

FINANCE COMMITTEE

Metropolitan Washington Airports Authority Quarterly Report on Investment Program (Quarter Ending September 30, 2014)

November 2014

Investment Program Report

Total Portfolio increased by \$205.3 million

| (in Millions) | Sep 30 | Jun 30 | Change |
|-----------------------|-------------------------|-------------------------|------------------------|
| Total Aviation | \$1,384.5 | \$1,162.3 | \$ 222.2 |
| Total Dulles Corridor | <u>781.5</u> | <u>798.4</u> | <u>(16.9)</u> |
| Total | <u><u>\$2,166.0</u></u> | <u><u>\$1,960.7</u></u> | <u><u>\$ 205.3</u></u> |

Investment Program Report

Aviation

Portfolio increased by \$222.2 million

| Aviation (in millions) | Sep 30 | Jun 30 | Change |
|-----------------------------|-------------------|-------------------|-----------------|
| Operating | \$ 551.8 | \$ 517.1 | \$ 34.7 |
| Construction | 169.0 | 69.7 | 99.3* |
| Capitalized Interest | - | 0.1 | (0.1) |
| Cost of Issuance | 0.7 | - | 0.7 |
| PFC/Grants | 82.8 | 77.7 | 5.1 |
| Debt Service Reserve | 331.1 | 329.2 | 1.9 |
| Debt Service Interest | 103.4 | 57.3 | 46.1** |
| Debt Service Principal | 138.6 | 104.1 | 34.5** |
| FAA ATCT Escrow | 6.7 | 6.7 | - |
| Public Safety Asset Seizure | 0.4 | 0.4 | - |
| Total | <u>\$ 1,384.5</u> | <u>\$ 1,162.3</u> | <u>\$ 222.2</u> |

* Issuance of the 2014A Bonds

** Accumulating Principal and Interest for October 1 Payment.

Investment Program Report

Dulles Corridor

Portfolio decreased by \$16.9 million

| Dulles Corridor (in millions) | Sep 30 | Jun 30 | Change |
|-------------------------------|-----------------|-----------------|------------------|
| Toll Road Revenues | \$ 194.8 | \$ 179.0 | \$ 15.8 |
| Toll Road Operating | 6.9 | 31.9 | (25.0) |
| Capital Improvement | 38.9 | 40.3 | (1.4) |
| Construction | 142.2 | 180.8 | (38.6)* |
| Cost of Issuance | 0.8 | 1.7 | (0.9) |
| Debt Service Reserve | 174.4 | 172.9 | 1.5 |
| Debt Service Interest | 46.5 | 24.2 | 22.3** |
| Debt Service Principal | 4.2 | 3.2 | 1.0 |
| Federal Reimbursement Funds | 8.4 | - | 8.4 |
| Commonwealth Agreement | 125.0 | 125.0 | - |
| Escrows | 39.4 | 39.4 | - |
| Total | <u>\$ 781.5</u> | <u>\$ 798.4</u> | <u>\$ (16.9)</u> |

* Construction Spending

** Accumulating Interest for October 1 Payment

Local Deposit Program Status

- Investment Policy allowing Local Deposit Program approved in April 2014.
- Staff issued Request for Proposals with responses due August 26
- Five Banks or 23% of banks with satisfactory ratings responded and all were accepted. One year Certificates of Deposit totaling \$2,750,000
 - Access Bank (Reston, VA) \$250,000
 - Chain Bridge Bank (McLean, VA) \$1,000,000
 - Eagle Bank (Bethesda, MD) \$1,000,000
 - John Marshall Bank (Reston, VA) \$250,000
 - Premara Bank (Washington, DC) \$250,000



Ronald Reagan Washington National Airport



Dulles Corridor Metrorail Project



Dulles Toll Road



Washington Dulles International Airport



METROPOLITAN WASHINGTON
AIRPORTS AUTHORITY

REPORT TO THE FINANCE COMMITTEE
QUARTERLY REPORT ON INVESTMENT PROGRAM
NOVEMBER 2014

ACTION REQUESTED

No action is required. A quarterly report presented to the Finance Committee on the results of the investment program.

BACKGROUND

On October 28, the Airports Authority's Management Investment Committee held its quarterly meeting to review the investment program and investment plan for the next quarter. The Committee reviewed each portfolio with regard to liquidity and investment policy compliance. Investment results were compared to the targets and benchmarks established in the Investment Objectives and Procedures. Market conditions and liquidity needs were discussed, and an investment plan was approved. The Committee decided to maintain three months of operating cash (including debt service) in highly liquid investments, including securities scheduled with a 90-day maturity, repurchase agreements and money market mutual funds, and to invest remaining operational funds in securities maturing in 9 to 12 months. The Committee additionally reviewed information on general economic market conditions, the investment portfolios, and evaluated investment results in determining the next quarter investment strategy.

The total Airports Authority portfolio increased by \$205.3 million from June 30, 2014 to September 30, 2014. The Aviation portfolio increased by \$222.2 million. The Dulles Corridor portfolio decreased by \$16.9 million.

The following is information provided and discussed at the August Investment Committee meeting:

- A. Economic Conditions and Outlook
- B. Minutes of the August 27, 2014 Investment Committee Meeting
- C. Total Portfolio by Account
- D. Total Portfolio by Security Type
- E. Total Portfolio by Days to Maturity
- F. Fund Balances
- G. Investment Results – Targets and Benchmarks
- H. Local Deposit Program Results

Prepared by: Office of Finance
November 2014

ECONOMIC CONDITIONS AND OUTLOOK AS OF OCTOBER 27, 2014

Federal Open Market Committee (FOMC) - The FOMC kept rates at zero to 0.25 percent at their April 30, June 18, and July 30 meetings. Expect the FOMC to closely watch the labor market and inflation rates and remove the accommodations sooner than expected.

