

FINANCE COMMITTEE MONTHLY MEETING
TUESDAY, DECEMBER 8, 2020
OPEN MEETING VIA LIVESTREAMING

OPEN SESSION

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

STAFF ATTENDING: Jeffrey Davis
Cheryl Dickinson
Allen Garman
Chantelle Green
Natalie Henson
Cheryl Lewis-Orr
Kimberly Millender, Esq.
Ken Montgomery
Ebony Moore
Gerald Noonan
Mary O’Keeffe
Will Pines
Jim Ports
Deb Sharpless
Christina Thompson
Clayton Viehweg
Eric Willison

OTHERS ATTENDING: Marisabel Sosa – MDOT TSO

At 9:01 a.m., Member von Paris, Chair of the Finance Committee, called the Finance Committee Meeting to order.

APPROVAL – OPEN MEETING MINUTES FROM NOVEMBER 10, 2020 MEETING

Member von Paris called for the approval of the meeting minutes from the Open Meeting held on November 10, 2020. Member Dontae Carroll made the motion, and Member Jeffrey Rosen seconded the motion, which was unanimously approved.

APPROVAL – FY 2021-2026 FINANCIAL FORECAST

Ms. Deb Sharpless requested a recommendation of approval from the Finance Committee to the full Maryland Transportation Authority (MDTA) Board of the MDTA's FY 2021-2026 Financial Forecast. Ms. Sharpless noted that the forecast has been updated with the primary goal of addressing an error that was discovered regarding the unencumbered cash balance reported in FY 2021. Other changes throughout the forecast period include a slight increase in net operating revenue, a reduction in debt issuances due to the assumed purchase of a surety policy, and associated modifications in the MDTA's cash balances.

Consistent with the November 2020 forecast, the MDTA will remain above its financial goals and legal standards throughout the FY 2021-2026 period. Additionally, no systemwide toll increases are needed in the forecast period.

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

APPROVAL – INVESTMENT POLICY

Mr. Allen Garman requested a recommendation of approval from the Finance Committee to present the Investment Policy to the full MDTA Board at its next scheduled meeting.

The Board Policy on Investment Management establishes guidelines for the safeguarding and management of the MDTA's cash and investments. The Policy requires annual review and approval by the Board. Following a recent review by the Investment Committee, including input from the municipal advisor PFM, modest changes to the Investment Policy are currently recommended. The proposed changes include (1) eliminating the Qualified Institutional Buyer (QIB) section in Policy Statement 7 due to a change in the Securities and Exchange Commission rule that expands the definition of a QIB to include governmental entities; and (2) increasing the maximum permitted allocation to the Maryland Local Government Investment Pool and individual Money Market Mutual Funds to 50% from 30%.

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.

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APPROVAL – DEBT SERVICE COVERAGE CALCULATION METHODOLOGY

Mr. Allen Garman requested a recommendation of approval from the Finance Committee to present the Debt Service Coverage (DSC) calculation methodology to the full MDTA Board at its next scheduled meeting.

Mr. Garman noted that the DSC is not a legally required calculation subject to defined terms and that the only reference to a target is contained in the MDTA Board-adopted Debt Policy (without defined terms or a prescribed calculation methodology). In the absence of a legal framework, DSC uses a well-established industry standard methodology and is generally understood to be Net Revenues divided by Debt Service (typically excludes non-cash items). For simplicity of calculation, the MDTA has historically used a narrower Net Revenues component in the DSC calculation that excludes Hatem Bridge net revenues and investment income. It was simpler to use the same Net Revenues for both the Rate Covenant calculation and Debt Service Coverage. Additionally, the Hatem Bridge net revenues were not material to the calculation, though they have grown with reductions in operating costs in recent years.

Given that the Hatem Bridge net revenues and investment income are part of the trust estate and flow through the trust accounts, these sources of revenues may be included in Net Revenues when calculating DSC, but cannot be included in the Rate Covenant coverage calculation. With a goal of showing a more comprehensive DSC ratio, Management is recommending a slight change in the debt service coverage calculation methodology to include net revenues of the Hatem Bridge and investment income.

