

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

**Financial Statements**

**June 30, 2013**

**(With Independent Auditors' Report Thereon)**

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Financial Statements

June 30, 2013

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**CITY OF BALTIMORE**  
**STEPHANIE RAWLINGS-BLAKE**  
Mayor



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

DEPARTMENT OF AUDITS  
Room 321, City Hall  
Baltimore, Maryland 21202

## 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 statements of the Parking Facilities Fund of the City of Baltimore, Maryland (the Fund), which comprise the statement of financial position as of June 30, 2013, and the related statement 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 on the effectiveness of the entity's internal control. Accordingly, we express no such 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 as of June 30, 2013, and the changes in its 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, 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, 2013, the changes in its financial position, or its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***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 June 20, 2014 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 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

Independent Auditors

June 20, 2014

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

**Management's Discussion and Analysis**

June 30, 2013

This section of the City of Baltimore's Parking Facilities Fund's (Fund) financial report presents our discussion and analysis of the Fund's financial activities for the fiscal years ended June 30, 2013 and 2012.

**Highlights**

- The assets of the Fund exceeded its liabilities at the close of fiscal year 2013 by \$80.6 million. This amount includes \$28.6 million of restricted net position, \$8.7 million net investment in capital assets, and \$43.3 million of unrestricted net position.
- During the fiscal year, the Fund's total net position increased by \$18.1 million. This increase is primarily attributable to operations for FY 2013.

**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 financial statements explain some of the information in the financial statements and provide more detailed information.

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.

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Management's Discussion and Analysis

June 30, 2013

**Financial Analysis of the Fund**

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Financial Position

(Expressed in Thousands)

	June 30	
	2013	2012
Assets:		
Assets	\$ 135,884	129,254
Capital assets, net	108,012	109,588
Total assets	\$ 243,896	238,842
Deferred outflows of resources		
Interest Rate Swaps	5,605	13,862
Liabilities:		
Current liabilities	\$ 12,623	11,644
Noncurrent liabilities	156,250	178,551
Total liabilities	\$ 168,873	190,195
Net position:		
Net investment in capital assets	\$ 8,743	6,710
Restricted	28,568	39,615
Unrestricted	43,317	16,184
Total net position	\$ 80,628	62,509

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Management's Discussion and Analysis

June 30, 2013

**Analysis of Financial Position**

Capital assets, net, decreased from \$109.6 million to \$108.0 million, a decrease of \$1.6 million.

Total outstanding liabilities were \$168.9 million in fiscal year 2013 and \$190.2 million in fiscal year 2012, a decrease of \$21.3 million. This is mainly due to the derivative instrument liability that, during fiscal year 2013, decreased by \$13.3 million, and \$8.4 million in revenue bonds that were retired.

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Revenues, Expenses, and Changes in Net Position

(Expressed in Thousands)

	<u>Years ended June 30</u>	
	<u>2013</u>	<u>2012</u>
Operating revenues:		
Parking garage space rentals	\$ 19,645	18,642
Interest income	3,308	2,576
City pledged revenues:		
Parking fines and penalties	19,753	21,118
Parking meter collections	12,064	11,706
Other parking income	28,772	27,434
Total operating revenues	<u>83,542</u>	<u>81,476</u>
Operating expenses:		
Contractual services	9,705	10,901
Minor equipment	32	36
Depreciation	2,598	2,429
Total operating expenses	<u>12,335</u>	<u>13,366</u>
Operating income	<u>71,207</u>	<u>68,110</u>
Nonoperating revenues (expenses):		
Interest expense	(5,346)	(11,966)
Total nonoperating expenses, net	<u>(5,346)</u>	<u>(11,966)</u>
Income before transfers	65,861	56,144
Transfers to other funds	(47,742)	(50,446)
Changes in net position	18,119	5,698
Net position – beginning of year	<u>62,509</u>	<u>56,811</u>
Net position – end of year	<u>\$ 80,628</u>	<u>62,509</u>

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Management's Discussion and Analysis

June 30, 2013

**Analysis of Revenues, Expenses and Changes in Net Position**

Parking Garage operating revenue increased by \$2.0 million from \$81.5 million in fiscal year 2012, to \$83.5 million in fiscal year 2013, which represent a \$1.4 million decrease in parking fines offset by \$3.4 million in parking meter collections and other parking income.

