SR 520 Finance Basics

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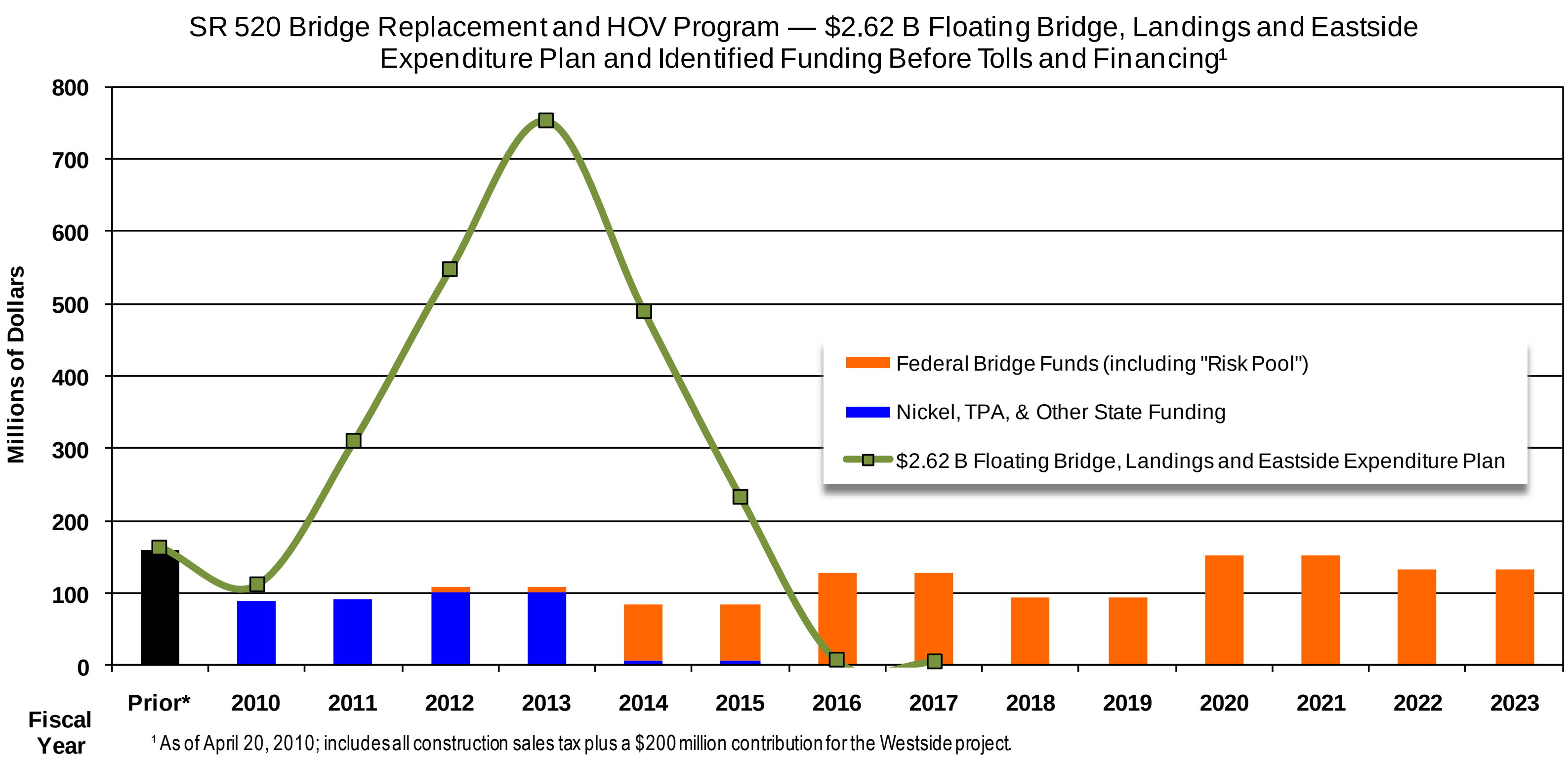
Why tolls?