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 – CREDIT RATINGS

Consistent with the MDTA's Debt Policy, Mr. Allen Garman requested a recommendation of approval from the Finance Committee to present a change to the purchase of Credit Ratings to the full MDTA Board at its next scheduled meeting.

Mr. Garman noted that the MDTA has traditionally obtained three credit ratings. However, as a cost savings measure, Management recommends maintaining/purchasing two credit ratings for the MDTA's outstanding debt and new issue financings. Although investors may be interested in the opinion of more than one Nationally Recognized Statistical Ratings Organization, the lower interest rate pricing benefits diminish significantly beyond one rating and the MDTA's Municipal Advisor and recent underwriter do not believe there is any value associated with a third credit rating. That is, the cost of the third credit rating in terms of both the new issue cost and the annual surveillance fee is not offset by any change in financing rates.

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As such, the maintenance of a third credit rating is uneconomic, representing a cost without any offsetting reduction in new issue financing rates.

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 – NOTICE OF TOLLS DUE PROCESSING

Mr. Will Pines updated the Finance Committee on the MDTA's efforts to address the Notice of Toll Due (NOTD) Backlog.

In response to the COVID-19 pandemic, and to assist and provide financial relief to customers, the MDTA temporarily paused the processing and mailing of NOTDs on March 17, 2020. The processing and mailing of NOTDs resumed in mid-October 2020, beginning with unpaid transactions for trips made from March through June 2020.

To help address the backlog, the MDTA formed a multi-divisional workgroup responsible for developing and implementing a plan for addressing the backlog of NOTD certifications. A core strategy of the workgroup entailed transitioning toll collection staff from performing COVID-19 screenings to image reviews. As part of this process, there were several issues that needed to be addressed such as training, workspace accommodations, and the acquisition of computer equipment and software. The challenges identified by the workgroup have since been addressed and in mid-December, the MDTA will begin certifying image reviews of unpaid NOTDs.

UPDATE – CONTRACT NO. MA-549-000-006 – ELECTRONIC TOLL SYSTEM REPLACEMENT AND OPERATION CONTRACT MODIFICATION NO. 30

Mr. Gerald Noonan presented an update on Contract No. MA-549-000-006. The MDTA intends to execute Modification #30 to reallocate unspent funds from line items that are no longer used to those line items that require funding going forward. The current contract is set to expire on March 6, 2021, and this modification is intended to cover costs through February 2021.

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VOTE TO GO INTO CLOSED SESSION

At 10:32 a.m., upon motion by Member Penny-Ardinger and seconded by Member Carroll, the Members voted unanimously to move into Closed Session under §§3-305(b)(7) and 3-305(b)(8) of the General Provisions Article of the Annotated Code of Maryland to discuss potential litigation and receive legal advice regarding a dispute regarding the Resource Sharing Agreement between the State and Level 3 and a potential settlement.

Members Carroll, Penny-Ardinger, Rosen, and von Paris were in attendance for the Closed Session. The following staff were present during the closed session: Chantelle Green, Kimberly Millender, Esq., Jim Ports, Deborah Sharpless, and Marisabel Sosa (Maryland Department of Transportation Secretary's Office).

VOTE TO ADJOURN CLOSED SESSION

At 10:52 a.m., a motion was made by Member Carroll and seconded by Member Rosen, which was unanimously approved, to adjourn the Closed Session and return to Open Session.

RATIFICATION OF ACTION TAKEN DURING CLOSED SESSION

Upon motion by Member Penny-Ardinger and seconded by Member Carroll, the Members ratified their unanimous vote in Closed Session to recommend approval of the proposed settlement terms for the pending dispute between the State and Level 3 for its Resource Sharing Agreement.

There being no further business, the meeting of the Finance Committee adjourned at 10:54 a.m., following a motion by Member Rosen, and seconded by Member Carroll.

John von Paris, Chairman