

**THE ILLINOIS STATE TOLL HIGHWAY AUTHORITY
MINUTES OF THE
FINANCE ADMINISTRATION OPERATIONS COMMITTEE
MEETING**

August 18, 2011

The Illinois State Toll Highway Authority held a Finance Administration Operations Committee Meeting on Thursday, August 18, 2011 at approximately 8:00 a.m. at the Central Administration Building in Downers Grove, Illinois.

Directors on the Committee in attendance were as follows:

Committee Chair Maria Saldaña

Director Tom Canham

Committee Chair Saldaña called the meeting to order. Director Canham moved to approve the Minutes of the Finance Administration Operations Committee meeting held on July 28, 2011; seconded by Director Saldaña. The motion was approved unanimously.

Presentation of Quarterly Financial Review for the 2nd Quarter

Committee Chair Saldaña introduced Mike Colsch, Chief of Finance, to give a presentation on the Quarterly Financial Review for the quarter ending June 30, 2011. Mr. Colsch reported a positive variance in actual expenditures compared to budgeted expenditures in the amount of \$3,082,000 for the second quarter and \$6,592,000 for the first and second quarters combined. However, he indicated that investment income continues to underperform. The Tollway budgeted \$2 million in investment income for 2011 which equates to an average of 25 basis points. However, the Tollway's investment income is currently expected to yield an average of 15 basis points for the year.

Director Canham asked why the investments are underperforming. Ms. Lafleur and Mr. Colsch indicated that the performance is due largely to the restriction on the type of investments allowed by statute.

Director Saldaña asked whether the Tollway is required to invest in U.S. Treasuries or money market funds guaranteed by the U. S. Treasury. Mike Colsch responded yes.

Executive Director Kristi Lafleur indicated that restrictions on the types of investment that can be made by the Tollway have been imposed by statute because historically there has been concern about losing public money in financially risky investments. She also indicated that these investment restrictions can become a bigger issue in the future as larger bond issues are anticipated pending the approval of the capital plan.

Mr. Colsch indicated that there has been 1.3 percent growth in passenger vehicle traffic and 5.4 percent growth in commercial vehicle traffic.

Director Saldaña asked how much of the total toll revenue was contributed by commercial vehicles. Mr. Colsch responded that commercial traffic represents 43 percent of toll revenue and that commercial traffic was up 4.3 percent during the second quarter of 2011.

Regarding the Maintenance & Operations (M&O) budget, Mr. Colsch indicated that the payroll and related costs are down by \$2.7 million. Approximately half of that variance can be attributed to the timing of retirement payments – employer contributions required are lower during the first half of the year. The remaining variance is contributed primarily to unfilled job openings. He also noted positive budget variances in contractual services, materials/operational supplies/other expenditures; all other insurance; and equipment/office rental and maintenance.

Ms. Lafleur indicated that the group health insurance cost was down in the second quarter due to changes in the health plan and a slightly lower headcount. She noted that additional health care savings will be realized next year when employee contributions to health premiums begin.

Regarding the year to date M&O expenditures, Mr. Colsch indicated that there was a positive variance of over \$6.4 million of which approximately \$2 million was attributed to timing of purchases and approximately \$4.4 million was attributed to true savings.

Regarding capital program expenditures, Mr. Colsch indicated that the Tollway is under budget for the second quarter by over \$20 million. He indicated that a \$25-\$30 million savings in expenditures is projected for 2011 due to contract close out savings, lower bids and changes in project scope.

Mr. Colsch reviewed the impact of gas prices on toll revenue growth. He noted a decrease in revenue during April – June 2011 due to higher fuel prices. Some of the revenue growth was recovered when fuel prices stabilized in late June.

Director Canham asked what the spikes in growth on the charts indicate. Mr. Colsch indicated it could be due to holiday usage and that the spikes are expected at the end of the 28-rolling day average.

Mr. Colsch summarized the 2011 toll revenue outlook as follows:

- For the first half of 2011, toll and evasion revenue totaled \$5.8 million more than budgeted, or a 1.8 percent difference.
- Overall, gas prices still remain higher than a year ago. A sustained rise in prices, and reduced forecasts for job growth could contribute to slower revenue growth in the second half of the year.
- Recently released projections showed that weakness in economic growth may continue through 2012. However, the Tollway expects to meet or exceed 2011 budget estimates.
- Staff will continue to monitor economic and fuel price conditions as well as improve efforts to reduce nonpayment of tolls.

Financial Advisory – Synthetic Fixed Rate Restructuring/Refunding

Mr. Colsch reminded the committee that the Board approved an adjustment to the contract with the pool of financial advisors which allowed selected FA's to assist staff in developing criteria and

identifying issues that should be considered when determining how to manage the remaining synthetic fixed rate debt.

