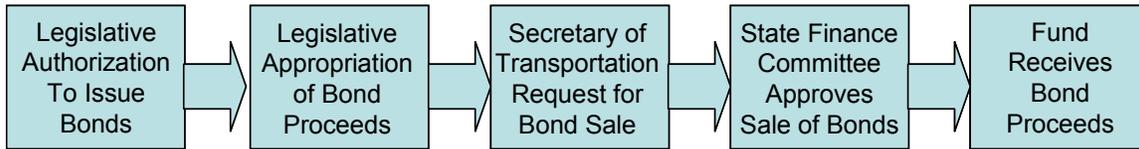

Bonds

Overview and Table of Contents

Bonding, not only in Washington but nationwide, has been an important source of funding for transportation capital projects. On the following pages are explanations of how state transportation bonds are authorized, sold, and repaid and a compilation of arguments for and against bond financing. Please note that local jurisdictions may also sell bonds for transportation purposes; however, local bonds are not discussed in this section.

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The Bond Process



The use of bond financing to support transportation capital projects follows a rigorous legal process. In order to sell bonds, the Legislature must enact a statute authorizing the sale of bonds for a specific purpose. This statute requires a 60% legislative majority vote or approval by the voters in a statewide referendum (e.g., Referendum 49). Before bond proceeds may be delivered, the Legislature must first appropriate expenditure authority and either the Secretary of Transportation or the Transportation Improvement Board (in the event of TIB bonds) must request the sale of bonds from the State Finance Committee.

Bond proceeds are only used for capital purposes.

- The Legislature must appropriate bond proceeds before they can be issued or spent. Bonds are sold as requested by the Secretary of Transportation for Washington State Department of Transportation projects and the Transportation Improvement Board for Urban Arterial Trust Account and Transportation Improvement Account Program projects. Bonds are sold through the State Finance Committee, which is comprised of the State Treasurer, Governor, and Lieutenant Governor.
- State transportation Motor Vehicle Fuel Tax bonds are referred to as "double-barreled" bonds. They are general obligation bonds, meaning they are secured by motor fuel taxes as well as the full faith and credit of the state.
- Bonds issued for the Tacoma Narrows Bridge are conventional motor fuel tax bonds. Debt service payments for the Tacoma Narrows Bridge bonds are paid from fuel tax revenues from the Motor Vehicle account. The Tacoma Narrows Bridge account then reimburses the Motor Vehicle account with the equivalent amount of toll revenue.
- In 2009, the Legislature authorized \$1.95 billion in bonds to support SR 520 Corridor projects. Several different debt instruments are being used to finance the SR 520 Corridor project. A combination of triple pledge bonds (backed by the fuel tax, toll revenue and the full faith and credit of the state), toll revenue bonds, Federal Highway Grant Anticipation Revenue (GARVEE) bonds and a loan from the Transportation Infrastructure Finance and Innovation Act (TIFIA) will be used to finance the projects.
- State bonds currently issued for the SR 520 Corridor Project are triple pledge bonds. These bonds are backed by tolls, fuel taxes, and the full faith and credit of the state. Toll revenue is expected to pay for the debt service on these bonds.
- As directed by the Legislature, the final bond sale for the SR 520 Corridor Project pledging state funds will be triple pledge bonds. Debt service for these bonds are expected to be paid from toll revenues.
- The State has entered into a loan agreement funded from the Transportation Infrastructure Finance and Innovation Act (TIFIA). The principal amount of the TIFIA Loan shall not exceed \$300,000,000 (excluding any interest that is capitalized in accordance with the terms of the final agreement). It is anticipated that this will be a 35 year loan.

- Federal Highway Grant Anticipation Revenue (GARVEE) Bonds (SR 520 Corridor Program) finance a portion of the costs of constructing the SR 520 Floating Bridge and Eastside Project and to pay costs of issuing the bonds. They were issued as limited obligations of the state, payable from and secured solely by the Federal-Aid Highway funds received by the state.
- Debt service on motor fuel tax general obligation bonds is paid from gas taxes. Debt Service on toll backed bonds is first payable from tolls, then Motor Fuel taxes. Toll revenue bonds are payable solely from the revenues derived from the operation of the facility being constructed with the proceeds of the bonds.
- Rating agencies look at the state's financial health when assigning credit ratings to the motor fuel tax bonds. There is a direct relationship between the bond rating and the state's borrowing cost. The higher the bond rating the lower the borrowing cost.
- Article VIII, Section 1(g) of the State Constitution exempts motor vehicle fuel tax bonds and motor vehicle license fees from the state debt limit.
- WSDOT also has General Obligation (GO) bond authorization. The proceeds from the state GO bonds are used to fund rail, ferry capital, and local road projects. Debt service for GO bonds is paid from the Multimodal account and is backed by the full faith and credit of the state. These bonds are considered a portion of the state's overall debt limit.