- Project cost is capped at $4.65 billion
- Authorized Floating Bridge, Landings and Eastside projects total $2.62 billion
- Funding without tolls is insufficient

Authorized project	$2.62 billion
Identified funding	
State funding	$0.55 billion
Federal formula funding	$1.19 billion
Total	$1.74 billion



[1] As of April 20, 2010; includes all construction sales tax plus a $200 million contribution for the Westside project.
* Prior funding and expenditures includes all State and Federal Funds expended on the SR 520 Program, and excludes the Lake Washington Congestion Management (LWCM) Project.

Why tolls?

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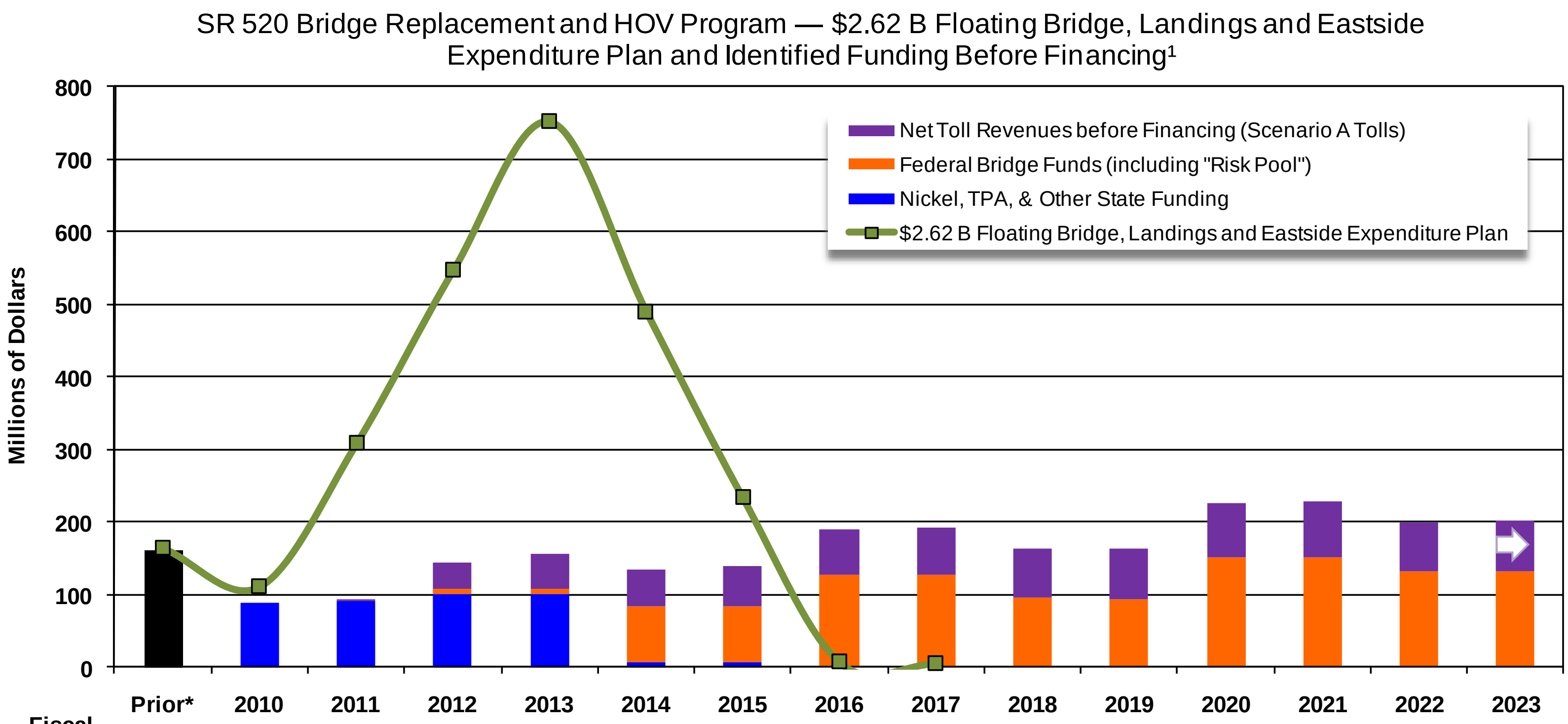

