

FINANCE COMMITTEE MONTHLY MEETING
TUESDAY, OCTOBER 9, 2018
POINT BREEZE HEADQUARTERS BUILDING
BALTIMORE, MARYLAND

OPEN SESSION

MEMBERS ATTENDING: Jack Basso, Chair (via phone)
Katherine Bays Armstrong
Dontae Carroll (via phone)
John von Paris

STAFF ATTENDING: Yaw Berkoh
Joyce Diepold
Luther Dolcar
Trudy Edwards
Allen Garman
Chantelle Green (via phone)
Jim Harkness
Jaclyn Hartman
Kimberly Millender, Esq.
John O'Neill
Troy Parham
Kevin C. Reigrut
Deb Sharpless
Lora Tracy

OTHERS ATTENDING: John Magness, Canton Development Company
Melissa Odell, Canton Development Company
William (Bill) Seymour, SB & Company, LLC
Tiana Wynn, SB & Company, LLC

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

APPROVAL – OPEN MEETING MINUTES FROM SEPTEMBER 11, 2018 MEETING

Member von Paris called for the approval of the meeting minutes from the open meeting held on September 11, 2018. Member Jack Basso made the motion, and Member Katherine Bays Armstrong seconded the motion, which was unanimously approved.

APPROVAL – BOARD RESOLUTION 18-02 GARVEE REFUNDING

Mr. Allen Garman advised the Finance Committee that a refunding opportunity exists for the Grant and Revenue Anticipation (GARVEE) bonds issued in 2008 and that Maryland Transportation Authority (MDTA) staff has been working closely with staff from the Maryland Department of Transportation on the potential refunding. Mr. Garman presented MDTA Board Resolution 18-02 to authorize the issuance of the GARVEE Refunding Bonds Series 2018 (“2018 Refunding Bonds”) or other alternative financing options such as a direct loan. Mr. Garman requested a recommendation of approval from the Finance Committee to present this item to the full MDTA Board at its next meeting.

Resolution 18-02 authorizes the issuance of bonds to refinance the Series 2008 GARVEE Bonds for economic savings, as well as the funding of a debt service reserve and payment of issuance costs. Of the \$750 million of GARVEE bonds originally issued in 2007 and 2008, \$129.68 million remain outstanding. The Series 2008 GARVEE bonds are subject to an optional redemption (call) on March 1, 2019. Per Internal Revenue Service rules, current refunding bonds may be issued up to 90-days before the call date. Anticipated savings of approximately \$1.5 million for the refinancing transaction will be realized over a 12-month period.

The Executive Director and Chief Financial Officer have the authority to manage the bond sale and closing, including the awarding of the 2018 Refunding Bonds to the successful underwriting firm(s) or negotiate the terms of a private placement or direct loan with favorable loan repayment terms; the selection of other service providers; and the preparation and execution of all closing documents, certificates and bond forms.

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

UPDATE – INDEPENDENT AUDITOR’S REPORT FOR THE FY 2018 FINANCIAL STATEMENTS AUDIT AND SERVICE ORGANIZATION CONTROLS 1 REPORT

Ms. Deb Sharpless introduced Mr. William (Bill) Seymour, Engagement Partner, and Ms. Tiana Wynn, Senior Manager, from SB & Company, LLC. This is SB & Company’s second year as the MDTA’s independent financial auditor. They were selected following a competitive

procurement process and are also the auditors for the State of Maryland and the Maryland Department of Transportation.

Mr. Seymour briefed the Finance Committee on the results of the fiscal 2018 Financial Statements audit and the Service Organization Controls (SOC) 1 Report for the Maryland E-ZPass System.

For the fiscal year 2018 financial statements audit, the areas of audit emphasis included cash and investments, accounts receivable, capital assets, revenue recognition, accounting for debt and other long-term financing, intergovernmental agency relationships, service concession arrangements, and pension accounting. SB & Company issued an unmodified opinion on the financial statements and reported that no instances of fraud were discovered or noted, no material weaknesses in internal controls were discovered, and full cooperation was received from the MDTA's management.

For the SOC 1/Statement on the Standards for Attestation Engagements, SB & Company reviewed the 13 control objectives asserted by Conduent. No qualifications were made within the report; however certain areas were noted where the design or operating effectiveness of the control activities could be enhanced.

Member Basso commended staff on the unmodified audit results and thanked SB & Company for their work. Ms. Sharpless also acknowledged Ms. Joyce Diepold, Deputy Director of Finance, and Mr. Luther Dolcar, Financial Reporting Manager, for their hard work.

UPDATE - CANTON DEVELOPMENT COMPANY'S 2017 ANNUAL FINANCIAL STATEMENTS

Mr. John Magness, President and CEO of the Canton Development Company (Canton), briefed the Finance Committee on the Canton's Consolidated Financial Statements for the years ended December 31, 2017 and 2016.

Canton includes both the Canton Railroad and Freestate Logistics Services and has been owned by the MDTA since 1987. Canton Railroad, operates along 16 miles of track and provides railroad access to the Seagirt Marine Terminal. The Canton Railroad Company has served the Port of Baltimore and southeast Baltimore City industries for nearly 100 years. It connects with Conrail and CSX Transportation, offering customers direct service to one-third of the United States. Freestate Logistic Services provides contract switching services to customers located at the Principio Business Park in Perryville, Maryland.

In 2017, Canton's revenue increased by \$292,682 compared to 2016. Nearly 7,000 carloads and over 72,000 containers were transported over the Canton Railroad to the Intermodal Container Transfer Facility at the Seagirt Marine Terminal. Approximately 87% of the company's revenue was derived from services provided to four major customers.

Member von Paris thanked Mr. Magness for the report and for their continued efforts to improve Canton.

UPDATE – CREDIT RATING AGENCY REPORTS

Ms. Sharpless provided an overview to the Finance Committee on the MDTA's 2018 surveillance rating results. In August 2018, Fitch Ratings and Moody's Investors Service upgraded the MDTA's credit ratings to AA and Aa2, respectively. In September 2018, Standard and Poor's Global Ratings affirmed the MDTA's AA- credit rating. Fitch and Moody's attributed the ratings upgrades to the agency's superior financial flexibility, consistently high debt service coverage relative to peers, recent sizeable debt repayment with excess cash, prudent capital planning, and strong transportation corridor with continued traffic growth. Standard and Poor's attributed its rating affirmation to the MDTA's strong financial performance, debt and liabilities capacity, liquidity, and financial flexibility.

Member von Paris congratulated Mr. Reigrut and Ms. Sharpless on this impressive accomplishment.

UPDATE – DYNAMIC TOLLING

Mr. John O'Neill explained the concept of dynamic toll pricing whereby toll rates are adjusted on a real-time basis using an algorithm designed to maintain consistent traffic speeds and volume. If a traffic slowdown is detected, the toll rate is increased to dissuade drivers from using the roadway.

Member von Paris thanked Mr. O'Neill for the update and requested that staff continue to brief the MDTA Board on the utilization of congestion managed pricing throughout the tolling industry.

There being no further business, the meeting of the Finance Committee adjourned at 10:00 a.m., following a motion by Member Armstrong, and seconded by Member Carroll.

Peter J. Basso, Chairman