

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Financial Statements

June 30, 2015

(With Independent Auditors' Report Thereon)

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Financial Statements

June 30, 2015

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CITY OF BALTIMORE
 Catherine E. Pugh
 Mayor

DEPARTMENT OF AUDITS
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 Baltimore, Maryland 21202



KPMG LLP
 Suite 12000
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 Washington, DC 20006

Independent Auditors' Report

The Mayor, City Council, Comptroller and
 Board of Estimates
 City of Baltimore, Maryland:

Report on the Financial Statements

We have jointly audited the accompanying financial statement of the Parking Facilities Fund (Fund) of the City of Baltimore, Maryland (City), which comprise the statement of net position as of June 30, 2015 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except for the matter discussed in the following paragraph. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The City Auditor did not have an external peer review by an unaffiliated audit organization as required by Chapter 3 of *Government Auditing Standards* at least once every three years. The last external peer review was for the ending December 31, 2011. The City Auditor is in the process of engaging an unaffiliated audit organization to conduct an external peer review for the three-year period ending December 31, 2014.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Parking Facilities Fund of the City of Baltimore, Maryland, as of June 30, 2015, and the changes in financial position, and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note (1)(a), the financial statements present only the Parking Facilities Fund and do not purport to, and do not, present fairly the financial position of the City of Baltimore, Maryland, as of June 30, 2015, the changes in its financial position or its cash flows for the year then ended in accordance U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Robert L. McCarty Jr., CPA
City Auditor
Department of Audits
March 31, 2017

Independent Auditors

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Management's Discussion and Analysis

(Unaudited)

June 30, 2015

This section of the City of Baltimore, Maryland's Parking Facilities Fund (Fund) financial report presents our discussion and analysis of the Fund's financial activities for the fiscal years ended June 30, 2015 and 2014.

Highlights

- The assets of the Fund exceeded its liabilities at the close of fiscal year 2015 by \$85.2 million (net position). This amount includes \$29.4 million of restricted net position, \$13.8 million invested in capital assets, net of related debt, and \$42.0 million of unrestricted position.
- During the fiscal year, the Fund's total net position increased by \$5.2 million. This increase is attributable to operating revenue (\$85.6 million) exceeding operating and non-operating expenses (\$19.2 million) and operating transfers out (\$61.2 million).

Overview of the Financial Statements

This annual report consists of three parts: 1) management's discussion and analysis (this section), 2) financial statements, and 3) notes to the financial statements.

The financial statements provide both long-term and short-term information about the Fund's overall financial status. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the Fund's financial statements.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Management's Discussion and Analysis

(Unaudited)

June 30, 2015

The Fund's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Operating revenues in the Fund result from services provided by the Fund; all other revenues are considered to be nonoperating.

Analysis of Financial Position
(Expressed in thousands)

	June 30,		Change 2015-2014
	2015	2014	
Current and other assets	\$ 127,133	\$ 128,287	\$ (1,154)
Capital assets	102,478	105,245	(2,767)
Deferred outflows of resources	27,335	26,579	756
Total assets and deferred outflows of resources	256,946	260,111	(3,165)
Current and noncurrent liabilities	171,775	180,144	(8,369)
Total current and noncurrent liabilities	171,775	180,144	(8,369)
Net position:			
Invested in capital assets, net of related debt	13,818	11,098	2,720
Restricted	29,380	28,487	893
Unrestricted	41,973	40,382	1,591
Total net position	\$ 85,171	\$ 79,967	\$ 5,204

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Management's Discussion and Analysis

(Unaudited)

June 30, 2015

Analysis of Financial Position

Net position may serve as a useful indicator of the Fund's net position. Assets exceeded liabilities by \$85.2 million and \$80.0 million in fiscal year 2015 and 2014, respectively. The Fund's net position includes its investment of \$13.8 million and \$11.1 million in capital assets (e.g. land, building and improvements and equipment) less any related outstanding debt used to acquire those assets, at the end of fiscal years 2015 and 2014, respectively. The Fund uses these capital assets to provide resources to finance and refinance the cost of acquisition and construction of various parking facilities in Baltimore City; consequently, these assets are not available for future spending.

