

FINANCE COMMITTEE MONTHLY MEETING
TUESDAY, NOVEMBER 10, 2020
OPEN MEETING VIA LIVESTREAMING

OPEN SESSION

MEMBERS ATTENDING: Cynthia Penny-Ardinger
Dontae Carroll
Jeffrey Rosen
John von Paris

STAFF ATTENDING: Jeffrey Brown
Jeffrey Davis
Cheryl Dickinson
Vicky Dobbins
Luther Dolcar
Allen Garman
Chantelle Green
Natalie Henson
Carroll Hicks
Cheryl Lewis-Orr
Jeanne Marriott
Kimberly Millender, Esq.
Ken Montgomery
Ebony Moore
Mary O’Keeffe
John O’Neill
Jim Ports
Deb Sharpless
Timothy Sheets
Christina Thompson
Clayton Viehweg
Eric Willison

OTHERS ATTENDING: Sean Walker - CliftonLarsonAllen

At 9:00 a.m., Member von Paris, Chair of the Finance Committee, called the Finance Committee Meeting to order.

APPROVAL – OPEN MEETING MINUTES FROM OCTOBER 6, 2020 MEETING

Member von Paris called for the approval of the meeting minutes from the Open Meeting held on October 6, 2020. Member Dontae Carroll made the motion, and Member Cynthia Penny-Ardinger seconded the motion, which was unanimously approved.

APPROVAL – CONTRACT NO. MT-3134 – JANITORIAL SERVICES FOR POINT BREEZE

Mr. Carroll Hicks requested a recommendation of approval from the Finance Committee to the full Maryland Transportation Authority (MDTA) Board for Contract No. MT-3134-0000, Janitorial Services for Point Breeze.

This contract provides comprehensive janitorial services including supervision, supplies, labor, and equipment at various MDTA Point Breeze facilities (buildings 2310, 2330, and 2340). Expanded services include a part-time day porter in the 2310 Point Breeze facility, weekend/holiday cleaning services at certain facilities, and enhanced cleaning and disinfection of the common area surfaces in all facilities.

This contract will be performed by a Community Service Provider pursuant to Code of Maryland Regulations 21.11.05. The Pricing and Selection Committee approved the rates for these services on September 19, 2020. Janitorial supplies are included in the contract total and the contract specifies that supplies be purchased from Blind Industries of Maryland, also a Community Service Provider.

The total amount of the five-year contract is \$1,316,643.16. This includes a three-year base contract amount of \$755,493.84 with a two-year renewal option of \$561,150.32. The contract does not include MBE or VSBE goals.

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

UPDATE – INDEPENDENT AUDITOR’S REPORT FOR THE FY 2020 FINANCIAL STATEMENTS AUDIT

Ms. Chantelle Green introduced Mr. Sean Walker, Principal in Charge of the MDTA’s audit, from CliftonLarsonAllen, LLP (CLA). Mr. Walker noted that the FY 2020 Financial Statements Audit was primarily focused on the MDTA’s investments, capital assets, revenue recognition, accounting for long-term debt, intergovernmental agency relationships, and financial reporting. CLA issued an unmodified opinion on the financial statements and reported that no material weaknesses or significant deficiencies in the MDTA’s internal controls were identified.

UPDATE – FY 2020 CLOSEOUT OF KEY FINANCIAL METRICS

Ms. Chantelle Green provided the Finance Committee with a review of the MDTA’s actual revenue and expenses and other key financial metrics as compared to the January 2020 and July 2020 financial forecasts. Ms. Green advised that actual fiscal 2020 toll revenues were below the projected January 2020 financial forecast by \$100.0 million, primarily due to COVID-19.

On the expense side, the MDTA underspent its operating budget by \$34.6 million. The underspending in the operating budget nearly offset the \$35.3 million increase in capital spending due to the acceleration of cashflows associated with the Nice/Middleton Bridge Replacement and the I-895 Bridge projects.

Additionally, there was a \$365.0 million increase in the MDTA’s bonds outstanding and a \$213.1 million increase in the MDTA’s unrestricted cash balance. Bond issuance proceeds from the Transportation Facilities Projects Revenue Bonds, Series 2020, were used to finance capital project expenses due to lower than anticipated toll revenues and to reimburse the MDTA for prior capital related expenses.