**Capital Assets**

The Fund's capital assets as of June 30, 2013 amounted to \$108.0 million (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, and construction in progress.

	<u>Balance June 30, 2012</u>	<u>Net change</u>	<u>Balance June 30, 2013</u>
Land	\$ 15,125	—	15,125
Buildings and improvements	86,951	(2,423)	84,528
Equipment	19	8,339	8,358
Construction in progress	7,493	(7,493)	—
Total capital assets, net	<u>\$ 109,588</u>	<u>(1,577)</u>	<u>108,011</u>

As of June 30, 2013, the Fund had no outstanding commitments for the acquisition and construction of capital assets.

See note 5 on capital assets for additional information.

**Debt Administration**

At the end of the current fiscal year, the fund had total long-term obligations of \$142.1 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 \$8.1 million. See note 6 on revenue bonds for more information.



**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Statement of Financial Position

June 30, 2013

(Expressed in thousands)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 39,084
Accounts receivable, net	462
Total current assets	<u>39,546</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	36,093
Mortgages receivable	58,431
Capital assets, net of accumulated depreciation	92,886
Capital not being depreciated	15,126
Issuance costs	1,814
Total noncurrent assets	<u>204,350</u>
Total assets	<u>243,896</u>
Deferred outflow of resources	
Interest rate swaps	<u>5,605</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	746
Accrued interest payable	2,597
Revenue bonds payable, net	9,280
Total current liabilities	<u>12,623</u>
Noncurrent liabilities:	
Revenue bonds payable, net	132,863
Derivative instrument liability	23,387
Total noncurrent liabilities	<u>156,250</u>
Total liabilities	<u>168,873</u>
Net position:	
Net investment in capital assets	8,743
Restricted for:	
Debt service	28,568
Unrestricted	43,317
Total net position	<u>\$ 80,628</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, 2013

(Expressed in thousands)

Operating revenues:	
Parking garage space rentals	\$ 19,645
Interest income	3,308
City pledged revenues:	
Parking fines and penalties	19,753
Parking meter collections	12,064
Other parking income	<u>28,772</u>
Total operating revenue	<u>83,542</u>
Operating expenses:	
Contractual services	9,705
Minor equipment	32
Depreciation	<u>2,598</u>
Total operating expenses	<u>12,335</u>
Operating income	<u>71,207</u>
Nonoperating expenses:	
Interest expense	<u>5,346</u>
Total nonoperating expenses	<u>5,346</u>
Income before contributions and transfers	65,861
Operating transfers out	<u>47,742</u>
Change in net position	18,119
Beginning net position	<u>62,509</u>
Ending net position	<u>\$ 80,628</u>

See accompanying notes to financial statements.

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Statement of Cash Flows

Year ended June 30, 2013

(Expressed in thousands)

<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 83,300
Payments to suppliers	<u>(9,628)</u>
Net cash provided by operating activities	<u>73,672</u>
<b>Cash flows from noncapital financing activities:</b>	
Transfers out	(47,742)
<b>Cash flows from capital and related financing activities:</b>	
Mortgages receivable principal payments	3,894
Principal paid on revenue bonds	(8,410)
Acquisition and construction of capital assets	(1,022)
Interest expense	<u>(10,013)</u>
Net cash used by capital and related financing activities	<u>(15,551)</u>
Net increase in cash and cash equivalents	10,379
Cash and cash equivalents, beginning of year	<u>64,798</u>
Cash and cash equivalents, end of year	<u>\$ 75,177</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 71,207
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>	
Depreciation expense	2,598
Changes in assets and liabilities:	
Accounts receivable	(242)
Accounts payable and accrued liabilities	308
Accrued interest payable	<u>(199)</u>
Total adjustments	<u>2,465</u>
Net cash provided by operating activities	<u>\$ 73,672</u>

See accompanying notes to financial statements.

