Washington State Transportation Financing Overview

Office of the State Treasurer

April 17, 2018

Washington State Debt Authority

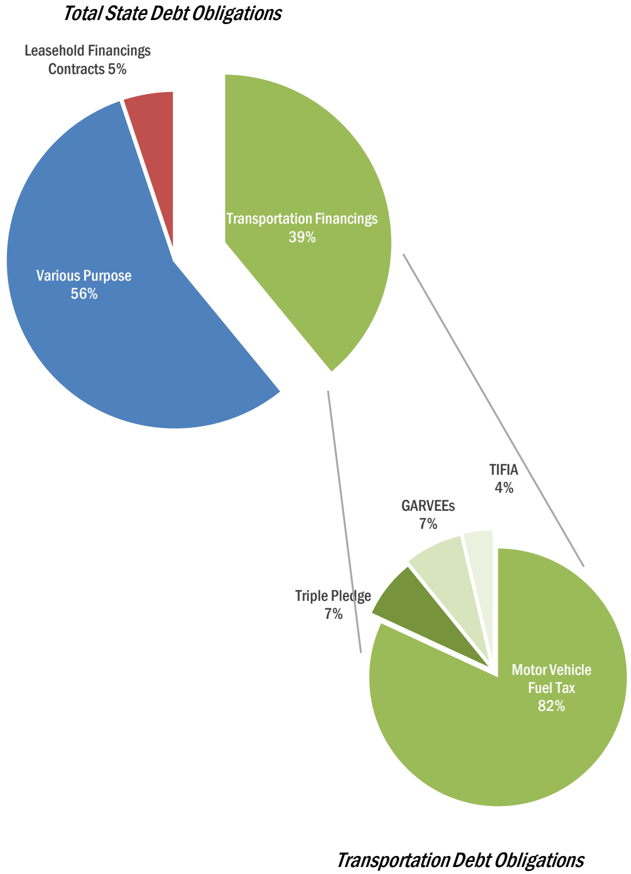
- Washington's State Legislature is responsible for:
  - Appropriating the expenditure of bond proceeds through the capital budget and transportation budget process
  - Authorizing the issuance of bonds through bond bills
- The State Finance Committee (SFC) authorizes the issuance of bonds and other State obligations that have been approved by the Legislature
  - SFC is comprised of the Governor, Lieutenant Governor, and Treasurer
  - SFC has broad authority to implement financing policy and determine the conditions, covenants, terms, and requirements of State financings
- On behalf of the SFC, the Office of the State Treasurer (OST) is responsible for the issuance and ongoing management of the State's debt
  - OST is responsible for structuring, marketing, and issuing debt

Washington's Different Types of Debt

The State issues different types of financings, which are backed by different (sometimes multiple) sources of revenue:

- **Various Purpose General Obligation (GO) Bonds**
  - Paid from General State Revenues (GSR)
- **Motor Vehicle Fuel Tax (MVFT) GO Bonds**
  - 1st paid from Motor Vehicle Fund (MVF)
  - If MVF is insufficient, paid from GSR
- **Triple Pledge Bonds**
  - First paid from Toll Revenues (TR)
  - If TR are insufficient, paid from MVF
  - If MVF is insufficient, paid from GSR
- **Leases/Certificates of Participation**
  - Secured by Financing Contracts

Debt Portfolio Overview (as of 11/30/2017)



Washington's Debt Portfolio

- The State's debt portfolio is very conservative, with obligations typically:
  - Structured with level debt service
  - Having a final maturity of 25 years or less
  - Offered with a 10-year par call
  - Issued through a competitive sale
- No variable rate debt or complex financial instruments, such as swaps and derivatives
- Very strong credit ratings

GO / MVFT GO Bond Credit Ratings		
AA+	Aa1	AA+
S&P	Moody's	Fitch

$21 billion

The total amount of Washington's outstanding debt and financing contracts, with total annual debt service of $2.1 billion in FY 2018

Debt Outstanding ($ millions)
(as of 11/30/2017)

G.O. Bonds	
Various Purpose	$11,713
Motor Vehicle Fuel Tax	6,726
Triple Pledge	596
Total G.O. Debt	$19,035
Non-G.O. Transportation Debt	
GARVEEs*	$589
TIFIA**	300
Total G.O. + Non-G.O. Trans. Debt	$19,924
Other Outstanding Obligations	
Leasehold Financing Contracts	$1,077
Total Debt + Financing Contracts	$21,002

*Grant Anticipation Revenue Vehicle Bonds
**Transportation Infrastructure Finance and Innovation Act Loan

