SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF APRIL 16, 2014

Ms. Merrick called the April 16 Finance Committee Meeting to order at 9:20 a.m. A quorum was present during the meeting: Mr. Curto, Co-Chair, Mr. Adams, Mr. Session, Ms. Wells and Mr. Conner, *ex officio*. Mr. Carter, Mr. Davis, Mr. Gates, Mr. Griffin, Ms. Hall, Ms. McConnell, Mr. McDermott and Mr. Williams were also present.

Recommendation to Approve the Proposed Resolution Authorizing the Dulles Toll Road (DTR) Second Senior Lien Revenue Refunding Bonds, Series 2014A. Andy Rountree, Vice President for Finance and Chief Financial Officer, reported that the Authority's Dulles Corridor Enterprise Plan of Finance for 2014 included two transactions to be considered that day and several possible ancillary issues for future consideration. The actions to complete the Plan of Finance were the pursuit of a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for approximately $1.277 billion and $450 million DTR Revenue Refunding Bonds to complement the TIFIA for the funding to complete the financing for Metrorail Project costs with respect to the DTR contributions. Mr. Rountree explained that staff was requesting that the Finance Committee and Board approve the Authorizing Resolution to: 1) authorize the issuance of the DTR Revenue Refunding Bonds, Series 2014, in an amount not to exceed $450 million; 2) approve substantially completed bond documents; and 3) provide delegations to the Chairman or Vice Chairman and at least one of the Co-Chairs of the Finance Committee regarding the bond structure. He referred to a chart and provided an overview of the total financing for the Metrorail Project and its funding partners. Mr. Rountree presented the projected toll rate schedules and timeline of the projected DTR total trip cost with and without TIFIA financing and the Commonwealth's contributions.

Mr. Conner stated that when the Authority first assumed the responsibility for the Metrorail Project, only an assumed financing plan was in place. Authority staff, Financial Advisors and those involved with the Project had developed a financing plan, which included the critical TIFIA component. Mr. Conner indicated that the present financing plan had withstood the test of those assumptions over time, as supported by the projections in the chart, which had been consistent with some adjustments. Mr. Conner applauded the Finance Team and Advisors for fulfilling the assumptions and creating a viable financing plan in trying to minimize tolls.

Though many people had taken issue with the toll rates, Mr. Conner stated that he believed that the Authority had done a great job in trying to minimize them, considering the major source of funding had been determined from a policy perspective. He referenced a chart that Mr. Rountree displayed and explained that a toll rate paid in the year 2043 would equate to far less in today's dollars. Mr. Conner also explained that the toll rate increases are being mitigated by financial assistance from the Commonwealth of Virginia and the federal TIFIA program. Noting that securing additional government financial aid has long been a goal of the Dulles Metrorail Project, Mr. Conner thanked leaders in Virginia and their important assistance in keeping toll rates steady for the next five years and reducing the amounts of future toll increases. He explained that the indenture under which the bonds would be issued and a portion of the excess cashflow will be applied to pay off debt so that the rates could be potentially lower than projected in the future.

Mr. Rountree indicated that the meeting materials included an updated traffic and revenue study forecast. He reviewed the proposed financing schedule and reported that the rating agencies would provide their ratings on April 25. The bond pricing was scheduled for May 13 (Subsequently, this was rescheduled for May 14 to allow for thorough investor marketing efforts).

Ms. Merrick clarified that no additional long-term debt would be expected, and Mr. Rountree confirmed no toll increase through 2018 with the TIFIA and Commonwealth's contributions.

Ms. Merrick inquired about the status of the TIFIA loan. Mr. Rountree reported that following the invitation to apply from the TIFIA Office, the applications had been submitted and were being reviewed by the TIFIA Office. Staff was hopeful that an approval will occur in April. (Subsequently, formal approval of the applications occurred on May 9, 2014.) Ms. Merrick asked what activities occurred during the negotiation process. Mr. Rountree stated that the TIFIA Office used a standard format for its loan agreements to protect its rights for repayment of the loan. He explained that staff is working with the TIFIA Office to ensure that the loan agreement is appropriately tailored for the Authority's transaction. Mr. Rountree reported that staff would present the terms of the negotiations to the Finance Committee [for recommendation to the Board as soon as negotiations were complete].

The Committee thereupon approved the staff recommendation.

Financial Advisors' Report – Aviation Enterprise. Guy Nagahama of Jefferies reported that the credit market had recently experienced some volatility in interest rates. As a result of comments made by the Chair of the Federal Reserve Board at a recent press conference, interest rates had increased with short-term rates rising faster than long-term rates causing a flattening of the yield curve. Mr. Nagahama noted that a refunding would generate approximately $32 million of net present value savings. He reported that the finance team is working to bring the transaction to market with a combined refunding and new money transaction for approximately $590 million. Mr. Nagahama reviewed the schedule of activities expected to occur over the next two months and provided an update on the Authority's outstanding bank facilities. With the execution of the Sumitomo Letter of Credit that supported the Commercial Paper Program in March, the Authority has no other bank facilities expiring in 2014. Mr. Nagahama reported that there is $485 million scheduled to expire in 2015, and approximately $325 million can be refinanced or restructured as early as this year. He noted that the Financial Advisors are working with Finance Staff to propose a bank solicitation to look at the capacity of bank facilities to support renewing scheduled expirations earlier.