Consumer Price Index (CPI) - The cost of living in the U.S. rose in September, leaving inflation below the Federal Reserve's goal as fuel prices plunge this month. A slowdown in global economic growth and declining energy and commodity costs will restrain overall price pressures in October.

Producer Price Index (PPI) - The Producer Price Index for final demand fell 0.1 percent in September.

Retail Sales - Retail sales dropped more than forecast in September on a broad pullback in spending that indicates consumers provided less of a boost for the economy in the third quarter.

Consumer Confidence - Confidence among U.S. consumers unexpectedly declined in September to a four-month low as Americans' view of the labor market deteriorated.

Inventories - Business inventories rose less than expected in August, implying slightly stronger demand than anticipated. Retail sales inventories declined 0.3%, consistent with August's relatively strong retail sales.

Capacity Utilization - Capacity Utilization, which measures the amount of a plant in use, rose to 79.3 percent in September from 78.7 percent in August.

Leading Economic Indicators - The index of leading indicators rose in September signaling the economy will continue to grow in 2015.

Federal Surplus/Deficit - The Treasury Department reported that the US budget deficit declined 29% in fiscal year 2014 compared to 2013. The year ended with a \$483.4B deficit.

Unemployment - The U.S. economy added more than 200,000 jobs for a sixth straight month, showing progress toward sustaining faster growth entering the sixth year of expansion.

SUMMARY

The Association for Financial Professionals October 20, 2014, EconWatch newsletter states: "In the U.S. Treasury market, yields fell to lows that we have not seen since...the spring of 2013, when the Fed introduced the idea of wrapping up its bond purchasing program. Over the past month, the 2-year note yield is down 20bps at 37bps; the 5-year note yield is down 41bps at 1.42 percent; the 10-year note yield is down 42bps at 2.20 percent, and the 30-year bond yield is down 38bps at 2.98 percent. The 2 year/10 year yield curve fell to its flattest point this week at 161bps (its tightest level since May 2013). It has since widened back out to 183bps. The volume of trading in the UST market was incredible, as we saw a record \$945.9 billion change hands on a single day! As Treasury yields reset at these new, lower levels, the likelihood of the Fed raising interest rates has been pushed out further. The market is now pricing in the first interest rate hike to occur in early 2016 rather than mid-to-late 2015."

MINUTES OF AUGUST 27, 2014 INVESTMENT COMMITTEE MEETING

The quarterly meeting of the Metropolitan Washington Airports Authority Investment Committee convened at 3:00 p.m. in the President's conference room. Attending the meeting were committee members Margaret McKeough, Andy Rountree and Mark Adams. Committee members Caren Merrick, John Potter and Steve Baker were absent. Nancy Edwards and David Tucker of the Treasury Department were also in attendance.

The Committee reviewed the Investment Committee book, and in agenda order discussed:

- **MINUTES** - The minutes from the April 30, 2014 meeting were approved as revised.
- **PORTFOLIO CHANGES** - Ms. Edwards reported that the total portfolio increased \$106.1 million from March 31 to June 30, 2014. The Aviation portfolio decreased by \$19.0 million and the Dulles Corridor portfolio increased by \$125.1 million.
- **ECONOMIC CONDITIONS** - Ms. Edwards summarized the economic conditions that had been reported as of August 27, 2014. There were no significant economic index changes.
- **INVESTMENT HORIZON** - The Committee discussed the various economic indexes and agreed to set the investment horizon for the next three months at 12 to 15 months.
- **LOCAL DEPOSIT PROGRAM** - The Authority issued an RFP for certificates of deposit to implement the Local Deposit Program. The solicitation was canceled due to limited response and a 2nd solicitation was planned and issued. Prior to issuance of 2nd solicitation, staff reviewed the requirements, process and implemented changes to increase participation. Additionally staff increased the outreach effort contacting banking organizations in DC, Maryland and Virginia informing the banking community of the investment opportunity. The response to the solicitation improved but fell short of the goal. Staff is working with Procurement to improve the results in a future solicitation. The final results have five banks requesting participation and staff is completing the bank agreement and applications, and will be investing \$2,750,000 in CDs with responding banks.
- **LINKED DEPOSIT PROGRAM** - The requested changes to the program have been approved by the Investment Committee in the Investment Objectives and Procedures.
- **FORWARD PURCHASE AGREEMENTS** - This investment vehicle has been presented to the Authority as a means to increase the overall interest earnings. Staff and the Financial Advisors are reviewing the merits of the program and will conduct a future solicitation that will determine the ultimate benefit to the Authority. In an oral review, Ms. Edwards described the structured investment product which can be used to increase income by establishing a contract with a provider and transferring the monthly set-aside for interest and principal, with the provider collateralizing the deposit. Before each interest and principal payment dates, the securities are returned to the provider, the contract interest amount is deposited, and the provider delivers new securities as collateral.
- **SECURITIES AND EXCHANGE COMMISSION CHANGE TO RULES FOR MONEY MARKET FUNDS** - In July the SEC issued new rules for Prime and Municipal money market funds. These funds will begin to have floating net

asset values in two years when the rule is implemented. This opens the possibility for increased variable interest rates on municipal bonds as corporations leave the Prime and Muni funds to invest in Government and Treasury funds which will continue to have stable net asset values of \$1.00. Staff will continue to monitor for any impacts on Airports Authority bonds.