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2013

**(1) Description of the Fund**

The City of Baltimore, Maryland's Parking Facilities Fund (Fund) was established to provide funds to finance and refinance the cost of acquisition and construction of certain parking facilities in Baltimore City (City).

These financial statements only include the operations of the Fund and are not intended to present the net position, changes in net position, or, where applicable, cash flows of the City. The City provides administrative and operating support for the Fund without charge.

**(2) Summary of Significant Accounting Policies**

The accounting and financial reporting policies of the Fund conform to accounting principles generally accepted in the United States and reporting standards as promulgated by the Governmental Accounting Standards Board for proprietary funds.

**(a) Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting whereby 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.

**(b) Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits, as well as short-term investments with a maturity date within three months of the date acquired by the Fund.

**(c) Interest**

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

**(d) 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.

**(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) 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.

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2013

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

**(g) Amortization**

Bond issuance costs are amortized over the life of the issue using the straight-line method, the effect of which is not materially different than the effective interest method. Gains and losses on the early extinguishment of debt are amortized over the shorter of the life of the new or old debt.

**(3) Cash Deposits**

The Fund participates in the City's pooled cash account. At June 30, 2013, the Fund's share of the City's pooled cash account, including both restricted and unrestricted cash, was \$39.553 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 Fund was invested primarily in money market mutual funds at June 30, 2013 totaling \$35.244 million. These investments are classified as cash equivalents, with investment maturities of less than six months.

*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 \$35.244 million are rated AAA by a nationally recognized statistical rating agency.

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2013

**(4) Mortgages Receivable**

The Fund has mortgages receivable at June 30, 2013 from various parking garage operators of \$58.431 million, collateralized by real property. The notes bear interest at rates ranging from 6.1% to 6.9% and mature over 30 years.

**(5) Capital Assets**

Capital assets and the related accumulated depreciation recorded in the Fund as of June 30, 2013, are as follows (amounts expressed in thousands):

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 15,125	1	—	15,126
Construction in progress	7,493	405	(7,898)	—
Total capital assets not being depreciated	<u>22,618</u>	<u>406</u>	<u>(7,898)</u>	<u>15,126</u>
Capital assets being depreciated:				
Buildings and improvements	121,190	—	—	121,190
Equipment	538	8,514	—	9,052
Total capital assets being depreciated	<u>121,728</u>	<u>8,514</u>	<u>—</u>	<u>130,242</u>
Less accumulated depreciation for:				
Buildings and improvements	34,239	2,423	—	36,662
Equipment	519	175	—	694
Total accumulated depreciation	<u>34,758</u>	<u>2,598</u>	<u>—</u>	<u>37,356</u>
Total capital assets being depreciated, net	<u>86,970</u>	<u>5,916</u>	<u>—</u>	<u>92,886</u>
Total capital assets, net	<u>\$ 109,588</u>	<u>6,322</u>	<u>(7,898)</u>	<u>108,012</u>

Interest is capitalized on assets constructed with tax-exempt debt. The amount of interest capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested proceeds over the same period. During fiscal year 2013, interest expense of \$208 thousand was capitalized.

At June 30, 2013, the Fund had no outstanding commitments for construction.

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2013

**(6) 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, 2013 consist of (amounts expressed in thousands):

Term bonds series 1997-A with interest at 5.9%, payable semiannually, due July 1, 2013	\$ 4,865
Term bonds series 1997-A with interest at 6.0%, payable semiannually, due July 1, 2018	29,040
Term bonds series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2014	1,210
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	4,570
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 weekly, due July 1, 2032	73,540
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	4,620
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, before unamortized charges	163,410
Less deferred loss on bonds refunding and unamortized charges	21,267
Total bonds outstanding	\$ 142,143

