

**Transportation Toll Facility Advisory Committee
Quarterly Meeting
October 14, 2021**

1. **Call to Order:** Bryan Cunningham, Chairman, called the meeting to order at 11:33 am.

2. **Roll Call**

Committee Members in Attendance

Bryan Cunningham
Rachel Anderson
Tawanna McFarlin
Dr. Shirley Auguste

Ex-officio Members in Attendance

Robert N. Geis
Earl Sorey

Committee Members not in Attendance

Kemo Dassau
Lynne Kennedy

Ex-officio Members not in Attendance

Kelly Lackey

Non-Committee Members in Attendance

Gary Walton
Sandra Hodge
Terry Shaw
Meredith St. John via Zoom
Richard Hartwick via Zoom

Belinda Malone via Zoom
Sean Ekiert
Kevin Crum via Zoom
Dave Cuneo via Zoom
Jason Brown

3. **Approval of Meeting Minutes**

Mr. Cunningham opened the floor for questions or discussion of the meeting minutes for the July 15, 2021 meeting; hearing none, a motion for approval was made and seconded, a roll call was taken and the meeting minutes were approved unanimously.

4. **Chesapeake Transportation System Financial & Traffic Summary**

Mr. Sean Ekiert of Raymond James (financial advisor to the City), and via Zoom, Mr. Dave Cuneo of Steer (traffic and revenue consultant for the Chesapeake Transportation System) presented the financial and traffic performance of the Chesapeake Transportation System (“CTS” or “the System”), as well as the traffic and revenue trends on the Chesapeake Expressway and Dominion Boulevard Veterans Bridge as contained in the attached presentation.

Recent Results and Key Developments (Presented by Mr. Ekiert)

- Operating result for FY21:
 - Expressway toll revenue was above forecast by \$1,970,000 and Dominion Blvd. toll revenue was above forecast by \$270,000

- Operating expenses were \$2M below forecast
- Net Revenues for FY21 were sufficient to make all required payments and deposits as well as make an additional VTIB debt payment of \$5.48M from surplus revenue
- Key Developments since October 2020 and January 2021 Update:
 - Planned toll on the Chesapeake Expressway was implemented on May 1, 2021
 - The regular annual toll increase on Dominion Blvd. as implemented on July 1, 2021
 - On April 8, 2021 Fitch (Rating Service) upgraded its credit rating on the CTS Senior Bonds from "BBB" to "BBB+", with a stable outlook
 - S&P has maintained its credit rating on the CTS Senior Bonds at "BBB+" with a negative outlook since April 2020 (during the pandemic)
 - Peak season weekend traffic on the Chesapeake Expressway in 2021 exceeded pre-pandemic (2019) levels by 13.5%, despite higher toll rates
 - Dominion Blvd. traffic has recently been 1% above pre-pandemic levels (July – September)

2020 and 2021 Traffic Performance (Presented by Mr. Cuneo)

- Since the steep drop in traffic due to COVID in March and April 2020, traffic levels have recovered with the Expressway consistently exceeding 2019 levels
- Dominion Blvd has recovered more slowly than the Expressway but has recently recovered to levels similar to 2019.

Monthly Toll Revenue Trends (Presented by Mr. Cuneo)

- For the Chesapeake Expressway, revenue has rebounded nicely after the initial drop due to COVID in March/April 2020. Revenue has consistently out-performed pre-pandemic levels and consistently exceeded forecast;
- For FY22 revenue has increased significantly due to strong traffic demand and increase in toll rates;
- For Dominion Blvd recovery was much slower and didn't reach pre-pandemic levels until March 2021; since that time revenue has consistently met or exceeded pre-pandemic levels and is near forecast.
- For FY22 revenue has increased above pre-pandemic levels and is at forecast.

