities Rulemaking Board (MSRB) was charged with enforcing the new provisions that establish a fiduciary relationship between financial advisors and municipalities. The registration requirement is effective July 1, 2014.

The new regulations apply to financial advisory work for both financing and investment related activities. Exemptions are provided for certain individuals including legal bond counsel, underwriters, municipal employees and board members, as well as engineering firms whose work is limited in scope and does not include financing related advice.

The SEC rule also exempts firms providing advice to municipal financial products or the issuance of municipal securities if 1) the firm requesting the exemption discloses in writing to the municipality that it is not a registered municipal advisor; 2) the municipality has an independent registered municipal advisor (IRMA) already providing advice, and there is no conflict of interest with the firm requesting the exemption; and 3) the municipality states in writing that it is relying on an IRMA for its advice. Currently, MDTA's financial advisory work is handled by two SEC/MSRB registered municipal advisors, Davenport and FirstSouthwest.

At 9:12 a.m., Member Basso recused himself from the remaining portion of this agenda item, because of his relationship with Parsons Brinckerhoff, Inc. Member Basso left the meeting at this time, and Member Halsey was acting Chair.

To date, MDTA has received exemption certificate requests from both Parsons Brinckerhoff, Inc. and J.P. Morgan. It is estimated that 10 to 20 exemption certificates will be required annually, primarily for broker/dealers and engineering firms. Mr. Garman requested that the Finance Committee recommend approval to the full MDTA Board to grant municipal advisor exemption certificates to these two firms, to delegate authority to the Executive Director to execute these exemption certificates, and to delegate authority to approve and execute future requests for municipal advisor exemption certificates to the Executive Director.

Member Hock motioned to approve this request to the full MDTA Board and Member Halsey seconded the motion and it was unanimously approved.

At 9:17 a.m. Member Basso returned to the meeting and resumed his role as Chair.

Recommend for Approval – FY 2015 Final Operating Budget.

Ms. Christina Thompson requested a recommendation for approval from the Finance Committee to the full MDTA Board for the FY 2015 Final Operating Budget. The Trust Agreement requires the approval of a final budget on or before the 1st day of July.

The FY 2015 Final Operating Budget totals $285,054,488. This represents an increase of $15,719,928 over the FY 2014 Budget of $269,334,560. The costs incurred for police services at the Port and BWI Marshall Airport is reimbursable to MDTA from the Maryland Port Administration and Maryland Aviation Administration and amount to $24,746,424, or 8.7%, of the budget.

There are increases in salaries of $4.9 million for a full year of a 3% cost-of-living increase (COLA), a half year of a 2% COLA, step increases and placing all Facility Maintenance Technicians at a Step 5. Health insurance goes up by just over a million dollars due to applying a 3% inflation factor, and the average cost per employee is going up by about $700. Social Security goes up by $356k due to increases in salaries. Pension costs went down due to the decline in pension rates for sworn personnel and insurance increases for Workmen's Comp Insurance.

Discretionary increases include: a \$4.9 million increase in on-call construction repairs; a \$3.3 million increase in E-ZPass Service Center costs due to the implementation of the citation process, which requires additional types of correspondence to be mailed and an increase in the fee schedule; a \$2.6 million increase in E-ZPass credit card fees as a result of the toll increase; a \$1.6 million increase in Professional Services for Engineering to reflect actual spending in FY 2013; a \$1.1 million increase for miscellaneous replacement equipment such as mowing equipment, arrow boards and truck mounted attenuators that exceed the replacement cycles; and a \$1.0 million increase for replacement IT equipment primarily for application support for Finance, Police, Legal and Engineering and for network maintenance.

Reductions to the budget include: a reduction to replacement vehicles due to inspecting all vehicles and looking at service records before replacement is authorized even if the mileage exceeds the recommended replacement threshold of 125,000 miles; a reduction in Trust Agreement Expenses to reflect expected task orders; and other smaller reductions in uniforms, telephone, publicity and advertising, snow removal and gas and electric to reflect actual spending.

Member Basso commented that although the budget is increasing, much of this increase is mandated by Statewide personnel actions or the toll collection contract with Xerox. Ms. Deborah Sharpless confirmed that the toll collection contract will continue to increase as toll transactions and revenues increase and noted that video tolling has higher costs associated with it than electronic or manual toll collection. Member Halsey commented that the costs of video toll transactions need to be reviewed to ensure that MDTA is recovering the costs to produce video tolls and the costs paid to Xerox. Ms. Sharpless stated that MDTA is reviewing the video toll process and that these increasing costs have been reviewed but are justified due to business needs.