Financial Advisors' Report – Dulles Corridor Enterprise. Bryan Grote of Mercator Advisors LLC reported that the closing for the final long-term bond deal would occur in May, which would hopefully be followed by a TIFIA loan closing.

Mr. Curto asked about the time frame for receiving a response once a TIFIA application had been formally submitted. Mr. Grote responded that the law provided that the Department of Transportation had 30 days to confirm the completeness of the application. He noted that the Authority had received its notification confirming that the application was complete two weeks after its submittal. During the next 60 days, the Authority would learn whether the TIFIA loan had been approved. If approved, the TIFIA award would be the largest one thus far.

Directors commented on the amount of useful demographic information included in the Traffic and Revenue Study about those using the Dulles Corridor. Mr. Rountree noted that a feasibility study update is needed when bonds are sold, as well as forecasting future toll rates.

Doreen Frasca of Frasca & Associates, LLC presented a market update with municipal rates. She reviewed the Municipal Market Data chart and demonstrated the activity of the flattening yield curve. Ms. Frasca expressed disappointment in the rating agencies' ratings of Baa1 and BBB+ which did not reflect the strengths of the Toll Road. She provided a broad overview of typical interest rates in preparation for entering the market.

March 2014 Financial Report - Aviation Enterprise**.** Mr. Rountree noted that he was joined by Chris Wedding, the Controller, and Mark Adams, Deputy Chief Financial Officer. He reported that while March had been a significantly improved month, harsh weather conditions in January and February had impacted year-to-date results. The year-to-date revenue was $156.3 million, 6 percent lower than the prior year-to-date. Mr. Rountree reported that at 25 percent through the year, the Authority had received 23.3 percent of its annual budgeted revenues. Since a cost recovery process is used annually with the airlines, Mr. Rountree noted that the shortfall would be resolved near the end of the year. The year-to-date expenses were $146.9 million, an increase of 6.2 percent compared to the prior year-to-date, which was attributed mostly to weather impacts. At three months into the year, Mr. Rountree reported that the Authority had expensed 26.1 percent of its annual budget. The operating income through March was $9.3 million, compared to the prior year-to-date of $28.3 million.

Mr. Rountree noted that the debt service coverage estimate had been 1.17x in February. He reported that this estimate for the first quarter was 1.22x. Mr. Rountree noted that the legal coverage requirement is an annual calculation rather than a monthly one, and that the monthly levels were used primarily for tracking purposes. He stated that staff is still forecasting that the debt service coverage is estimated to be 1.39x by year end, despite the results presented thus far.

Mr. Rountree reported that PricewaterhouseCoopers had completed its audit for the 2013 calendar year. He noted that the audit had been completed two weeks earlier than the prior year, and Mr. Rountree thanked Mr. Wedding, Controller, Julia Hodge, Deputy Vice President for Corporate Risk and Strategy, Greg Cohen, Manager, Corporate Strategic Planning, and other Finance Staff for their work. The Authority had received an unmodified, or clean audit opinion with respect to the financial statements, which would be published in the Comprehensive Annual Financial Report and which would also be referenced in the Official Statements used to market Authority bonds. Mr. Rountree reported that the final audited debt service coverage for 2013 had been 1.40x, a significant improvement over what had been expected.

With respect to the Aviation Enterprise, Mr. Carter noted that revenues had decreased, coupled with an increase in expenses, and inquired about the financial impact for the year. Mr. Rountree reported that staff is monitoring expenses very carefully. He believed that if no severe winter weather occurred in late 2014, expenses could still reasonably remain within the budget. Mr. Rountree noted that if severe winter weather occurred, the Authority could access its snow reserve account for related expenses. He reported that staff also continued to track revenues and that concessions had performed surprisingly well despite the weather-related events. The landing fees had been impacted as a result of decreased aircraft activity. Mr. Rountree reported that there would be an opportunity to adjust the airlines' rates and charges at the end of the year, if it were necessary. At the end of the year, the Authority would settle the actual costs with the airlines, and the financial impact associated with it would be included in the recovery through rates and charges reconciliation the following year. Mr. Rountree reported that a mechanism is in place to ensure that the budgetary year ends on a financially-sound basis.

<u>March 2014 Financial Report - Dulles Corridor Enterprise.</u> Mr. Adams reported that the Toll Road revenues year to date were $34.3 million, an increase of 15.5 percent compared to the prior year. He stated that Toll Road transactions thus far were 22.2 million. While these transactions were 4.6 percent lower than the prior year-to-date, they are 2.3 percent higher than the 2014 budget year-to-date. Electronic toll collections were 2.5 percent higher than the prior year-to-date. Toll Road expenditures were $7.3 million year-to-date, an increase of 12.5 percent compared to the prior year-to-date.

Mr. Davis inquired whether supporting data was available in regard to Toll Road users with lower income, who appeared to be using the Toll Road less since the recent rate increase. Mr. Adams responded that it was customary for the number of users to decline as a result of toll rate increases. He noted that the severe winter weather had also contributed to the decrease in transactions on the Toll Road. Mr. Potter noted that had the winter weather not occurred, Toll Road transactions would have likely been consistent with those from the prior year.

The Meeting was thereupon adjourned at 10:10 a.m.