NORTH CAROLINA
Department of Transportation









# Board of Directors
# Finance Committee Meeting

## North Carolina Turnpike Authority

June 15, 2017

# Toll Project Development Policy

Gene Conti

# Purpose

Secretary Trodgon committed to development of a comprehensive policy regarding use of tolling by the department.

# General Assembly Support

*"Establishing policies and guidelines will allow for the Department to make informed decisions when selecting projects as toll candidates and is critical to moving the state forward. Understanding which project characteristics make a project viable for tolling, managed lanes, or a (P3) agreement is necessary in gaining public trust."*

*Senators Meredith, Davis, McInnis and Rabon*

*April 6, 2017*

# Study Process

- Establish an internal working group to develop an informational baseline
- Actively engage stakeholders
- Provide study updates to Board of Transportation and Turnpike Authority Board
- Deliver final report to Secretary and Board of Transportation

# Considerations

- Ongoing funding needs – building on 2040 Plan findings
- State and federal regulations
- Opportunities created by STI
- Review of other state programs
- Economic impacts of toll projects
- Key stakeholder input – regional planning partners, local governments, business community and freight industry

# Next Steps

- Stakeholder meetings in June and August
- Internal policy development workshops in July and August
- Recommendations to the Secretary and Board of Transportation in late summer

# Questions?

# NCTA Refunding Overview

## Triangle Expressway System State Annual Appropriation Revenue Bonds (BABs), Series 2009B

**June 15, 2017**

PFM Financial Advisors LLC

300 South Orange Avenue
Suite 1170
Orlando, FL 32801

407-406-5752
**pfm.com**

# Refunding Overview

- The Triangle Expressway System State Annual Appropriation Revenue Bonds, Series 2009B are currently outstanding in a par amount of $345,935,000
  - $312,365,000 is eligible for a refunding
  - Refunding does not include the non-callable Serial Bond portion of debt
  - The bonds maturing 2022 and thereafter become callable January 1, 2019 at par

- The Series 2009B Bonds were issued as Federally Taxable, Issuer Subsidy Build America Bonds
  - NCTA was to receive a subsidy of 35% of the interest due on the bonds semi-annually
  - Due to sequestration, NCTA has not received the full subsidy since FY 2013
  - Sequestration rates have ranged from 6.8% to 8.7% and is currently 6.9%

- Although eligible for an advance refunding, BABs are challenged by reissuance concerns that might eliminate the federal interest subsidy between closing and the call date.

- For a variety of statutory, trust agreement, and State Auditor treatment reasons, bond counsel does not believe a structure referred to as a “Crossover Refunding” will be available.

# Refunding Alternatives

- PFM has prepared a preliminary comparative analysis based on the projected savings associated with an Advance Refunding, a Forward Refunding, and a Current Refunding.

- **Option 1**: Advance Refunding – Closing 8/1/2017
  - The execution of an advance refunding would subject the Authority to negative arbitrage and potential loss of BAB subsidy payments between closing and the call date.

- **Option 2:** Forward Refunding – Closing 1/1/2019
  - Tax-exempt Bank Loan with a forward premium to lock in the rate today
  - JP Morgan's unsolicited proposal is used as an indicative rate; PFM benchmarked their TIC to the weighted average life (8-year) MMD Index.

- **Option 3:** Current Refunding – Closing on 1/1/2019
  - Analysis assumed current market rates prevail at the time of closing though the transaction is subject to market movement

# Forward Starting Bank Loans

- A Forward Starting Bank Loan is a standard fixed rate loan where the interest rate is set today but the loan doesn't settle until a future date.
- The JP Morgan "Delayed Draw Term Loan" is basically a forward starting bank loan
  - It should be noted that JP Morgan's proposal is larger, longer term, and has a further forward starting date than is the norm. They also vary the interest rate by maturity.
  - JP Morgan is part of NCTA's underwriting team, but the RFP process by which they were selected was for investment banking services related to bond underwriting, particularly toll revenue bonds
  - The refunding size & term is driven by the duration of JP Morgan's appetite for a term loan
- If NCTA were to solicit forward starting bank loans for a partial refunding of the 2009B BABs, PFM believes the Authority would receive multiple competitive proposals.

# Partial Refunding Alternatives

- Options 1 and 3 assume market rates as of June 5, 2017 plus applicable credit spreads.
- Option 2 is based on indicative rates from JP Morgan's proposal and adjusted to June 5 market rates.
- Option 1, Advance Refunding, we assume the BABs interest subsidy is lost between 8/1/2017 and 1/1/2019.

| | Option 1<br>Advance Refunding | Option 2<br>Forward Refunding | Option 3<br>Current Refunding |
|---|---|---|---|
| Dated Date | 8/1/2017 | 1/1/2019 | 1/1/2019 |
| Par Amount | 174,470,000 | 161,665,000 | 161,665,000 |
| Par Amount of Refunded Bonds | 161,515,000 | 161,515,000 | 161,515,000 |
| All-In TIC | 2.75% | 2.83% | 2.41% |
| Net PV Savings[1] | 10,641,611 | 18,962,897 | 24,301,659 |
| % Savings of Refunded Bonds | 6.59% | 11.74% | 15.05% |
| Negative Arbitrage | 3,592,194 | - | - |

[1] Refunding analysis assumes a 6.90% Sequestration rate (32.59% subsidy) on the refunded bonds.

# Breakeven Analysis – Interest Rate Sensitivity

- A Current Refunding on or near 1/1/2019 has the greatest npv savings based on today's interest rates and the assumptions herein, but …
- NCTA would carry interest rate risk until the current refunding bonds could be priced.
- Forward Refunding Breakeven
  - Locking in an interest rate today via a forward refunding would eliminate the Authority's exposure to increasing interest rates, but would include an additional interest rate premium.
  - If interest rates were to increase an average of 41 bps from now until the bond sale (within 90 days of January 1, 2019), a future Current Refunding would achieve the same npv savings as the Forward Refunding today.

# Questions?

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