



# Governor's Transportation Vision Panel

## Transportation Finance Subcommittee

# Debt Financing



**Prepared By: Lee Helgerson, Debt Manager**

---

**October 1, 2015**



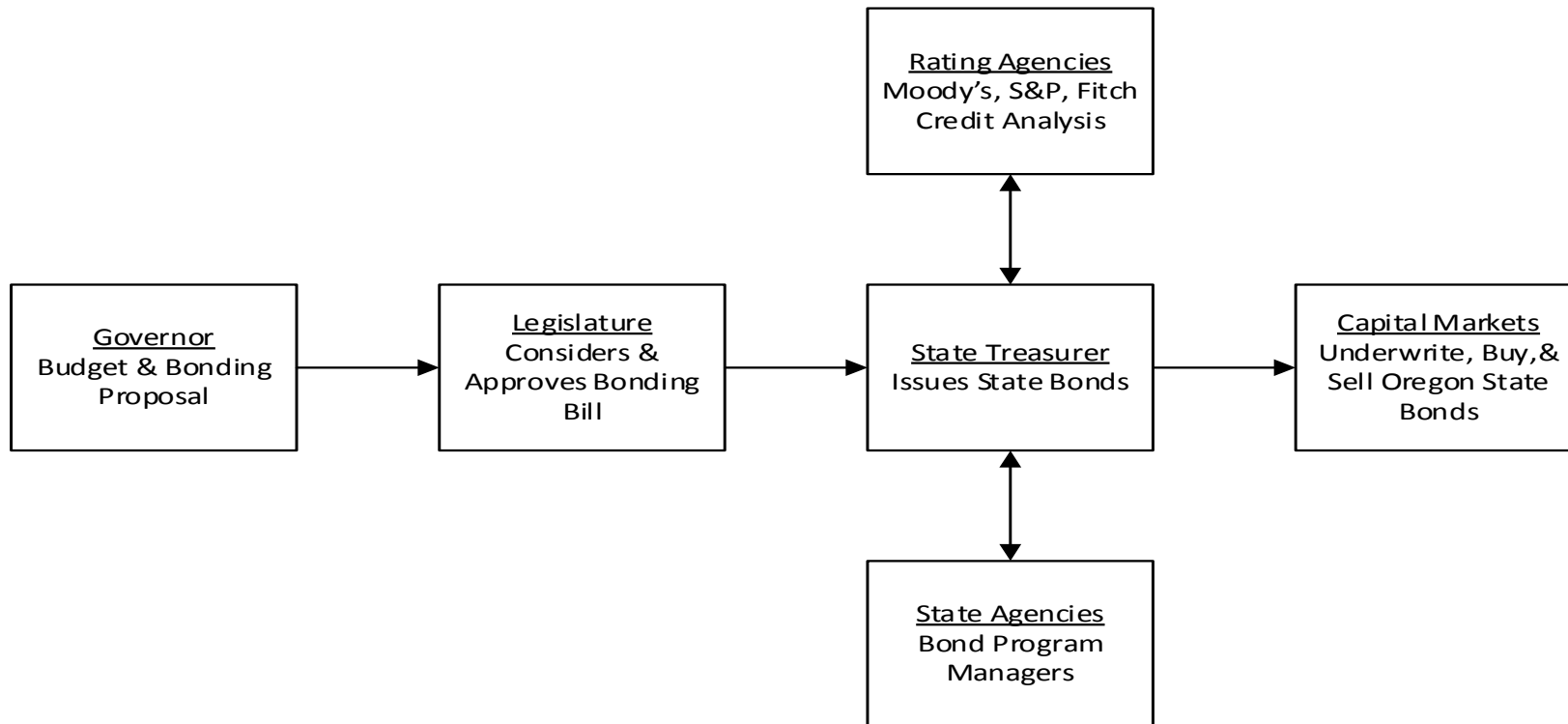
# ***Agenda***

- **Oregon's Bonding Process**
- **ODOT Debt Financing Programs**
  - Highway User Tax Revenue (HUTR) Bonds
  - Facility Bonds
    - Certificates of Participation (COPs)
    - Article XI-Q General Obligation (GO) Bonds
  - Article XI, Section 7 State Highway GO Bonds
  - Lottery Revenue Bonds
- **Oregon Transportation Infrastructure Bank (OTIB)**
- **Future State and Local Funding Options**