- **QUESTIONS/NEW BUSINESS** - None

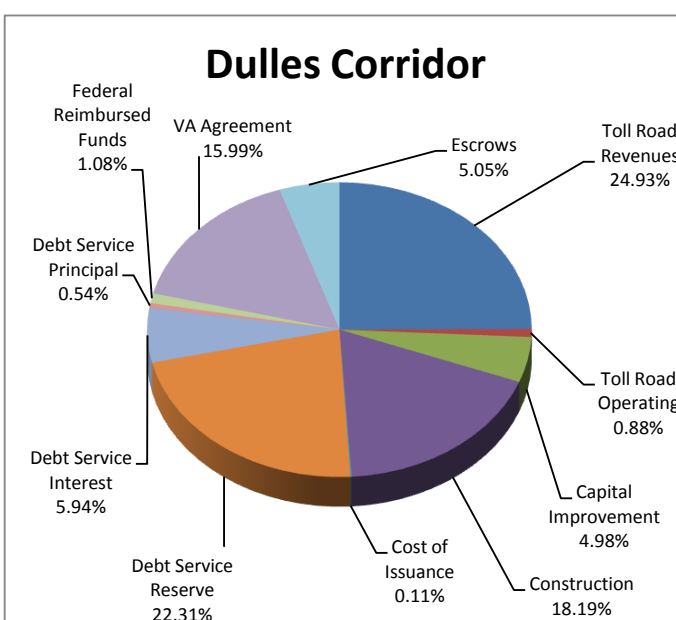
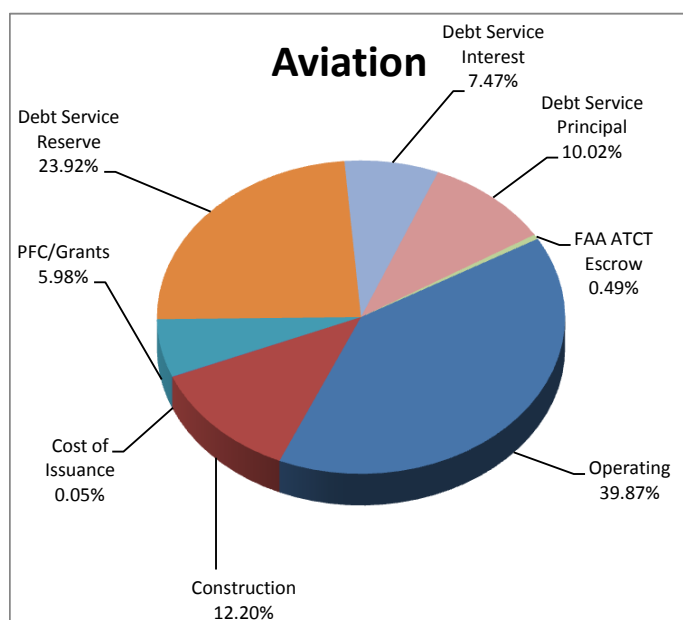
Respectfully Submitted,
Nancy L. Edwards

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

Total Portfolio By Account

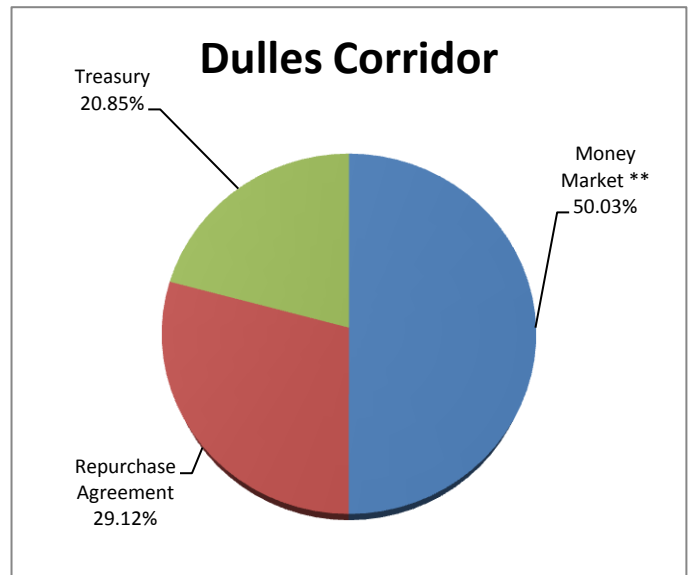
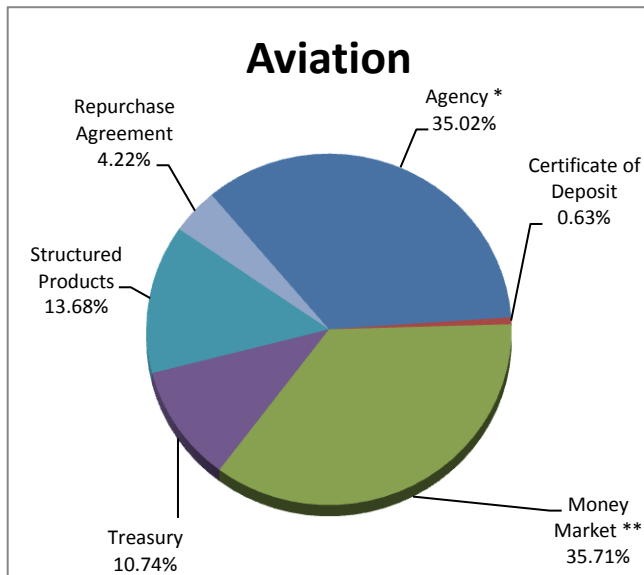
As of September 30, 2014

