



COMMISSION FINANCE COMMITTEE
MEETING MINUTES
October 16, 2018

PRESENT: Commissioners Elofson, Lakdawala, Levenston, Lynch, Rodriguez, Templeman and Taraski

No. Topic

1. **ANNUAL AUDIT REPORT**

Independent Auditor [presentation](#) by KPMG, Steve Whetstine, Partner, and Daniel Coccoli, Senior Manager

- The Comprehensive Annual Financial Report (CAFR) and two other areas were reviewed:
 - CAFR will receive an unmodified (“clean”) opinion. There were no instances of noncompliance noted, nor any significant deficiencies or material weaknesses.
 - KPMG will include an Emphasis of a Matter paragraph to highlight HRSD’s adoption Governmental Accounting Standards Board GASB 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, for HRSD’s OPEB Plan. Their opinion is not expected to be modified with respect to this matter.
 - KPMG will issue a report of no findings, a “clean report”, on the completeness and accuracy of employee census data reported to the Virginia Retirement System as of June 30, 2017.
 - KPMG will issue a report of no findings, a “clean report”, on the sufficiency of HRSD’s ability to provide liability coverage for biosolids contamination. This report provides assurance to the state that HRSD has sufficient financial reserves and does not need to obtain insurance to cover biosolids risks. This is required to comply with Virginia biosolids regulations.
- KPMG noted that the inventory counts were good this year with all items selected from inventory lists agreeing to the number counted in the field, and the selections made in the field agreeing to the lists. They also noted that pricing documents for inventory items less than \$5,000 had some exceptions related to the amount in the inventory records, but inventory items greater than \$5,000 looked good.
- There was one uncorrected audit misstatement discovered during statistical sampling procedures and it recurs annually due to HRSD’s election to not capitalize prior years’ bond interest for smaller capital projects. The net effect of the difference does not have a material impact on the financial statements and does not preclude HRSD receiving a “clean” audit opinion.



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2. **COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) 2018 REVIEW**

Presentation made by Jay Bernas, Director of Finance

- Regional Economy
- Revenues & Water
- VRS Pension
- Retiree Health Trust (OPEB)
- Financial Statement Overview
- Key Financial Policy Indicators
- Conclusion

3. **BOYD WATTERSON GSA (US GENERAL SERVICES ADMINISTRATION) FUND**

Presentation by PFM, Khalid Yasin, Director

PFM, HRSD's Investment Advisor, is recommending that HRSD invest 5% of its portfolio in the Boyd Watterson GSA Fund (GSA Fund) as part of our fixed income asset allocation. The GSA Fund is a private real estate fund that invests in buildings being leased by the Federal Government and provides stable income and modest capital appreciation. This investment is allowed within the current Financial Policy. Returns for this fund are projected to be higher than other fixed income funds in which HRSD currently invests, even after fees and costs are taken into consideration.

The Commission wants staff to confirm the process for exiting the fund. HRSD's counsel is currently reviewing the agreement. The Commission is scheduled to vote on the General Manager authorization to enter into this private placement at the October meeting.

Attachments (3): [Presentations](#)

Public Comment: None

Next Committee Meeting Date: TBD

Meeting Adjourned: 10:30 am

SUBMITTED:

Jennifer L. Cascio

Jennifer L. Cascio
Secretary

APPROVED:

Stephen Rodriguez

Stephen Rodriguez
Committee Chair



Hampton Roads Sanitation District

Audit results

Comprehensive Annual Financial Report for the year ended June 30, 2018

October 16, 2018

Steve Whetstine, Partner

Daniel Coccoli, Senior Manager

Introduction

To the Finance Committee of HRSD

We are pleased to have the opportunity to meet with you on October 16, 2018 to discuss the results of our audit of the Comprehensive Annual Financial Report (CAFR) of HRSD as of and for the year ended June 30, 2018. Our audit was conducted in accordance with the terms established in the audit engagement letter dated May 29, 2018

We are providing this document to enable you to consider our findings and hence enhance the quality of our discussions. We will be pleased to elaborate on the matters covered in this document when we meet.

Our audit is ongoing. Subject to the Commission's approval, we expect to be in a position to complete our audit of the HRSD's financial statements in November 2018, subject to completion of the outstanding matters noted on page 11

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Scope

Type	Response
Scope of Work	<ul style="list-style-type: none"> • Audit of the CAFR as of June 30, 2018. • Examination of management's assertion regarding the completeness and accuracy of census data reported to the Virginia Retirement System as of June 30, 2018 • Agreed upon procedures regarding management's certification of liability coverage for biosolid contamination
Applicable financial reporting framework or Criteria	<ul style="list-style-type: none"> • U.S. Generally Accepted Accounting Principles (US. GAAP) for CAFR • Management's assertion regarding census data is made based on the requirements to be met by participants in the Virginia Retirement System as defined in the Code of Virginia Sections 51.1-136. • Agreed upon procedures are applied based on section 9 VAC 25-32-820 of the Commonwealth of Virginia's Virginia Pollution Abatement Permit Regulation
Applicable auditing standards	<ul style="list-style-type: none"> • Audit standards established by the American Institute of Certified Public Accountants (AICPA) for audits of non-public entities (generally accepted audit standards in the U.S.) • Examination report and agreed upon procedures are performed under attestation standards established by the AICPA.
Other Deliverables	<ul style="list-style-type: none"> • We will provide a letter with required communications to the Commission, which will be issued concurrently with the CAFR audit report • We will provide a letter to the Virginia Auditor of Public Accounts (APA) to confirm our independence in relation to HRSD. Such letter is used by the APA for purposes of their audit of the State of Virginia.

Audit Opinion and Preliminary Findings

Audit Opinion	<ul style="list-style-type: none">— We expect to issue an unmodified (“clean”) opinion for the 2018 CAFR— Our report will include Other Matter paragraphs to discuss our responsibility for information in the CAFR outside of the financial statements and notes including:<ul style="list-style-type: none">• Required Supplementary Information• Supplementary and Other Information— Our report will include an Emphasis of a Matter paragraph to highlight HRSD’s adoption of accounting guidance described in Governmental Accounting Standards Board GASB 75: <i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i>. Our opinion is not expected to be modified with respect to this matter— We anticipate no findings will be included within the examination and agreed upon procedure reports for the census data and biosolid engagements, respectively— Management anticipates completion of the CAFR, census data examination and biosolids agreed upon procedures reports in November 2018
Preliminary Findings	<ul style="list-style-type: none">— We have not identified any material weaknesses or significant deficiencies through the performance of our audit— There was an uncorrected audit misstatement related to the following:<ul style="list-style-type: none">• \$469,000 understatement of depreciation expense as the result of historical non-GAAP policies over capitalized bond interest— There were no material corrected misstatements identified during our audit— There were no other significant findings or issues that were discovered during our audit

Consideration of Fraud in the audit

Our audit response and findings

Significant risks	Our audit response and findings
<p>Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.</p>	<p>Our audit response included a combination of both internal control and substantive testing procedures:</p> <ul style="list-style-type: none">• We assessed management's design and implementation of controls over post-closing adjustments to the financial statements• We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.• We assessed the appropriateness of the accounting for significant transactions that are outside the component's normal course of business or are otherwise unusual.• We reconciled the financial statements to the final trial balance generated from the underlying accounting system• We involve actuarial specialists to challenge key assumptions underlying pension and OPEB Liabilities• No findings noted through our procedures

Significant accounting policies

Description of significant accounting policies

- Reporting Entity
- Basis of Accounting
- Budgetary Accounting and Control
- Cash Equivalents
- Investments
- Allowance for uncollectible accounts
- Inventory
- Property, Plant and Equipment
- Deferred outflows and inflows of resources
- Revenue Recognition
- Operating and non-operating revenues and expenses reconciliation
- Compensated absences
- Pensions and OPEB
- Use of Estimates

Audit findings

Qualitative aspects

- Significant accounting policies are included in Note 2 of the CAFR.
- We believe these significant accounting policies and all other accounting policies have been consistently and appropriately applied in accordance with U.S. GAAP.
- HRSD adopted *GASB 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as of July 1, 2017

Significant accounting estimates

Description of significant accounting estimates

- Pension liabilities and expenses are recorded using actuarial developed estimates and assumptions
- Other Post Employment Benefits (OPEB) liabilities and expenses are recorded using actuarial developed estimates and assumptions

Audit findings

Management's process used to develop the estimates

- Pension - Management relies on estimates developed by third party actuaries hired by the Virginia Retirement System (VRS)
- OPEB – Management relies on estimates developed by third party actuaries and investment advisors hired directly by the district

Significant assumptions used that have a high degree of subjectivity

- Key assumptions include the following:
 - Rate of return on investments
 - Inflation
 - Mortality projections
 - Medical trend rates (OPEB only)
 - Cost per capita (OPEB only)

Audit procedures performed

- We utilize an internal certified actuary to review significant assumptions used to calculate actuarial determined liability.
- We utilize an internal technical specialist to review the reporting under GASB 68 and GASB 75
- We confirm directly with HRSD's third party actuaries the assumptions and results of their valuations

Required communications and other matters

Type	Response
Related parties	No significant findings and issues arising during the audit in connection HRSD's related parties.
Fraud	No actual or suspected fraud involving the HRSD's management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
Noncompliance with laws and regulations	No matters to report.
Subsequent events	No matters to report.
Significant difficulties, if any, encountered during the audit	No matters to report.

Type	Response
Disagreements with management, if any	No matters to report.
Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report.
Management's consultation with other accountants	No matters to report.
Other findings or issues	No matters to report.
Written representations	Management representation letters, including summary of uncorrected misstatement to be distributed under separate cover at the conclusion of the audit

Regulatory and standard setting update

New accounting pronouncements – Effective for the following year and beyond

— [GASB 84: *Fiduciary Activities*, will be effective for the financial statements ending June 30, 2020](#)

The statement establishes criteria for identifying fiduciary activities focusing on criteria such as (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

— [GASB 88: *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, will be effect for the financial statements ending June 30, 2019](#)

The statement establishes additional disclosures required for debt, including direct borrowings and direct placements.

— [GASB 89: *Accounting for Interest Cost Incurred before the End of a Construction Period*, will be effect for the financial statements ending June 30, 2021](#)

The statement establishes that in financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset.



Supplemental communications

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Outstanding Matters

Responsibilities

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Outstanding Matters

Management is pending the following:

- Provide final support for inventory pricing samples following sample extension due to errors
- Provide responses to various follow up questions for the following:
 - fixed asset testing
 - census data reconciliation for OPEB testing
 - Pension footnote tie-outs

KPMG is pending the following:

- Completion of audit testing over the following areas:
 - Fixed asset additions
 - Inventory price testing
 - Interest expense and amortization of bond premiums
 - Testwork related to the implementation of GASB 75 (OPEB Standard)
 - Receipt of legal confirmation from McGuire Woods
- Partner and Manager review of the following:
 - Fixed asset testing
 - Inventory testing
 - Interest expense and amortization of bond premiums
 - Pension, OPEB and census data testing
 - Final complete CAFR

Responsibilities

Management responsibilities – Financial statements	<ul style="list-style-type: none"> — Preparation and fair presentation of the financial statements, including disclosures in conformity with U.S. GAAP — Adjusting the financial statements to correct material misstatements and affirming in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole
Management responsibilities – Internal Controls over Financial Reporting	<ul style="list-style-type: none"> — Design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
Management responsibilities – Other	<ul style="list-style-type: none"> — To provide the auditor with: <ol style="list-style-type: none"> 1) access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters; 2) additional information that the auditor may request from management for the purpose of the audit; and 3) unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence — Identifying and ensuring that the District complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations — Providing the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management's: <ol style="list-style-type: none"> 1) disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the District's financial reporting 2) acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud
Finance Committee responsibilities	<ul style="list-style-type: none"> — Oversight of the financial reporting process and ICFR — Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud
Management and the Finance Committee responsibilities	<ul style="list-style-type: none"> — Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards — Ensuring that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the entity's financial statements.

The audit does not relieve management or the Finance Committee of their responsibilities.

Responsibilities (continued)

KPMG – Audit objectives	<ul style="list-style-type: none"> — Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Finance Committee are prepared, in all material respects, in accordance with U.S. GAAP
KPMG responsibilities – Audit	<ul style="list-style-type: none"> — Performing the audit in accordance with U.S. GAAS and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement — Performing an audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting
KPMG responsibilities – Other information in documents containing financial statements	<ul style="list-style-type: none"> — The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information — The auditor's responsibility is to make appropriate arrangements with management or the Finance Committee to obtain information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or misstatement of facts — Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement — Communicate any procedures performed relating to the other information and the results of those procedures.

Responsibilities (continued)

KPMG **responsibilities –** **Communications**

- Communicating significant matters related to the financial statement audit that are in our professional judgment, relevant to the responsibilities of the Finance Committee in overseeing the financial process. U.S. GAAS does not require us to design procedures for the purpose of identifying matters to communicate to the Finance Committee
- Communicating if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential
- Communicating to management and the Finance Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit, including those that were remediated during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audit of the financial statements is not to report on the District's internal control
- Conducting the audit in accordance with professional standards and complying with the rules and responsibility of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the official standards of relevant CPA Societies, and relevant state boards of accountancy
- Communicating to the Finance Committee circumstances, if any, that affect the form and content of the auditors' report
- Communicating if we plan to withdraw from the engagement and the reasons for the withdrawal
- Communicating to the Finance Committee if we conclude no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement
- When applicable, we are also responsible for communicating particular matters required by law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement
- Communicating if we have identified or suspect fraud involving; (a) management, (b) employees who have significant roles in internal control, (c) others, when the fraud results in a material misstatement in the financial statements, and (d) other matters related to fraud that are, in the auditors' professional judgment, relevant to the responsibilities of the Finance Committee
- Communicating significant findings and issues arising during the audit in connection with the entity's related parties.
- Communicating conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time



Questions?