AC Advisory worked with staff for several months to determine the appropriate triggers for refunding/restructuring the \$1.302 billion synthetic variable rate bonds (Series 1998B, 2007A and 2008A), which will include the termination of the associated swaps. Their work included: evaluation of the debt portfolio; impact of new and projected regulatory environment; considerations for refunding/restructuring the bond portfolio; criteria for refunding/restructuring; and refunding/restructuring alternatives.

The summary of recommendations provided by AC Advisory, Inc. included:

- (1) Establishing criteria to consider terminating swaps if the increase in cost to the Tollway to refund the variable rate bonds and terminate the swaps is not more than 50 basis points.
- (2) Monitor the trading levels of those bonds (Series 1998B and 2007A1) which have Helaba and Citibank as credit providers and Assured Guaranty as an insurance provider.
- (3) Consider the impact of Basel III and the Dodd-Frank Act on pricing and availability of bank credit facilities in the near future.

Mr. Colsch noted that the cost to terminate swap positions was approximately 80-95 basis points at the time of presentation and, therefore, no action was recommended at that time. He also indicated that AC Advisory recommended that the Tollway continue to evaluate and consider alternative products such as fixed rate notes and indexed notes.

Director Canham asked about the rollover period for index notes. Mr. Colsch indicated that 2-3 years is typical and noted that he needed to confirm whether the bond indenture allows that type of note.

Director Saldaña commented that the report was very well done. She asked whether the staff has the capacity to monitor the market in-house

or whether the Tollway should continue to retain the pool of financial advisors to monitor the market. Mr. Colsch indicated that the contract term expires in December for the current pool of financial advisors. Ms. Lafleur commented that previously the pool of advisors was used on a transactional basis. She indicated that future contracts will allow retaining the pool of financial advisors on a non-transactional basis also.

Director Canham recommended commissioning a similar report for the end of year in preparation for the 2012 budget.

Financial Advisor Report on proposed Capital Plan

Mr. Colsch indicated that Columbia Capital had been retained to assist the Tollway with developing financial modeling for the capital plan. He reviewed the assumptions used to develop the capital plan including: (1) revenue projections based on revenue increases and traffic volumes provided by traffic engineers; (2) a four percent annual increase in expenses; (3) the financial plan including a balance of current revenue and bond funding; and (4) credit rating and financing costs minimized by maintaining two times coverage.

Based on their analysis, Columbia Capital provided the following review:

Bond capacity for the new plan is between \$4.5 and \$5.0 billion of senior lien bonds between 2012 and 2020 while satisfying debt service coverage objectives of 2.0 times. Additional bond capacity is available at a higher cost of financing in subordinate debt in the amount of \$2 to \$2.5 billion. Columbia Capital concluded that based on their financial model the proposed capital plan would allow key agency rating ratios maintained at typical levels of AA rated toll road issuers.

Director Canham commented that the incremental financing strategy proposed by Director Morris for the capital plan assumes that the Board will not continuously re-assess the plan. Director Canham indicated that constant monitoring and re-assessment will be needed for any proposed capital plan. Mr. Colsch indicated that it is important to have certainty in the capital plan to gain access to the financial markets. Director

Saldaña agreed that it is important to have a reliable stream of revenue for a capital plan to secure bond issues. She noted that incremental toll rate increases that are subject to multiple votes do not provide a reliable stream of income.

Director Canham indicated that a stable capital plan is needed for customers also so they have confidence that the capital plans are actually completed.

Director Canham asked the staff to review the alternative proposals carefully to ensure that the staff has considered the merits of each. Ms. Lafleur indicated that staff will be very clear about the impact of alternative proposals on project costs and timing.

Committee Chair Saldaña opened the floor for public comment. No comments were offered. She then called on various department Chiefs to present contract items to be approved by the FAO committee and referred to the Board Consent Agenda. She called on Mike Colsch, Chief of Finance, to present the following:

Approval of payment to the Office of the Auditor General Audit Expense Fund for the 2010 Financial and Compliance Audit in the amount of \$562,008.

Director Canham moved for approval. Seconded by Director Saldaña. The motion was approved unanimously. Committee Chair Saldaña called on Shana Whitehead, Acting Chief of Business Systems, to present the following:

Award of Contract No. 11-0200 to Ada S. McKinley Community Services, Inc. for Transponder Fulfillment in the amount of \$2,640,000. (State Use)

Director Saldaña asked about the size of the contract awardee. Ms. Whitehead indicated that 6-8 disabled workers are employed by this organization to do this work and a significant portion of the contract dollar limit includes postage pass-through, cost to recycle and cost to package the transponders. She indicated that this three year contract will

provide a ten percent savings over current contract costs or approximately \$76,000.