# ***Oregon's Bonding Process***

- **Governor Proposes**
- **Legislature Approves**
- **State Treasurer Issues**
- **State Agencies Administer**





# ***Highway User Tax Revenue Bonds***

## **Direct revenue bonded debt**

- Special revenue obligations of the State
- Payable solely from dedicated State Highway Fund revenues
- Does not constitute a debt or general obligation of the state

## **Oregon Transportation Investment Act (OTIA):**

- From 2001 to 2010 , the State committed over \$2.4 billion of bond proceeds for transportation projects

## **Jobs and Transportation Act (JTA):**

- 2009 legislation authorized \$840 million in bonding for highways and bridges
  - October 2013, the State issued \$450 million in net bond proceeds for JTA projects
  - The remaining \$390 million in JTA bond authorization is projected to be issued in Fall 2016



## ***Facility Bonds***

### **Certificates of Participation (COPs)**

- Appropriation credits
- \$75 million issued over last decade
  - State Radio Project (SRP)

### **Article XI-Q GO Bonds**

- New program – First issuance in 2011
- Constitutes a general obligation of the State
- Generally replaces the more costly COPs
- Self-supporting or General Fund Supported
- \$158 million issued on behalf of ODOT
  - State Radio Project (SRP)
  - State Transportation Building Renovation



# Overview of Outstanding Debt

## \$2.5 billion of debt supported by the Highway Fund currently outstanding

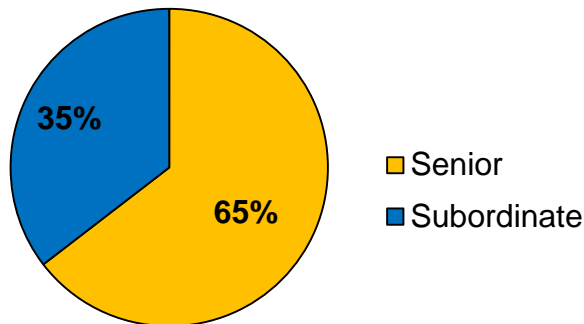
- \$1.5 billion senior lien HUTR bonds rated AAA/Aa1/AA+ by S&P, Moody's, and Fitch
- \$826.2 million subordinate lien HUTR bonds rated AA+/Aa2/AA
- \$169.5 million of COPs and XI-Q bonds

## Remaining \$390 million of JTA authorization planned for Fall 2016:

- \$195 million fixed rate senior HUTR Bonds
- \$195 million variable rate subordinate HUTR Bonds

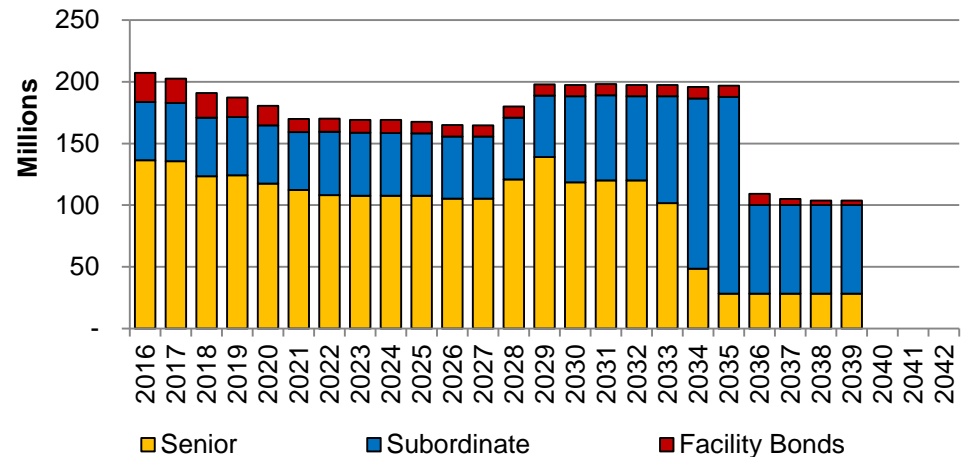
### Current Outstanding Par Amount by Lien Highway Trust Fund Bonds