Bond Authorizations

The Legislature first provided authority in 1951 to make use of bond funding for transportation purposes (RCW 47.10). The table below summarizes transportation bond authorizations that have not been sold entirely or that have remaining debt service requirements.

AUTHORITY	PURPOSE	AUTHORIZED AMOUNT (<u>\$Millions</u>)	UNSOLD AS OF 7/31/14 (Estimate) (<u>\$Millions</u>)
<u>HIGHWAYS AND MISCELLANEOUS</u>			
Ch. 212	L. 79 1st ES	North Richland Toll Bridge	80.00
Ch. 293	L. 90	NW Region Headquarters	15.00
Ch. 519	L. 07	Special Category C Highways	600.00
Ch. 432	L. 93	Advance Highway Construction	50.00
Ch. 432	L. 93	Federal Demonstration Highways	25.00
Ch. 432	L. 93	Local Programs	25.00
Ch. 321	L. 98	State and Local Highways (Referendum 49)	1,900.00
Ch. 519	L. 07	2003 Transportation Projects	3,200.00
Ch. 147	L. 03	Multimodal Transportation Projects	349.50
Ch. 519	L. 07	2005 Transportation Partnership Projects	5,300.00
Ch.472	L. 09	State Route 520 Corridor Projects	<u>1,950.00</u>
		SUBTOTAL	13,494.50
 <u>TRANSPORTATION IMPROVEMENT BOARD</u>			
Ch. 440	L. 93	Transportation Improvement Acct. Program	100.00
 URBAN ARTERIAL			
Ch. 83	L. 67	County-City Urban Arterials	200.00
 <u>PUBLIC-PRIVATE PARTNERSHIP PROGRAM</u>			
Ch. 183	L. 94	Public Private Partnerships	25.63
 <u>GRAND TOTAL</u>		 <u>\$13,820.13</u>	 <u>\$3,664.25</u>

Bond Authorization Purposes

Bond authorizations with unsold balances as of June 30, 2011, are described below:

State and Local Highways Bonds

(Ch. 321, Laws of 1998, RCW 47.10.843)

The proceeds from these bonds, approved by Washington State voters in November 1998 as part of Referendum 49, are for the location, design, right of way, and construction of state and local highway improvements.

North Richland Toll Bridge Construction Bonds

(Ch. 212, Laws of 1979, 1st Ex. Sess.; RCW 47.56.740-755 and RCW 47.56.220)

These bond proceeds may be used for surveys, design, and construction of a toll bridge across the Columbia River in the vicinity of North Richland. No bonds may be sold until the Transportation Commission determines that the project is economically feasible.

Advance Highway Construction Bonds

(Ch. 432, Laws of 1993; RCW 47.10.819(2))

These bond proceeds are used to temporarily pay the regular federal share of highway construction in advance of federal-aid apportionments.

Federal Demonstration Highways Bonds

(Ch. 432, Laws of 1993; RCW 47.10.819(1))

These bond proceeds are used to pay the state and local government's share of matching funds for demonstration projects identified in the Intermodal Surface Transportation Efficiency Act of 1991.

Local Programs Bonds

(Ch. 432, Laws of 1993; RCW 47.10.819(3))

These bond proceeds are used for loans to local governments to provide the required matching funds to take advantage of federal funds for street and road improvements.

Transportation Improvement Bonds

(Ch. 440, Laws of 1993; RCW 47.26.500)

These bond proceeds are used to provide funds for construction on state, county, and city transportation (highways) projects in urban areas.

Public-Private Partnership Transportation Bonds

(Ch. 183, Laws of 1994; RCW 47.10.834)

These bond proceeds are used to fund state financial participation in the public-private transportation initiatives program authorized in RCW 47.46. Participation may take the form of loans or cash contributions, improving the ability of private entities sponsoring the projects to obtain financing.