MVFT Program

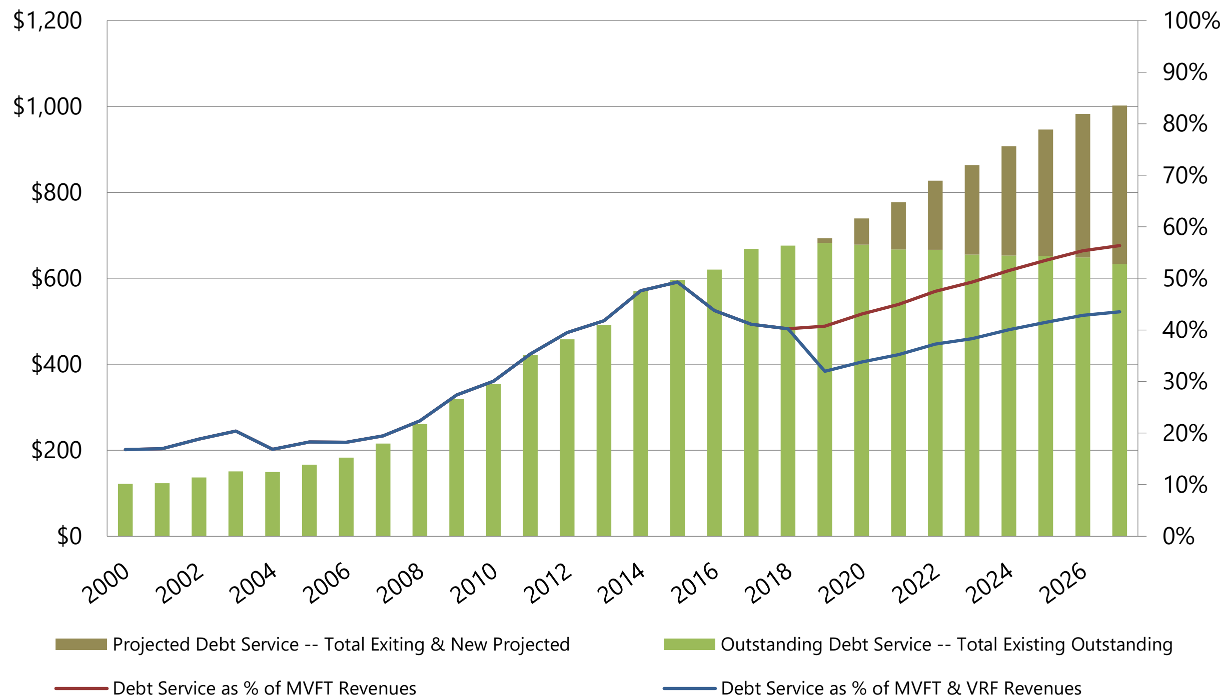
Approximately 40% of MVFT revenue will be spent on debt service in FY 2018

- Was as high as 50% in 2015
- Expected to reach around 55% in 2026

In FY 2018, the State will spend

- $337 million on interest costs, and
- $294 million for principal

MVFT GO Debt Service: FY 2000-2027* ($ Millions)
Totals and as Percent of MVFT and VRF Revenue



*Debt service projections based on the 2017 transportation budget request.
Source: Transportation Revenue Forecast Council, WSDOT, OST

SR 99 Financing Plan

- **Issuance Overview**
  - Per legislative direction, finance up to $200 million of project costs
  - Legislature directed use of Transportation Partnership Account (TPA) bond authorization for SR 99
    - Aa1/AA+/AA+ credit rating minimizes financing costs
- **Structure**
  - Level debt service (principal and interest payments) amortized over 25 years
    - Consistent with OST's approach to financing capital projects
  - $200 million issued over three series of bonds
    - $122 million – January 2019
    - $35.2 million – July 2020
    - $42.8 million – January 2021
- **Interest Rates**
  - Model assumes a spread to benchmark for financings
    - Jan 2019 (current market + 50 bps)
    - July 2020 / Jan 2021 (greater of current market or 10-year avg +100 bps / +150 bps)
  - Interest rate risk until bonds are issued

Source of Security

- **MVFT GO Pledge**
  - Debt service is 1^{st} paid from TPA
  - If TPA revenues are insufficient, then paid from MVF and GSR
  - Debt service payments made from TPA are reimbursed from toll revenues
    - This essentially makes the State the lender for SR 99
- **Coverage Requirement**
  - The multiple by which net revenues available for debt service exceed debt service
  - **1.30x** coverage is necessary to protect the TPA/MVF (and other transportation projects) from unintended draws due to revenue shortfalls
- **Sufficiency Test**
  - Sufficient revenues are generated by the project to allow full payment of all required obligations
  - **1.00x - 1.15x** sufficiency protects TPA/MVF and ensures compliance with RCW 47.56.830
- **Toll Reimbursement**
  - TPA repaid from toll revenues