\$ Millions; As of September 28, 2015



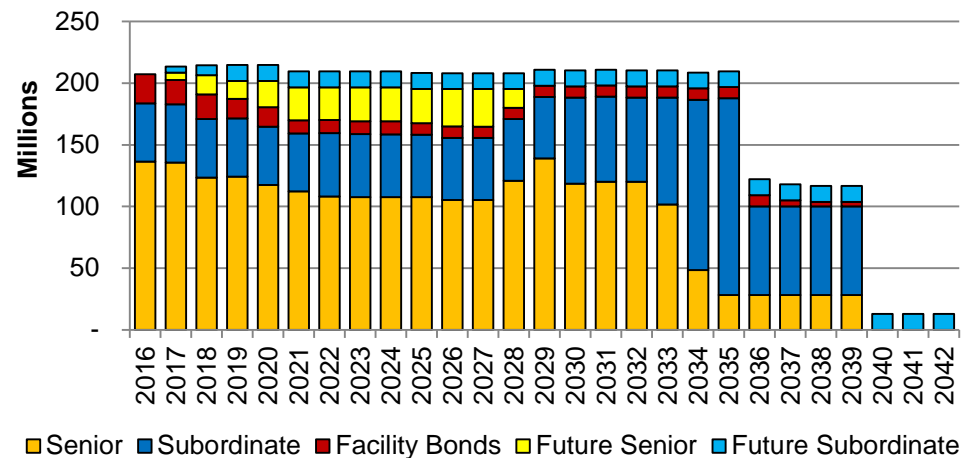
### Existing Gross Debt Service by Lien

\$ Millions; By Fiscal Year; As of September 28, 2015



### Existing and Projected Gross Debt Service by Lien

\$ Millions; By Fiscal Year; As of September 28, 2015





## Composition of Debt

**Approximately 11% of HUTR Bonds are variable rate**

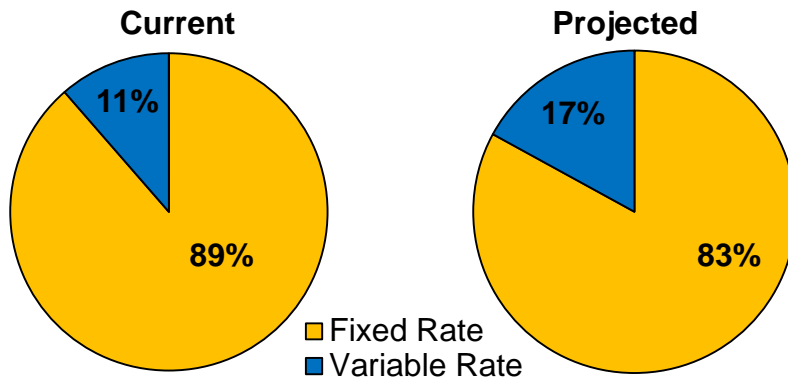
- \$265 million bank direct purchase SIFMA indexed floating rate notes
- Supported by considerable cash balances