Award of Contract No. 11-0214 to The Printers Mark for Printing & Mailing in the amount of \$5,460,000. (State Use)

Ms. Whitehead indicated that this contract represents a twenty percent cost savings or approximately \$1.8 million over the course of 3 years for the Tollway compared to the current contract.

Director Canham moved for approval; seconded by Director Saldaña. The motion was approved unanimously. Committee Chair Saldaña called on John Donato, Procurement Chief to present the following:

Award of Contract No. 11-0160 to Cargill Salt Company, North American Salt Company, Hutchinson Salt Company, Incorporated and Morton Salt Company, Incorporated for Rock Salt, in an amount not to exceed \$6,269,401.20 (CMS Master Contract).

Renewal of Contract No. 09-0130 to Brahlens Truckers Supply, Incorporated for Retread Tires, increasing the contract upper limit by \$12,000.00 from \$33,000.00 to \$45,000.00 (CMS Master Contract).

Award of Contract No. 11-0082 to Silk Screen Express, Incorporated and DVL Enterprises, Incorporated/dba Tamden Promotions for Uniforms, in an amount not to exceed \$240,000.00 (CMS for Tollway).

Award of Contract No. 11-0038 to Advanced Waterjet Technologies, LLC for Refurbishing Services for Aluminum Sign Blanks and Extrusions, in an amount not to exceed \$93,730.00 (Tollway IFB).

Award of Contract No. 11-0093 to Addison Building Materials Company, Incorporated and 84 Lumber Company for Fast Setting and Portland Cement, in an amount not to exceed \$39,162.00 (Tollway IFB).

Director Canham moved for approval; seconded by Director Saldaña. The motion was approved unanimously. Committee Chair Saldaña called on Paul Kovacs, Chief Engineer, to present the following items:

Award of Contract No. RR-11-9106R to A.C. Pavement Striping Co. for Pavement Markings Systemwide in the amount of \$1,094,866.

Final Release of Retainage on Contract No. RR-10-5610 to Plote Construction, Inc. for Ramp Pavement Reconstruction on the Reagan Memorial Tollway (I-88) from Milepost 94.1 to Milepost 94.5 (Peace Road Interchange – Ramps J and K) in the amount of \$113,256.07.

Final Release of Retainage on Contract No. RR-09-9058 to John Burns Construction Company for Weigh-In-Motion Installation on the Tri-State Tollway (I-294 Northbound) at Milepost 0.9 (between Chicago Southland Lincoln Oasis and Chicago Road); and the Tri-State Tollway (I-94 Eastbound) at Milepost 3.2 (IL Route 173) in the amount of \$108,101.34.

Director Canham moved for approval; seconded by Director Saldaña. The motion was approved unanimously. Committee Chair Saldaña called on Tom Bamonte, General Counsel, to present the following items:

An Intergovernmental Agreement with the Illinois Department of Transportation – Rt. 25 & 72. Cost to the Tollway: \$0.

An Intergovernmental Agreement with the Department of Central Management Services (CMS). Cost to the Tollway: Upper limit of \$2,200,000.

Executive Director Lafleur indicated that purchasing this IT system through CMS represents \$800,000 in savings compared to pricing available to the Tollway without CMS's volume discount. Director Saldaña asked how the system is used. General Counsel explained that data such as license plate images and other customer related information is stored on this system.

Joe Kambich, Chief of Information Technology indicated that the current equipment will be at the end of life in December which will

result in loss of technical support for the system. Mr. Kambich added that the new system will be the foundation for the disaster recovery.

Director Canham asked how long the Tollway needs to keep customer information. Ms. Lafleur indicated six years is required for license plate images. General Counsel Bamonte indicated that legislators recently passed the IPASS Customer Privacy Bill. As a result, the Tollway will develop a customer information retention policy in accordance with that legislation.

Identification of Real Estate Parcels for I-90 and Rt. 47 Interchange – Kane County. Cost to the Tollway: Budget for Right of Way \$320,000.00.

Identification of Real Estate Parcels for I-294 & 57 Interchange – Cook County. Cost to the Tollway: Budget for Right of Way \$1 million.

Director Canham asked how many appraisals are required for land acquisition unit. General Counsel indicated that at least one appraisal is required. Mr. Kovacs indicated that in addition to the external appraisal a separate external appraiser is used to review the appraisal.

Director Canham moved for approval; seconded by Director Saldaña. The motion was approved unanimously.

There being no further business Committee Chair Saldaña requested a motion to adjourn. Director Morris moved to adjourn; seconded by Director Canham. The motion was approved unanimously.

Meeting adjourned at approximately 9:10 a.m.

Minutes taken by: _____

Tranece Artis
Board Secretary
Illinois State Toll Highway Authority