Flow of Funds

Gross Revenue

1.30x Coverage Requirement

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[O]	[P]	[Q]
Fiscal Year Ending 30-Jun	Gross Toll Revenues	Gross Toll Revenue Adjustments	Adjusted Gross Toll Revenues [B+C]	TPA Loan	O&M Expenses	Net Revenues Available for Debt Service* [D+E+F]	Debt Service	Debt Service Coverage [G/H]	Net Revenues Available After Debt Service [G+H]	Toll Equipment R&R Deposits	Toll Equipment R&R Coverage [G/(H+K)]	Loan Repayment	Loan Repayment Coverage [G/(H+K+M)]	Toll Facility R&R Deposits	Toll Facility R&R Coverage [G/(H+K+M+O)]	Net Revenues After Deposits [J+K+M+O]
2019	8,127,000	843,473	8,970,473	11,337,000	(8,112,119)	12,195,353	-	-	12,195,353	(6,726,763)	1.81	(5,468,590)	1.00	-	1.00	-
2020	26,130,000	122,330	26,252,330	-	(14,890,813)	11,361,518	(7,766,500)	1.46	3,595,018	-	1.46	(3,581,925)	1.00	(13,093)	1.00	0
2021	31,797,000	1,068,393	32,865,393	-	(16,793,360)	16,072,034	(8,609,250)	1.87	7,462,784	(4,477,446)	1.23	(2,286,485)	1.05	(698,853)	1.00	-
2022	33,084,000	1,487,670	34,571,670	-	(17,585,062)	16,986,608	(13,144,625)	1.29	3,841,983	(856,645)	1.21	-	1.21	(2,985,338)	1.00	-
2023	33,912,000	1,547,669	35,459,669	-	(17,815,774)	17,643,895	(13,143,000)	1.34	4,500,895	(1,515,557)	1.20	-	1.20	(2,985,338)	1.00	-
2024	34,141,000	1,531,206	35,672,206	-	(18,134,727)	17,537,479	(13,141,125)	1.33	4,396,354	(1,411,016)	1.21	-	1.21	(2,985,338)	1.00	-
2025	34,379,000	1,553,322	35,932,322	-	(18,593,506)	17,338,817	(13,138,375)	1.32	4,200,442	(1,215,104)	1.21	-	1.21	(2,985,338)	1.00	-
2026	35,308,000	1,539,415	36,847,415	-	(18,937,390)	17,910,025	(13,144,375)	1.36	4,765,650	(1,780,312)	1.20	-	1.20	(2,985,338)	1.00	-
2027	35,581,000	1,534,677	37,115,677	-	(19,326,753)	17,788,924	(13,138,000)	1.35	4,650,924	(1,665,586)	1.20	-	1.20	(2,985,338)	1.00	-
2028	35,876,000	1,552,760	37,428,760	-	(19,748,797)	17,679,964	(13,144,375)	1.35	4,535,589	(1,550,251)	1.20	-	1.20	(2,985,338)	1.00	-
2029	36,897,000	1,529,385	38,426,385	-	(20,165,015)	18,261,370	(13,142,125)	1.39	5,119,245	(2,133,907)	1.20	-	1.20	(3,813,877)	0.96	(828,539)
2030	37,196,000	1,528,480	38,724,480	-	(20,627,011)	18,097,469	(13,141,125)	1.38	4,956,344	(1,971,006)	1.20	-	1.20	(3,813,877)	0.96	(828,539)
2031	37,528,000	1,541,859	39,069,859	-	(20,998,264)	18,071,595	(13,140,500)	1.38	4,931,095	(1,945,757)	1.20	-	1.20	(3,813,877)	0.96	(828,539)
2032	38,651,000	1,525,729	40,176,729	-	(21,450,956)	18,725,774	(13,139,625)	1.43	5,586,149	(2,600,811)	1.19	-	1.19	(3,813,877)	0.96	(828,539)
2033	39,017,000	1,524,487	40,541,487	-	(22,815,429)	17,726,058	(13,142,750)	1.35	4,583,308	(1,597,970)	1.20	-	1.20	(3,813,877)	0.96	(828,539)