**Projected to rise to 17% of outstanding HUTR Bonds after 2016 JTA issuance**

- Still below 20% 'rule of thumb' limit

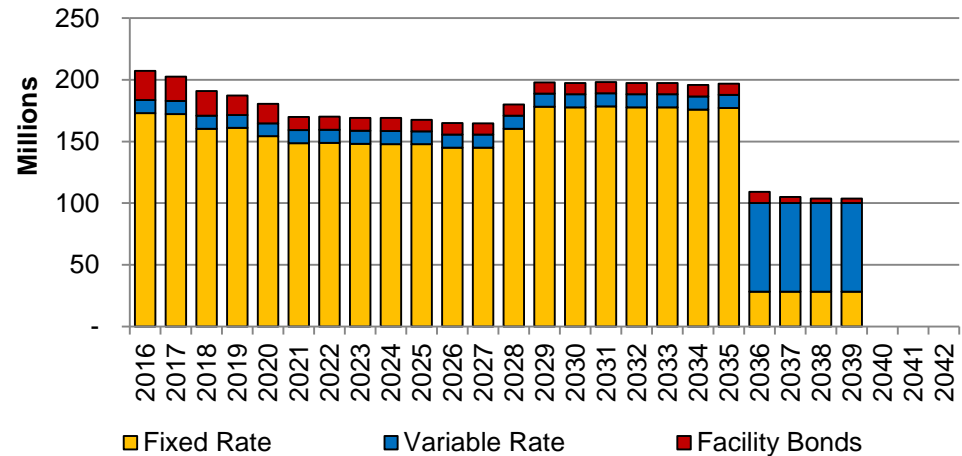
### Currently and Projected Outstanding Par Amount by Product Highway Trust Fund Bonds

\$ Millions; As of September 28, 2015



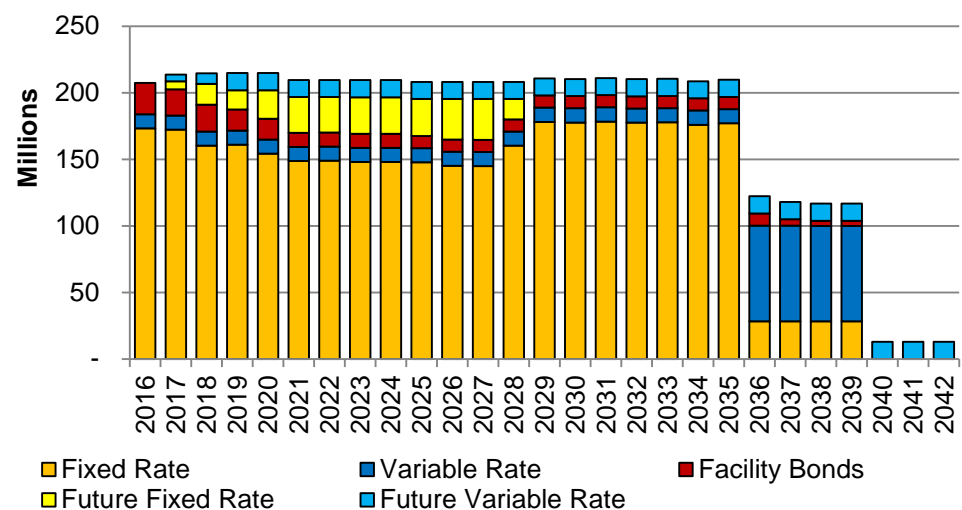
### Existing Gross Debt Service by Product