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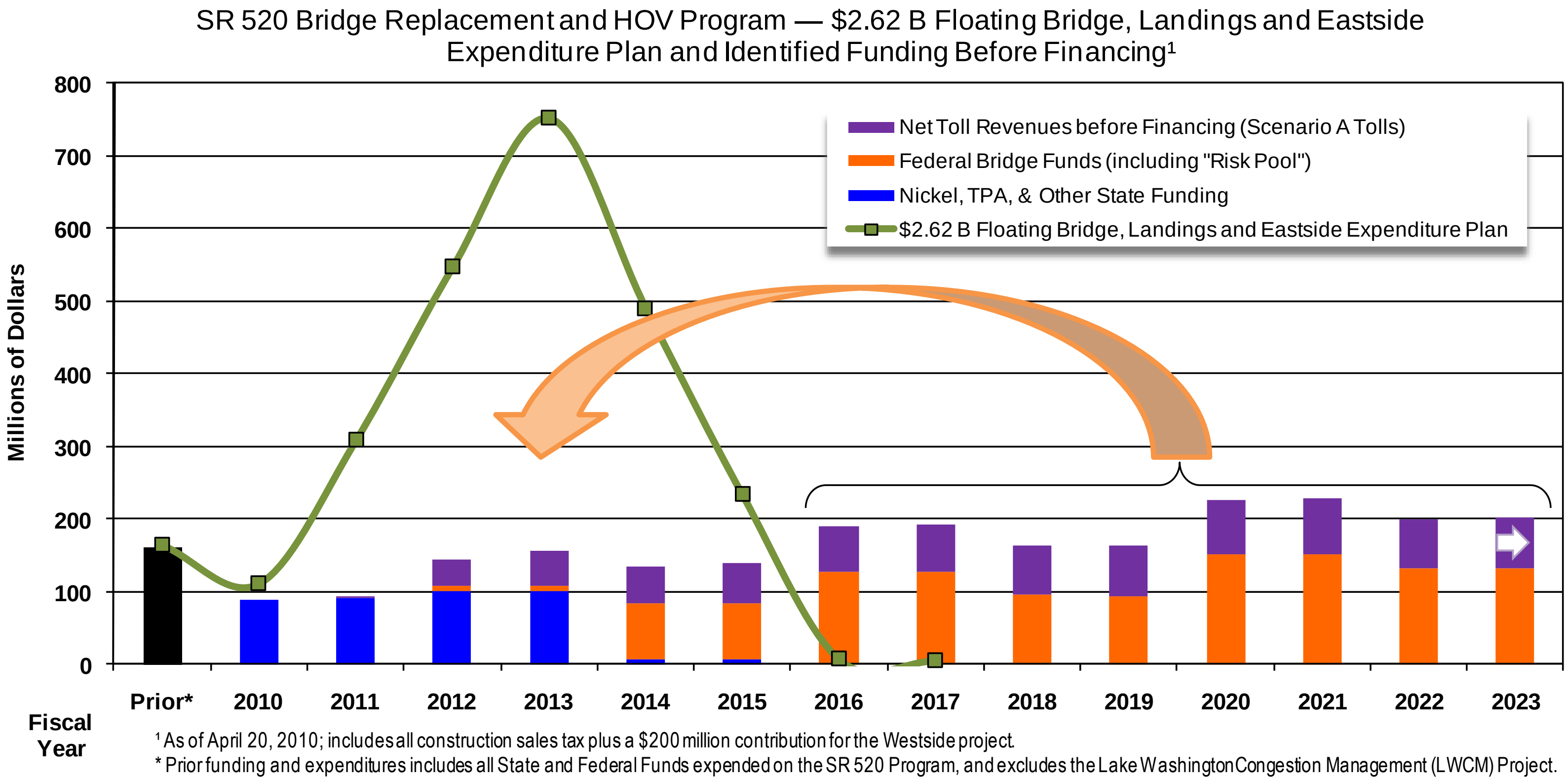
Why bonds?