Chesapeake Expressway Revenue and Traffic (Presented by Mr. Cuneo)

- These graphs reflect the very strong performance of both toll revenue and toll transactions;
- Toll revenue for FY21 exceeded FY20 levels by 25.4% and exceeded forecast by 13.7%;
- Toll traffic for FY21 exceeded FY20 levels by 14% and exceeded forecast by 8.5%

Chesapeake Expressway Peak Season Toll Revenue (Presented by Mr. Cuneo)

- Total peak season toll revenue increased by 27.4% over 2019 (pre-pandemic);
- The graph reflects the very strong growth trends throughout peak season (May-September)

Dominion Blvd. Comparison with Prior Forecast (Presented by Mr. Cuneo)

- The graph presents the traffic and revenue trends for the last 5 fiscal years with a comparison to forecast;
- FY20 clearly shows the impact of COVID on traffic and revenue as both were well below forecast;
- FY21 traffic and revenue rebounded such that performance matched forecast;

Dominion Blvd. Payment Method Shares (Presented by Mr. Cuneo)

- Use of E-ZPass continues to grow and now accounts for 84.8% of all toll transactions;
- Toll-by-Plate transactions increased to 15.2% of toll transactions;
- E-ZPass transactions will need continued growth to attain the goal of 89% of all toll transactions as forecasted.

Dominion Blvd. Toll-by-Plate Performance (Presented by Mr. Cuneo)

- During FY21, toll-by-plate collected revenue exceeded collection costs while limiting leakage to 7% of total Dominion Blvd. toll-by-plate revenue.

Dominion Blvd. Monthly Average Daily Traffic (Presented by Mr. Cuneo)

- Monthly traffic has mostly increased with seasonal fluctuations;
- May and June 2021 traffic level approached pre-pandemic levels.

CTS Operating Expenses and Renewal and Replacement (Presented by Mr. Ekiert)

- Based on preliminary, unaudited results for FY2021 operating expenses for the year were \$2.0 million less than forecast which contributed to the positive operating results for the year;
- Operating expenses have been very consistent and below forecast for the last 4 fiscal years; forecast for the next 5 years is conservative and reflects expected growth and expenses during that time frame;
- Renewal and Replacement deposits for the next 5 years are somewhat higher than previous years and reflects increasing maintenance and renewal costs associated with aging of the facilities;

Detailed CTS Financial Plan (Presented by Mr. Ekiert)

- The graph presents each expense category and annual revenue for the previous 5 fiscal years and the forecast for the next 5 fiscal years;
- For FY21 a significant end of year payment of excess revenue to the VTIB loan was made; however the expected end of year payment to the VTIB loan is smaller in the coming fiscal years due to higher operating expenses, debt service payments and increased renewal and replacement deposits;
- Reserve fund balances are available for unforeseen circumstances if needed but were not needed for any impacts from COVID; it should be noted that additional deposits to reserve funds cannot be made due to the requirement that excess revenue must be allocated to the VTIB additional payment;
- If reserve funds are needed, it would be possible to replenish those funds under certain circumstances;

Mr. Cunningham inquired about reserve fund minimum balances and Mr. Ekiert responded that some reserve accounts have minimum balances and they are currently funded to those balances. Dr. Auguste then inquired about interest earned on reserve account balances and Mr. Ekiert responded that interest earned on reserve accounts is treated as toll revenue.

Actual and Projected Financial Performance (Presented by Mr. Ekiert)

- In the CTS financial plan the goal is to have enough revenue to cover all required debt service and deposits plus an additional 20% which equates to surplus revenue of approximately \$3 million dollars annually;
- In FY20, toll revenue was below forecast but Surplus Net Toll Revenue remained positive due to operating expenses coming in below forecast;
- In FY21, toll revenue exceeded forecast by \$2.2M, and operating expenses were below forecast by \$2.2M, resulting in very strong Surplus Net Toll Revenue of \$5.2M;
- For FY22 excess revenue is expected to be below the \$3 million target, however excess revenue is expected to exceed the \$3 million target in FY23 and going forward;

Observations and Conclusions (Presented by Mr. Ekiert)