Summary of Revenues, Expenses, and Changes in Net Position

(Expressed in thousands)

	June 30,		Change 2015-2014
	2015	2014	
Operating revenues:			
Parking garage space rentals	\$ 20,991	\$ 20,523	\$ 468
Interest income	3,176	3,447	(271)
City pledged revenues:			
Parking fines and penalties	21,080	20,931	149
Parking meter collections	13,551	12,201	1,350
Other parking income	26,836	27,054	(218)
Total operating revenues	<u>85,634</u>	<u>84,156</u>	<u>1,478</u>
Operating expenses:			
Contractual services	7,133	7,677	(544)
Depreciation	2,767	2,767	
Total operating expenses	<u>9,900</u>	<u>10,444</u>	<u>(544)</u>
Operating income	<u>75,734</u>	<u>73,712</u>	<u>2,022</u>
Nonoperating revenues (expenses):			
Interest expense	(9,283)	(9,842)	559
Total operating expenses, net	<u>(9,283)</u>	<u>(9,842)</u>	<u>559</u>
Income before transfers	66,451	63,870	2,581
Operating transfers out	(61,247)	(62,717)	1,470
Changes in net position	5,204	1,153	<u>\$ 4,051</u>
Net position – beginning of year	<u>79,967</u>	<u>78,814</u>	
Net position – end of year	<u>\$ 85,171</u>	<u>\$ 79,967</u>	

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Management's Discussion and Analysis

(Unaudited)

June 30, 2015

Analysis of Revenues, Expenses and Changes in Fund Net Position

Operating revenue increased by \$1.5 million from fiscal year 2014 to fiscal year 2015. This was a result mainly of an increase in parking meter collections, and parking garage space rentals during fiscal year 2015. Operating expenses decreased by \$0.5 million from fiscal year 2014 to fiscal year 2015. This was a result of decreases in contractual services in 2015. The overall increase in the changes in the net position by \$4.1 million from 2014 to 2015 is mainly attributed to the factors just described and a decrease in transfers out by \$1.5 million to other governmental Funds in fiscal year 2015.

Capital Assets

The Fund's capital assets as of June 30, 2015 amounted to \$102.5 million (net of accumulated depreciation). Capital assets include land, buildings and improvements, and equipment.

	June 30,			Net change
	2015	2014		
Land	\$ 15,126	\$ 15,126		
Buildings and improvements	79,681	82,105	\$	(2,424)
Equipment	7,671	8,014		(343)
Total capital assets, net	\$ 102,478	\$ 105,245	\$	(2,767)

As of June 30, 2015, there were no outstanding commitments for the acquisition and construction of capital assets.

See note 4 on capital assets for additional information.

Debt Administration

At the end of the current fiscal year, the Fund had total long-term obligations of \$144.3 million. These long-term obligations consisted entirely of revenue bonds which are secured by revenue derived from City parking fines and meters, as well as off-street parking fees. During the current fiscal year, the Fund's debt decreased by \$9.8 million because of principal payments. See note 5 on revenue bonds for more information.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Statement of Fund Net Position

June 30, 2015

(Expressed in thousands)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 41,721
Other	361
Restricted assets:	
Mortgages receivable	4,076
Total current assets	<u>46,158</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	36,438
Mortgages receivable	44,537
Capital assets, net of accumulated depreciation	87,352
Capital not being depreciated	15,126
Total noncurrent assets	<u>183,453</u>
Total assets	<u>229,611</u>
Deferred outflow of resources	
Deferred loss on bond refundings	18,786
Interest rate swaps	8,549
Total deferred outflows of resources	<u>27,335</u>
Total assets and deferred outflows of resources	<u>256,946</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	1,114
Accrued interest payable	2,149
Revenue bonds payable	10,350
Total current liabilities	<u>13,613</u>
Noncurrent liabilities:	
Revenue bonds payable, net	133,980
Derivative instrument liability	24,182
Total noncurrent liabilities	<u>158,162</u>
Total liabilities	<u>171,775</u>
Net position:	
Net investment in capital assets	13,818
Restricted for:	
Debt service	29,380
Unrestricted	41,973
Total net position	<u>\$ 85,171</u>

See accompanying notes to financial statements.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2015

(Expressed in thousands)

Operating revenues:	
Parking garage space rentals	\$ 20,991
Interest income	3,176
City pledged revenues:	
Parking fines and penalties	21,080
Parking meter collections	13,551
Other parking income	26,836
Total operating revenue	85,634
Operating expenses:	
Contractual services	7,133
Depreciation	2,767
Total operating expenses	9,900
Operating income	75,734
Nonoperating expenses:	
Interest expense	(9,283)
Total nonoperating expenses	(9,283)
Income before transfers	66,451
Operating transfers out	(61,247)
Change in net position	5,204
Beginning net position	79,967
Ending net position	\$ 85,171