UPDATE – ANNUAL TRAFFIC AND REVENUE FORECAST

Ms. Sharpless provided an update to the Finance Committee on the traffic and revenue (T&R) forecast for the legacy facilities, Intercounty Connector (ICC), and the I-95 Express Toll Lanes (ETL). Each fall, an update to the ten-year traffic and revenue forecast is prepared by an independent consultant. The MDTA selected CDM Smith through a competitive process to provide a separate traffic and revenue forecast for the legacy facilities, ICC, and I-95 ETL. These forecasts are built on historical data from the MDTA’s facilities and national, regional, and State socio-economic data, such as population, employment, unemployment, real income per capita, real gross domestic product, inflation, and fuel prices. The forecast also accounts for recent trends related to the COVID-19 pandemic and its impact on underlying socioeconomic factors related to MDTA traffic.

Due to COVID-19, traffic abruptly declined from mid-March to mid-April and then began to increase. MDTA’s congestion managed facilities, the ICC and I-95 ETL, have experienced the largest decreases in traffic. Traffic has declined on the ICC and I-95 ETL by a maximum of 70% and 85%, respectively, compared to pre-COVID-19 levels. Traffic on these roadways has not rebounded at the same rate as the MDTA’s other facilities. Today, traffic is about 35% and 40% down at the ICC and I-95 ETL, respectively.

Passenger vehicle traffic on the legacy facilities declined by a maximum of 63% of pre-COVID volumes and commercial vehicle traffic declined to 23% of pre-COVID volumes. From mid-April to July, traffic increased steadily on the legacy facilities. Since July, passenger vehicle traffic has leveled off at 17 to 20% below pre-COVID volumes and commercial traffic has rebounded to pre-COVID levels.

Over the next ten years, the number of transactions on the legacy facilities are forecasted to continue to decline by 133 million compared to the October 2019 T&R forecast. The divergence from the previous forecast is attributed to reduced traffic associated with the COVID-19 pandemic and video toll leakage resulting from the systemwide implementation of all-electronic tolling (AET). During the timeframe following the pandemic (FY 2023 – FY 2029), transactions are expected to increase gradually at a modest annual growth rate of 1 percent. In-lane revenue is forecasted to decrease by \$427 million over the next ten years compared to the October 2019 forecast. Most of the reduction is due to lower transaction volumes discussed above. Other factors include a lag in the mailing of notices-of-toll due and temporary toll collection changes made by the MDTA in response to the pandemic. Following the pandemic (FY 2023 – FY 2029) revenue is expected to trend closer to the June 2020 T&R forecast, increasing at an annual growth rate of 0.3%.

Over the next ten years, total trips on the ICC and I-95 ETL are forecasted to decline by 50 million compared to the October 2019 T&R forecast. Of this amount, 35 million is attributed to a decline in ICC trips whereas the remaining 15 million is due to a reduction in I-95 ETL trips. During the timeframe following the pandemic (FY 2023 – FY 2029), revenue is expected to nearly mirror the June 2020 T&R forecast, increasing at an annual growth rate of 1.8% on the ICC and 3.8% on the I-95 ETL. In-lane revenue is forecasted to decline by \$76 million compared to the October 2019 forecast. Most of the reduction is due to lower trip volumes due to the pandemic. Following the pandemic (FY 2023 – FY 2029) revenue is expected to trend closer to the June 2020 T&R forecast, increasing at an annual growth rate of 1.8% on the ICC and 5.3% on the I-95 ETL.

Administrative toll revenue is expected to decline by \$118 million compared to the November 2020 forecast. Like the toll facilities, near-term projected administrative toll revenue is impacted by the lag in the mailing of notices-of-toll due. The decline in administrative toll revenue is also impacted by changes in the MDTA's civil penalty structure. The reduction associated with the change in the MDTA's civil penalty structure is partially offset by a corresponding increase in civil penalty revenue resulting from the agency's systemwide transition to AET/cashless tolling. Beginning in FY 2025, administrative toll revenue is expected to exceed the October 2019 forecast by an average of \$5.7 million annually.

APPROVAL – FY 2021 AMENDED OPERATING BUDGET

Ms. Christina Thompson requested a recommendation for approval from the Finance Committee to the full MDTA Board to amend the FY 2021 Operating Budget. The FY 2021 Amended Operating Budget totals \$304,609,548. This represents a decrease of \$18,988,170, or 5.9%, below the FY 2021 Preliminary Budget. As a result of declining revenues due to COVID-19 and other customer focused business decisions, MDTA found it necessary to reduce the operating budget in order to stay in compliance with its policy and legal financial requirements. This budget reflects the reductions necessary to maintain compliance.

Member von Paris called for a motion to recommend approval of this item to the full MDTA Board at its next scheduled meeting. Member Penny-Ardinger made the motion, and Member Carroll seconded the motion, which was unanimously approved.

