<u>Introduction for Review of 2016 Monroe Revenue Trust Agreement</u>

NCTA Finance Committee meeting on September 8, 2016

Project Financing Generally

The Monroe Expressway will be paid for from a combination of four sources of funds –

(1) STIP Funds from NCDOT,
(2) proceeds of State Appropriation Bonds issued in 2010 and 2011,
(3) a borrowing from USDOT under the TIFIA program, and
(4) proceeds of the 2016 Revenue Bonds to be issued this fall and proceeds of the 2011 Revenue Bonds refunded by the 2016 Revenue Bonds.

This is somewhat different from what was planned in 2011 – then no TIFIA loan was anticipated and the project was also to have the benefit (for a short period until refunded with a large issue of toll revenue bonds) of proceeds of NCDOT GARVEE bonds. For practical and economic reasons, the decision has been made to refund the 2011 Revenue Bonds and advance the replacement of the GARVEE bond proceeds. In addition costs of the project have risen. These actions and the new costs will be paid for with the 2016 Revenue Bonds and the TIFIA loan.

Use of the STIP funds is controlled by NCDOT and the Board of Transportation. The use of proceeds of the State Appropriation Bonds is pursuant to a Trust Agreement entered into in 2010 for those bonds. The TIFIA funds will be primarily controlled by a separate Loan Agreement to be negotiated with USDOT. The Trust Agreement presented for your consideration now governs the use of proceeds of the 2016 Revenue Bonds. In addition it is the main document setting forth the use of toll and other Monroe revenues in the future.

The purpose of this introduction is to identify the key concepts and provisions in the Trust Agreement you will be considering.

Main Purposes and Concepts of Trust Agreement

1. <u>Continuation of lien on toll and other revenues from 2011 as security for various debt</u> - The 2011 Revenue Bond issue was set up to be paid with State Appropriation moneys left after debt service on the two larger State Appropriation Bond issues. However, the Trust Agreement for the 2011 Revenue Bonds intentionally created a lien on toll revenues even though tolls had not begun. For legal reasons we want the date of the lien to relate back to that time. As a result, even though the 2011 Revenue Bonds are being refunded, the Trust Agreement is not a completely new document. Rather it supplements, amends and restates the old document.

2. <u>Sets forth the terms for the 2016 Revenue Bonds</u> – See Articles II and III for the terms and provisions for the 2016 Revenue Bonds. The blanks will be filled in upon the actual sale date.

3. <u>Creates Project Fund to hold proceeds until requisitioned to pay costs</u> –Article IV creates the Project Fund to hold proceeds until used on the project. Requisitions and other formalities are needed to preserve the required records for State law and federal tax purposes.

4. Creates a Revenue Fund to collect all revenues and a “waterfall” of funds and priorities for the use of such revenues – Article V creates the Revenue Fund for collection of all revenues. See Section 503 for the “waterfall” of funds showing the priorities of payments. There are sections for each fund with more detail. Article VI talks about investment of funds.

5. Includes covenants for NCTA as to operations, financial goals, etc. – Article VII has the main NCTA covenants, including the rate covenants, limitations on additional debt, the annual budget, etc.

6. Has provisions on what happens if there are less revenues than expected – Article VIII deals with defaults. No acceleration of the debt is permitted. If the revenues are lower than anticipated the main remedy available is having a receiver in place for operations. The result will be slower than promised payments to holders.

7. Contains miscellaneous provisions for supplements, defeasance, notices, etc. - Articles IX through XIII talk about the Trustee, supplements to the Trust Agreement, the refunding of the 2011 Revenue Bonds and miscellaneous provisions.

8. Contains TIFIA loan references – Since the TIFIA loan will be secured in a manner that may result in it sharing on the revenue lien under the Trust Agreement, the Trust Agreement needs to have provisions with respect to it. We expect that TIFIA will want more financial covenants agreed to by the Authority. If this occurs, such provisions may be in the Trust Agreement or may be contained in the TIFIA Loan Agreement.

Particular Provisions of Interest

The sections of the Trust Agreement likely to be of the most interest at this time for more fully understanding the transaction and its future implications for the Authority are:

402, 510, 511 and 515 dealing with the NCDOT guarantee of construction costs, operating expense costs and renewal and replacement costs and the repayment to NCDOT thereof.

503 waterfall of revenues for use

704 rate covenants. Note these interrelate to the Authority’s toll rate policy for Monroe

705 annual budgets

715 limitation on use of revenues for other projects

716 limitation on more senior debt

718 when/if TIFIA becomes senior debt to share in the lien

723 the continuing disclosure promise to the underwriters

You will also need to review related definitions of terms in Section 101. A lot of the substance is in the definitions.

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