| <u>Aviation</u> | Sep 30 | Jun 30 | Mar 31 |
|-----------------------------|-------------------------------|-------------------------------|-------------------------------|
| Operating | \$551,848,458 | \$517,050,286 | \$534,192,064 |
| Construction | 169,046,685 | 69,699,679 | 71,653,935 |
| Capitalized Interest | 0 | 131,163 | 1,504,896 |
| Cost of Issuance | 672,064 | 0 | 117,702 |
| PFC/Grants | 82,792,386 | 77,702,505 | 62,027,574 |
| Debt Service Reserve | 331,051,326 | 329,236,982 | 328,210,335 |
| Debt Service Interest | 103,365,270 | 57,289,443 | 107,241,786 |
| Debt Service Principal | 138,619,732 | 104,113,701 | 69,675,523 |
| FAA ATCT Escrow | 6,721,854 | 6,721,747 | 6,721,585 |
| Public Safety Asset Seizure | 445,072 | 433,221 | 0 |
| Total Aviation | <u>\$1,384,562,847</u> | <u>\$1,162,378,727</u> | <u>\$1,181,345,400</u> |
| <u>Dulles Corridor</u> | | | |
| Toll Road Revenues | 194,832,996 | 178,981,953 | 144,947,594 |
| Toll Road Operating | 6,858,996 | 31,945,617 | 32,078,568 |
| Capital Improvement | 38,890,685 | 40,341,561 | 41,280,363 |
| Construction | 142,243,867 | 180,755,322 | 103,829,824 |
| Cost of Issuance | 834,312 | 1,660,823 | 763,860 |
| Debt Service Reserve | 174,355,618 | 172,902,427 | 134,547,238 |
| Debt Service Interest | 46,460,195 | 24,241,312 | 34,482,879 |
| Debt Service Principal | 4,201,883 | 3,151,296 | 2,100,766 |
| Federal Reimbursement Funds | 8,422,128 | 3,004 | 3,004 |
| Commonwealth Agreement | 125,018,950 | 125,015,799 | 140,012,678 |
| Escrows | 39,448,851 | 39,448,064 | 39,348,293 |
| Total Dulles Corridor | <u>\$781,568,481</u> | <u>\$798,447,178</u> | <u>\$673,395,067</u> |
| Total Portfolio | <u>\$2,166,131,328</u> | <u>\$1,960,825,905</u> | <u>\$1,854,740,467</u> |



METROPOLITAN WASHINGTON AIRPORTS AUTHORITY
Total Portfolio By Security Type
As of September 30, 2014

| Aviation | Sep 30 | Jun 30 | Mar 31 |
|------------------------------|------------------------|------------------------|------------------------|
| Agency * | \$484,795,204 | \$486,133,418 | \$491,404,062 |
| Certificate of Deposit | 8,751,141 | 7,001,141 | 7,001,498 |
| Money Market ** | 494,403,855 | 255,446,393 | 290,280,305 |
| Treasury | 148,739,284 | 155,458,683 | 149,738,815 |
| Structured Products | 189,461,262 | 189,461,262 | 189,461,262 |
| Repurchase Agreement | 58,412,101 | 68,877,830 | 53,459,458 |
| Total Aviation | \$1,384,562,847 | \$1,162,378,727 | \$1,181,345,400 |
| Dulles Corridor | | | |
| Money Market ** | \$390,999,132 | \$419,938,951 | \$369,577,368 |
| Repurchase Agreement | 227,598,982 | 210,928,232 | 177,026,824 |
| Treasury | 162,970,367 | 167,579,995 | 126,790,875 |
| Total Dulles Corridor | \$781,568,481 | \$798,447,178 | \$673,395,067 |
| Total Portfolio | \$2,166,131,328 | \$1,960,825,905 | \$1,854,740,467 |



*** Agency Split:**

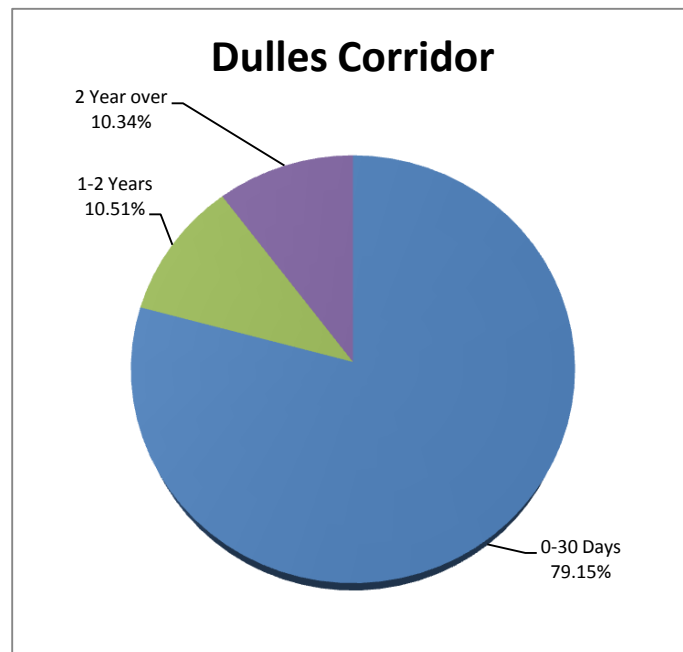
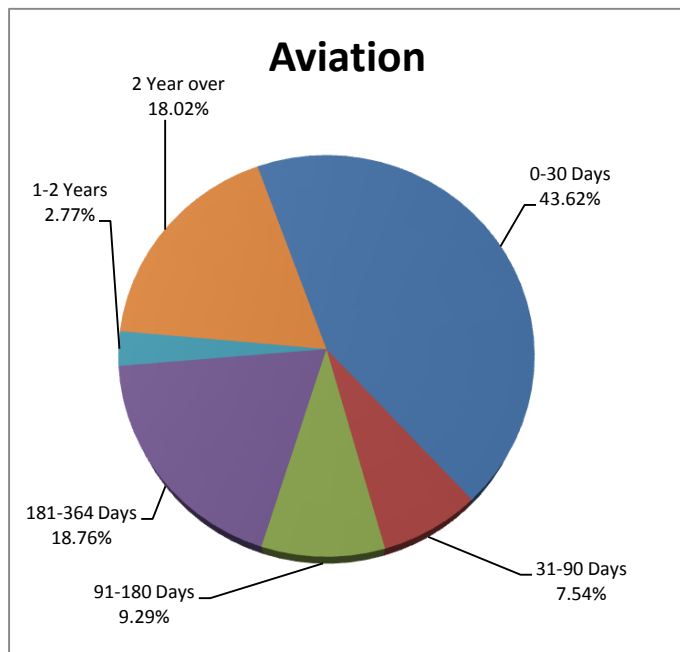
| | |
|-----------------------|-----------------------|
| Home Loan | \$ 283,775,386 |
| Freddie Mac | 55,610,787 |
| Fannie Mae | 95,265,900 |
| Farmer Mac | 19,982,611 |
| Farm Credit | 30,160,520 |
| Total Agencies | \$ 484,795,204 |