- CTS is projected to be in compliance with its financial requirements in future years but with minimal surplus revenues in FY22 based on the December 2020 Traffic and Revenue Forecast;
- Based on calendar 2021 performance to date, FY22 operating results may be more favorable than forecast;
- City/CTS staff have been presented with potential scenarios to refinance of the 2012 A and B Toll Revenue Bonds with further analysis on feasibility ongoing;
- The next toll increase on the Chesapeake Expressway is scheduled for May 2026 based on the adopted toll schedule;
- 5% Annual toll increases in the E-ZPass toll rates with corresponding increases in the toll-by-plate rates are scheduled on Dominion Blvd.

- No changes are recommended to the adopted toll schedules at this time.

Dr. Auguste inquired about the fluctuations in the renewal and replacement deposits (as shown on slide 12) and Mr. Walton replied that the annual renewal and deposit amounts are determined by an engineering consultant based on their inspections, conditions of the facilities and estimated repair costs. The annual amounts will fluctuate from year to year based on the programming and timing of the construction projects for the renewal and replacement work. The increase in FY22 is partially attributable to work deferred as a result of negative impacts to revenue from the pandemic. Mr. Sorey then inquired about the type of work performed and Mr. Walton highlighted items such as milling and paving, storm water system maintenance, sign replacements and replacement of tolling equipment. Dr. Auguste then inquired about potential near term and mid-term impacts to traffic as it relates to the ongoing computer chip shortage. Mr. Walton replied that our consultants look at industry and economic trends and they all go into the modeling forecast that occurs every two years. The model updates are able to incorporate ‘changes’ due to known or highly expected changes or events but cannot account for unexpected events such as the pandemic until after the fact. For example, the 2020 model update did incorporate impacts from the COVID pandemic, but the 2018 model update did not and could not have predicted the pandemic and its impact on traffic and revenue. Mr. Cuneo also stated with respect to the current computer chip shortage there have been no indications of impacts, however, events such as this will require monitoring so that if impacts begin to occur, the next model update can incorporate this information. Mr. Ekiert then advised that the traffic and revenue models as well as financial models are structured so that model outputs are conservative and therefore the system can absorb unexpected events due to the conservative approach.

Ms. McFarlin then inquired about the negative bond rating (outlook) issued by Standard & Poors and why that was issued. Mr. Ekiert responded that the rating agencies assign a rating to our bonds based on their analysis of the likelihood that all required payments are going to be made on time. The rating agencies also look at how the industry (tolling) is doing and that all toll facilities were negatively impacted by the pandemic resulting in reduced traffic and revenue throughout the industry. Mr. Ekiert advised that the negative outlook assigned by S&P is indicative of reduced confidence (over the next 2 years) in the ability to make all required payments due to the pandemic. The rating has not been reduced, just the outlook; it is believed that after S&P reviews the most recent data, it is very likely the negative outlook will be removed and replaced with a ‘stable’ outlook or could even be upgraded to a ‘positive’ outlook due to the strong performance of the system. It is currently expected that S&P will re-evaluate CTS in the 1st or 2nd quarter of 2022. Dr. Auguste then inquired whether S&P looks at our reserve accounts and Mr. Ekiert responded that the reserve account balances are part of the system review performed by S&P. The CTS currently has “BBB+” ratings which would likely be lower if not for the reserve account balances which are very strong and the system is currently at the target rating level desired. Mr. Sorey then inquired about the differences between S&P and Fitch Ratings and whether S&P is more conservative in the review and

ratings; Mr. Ekiert responded that S&P may be somewhat more conservative, but that the timing of the reviews can have an impact on differences. In this instance, S&P performed their review just before the ‘full’ impact from the pandemic as known, but Fitch performed their review once the ‘full’ impact from the pandemic was better known and CTS was in a better position due to strong traffic and revenue performance. Mr. Geis then commented that there is an expectation that our next reviews will better reflect the strong performance of the system during the peak of the pandemic and subsequent rebound as pandemic impacts dropped. Mr. Ekiert then added that CTS has always received high ratings due to the strong financial management of the system.

