NCTA Refunding Overview

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

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Refunding Overview

- $349,305,000 Triangle Expressway System State Annual Appropriation Revenue Bonds, Series 2009B
  - $312,365,000 is eligible for a refunding
  - 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 semi-annually

- Refunding Eligibility/Considerations
  - 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
  - BABs are eligible for a forward refunding or current refunding
  - Savings achieved through a refunding would remain on the project

Forward Refunding

- 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.
- These transactions have been used commonly when an advance refunding is not an option, e.g. private activity bonds issued by airports and seaports.
- A forward starting loan is designed to lock in rates now for a future current refunding, preserving advance refunding eligibility, if applicable.
- A forward premium is incorporated into the interest rate to lock in the rate today.
- Compared to an advance refunding, a forward deal avoids negative carry in the escrow.

Bank Loan Solicitation

- Through a competitive solicitation process via broad distribution of a new Request for Proposals, NCTA is able to receive market indications from multiple proposers and select the lowest cost option
- The Request for Proposals for a Tax-Exempt Forward Refunding Bank Term Loan specific to the 2009B Appropriation Revenue Bonds was distributed to active market participants and posted on NCTA's website on June 20th
- NCTA received proposals from four banks with multiple options with respect to maturity and call features.
- Banks typically will not go beyond 15 years, and no proposals were received past this time frame. For this reason, we are not looking to refund more at this time.

Responses Received

- Please refer to separate handout for a detailed summary.
- Interest rate indications are as follows:

Proposer	Bank of America Merrill Lynch			JP Morgan		Piper Jaffray		Wells Fargo		
Redemption Provision / Term	**Make Whole**	**10 Year Par Call**	**5 Year Par Call**	**Non-callable**	**5-year Par Call**	**Non-callable**	**5-year Par Call**	**Make Whole**	**Call Date: 1/1/2022**	**Call Date: 1/1/2020**
10 Years	2.43%	-	2.73%	3.01%*	3.12%*	2.98%	3.05%	2.38%	2.58%	2.86%
12 Years	2.65%	-	3.01%	3.14%*	3.22%*	3.14%	3.22%	-	-	-
15 Years	2.86%	2.92%	3.41%	3.32%*	3.43%*	3.25%	3.34%	-	-	-

*JP Morgan provided a scale for each scenario, the rates shown are the Total Interest Cost on a transaction utilizing the proposing scales.

Indicative Refunding Results

- A 15-year loan refunds $161.515 million of 2009B BABs while a 10-year loan refunds $78.710 million of the outstanding bonds.

Bank	Bank of America Merrill Lynch				JP Morgan			Wells Fargo	
Term	10 Year	15 Year	15 Year	15 Year	10 Year	15 Year	15 Year	10 Year	10 Year
Call Provision	Make Whole	Make Whole	10 Year Par Call	5 Year Par Call	Non-Callable	Non-Callable	5 Year Par Call	Make Whole	5 Year Par Call
Interest Rate	2.43%	2.86%	2.92%	3.41%	2.70% - 3.20%	2.70% - 3.60%	2.70% - 3.80%	2.38%	2.58%
All-In TIC	2.48%	2.87%	2.94%	3.42%	3.05%	3.33%	3.44%	2.43%	2.62%
NPV Savings ($)	$7.3 M	$18.4 M	$17.6 M	$11.6 M	$4.9 M	$12.7 M	$11.4 M	$7.5 M	$6.7 M
NPV Savings (%)	9.3%	11.4%	10.9%	7.2%	6.2%	7.9%	7.1%	9.6%	8.5%

Breakeven Analysis – Interest Rate Sensitivity

- If you could implement an advance refunding without losing the Federal BABs interest subsidy, this forward transaction still saves more money because of the avoided escrow negative interest carry.
- A Current Refunding on or near 1/1/2019 based on today's interest rates and the assumptions herein, is $22.9 million or 14.2% of refunded par 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 35 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.

Breakage Fee

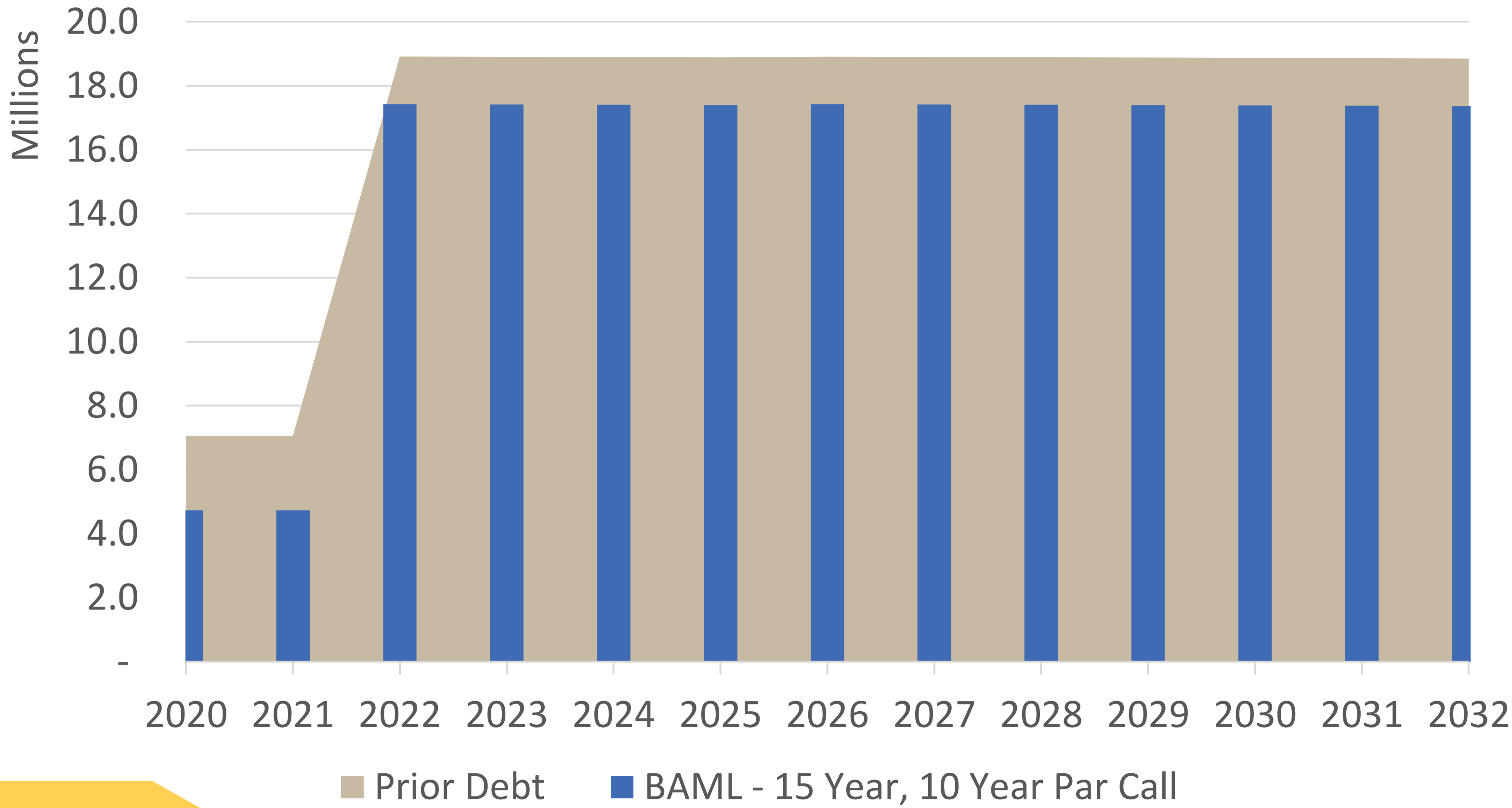
- Importantly, the Authority will **<u>not</u>** be subject to a breakage fee if unable to close on a tax-exempt basis due to an act of congress.
  - Only the BAML proposal doesn't pass tax risk to NCTA
- A breakage fee applies if NCTA takes actions to fail to close or to lose the tax-exempt status of the loan, i.e. NCTA controls this.
- All breakage fees are determined based on market rates at the time of breakage eliminates the scenario of a optional breakage for savings.
- This effectively is no different than the advance refunding of the TriEx toll revenue bonds done earlier this year, i.e. you can't cancel & reissue.
- Similar to the recent advance refunding, the transaction and savings will be locked based on interest rates at closing.
  - NCTA is protected against upward interest rate movement between now and the call date, but it will <u>not</u> have the benefit of rate decreases.

Finance Team Recommendation

- Bank of America Merrill Lynch's proposed rate achieve the greatest npv savings in both dollar terms and as a percentage of refunded par
  - 15-Year Term, Make Whole: $18.4 million or 11.4% of refunded par
  - 15-Year Term, 10-Year Par Call: $17.6 million or 10.9% of refunded par
- The loan is eligible for an advance refunding in the future, and the 10-year par call alternative offers flexibility at a relatively small cost
- The BAML proposal has comparatively favorable treatment with respect to acts of congress and breakage fees.
- The NCTA finance team recommends securing the savings associated with BAML's 15-year loan while preserving future refunding optionality available through the 10-year par call option

Debt Service Savings

- Bank of America Merrill Lynch – 15 Year Term, 10 Year Par Call
  - Cash Flow savings of over $21 million, approx. $1.6 million average annual



Potential Rate Lock

- Notify preferred responder that they are recommended by Staff and the NCTA Finance Committee, but subject to the approval of the full NCTA Board and the LGC
- Clarify Loan Term Sheet questions, if any
- Determine interest rate based on the proposed interest rate index and formula
- Request a 30-day rate lock quote
- Expected cost 1-4 basis point cost added to the loan interest rate

Schedule

July 11	Receive forward bank loan proposals
July 14	Selection committee reviews proposals
July 20	NCTA Finance Committee Meeting reviews selection committee’s recommendation
July 24	NCTA Special Board Meeting to approve Refunding & Loan Provider
August 1	LGC Full Commission Meeting – Approval of Refunding (no further LGC action required in 2018)
August 10	Execution of forward agreement