Net Revenue for Debt Service

1.00x -1.15x Sufficiency Requirement

R&R and TPA Loan Balances

Toll Equipment R&R Deposits

Facility R&R Deposits

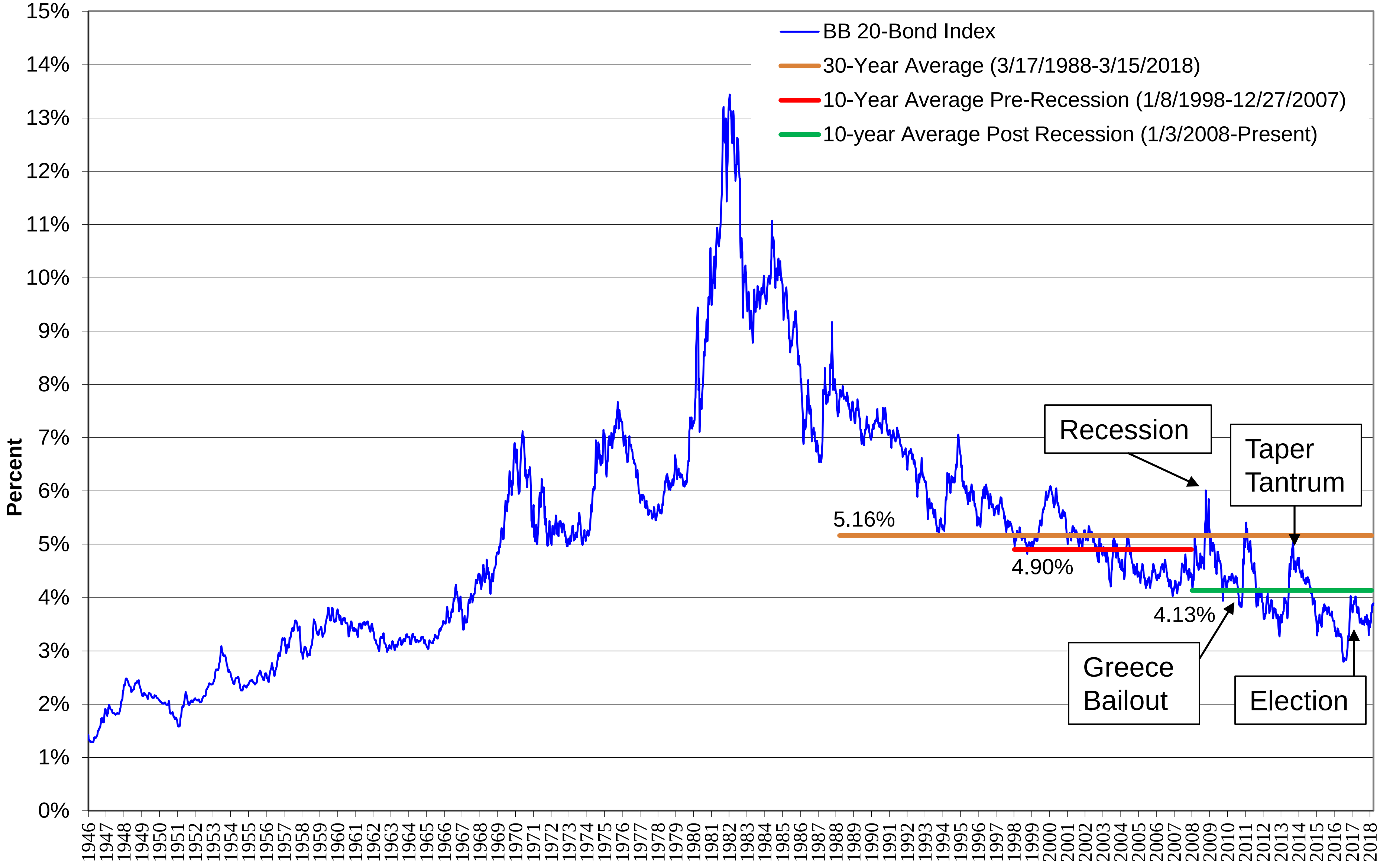
[A]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[O]	[P]	[Q]	[R]	[S]
iscal Year Ending 30-Jun	Net Revenues Available After Debt Service	Beginning Balance Equipment R&R Fund	Equipment R&R Deposits	Equipment R&R Cost	Ending Balance Equipment R&R Fund	Net Revenues After Equipment R&R	Beginning Balance TPA Loan	TPA Loan Repayments	TPA Loan Receipts	Ending Balance TPA Loan	Net Revenues After Loan Repayments	Beginning Balance Facility R&R Fund	Facility R&R Deposits	Facility R&R Cost	Ending Balance Facility R&R Fund	Net Revenues After Facility R&R
					[E+F+G]	[D-F]				[J+K+L]	[I-K]				[O+P+Q]	[N-P]
2019	12,195,353	-	6,726,763	(6,726,763)	0	5,468,590	-	5,468,590	(11,337,000)	(5,868,410)	-	-	-	-	-	-
2020	3,595,018	0	580,648	-	580,648	3,014,370	(5,868,410)	3,001,277	-	(2,867,133)	13,093	-	13,093	(13,093)	(0)	0
2021	7,462,784	580,648	4,448,414	-	5,029,062	3,014,370	(2,867,133)	2,867,133	-	-	147,237	(0)	147,237	-	147,237	-
2022	3,841,983	5,029,062	827,612	-	5,856,674	3,014,370	-		-	-	3,014,370	147,237	3,014,370	(13,533)	3,148,074	-
2023	4,500,895	5,856,674	1,486,524	-	7,343,199	3,014,370	-		-	-	3,014,370	3,148,074	3,014,370	-	6,162,444	-
2024	4,396,354	7,343,199	1,381,984	(521,144)	8,204,038	3,014,370	-		-	-	3,014,370	6,162,444	3,014,370	(13,973)	9,162,841	-
2025	4,200,442	8,204,038	1,186,071	(1,018,517)	8,371,592	3,014,370	-		-	-	3,014,370	9,162,841	3,014,370	-	12,177,212	-
2026	4,765,650	8,371,592	1,751,279	(413,788)	9,709,083	3,014,370	-		-	-	3,014,370	12,177,212	3,014,370	(14,413)	15,177,169	-
2027	4,650,924	9,709,083	1,636,554	-	11,345,637	3,014,370	-		-	-	3,014,370	15,177,169	3,635,216	-	18,812,385	(620,846)
2028	4,535,589	11,345,637	1,521,219	(5,027,218)	7,839,638	3,014,370	-		-	-	3,014,370	18,812,385	3,635,216	(5,782,286)	16,665,315	(620,846)

