

Tacoma Narrows Bridge Internal Refinance Opportunities

Mary Fleckenstein, Project Manager
January 21, 2014

Joint Transportation Committee

Study Proviso

ESSB 5024, Sec. 204(4)

(4) The joint transportation committee shall convene a work group to **identify and evaluate internal refinance opportunities** for the Tacoma Narrows bridge. The study must include a staff work group, including staff from the office of financial management, the transportation commission, the department of transportation, the office of the state treasurer, and the legislative transportation committees. The joint transportation committee shall issue a report of its findings to the house of representatives and the senate transportation committees by December 31, 2013.

Staff Workgroup

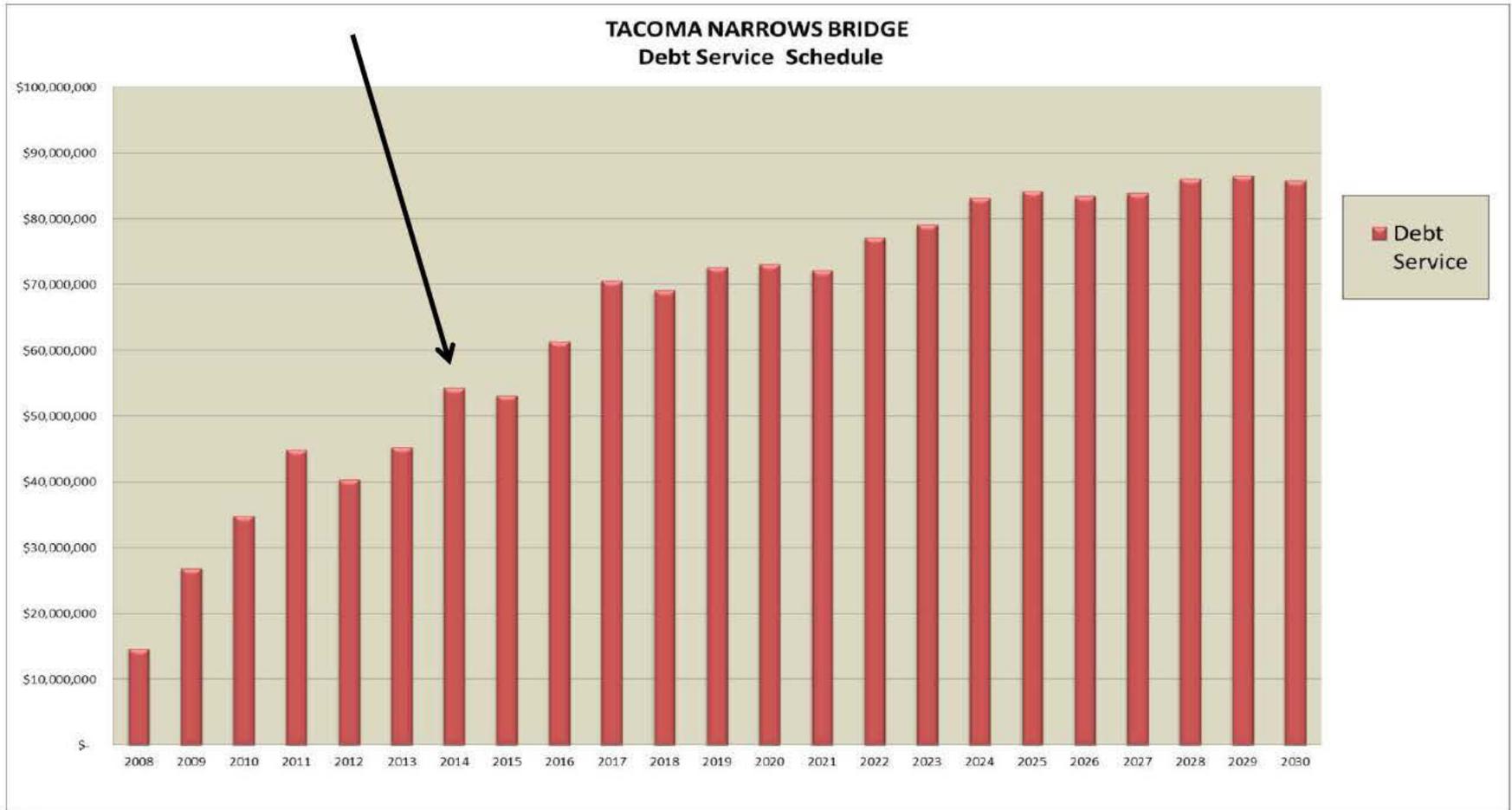
| WORKGROUP PARTICIPANT | ORGANIZATION |
|---|---------------------------------|
| Mary Fleckenstein, Project Manager, and Beth Redfield | JTC |
| Clint McCarthy | Senate Transportation Committee |
| Alyssa Ball, Mark Matteson | House Transportation Committee |
| Erik Hansen | OFM |
| Amy Arnis, Craig Stone, Rob Fellows, Catherine Larson, Rich Struna, Wyn Dang, Doug Vaughn | WSDOT |
| Ellen Evans, Svein Braseth, Kate Manley, Scott Merriman | State Treasurer's Office |
| Reema Griffith and Noah Crocker | Transportation Commission |
| Jackson Maynard, Lyset Cadena, Dana Quam, Debbie Driver | Caucus staff |