APPROVAL – FY 2022 PRELIMINARY OPERATING BUDGET

Mr. Jeffrey Brown requested a recommendation for approval from the Finance Committee to the full MDTA Board of the FY 2022 Preliminary Operating Budget. The proposed operating budget of \$335.2 million, represents a \$11.6 million, or 3.6%, increase above the FY 2021 Final Operating Budget. When comparing the FY 2022 Preliminary Operating Budget to the FY 2021 Amended Operating Budget, the budget increases by \$30.6 million, or 10.0%. However, when comparing the FY 2022 Preliminary Operating Budget to the FY 2021 Preliminary Operating Budget (pre-COVID-19), the budget decreases by \$2.8 million, or 0.8%.

Mandated changes to the budget resulted in a \$6.4 million increase. The increase is primarily due to a (1) DBM allocated \$1.7 million expense to cover the MDTA's portion of the State radio system; (2) \$4.0 million increase in health insurance and retirement system costs for current employees and retirees; and (3) \$0.7 million increase in social security contributions due to the anticipated termination of the statewide hiring freeze. The operating budget includes \$20.2 million of additional discretionary spending in FY 2022. The key increases are applicable to filling vacancies, transition costs to cashless tolling (including additional costs associated with credit card fees for *E-ZPass*), fleet allowance for new vehicles, updating the NetApp Storage Array, contractual services, equipment purchases, insurance, application software and licenses, indirect costs for the police, education and training costs, and ammunition.

Significant decreases in the budget totaling \$15.0 million include a reduction in *E-ZPass* vendor costs, engineering costs, turnover, building road and repairs maintenance, personnel costs, and other miscellaneous expenses.

Member von Paris called for a motion to recommend contingent approval of this item to the full MDTA Board at its next scheduled meeting. Member Rosen made the motion, and Member Carroll seconded the motion, which was unanimously approved.

APPROVAL – FINAL FY 2021-2026 CONSOLIDATED TRANSPORTATION PROGRAM

Ms. Jeanne Marriott requested a recommendation for approval from the Finance Committee to the full MDTA Board of the Final FY 2021-2026 Consolidated Transportation Program (CTP). The CTP was recommended for approval by the Capital Committee on November 5, 2020. The proposed FY 2021-2026 CTP is \$2.8 billion. The CTP reflects a net decrease in the six-year FY 2021-2026 budget of \$7.4 million. The decrease is the result of a (1) \$1.1 million decline in funding for the Nice/Middleton Bridge; (2) \$3.2 million decline in funding for the I-95 ETL Northbound Extension; (3) \$157.4 million decline in the allocated and unallocated reserves; and (4) \$154.3 million increase in funding for all projects (excluding the Nice/Middleton Bridge and I-95 ETL).

Member von Paris called for a motion to recommend approval of this item to the full MDTA Board at its next scheduled meeting. Member Rosen made the motion, and Member Penny-Ardinger seconded the motion, which was unanimously approved.

APPROVAL – BOARD RESOLUTION 20-06 – CASH REFUNDING

Mr. Allen Garman requested a recommendation of approval from the Finance Committee to present Board Resolution 20-06 to the full MDTA Board at its next scheduled meeting. Mr. Garman explained that Board Resolution 20-06 authorizes the use of \$53 million in cash to set aside funds in trust accounts for the upcoming fiscal 2021 and 2022 debt service for the Series 2012, 2017, and 2019 bond series. The early funding of bond service trust accounts will legally reduce debt service for purposes of the Debt Service Coverage and Legal Rate Covenant Coverage calculations. The cash refunding will increase debt service coverage and help mitigate diminished short-term net revenues associated with the pandemic.

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

APPROVAL – FY 2021-2026 FINANCIAL FORECAST

Ms. Deb Sharpless requested a recommendation for approval from the Finance Committee to the full MDTA Board of the MDTA's FY 2021-2026 Financial Forecast. Ms. Sharpless noted that the forecast has been updated to include FY 2020 actual revenues and expenses, current traffic and revenue estimates from the updated annual traffic and revenue report, the FY 2021 Amended Operating Budget, the FY 2022 Preliminary Operating Budget, and the Final FY 2021-2026 CTP. Throughout the six-year period, the MDTA will continue to meet all required financial goals and legal standards.

Member von Paris called for the approval of the FY 2021-2026 Financial Forecast. Member Penny-Ardinger made the motion, and Member Rosen seconded the motion, which was unanimously approved.