Toll Equipment R&R Costs

Loan Repayments

Facility R&R Costs

Bond Buyer Index (1/3/1946 - 3/15/2018)



Alternatives to MVFT GO Bonds

- **Stand-Alone Direct Pledge**
  - Rating: "Baa1" to "A1", depending upon structure and credit
  - Coverage: 2.00x to 2.50x
  - Interest rates: 50-100 bps higher than MVFT GOs, depending upon structure and credit
  - Debt Service Reserve Fund (DSRF): the lesser of 10% of par, 100% of MADS, and 125% of AADS
  - Net proceeds: considerably reduced due to the higher coverage requirements, the DSRF requirement, and higher interest rates
  - Pledge: requires legislative authorization and SFC approval resolution

- **Triple Pledge**
  - Financing approach for SR 520 project
  - Pledge: requires legislative authorization and SFC approval
  - Higher diversion risk of the SR 99 project makes rate covenant requirements less appropriate

Case Study: SR-520

- SR-520 Plan of Finance
  - $609,145,000 in Triple Pledge Bonds (Toll/MVFT/G.O.) (35%)
  - $786,315,000 in GARVEE Bonds (Federal Grants) (49%)
  - $300,000,000 TIFIA Loan (Toll) (16%)
- The Triple Pledge Bonds and TIFIA loan are directly backed by toll revenues
  - The Master Bond Resolution includes a rate covenant established to insure that the State's obligations are met, which is viewed as a credit positive
  - Triple pledge rate covenant requires 1.25x coverage
    - The State's internal policy is to maintain 1.30x coverage
  - The TIFIA rate covenant requires 1.10x coverage
    - The State's internal policy is to maintain 1.15x coverage
- Rate covenant also requires the entire facility to maintain a 1.00x sufficiency ratio
- All remaining debt service is level with the exception of the TIFIA loan, which has a step up in 2042

Case Study: Tacoma Narrows Bridge (TNB)

- TNB Plan of Finance
  - $681,171,634 in MVFT Bonds:
    - $614,171,634 in non-callable zero-coupon bonds
    - $67,000,000 in serial bonds
- Zero-coupon bonds were used because there were no toll revenues or other sources of funds available to pay for debt service during the construction period
  - Annual debt service on these bonds steadily increases over time
  - The bonds are non-callable, making them difficult to restructure
- Debt service on current outstanding debt will increase from $69.1 million in FY 2018 to $85.7 million in FY 2030
- Debt on the facility will be fully repaid in FY 2030
  - Tolls projected to end in FY 2032 after repaying deferred sales tax revenue