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

<u>Update – Long Range Capital Needs</u>

Mr. Doug Hutcheson briefed the Finance Committee on the annual process undertaken to identify the MDTA's capital needs and presented the newly revised FY 2015-2040 Long Range Capital Needs (LRCN).

MDTA updates the LRCN annually. This 25-year look ahead is a collaborative effort between the Office of Engineering and Construction (OEC), Capital Planning and Operations. Updates occur in the first quarter of each calendar year. Stakeholders are solicited for comments regarding reconfirmation of previously identified needs and for determination of new needs. Needs may be based on identified defects, routine system preservation, life cycle replacements/rehabs, or operational and safety enhancements. Candidate needs are compiled into a single listing for further analysis. A series of meetings is then held to discuss the proposed needs with all engineering discipline leads, facility administrators, and senior managers from OEC, Capital Planning and Operations. Once each need is confirmed, then the priority and appropriate project timeframe is established.

Following these meetings, the LRCN document is finalized in conjunction with the development of the draft six-year Consolidated Transportation Program (CTP). Projects are programmed based on availability of funds, priority, and coordination with other work planned or already in progress on each facility. The LRCN update process runs from the end of January thru the end of April/early May each year.

Mr. Hutcheson then provided an overview of the life cycle of certain types of projects and highlighted certain projects included in the LRCN, including the replacement of the Nice Bridge, additional rehabilitation work on the Bay Bridge, replacement of the Tydings Bridge, and additional expansion work on the I-95 Express Toll Lanes. Member Basso noted that the LRCN includes $7.5 billion in long-term needs.

<u>Recommend for Approval – Draft FY 2015-2020 Consolidated Transportation Program</u>

Mr. Hutcheson noted that MDTA has underspent its Capital Program budget each of the last five years by as much as 36%. Therefore, an analysis was undertaken to determine major areas of underspending and develop recommendations to improve spending levels. Recommendations were reviewed internally by staff and approved by the Executive Director and were integrated into the FY 2015-2040 LRCN and the Draft FY 2015-2020 CTP.

Implemented changes include: adding three months from the baseline notice-to-proceed to the actual start of construction expenses, new schedule tracking tools, changing preliminary engineering cost assumptions based on the size of the project, reducing the contingency included for plans at 60% design, changing assumptions of the cost extra work authorizations based on project size; revising cash flow curves based on prior spending history; and adding flexibility to the production schedule so that projects can be consistently delivered in each fiscal year.

Member Basso commended staff on the thorough analysis that was undertaken to evaluate performance and make improvements. He also noted that improvements in the financial IT systems at MDTA over the last several years made this type of analysis possible and worthwhile. Member Halsey agreed that the analysis was well prepared and enabled staff to review the root of the underspending.

Mr. Dennis Simpson noted that the draft FY 2015-2020 CTP reflects a decrease in the six-year budget of $291.5 million from the same six-year period in the last year's CTP. This reduction was the result of removing bond sales from the financial forecast (except for the final draw of the TIFIA loan anticipated for FY 2015) in an attempt to utilize a greater amount of paygo funding for the capital program and to reserve bonding capacity for potential future major capital needs. Mr. Simpson then introduced Mr. Suhair Alkhatib to review the project additions and changes from the Final FY 2014-2019 CTP to the Draft FY 2015-2010 CTP. Spending in

FY 2014 is projected at $376.8 million, which is $40.9 million than what was projected in the Final FY 2014-2019 CTP. This unspent money from FY 2014 will be rolled into spending in future years.

Changes to the Draft FY 2015-2020 CTP include funding nine new system preservation projects totaling $8.8 million; funding the construction phase of seven projects totaling $63.3 million; modifying project budgets for six projects, resulting in a net decrease of $7.9 million; reducing project budgets for 14 completed and deleted projects; and adding 44 new system preservation projects totaling $247.8 million due to updates to the LRCN. Mr. Alkhatib noted that all Priority 1 and 2 needs from the LRCN were funded.

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

Recommend for Approval – Financial Forecast

Mr. David Chapin presented the Financial Forecast, reflecting the proposed Draft FY 2015-2020 CTP and Final FY 2015 Operating Budget, to the Finance Committee for its review.