**** Money Market Split**

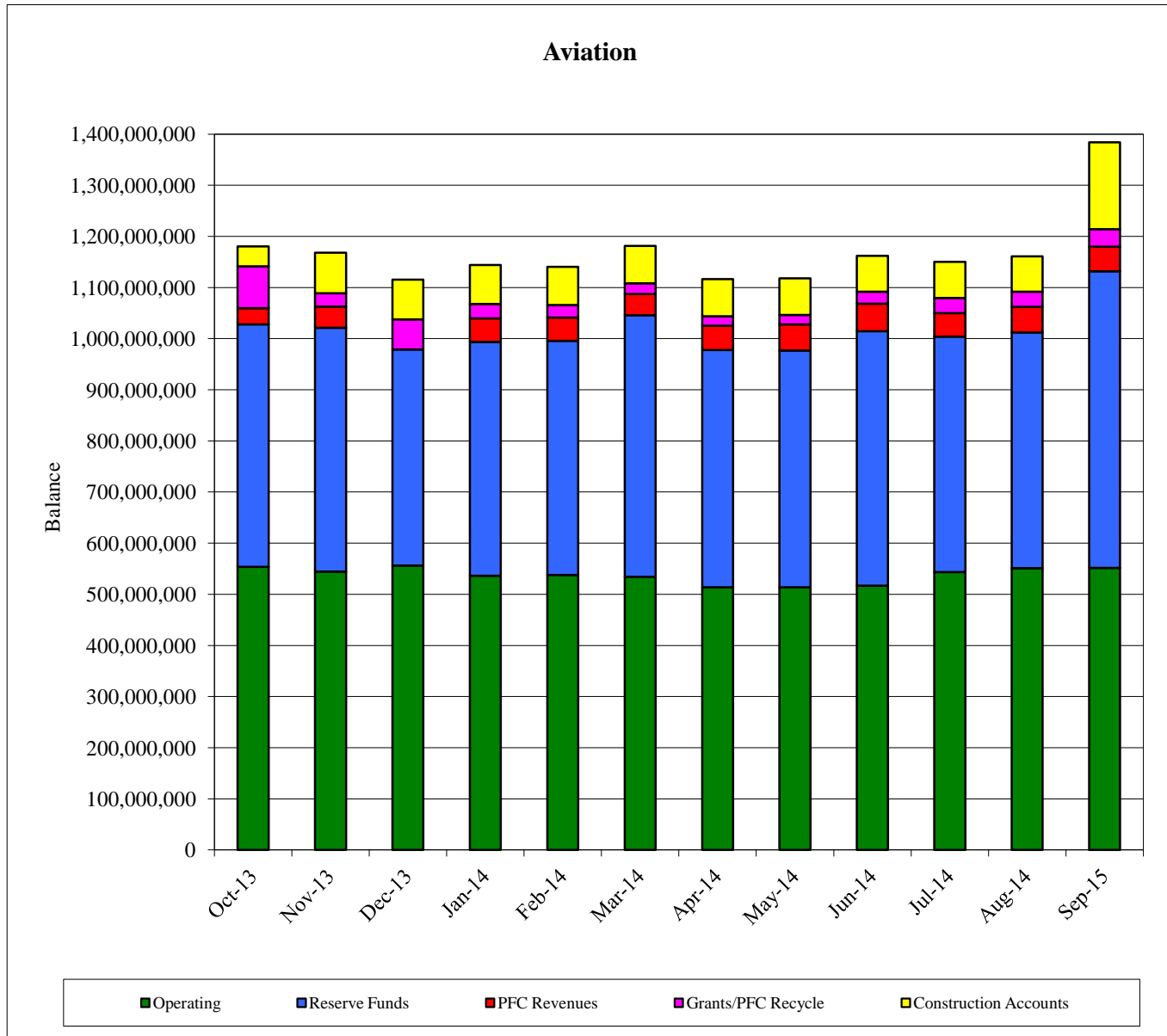
| | |
|------------------|-----------------------|
| Federated Funds | \$ 8,571,938 |
| Wilmington Trust | 860,703,480 |
| Fidelity Funds | 6,721,854 |
| NationsFund | 9,405,715 |
| | \$ 885,402,987 |