- Identified funding without tolls is insufficient and much of it comes too late
- Most toll revenues and federal funds available only after construction is complete
- Need to advance these future revenues into the construction period



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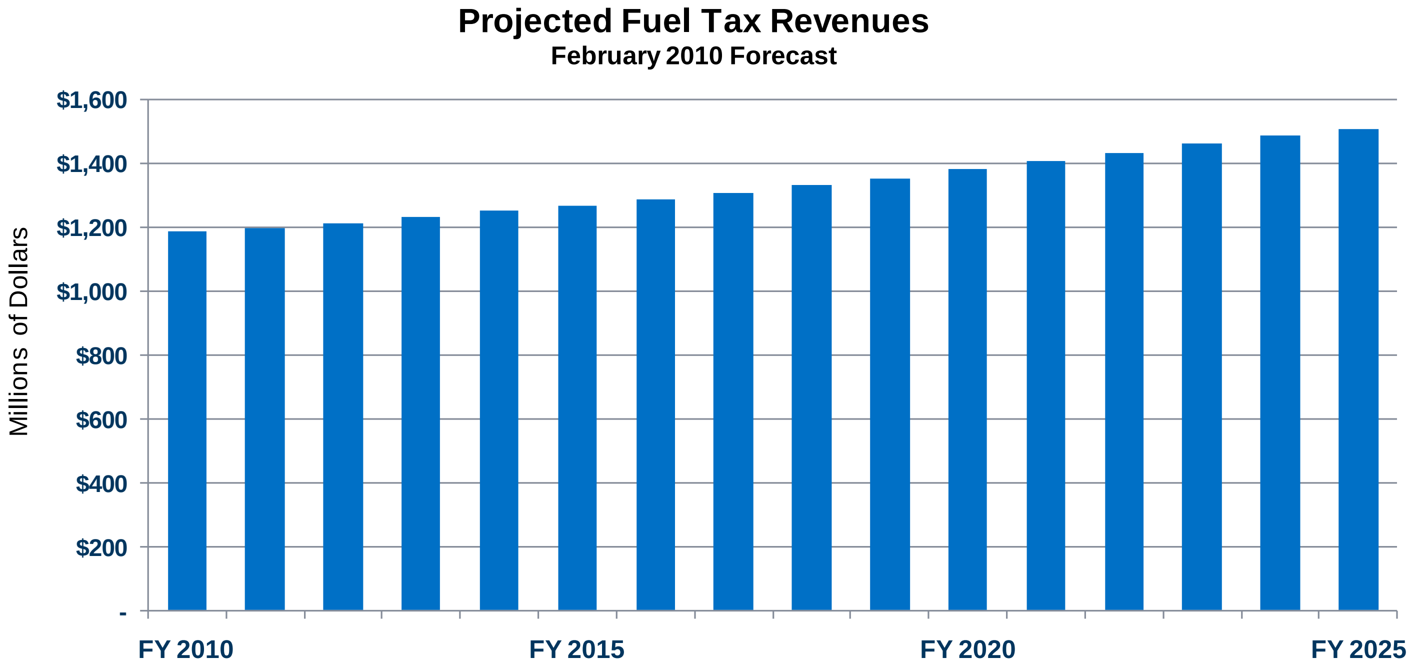
Why toll-backed bonds? Why not MVFT/GO bonds?

