

Louisiana Transportation Authority
Meeting
Louisiana State Capitol
Senate Committee Room E
Baton Rouge, LA
Thursday, May 19, 2011

MINUTES

I CALL TO ORDER
Senator McPherson

II ROLL CALL
Board Members Present:
Senator Joe McPherson
Sherri LeBas
Mark Brady
Sen. Norby Chaubert proxy for Senator Joel Chaisson
Rep. James Morris
Rep. Nita R. Hutter
Board Members Absent:
Paul Sawyer
Kevin Davis
Jackie Adcock

We have 5 members and a quorum.

III READING AND APPROVAL OF MINUTES OF January 13, 2011

Secretary LeBas moved to approve the minutes without objection and accepted.

IV NEW BUSINESS – LA 1 Toll Road Traffic/Toll Revenue Study

Michael Bridges: DOTD Undersecretary, introduces Mr. David Weeks with URS. David will move forward with the going over the report. If you remember at the last meeting we had informed the LTA that we were not able to make coverage requirements on debt service and so our documents triggered a series of events. One of them was to retain the services of a toll road consultant to do an update and projection on the traffic revenue and so David is here to do that. I will turn it over to him.

David Weeks: URS Corporation.

**SEE LA 1 Toll Road Project
Toll Consultant Report
Presentation Handout**

Sen. McPherson: Please go to Slide 13. No. 5 states to re-evaluate benefits and tolls for commuter traffic and Grand Isle residents. What do you suggest.

David Weeks: After the 2005 toll study there was legislation passed which grant residents who lived south of Leeville a "0" toll rate and they are actually the primary benefiter of the toll road and consideration could be given to modify that benefit that has been given to them.

Sen. McPherson: You said Leeville or Grand Isle. It is south of the Leeville Bridge. Essentially the issue relates to the fact that they had a toll free journey before the toll road was created and once the toll road is created the existing Leeville Bridge was demolished and they no longer have a toll free route. So on the basis of equity that decision was made that they should have no toll for the residents to pay. They do see a benefit.

Sen. McPherson: You are saying that the decision that was made to take the tolls off of those residents that I questioned and we were not told that this was coming that we should re-evaluate that now.

David Weeks: At that time, it was not known that the LA 1 would fail to achieve its bond covenant requirements and one possibility is to consider whether those tolls should be modified. That is obviously a decision which is in the hands of others.

Sen. McPherson: We just made that decision a couple of months ago.

Michael Bridges: That was last session roughly a year ago.

Sen. McPherson: We didn't have these projections at that time.

Michael Bridges: It was open for less than 4 or 5 months. It did not open until of August of 2009.

Sen. McPherson: The legislation passed but I am referring to is that we had to take action as the LTA based on that legislation.

Michael Bridges: We had to take action to modify the toll schedule. I would like to summarize what he has on Slide 13 to give you an idea what the Department is doing right now. This was all triggered by us not being able to achieve our

coverage. We do have some responsibility to the rating agencies and TIFIA and bond holders to demonstrate to them that this body has taken some action and we have a proposed resolution for your consideration that would basically received the report and direct the Department to move forward with the recommendations 1-8 and report back to this body before the end of the year with some recommendations as to how we would move forward. If I could, the operations, you will hear a summary from HNTB in the old business, and they will go through what they have found. They have been working since the first part of the year and have gotten into the toll system and identified several short comings and have made some recommendations and we are poised to move forward with that. We are looking at the quickest way to secure a Financial Advisor. The #3, special, Debt Service, I have already spoken with TIFIA (they hold the \$66M, loan that we have with them). I have gotten a pretty good response from them and it will take some work and a visit or two to D.C. to be able to work with them. What we will propose to them is that we defer the initial payment on that. There is some flexibility there and that will help us in the immediate years until we have a chance to wrap up. They are basically stating that we need to do more study on toll rates and the monitoring and the demand of elasticity and collect some more data. He is some assumptions on the traffic study.

Sen. McPherson: We need to collect some more money.

Michael Bridges: In order to be able to know for sure that what we are proposing is correct is that we need better data. We need more traffic counts and longer term traffic counts. We need to know what the split of traffic is between Grand Isle and Port Fourchon because there are different economic drivers between the two, so we propose that the Department would go out and place some additional counters and gather information over a longer period of time. We should also do some studies to be able to see what the elasticity really would be with an increase. What they are recommending is do some economic studies... what will the impact be on businesses. We need to know all of that before we go forward with an increase like this. I would like to recommend that you consider a resolution at this time that simply receives the report and directs the Department to move forward with the recommendations 1-8 and report back before the end of the calendar year with our recommendations on whether or not there needs to be an increase and what type of an increase there would need to be.