TNB: How Did We Get Here?

- ▶ Financing structure, with escalating debt payments
- ▶ Toll rates lower than projected
- ▶ Traffic levels lower than projected

TNB: Stairstepped debt service



Toll Rates Lower than Projected

| | 2002 Planned toll | <i>Actual Good To Go!</i> toll | Weighted average toll |
|------|----------------------|------------------------------------|--------------------------|
| 2008 | \$3.00 | \$1.75 | \$2.12 |
| 2009 | \$3.00 | \$2.75 | \$3.13 |
| 2010 | \$4.00 | \$2.75 | \$3.13 |
| 2011 | \$4.00 | \$2.75 | \$3.13 |
| 2012 | \$4.00 | \$2.75 | \$3.13 |
| 2013 | \$5.00 | \$4.00 | \$4.44 |
| 2014 | \$5.00 | \$4.25 | \$4.57 |
| 2015 | \$5.00 | \$4.50 | \$4.82 |
| 2016 | \$6.00 | TBD | TBD |

Traffic Levels Lower than Projected

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 2002 T&R Study | 15,010,000 | 15,341,000 | 15,397,000 | 15,794,000 | 16,202,000 | 16,132,000 |
| 2005 T&R Update | 14,311,000 | 14,670,000 | 14,710,000 | 15,084,000 | 15,468,000 | 15,664,000 |
| Nov 2007 Forecast | 13,738,058 | 14,471,000 | 14,469,000 | 14,893,000 | 15,272,000 | 15,564,000 |
| Nov 2008 Forecast | 13,858,606 | 14,259,848 | 14,111,314 | 14,892,799 | 15,282,103 | 15,564,000 |
| Nov 2009 Forecast | | 13,900,642 | 14,719,333 | 15,512,149 | 16,087,746 | 16,521,000 |
| Nov 2010 Forecast | | | 14,252,567 | 14,787,266 | 15,679,037 | 16,298,693 |
| Nov 2011 Forecast | | | | 14,055,030 | 14,143,768 | 14,457,000 |
| Nov 2012 Forecast | | | | | 13,943,073 | 13,849,623 |
| Nov 2013 Forecast | | | | | | 13,861,044 |

Bold = actuals

Study Outline

- ▶ Summarized history of TNB financing and tolling
- ▶ Developed a base case for tolls, with expenditures and revenues as in current law, evaluated under 3 traffic outlooks
- ▶ Developed seven “what if” scenarios, with changes in revenues and expenditures, and assuming 3 traffic outlooks, to see a range of potential toll rates

Scenario Estimating Tool

- ▶ Traffic – current forecast, zero growth, decline
- ▶ Revenue
 - Toll and other
- ▶ Expenses
 - Debt service
 - Toll vendor
 - Toll operations
 - Bridge Insurance
 - Bridge Maintenance
 - Preservation (R&R)
 - Deferred sales tax
- ▶ Sufficient minimum balance (SMB)

Caveats and Assumptions

- ▶ Traffic
 - No elasticity assumptions built in (traffic not adjusted due to higher or lower toll rates)
- ▶ Expenses increase at IPD – not half IPD as in financial plan
- ▶ Toll rate is blended rate (GTG, cash, PBP, PBM, short term account – 2 axle vehicles)
- ▶ Analysis begins with FY 2016 rates
- ▶ **Results are rough estimates**
 - Suggest general trends, but need further detailed analysis to make informed decisions
- ▶ **It's up to the Transportation Commission to set toll rates.**