2003 Transportation Project Bonds

(Ch. 147, Laws of 2003; RCW 47.10.861)

These bond proceeds are used to fund the location, design, right of way, and construction of selected projects or improvements that are identified as 2003 transportation projects or improvements in the omnibus transportation budget.

Multimodal Project Bonds

(Ch. 147, Laws of 2003; RCW 47.10.867)

These bond proceeds are used to fund the planning, design, construction, reconstruction, and other necessary costs for transportation projects.

2005 Transportation Partnership Project Bonds

(Ch. 315, Laws of 2005; RCW 47.10.873)

These bond proceeds are used to fund the location, design, right of way, and construction of selected projects or improvements that are identified as 2005 transportation partnership projects or improvements in the omnibus transportation budget.

Special Category C Bonds

(Ch. 2, Laws of 1999; RCW 47.10.812)

These bonds are used to provide funds necessary for the location, design, right-of-way, and construction of state highway improvements that are identified as Special Category C improvements.

State Route 520 Corridor Bonds

(Ch. 472, Laws of 2009, RCW 47.10.879)

These bonds are used to fund projects associated with the State Route 520 corridor projects.

Projected Bond Sales

As of July 31, 2014, there are expected to be approximately \$3.6 billion of authorized transportation bonds that have not yet been issued.

A significant amount of this transportation bond authority that has not been issued is from the 2003 and 2005 funding packages, which provided a total of \$8.5 billion for specified projects. Also a significant portion of the remaining authority is from the State Route 520 Corridor.

- \$369 million in transportation bonding authority remains from the 2003 funding package.
- \$2,333 million in transportation bonding authority remains from the 2005 funding package.
- \$345 million in transportation bonding authority remains from the State Route 520 Corridor authorization.

The plan below reflects the bond sale plan submitted with the Washington State Department of Transportation's 2015-17 biennial budget request and 10-year plan.