\$ Millions; By Fiscal Year; As of September 28, 2015



### Existing and Projected Gross Debt Service by Product

\$ Millions; By Fiscal Year; As of September 28, 2015





## Debt by Program

### Most of the existing debt service supports the OTIA I/II and OTIA III programs

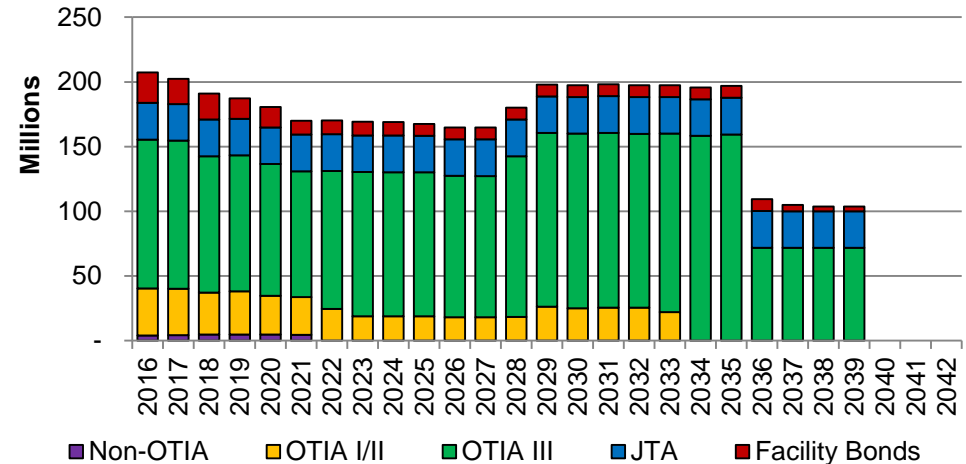
- Maximum total annual debt service supported by the Highway Fund is approximately \$207 million
- Approximately \$33 million of annual debt service supports OTIA I/II
- Approximately \$112 million of supports OTIA III
  - \$10 million of federal BABs subsidies applied as revenues to support the Series 2010A Taxable Build America Bonds
- Approximately \$28 million supports JTA
- Approximately \$23 million supports COPs and XI-Q bonds

### Completion of the bonding for JTA in the Fall of 2016 will increase aggregate maximum annual debt service to approximately \$210 million

- Debt service will be structured to fill in the gap between FY2018 and FY2028
- Coverage of aggregate HUTR bond debt service from FY2015 Pledged Revenue or \$588.3 million expected to remain strong at 2.8x

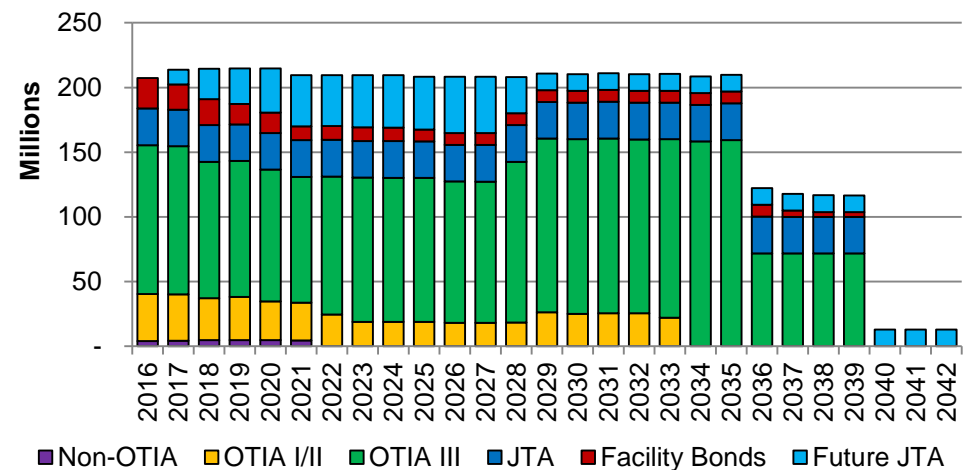
### Existing Gross Debt Service by Program

\$ Millions; By Fiscal Year; As of September 28, 2015



### Existing and Projected Debt Service by Program

\$ Millions; By Fiscal Year; As of September 28, 2015







## ***State Highway GO Bonds***

**Constitutional authority - Article XI, Section 7**

**1974 - Last new money issuance**

**2015 Legislative Assembly in its HB 5005 approved \$35 million in State Highway GO Bonds for highway safety improvement projects:**

- US 26, 116<sup>th</sup> – 136<sup>th</sup>: \$17,000,000
- State Highway 34: \$3,000,000
- OR 126 Eugene to Florence: \$7,000,000
- I-5/I-205 Cable Barrier: \$2,500,000
- US 26 Warm Springs to Downtown: \$1,500,000
- I-84 (Pendleton – La Grande): \$4,000,000



## ***Lottery Revenue Bonds***

- **\$810 million ODOT administered Lottery Bonds issued since program inception in 1994**
- **Funding restricted to non-highway eligible multimodal purposes**
- **Program funding includes:**
  - ***ConnectOregon* - \$382 million issued**
    - \$42 million authorized in 2015-17 Biennium
  - **Local Government Projects - \$428 million issued**
    - \$10 million for Port of Coos Bay authorized in 2015-17 Biennium