TNB Estimated Expenditures

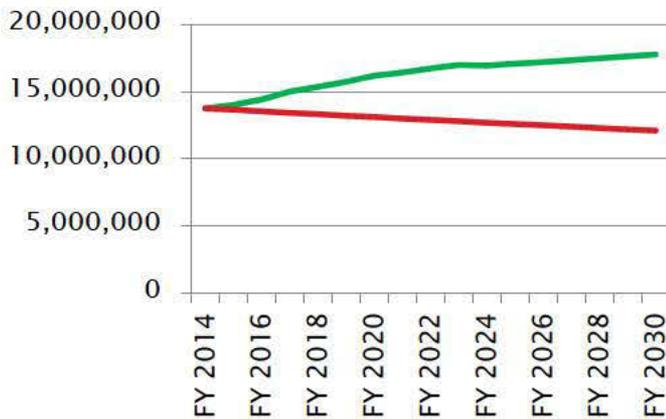
Assuming full IPD

| | Debt Service | Toll Vendor | Toll Operations | Bridge Insurance | Bridge Maintenance | Preservation (R&R) | Deferred Sales Tax | Total Expenditures |
|---------|-----------------|----------------|--------------------|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| FY 2014 | 54,932,000 | 5,453,500 | 3,675,600 | 1,750,000 | 270,000 | 0 | 0 | 66,081,100 |
| FY 2015 | 54,735,000 | 5,453,500 | 3,640,400 | 1,750,000 | 305,000 | 119,735 | 0 | 66,003,635 |
| FY 2016 | 62,311,000 | 5,532,660 | 3,693,242 | 1,775,402 | 340,000 | 4,543,189 | 0 | 78,195,493 |
| FY 2017 | 70,092,000 | 5,614,549 | 3,747,905 | 1,801,680 | 375,000 | 1,002,473 | 0 | 82,633,607 |
| FY 2018 | 69,889,000 | 5,696,045 | 3,802,307 | 1,827,831 | 380,443 | 3,078,198 | 0 | 84,673,825 |
| FY 2019 | 72,861,000 | 5,791,056 | 3,865,731 | 1,858,320 | 386,789 | 12,496 | 5,759,000 | 90,534,392 |
| FY 2020 | 72,770,000 | 5,892,420 | 3,933,395 | 1,890,847 | 393,559 | 118,364 | 5,759,000 | 90,757,585 |
| FY 2021 | 72,478,000 | 5,999,934 | 4,005,164 | 1,925,348 | 400,740 | 2,685,064 | 5,759,000 | 93,253,250 |
| FY 2022 | 78,093,000 | 6,109,775 | 4,078,486 | 1,960,595 | 408,077 | 1,128,348 | 5,759,000 | 97,537,281 |
| FY 2023 | 79,339,000 | 6,222,642 | 4,153,829 | 1,996,814 | 415,615 | 3,436,681 | 5,759,000 | 101,323,580 |
| FY 2024 | 83,480,000 | 6,338,510 | 4,231,175 | 2,033,995 | 423,354 | 47,449 | 5,759,000 | 102,313,483 |
| FY 2025 | 84,301,000 | 6,455,447 | 4,309,234 | 2,071,519 | 431,164 | 2,768,062 | 5,759,000 | 106,095,426 |
| FY 2026 | 83,683,000 | 6,574,718 | 4,388,852 | 2,109,793 | 439,130 | 1,463,344 | 5,759,000 | 104,417,838 |
| FY 2027 | 84,047,000 | 6,695,656 | 4,469,582 | 2,148,602 | 447,208 | 1,903,942 | 5,759,000 | 105,470,990 |
| FY 2028 | 86,325,000 | 6,818,009 | 4,551,257 | 2,187,864 | 455,380 | 720,359 | 5,759,000 | 106,816,868 |
| FY 2029 | 86,542,000 | 6,943,257 | 4,634,864 | 2,228,055 | 463,745 | 599,489 | 0 | 101,411,410 |
| FY 2030 | 79,660,000 | 7,070,847 | 4,720,035 | 2,268,998 | 472,267 | 2,573,403 | 0 | 96,765,550 |