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2013

Changes in long-term obligations for the year ended June 30, 2013 are as follows (amounts expressed in thousands):

	<u>Balance June 30, 2012</u>	<u>New debt issues</u>	<u>Debt retired</u>	<u>Balance June 30, 2013</u>	<u>Amount due within one year</u>
Revenue bonds	\$ 171,820	—	8,410	163,410	—
Less deferred loss on bond refunding and unamortized charges	<u>21,513</u>	<u>—</u>	<u>246</u>	<u>21,267</u>	<u>—</u>
Total revenue bonds payable	<u>\$ 150,307</u>	<u>—</u>	<u>8,164</u>	<u>142,143</u>	9,280

The City had \$73.540 million of Series 2008 refunding taxable variable rate demand bonds outstanding as of June 30, 2013. The bonds mature serially starting on July 1, 2012 through July 1, 2032. 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 range from \$915 thousand to \$7.965 million.

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 \$78.774 million in favor of the City and Manufacturers and Traders Trust Company as Tender Agent. The Agreement expires November 19, 2014, 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 2.00% depending on the terms of the draw.

The City is required to pay the letter of credit fee throughout the effectiveness of the Agreement equal to 0.53% per annum of the average daily amount of the available commitment. During fiscal year 2013, the City made no draws under the letter of credit and no amounts drawn against the letter of credit were outstanding at June 30, 2013.



**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2013

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

Fiscal year	Principal amount	Interest amount	Interest rate swap net <sup>(a)</sup>
2014	\$ 9,280	9,351	4,251
2015	9,800	8,837	4,184
2016	10,600	8,278	4,111
2017	10,710	7,686	4,032
2018	11,490	7,062	3,950
2019-2023	31,605	28,405	18,141
2024-2028	31,675	20,132	13,461
2029-2033	42,550	8,886	5,425
2034-2038	5,700	608	—
Total	\$ 163,410	99,245	57,555

(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, 2013, 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.

**(7) Pledged Revenue**

The Parking Facility fund has pledged future revenue from parking fees and fines to repay \$163.410 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 less than 24% of pledged revenue. Total principal and interest remaining to be paid on these revenue bonds is \$320.210 million. For the current year, principal and interest payments and current pledged revenue were \$18.239 million and \$71.207 million, respectively.

**(8) Prior-Year Defeasance of Debt**

At June 30, 2013, there is no prior-year defeased debt for the Fund.

**(9) 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, 2013, 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

**CITY OF BALTIMORE  
PARKING FACILITIES FUND**

Notes to Financial Statements

June 30, 2013

that are intended to track the scheduled or anticipated reductions in the associated "bonds payable" category.

**Summary**

At June 30, 2013, the City had liabilities for various hedged derivative instruments in the amount of \$23.387 million, including \$17.782 million loss on refunding Series 2002 bonds. The notional amounts for these hedged derivative instruments were \$72.800 million. During fiscal Year 2013, the fair value of these instruments increased by approximately \$8.257 million. All of these hedges were cash flow hedges. The follow schedule provides a detailed analysis of the derivative instruments at June 30, 2013:

<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	6.10%	1M LIBOR	\$ 64,800,000	(4,949,673)	A/A2
2008 Bonds	6/19/2002	7/1/2025	5.92%	1M LIBOR	<u>8,000,000</u>	<u>(655,211)</u>	A/A2
Total outstanding swaps					<u>\$ 72,800,000</u>	<u>(5,604,884)</u>	

**Fair Value** – Because interest rates have declined, the two swaps had an overall negative fair value as of June 30, 2013. For these fixed rate swap agreements, the fair value was approximately \$(5.605 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, 2013, the Parking Facilities 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.

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*Basis risk* – The City's Parking 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, 2013, LIBOR for the prior 52-weeks ranged from 0.19% to 0.24%, whereas the City's taxable market rate ranged from 0.14% to 0.26%.

*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.

**(10) Transfers**

During fiscal year 2013, the Fund transferred \$41.998 million to the City's General Fund and \$5.754 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.