For additional information and Audit Committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, please visit KPMG's Audit Committee Institute (ACI) at www.kpmg.com/ACI.

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Fiscal Year - 2018 Comprehensive Annual Financial Report (CAFR)

Finance Committee
October 16, 2018

Acknowledgements

- Lee Acors - Chief of Accounting
- Kathy Stephanitsis - Accounting Manager
- Ramona Bradshaw - Accounting Manger
- Kassandra Pagan - Financial Analyst
- Helen Mayhue - Financial Analyst
- Donna Stinson - Business Analyst
- Anisea Burl - Accounts Payable Supervisor
- Charmaine Simmons - Accounts Payable Associate
- Ingrid Conde - Accounts Payable Associate
- Danielle Raleigh - Accounting Coordinator
- KPMG



34 Consecutive Years

- KPMG Audit Report
- Fiscal Year 2018 CAFR
 - Regional Economy
 - Revenues & Water Consumption
 - Net Pension Liability
 - Retiree Health Trust (OPEB)
 - Financial Statement Overview
 - Key Financial Policy Indicators
- Conclusion
- Boyd Watterson GSA Fund

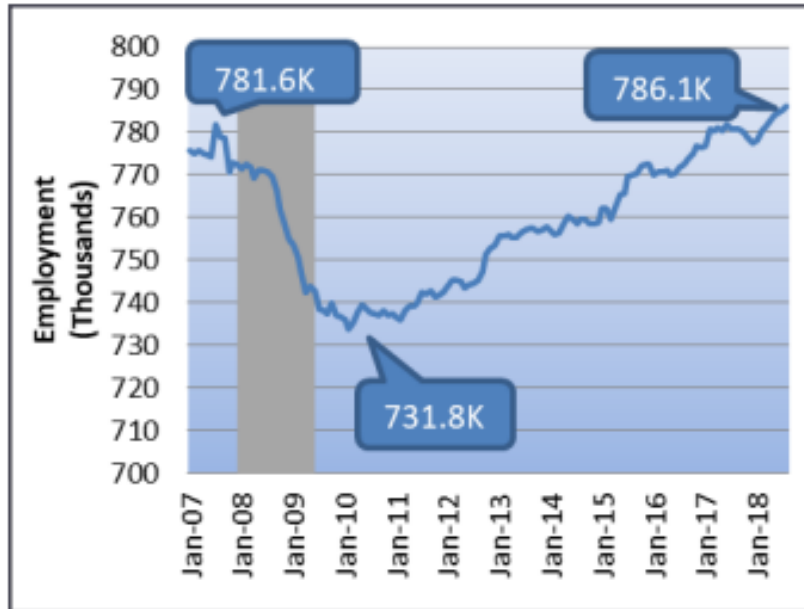
Bottom Line Up Front (BLUF)

- VRS Pension Funded Ratio Up = 90%
- OPEB Funded Ratio Down = 78%
- Water consumption almost flat YOY (Year over Year)
- Revenues exceeded Expenses
- Total Debt Service Coverage = 2.26x
- Days Cash on Hand = 434
- Yield Optimization Strategy = up 210% YOY
- Two bond deals in FY18
 1. \$84M refunded, saving \$6M NPV or \$860k per year
 2. First competitive deal, \$75M in proceeds
- Moody's Rating Upgrade = Aa1 (one notch below AAA)

Regional Economy

Employment is strong – Unemployment remains low

Civilian Employment, Seasonally Adjusted
Hampton Roads, Jan 2007 – Aug 2018, Monthly

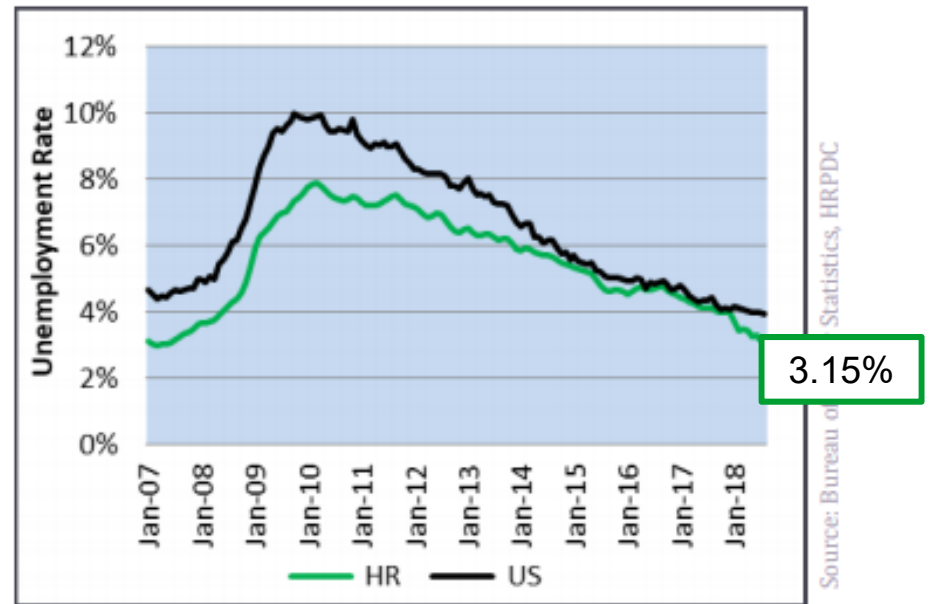


Source: Bureau of Labor Statistics, HRPDC

Civilian employment is the highest it's been since 2007

Unemployment Rate, Seasonally Adjusted

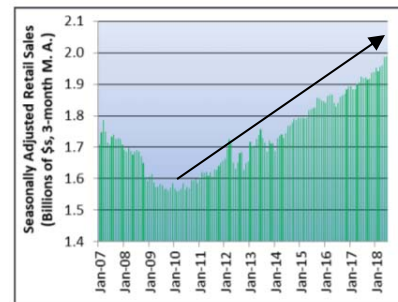
Hampton Roads and U.S., Jan 2007 – Jul 2018, Monthly



Source: Bureau of Labor Statistics, HRPDC

Only seven regions with similar populations have a lower rate

Hampton Roads Retail Sales, Seasonally Adjusted
Hampton Roads, Jan 2007 – Jun 2018, Monthly



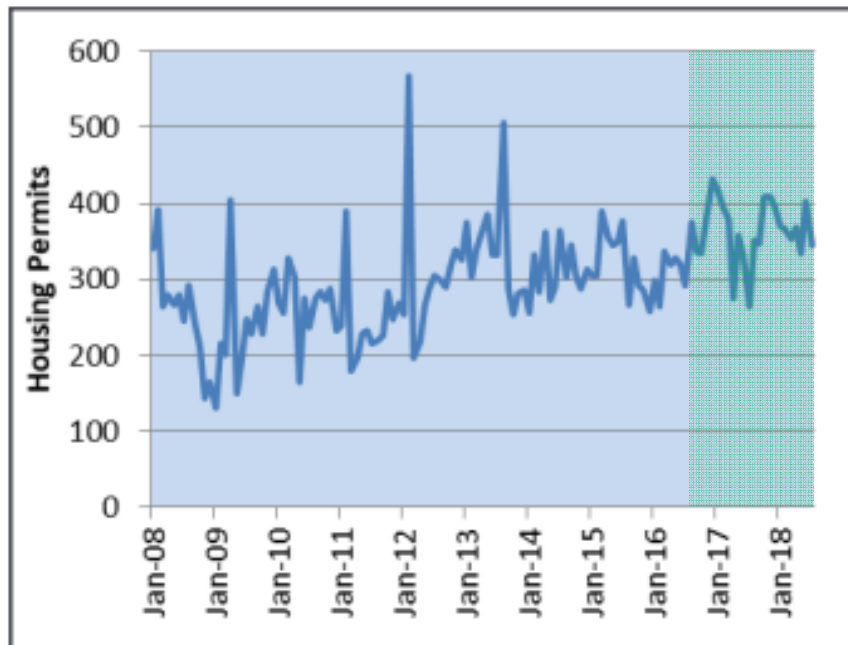
Source: Virginia Department of Economic Development, HRPDC

Consumer spending strong

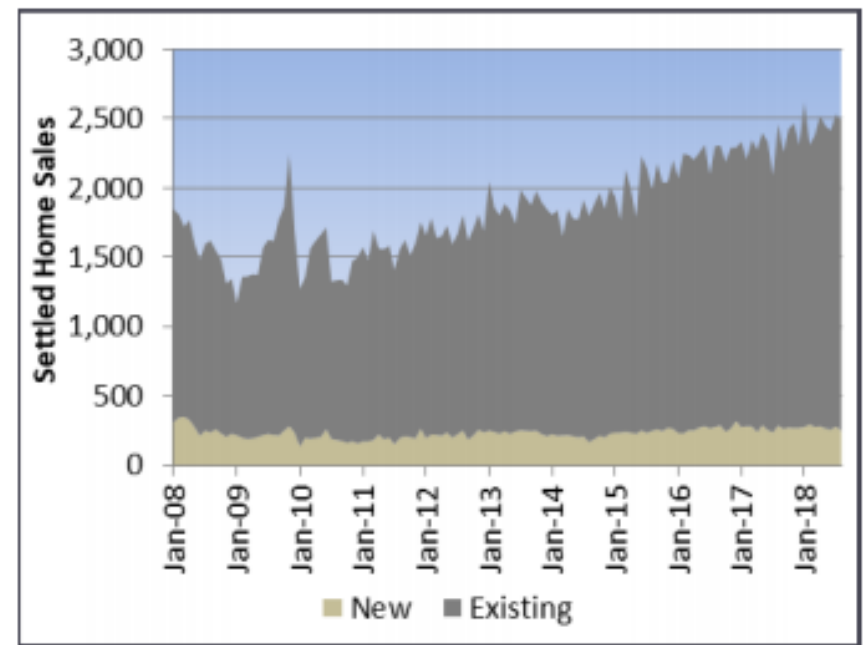


New accounts offset water consumption declines

Single Family Housing Permits, Seasonally Adjusted
Hampton Roads, Jan 2007 - Jul 2018, Monthly



Number of Homes Sold, Seasonally Adjusted
Hampton Roads, Jan 2007 - Aug 2018, Monthly



Virginia Retirement System (VRS) Net Pension Liability

GASB 68 – Pension Reporting Background

- GASB – Government Accounting Standards Board
- Purpose
 - Assess pension promise made to employees
 - Ensure future financial viability
- Shows as long-term liability
- Virginia Retirement System (VRS) performs the calculations
- VRS Fast Facts *Fiscal Year 2018*
 - \$78.6 billion in assets serving 705,000 members
 - 20th largest public or private pension fund in the US
 - 44th largest in the world

HRSD VRS Fast Facts

Membership *as of June 30, 2016 (valuation date)*



781	Actively Employed
355	Retired Members and Beneficiaries
328	Inactive Members
1,464	Total (+44)

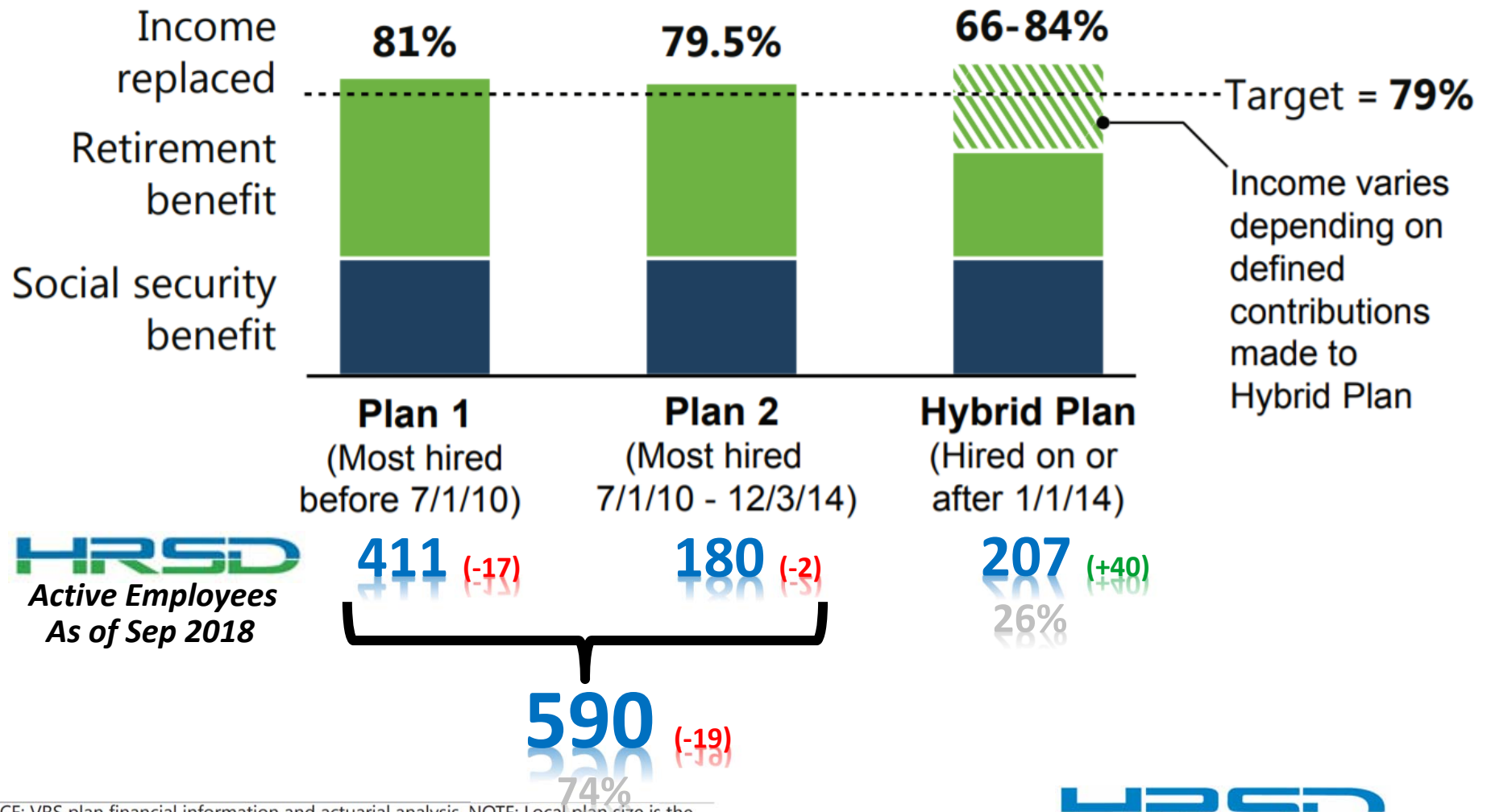
Assets (Fiduciary Net Position - FNP) *as of June 30, 2017*