Source: WSDOT, 9/24/13

TNB Traffic

Current Forecast vs. Pessimistic Scenario



| TNB Traffic | | | TNB Traffic | | |
|-------------|----------------------|--------------------------|-------------|----------------------|--------------------------|
| | Current forecast (1) | Pessimistic scenario (2) | | Current forecast (1) | Pessimistic scenario (2) |
| FY 2014 | 13,753,000 | 13,753,000 | FY 2014 | 0.00% | 0.00% |
| FY 2015 | 14,004,000 | 13,642,976 | FY 2015 | 1.83% | -0.80% |
| FY 2016 | 14,410,000 | 13,533,832 | FY 2016 | 2.90% | -0.80% |
| FY 2017 | 15,005,000 | 13,425,562 | FY 2017 | 4.13% | -0.80% |
| FY 2018 | 15,352,000 | 13,318,157 | FY 2018 | 2.31% | -0.80% |
| FY 2019 | 15,728,000 | 13,211,612 | FY 2019 | 2.45% | -0.80% |
| FY 2020 | 16,177,000 | 13,105,919 | FY 2020 | 2.85% | -0.80% |
| FY 2021 | 16,418,000 | 13,001,072 | FY 2021 | 1.49% | -0.80% |
| FY 2022 | 16,720,000 | 12,897,063 | FY 2022 | 1.84% | -0.80% |
| FY 2023 | 16,983,000 | 12,793,886 | FY 2023 | 1.57% | -0.80% |
| FY 2024 | 16,937,000 | 12,691,535 | FY 2024 | -0.27% | -0.80% |
| FY 2025 | 17,082,000 | 12,590,003 | FY 2025 | 0.86% | -0.80% |
| FY 2026 | 17,203,000 | 12,489,283 | FY 2026 | 0.71% | -0.80% |
| FY 2027 | 17,342,000 | 12,389,369 | FY 2027 | 0.81% | -0.80% |
| FY 2028 | 17,482,123 | 12,290,254 | FY 2028 | 0.81% | -0.80% |
| FY 2029 | 17,623,378 | 12,191,932 | FY 2029 | 0.81% | -0.80% |
| FY 2030 | 17,765,775 | 12,094,396 | FY 2030 | 0.81% | -0.80% |

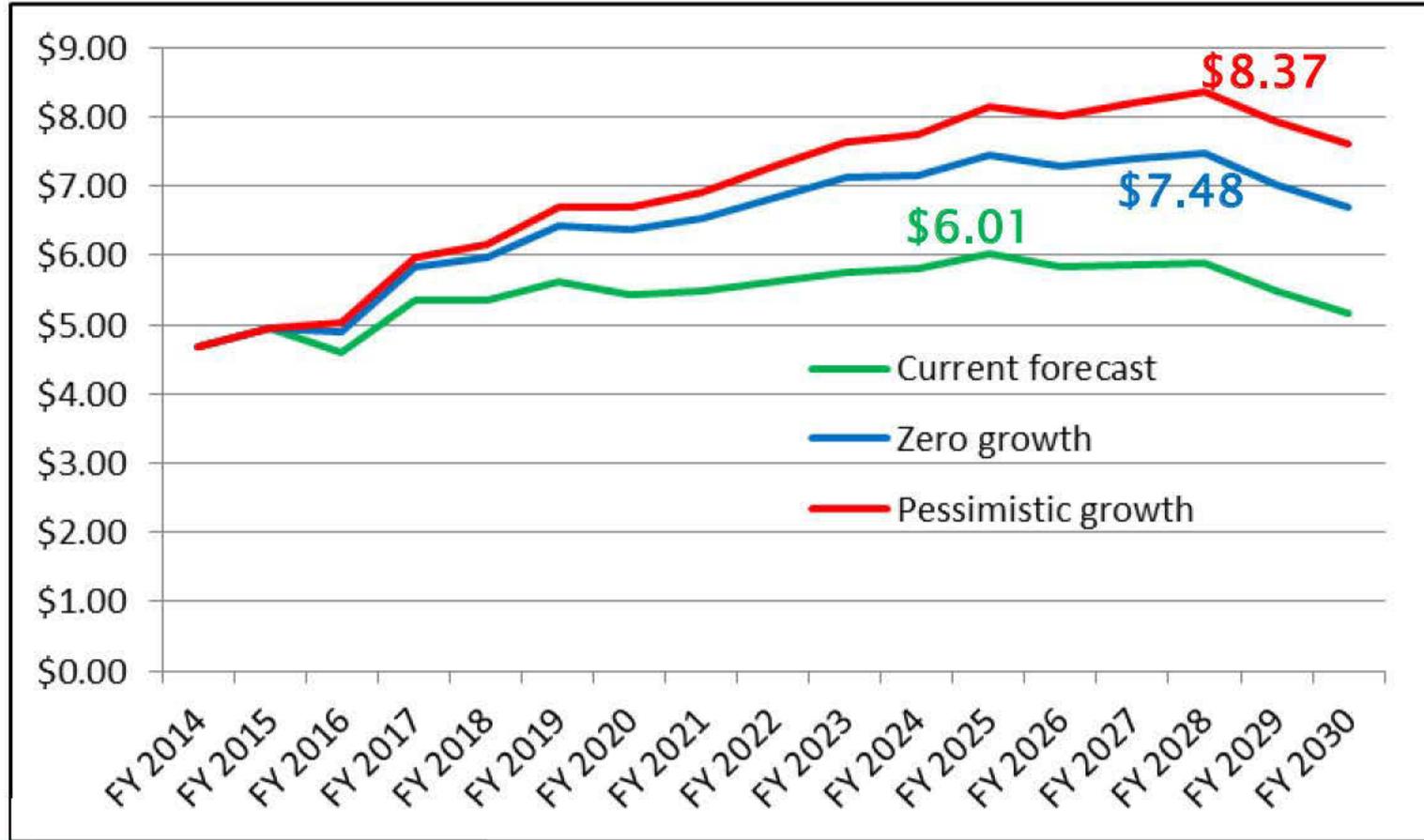
- (1) Current forecast September 2013 Transportation Revenue Forecast
- (2) Source - generated for this study by legislative staff