- Existing motor vehicle fuel tax fund (MVFT) revenues are fully committed
- New MVFT bonds would require redirecting revenues from:
  - Capital projects authorized by the Legislature (Nickel and TPA)
  - State highway preservation and maintenance activities
  - Distributions to counties and cities
  - Debt service on existing MVFT bonds



Toll-backed bonds

Tolls/MVFT/GO (Triple Pledge)

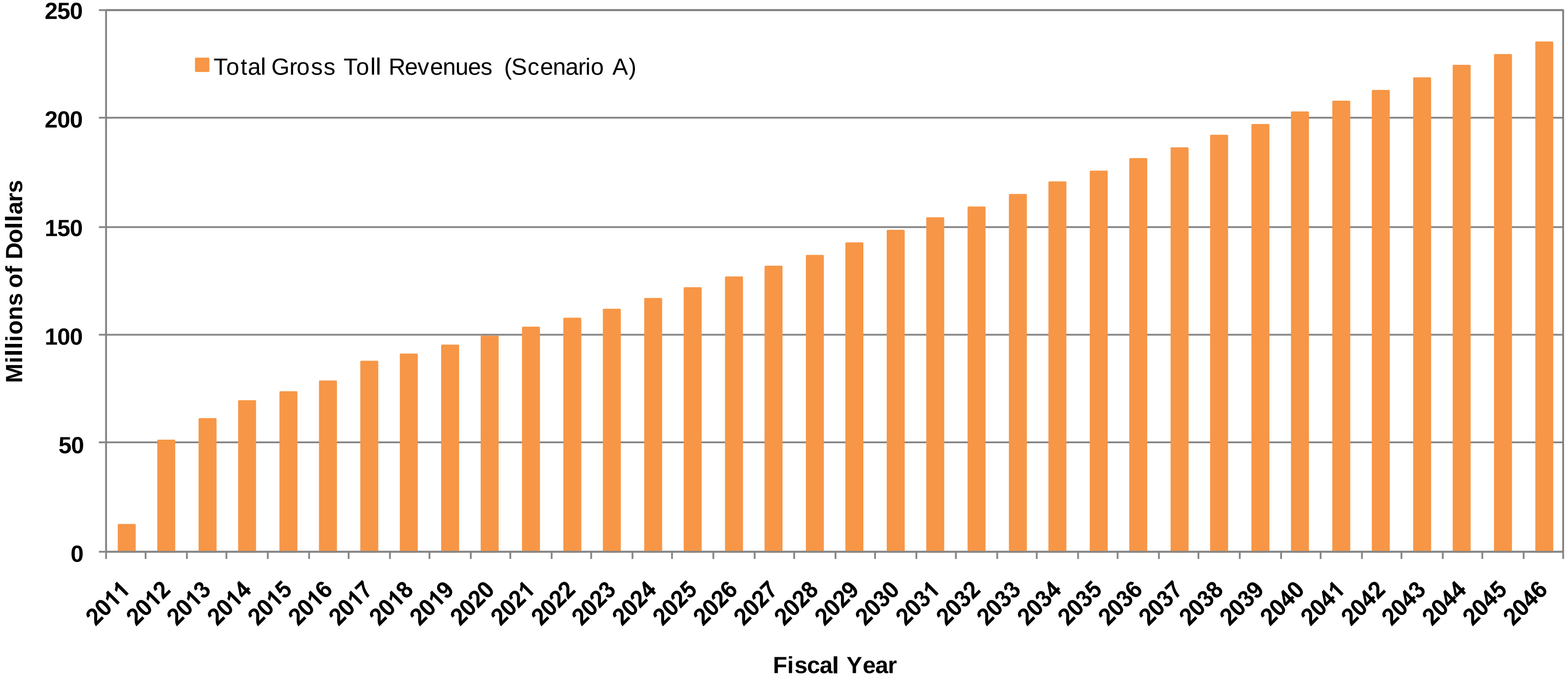
- First payable from toll revenues
  - Contractually pledged to investors
- Second, backed by MVFT
- Third backed by the full faith and credit pledge of the State
- Lower cost
- Pressure on State's credit rating
  - Potential for raising costs of financing on all of State's borrowing