\$196.2 million
(up \$18.9 million from previous year)
Total HRSD VRS trust fund assets



Retirement Income Replacement by Benefit Group



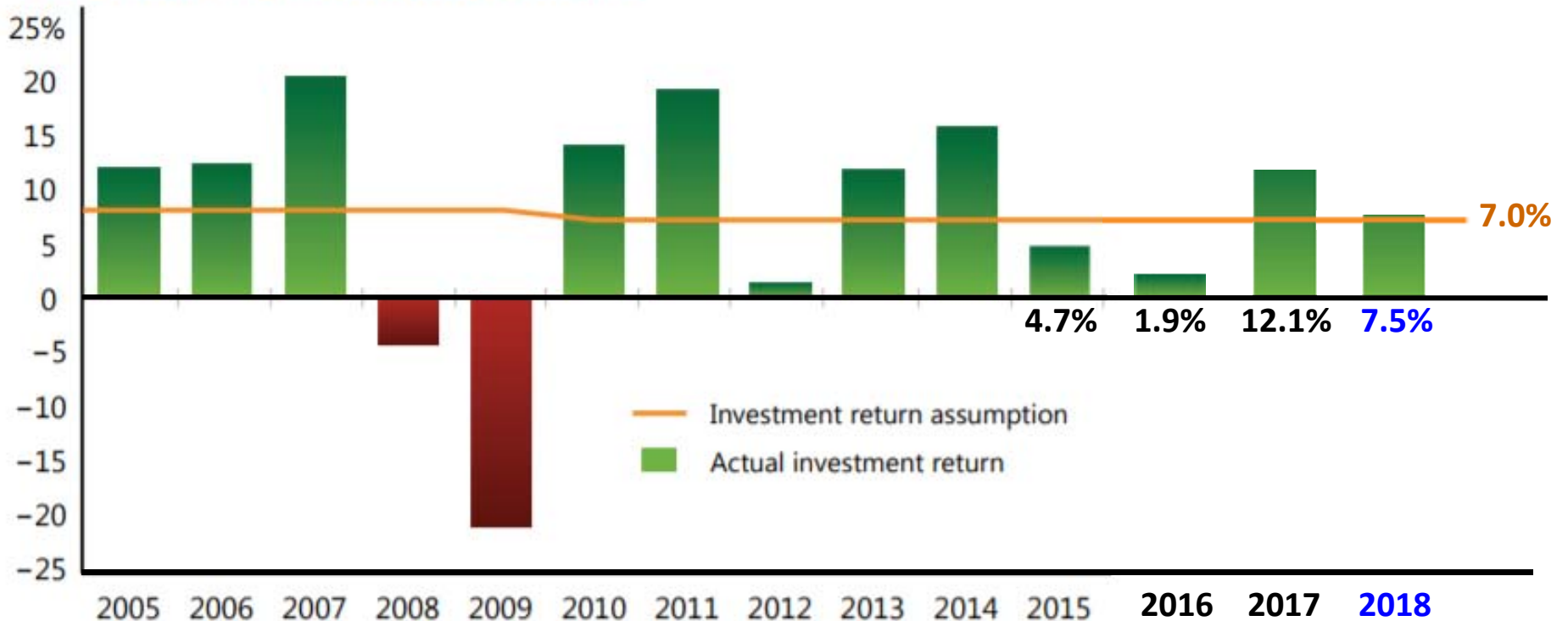
HRSD
Active Employees
As of Sep 2018

HRSD

SOURCE: VRS plan financial information and actuarial analysis. NOTE: Local plan size is the aggregate liability of all 585 plans for political subdivisions. Income replacement for State Employees Plan member retiring at age 65 with \$55,000 salary and 30 years of service.

VRS Investment Returns (2005-2018)

VRS fiscal year investment returns



SOURCE: VRS annual reports and investment department data. NOTE: Investment return assumption was reduced from 7.5 percent in FY 2009 to 7.0 percent in FY 2010.

Net Pension Liability and Funded Ratio

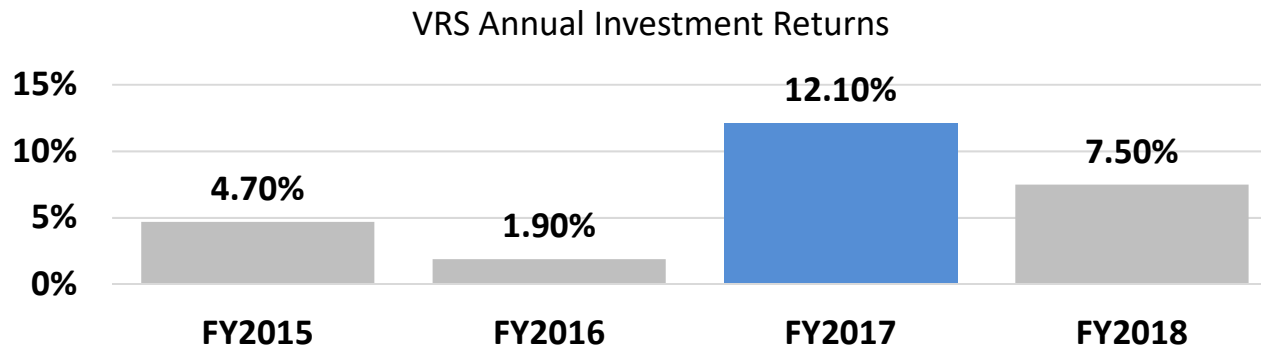
Total Pension Liability = \$218 million

– Investment Value (Assets) = \$196 million

Net Pension Liability (NPL) = \$22 million (down \$16M)

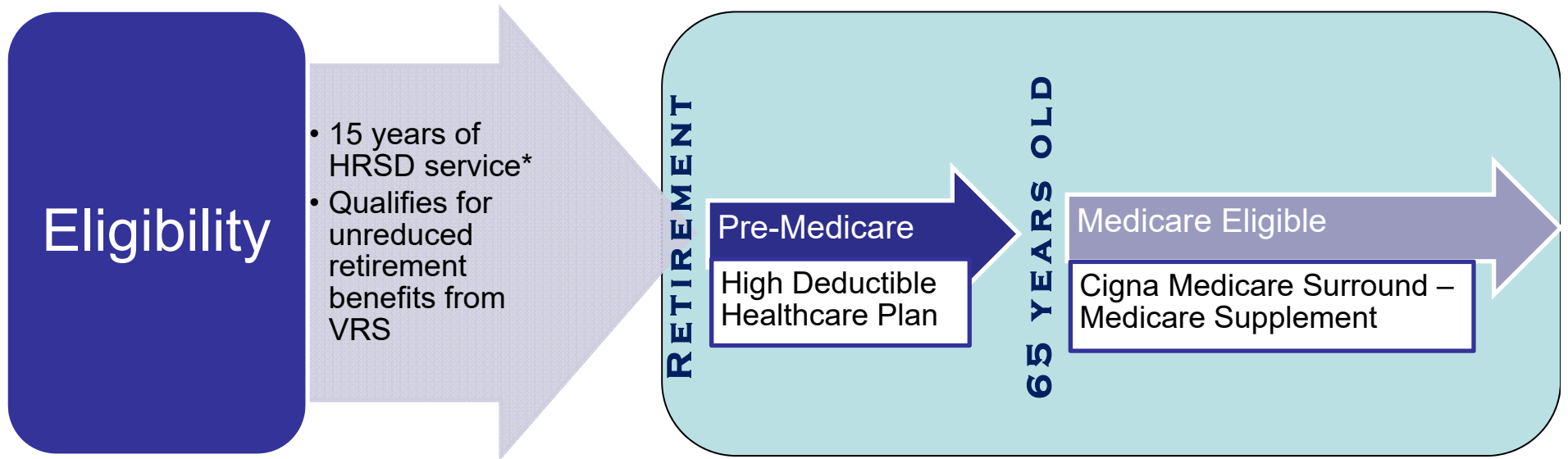
FY2018 Funded Ratio = 89.9% (up 7.4%)

* *VRS assumed rate of return = 7.0%*



Retiree Health Plan Trust
Other Post-Employment Benefits (OPEB)

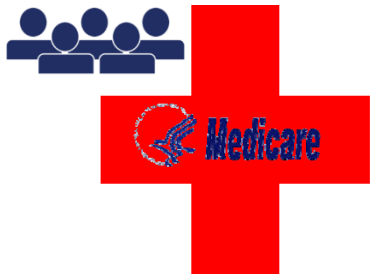
Retiree Health Plan



- Retiree responsible for:
 - Deductibles
 - Co-payments
 - Retiree Premiums (Spousal rate higher)
 - Less than 65 = \$120/month (High Deductible Plan)
 - Greater than 65 = \$45/month (Medicare Supplement)

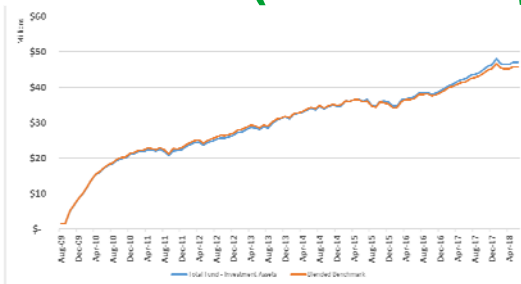
Retiree Health Plan (Other Post-Employment Benefits - OPEB)

Membership *as of June 30, 2016 (valuation date)*



708	Actively Employed
72	Retirees Less Than Age 65
80	Retirees Age 65 or Greater
860	Total

Assets (Fiduciary Net Position - FNP) *as of June 30, 2017*



\$47.1 million
 (up \$4.6 million from previous year)
 Total HRSD OPEB trust fund assets

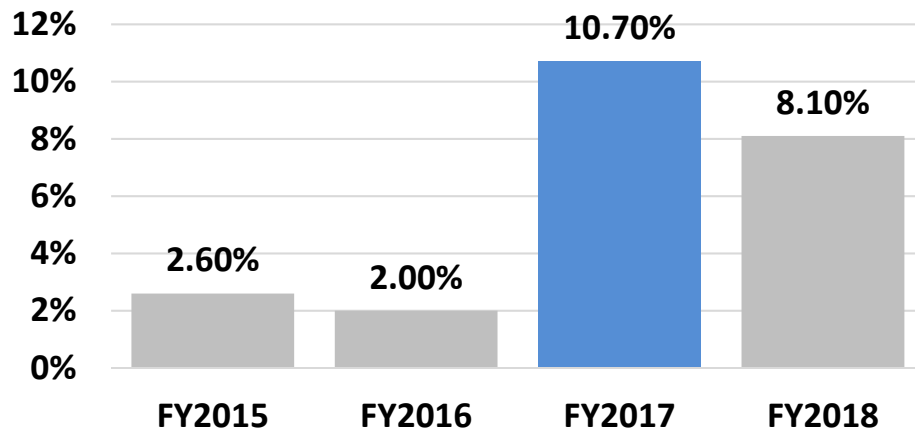


Net OPEB Liability and Funded Ratio

Total OPEB Liability = \$60.3 million
– Investment Value (Assets) = \$47.1 million
Net OPEB Liability (NPL) = \$13.2 million
FY2018 Funded Ratio = 78.2%