What you'll see today

- ▶ Potential toll rates in the base case scenario
- ▶ Potential toll rates in the following seven scenarios
 - 1. Deferred sales tax repayment
 - 2. 5% cut in toll operations and vendor costs
 - 3. Another fund source pays preservation costs
 - 4. Tolls only pay debt service
 - 5. Loan to keep blended toll below \$6
 - 6. Loan to offset effect of increasing debt service
 - 7. Worst case scenario

Potential estimated blended toll rates – Base Case

(Full IPD, tolls pay costs as in current law, three traffic scenarios)



Scenario 1: Deferred sales tax repayment

- ▶ \$58 million deferred construction sales tax, to be repaid between FY 2019 and FY 2028
- ▶ If the Legislature used \$58 million in non-toll revenues to make this repayment, could affect tolls by **35 to 45 cents**, depending on the traffic scenario, and actions taken by the Transportation Commission

Deferred sales tax: Policy considerations

Could cost \$201 million to adopt this policy

- ▶ Sets a precedent for other facilities
- ▶ For the TNB, would cost other transportation fund sources \$58 million over ten years (FY 2019 – FY 2028)
- ▶ The same policy for SR 520 would cost other fund sources \$144 million over ten years (FY 2022 – FY 2031)
- ▶ Department of Revenue: Risk of federal lawsuit if turned into an exemption

| Deferred Sales Tax Repayment | | | |
|------------------------------|-----------------|-------------------|-------------------|
| (\$ in 000s) | | | |
| Fiscal Year | TNB | 520 | Total |
| 2018 | | | \$ - |
| 2019 | \$ 5,760 | | \$ 5,760 |
| 2020 | \$ 5,760 | | \$ 5,760 |
| 2021 | \$ 5,760 | | \$ 5,760 |
| 2022 | \$ 5,760 | \$ 14,356 | \$ 20,116 |
| 2023 | \$ 5,760 | \$ 14,356 | \$ 20,116 |
| 2024 | \$ 5,760 | \$ 14,356 | \$ 20,116 |
| 2025 | \$ 5,760 | \$ 14,356 | \$ 20,116 |
| 2026 | \$ 5,760 | \$ 14,356 | \$ 20,116 |
| 2027 | \$ 5,760 | \$ 14,356 | \$ 20,116 |
| 2028 | \$ 5,760 | \$ 14,356 | \$ 20,116 |
| 2029 | | \$ 14,356 | \$ 14,356 |
| 2030 | | \$ 14,356 | \$ 14,356 |
| 2031 | | \$ 14,356 | \$ 14,356 |
| Total | \$57,600 | \$ 143,563 | \$ 201,163 |

Scenario 2: 5% cut in toll vendor and toll operations budget

- ▶ 2013 Legislature reduced toll vendor and toll operations budget by 5%.
- ▶ Legislative budget assumes this reduction will be maintained at the same level in the future
- ▶ Could affect tolls by about **a nickel**,
 - But the savings is small enough that it could be overshadowed by other changes in traffic or expenditures.

Scenario 3: Another fund source pays preservation costs (R&R)

- ▶ R&R costs are uneven, due to the nature of the work required in a particular year.
- ▶ If another fund source paid for R&R, it could save **ten to fifteen cents on average**, but the savings in a particular year might be more or less than that.
- ▶ Would cost Motor Vehicle Account (or other revenue source) \$26 million

| | Preservation (R&R) |
|---------|--------------------|
| FY 2014 | \$ - |
| FY 2015 | \$ 119,735 |
| FY 2016 | \$ 4,543,189 |
| FY 2017 | \$ 1,002,473 |
| FY 2018 | \$ 3,078,198 |
| FY 2019 | \$ 12,496 |
| FY 2020 | \$ 118,364 |
| FY 2021 | \$ 2,685,064 |
| FY 2022 | \$ 1,128,348 |
| FY 2023 | \$ 3,436,681 |
| FY 2024 | \$ 47,449 |
| FY 2025 | \$ 2,768,062 |
| FY 2026 | \$ 1,463,344 |
| FY 2027 | \$ 1,903,942 |
| FY 2028 | \$ 720,359 |
| FY 2029 | \$ 599,489 |
| FY 2030 | \$ 2,573,403 |
| | |
| TOTAL | \$ 26,200,595 |