Sen. McPherson: Would you like to do that at this time on this report specifically before we hear the other presentations?

Michael Bridges: Yes sir.

Sen. McPherson: Do I hear a motion to accept the URS report and to direct DOTD to implement recommendations 1-8 with a report back. Staff is reporting back that we might want to include 10 and 11.

Michael Bridges: Yes.

Sen. McPherson: The motion would be to ask DOTD to implement the recommendation #1-#8 and #10 and #11 and to report back to the LTA by the end of the year to consider the recommendation of #9

Mr. Bridge: Right.

Sen. McPherson: Rep. Jones makes that motion is there any discussion on the motion. Rep. Morris makes the motion and hearing no objection and no further discussion that motion is adopted.

Michael Bridges: There is one other official action that I would like to consider relating to recommendation #3 the net special provision for debt repayment for 2011. As you know we came to you in January and said that we did not meet coverage requirements as specified in the bond documents. The debt service payment that is coming up for June 1st, there is insufficient funds to make the debt service payment. We have a situation where the trustee would have to tap the debt service reserve fund to make that payment. In order to not have that happen what we are proposing is that since the Department by cooperative endeavor agreement with the LTA is responsible for the collection of the tolls and those tolls were not collected to industry standard. That the Department pays the LTA for those uncollected tolls and then that will help the coverage and the payment of the debt service.

Sen. McPherson: Shouldn't we listen to item b on the agenda before we do that.

Michael Bridges: That we be agenda item 4b.

Sen. McPherson: Do you have a presentation on that?

Michael Bridges: It's not a presentation on power point but I am moving in that direction with an explanation as to what we are proposing.

Sen. McPherson: You were telling us what to have happen after the presentation and I am suggesting that we would like to have the presentation before you suggest what we ought to do based on the presentation

Michael Bridge: OK. The situation as I explained is that the debt service payment that is due in June 1st is insufficient toll collections to make that payment. The way that the bond documents are structured is that the trustee would then, if there are insufficient toll revenue to meet debt service, would tap the debt service reserve fund. When this was all done in 2005 there was a debt service reserve fund set up for this purpose, however, if the debt service reserve

fund is tapped then the LTA would make a request to the Department of Economic Development to fill it up. The Department of Economic Development would make a formal request to the Legislature to appropriate general funds to fill it up. We believe that if we could find another way to be able assist the LTA to make that debt service payment that it would better for the credit worthiness of this debt.

Sen. McPherson: I understand that Mr. Bridges, but what I am looking for and I don't see in our package today, help me if it is there, is the LTA Debt Service Analysis Shortfall part of the package funding shortfall. So you are saying these things but is really ambiguous that no one has that data in their folder. What I am asking for is that you indicating there is a shortfall, please tell the Authority the shortfall is projected to be between now and the end of the road and what we are talking about having to make up and what that is compared to the whole. Tell us where that shortfall originates from and how much is it, what is the shortfall compared to the original projections and as compared to the whole for the bond service. Secretary LeBas, would you like to make a statement before he proceeds.

Secretary LeBas: I just wanted to clarify that the information you are about to give is the DOTD's inability to collect up to the standard of care....the 95%.

Michael Bridges: Right. If we would have been able to do that then we would have had enough money to make the debt service payment.

Sen. McPherson: But not enough to meet the bond covenant?

Michael Bridges: It would have, yes. As I have said and what we have talked about the industry standard, 95% is what we are using as a starting point and that we have been doing around 70-75%. If we have been up to 95% we would have made the coverage requirement. So because of DOTD's inability to get up to the 95% industry standard it has caused this problem. So for the June 1st payment we are roughly \$400,000 short and the trustee will have to tap the debt service reserve fund.

Sen. McPherson: So that is the point we are at today is that because of the fallacy within our system that we have had reports on for at least a couple of meetings, we collected at 75% when we should have been collecting at 95%. If we would have collected at 95% then we would have been able to meet the bond requirements.

Michael Bridge: Yes.

Sen. McPherson: So you're suggesting that and the number you haven't given us yet which is a little over \$1.6M.

Michael Bridges: Yes it's from the beginning of collections in August 2009 through end of April. What we would like for you to consider is that we basically pay the amount from August 2009 and 2010 before June 1st of this year. Since we don't know what the rest of the year is until we experience it, is to pay for 2011 uncollected revenue before the end of January 2012.