See accompanying notes to financial statements.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Statement of Cash Flows
Year ended June 30, 2015
(Expressed in thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 85,716
Payments to suppliers	<u>(6,395)</u>
Net cash provided by operating activities	<u>79,321</u>
Cash flows from noncapital financing activities:	
Transfers out	<u>(61,247)</u>
Net cash used for noncapital financing activities	<u>(61,247)</u>
Cash flows from capital and related financing activities:	
Mortgages receivable principal payments received	3,845
Principal paid on revenue bonds	(9,800)
Interest paid	<u>(9,346)</u>
Net cash used by capital and related financing activities	<u>(15,301)</u>
Net increase in cash and cash equivalents	2,773
Cash and cash equivalents, beginning of year	<u>75,386</u>
Cash and cash equivalents, end of year	<u>\$ 78,159</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 75,734</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	2,767
Changes in assets and liabilities:	
Accounts receivable	82
Accounts payable and accrued liabilities	<u>738</u>
Total adjustments	<u>3,587</u>
Net cash provided by operating activities	<u>\$ 79,321</u>

See accompanying notes to financial statements.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Parking Facilities Fund (Fund) is an Enterprise Fund of the City of Baltimore, Maryland (City) and was established to provide resources to finance and refinance the cost of acquisition and construction of certain parking facilities in Baltimore City. The City provides administrative and operating support for the Fund without charge.

These financial statements are only of the operations of the Fund and are not intended to present the financial position, charges in financial position, or, where applicable, cash flows of the City.

(b) Basis of Presentation

The Enterprise Fund financial statements are reported using the economic resources management focus and are prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Operating revenues result from the services provided by the Fund, and all other revenue is considered nonoperating.

(c) Cash and Cash Equivalents on Deposit with the City Of Baltimore, Maryland

The Fund maintains both its unrestricted and restricted available cash in a cash and investment pool administered by the City. Such amounts are considered to be cash equivalents for purposes of the Statement of Cash Flows. To optimize investment returns, the Fund's cash is invested together with all other City pooled funds, all of which are fully insured or collateralized. Earnings on the pooled funds are apportioned and paid or credited to the Fund quarterly based on the average daily balance of each participating fund. Cash and cash equivalents include amounts in demand deposits, as well as short-term investments with a maturity date within three months of the acquisition date by the fund.

(d) Interest

Interest income includes interest earned on mortgages and is recognized as operating income. Interest expense represents bond interest expense net of investment income and is recognized as non-operating expense.

(e) Use of Restricted Net Position

When an expense is incurred for which restricted and unrestricted resources are available to pay the expense, it is the Fund's policy to apply the expense first to restricted resources and then to unrestricted resources.

(f) Restricted Assets

Restricted assets consist of resources that are legally restricted for the acquisition, construction and improvement of capital facilities and for revenue bond requirements.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2015

(g) Capital Assets

Purchased or constructed capital assets are reported at historical cost. Capitalization thresholds are \$50,000 for buildings and improvements, and \$5,000 for equipment.

Capital assets are depreciated using the straight-line method over the estimated useful lives, as follows:

Buildings	50 years
Building improvements	20 – 50 years
Equipment	2 – 25 years

(2) Deposits and Investments

The Fund participates in the City’s pooled cash account. At June 30, 2015, the Fund’s share of the City’s pooled cash account, including both restricted and unrestricted cash, was \$41.7 million. All of the City’s pooled cash deposits are either insured by the Federal Deposit Insurance Corporation (FDIC), or collateralized by securities held in the name of the City by the City’s agent.

In accordance with State law, the City is authorized to invest in direct or indirect obligations of the United States Government, certificates of deposit, repurchase agreements that are secured by direct or indirect obligations of the United States Government, commercial paper with the highest letter and numerical rating, mutual funds registered with the Securities and Exchange Commission, and the Maryland Local Government Investment Pool. The City’s investment policy limits the percentage of certain types of securities, with the exception of obligations for which the United States Government has pledged its full faith and credit. For investments held by the City in trust and/or to secure certain debt obligations, the City complies with the terms of the trust agreements. The City’s Board of Finance has formally adopted the above policies and reviews and approves all security transactions.