Ms. Anderson then inquired about the possible refinance of CTS debt and whether the City was awaiting another S&P review with an expectation that the negative outlook would be revised upward and therefore positively impact the refinancing effort. Mr. Ekiert advised that a negative outlook could affect the finance rate; the earliest date at which a refinance can occur is in mid-2022. If S&P has not performed their analysis prior to the refinance effort, CTS will proactively engage S&P to perform the review in advance of the refinance to secure the lowest possible rate.

Ms. McFarlin then inquired about future toll increases and when they stop; Mr. Walton then advised that the currently adopted toll rate schedules go through 2036. As 2036 approaches, the CTS team, consultants and TTFAC will need to work together to create a new toll schedule for City Council to adopt. Mr. Geis advised that by adopting a long term schedule, it more easily facilitates toll rate consistency and provides that City Council only needs to take action if a change to the adopted schedule is needed but otherwise the rates remain as established in the schedule. Mr. Ekiert then advised that if the models and forecast were to begin to show difficulty with meeting our financial obligations, they would bring a recommendation for a toll rate adjustment but thus far that has not been necessary; conversely, if financial performance improved and became much greater than expected, a reduction in toll rates would also be submitted. Thus far, the system forecasts have been very close to actual performance thus no changes to the adopted toll rate schedule has been made since it was established. Mr. Walton then reviewed the toll rates and schedule of toll increases. Dr. Auguste then commended the CTS team for their work and efforts during the pandemic. Mr. Sorey then reviewed efforts by the City to recognize the efforts of all city staff during the pandemic. Mr. Walton then thanked the entire CTS team – city staff, consultants, toll vendors, and TTFAC for the collaboration and teamwork. Mr. Geis also recognized the work performed by TTFAC.

Mr. Sorey then advised that we need to get onto the City Council work session calendar in January or February.

5. South Norfolk Jordan Bridge (SNJB) Update:

Mr. Crum presented an update for the South Norfolk Jordan Bridge. Year-to-date (YTD) traffic has increased 18.8% as compared to the same period in 2020 and has increased 4% as compared to 2019. YTD average weekday traffic is 9,920 vehicles per day. This is significant considering the major COVID restrictions imposed in the region. Weekend and truck traffic remain excellent and they experienced the largest monthly truck volumes in 2021 since the facility opened. September was the fourth consecutive month to exceed 16,000 trucks. Traffic remains negatively impacted by lack of regular commuter traffic due to telecommuting.

SNJB recently conducted a consumer and commercial survey via VDOT. The survey went to customers that have traveled at least 10 times in the past 6 months from SNJB top zip codes. The SNJB biennial bridge inspection was recently completed and the draft report is currently under review. Mr. Crum also advised that SNJB is in the process of finalizing SIC (snow and ice control) contract for upcoming season. Mr. Crum then advised the committee that SNJB expected to implement a small toll increase beginning in January 2022. Dr. Auguste then inquired about the SNJB survey and how it was conducted; Mr. Crum responded that they worked through VDOT/E-ZPass as well as the users from the top 10 zip codes of drivers that use their facilities. Ms. McFarlin then inquired about the feedback and possible changes based on the survey responses; Mr. Crum then advised that they received included the establishment of volume discounts for frequent users as well as maintenance items. The responses highlighted the value of SNJB as a route that is readily available when surrounding routes experience heavy congestion. Survey responses are still coming in and SNJB will continue reviewing responses. Dr. Auguste then inquired about the number of surveys sent and responded to versus the population using the facility; Mr. Crum responded that 6,500 users met the survey parameters and approximately 1,300 had responded which they viewed as a strong response.

New Business/Discussion:

Mr. Walton then introduced the possible meeting schedule for 2022 and asked committee members to provide their preferred dates so that the 2022 schedule can be established.

The meeting was adjourned at 12:53 pm.