** HRSD assumed rate of return = 6.0%*

OPEB Annual Investment Returns



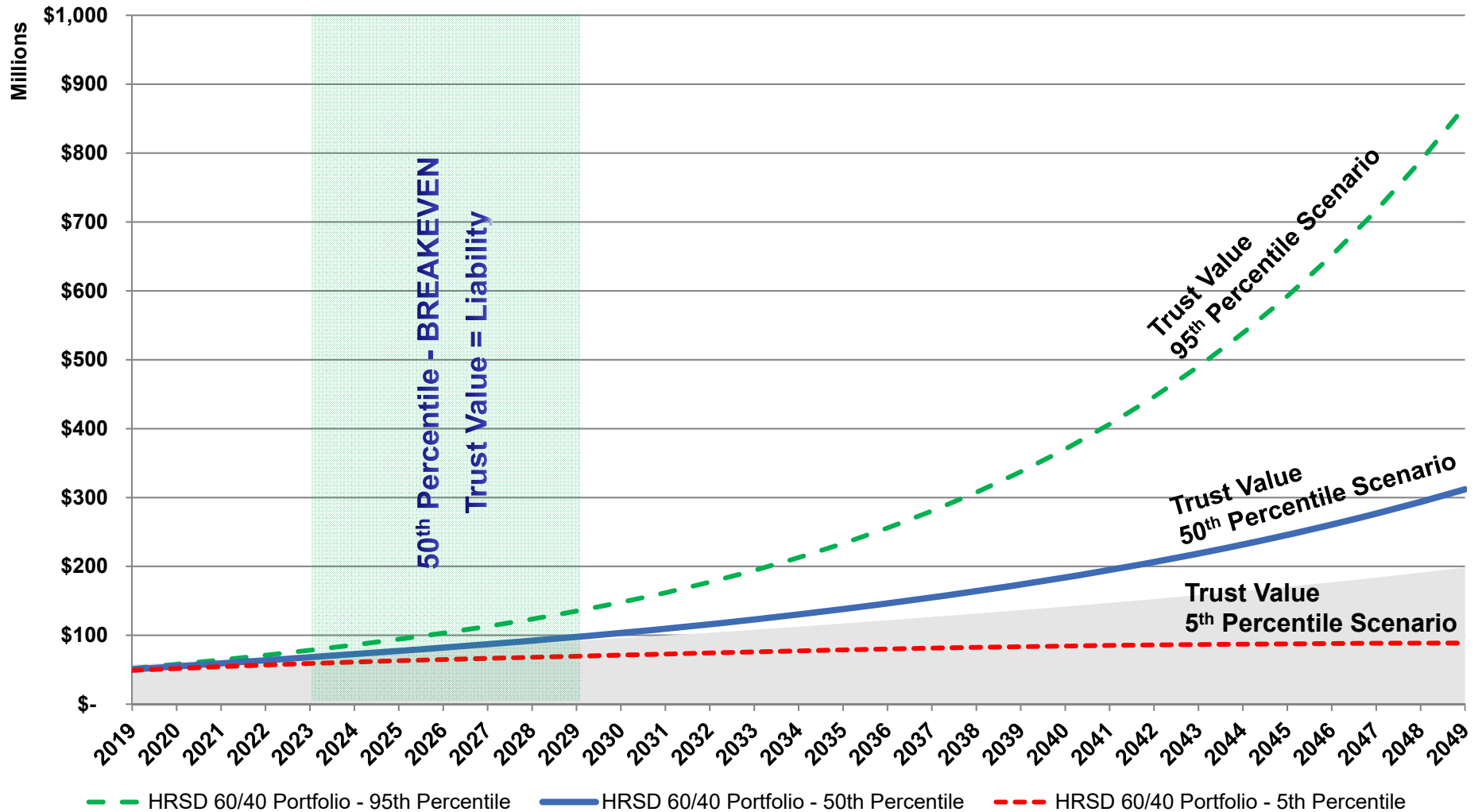
Projected Unit Credit Funding Method

FY17 OLD = 86.1%

Entry Age Normal Funding Method

FY17 NEW = 74.1%

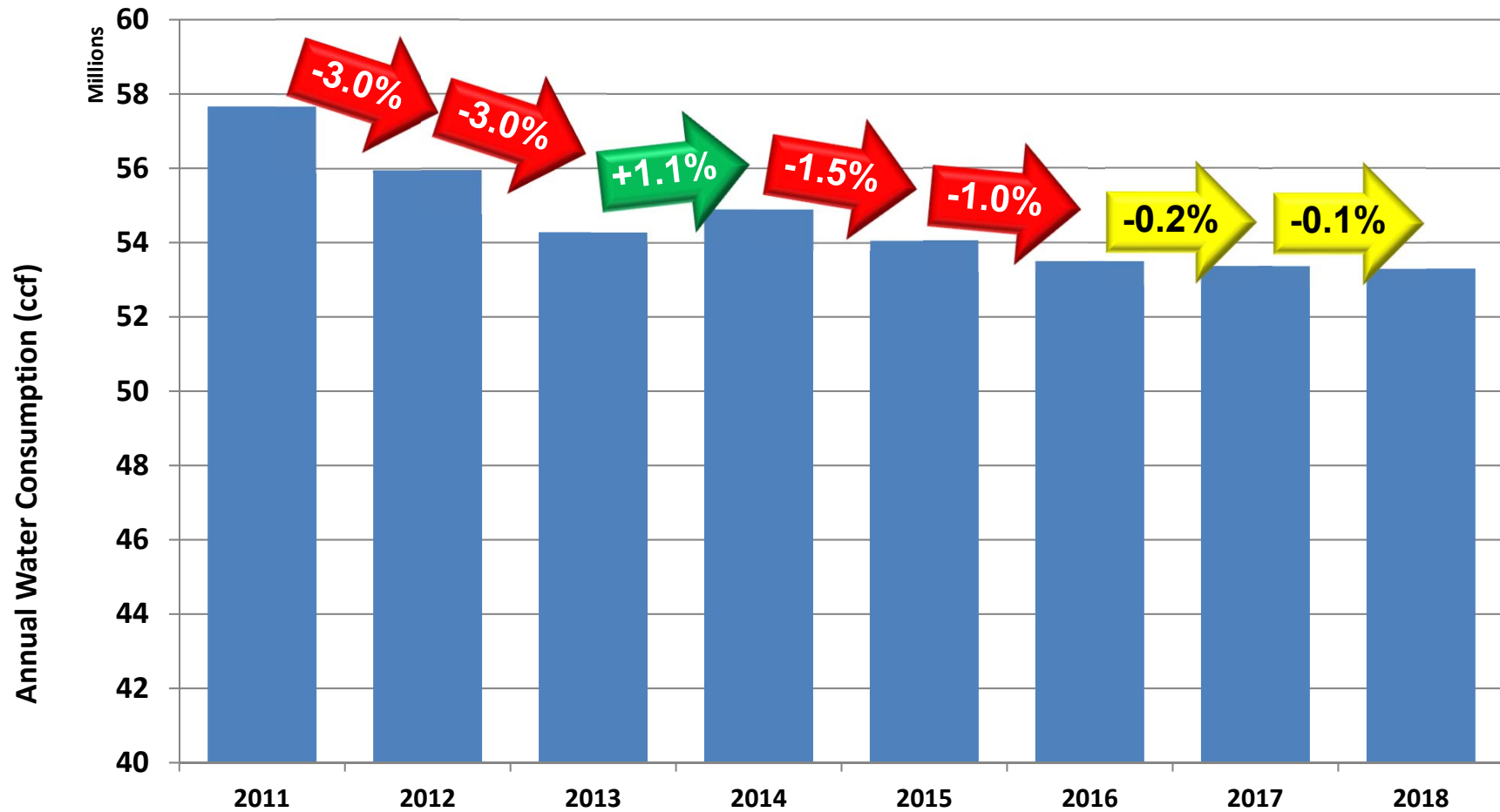
Projection – Trust Value vs Liability (Risk Analysis)



Financial Statement Overview

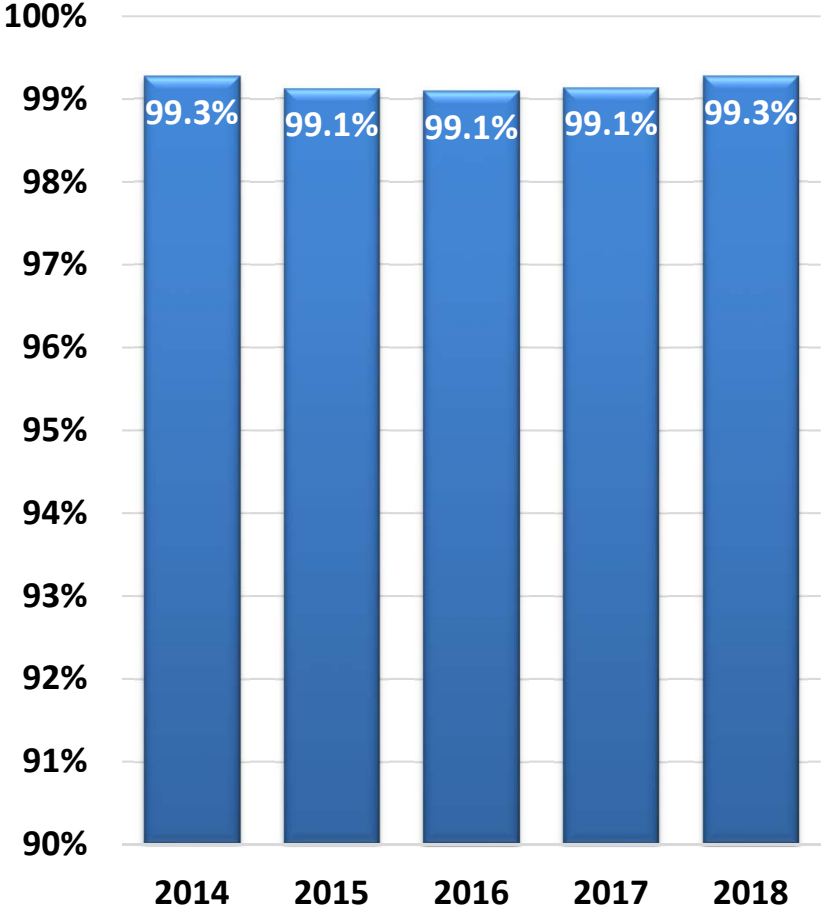
Water Consumption (Revenues)

Water Consumption continues to decline...slower??

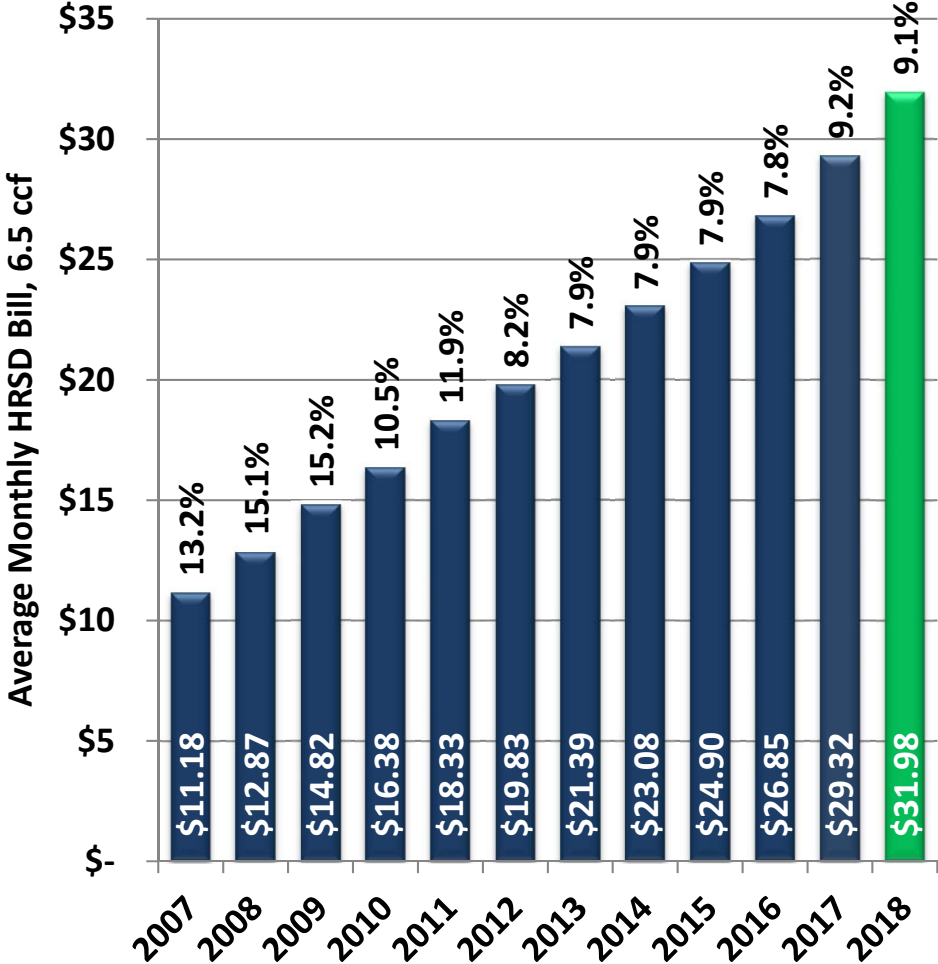


Collection Ratio

Collection Ratio



Historical Wastewater Rate



Summary Statements of Net Position, (,000s)

(in thousands)	2018 vs. 2017			
	2018	2017	Variance Favorable (Unfavorable)	Percent
Capital assets	\$ 1,319,249	\$ 1,255,952	\$ 63,297	5.0%
Current assets and noncurrent assets	357,691	310,534	47,157	15.2%
Total assets	\$ 1,676,940	\$ 1,566,486	\$ 110,454	7.1%
Deferred Outflows (Refunding/Pension/OPEB)	\$ 20,380	\$ 30,822	\$ (10,442)	-33.9%
Long-term liabilities	\$ 850,964	\$ 805,685	\$ 45,279	5.6%
Current liabilities	134,902	134,353	549	0.4%
Total liabilities	\$ 985,866	\$ 940,038	\$ 45,828	4.9%
Deferred Inflows (Pension/OPEB)	\$ 11,151	\$ 2,992	\$ 8,159	272.7%
Net investment in capital assets	\$ 508,634	\$ 428,670	\$ 79,964	18.7%
Restricted for debt service	27,800	22,701	5,099	22.5%
Unrestricted	163,869	202,907	(39,038)	-19.2%
Total net position	\$ 700,303	\$ 654,278	\$ 46,025	7.0%

Net Property, Plant and Equipment

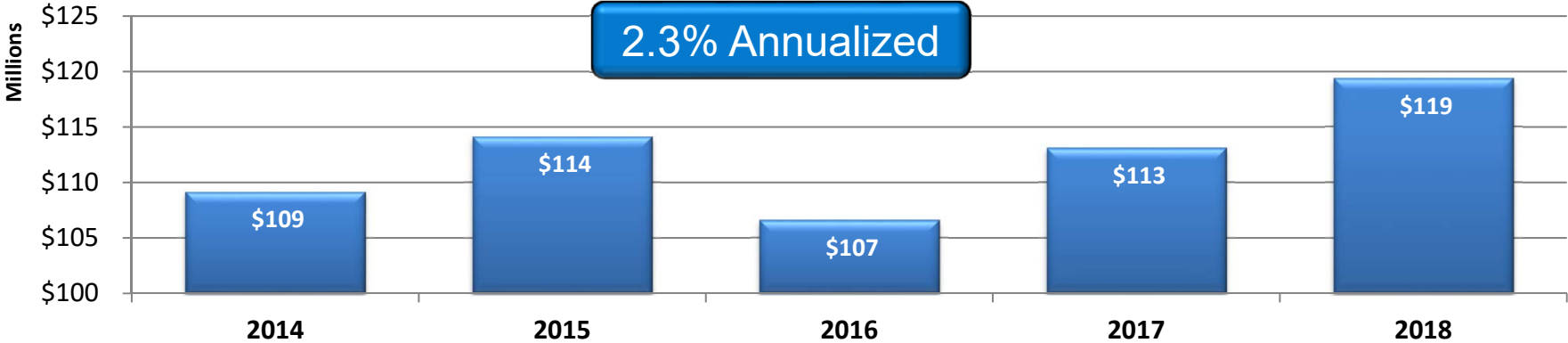
New bond proceeds

Bonds, Pension and OPEB Liability

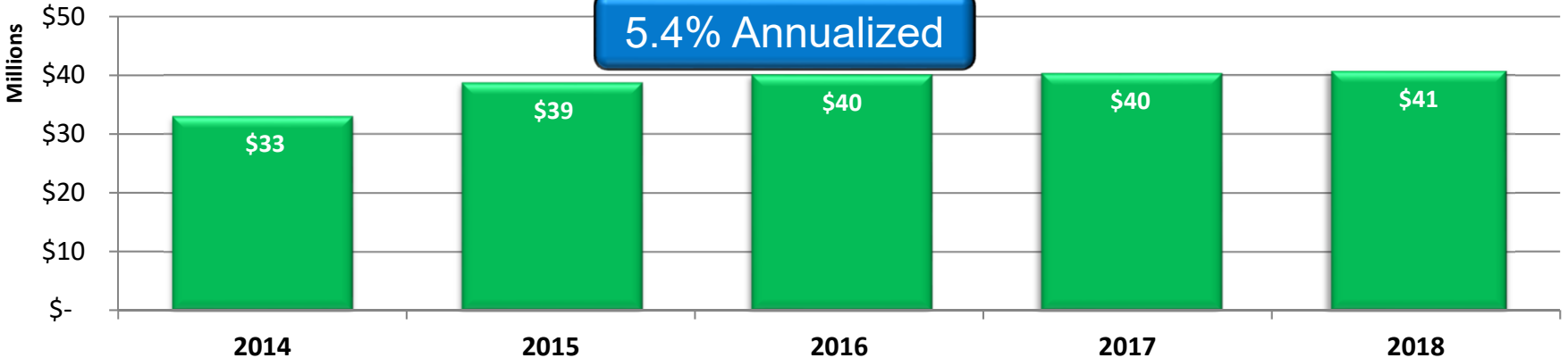


Expenses Trend

Wastewater Treatment Expenses, \$M (CAFR Data)



General and Administrative Expenses, \$M (CAFR Data)

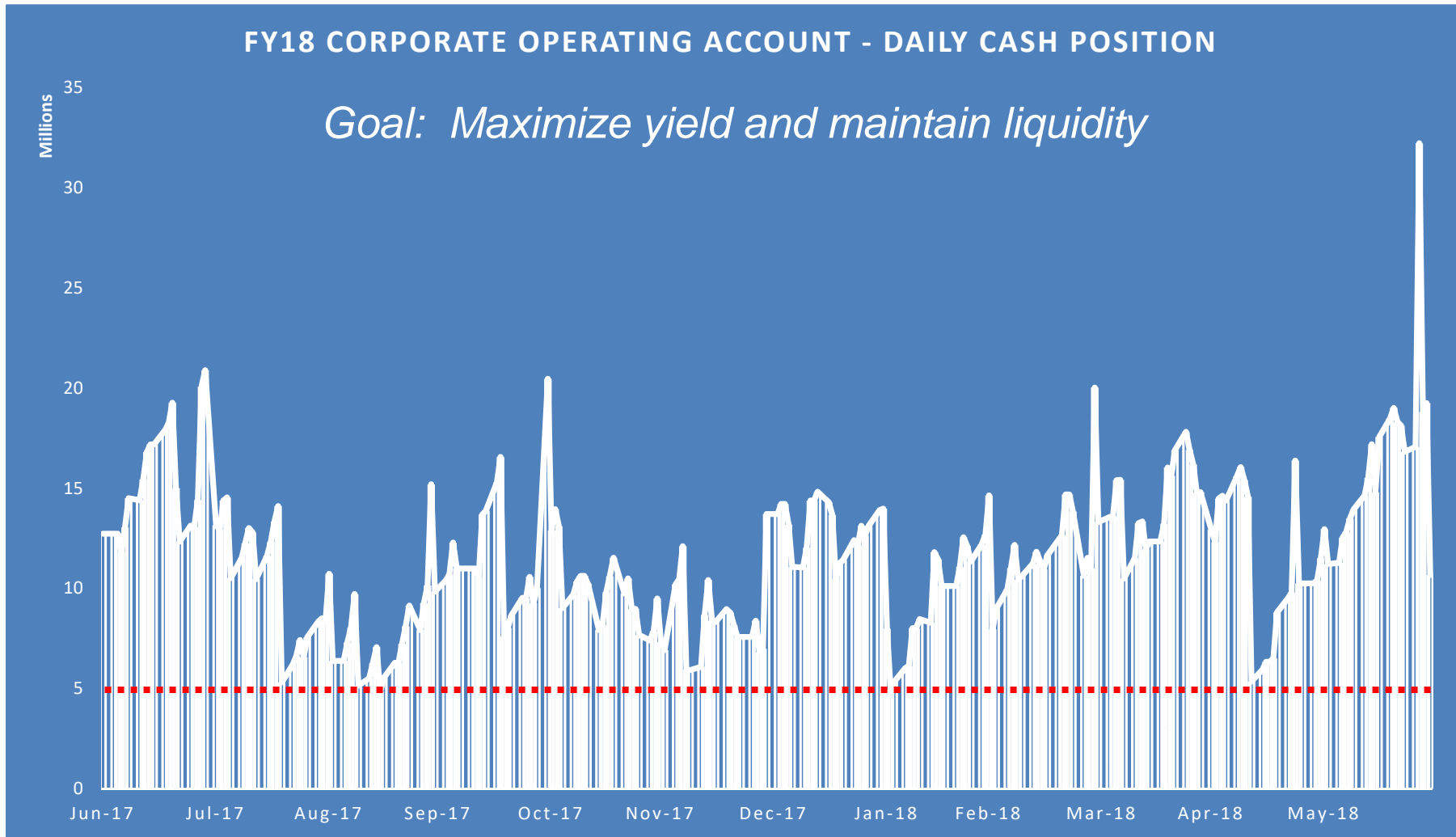


Summary Statements of Revenues, Expenses and Changes in Net Position, (,000s)

(in thousands)	2018 vs. 2017			
	2018	2017	Variance	Percent
Operating revenues	\$ 279,043	\$ 258,630	\$ 20,413	7.9%
Facility charge revenues	6,673	7,511	(838)	-11.2%
Investment income, net	2,272	1,168	1,104	94.5%
Bond interest subsidy	2,330	2,275	55	2.4%
Total revenues	290,318	269,584	20,734	7.7%
Operating expenses:				
Wastewater treatment	119,377	113,100	6,277	5.5%
General and administrative	40,705	40,287	418	1.0%
Depreciation and amortization	52,349	49,311	3,038	6.2%
Total operating expenses	212,431	202,698	9,733	4.8%
Non-operating expenses:				
Bond issuance costs	1,061	42	1,019	2426.2%
Capital distributions to localities	311	138	173	125.4%
Interest expense	20,226	22,630	(2,404)	-10.6%
Total non-operating expenses	21,598	22,810	(1,212)	-5.3%
Total expenses	234,029	225,508	8,521	3.8%
Income before capital contributions	56,289	44,076	12,213	27.7%
Capital Grants	4,626	8,598	(3,972)	-46.2%
Change in net position	60,915	52,674	8,241	15.6%
Total net position - beginning, as restated	639,388	601,604	37,784	6.3%
Total net position - ending	\$ 700,303	\$ 654,278	\$ 46,025	7.0%

Two bond sales

Yield Optimization Strategy – Transfer excess funds to higher yield accts



= 0.50%



= 2.30%



Summary Statement of Cash Flows

	2018	2017	2016
Net Cash provided by Operating Activities	\$ 113,653	\$ 101,435	\$ 85,923
Net Cash Capital distributions to localities	(311)	(138)	(3,287)
Net Cash used in Capital and Related Financing Activities <i>[CIP and Debt Service]</i>	(68,833)	(147,268)	(17,323)
Net Cash provided by Investing Activities	1,869	875	284
Net Increase/Decrease in Cash Flows	\$ 46,378	\$ (45,096)	\$ 65,597
Cash and Cash Equivalents at the Beginning of Year	114,777	159,873	94,276
Cash and Cash Equivalents at the End of Year	\$ 162,155	\$ 114,777	\$ 159,873

Bond Sale

Higher yield

Key Financial Policy Indicators

Key Ratios

$$\text{Debt Service Coverage Ratio} = \frac{\text{REVENUES} - \text{EXPENSES}}{\text{Principal} + \text{Interest}}$$

- *How much income will you generate to pay Debt Service (principal + interest)?*
- *Will bond investors get paid back?*
- *Higher is better*

Debt Service = Think about a loan payment

2.0 means that you have **two times more money available** to pay for your loan payment

Target = 2.0x
Policy = 1.4x

Debt Service Coverage Ratio (DSCR) by Trust Agreement

SENIOR TRUST AGREEMENT

Senior Debt Service Coverage Requirement FY 2018

Senior Debt Service Coverage Ratio – **Max Annual DS*** **3.44x**

Financial Policy Requirement (Adjusted Cash Basis) 1.50x
 Legal Requirement 1.20x