Larger scenarios: Gifts and loans

- ▶ “Gifts” from other fund sources, no repayment required
- ▶ Loans, to be repaid after debt service is paid off in 2030.
 - 5 year and 10 year repayment scenarios

Scenario 4: Tolls only pay debt service beginning in FY 2016

| | Total Expenditures | Debt Service | Non debt-service expenditures | % non-debt service expenditures |
|---------|--------------------|--------------|-------------------------------|---------------------------------|
| FY 2014 | 66,081,100 | 54,932,000 | 11,149,100 | 17% |
| FY 2015 | 66,003,635 | 54,735,000 | 11,268,635 | 17% |
| FY 2016 | 78,195,493 | 62,311,000 | 15,884,493 | 20% |
| FY 2017 | 82,633,607 | 70,092,000 | 12,541,607 | 15% |
| FY 2018 | 84,673,825 | 69,889,000 | 14,784,825 | 17% |
| FY 2019 | 90,534,392 | 72,861,000 | 17,673,392 | 20% |
| FY 2020 | 90,757,585 | 72,770,000 | 17,987,585 | 20% |
| FY 2021 | 93,253,250 | 72,473,000 | 20,775,250 | 22% |
| FY 2022 | 97,537,281 | 78,093,000 | 19,444,281 | 20% |
| FY 2023 | 101,323,580 | 79,339,000 | 21,984,580 | 22% |
| FY 2024 | 102,313,483 | 83,480,000 | 18,833,483 | 18% |
| FY 2025 | 106,095,426 | 84,300,000 | 21,794,426 | 21% |
| FY 2026 | 104,417,838 | 83,683,000 | 20,734,838 | 20% |
| FY 2027 | 105,470,990 | 84,047,000 | 21,423,990 | 20% |
| FY 2028 | 106,816,868 | 86,325,000 | 20,491,868 | 19% |
| FY 2029 | 101,411,410 | 86,542,000 | 14,869,410 | 15% |
| FY 2030 | 96,765,550 | 79,660,000 | 17,105,550 | 18% |

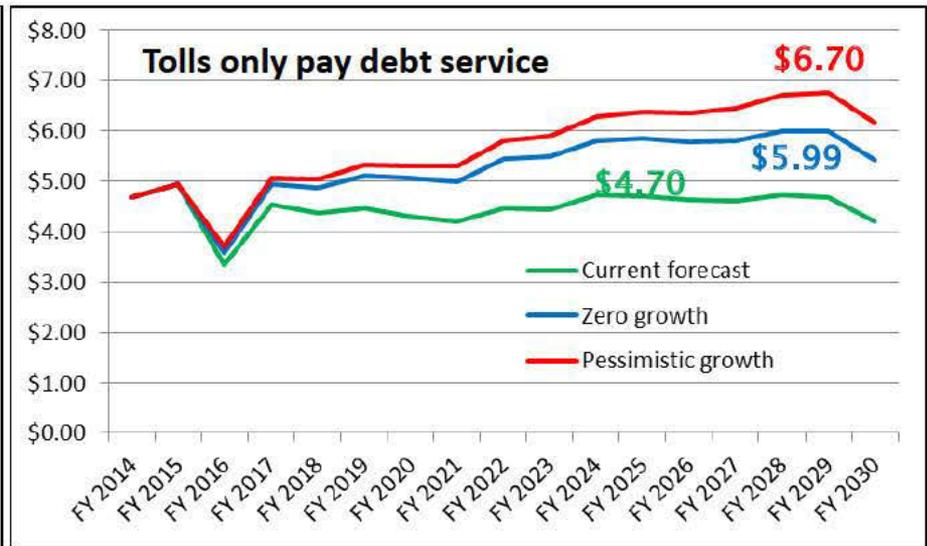
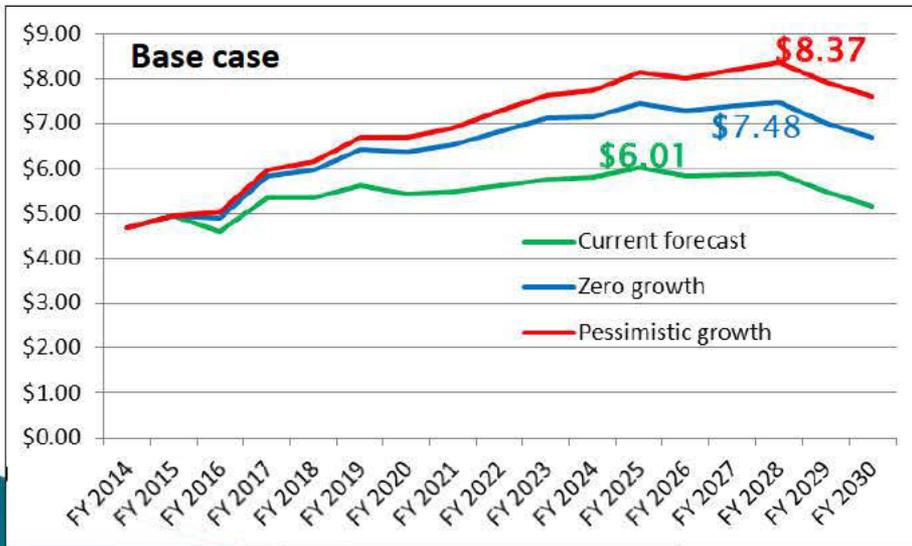
Other funds would pay this \$276 million