The Fund was invested primarily in money market mutual funds at June 30, 2015 totaling \$36.4 million. These investments are classified as cash equivalents, with investment maturities of less than six months.

	<u>Fair Value</u>	<u>Investment maturities (in months)</u>		
		<u>Less than 6</u>	<u>6 to 12</u>	<u>Greater than 12</u>
		(in thousands)		
June 30, 2015 Investment type:				
Debt securities:				
Money market mutual funds	\$ 36,438	\$ 36,438	\$ _____	\$ _____
	36,438	36,438	_____	_____
Less cash equivalents	36,438			
Total investments	\$ _____			

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2015

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of the investments. The Fund limits its interest rate risk in accordance with the City’s Board of Finance policy by maintaining a minimum of 20% of the Fund’s investment in funds in liquid investments, to include United States Government securities, and by limiting the par value of the portfolio invested for a period greater than one year at or below \$100 million. The securities underlying the money market mutual funds have maturities of less than one year.

Credit risk of debt securities – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As discussed above, the City’s Board of Finance limits City investments to only the highest rated investments in the categories discussed above. The Fund’s money market mutual funds of \$36.4 million are rated AAA by a nationally recognized statistical rating agency.

		June 30, 2015		
		Quality ratings		
Fair Value	(in thousands)			
	AA+	AAA	A1	
Debt securities:				
Money market mutual funds:				
Wilmington U.S. government money market fund	\$ 36,438	\$	\$ 36,438	\$
Total rated debt investments	\$ 36,438	\$	\$ 36,438	\$

(3) Mortgages Receivable

The Fund has mortgages receivable at June 30, 2015 from various parking garage operators of \$48.6 million collateralized by real property. The notes bear interest at rates ranging from 6.1% to 6.9% and mature over 30 years. The mortgages receivable are deemed to be fully collectible. The amounts of mortgages receivable projected to be collectible for the next five years and thereafter are as follows (expressed in thousands):

Fiscal Year	Projected mortgage receivable collections
2016	\$ 4,076
2017	4,311
2018	4,574
2019	2,397
2020	2,397
2021-2035	30,872

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2015

(4) Capital Assets

Capital assets and the related accumulated depreciation recorded in the Fund as of June 30, 2015, are as follows (amounts expressed in thousands):

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
Capital assets not being depreciated:				
Land	\$ 15,126	\$ _____	\$ _____	\$ 15,126
Total capital assets not being depreciated	<u>15,126</u>	<u>_____</u>	<u>_____</u>	<u>15,126</u>
Capital assets being depreciated:				
Buildings and improvements	121,190			121,190
Equipment	9,052			9,052
Total capital assets being depreciated	<u>130,242</u>	<u>_____</u>	<u>_____</u>	<u>130,242</u>
Less accumulated depreciation for:				
Buildings and improvements	39,085	2,424		41,509
Equipment	1,038	343		1,381
Total accumulated depreciation	<u>40,123</u>	<u>2,767</u>	<u>_____</u>	<u>42,890</u>
Total capital assets being depreciated, net	<u>90,119</u>	<u>(2,767)</u>	<u>_____</u>	<u>87,352</u>
Total capital assets, net	<u>\$ 105,245</u>	<u>\$ (2,767)</u>	<u>\$ _____</u>	<u>\$ 102,478</u>

At June 30, 2015, the Fund had no outstanding commitments for construction.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2015

(5) Revenue Bonds

The City has issued various funding and refunding revenue bonds, the proceeds of which were used to finance construction of parking facilities and refinance existing debt of the Fund. Certain assets and revenues of the fund are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2015 consist of (amounts expressed in thousands):