Fitch 2018 Medians	DSCR
AAA	2.8
AA	2.1
A	1.7
All	2.1
Large	1.9

Total Debt Service Coverage Requirement FY 2018

Total Debt Service Coverage Ratio – **Max Annual DS*** **1.99x**

Legal Coverage Requirement 1.00x
 Debt Service Reserve Fund Test 1.35x



SUBORDINATE TRUST AGREEMENT/FINANCIAL POLICY

Total Debt Service Coverage Requirement FY 2018

Total Debt Service Coverage Ratio – **GAAP** **2.26x**

Total Debt Service Coverage Ratio – **Adjusted Cash Basis** **2.26x**

Financial Policy Requirement 1.40x
 Legal Coverage Requirement 1.20x



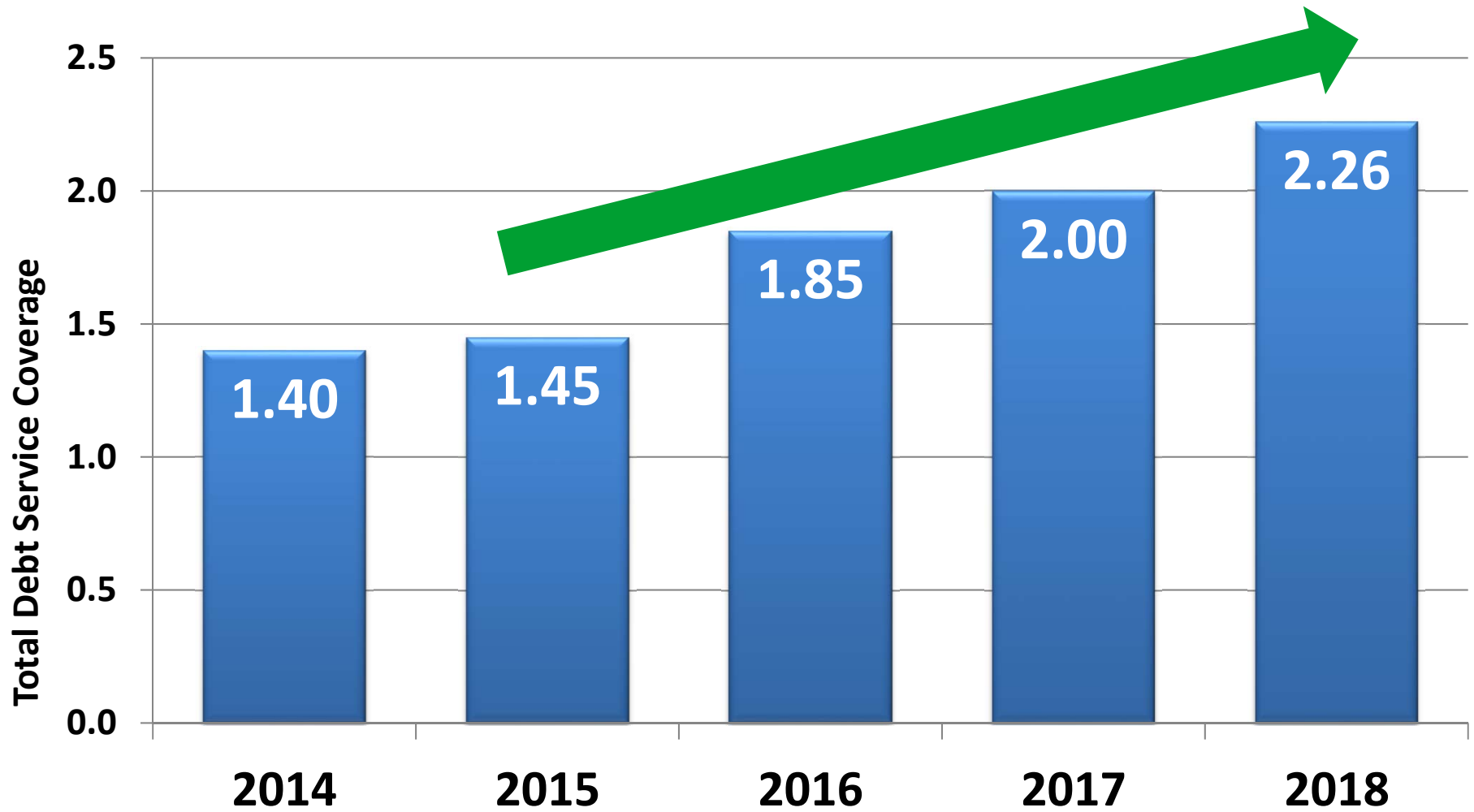
FY18 Forecast = 2.05x

FY18 Forecast = 2.08x



**Max Annual Debt Service occurs in Year 2020 when CAMBI is completed*

Total Debt Service Coverage Trend



Liquidity (HRSD's Unrestricted Savings Account)

- Liquidity indicates financial flexibility to pay near-term obligations and margin of safety
- Days Cash on Hand (DCOH)
- How many days can you operate with available cash if no revenue is coming in?
- Includes Capital Reserve funds

$$\text{DCOH} = \frac{\text{Unrestricted Cash and Investments}}{\text{Operating Expenses} \div 365 \text{ days}}$$

HRSD POLICY

Min = 270 DCOH, FY17 = \$113M

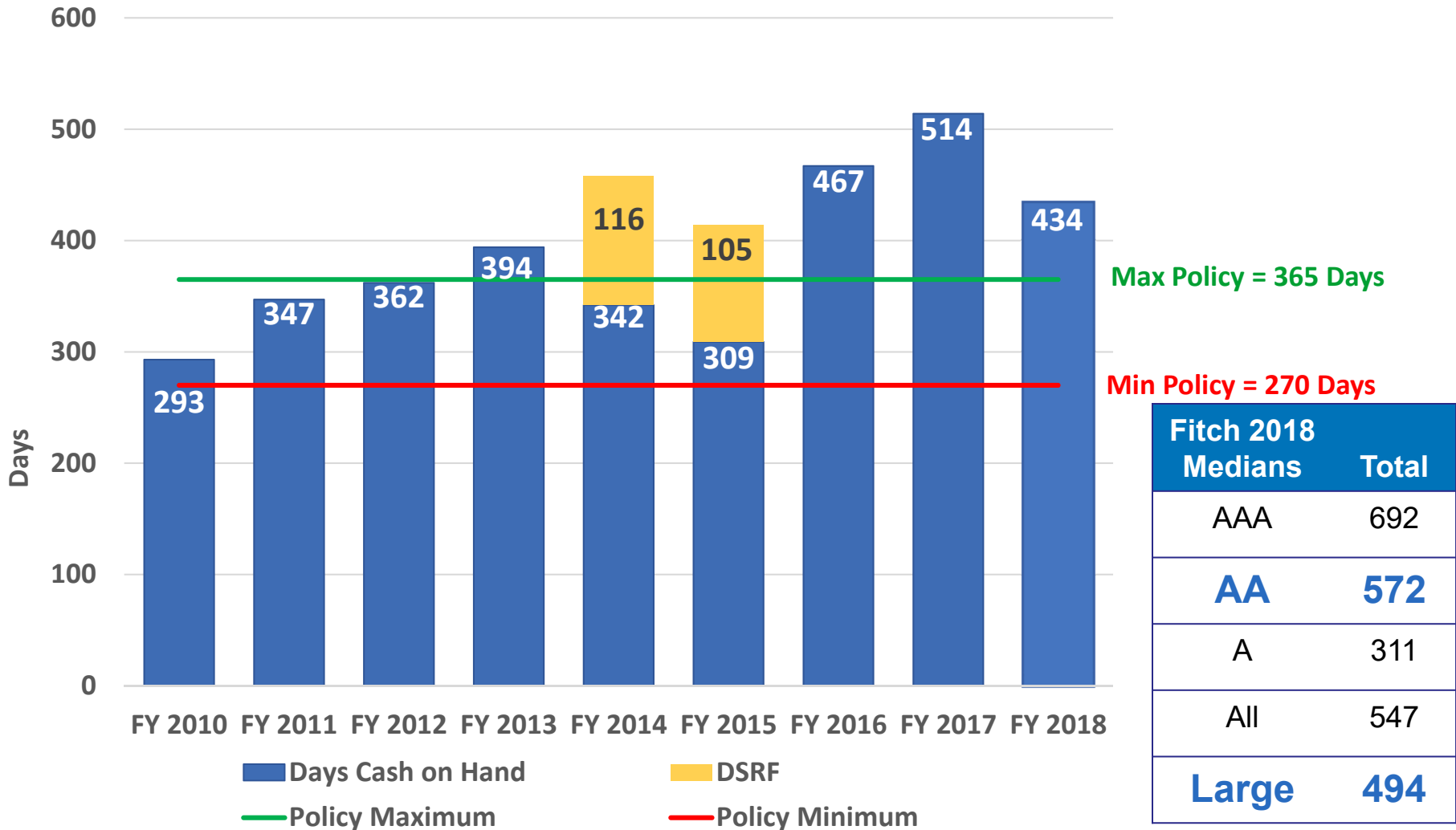
Max = 365 DCOH, FY17 = \$153M

2017 Fitch Medians

AAA = 518 DCOH, FY17 = \$218M

AA = 499 DCOH, FY17 = \$210M

Total Days Cash on Hand (DCOH) = days



- Financial health is sound
 - Achieved target rating agency medians
 - Expenses are stable, but healthcare is volatile
 - Debt Service Coverage is increasing
 - Pension and Retiree Health plans are stable

Questions?



Hampton Roads Sanitation District

Introducing the *Boyd Watterson GSA Fund*

October 16, 2018

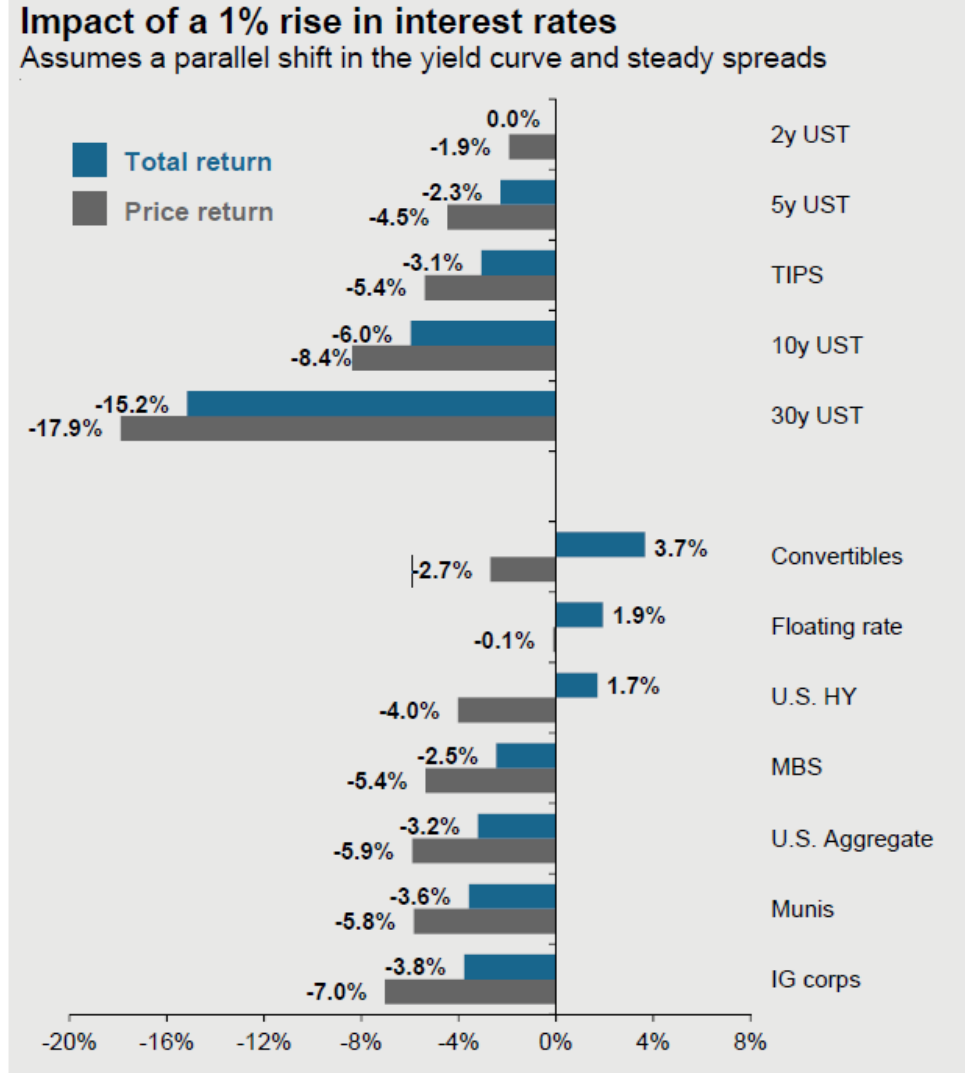
PFM Asset
Management LLC

4350 N. Fairfax Drive
Suite 580
Arlington, VA 22203

703.741.0175
www.pfm.com



Impact of Rising Interest Rates on Fixed Income Returns



Source: JP Morgan Guide to the Markets – U.S. Data are as of December 31, 2017



Current OPEB Trust Portfolio

	Policy Targets	Current Allocation
Domestic Equity	39.0%	42.6%
Vanguard Total Stock Market Index		38.4%
iShares MSCI US Quality Factor ETF		2.1%
iShares S&P 600 Small Cap ETF		2.1%
International Equity	21.0%	21.6%
Vanguard Total International Stock Index		7.1%
JO Hambro International Select		5.4%
Vanguard International Value		4.4%
Oppenheimer International Small-Mid Cap		2.7%
Hartford Schroders Emerging Markets		1.9%
Other Growth	0.0%	0.0%
Other Income	0.0%	0.0%
Fixed Income	40.0%	35.8%
Baird Core Plus		12.0%
DoubleLine Core Fixed		5.3%
Prudential Total Return		3.5%
Vanguard Investment Grade Corporate		11.8%
Vanguard High Yield Corporate		3.2%

Holdings as of September 30, 2018



Existing Fixed Income Managers and Returns

Current Fixed Income Portfolio			Trailing Returns			
Manager	Strategy	% Allocation	YTD	1 Year	3 Years	5 Years
Baird Core Plus	Core Plus	33.4%	-1.41%	-0.86%	2.36%	2.96%
DoubleLine Core Fixed	Core Plus	14.7%	-0.61%	-0.16%	2.41%	3.22%
Prudential Total Return	Core Plus	9.8%	-1.97%	-0.79%	2.87%	3.45%
<i>Bloomberg Barclays Aggregate</i>			-1.60%	-1.22%	1.34%	2.16%
Vanguard Investment Grade Corporate	Intermediate IG Corporate	33.0%	-1.57%	-1.47%	2.15%	2.93%
<i>Bloomberg Barclays US Credit 5-10 Year</i>			-2.02%	-1.60%	2.72%	3.46%
Vanguard High Yield Corporate	High Yield Corporate	9.1%	1.56%	1.87%	6.30%	5.21%
<i>Bloomberg Barclays US Corp High Yield</i>			2.57%	3.12%	8.07%	5.50%

Holdings and returns as of September 30, 2018. Returns are sourced from Bloomberg.