Mr. Chapin stated that the forecast shows that MDTA will adhere to its financial policy goals and its rate covenant over the six-year program period (through FY 2020) without the need for toll adjustments. Primarily due to the reduction in the amount of bonds to be issued in the six year period, the results in the current forecast are more positive than that approved in January 2014. By reducing the amount of bond sales in the forecast period, debt service coverage and rate covenant ratios are improved, the maximum amount of bonds outstanding in the period has decreased by $192 million from $2.5 billion to $2.3 billion, bonds outstanding will fall to $2.1 billion in FY 2020; and annual debt service over the six year period is reduced by $84 million. Although the forecast shows that no toll increases are needed over the six year forecast period, Mr. Chapin noted that toll rates on the ICC and I-95 ETL project might be adjusted depending on congestion management requirements.

Committee members discussed the possibility of undertaking future toll increases periodically to help moderate increases rather than approving larger increases every decade or so. For example, rather than waiting for ten years to have a large toll increase, perhaps tolls might be adjusted incrementally several times before then.

In closing, Mr. Chapin indicated that although no bond sales (other than the final TIFIA draw), nor toll increases will be required in the program period, one cannot assume this is a permanent trend. Assuming that costs will exceed revenues over time, periodic toll increases and additional debt issuances will be required after the six-year program period.

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

<u>Update – Video Toll and Citation Program</u>

Ms. Sharpless briefed the Finance Committee on the activities that have taken place to support the implementation of the video toll and citation process approved in House Bill 420 of the 2013 Legislative Session.

Hearings for citations contested to court have begun and are going well. Having the Attorney General's Office present for the court cases has been beneficial in resolving cases but has posed workload challenges. Other challenges include scheduling court dates with multiple jurisdictions given limited staff and developing the required evidentiary packages manually. Also, Deputy Counsel Sherita Harrison provided a summary of the outcome of the citation cases that were heard in Baltimore City District Court.

From July to October, activities will include refining court scheduling volumes, completing the development of the NIXIE (bad address), deploying the NIXIE module, completing development of module for referrals to the Motor Vehicle Administration (MVA), and resolving the timing of referrals to MVA and the Central Collections Unit.

<u>Update – Traffic and Revenue</u>

Ms. Joyce Diepold reported that the system revenues for the month of May were $52.2 million, which is up $14.5 million versus the previous year. Revenues for the fiscal year-to-date were $512.8 million, which is up $137.9 million versus the previous year. Fiscal year-to-date revenues are $19.7 million above the current Jacobs Base Case revenue forecast.

Ms. Diepold also reported that the system transactions for the month of May were 10.4 million, which is down 0.1 million versus the previous year. Fiscal year-to-date system transactions were 103.1 million, which is down 2.2 million from the previous year. Fiscal year-to-date system transactions are 5.7 million above the current Jacobs Base Case transaction forecast.

Monthly revenue on the ICC for May was $3.8 million. Monthly transactions on the ICC for May were 1.9 million.

<u>Update – Financial Advisor Services Contract Nos. 20120001 A&B</u>

At the request of the Finance Committee at its last meeting, Ms. Alison Williams provided an update on the status of the financial advisor services contracts. Parallel contracts were awarded in November 2012 to Davenport & Company, LLC (Davenport) and to FirstSouthwest. Each contract has a four (4) year term ending on November 14, 2016. There is also one renewal option available for an additional term of two years. The combined total of both contracts may not exceed $2.5 million, including the renewal option.

Both contracts are under budget with combined expenditures that total $219,688 through March 2014. Work to date done by minority business enterprise (MBE) firms has been minimal; however, the types of work assigned thus far have not allowed for many MBE opportunities. Davenport recently engaged SOA Financial, a MBE firm, to assist with the refunding of the Metrorail Series 2004 Bonds. MDTA has reinforced to both financial advisors the importance of meeting MBE participation goals.

Much of the financial advisor work is shared between both financial advisors so that MDTA can benefit from the advice of both advisors, although specific tasks may be assigned to only one firm based on their expertise. Ms. Jaclyn Hartman noted that MDTA has reinforced with both advisors the benefit that MDTA receives from independent opinions from each of the advisors, even when the opinions differ. The resulting discussion allows MDTA to understand the pros and cons of each option. MDTA also works closely with the firms to determine the best resources for a particular task.

Ms. Hartman stated that despite the change in financial advisors that occurred in 2012, MDTA continues to receive solid financial and investment advice from its financial advisors and is pleased with the current advisors.

There being no further business, the meeting of the Finance Committee adjourned at 10:55 a.m., following a motion by Member Halsey and seconded by Member Hock.