Projected Long-Term Bond Sales

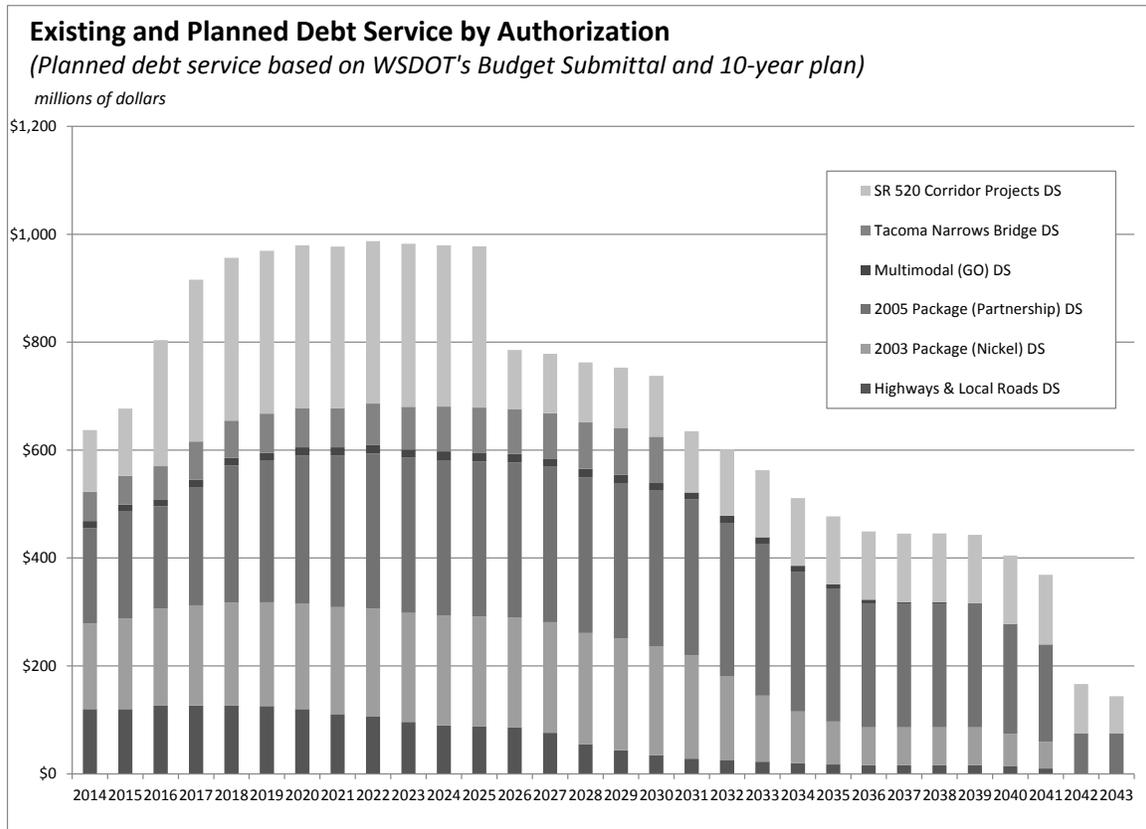
WSDOT 2015-17 Proposed Budget Submittal

<i>dollars in millions</i>	2015-17	2017-19	2019-21	2021-23	2023-25	10-Year Total
State and Local Highways (R-49)	26.60	5.00	5.00	5.00	5.00	46.60
2003 (Nickel) Transportation Projects	205.00	55.00	56.00	47.00	0.00	363.00
2005 Transportation Projects	920.00	278.00	175.60	0.00	0.00	1,373.60
Multimodal Transportation Projects	0.00	0.00	0.00	0.00	0.00	0.00
State Route 520 Corridor Projects	215.70	0.00	0.00	0.00	0.00	215.70
Total Projected Bond Sale Plan	1,367.30	338.00	236.60	52.00	5.00	1,998.90

Debt Service on Motor Fuel Tax Bonds

Debt service is the periodic payment of principal and interest on a bond.

- Debt service is the first obligation on gas tax collections.
- Transportation bonds are typically issued as 25 or 30-year debt.
- The State Treasurer is authorized to refinance original issues of bonds. Refunding prior bond issues reduces total debt service requirements and achieves budgetary savings over the remaining term of the bond.
- The following chart shows debt service requirements on existing and projected bond sales through 2043, based upon the bond sale plan submitted with the Washington State Department of Transportation’s 2015-17 biennial budget request.

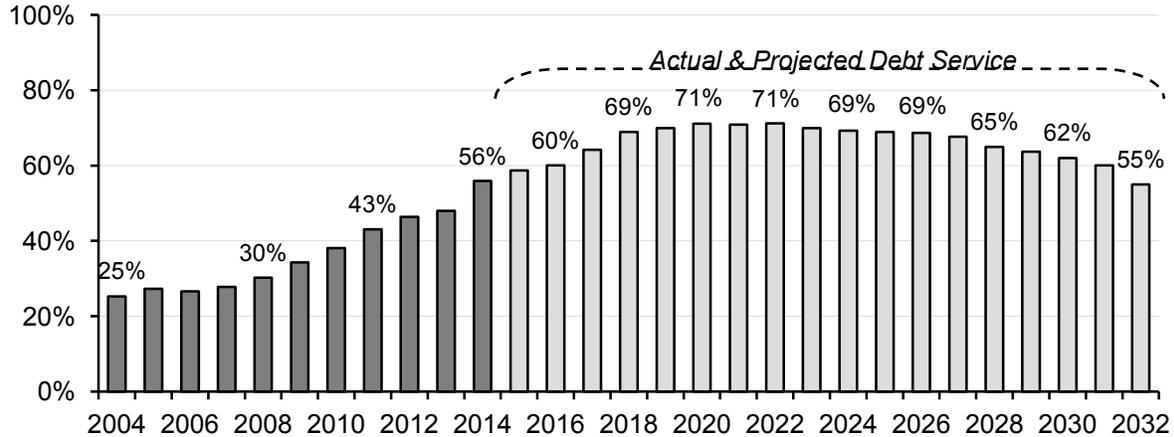


Debt Service as a Percent of the State's Overall Share of the Fuel Tax

Debt Service as a Percent of the State's Overall Share of the Fuel Tax

State Share $12.04\text{¢} + 5\text{¢} + 8.5\text{¢} = 25.5\text{¢}$

(Excludes Tacoma Narrows Bridge and SR 520 Debt Service)



- State motor fuel taxes include distributions to the Motor Vehicle Account, Puget Sound Ferries Capital Construction Account, Puget Sound Ferry Operations Account, Special Category C Account, 2003 (Nickel) Transportation Account, and Transportation Partnership Account.
- Assumes bond sale plan submitted with WSDOT's 2015-17 Biennial Budget Request, updated to reflect the November 2014 revenue forecast.
- Excludes debt service on bonds used to finance the Tacoma Narrows Bridge and the SR 520 Corridor Project.

Bonding – