



Washington State
Transportation Commission



SR 99 Tunnel

Toll Rate Setting Process Update & Financial Assumptions

WSTC Tolling Subcommittee Recommendations

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April 17-18, 2018

WSTC Meeting – Olympia, WA

Tentative Timeline

SR 99 Tunnel Rate Proposal

March – April

- Commission & WSDOT staff continue stakeholder discussions.
- **Commission staff coordinate with state partners on developing recommended financial assumptions.**
- Tolling Subcommittee assesses financial assumptions and toll rate options.

➤ **April Commission Meeting (April 17 & 18)**

- Commission decides on financial assumptions and additional toll rate options analysis requests.
- **Decisions informed by Tolling Subcommittee recommendations.**

April – June

- Host 2-3 public input meetings to inform official proposal to be release in summer.
- Stantec, Inc. and WSP USA conduct additional toll rate options analysis, if requested.

Tentative Timeline

SR 99 Tunnel Rate Proposal

➤ June Commission Meeting (June 19-20)

- Commission reviews updated toll rate options and draft rate proposal.

➤ July Commission Meeting (July 17-18)

- Commission approves release of official proposed rates and policies for public review and input.

July – September

- Gather input on proposal via public input meetings and stakeholder outreach.

➤ September Commission Meeting (September 11)

- Public hearing and Commission expected to adopt final rule.

SR 99 Rate Setting Update: March/April 2018

- **Legislature:**
 - Adjourned without passing SR 99 financing legislation.
 - Added provision in budget directing initial rate-setting to not include funding for facility R&R costs from toll revenue through FY 2019.
- **State Partners - State Treasurer (OST), WSDOT, OFM:**
 - Commission staff coordinated with state partner agencies (OST, WSDOT, OFM) on developing recommended financing assumptions and rate-setting plan.
- **Commission:**
 - Toured SR 99 corridor with local partner agencies.
 - Received additional stakeholder input at March Commission meeting.
 - Tolling Subcommittee decided on financing assumptions, rate-setting plan, and toll rate options for further consideration and analysis.

April Commission Meeting Decisions

Goals for April Commission Meeting

- Confirm SR 99 rate-setting policy goals.
- Review and decide on recommended SR 99 financial framework.
- Assess updated toll rate options and recommendations.
- Select current or identify new toll rate options for further analysis.

Policy Guidelines

Policy guidelines applicable to the SR 99 Tunnel (RCW 47.56.830):

(3) Tolling should...

- Be fairly and equitably applied in the context of the statewide transportation system and not have significant adverse impacts through the diversion of traffic to other routes that cannot otherwise be reasonably mitigated.
- Consider relevant social equity, environmental, and economic issues, and should be directed at making progress toward the state's greenhouse gas reduction goals.

(4) Setting toll rates

- Toll rates, which may include variable pricing, must be set to meet anticipated funding obligations.
- To the extent possible, the toll rates should be set to optimize system performance, recognizing necessary trade-offs to generate revenue.
- System performance includes managing congestion on the facility and minimizing impacts to alternative routes.

Commission's SR 99 Toll Rate Policy Goals

- Minimize initial toll rates while maintaining capacity to meet financial obligations.
 - Consider continued construction on the street network in the vicinity of the tunnel.
- Set toll rate schedule to minimize diversion and support facility performance.
- Align proposed AM and PM peak toll hours with SR 520 Bridge to support ease of use, and reflecting SR 99's similar traffic patterns.

Partner Agencies: Rate-Setting Feedback

Primary Rate-Setting Feedback

- Consider long-term rate escalation tied to cost inflation
- Set rates by time period that best mitigate diversion
- Consider near-term rate escalation to address “period of maximum constraint”

Additional Rate-Setting Feedback

- Exempt transit vehicles from paying tolls
- Exempt HOV, emergency/incident response, and maintenance vehicles
- Set freight (truck) rates that minimize diversion to other routes

Additional Feedback at March Commission Mtg.:

- General support for keeping rates as low as possible for equity purposes.
- Consider a single initial low toll rate for ease of use.

Financial Risks to Mitigate

Risk	Description of Risk
System Performance	<p>Uncertain impacts on projected traffic levels from:</p> <ul style="list-style-type: none"> • “Period of maximum constraint” construction. • Change in downtown access points. • Uncertain length of time for initial free use of tunnel.
Funding Requirements	<p>Possibility of tolls needing to pay for facility R&R after FY 2019.</p> <ul style="list-style-type: none"> • Currently exempted (FY 2019), but no funding source identified by the Legislature for future years. <p>Currently, no assumption for a tunnel insurance policy to protect the facility or toll revenue stream – uncertain premium cost / source.</p>
Debt Service / TPA Repayment	<p>Must reimburse TPA for debt service payments (MVFT GO bonds).</p> <ul style="list-style-type: none"> • Insufficient toll revenues would put cash flow/funding at risk for other TPA projects. • Inability to make TPA reimbursements with toll revenue may send a negative signal to bond markets.

RECOMMENDED FINANCIAL ASSUMPTIONS

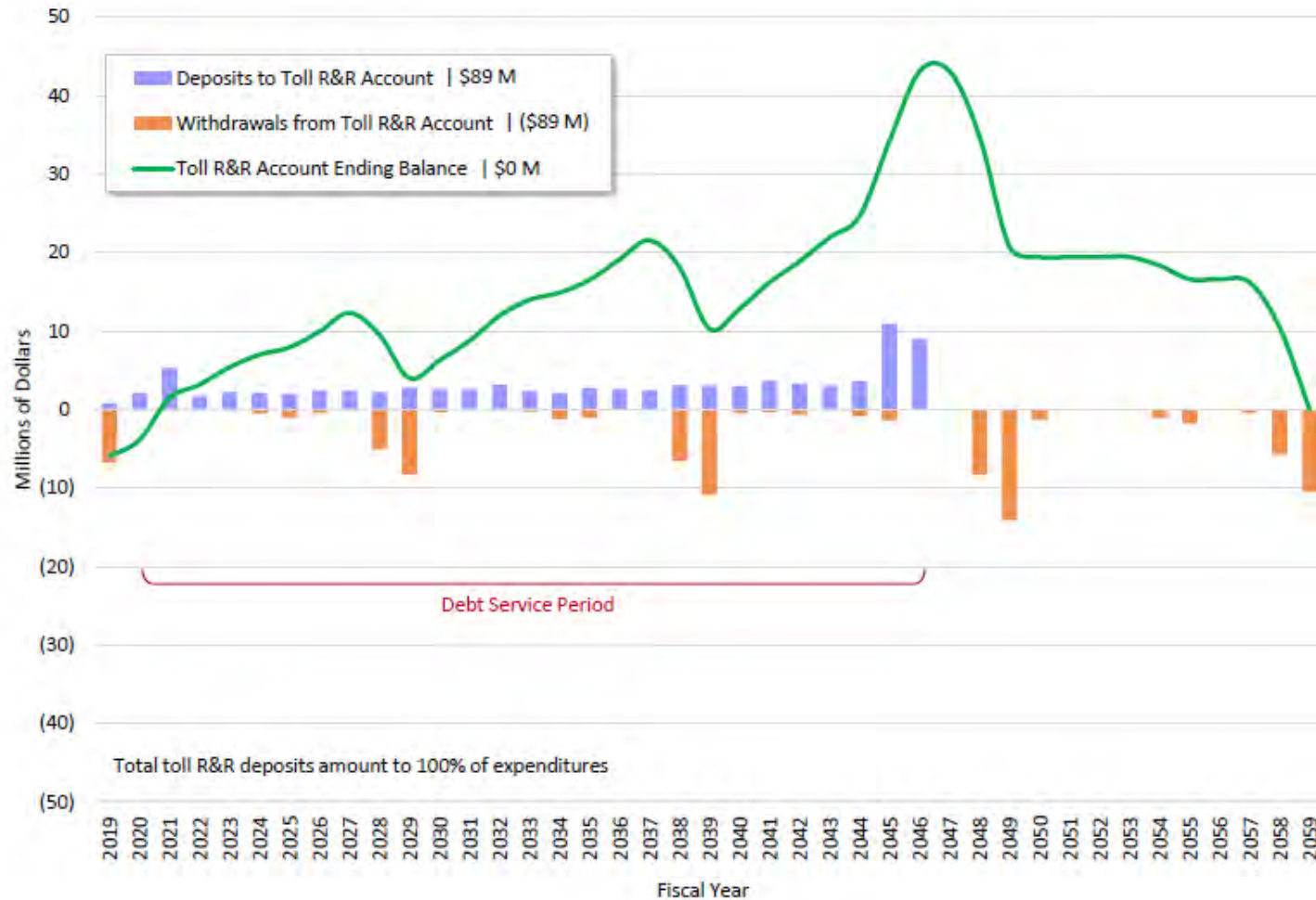


Recommended Financial Assumption #1

1. Establish toll equipment repair and replacement (R&R) reserve account with annual deposits.
 - a. Smooths out impact of cyclical toll equipment R&R obligations.
 - b. Similar to how addressed for SR 520.
 - c. Add facility R&R reserve account, if Legislature does not extend exemption, to pay for facility R&R.

Recommended Financial Assumption #1

Example of how R&R Reserve smooths out impact of cyclical toll equipment R&R obligations.



Recommended Financial Assumption #2

2. Assume bonds issued with level debt service payments, with a maximum bond term (amortization) of 25 years.
 - a. Consistent with OST practices.
 - b. OST anticipates staggering issuance of the SR 99 bonds over three series.
 - i. Jan 2019: \$122 million
 - ii. July 2020: \$35.2 million
 - iii. Jan 2021: \$42.9 million
 - c. With the staggered issuance, debt service would be paid over 27 years.
 - d. Staggered bond sales ensure compliance with IRS spending requirements and reduce initial debt service costs.

Recommendation #3: Revise the Flow of Funds Assumptions

Revenue Adjustments

Gross Toll Revenue Potential

- ± Toll Payment Discounts and Fees
- Revenue Not Recognized
- Unpaid Toll Revenue
- + Recaptured Toll Revenue at *Good To Go!* Rates

Adjusted Gross Toll Revenue Collected

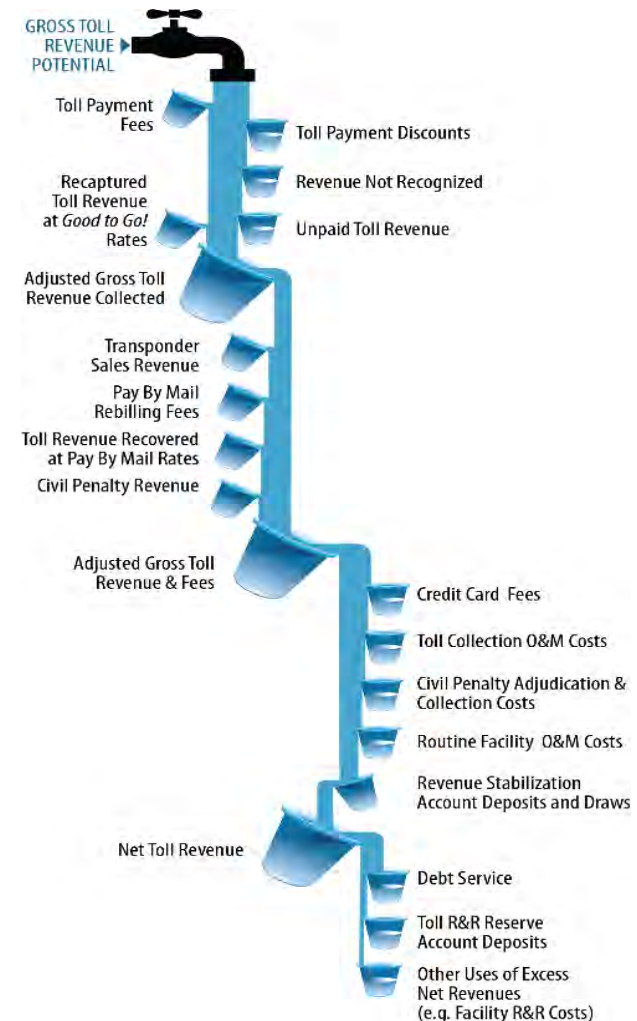
- + Transponder Sales Revenue
- + Pay By Mail Rebilling Fees
- + Toll Revenue Recovered at Pay By Mail Rates
- + Civil Penalty Revenue

Adjusted Gross Toll Revenue & Fees

- Credit Card Fees
- Toll Collection O&M Costs*
- Civil Penalty Adjudication and Collection Costs
- Routine Facility O&M Costs
- ± Revenue Stabilization Account Deposits/Draws

Net Toll Revenue

- Debt service
- Toll Collection-related R&R Reserve Account Deposits
- Other uses (e.g., Periodic Facility R&R)

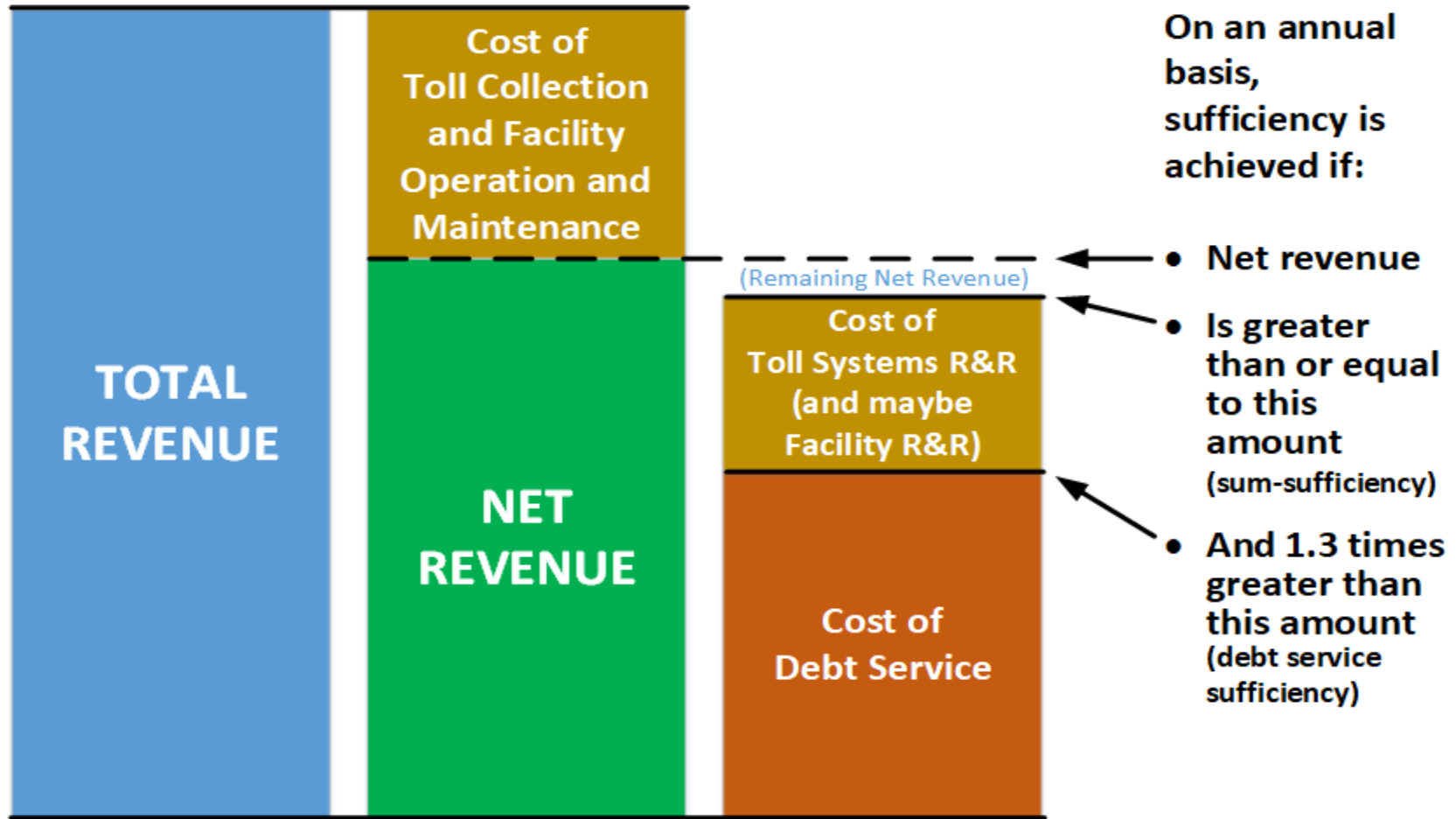


Expenditures

* Includes Transponder Purchase & Inventory, State Operations, Customer Service Center Vendor and Roadway Toll System Vendor Costs

Recommended Financial Assumption #4 & #5

Explaining Debt Service Coverage and Sum Sufficiency Coverage



Recommended Financial Assumption #4

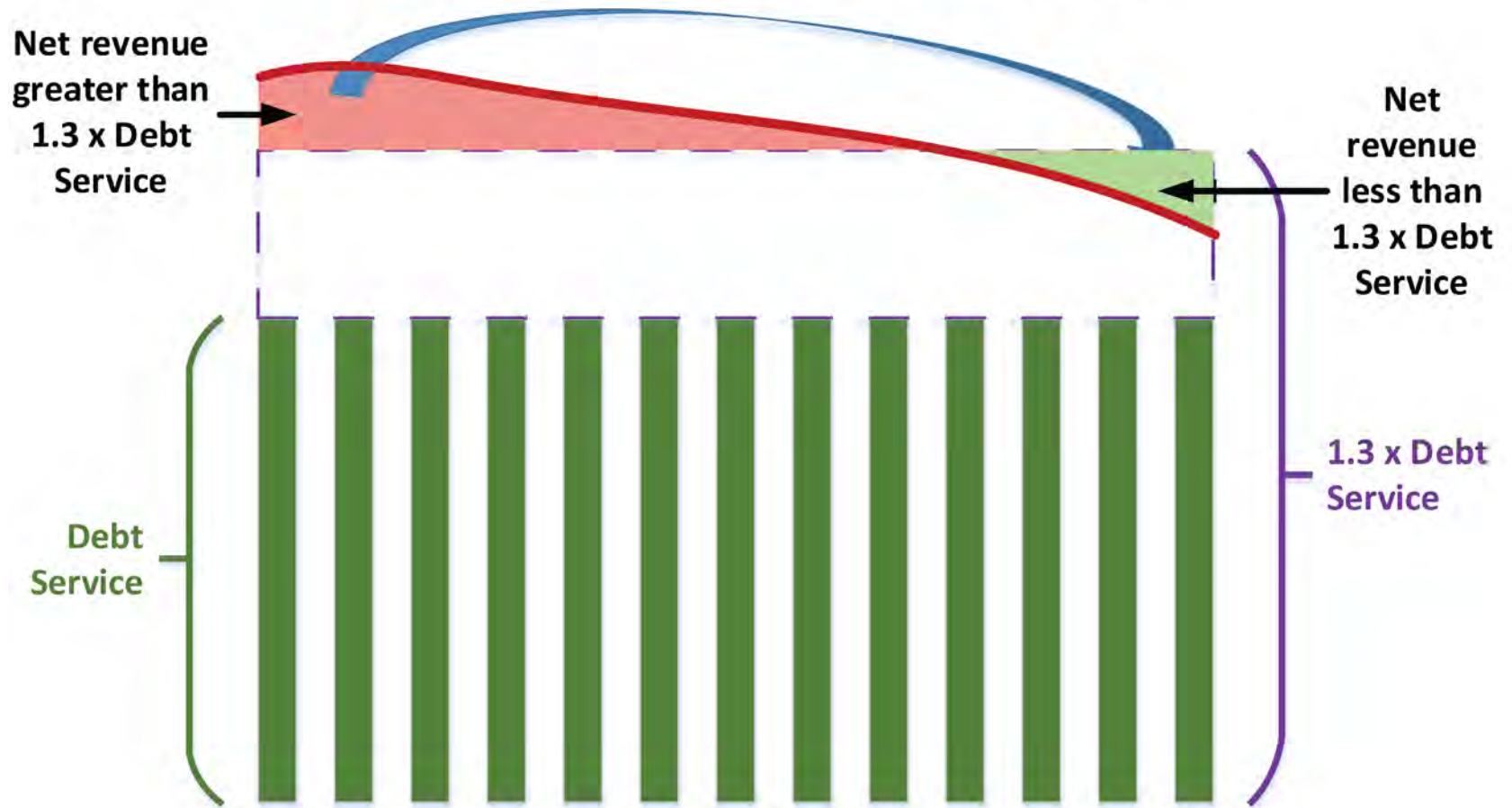
4. Establish a minimum debt service coverage ratio of 1.30x.
 - a. A minimum debt service coverage ratio ensures projected annual net revenues meet or exceed the projected cost of annual debt service.
 - b. A ratio of 1.30x ensures projected annual net revenues exceed annual debt service payments by 30 percent in each year.
 - Insulates other projects that are dependent on Transportation Partnership Account funding from unanticipated shortfalls.
 - b. The State Treasurer/State Finance Committee is expected to establish this requirement as condition for SR 99 bond sales.
 - c. State law (RCW 47.56.850) requires toll rates to provide for required financing costs made by the state in bond proceedings.

Recommended Financial Assumption #5

5. Establish a minimum sum sufficiency coverage ratio target range of 1.10x – 1.15x.
 - a. A sum sufficiency coverage ratio ensures annual net revenues meet or exceed all projected annual costs.
 - b. A coverage ratio target of 1.10x – 1.15x means a target of 10-15 percent more projected annual net revenues than projected annual costs.
 - a. Helps ensure sufficient revenues are in reserve in the unanticipated event annual toll revenues are not able to cover required costs.
 - b. Helps ensure the Transportation Partnership Account is fully reimbursed for debt service payments, as required by law.
 - c. May be able to reduce sufficiency target with greater clarity for SR 99 finances, e.g., if the Legislature requires tolls to pay for facility R&R.

Recommended Financial Assumption #6

Revenue Stabilization Fund allows surpluses in some years to fill deficits in others



Recommended Financial Assumption #6

6. Establish a Revenue Stabilization Account (RSA)
 - a. Applies annual revenues in excess of annual coverage requirements to later years of need.
 - b. Has effect of reducing the financial need for future rate increases.
 - c. RSA deposits and withdrawals are sized to alter the annual stream of net toll revenues so that they meet or exceed the 1.30x minimum debt service coverage ratio in every year.



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Questions?