Term bonds series 1997-A with interest at 6.0%, payable semiannually, due July 1, 2018	\$ 23,885
Term bonds series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2017	2,060
Term bonds series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2021	3,300
Serial bonds series 2005 maturing in annual installments from \$400,000 to \$1,590,000 through July 1, 2015, with interest ranging from 4.69% to 5.07%, payable semiannually	1,590
Term bonds series 2005 with interest at 5.27%, payable semiannually, due July 1, 2018	5,315
Term bonds series 2005 with interest at 5.30%, payable semiannually, due July 1, 2027	10,470
Term bonds series 2005 with interest at 5.62%, payable semiannually, due July 1, 2035	1,000
Variable rate demand bonds series 2008, payable monthly, due July 1, 2032	71,200
Serial bonds series 2010 maturing in annual installments from \$705,000 to \$1,330,000 through July 1, 2015, with interest ranging from 1.988% to 3.537%, payable semiannually	2,090
Term bonds series 2010 with interest at 4.336%, payable semiannually, due July 1, 2017	2,075
Term bonds series 2010 with interest at 5.225%, payable semiannually, due July 1, 2020	3,045
Term bonds series 2010 with interest at 6.10%, payable semiannually, due July 1, 2025	4,275
Term bonds series 2010 with interest at 7.00%, payable semiannually, due July 1, 2035	14,025
Total Bonds Outstanding	\$ <u>144,330</u>

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2015

Changes in long-term obligations for the year ended June 30, 2015 are as follows (amounts expressed in thousands):

	<u>Balance June 30, 2014</u>	<u>New debt issues</u>	<u>Debt retired</u>	<u>Balance June 30, 2015</u>	<u>Amount due within one year</u>
Total revenue bonds payable	\$ <u>154,130</u>	\$ <u>—</u>	\$ <u>9,800</u>	\$ <u>144,330</u>	\$ <u>10,350</u>

The Fund had \$71.2 million of Series 2008 refunding taxable variable rate demand bonds outstanding as of June 30, 2015. The Series 2008 Bonds are subject to redemption prior to maturity at any time, at a redemption price of 100% of the principal amount plus interest accrued to the redemption date. The Series 2008 Bonds annual principal amounts from July 1, 2014 through July 1, 2032 range from \$1,220,000 to \$7,965,000.

The bonds bear interest at a variable rate that is reset by the Remarketing Agent on a weekly basis. Initially, the Remarketing Agent will use a "Dutch Auction" to set the weekly rate that will be used to remarket the bonds. Under the terms of the indenture, the City at its option may change the bond rate to a monthly or long-term rate at any time until maturity upon notification of the bond holders.

In conjunction with the issuance of the bonds, Bank of America, NA (Bank) issued a direct pay letter of credit in the amount of \$72.4 million in favor of the City and Manufacturers and Traders Trust Company as Tender Agent. The Agreement expires December 1, 2017, but can be extended for additional years. The existing agreement permits the fiscal agent to draw amounts necessary to pay the principal portion and related accrued interest on the bonds tendered for purchase and not remarketed. The interest rate on draws made under this Agreement is a defined base rate plus, up to an additional 2.0% depending on the terms of the draw.

The Fund is required to pay the letter of credit fee throughout the effectiveness of the agreement equal to 0.44% per annum of the average daily amount of the available commitment. During fiscal year 2015, the Fund made no draws under the letter of credit and no amounts drawn against the letter of credit were outstanding at June 30, 2015.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2015

Principal maturities and interest on revenue bonds (amounts expressed in thousands) are as follows:

Fiscal year	Principal amount	Interest amount	Interest rate swap net ^(a)
2016	\$ 10,350	\$ 8,277	\$ 4,116
2017	10,960	7,685	4,037
2018	11,490	7,062	3,956
2019	12,270	6,386	3,868
2020	4,410	5,910	3,766
2021-2025	26,395	25,284	16,636
2026-2030	35,630	16,073	10,779
2031-2035	30,790	4,306	2,031
2036-2039	2,035	70	
Total	<u>\$ 144,330</u>	<u>\$ 81,053</u>	<u>\$ 49,189</u>

(a) Interest Rate Swap Net payments represent estimated payments for additional interest resulting from swap agreements to counterparties. The additional payments were computed using rates as of June 30, 2015, assuming current interest rates remain the same for the entire term of the bonds. As rates vary, variable rate bond interest payments and net swap payments will vary.

(6) Pledged Revenue

The Fund has pledged future revenue from parking fees and fines to repay \$144.3 million of revenue bond debt. Proceeds from these revenue bonds were used to construct various garages throughout the City. The bonds are payable solely from the pledged revenue and are payable through 2035. Annual principal and interest payments are expected to require 23.6% of pledged revenue. Total principal and interest remaining to be paid on these revenue bonds is \$274.6 million. For the current year, principal and interest payments and current pledged revenue were \$18.6 million and \$78.5 million respectively.