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY
Total Portfolio By Days to Maturity
As of September 30, 2014

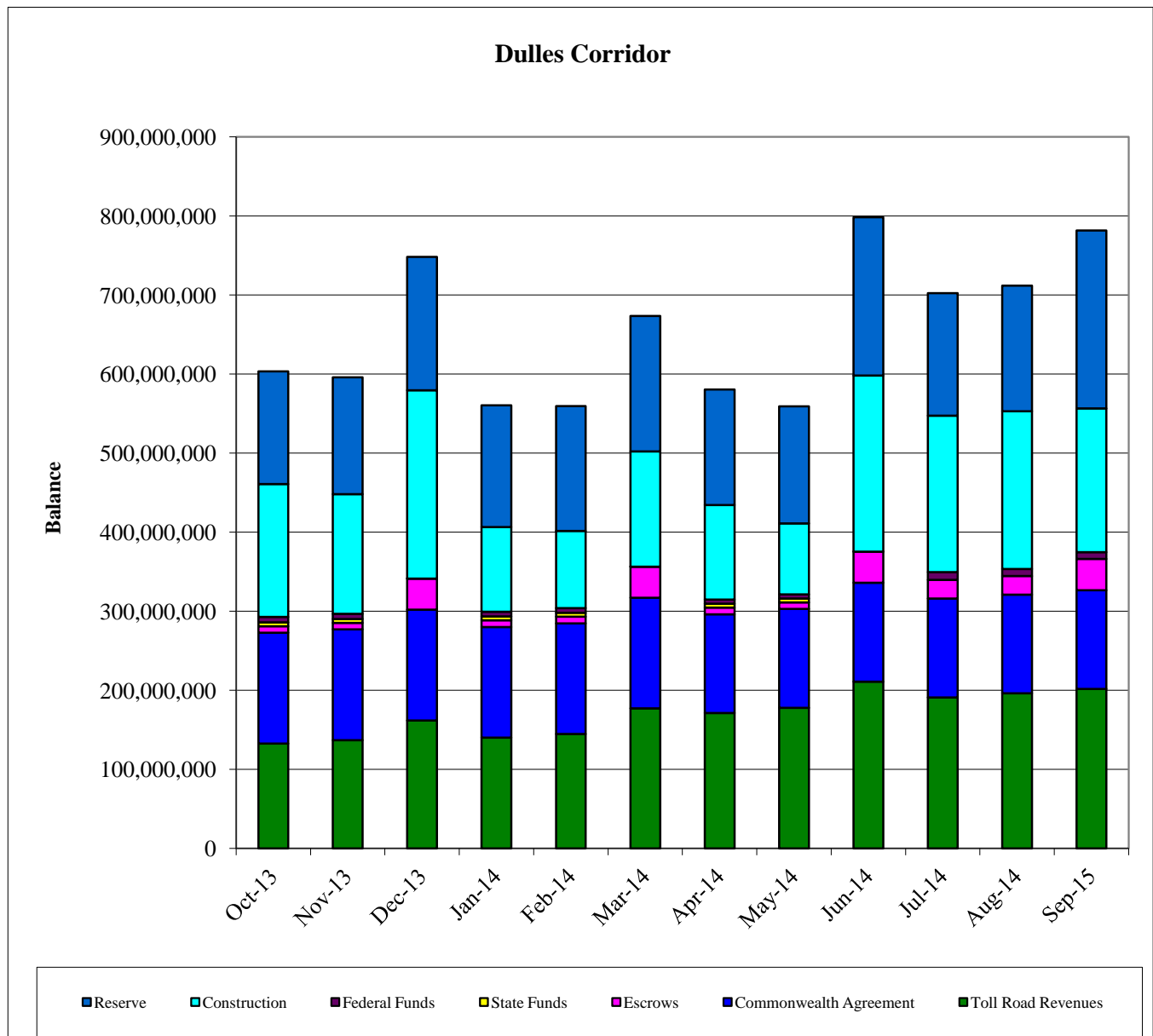
| Aviation | Sep 30 | Jun 30 | Mar 31 |
|------------------------------|------------------------|------------------------|------------------------|
| 0-30 Days | \$603,968,830 | \$384,668,411 | \$381,791,151 |
| 31-90 Days | 104,385,791 | 140,766,811 | 63,111,938 |
| 91-180 Days | 128,644,817 | 135,542,772 | 155,073,852 |
| 181-364 Days | 259,793,569 | 193,070,034 | 262,190,258 |
| 1-2 Years | 38,397,500 | 58,958,359 | 30,408,830 |
| 2 Year over | 249,372,340 | 249,372,340 | 288,769,371 |
| Total Aviation | \$1,384,562,847 | \$1,162,378,727 | \$1,181,345,400 |
| Dulles Corridor | | | |
| 0-30 Days | \$618,598,114 | \$630,867,184 | \$561,287,786 |
| 31-90 Days | 0 | 4,609,627 | 0 |
| 1-2 Years | 82,158,375 | 46,090,875 | 7,259,625 |
| 2 Year over | 80,811,992 | 116,879,492 | 104,847,656 |
| Total Dulles Corridor | \$781,568,481 | \$798,447,178 | \$673,395,067 |
| Total Portfolio | \$2,166,131,328 | \$1,960,825,905 | \$1,854,740,467 |