Stand-alone Toll Revenue Bonds

- Only payable from toll revenues
  - Contractually pledged to investors
- Supported by credible revenue forecasts
  - Investment-grade T&R study
- Supported by commitments to set tolls to maintain:
  - Coverage (net revenues / debt service)
  - Reserve accounts (debt service, O&M, R&R)
- Higher cost
- Requires amending bond authorization legislation

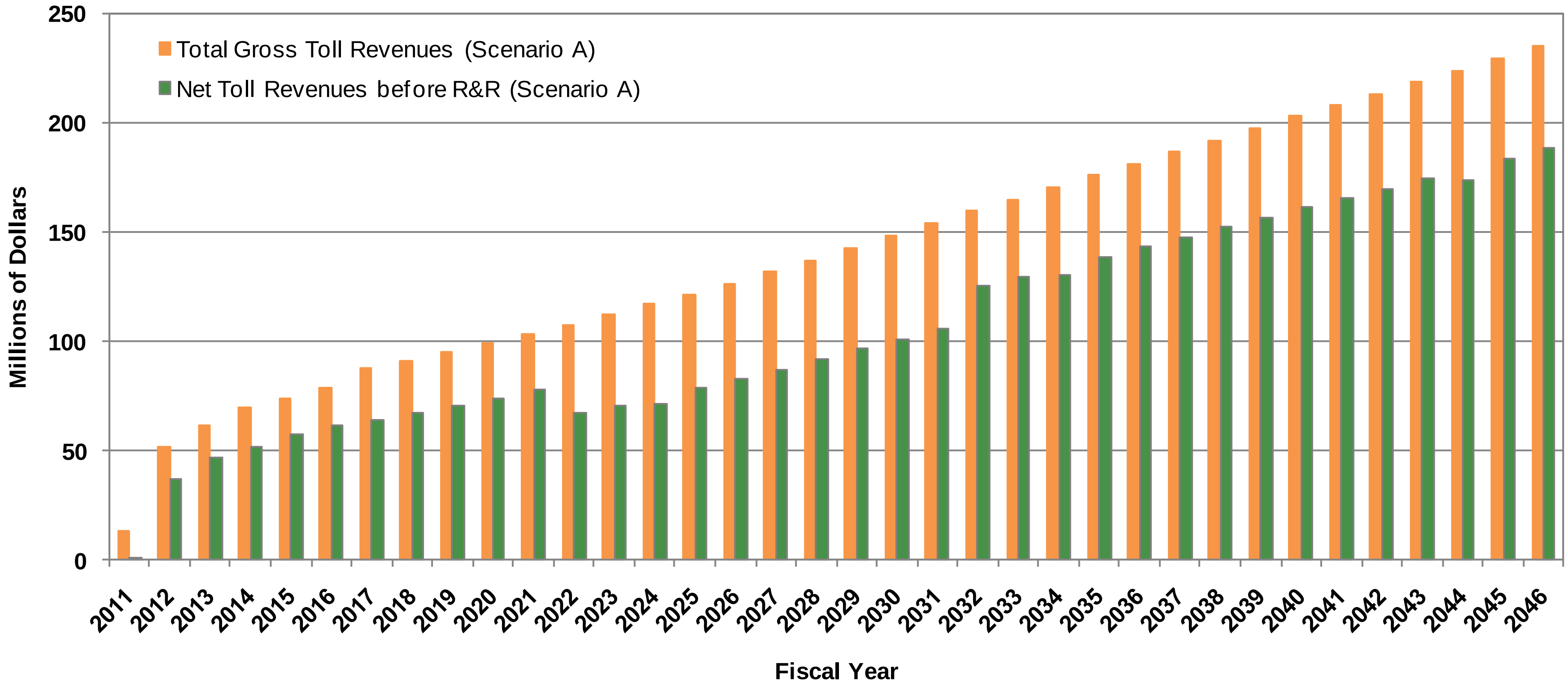
Gross Revenue Projections – Scenario A

- Tolls are assumed to keep pace with projected inflation at 2.5% per year
