# SUMMARY MINUTES
# FINANCE COMMITTEE
# MEETING OF JULY 16, 2014

Ms. Merrick called the July 16 Finance Committee Meeting to order at 9:32 a.m. A quorum was present during the meeting: Mr. Curto, Co Chair, Mr. Session, Ms. Wells and Mr. Conner (*ex officio*). Mr. Carter, Mr. Gates, Ms. Lang, Mr. McDermott and Mr. Williams were also present.

Consistent with Mr. Conner's opening remarks for the day's meetings, the Finance Committee met in executive session to discuss an information paper regarding the Aviation Enterprise's Series 2010D and 2011B Bonds bank facilities and replacements.

At 9:39 a.m. the Committee adjourned its executive session, at which time the regular session began. A quorum was present.

<u>Recommendation to Approve the Proposed Resolution Authorizing the Execution of the Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Agreement and the Issuance of Dulles Toll Road (DTR) Junior Lien Revenue Bonds, TIFIA Series 2014</u>. Mr. Rountree stated that he was joined by Bryan Grote, a financial advisor [from Mercator Advisors LLC]; Kenneth Lind, bond counsel from Nixon Peabody; and Phil Sunderland, Vice President and General Counsel. He reported that the 2014 Dulles Corridor Plan of Finance included working with the Transportation Infrastructure Finance and Innovation Act (TIFIA) program, a federal low interest rate infrastructure financing program, to obtain the remainder of the financing the Authority needed to complete Phase 2 of the Silver Line. Mr. Rountree stated that staff was requesting the Committee approve and recommend the Board approve the execution of a TIFIA Loan Agreement, and related TIFIA bond documents which would be issued as DTR Junior Lien Revenue Bonds. He explained that the TIFIA Loan Agreement with an amount not to exceed $1.278 billion included the terms of the agreement with TIFIA to administer and repay the loan, but that the actual debt instrument would take the form of a Dulles Toll Road Revenue Bond with TIFIA as the bondholder. The transaction required two major documents – the Tenth Supplemental Agreement related to the Dulles Toll Road Revenue Bond and the TIFIA Loan Agreement itself. Mr. Rountree stated that the Committee and Board were both being requested to consider the action at the day's Meeting in order to achieve a closing date in August. He noted that the draft resolution offered delegated to the Chairman or Vice Chairman the

final approval of the Bond and final Loan Agreement, after consultation with him, the Vice President and General Counsel, and the Finance Committee Co-Chairs. Mr. Rountree reported that some areas of the TIFIA Loan Agreement, most of which were administrative-related, still required some edits to terms prior to finalizing for closing the loan.

Mr. Rountree referred to several charts that were included in the materials provided for the day's Meeting. These charts summarized the total budgeted costs for both phases of the Project, as well as how these costs had been allocated among various funding partners. He also reviewed information about the total debt relative to the DTR for the Silver Line financing once the TIFIA loan agreement is finalized, as well as the portion of the debt being financed with the TIFIA loan.

Mr. Rountree reported that Finance Staff and Financial Advisors had long planned a financing structure using a junior or fourth lien for the TIFIA loan. Mr. Rountree was pleased to report that negotiations with TIFIA resulted in the recommended use of this junior lien, as had been long planned. With respect to the lien used for the TIFIA loan, Mr. Rountree noted that the TIFIA Loan Agreement, in the event of a Bankruptcy-Related Event (which is a defined term in the TIFIA Loan Agreement), included a springing lien provision that entitled the Department of Transportation (DOT) to certain additional rights consistent with Senior Lien bondholders. From a disclosure standpoint, this potential springing lien provision had previously been disclosed to existing bondholders in official statements already issued.

Mr. Rountree reviewed the process used to determine how the DTR revenues would be applied once they are received, referred to as the flow of funds, and used a chart that illustrated where in the flow of funds the DTR revenues would be used to repay the TIFIA loan. He also reviewed the purposes for the Renewal and Replacement Reserve Fund, Dulles Corridor Enterprise Reserve and Toll Rate Stabilization Fund and Capital Improvement Fund.

Mr. Rountree explained some of the key terms associated with the TIFIA Loan Agreement, which the Authority's staff had negotiated subject to Board approval. He reiterated that the fourth lien would be used and noted that the legal requirement for the debt service coverage ratio would be 1.2X with a targeted coverage ratio level of 1.25X, which had has been incorporated into the Authority's existing financial plan. Mr. Rountree noted that under a remote circumstance where a bankruptcy-related event occurred, the TIFIA loan springing lien would be triggered and the TIFIA loan could be considered as first senior lien debt, which would elevate their position in the flow of funds. He recalled that historically the Authority set aside approximately 10 percent of the total par value of a bond deal and deposited it in a Debt Service Reserve Fund that ultimately is used to pay off the last debt service payment. With the TIFIA loan, the Authority is expected to establish a Debt Service Reserve Fund of 10 percent of the principal before achieving substantial completion for Phase 2. This reserve requirement would not be borrowed from TIFIA as with a typical bond deal, but instead would be funded using Toll Road revenues.