History of Fund Balances
Aviation
Rolling 12 Months
As of September 30, 2014



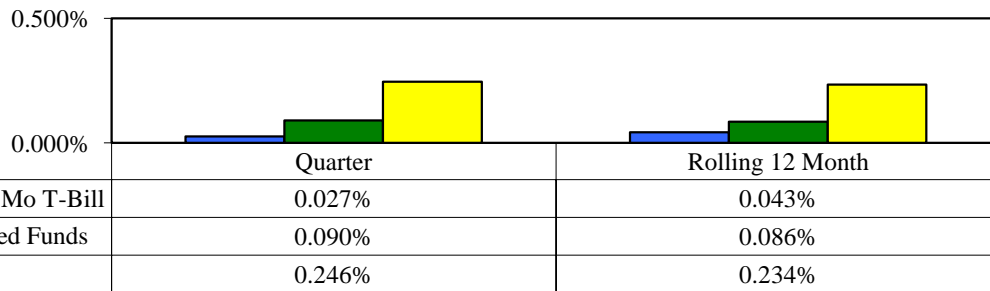
**History of Fund Balances
Dulles Corridor Enterprise
Rolling 12 Months
As of September 30, 2014**



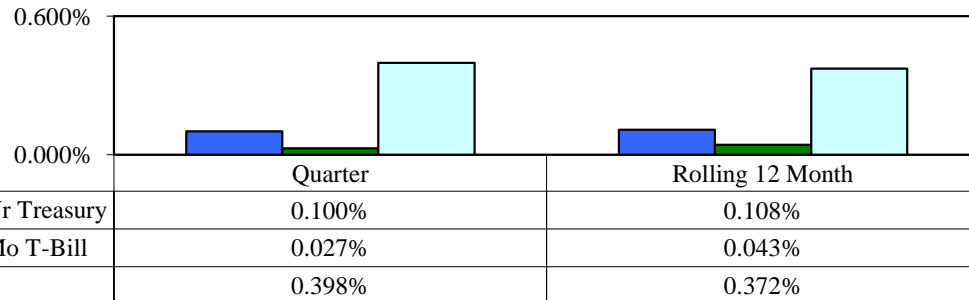
Investment Results - Targets and Benchmarks

September 30, 2014

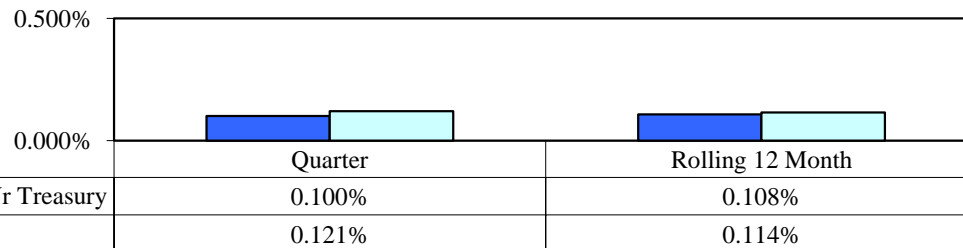
Aviation Operating Funds



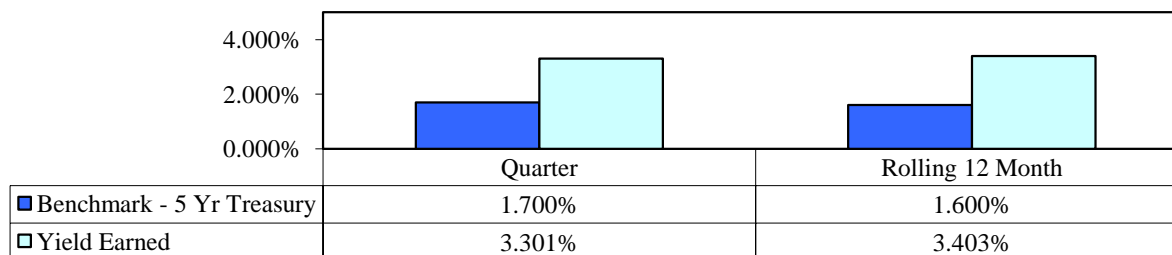
Aviation Construction Funds*



Aviation Debt Service Principal and Interest Funds*



Aviation Debt Service Reserve Funds*

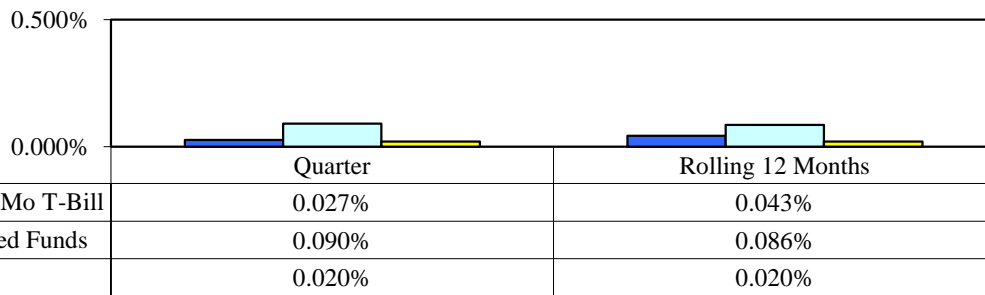


* Blended Arbitrage Rate of 4.691%

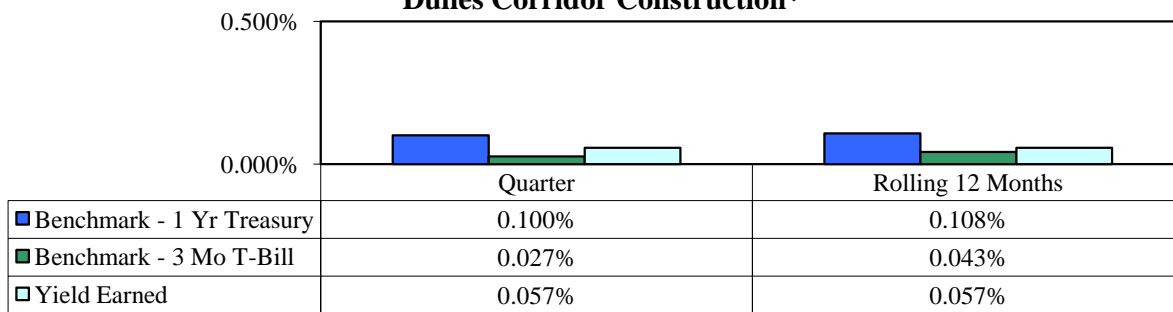
Investment Results - Targets and Benchmarks