OPEB Asset Allocation Targets and Ranges

	Asset Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)	Differences (%)
Total Fund - Investment Assets	100.0	100.0	N/A	N/A	0.0
Domestic Equity	41.5	39.0	19.0	59.0	2.5
International Equity	21.9	21.0	1.0	41.0	0.9
Other Growth	0.0	0.0	0.0	10.0	0.0
Fixed Income	36.6	40.0	20.0	60.0	-3.4
Other Income	0.0	0.0	0.0	10.0	0.0
Real Return	0.0	0.0	0.0	20.0	0.0
Cash Equivalent	0.0	0.0	0.0	20.0	0.0

As of June 30, 2018



Role of Private Real Estate in a Portfolio

◆ Real estate helps to hedge against inflation and provides steady income

- The value of the properties is partly dependent on replacement cost, which rises along with inflation
- This is most readily seen in core or high-quality properties where changes in the property and surrounding environment play only a small role

◆ Real estate exhibits characteristics of both equities and fixed income

- The rent payments provide an income stream, which increases over time to compensate for inflation
- The value of the property also rises over time to reflect inflation

◆ The return from core real estate should fall between equities and fixed income



Boyd Watterson GSA Fund

Firm Overview

- Founded in 1928 and 100% independent and employee owned (headquartered in Chicago, IL)
- More than \$8 billion in assets under management, primarily in fixed income and real estate
- Senior management and advisory team all have 30+ years of real estate industry experience

GSA Fund Overview

- Government Services Administration (“GSA”) leased properties provide attractive income and stability vs. other types of tenants
- Conservative income oriented mentality and approach – Targets 8% return for income alone
 - Seek high current income which is distributed quarterly
 - Secure, GSA occupied properties lower fund volatility relative to NCREIF Property Index
- Focus on properties in the small to mid-sized market of typically \$5-\$25 million which offer more attractive attributes
 - Inefficiently priced and more time consuming to analyze due to the slow, bureaucratic, government leasing process
 - “Mission critical” properties with a high probability for lease renewal



PFM Due Diligence Process

- Boyd Watterson GSA Fund was approved by the Investment Committee in December 2015
- The open-end structure, core profile of the fund is intended to be a more liquid, less volatile private real estate alternative for clients not comfortable with illiquid, closed-end real estate investments
- Boyd Watterson was considered among the whole universe of fundraising GSA managers and was determined to provide superior risk/return profile. Furthermore, Boyd Watterson was determined to have low execution risk since they are one of the top investors in this space in terms of deal flow
- Prior to investment, the research team took several meetings and calls with the Boyd Watterson team. Post-investment, we continue to meet with the team on a regular basis and are provided updates on fund performance and strategy execution on a quarterly basis
- Superior returns beget inflows of capital. Boyd has closed their GSA fund to further investment from outside investors but still accept investments from existing consulting relationships
- Current exposure: \$31.5 million / 13 Clients



PFM Multi-Asset Class Investment Committee

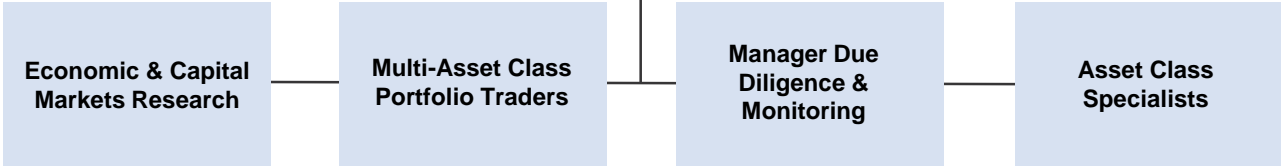
Committee Members

<i>Biagio Manieri, Ph.D., CFA, Chair</i>	<i>Chief Multi-Asset Class Strategist</i>	<i>32 Years Industry Experience</i>
John Spagnola	Multi-Asset Class Practice Co-Leader	34 Years Industry Experience
Marc Ammaturo	Multi-Asset Class Practice Co-Leader	22 Years Industry Experience
Marty Margolis	Chief Investment Officer	40 Years Industry Experience
Kenneth Schiebel, CFA	Managing Director	37 Years Industry Experience
Alex Gurvich	Director of Investment Research	25 Years Industry Experience
Mark Yasenchak, CFA	Director	17 Years Industry Experience
Surya Pisapati, CFA	Senior Research Analyst	9 Years Industry Experience

Ex-Officio Member
Leo Karwejna
Chief Compliance Officer

The Committee averages **27 years** of Industry Experience

Research Team





Proposed OPEB Trust Portfolio

	Policy Targets	Current Allocation	Current Fees	Proposed Allocation	Proposed Fees
Domestic Equity	39.0%	42.6%		42.6%	
Vanguard Total Stock Market Index		38.4%	0.04%	38.4%	0.04%
iShares MSCI US Quality Factor ETF		2.1%	0.15%	2.1%	0.15%
iShares S&P 600 Small Cap ETF		2.1%	0.07%	2.1%	0.07%
International Equity	21.0%	21.6%		21.6%	
Vanguard Total International Stock Index		7.1%	0.12%	7.1%	0.12%
JO Hambro International Select		5.4%	1.01%	5.4%	1.01%
Vanguard International Value		4.4%	0.40%	4.4%	0.40%
Oppenheimer International Small-Mid Cap		2.7%	1.16%	2.7%	1.16%
Hartford Schrodgers Emerging Markets		1.9%	1.10%	1.9%	1.10%
Other Growth	0.0%	0.0%		0.0%	
Other Income	0.0%	0.0%		5.0%	
Boyd Watterson GSA				5.0%	1.25%
Fixed Income	40.0%	35.8%		30.8%	
Baird Core Plus		12.0%	0.30%	10.3%	0.30%
DoubleLine Core Fixed		5.3%	0.49%	4.5%	0.49%
Prudential Total Return		3.5%	0.41%	3.0%	0.41%
Vanguard Investment Grade Corporate		11.8%	0.10%	10.2%	0.10%
Vanguard High Yield Corporate		3.2%	0.13%	2.8%	0.13%
			0.25%		0.30%

Current allocation shown as of September 30, 2018



How to Join the Fund

- Commission authorizes the General Manager to sign the subscription agreement documents
- Subscription documents are submitted to our contact at Boyd Watterson, Amanda Macko
- Over the next two quarters the subscription queue will be drawn down. Eventually, it will be HRSD's turn to invest all or a portion of its capital – there will be a capital call
- If all the capital is not drawn in one quarter, the remainder of the capital will be called the following quarter
- Boyd Watterson only charges its 1.25% management fee on invested (not committed) capital



Appendix



Historical Returns

Comparative Performance (%) As of June 30, 2018

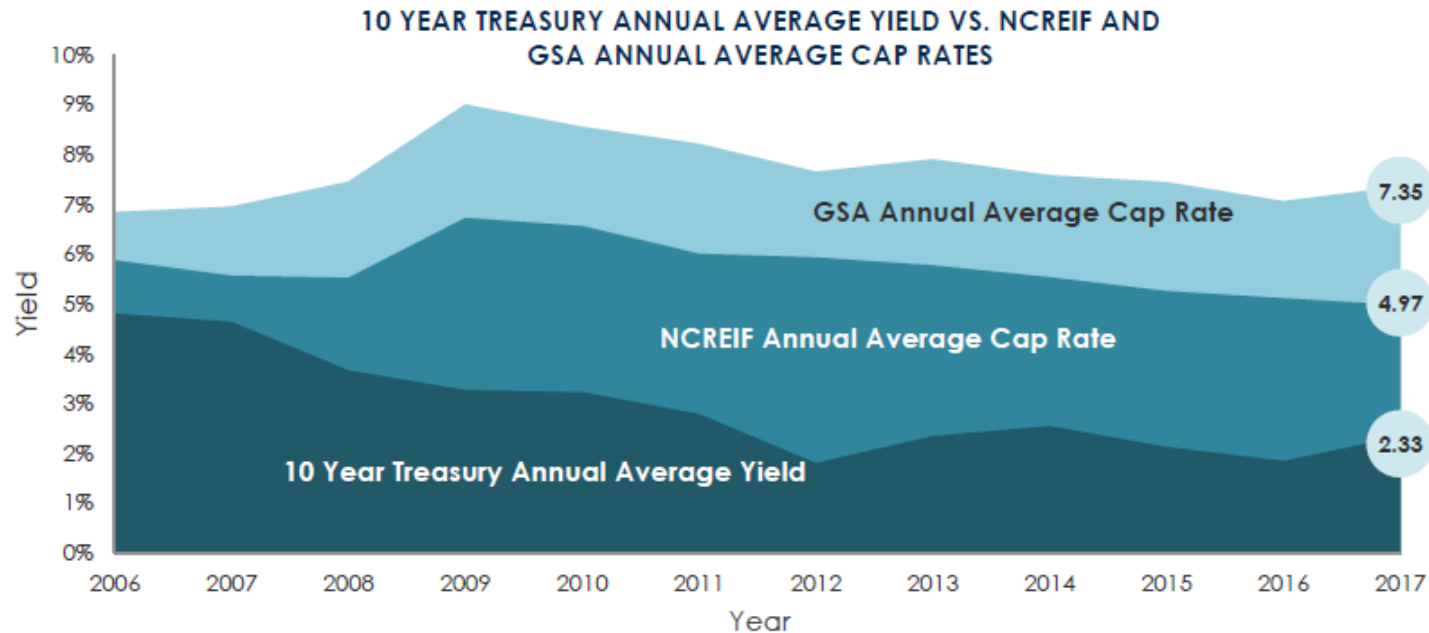
	Q2	YTD	1 Year	2 Years	3 Years	4 Years	5 Years	6 Years
Boyd Watterson GSA Fund	2.33	4.44	8.80	9.28	9.35	9.31	9.21	8.92
<i>NCREIF Property Income</i>	1.14	2.28	4.64	4.67	4.74	4.85	4.98	5.10
<i>S&P 500</i>	3.43	2.65	14.37	16.12	11.93	10.79	13.42	14.59
<i>Blmbg. Barc. U.S. Aggregate</i>	-0.16	-1.62	-0.40	-0.36	1.72	1.75	2.27	1.77

	YTD	2017	2016	2015	2014	2013	2012
Boyd Watterson GSA Fund	4.44	8.22	9.09	10.68	9.45	7.51	8.79
<i>NCREIF Property Income</i>	2.28	4.68	4.76	5.01	5.36	5.61	5.84
<i>S&P 500</i>	2.65	21.83	11.96	1.38	13.69	32.39	16.00
<i>Blmbg. Barc. U.S. Aggregate</i>	-1.62	3.54	2.65	0.55	5.97	-2.02	4.21

Source: PARI.S. Returns are expressed as percentages. Past performance is not a guarantee of future results. Prior to investing, you should consult your accounting, tax, and legal advisors to understand the implications of such investment.



Durability of Opportunity



Source: Bloomberg (10 Year Treasury Annual Average Yield), NCREIF (NCREIF Annual Average Cap Rate), Colliers International (GSA Annual Average Cap Rate).
Note: Annual average cap rates are equal weighted.

Capitalization Rate: The “cap rate” is a standard measure of commercial real estate valuation, which corresponds to a common stock’s dividend yield where the property’s rent plays the role of the dividend. The higher the cap rate, the higher the expected return.

Capitalization Rate = Yearly Net Operating Income/Total Property Value.



Fund Terms

Structure	Delaware L.P., open-end, commingled investment fund
Minimum Investment	\$1,000,000
Subscriptions	Quarterly, subject to queue
Distributions	Quarterly liquidity – based on net operating income
Redemptions	Quarterly liquidity – with a 60 day notice (with certain restrictions outlined in the PPM); minimum \$250,000
Annual Fees	1.25% management fee on invested (not committed) capital
Target Net Return	8-10% per annum over a full real estate cycle
Current Income	7-9% per annum
General Partner	Boyd Watterson GSA GP, LLC
Investment Advisor	Boyd Watterson Asset Management, LLC
UBTI	No, prevented by underlying embedded private REIT structure
Auditor	Plante & Morgan, LLC
Legal Counsel	DLA Piper, LLP
Administrator	Cortland Fund Services, LLC
ERISA Fiduciary	Yes



Senior Investment Team Biographies



Brian L. Gevry – Chief Executive Officer, Chief Investment Officer

Brian L. Gevry, CFA, is CEO and CIO of Boyd Watterson Asset Management, LLC, responsible for the strategic leadership of the firm and the oversight of the firm's investment processes and committees. Brian also serves as Chairman of the Real Estate Investment Committee. Prior to his role as CEO, Brian served as Boyd Watterson's Chief Operating Officer from 2000-2006. Previous leadership roles with the firm include Executive Vice President and member of the Operating Committee of Duff & Phelps Investment Management Co., Boyd Watterson's predecessor firm. Brian also held positions as a fixed income portfolio manager and senior strategist on the Conservative Value Equity and Fixed Income committees. Mr. Gevry began his career with the firm in 1991. Brian holds a CFA Charter from CFA Institute, an MBA from Case Western Reserve University, and a BA from Cleveland State University. He is a member of CFA Society Cleveland and of CFA Institute.



Robert Law – Executive Vice President, Chief Investment Officer of Real Estate

Robert Law serves as the Chief Investment Officer and a portfolio manager on the real estate team. Mr. Law is also a member of the Real Estate Investment Committee. Prior to joining Boyd in 2009, Mr. Law worked for fourteen years at Mercantile Bank and Trust Company in Baltimore where he was the Managing Director of Real Estate Investment Management. While at Mercantile, Mr. Law grew the AFL- CIO's Building Investment Trust from \$200 million to \$1.9 billion over a ten year period. Mr. Law also worked for five years as the Senior Vice President and Division Manager of the Real Estate Industries at Maryland National Bank. Mr. Law served in the Army and also has a B.S. in Civil Engineering from the Virginia Military Institute.



Alphonse Iudicello – Chief Strategy Officer, Managing Director of Washington D.C. Office

After a 14 year career in senior management positions in the United States General Services Administration (GSA), with responsibilities for management of the annual preparation of GSA's 5 year plan and Capitol Hill testimony on the plan and annual GSA prospectuses, Mr. Iudicello successfully organized the first national fund specializing in the acquisition and management of real estate assets leased by Federal government entities. He employed this model in six funds, assembling and managing government leased portfolios with over 650 buildings and 23.4 million square feet of space, raising institutional, European and sovereign wealth fund equity and arranging balance sheet and CMBS debt with international banks. Mr. Iudicello graduated from the U.S. Air Force Academy, has an Executive MBA degree from Georgetown University and MCE degree from Catholic University.