(7) Interest Rate Swaps

Objectives of the swaps – In order to protect the City against fluctuations in interest rates, the City has entered into two interest rate swap agreements for the Fund. The City’s asset/liability strategy is to have a mixture of fixed and variable rate debt to take advantage of anticipated fluctuations in future interest rates and also to provide the City with low synthetically created rates while providing reasonably predictable future debt service requirements.

Terms, fair value and credit risk – The terms, fair value, and credit risk of the outstanding swaps as of June 30, 2015, were as follows. The notional amounts of the swaps match the principal amount of the associated debt. The City’s swap agreements contain scheduled reductions to outstanding notional amounts that are intended to track the scheduled or anticipated reductions in the associated “bonds payable” category.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2015

At June 30, 2015, the Fund had deferred liabilities for various hedged derivative instruments in the amount of \$24.2 million and a related \$15.6 million loss as a result of refunding Series 2002 bonds. The notional amounts for these hedged derivative instruments were \$70.5 million. During fiscal Year 2015, the fair value of these instruments decreased by \$2.0 million. All of these hedges were cash flow hedges. The follow schedule provides a detailed analysis of the derivative instruments at June 30, 2015:

<u>Outstanding bonds</u>	<u>Effective date</u>	<u>Termination date</u>	<u>Interest rate paid by city</u>	<u>Interest rate received (a)</u>	<u>Notional amount</u>	<u>Fair value</u>	<u>Counterparty credit rating</u>
Hedge derivative instruments							
Floating to fixed swaps:							
2008 Bonds	6/19/2002	7/1/2032	6.098%	1M LIBOR	\$ 63,300,000	\$ (7,930,667)	A/A2
2008 Bonds	6/19/2002	7/1/2025	5.915%	1M LIBOR	<u>7,200,000</u>	<u>(618,761)</u>	A/A2
Total outstanding swaps					<u>\$ 70,500,000</u>	<u>\$ (8,549,428)</u>	

Fair Value – Because interest rates have declined, the two swaps had an overall negative fair value as of June 30, 2015. For these fixed rate swap agreements, the fair value was \$(8.5) million. The fair values were calculated using the mark-to-market or par value method. These methods calculate the net future settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risk – As of June 30, 2015, the fund is not exposed to credit risk on any of the outstanding swaps because the swaps have negative fair values. All fair values were calculated using the mark-to-market or par value method. However, should interest rates change and the fair values of the swaps become positive, the fund would be exposed to credit risk in the amount of the derivatives' fair value. Should the counterparties to these transactions fail to perform according to the terms of the swap contracts, the fund faces a maximum loss equivalent to the swap's fair value. However, because the swaps' counterparties are also party to other swaps, the fund could use netting provisions to offset the potential loss.

The swap agreements contain varying collateral agreements with counterparties. In general, these agreements require full collateralization of the fair value of the swap should the counterparty's credit rating fall below Baa as issued by Moody's or BBB as issued by Standard and Poor's. The fund's swap agreements are with counterparty with a rating of A/A2. Collateral on all swaps is to be in the form of cash or United States Government securities held by the City.

Basis risk – The fund swaps relate to remarketed variable rate demand bonds (VRDBs). For those swaps associated with VRDBs the fund receives a floating rate based on one-month LIBOR. For these swaps, the fund will receive a percent of LIBOR or a percent of LIBOR plus a basis points spread. Each rate was chosen to closely approximate the City's taxable variable rate bond payments. Because these swaps are based on the one month LIBOR-taxable rate, there is an additional degree of basis risk. As of June 30, 2015, LIBOR for the prior 52-weeks ranged from 0.15% to 0.18%, whereas the City's taxable market rate ranged from 0.09% to 0.14%.

**CITY OF BALTIMORE
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2015

Interest rate risk – Since the fund’s swaps receive fixed rate payments, the City is exposed to interest rate risk. As the LIBOR rate changes, expected savings could increase or decrease depending on the relationship between the fixed payments and the variable rate.

Termination risk – The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap contract has a negative fair value, the City would be liable to the counterparty for that payment.

(8) Transfers

During fiscal year 2015, the Fund transferred \$55.2 million to the City’s General Fund and \$6.0 million to the City’s Grant Fund. These transfers represent revenues consisting of parking fines, penalties, meter collections and other parking revenues, which were initially pledged as security for the revenue bonds. The revenues are held by the Fund until such time as it is determined, in accordance with the bond indentures, that the revenues will not be needed to pay current debt service.