September 30, 2014

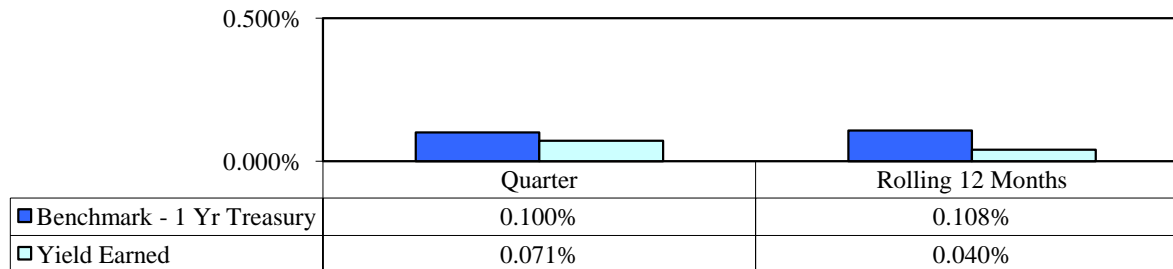
Dulles Corridor Operating



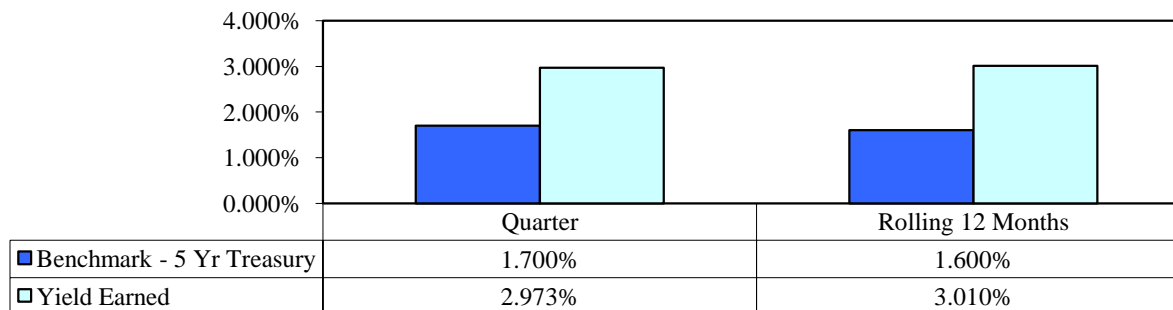
Dulles Corridor Construction*



Dulles Corridor Debt Service Principal and Interest*



Dulles Corridor Debt Service Reserve*



* Blended Arbitrage Rate of 6.636%

LOCAL DEPOSIT PROGRAM

In April 2014, the Board approved changes to the Investment Policy to allow for the establishment of a Local Deposit Program. The Local Deposit Program is open to banks with a presence in the region with “Satisfactory” Community Reinvestment Act ratings. Banks are eligible for deposits up to \$1 million provided all amounts over the FDIC limit of \$250,000 are collateralized. This program is a compliment to the Linked Deposit Program which allows deposits of funds in banks with a Community Reinvestment Act rating of “Outstanding”.

Staff issued an RFP for certificates of deposit to implement the program in June. The solicitation was canceled due to limited response and a 2nd solicitation was planned and issued in August. Prior to issuance of the second solicitation, staff reviewed the requirements, process and implemented changes to streamline the RFP response in an effort to increase participation. Additionally staff increased the outreach effort using public databases and contacting banks in DC, Maryland and Virginia informing the banking community of the investment opportunity. The response to the solicitation improved but fell short of the goal of investing up to \$9 million. Staff is working with Procurement to improve the results in a future solicitation. The final results have five banks requesting participation and staff has completed the bank agreements and applications, and have invested \$2,750,000 in CDs with the responding banks. Staff has determined there are approximately 31 banks in the region that qualify to participate in either the Linked Deposit Program or the Local Deposit Program. Of those banks, seven of the nine or 77 percent of eligible banks participate in the Linked Deposit Program, and five of the 22 or 23 percent of eligible banks participate in the Local Deposit Program.

The participating banks in the Local Deposit Program are:

- Access Bank (Reston, VA) \$250,000
- Chain Bridge Bank (McLean, VA) \$1,000,000
- Eagle Bank (Bethesda, MD) \$1,000,000
- John Marshall Bank (Reston, VA) \$250,000
- Premara Bank (Washington, DC) \$250,000

The participating banks in the Linked Deposit Program are:

- Bank of America (Charlotte, NC) \$1,000,000
- BB&T (Winston-Salem, NC) \$2,000,000
- City First Bank (Washington, DC) \$1,000,000
- Industrial Bank of Washington (Washington, DC) \$2,000,000
- PNC Bank (Pittsburgh, PA) \$1,000,000
- TD Bank (Cherry Hill, NJ) \$2,000,000
- Wells Fargo Bank (San Francisco, CA) \$1,000,000