Sen. McPherson: How much is that projected?

Michael Bridges: We estimate that will be between \$600, 000 - \$800,000.

Sen. McPherson: OK. Does everyone understand where we are at and what we have been asked to do? Ok. Secretary Lebas do you have any further statement.

Secretary LeBas: No. I believe it is clear now.

Sen. McPherson: Mr. Brady.

Mark Brady: Thank you Mr. Chairman. I have just one question.

Michael Bridges: Approximately \$1.4M for 2010 and then for 2011 we are estimating somewhere between 600,000-800,000. So the grand total will be around \$2.1M.

Mark Brady: So when we make that payment that makes us whole and we are covered. When do we have to get this resolved?

Michael Bridges: January of 2012 we have to resolve all of this and we will come back to you before the end of the year and make recommendations to increase the tolls or try to restructure the debt or something. Something will have to happen by January of 2012.

Mark Brady: Thank you.

Sen. McPherson: Any other questions. Are we are in order now to look at the cooperative endeavor agreement which is the vehicle that the Department has determined would make up this shortfall without having to go in the reserve fund and call upon the general fund?

Michael Bridges: Yes sir.

Sen. McPherson: Basically members is that I appreciate what this is, is a supplement to the current cooperative endeavor agreement between the LTA and the DOTD where the cost in the fallacy of the system and the inability to collect at the 95% level then DOTD will make up that difference out of their

Department funding to the LTA so those bond payments are made timely and we meet our obligations. It was their responsibility through that cooperative endeavor agreement to put that system in place to collect at the projected level which didn't happen. So they are very graciously stepping up to the plate and making up for the shortfall through no fault of their own but through one of their contractors has occurred.

Michael Bridges: It is and we have tried to keep it simple and you've got a resolution and then you also have the cooperative endeavor agreement. The resolution would basically for your consideration allow you to sign the amendment and actually there will be a supplement #2 to the cooperative endeavor agreement between the DOTD and LTA. One thing I would like to point out in the supplement to the cooperative endeavor agreement is that anything that we would get out of the litigation that we have with the contractor right now that would then come back to DOTD to reimburse us for some of this that we are going to pay to the LTA for lost tolls.

Sen. McPherson: OK. I assume we would do the settlement agreement resolution first and then the cooperative endeavor agreement.

Michael Bridges: I'm not sure but the resolution I think would basically approve the supplement, wouldn't it?

Sharon Lyles: Basically the resolution would authorize the Chairman to sign the supplement. The supplement is really only included so that you can see the proposed language.

Sen. McPherson: OK. So the only action the authority needs to take is the resolution.

Sharon Lyles: Yes, to adopt the resolution.

Sen. McPherson: Do I hear a motion for that. Mr. Brady moves that we adopt the DOTD settlement agreement resolution. Any further discussion.

Rep. Morris: I have one question. Under the part on page 2 "appoint a financial advisor", am I missing something because I know we discussed on page 13, I believe it was, and who is this going to be? Who will pay for this and will it be figured into the resolution.

Michael Bridges: Which one are you talking about?

Sen. Morris: On page 2, Section 2, #2. It says to appoint a financial advisor.

Michael Bridges: That was the one that you passed earlier. We are basically receiving the report and telling us to do all of those. The answer to that we have not picked a financial advisor yet. We are going to try to get one on board as quickly as we can.

Rep. Morris: Ok. I started to ask that question earlier.

Sen. McPherson: His second question was is it a significant cost to bring a financial advisor on board.

Michael Bridges: I don't know the cost right now. What we will have them involved in is our discussions with TIFIA primarily and there will be a cost but I just don't know what that will be at this point.

Sen. McPherson: None of this is good news. It's not working out liked we had hoped. I am going to ask is that as you have these things and you put all these recommendations in place, we don't need to meet on them but please keep up informed through our respective offices and you give us updates as these recommendations are follower through and we have movement on them. OK.

Michael Bridges: We will and you as chairman of the LTA will be involved with negotiations with TIFIA since you would represent the Authority. We can't do this on our own and you will be involved with this.

Sen. McPherson: I wish I would have been involved on the front end. Any other questions? Any other comments? Mr. Brady has moved the adoption of the resolution and without objection the resolution is adopted.

Michael Bridges: Thank you very much. That concludes my part and we will move into the old business. That covered 4a, 4b and 4c. We will allow Mr. Desselle and Mr. Harrington to come and give you a presentation.