- In FY 2017, <u>peak period</u> tolls increase by 20% and tolling is extended to overnight hours
  - Intended to coincide with the completion of the 6-lane corridor



Net Revenue Projections – Scenario A

- Deductions from gross revenues to yield net revenues include:
  - Operations and maintenance
  - Uncollectible accounts
  - Bridge insurance premiums
  - Deferred sales tax payments over 10 years starting in FY 2022



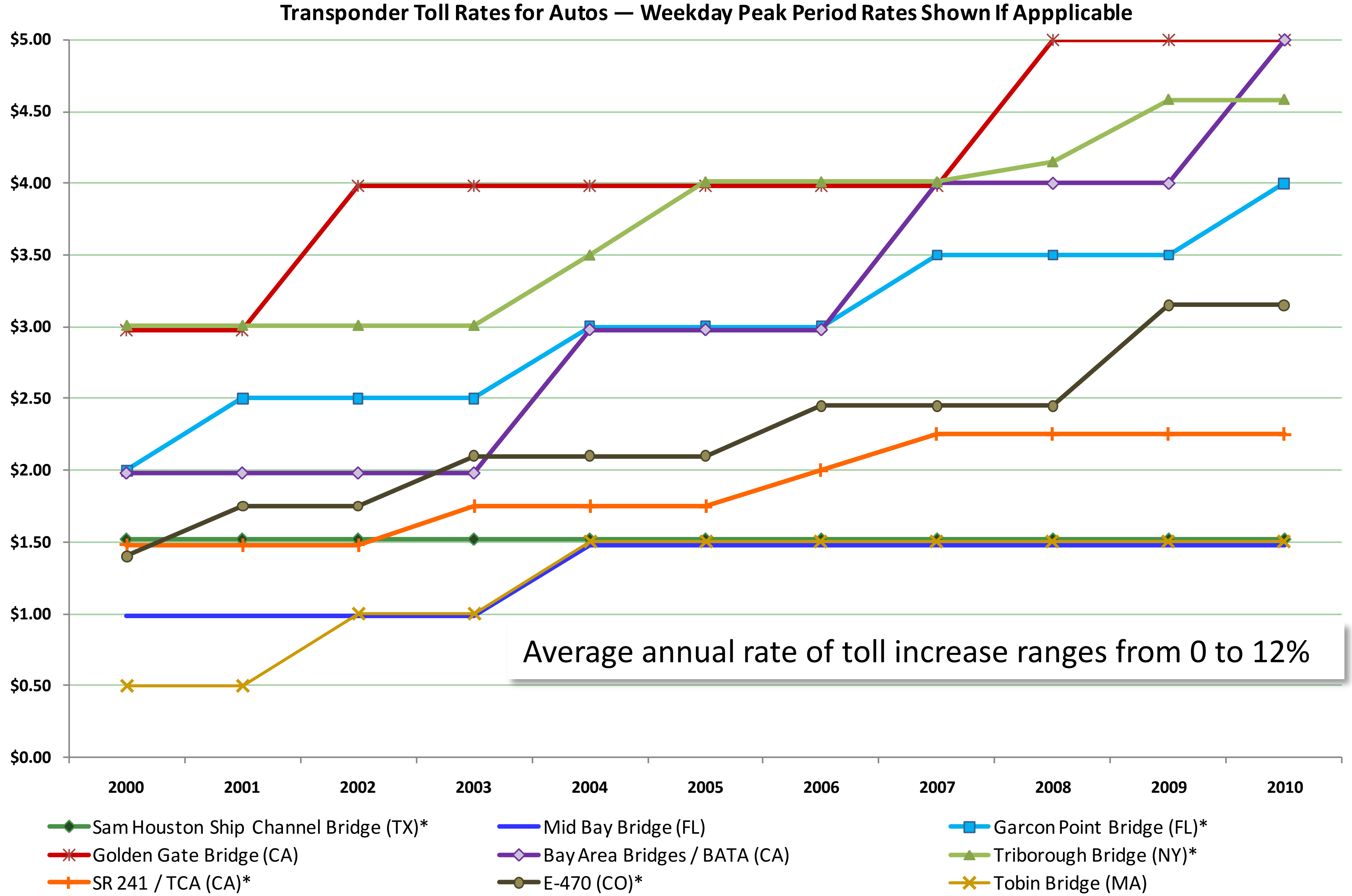
Why and how are tolls increased elsewhere?