Mr. Grote explained the loan term provisions related to additional bonds if they needed to be issued, the additional bonds' test requirements that would be associated with any additional bonds and the mandatory principal and interest payments. With regard to the loan repayment schedule, mandatory interest payments on the TIFIA loan would not begin until 2019. The first principal payment is scheduled in 2023 with a final maturity no later than 2050. Mr. Grote noted that TIFIA can be flexible in setting up the mandatory loan repayment schedule, and the repayments can be structured according to the projected cash flow. Therefore, the repayment schedule is sculpted to the Authority's projection of the future net revenue available for debt service.

Mr. Rountree reminded the Committee that there were additional obligations under its permit with the Commonwealth of Virginia which required funding, including maintaining the DTR; repairing or installing sound walls; replacing guard rails; and maintaining the toll system on the DTR as examples. The TIFIA Loan Agreement will require that the Authority obtain an independent consultant to review the life cycle cost associated with the Dulles Corridor, which would be used to prepare the annual budget for both renewal and replacement and capital improvement projects other than rail.

Mr. Rountree reviewed information that illustrated that tolls on the DTR would remain stable through 2018 as a result of the TIFIA loan and the Commonwealth of Virginia's $300 million additional contribution.

Ms. Merrick thanked Mr. Rountree and the team for its successful efforts on such a complex project.

Mr. McDermott asked about a provision in the TIFIA Loan Agreement which required the Authority, during the preparation of its budget, to estimate whether the DTR revenues would be sufficient to cover a certain set of payments. He noted that the provision further provided that the Authority would have a 36-month grace period to align the revenues correctly in the event these payments had not been satisfied. It also required the Authority to hire a consultant to provide assistance. Mr. McDermott suggested that the Board employ the same discipline to its annual budget session. Mr. Rountree stated that a lot of the provisions correlate with the budget, most of which the Authority already performed. He noted that the Traffic and Revenue Consultant provided the revenue estimates, and an external consultant reviewed the total operational and maintenance costs for the DTR. An independent consultant would also be required to prepare the Life Cycle Capital Cost Report. Mr. Rountree agreed that it is the Authority's obligation to bring the budget forward and point out specific provisions to ensure that they are being adhered to appropriately. Mr. McDermott requested that staff point out these provisions at the budget session in September.

Mr. Conner stated that Mr. Rountree and the Financing Team had done a remarkable job. He reported that when the Project had first begun, the Commonwealth of Virginia and DOT were uncertain about its financing. Mr. Conner said he is aware that the Project places a tremendous burden on the DTR users, and that the Authority will continue to work on those efforts as indicated thus far with Phase 2. He congratulated all involved in negotiating and ultimately receiving the largest TIFIA loan that the federal government had ever granted [for a single project (when combined with the related loans to Fairfax and Loudoun for the project)]. Mr. Conner reported that the Authority wished tolls could be lower and that work would continue in that regard.

The Committee approved the recommendation authorizing the execution of the TIFIA loan and the issuance of the DTR Junior Lien Revenue Bonds.

Mr. Rountree congratulated senior management, the Authority's advisors and attorneys and the Board for the continued support.

As a result of the Committee consensus, Ms. Merrick reported that the Financial Advisors' and June Financial Reports for both enterprises (which had been provided for the day's Meeting and posted on the website) would be accepted, as submitted.

The meeting was thereupon adjourned at 10:08 a.m.

At 10:17 a.m. Ms. Merrick reconvened the Committee Meeting.

Michael Wheet of Frasca & Associates L.L.C. stated that the Board had requested information regarding the Financial Advisors' recommendation on the solicitation for bankers to provide short-term interim financing for the construction period, pending the receipt of TIFIA Bond Anticipation Note funds. Consistent with the report provided for the day's Meeting, Mr. Wheet reported that the Financial Advisors recommend that the solicitation be terminated, which would not affect the opportunity for a future procurement. Mr. Wheet recalled that the Board had authorized the solicitation to learn about interest from firms that had been prequalified in the investment banking pool for a potential short-term interim financing vehicle, pending the access to the TIFIA loan. Once the responses had been received, Mr. Wheet indicated that the Financial Advisors had determined that neither of the two available options would offer substantial savings compared to the potential of drawing against a TIFIA loan. He stated that because the Authority has a variable rate funding mechanism in the form of commercial paper already in place, the Financial Advisors had recommended not proceeding with the procurement. As previously noted, the Financial Advisors' Report had been accepted earlier that day, and there being no objection to terminating the procurement, no action was necessary.

The meeting was thereupon adjourned at 10:20 a.m.