Consideration: Other facilities will want this, too.



Tolls only pay debt service beginning in FY 2016

- ▶ “Gift” from other transportation fund sources of \$276 million over 15 years (FY 2016 – FY 2030)
- ▶ Could affect tolls by **\$1.10 to \$1.45** on average, depending on the traffic assumption



Tolls pay only debt service, FY 2016 – 2030

Loan, with repayment beginning 2031

| | Current traffic forecast | Zero traffic growth | Pessimistic traffic |
|---|---------------------------------------|---------------------|---------------------|
| FY 2016 – 2030 loan | \$276 million | | |
| Average toll level impact FY 2016 – 2030 | \$1.10 to \$1.45 of potential savings | | |

Repayment toll to repay loan*

| | |
|--|------------------|
| Average repayment toll -- 10 years FY 2031 – 2040 | \$2.30 to \$3.70 |
| Average repayment toll -- 5 years FY 2031 – 2035 | \$3.70 to \$5.75 |

* Assumes repayment toll pays all costs – loan, toll vendor and toll ops, insurance, M&O, R&R. Toll is 20–40 cents lower if another fund source pays insurance, M&O and R&R

Loan: Tolls only pay debt service FY 2016 – 2030

10 year repayment includes loan and all bridge and toll-related costs

15 years of toll savings \$1.10 to \$1.45 on average

Motor Vehicle Fund has to pay \$276 million; impact on other projects

| | Loan | Impact on tolls | Repayment, all costs |
|--------------|----------------------|-----------------|----------------------|
| FY 2016 | \$15,884,493 | | |
| FY 2017 | \$12,541,607 | | |
| FY 2018 | \$14,784,825 | | |
| FY 2019 | \$17,673,392 | | |
| FY 2020 | \$17,987,585 | | |
| FY 2021 | \$20,775,250 | | |
| FY 2022 | \$19,444,281 | | |
| FY 2023 | \$21,984,580 | | |
| FY 2024 | \$18,833,483 | | |
| FY 2025 | \$21,794,426 | | |
| FY 2026 | \$20,734,838 | | |
| FY 2027 | \$21,423,990 | | |
| FY 2028 | \$20,491,868 | | |
| FY 2029 | \$14,869,410 | | |
| FY 2030 | \$17,105,550 | | |
| FY 2031 | | | \$47,148,278 |
| FY 2032 | | | \$43,531,418 |
| FY 2033 | | | \$43,118,018 |
| FY 2034 | | | \$43,354,986 |
| FY 2035 | | | \$43,619,061 |
| FY 2036 | | | \$48,747,839 |
| FY 2037 | | | \$45,313,778 |
| FY 2038 | | | \$45,475,723 |
| FY 2039 | | | \$49,090,282 |
| FY 2040 | | | \$45,291,191 |
| TOTAL | \$276,329,579 | | \$454,688,573 |