Sen. McPherson: Ms. Hathorne would you please come up and I need to ask you a simple question. From a layman's standpoint when you look at the projections and the shortages when the TIFIA loan kick in that is when we will have serious money problems that we are not going to do. I know we said we are going to talk with everyone but why couldn't we negotiate from a 20 year bond to a 30 year bond on this.

Meredith Hathorne: Well actually all of that is on the table and I believe that will be evaluated and that why we need a financial advisor to run all the numbers. Certainly TIFIA took a cut on another toll road in San Francisco and they are willing to negotiate.

Sen. McPherson: What are they doing in California? An act of forgiveness?

Meredith Hathorne: They restructured it and there was some forgiveness. They also went to bond holders and they were about to be in default because they didn't meet their rate covenants either. They had to tap another fund to make payments. So I think there is precedence around the country so I think everything is on the table and there could be a combination of the restructuring of the debt that we have and also restructuring of TIFIA to push those payments back.

Sen. McPherson: Is there any other questions for Ms. Hathorne? Thank you very much.

V OLD BUSINESS – Electronic Toll System Status

Rhett Desselle: Good afternoon Mr. Chairman. I am the Assistant Secretary of Operations and as we presented in January we engaged HNTB under a retainer contract to provide a bond indenture and service and engineering services and we have asked them to come in to do a system assessment of our electronic toll system. Today I have with me Mr. Rick Herrington with HNTB who is going to present that information and their findings of that assessment.

Rick Herrington: I am the vice-president and national director of toll services for HNTB Corporation. I would like to walk you through several things especially the methodology that we used for our assessment. I think it is very important for you to understand the system architecture as well as the back office operations structure. I say that because we want to clear up any information regarding to the separation of CCCD and LA 1 and how that is connected to the toll system and the operations. We have findings and the recommendations that David Weeks of URS spoke to you about and what we think we can help you with to increase the collection of revenue which is a substantial amount at this point. When we started our assessment we didn't only look at the electronic toll collection system but we looked at standard operating procedures, we looked at the business rules that went in to the development of that system. We observed the operations. We audited transaction data to make sure what was going in was good and that was being reported. We interviewed a lot of staff members and then we looked at screens and reports and system processes and compared them to industry standards and best business practices that are going on across the industry. We did identify things for improvement and we documented all our findings and the report is completed. What is really important to begin the discussion is to understand the toll system architecture. You have a shared system with the CCCD bridge in New Orleans. The only unique element is that the top blue box is the processing system for LA 1

SEE: System Assessment Handout

Sen. McPherson: Mr. Bridges would you please come to table:

Sen. Chaubert: One thing that has been brought to my attention by a pass violator, the kiosk maintenance, the machines that you have in stores, how often you keeping up with the machines to see if they are running properly.

Rick Herrington: Those kiosks are having issues. They are functioning but the problem seems to be that there is not an automatic notification if the kiosk fails to the maintenance team. So they are really relying on a customer to call. I would tell you from our standpoint that all the way around is we need to remove the kiosks. Those kiosks don't process around the hardware and especially the post pay/pre pay audit and reconciliation process. It is brand new to the industry and no one else is doing that. It is very difficult and we don't think it is the right form of collection for this facility. Our recommendation is to pull them out.

Sen. Chaubert: It seem like a lot of experimental things were put into play here that were industry standard or practiced anywhere else.

Rick Herrington: I would tell you from my standpoint it is a great concept. I probably would not have recommended using it on a marginal project that you needed every bit of revenue that you could possibly get. I don't think was the right facility for that kiosk. I love the concept but it is brand new and this was not the place to start it.

Sen. McPherson: Sen. Chaubert's questions are similar to our through all this. Our problem was the contractor that had designed and installed this system and looking at these recommendations and the presentation we just heard it seems like a combination of us asking for the wrong system because we thought we thought that is was the newest and latest thing out there and it was not suitable to our needs. It seems the installer should have been able to explain that because of our lack of expertise and judgment. You trust these people to tell you if we are making the right decisions. I was not involved in the RFP process. It is a shame that we wind up at this point what is looks like a pretty obvious problem that I hope are fixable. I think these are good common sense recommendation and that is encouraging instead of all this up in the air about not knowing what the problem was. We heard it was computer glitches and the system didn't work. Sounds like it worked to a large extent and we just didn't know what to ask for and on the other hand someone didn't advise us properly on what we should have had in place that would have done a much better job.