UPDATE – BI-ANNUAL REVIEW OF REVENUE SUFFICIENCY

Ms. Deb Sharpless provided the Finance Committee with an update on the bi-annual review of revenue sufficiency for the FY 2021-2026 financial forecast period. Ms. Sharpless noted that the MDTA's Board Policy requires a bi-annual review of revenue sufficiency to determine if current rates and fee levels are appropriate based on levels of expected spending. The FY 2021-2026 financial forecast shows that current toll rates, fees, and discounts provide sufficient revenue over the next six years to meet forecasted spending and exceed all legal and policy requirements.

APPROVAL – BOARD RESOLUTION 20-07 – MUNICIPAL FINANCING

Mr. Allen Garman requested a recommendation of approval from the Finance Committee to present Board Resolution 20-07 to the full MDTA Board at its next scheduled meeting. Mr. Garman explained that Board Resolution 20-07 authorizes the issuance of \$400 million in toll revenue bonds to finance a portion of capital projects through FY 2022. The financing is expected in February or March 2021 and will be sized to account for the capital program, net operating revenues, bond premium, debt service reserve funding, and costs of issuance.

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

APPROVAL – BOARD RESOLUTION 20-08 – TIFIA FINANCING

Mr. Allen Garman requested a recommendation of approval from the Finance Committee to present Board Resolution 20-08 to the full MDTA Board at its next scheduled meeting. Mr. Garman explained that Board Resolution 20-08 replaces two prior resolutions to combine authorizations for the new money Transportation Infrastructure Finance and Innovation Act (TIFIA) financing for the Nice/Middleton Bridge Replacement Project and to refinance the remaining principal of the Series 2008A TIFIA loan that funded a portion of the ICC. Additionally, the resolution extends the working authorization to August 31, 2021 from December 31, 2020.

Member von Paris called for a motion to recommend approval of this item to the full MDTA Board at its next scheduled meeting. Member Penny-Ardinger made the motion, and Member Carroll seconded the motion, which was unanimously approved.

APPROVAL – INVESTMENT COMMITTEE REPORT

Mr. Allen Garman and Mr. Clayton Viehweg provided an update to the Finance Committee on the activities of the Investment Committee for the period ended September 30, 2020. Mr. Garman reviewed market conditions, portfolio strategies, total return performance, and dealer trade allocations. He also discussed certain market drivers that may influence portfolio performance in the coming months, including the economy, fiscal policy, and Federal Reserve monetary policy. Mr. Garman noted that the Investment Committee is recommending the implementation of the duration extension for the Maintenance and Operating (M&O) Reserve, representing 14% of the combined duration targeted balances held in the General and M&O Reserve accounts. Implementation of this strategy change was delayed as a result of the pandemic and associated bond market volatility and dislocations.

Member von Paris called for a motion to recommend approval of this item to the full MDTA Board at its next scheduled meeting. Member Rosen made the motion, and Member Penny-Ardinger seconded the motion, which was unanimously approved.

UPDATE – 1ST QUARTER OPERATING BUDGET VERSUS ACTUAL SPENDING

Mr. Jeffrey Brown updated the Finance Committee on actual versus projected year-to-date spending for the first quarter of FY 2021. As of September 30, 2020, 15% of the operating budget was spent compared to the target of 23%. Salaries and Benefits (Objects 1 & 2) were 19% spent and Communications (Object 3) was 18% spent. Additional Equipment (Object 11) exceeded expected spending at 43% due to the purchase of scanning equipment. Additionally, some of the invoicing that was expected to occur in FY 2020 has been delayed until FY 2021. All other Objects were below budgeted spending levels.

UPDATE – 1ST QUARTER CAPITAL BUDGET VERSUS ACTUAL SPENDING

Ms. Jeanne Marriott updated the Finance Committee on actual year-to-date spending for the first quarter compared to projected spending as shown in the FY 2021-2026 Draft CTP. As of September 30, 2020, 14% of the FY 2021 capital budget was spent as compared to the target of 25%. The first quarter percentage is low because there are outstanding accruals for work completed in FY 2020.

UPDATE – QUARTERLY TRAFFIC AND REVENUE REPORT

Ms. Cheryl Lewis-Orr and Ms. Deb Sharpless updated the Finance Committee on the MDTA's quarterly traffic and revenue performance for the Legacy Facilities, ICC, and the I-95 ETL. As of September 30, 2020, quarterly and year-to-date transactions and revenue on the MDTA's legacy and all-electronic toll facilities have decreased significantly compared to the same quarter of the prior year due to COVID-19. Additionally, the delay in transitioning to the Third-Generation Electronic Toll Collection System has hampered the MDTA's ability to report traffic and revenue in a complete format.

There being no further business, the meeting of the Finance Committee adjourned at 12:21 p.m., following a motion by Member Penny-Ardinger, and seconded by Member von Paris.

John von Paris, Chairman