Toll savings: \$1.10 to \$1.45 savings on average over the 15 years

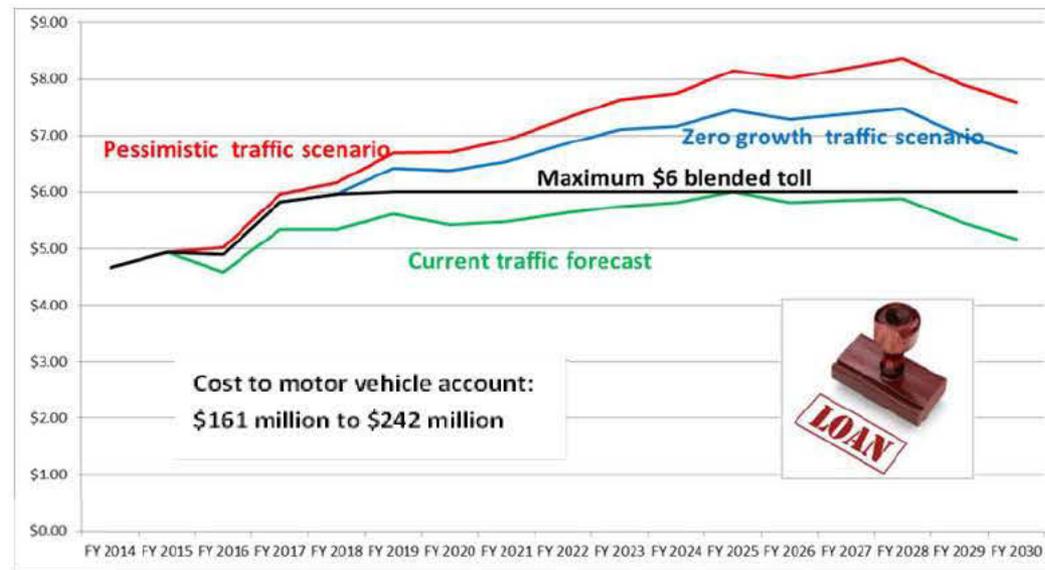
Repayment toll: \$2.30 to \$3.70 toll on average, over the 10 years

10 years of repayment toll \$2.30 - \$3.70 on average

Scenario 5: Maximum \$6.00 toll

- ▶ Original finance plan -- \$6.00 maximum toll
- ▶ Study evaluated size of loan needed to achieve maximum \$6.00 blended toll

▶ Results



Maximum \$6.00 toll, FY 2016 – 2030

Loan, with repayment beginning 2031

| | Current traffic forecast | Zero traffic growth | Pessimistic traffic |
|---|--------------------------|---|---------------------|
| FY 2016 – 2030 loan | NA | \$161 million to \$242 million | |
| Average toll level impact FY 2016 - 2030 | NA | 80 cents to \$1.30 of potential average savings | |

Repayment toll to repay loan*

| | | |
|---|----|-------------------------------|
| Average repayment toll -- 10 years FY 2031 – 2040 | NA | \$2.05 to \$3.15 average toll |
| Average repayment toll -- 5 years FY 2031 – 2035 | NA | \$3.05 to \$5.00 average toll |

* Assumes repayment toll pays all costs – loan, toll vendor and toll ops, insurance, M&O, R&R. Toll is 20–40 cents lower if another fund source pays insurance, M&O and R&R

Scenario 6: Level debt service

- ▶ Treasurer's current practice is for level debt service, rather than rising debt service as with TNB
- ▶ Scenario 6: Loan to offset effect of increasing debt service after FY 2016

Level debt service, FY 2016 – 2030

Loan, with repayment beginning 2031

| | Current traffic forecast | Zero traffic growth | Pessimistic traffic |
|---|---|---------------------|---------------------|
| FY 2017 – 2030 loan | \$231 million | | |
| Average toll level impact FY 2017 - 2030 | \$1.00 to \$1.30 of potential average savings | | |

Repayment toll to repay loan*

| | |
|---|-------------------------------|
| Average repayment toll -- 10 years FY 2031 – 2040 | \$1.90 to \$3.00 average toll |
| Average repayment toll -- 5 years FY 2031 – 2035 | \$3.10 to \$4.75 average toll |

* Assumes repayment toll pays all costs – loan, toll vendor and toll ops, insurance, M&O, R&R. Toll is 20–40 cents lower if another fund source pays insurance, M&O and R&R

Scenario 7: Double digit tolls?

Not likely

Take-aways from today's presentation

- ▶ 1. Blended tolls not likely to reach double-digit.
- ▶ 2. Legislature can take action to reduce the impact of tolls on TNB users.
- ▶ 3. To have a significant impact on tolls, it will be costly, with implications for other projects and programs funded from the Motor Vehicle Account.
- ▶ 4. There will be pressure to provide similar relief for users of other tolled facilities.
- ▶ 5. Transportation Commission sets toll rates – not the Legislature. Important consideration for bond market.

Questions?