# ***Oregon Transportation Infrastructure Bank (OTIB)***

**Established in 1996 as one of the original State Infrastructure Banks (SIBs)**

**Funded with Federal funds and State matching funds**

**Total initial capitalization ~\$34.5 million**

- Federal > \$8.5 million
- State match > \$2 million
- Other SHF contribution > \$2 million
- SHF Line of Credit > \$22 million

## **OTIB Loans Originated**

- 40 loans originated totaling \$85 million, serving 29 communities in all 5 ODOT regions.



# ***Oregon Transportation Infrastructure Bank (OTIB)***

## **Benefits to Oregon Communities**

- Generally “AA” Costs of Borrowing Through Pledge of Highway User Tax Apportionment
- Draw Down Construction Loans
- Low Cost of Financing (1%)
- Flexible Terms
- No Prepayment Penalty
- DOJ Standardized Loan Documents
- Matching Funds for State & Federal Funding or Grants



## ***Future State Funding Options***

**New revenue streams could support additional borrowing for State-level projects**

### **Transportation Infrastructure Bonds**

- Convenient rule of thumb for Highway Revenue Bonds:
  - \$21 million in new annual revenue can support approximately \$100 million in new bonding for projects while still preserving targeted debt service coverage and existing high credit ratings
  - Assumes 25-year bond maturity with a minimum 3–times pledged revenue to debt service coverage ratio

### **Tolls**

- Tolls can also provide additional funding and borrowing opportunities
  - Bridges
  - Managed Lanes



## ***Future State Funding Options***

### **Public-Private Partnerships (P3s) can help facilitate major transportation initiatives**

- Public sector participation in major projects can facilitate more efficient project delivery and reduce costs
- P3 can mean anything from a design-build contract for construction, to a full risk transfer to a private party through a design-build-finance-operate-maintain concession agreement



## ***Future State Funding Options***

### **Federal financing vehicles can also facilitate financing of major transportation projects**

- Transportation Infrastructure Finance and Innovation (TIFIA) Act
  - TIFIA loans – flexible and low-cost borrowing tool for transportation projects, particularly toll projects
  - Interest rate is equivalent to the 30-year U.S. Treasury rate - currently equals a borrowing cost of 2.86%
- Private Activity Bonds (PAB)
  - Tax-exempt bonds available to private developers of transportation P3 projects
- Build America Transportation Investment Center (BATIC)
  - Recently formed within USDOT to serve as a single point of contact to assist state and local government project sponsors looking to utilize federal transportation expertise, apply for federal transportation credit programs, and explore ways to access private capital in P3s



## ***Future Local Funding Options***

### **Oregon Transportation Infrastructure Bank (OTIB)**

- **Provides Oregon local governments with an affordable source of financing for transportation projects**
- **Additional funding is necessary to continue the program**
- **Some considerations include:**
  - Bonding to leverage existing loan repayments can provide additional proceeds, although some equity infusion likely will be necessary to significantly expand the OTIB
  - \$200 million of statutory revenue bonding authorization exists but has not been used
  - Federal Recapitalization of State Infrastructure Banks (SIBs)
  - State Highway User Tax Revenue Bonds
  - State Highway GO Bonds
  - State Highway Fund Revenues





## ***Future Local Funding Opportunities***

### **Rural TIFIA Program could help finance local transportation projects**

- Projects must be \$25 million or more
- Interest rate is  $\frac{1}{2}$  the amount for a regular TIFIA loan (or  $\frac{1}{2}$  of the 30-Year Treasury yield – currently equals a borrowing cost of 1.43%)
- Could be used in conjunction with OTIB



## *Summary*

- **Oregon's Bonding Process**
- **ODOT Debt Financing Programs**
  - **State Highway Fund Supported**
  - **Lottery Revenue Supported**
- **Oregon Transportation Infrastructure Bank (OTIB)**
- **Future State and Local Funding Options**



# Questions?