Stephen A. Perry – Executive Vice President

Stephen A. Perry serves as a member of the Real Estate Investment Policy Committee. Prior to joining Boyd Watterson in 2014, Mr. Perry was President/Executive Director of the Pro Football Hall of Fame in Canton, Ohio. From 2001 to 2006, he served as the 17th Administrator of the US General Services Administration (GSA), a position appointed by President George W. Bush. He also had a 38 year career at the Timken Company, retiring as a Senior Vice President. In 1991-92 he served in the Cabinet of Ohio Governor George Voinovich as Director of the Department of Administrative Services. Mr. Perry holds an MS in Management from Stanford University and a BA in Accounting from the University of Akron.



Holdings

LOCATION	U.S. AGENCY	YEAR BUILT/ RENOVATED	SF	LEASE TERM REMAINING	PURCHASE PRICE	CLOSING DATE
GREAT LAKES						
Middleburg Heights, OH	Department of Homeland Security (DHS)	2012	33,387	8.42	7,962,500	02/07/2014
Bloomington, MN	Department of Homeland Security (DHS)	2007	322,551	5.92	52,500,000	08/29/2016
Bloomington, MN	Department of Homeland Security (DHS)	2015	38,107	12.08	11,350,000	09/21/2016
HEARTLAND						
St. Louis, MO	U.S. Department of Health and Human Services (HHS)	2013	61,308	10.42	20,500,000	01/06/2015
Springfield, MO	Department of Justice (DOJ)	2011	12,187	8.58	2,500,000	01/24/2017
Wichita, KS	Social Security Administration (SSA)	2009	24,574	5.92	6,350,000	02/08/2017
Wichita, KS	Social Security Administration (SSA)	2006	12,987	8.58	2,750,000	02/08/2017
MID-ATLANTIC						
Morgantown, WV	U.S. Department of Agriculture (USDA)	2009	34,904	6.42	10,850,000	12/20/2013
Morgantown, WV	Department of Labor (DOL)	2003	19,969	5.25	4,225,000	12/20/2013
Kearneysville, WV	Department of Homeland Security (DHS)	2014	42,943	6.25	11,800,000	06/20/2014
Gettysburg, PA	Federal Communications Commission (FCC)	2014	91,908	3.67	16,700,000	09/09/2014
Beltsville, MD	U.S. Department of Health and Human Services (HHS)	2004	105,763	7.00	16,850,000	11/03/2014
York, PA	Social Security Administration (SSA)	2013	21,564	9.83	7,850,000	12/23/2014
Stafford, VA	Department of Defense (DOD)	2011	100,338	2.25	28,250,000	01/20/2015
Baltimore, MD	Department of Homeland Security (DHS)	2013	75,980	10.67	9,900,000	04/27/2015
Suffolk, VA	Department of Defense (DOD)	2007	138,186	9.42	42,750,000	06/03/2015
Elkridge, MD	Department of Defense (DOD)	2001	51,361	5.17	10,550,000	07/30/2015
Elkridge, MD	Department of Defense (DOD)	2001	80,369	8.58	19,850,000	07/30/2015
Kearneysville, WV	Department of Homeland Security (DHS)	2014	117,776	1.92	25,000,000	08/17/2015
New Stanton, PA	State Agency	2014	37,890	6.42	8,725,000	10/14/2015
Falling Waters, WV	Department of Homeland Security (DHS)	2015	21,655	7.75	3,550,000	11/09/2015
Middletown, PA	State Agency	2007	135,995	4.33	14,925,000	09/06/2016
Fairfax, VA	Department of Homeland Security (DHS)	2005	140,891	2.00	23,500,000	04/12/2017
Virginia Beach, VA	State Agency	2015	11,139	11.83	3,550,000	07/13/2017
Chesapeake, VA	State Agency	2012	36,227	11.75	9,600,000	07/13/2017
Charlottesville, VA	Department of Defense (DOD)	2009	110,000	1.50	40,500,000	12/20/2017
Charleston, WV	Department of Justice (DOJ)	2011	18,095	8.75	6,700,000	12/28/2017

Note: As of March 31, 2018. Lease terms reflect final maturity, but may not adjust for early termination options.

HRSD
Service
Area





Holdings (cont'd.)

LOCATION	U.S. AGENCY	YEAR BUILT/ RENOVATED	SF	LEASE TERM REMAINING	PURCHASE PRICE	CLOSING DATE
NATIONAL CAPITAL						
Reston, VA	Department of Defense (DOD)	2013	95,353	7.67	34,250,000	01/26/2015
Manassas, VA	Social Security Administration (SSA)	2002	28,492	7.25	8,600,000	10/21/2015
Dunn Loring, VA	Department of State (DOS)	2015	55,948	1.50	14,900,000	12/23/2015
Dunn Loring, VA	Department of State (DOS)	2014	46,684	1.58	12,400,000	12/23/2015
Chantilly, VA	Department of Defense (DOD)	2008	104,003	2.75	31,800,000	02/08/2016
North Bethesda, MD	U.S. Department of Health and Human Services (HHS)	2002	61,902	4.83	19,100,000	08/09/2016
Bethesda, MD	U.S. Department of Health and Human Services (HHS)	2018	247,557	16.58	42,353,067	12/09/2016
Chantilly, VA	Department of Justice (DOJ)	2002	71,504	3.83	25,250,000	02/17/2017
Bethesda, MD	U.S. Department of Health and Human Services (HHS)	2018	247,414	16.58	43,800,000	03/22/2017
Washington, DC	Federal Maritime Commission (FMC)	1991	314,664	5.08	119,750,000	08/31/2017
Herndon, VA	Department of Homeland Security (DHS)	2001	104,014	2.67	25,820,000	11/13/2017
Washington, DC	U.S. International Trade Commission (USITC)	1987	262,959	6.92	118,560,000	01/9/2018
NORTHEAST						
Linden, NJ	U.S. Department of Agriculture (USDA)	2013	30,297	10.75	7,300,000	04/01/2015
Rochester, NY	State Agency	1982	70,094	7.83	9,250,000	02/21/2017
Grand Island, NY	Department of Homeland Security (DHS)	2006	35,882	8.33	11,400,000	12/06/2017
NORTHWEST						
Olympia, WA	U.S. Department of Agriculture (USDA)	2004	41,814	8.58	12,025,000	12/17/2014
Silverdale, WA	Department of Defense (DOD)	2015	41,901	3.58	9,895,000	04/24/2017
PACIFIC RIM						
Rio Rico, AZ	Department of Homeland Security (DHS)	2011	29,513	8.25	13,250,000	03/05/2014
Flagstaff, AZ	U.S. Department of Agriculture (USDA)	2004	48,902	6.42	9,300,000	10/14/2014
Phoenix, AZ	U.S. Department of Agriculture (USDA)	2012	32,162	9.42	4,900,000	08/05/2015
Glendale, AZ	U.S. Department of the Treasury	2009	18,963	10.83	6,950,000	11/24/2015
Sierra Vista, AZ	U.S. Department of Agriculture (USDA)	2012	16,423	9.42	5,100,000	12/11/2015
Tucson, AZ	U.S. Department of Commerce (DOC)	2004	73,478	3.50	12,404,345	12/21/2015
Sacramento, CA	U.S. Department of the Treasury	2012	132,674	8.00	32,900,000	12/21/2015
Orange, CA	Department of Justice (DOJ)	2012	188,977	10.17	61,000,000	04/22/2016
Tucson, AZ	U.S. Department of Agriculture (USDA)	2004	24,622	4.75	4,625,000	07/12/2016
Phoenix, AZ	Department of Justice (DOJ)	2009	30,403	6.58	9,300,000	07/26/2016

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Holdings (cont'd.)

LOCATION	U.S. AGENCY	YEAR BUILT/ RENOVATED	SF	LEASE TERM REMAINING	PURCHASE PRICE	CLOSING DATE
PACIFIC RIM						
Perris, CA	National Archives and Records Administration (NARA)	2004	183,194	6.67	12,000,000	08/12/2016
Phoenix, AZ	Department of Justice (DOJ)	2010	57,915	0.92	14,000,000	08/29/2016
Santa Ana, CA	State Agency	2016	244,865	8.83	64,000,000	11/29/2016
Yreka, CA	Multiple GSA Departments	2011	19,900	3.67	7,950,000	12/15/2016
Springerville, AZ	U.S. Department of Agriculture (USDA)	2006	20,000	8.33	2,500,000	01/24/2017
Las Vegas, NV	Department of Justice (DOJ)	2001	34,645	2.75	12,200,000	01/30/2017
ROCKY MOUNTAIN						
Greenwood Village, CO	Department of Defense (DOD)	1983	156,526	7.17	27,250,000	07/21/2017
Sioux Falls, SD	Department of Homeland Security (DHS)	2012	27,126	14.00	9,100,000	11/29/2017
SOUTHEAST						
Miramar, FL	Department of Homeland Security (DHS)	2010	33,500	7.50	13,140,000	06/20/2014
Greenville, NC	Courts	2013	25,411	15.67	10,250,000	07/01/2014
Tampa, FL	Department of Defense (DOD)	2012	27,398	8.33	7,250,000	07/31/2014
Atlanta, GA	Department of Homeland Security (DHS)	2006	76,909	8.75	11,550,000	10/29/2014
Melbourne, FL	Department of State (DOS)	2012	56,004	8.42	11,850,000	04/07/2015
Brunswick, GA	State Agency	2014	28,800	11.92	6,775,000	05/04/2015
Meridian, MS	Social Security Administration (SSA)	2014	9,796	11.50	1,950,000	05/11/2015
Greensboro, NC	U.S. Department of the Treasury	2010	115,200	4.17	12,100,000	05/21/2015
Greensboro, NC	Department of Justice (DOJ)	1989	127,446	5.17	7,800,000	05/21/2015
Nashville, TN	Department of Defense (DOD)	2007	23,391	14.83	3,320,000	10/01/2015
Riviera Beach, FL	Department of Homeland Security (DHS)	2004	23,653	3.42	8,750,000	10/01/2015
Jacksonville, FL	Department of Homeland Security (DHS)	2004	12,160	1.08	3,080,000	10/01/2015
Cary, NC	Department of Homeland Security (DHS)	2015	15,919	12.17	5,800,000	10/01/2015
Peachtree City, GA	Department of Defense (DOD)	2012	91,609	6.92	14,250,000	11/19/2015
Atlanta, GA	Department of Homeland Security (DHS)	2001	43,414	6.08	6,350,000	03/31/2016
Jacksonville, FL	Department of Homeland Security (DHS)	2016	50,671	12.92	17,885,417	09/23/2016

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Holdings (cont'd.)

LOCATION	U.S. AGENCY	YEAR BUILT/ RENOVATED	SF	LEASE TERM REMAINING	PURCHASE PRICE	CLOSING DATE
SOUTHEAST						
Columbia, SC	Department of Veterans Affairs (VA)	2011	138,704	6.17	25,650,000	12/21/2016
Stuart, FL	Department of Homeland Security (DHS)	2011	12,736	3.00	5,100,000	01/24/2017
Fayetteville, NC	Social Security Administration (SSA)	2006	31,750	8.17	5,800,000	02/10/2017
Fayetteville, NC	Social Security Administration (SSA)	2006	19,300	8.25	3,220,000	02/10/2017
SOUTHWEST						
Las Cruces, NM	Department of Justice (DOJ)	2009	21,815	6.25	15,000,000	10/20/2014
Albuquerque, NM	Department of the Interior (DOI)	2006	162,892	5.25	31,500,000	11/20/2014
Corpus Christi, TX	Social Security Administration (SSA)	2002	18,661	14.58	3,250,000	05/14/2015
Tulsa, OK	Social Security Administration (SSA)	2005	29,225	2.25	5,650,000	05/14/2015
Austin, TX	U.S. Department of the Treasury	2007	122,316	3.08	35,000,000	06/01/2015
Albuquerque, NM	Department of Justice (DOJ)	2011	41,847	13.17	22,000,000	08/17/2015
Silver City, NM	U.S. Department of Agriculture (USDA)	2014	29,554	11.00	6,250,000	08/17/2015
Greenville, TX	Social Security Administration (SSA)	2001	9,463	7.08	1,390,000	08/17/2015
Rio Rancho, NM	Social Security Administration (SSA)	2010	9,755	7.25	4,110,000	08/17/2015
San Antonio, TX	Social Security Administration (SSA)	2009	25,923	6.58	8,250,000	08/17/2015
Irving, TX	Department of Justice (DOJ)	2011	28,417	8.50	10,200,000	09/08/2015
Temple, TX	U.S. Department of Agriculture (USDA)	2015	92,148	10.33	20,750,000	12/07/2015
Alamogordo, NM	U.S. Department of Agriculture (USDA)	2008	19,900	5.50	7,100,000	12/11/2015
San Antonio, TX	Department of Defense (DOD)	2014	34,500	3.58	8,378,210	04/29/2016
Irving, TX	Department of Homeland Security (DHS)	2008	56,700	5.67	21,750,000	08/03/2016
Weslaco, TX	Department of Homeland Security (DHS)	2008	54,483	5.92	23,000,000	01/30/2017
Austin, TX	State Agency	1996	110,400	8.83	32,750,000	06/20/2017
Del Rio, TX	Department of Justice (DOJ)	2011	10,879	3.00	6,300,000	11/08/2017
Weighted Avg/Totals			6,941,473	7.10	1,719,218,539	

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