- Tolls are increased to generate additional revenue to:
  - Ensure adequate net revenues (coverage) to pay bond debt service and other recurring expenses of the facility
  - Offset increases in operating and maintenance costs when traffic growth is less than cost inflation
  - Provide additional funds for major renewal and replacement
  - Fund other major capital projects
- Process for establishing new toll levels varies
  - Updated traffic and revenue studies often prepared to determine recommended toll increase
  - Often is politically charged
  - Typically occurs on an ad hoc basis, but some toll-setting bodies have moved toward longer term toll policies
    - Adopt series of future toll increases
    - Periodic increases based on CPI or other growth factor
    - Stated policy to increase tolls every *X* years

Observed Toll Rate Trends Elsewhere

- Tolls generally increase over time
- Facilities that accept cash payment of tolls tend to be:
  - More likely to schedule toll escalation at intervals where the increase is a round number for making change (e.g., $1.00)
  - Less likely to have variable pricing with more than two different rates by time of day
- No comparable toll facility perfectly matches all of SR520's assumed tolling features
  - Bridge project of significant capital investment
  - All electronic toll collection (no cash payment)
  - Variable pricing (tolls follow a time of day schedule)
  - Tolls collected in each direction

Toll Rate Trends for Selected U.S. Facilities



Notes
* Indicates facility for which toll is collected in each direction. E-470 and SR 241 toll rates shown are for a toll plaza serving trips of comparable length to SR 520.

Transportation Commission

As the Tolling Authority for the state,

the Transportation Commission

- Sets toll rates
- Reviews toll collection policies, toll operations policies and toll revenue expenditures on the eligible toll facilities and
- Reports on this annually to the Legislature

State Finance Committee

At the time of issuance, the State Finance Committee

- Determines the timing and structure of debt issuance ….. to assist with the marketing and sale of the bonds

- Determines, in consultation with the Department of Transportation and the tolling authority, financial terms, provisions and covenants regarding reserves and coverage ratios

Tolling Policy

The tolling authority must ensure that toll rates will generate revenues sufficient to:

- Meet the operating cost of the eligible toll facilities (maintenance, preservation, renewal, replacement administration and toll enforcement)

- Meet obligations for the timely payment of debt service on bonds issued for eligible toll facilities, including reserves, minimum debt coverage… in compliance with financial covenants in the bonds

Role of a toll policy

- Set expectations
- Support predictability of toll revenues
- Longer-term focus to match financing horizon
- Where should toll policies reside?
  - Transportation Commission (WAC)
  - Legislative statute (RCW)
  - Bond documents

Preliminary Financing Structure

If we were to go to market today…

- Likely that a combination of bonds would be sold
  - Toll/MVFT/GO bonds ($500 million)
  - Stand-alone toll revenue bonds ($500 million)
  - Financing based on federal funds ($775 million)