Michael Bridges: That is exactly what happened. Keeping in mind that this started back in 2005-2006 time frame and I've seen some of how it was procured and the progression that went along. I believe you are right that if you have a company that professes to be an expert integrator that if you are setting some rules for them to follow that are just not practical it seems like they would step up

and say this doesn't work. I think that may be part to why they walked off because they couldn't make it work and then we were left in the spring of 2010 with a half finished system and we are trying to limp along since then. Hindsight is 20/20. If we had to do this all over again we would have had Rick advising. Rick brings his expertise from the North Texas Toll Authority, so if you've been to the Dallas are everything you are driving on is open road tolling. They have gotten rid of all their toll booths and they have a very sophisticated system. If we had his expertise advising us back then I believe we would be going down an entirely different road.

Sen. McPherson: Everything that we are basically talking about is the operational side and not the traffic volume side. That is the 2 equations. This is to try and get us up to that 95% or higher of whatever vehicles do come through there. The other part what is that volume we need to collect that on. That is the two things we are going to try to look at between now and the end of the year to come up with much better projections than we have had in the past. When do you think that you will be able to refine your analysis to give us an estimate of what needs to be done and what the cost and time tables will be on that.

Rick Herrington: We had a meeting this morning and again next week. You should have a time frame prioritization and cost associated with that within 30 days based on our meeting this morning.

Rhett Desselle: Let me clarify that Mr. Chairman. We have gone back to the table with the system intergrator, ETC and we are working through negotiations with them. Now that we have clarity on what the issue are with the system we have sat down with them and started negotiations and discussions on them coming back and completing the system and giving us the product that we need to be more efficient in the toll collections. So we met with them this morning and we have a meeting scheduled next week and we are going to work out some more details but we thank that is the best path. We have already put money into the system. It is functional. HNTB tells us we do have a good degree of functionality with this system. We have a few pieces that need to be tweaked and revised and worked on to have a better functioning system to increase our collection percentages.

Sen. McPherson: So we are back with original contractor and now we have some expertise on our side to help us intelligently discuss with them what we need to modify this system and get it up to what is required. That's encouraging. Mr. Bridges or Mr. Desselle, do you have a suggestion on how the Authority should receive this information. Do we need another meeting in 30 days.

Mr. Bridges: I would suggest that you consider another meeting. I know we will need a little time to get digest the information. You are already set up for quarterly so we would not only have their recommendations and maybe going to

the point to getting the procurements that are necessary to implement. Especially the structural recommendations, the lane changes, and that will take design and procurement.

Sen. McPherson: So you are suggesting that today that in August quarterly meeting and the November meeting that we will have a final meeting on all this and decide on what we actually need to do. Ms. Hathorne, will the financial advisor be able to give us what we need to do from a restructuring debt. Will he know what he needs to do to get up to our 95% collections? You are going to do some traffic collections data so that we can have better assumption on volume which becomes part of the financial considerations. We will put all that together much more concrete to make a decision and to determine our final direction at that November meeting ahead of the beginning of the year.

Mr. Bridges: That is correct. Also, as I have mentioned earlier we are going to need to include you in our discussions with TIFIA since you would represent the Authority so I think that it will be important for your presence is some of those meetings that we have with them.

Sen. McPherson: Thank you. Ms. Lyles you have something for us.

Sharon Lyles: I was going to mention that the Authority has set up regular meeting dates and the next regular scheduled meeting is July 14, 2011. I don't know if you will be ready by that date or not.

Michael Bridges: I think we'll have enough to report to make it worthwhile to have a meeting.

Sen. McPherson: What are the dates after that? This meeting was late?

Sharon Lyles: Yes. We had established an April 14, 2011 meeting but because the toll study was just coming in at that point and the meeting was delayed until today to give opportunity for preparation. The next meeting after the July 14th meeting is October 13, 2011. So we may need to make some adjustment.

Sen. McPherson: Lets shoot for these dates and if we can't do it by the October 14th date we'll do it. Let's have that as a goal.

Michael Bridges: OK.

Sen. McPherson: With the July 14th date we will hope that these conversations here with the study that we will have the information from it.

VI OTHER BUSINESS

Sen. McPherson: No other business

VII PUBLIC COMMENTS

Sen. McPherson: No one else to be heard.

VIII ADJOURNED at 2:00 p.m.

Sen. McPherson: Secretary LeBas moved for the meeting to be adjourned.

Respectfully submitted,



Mark A. Brady
Secretary-Treasurer

DATE APPROVED 8-16-11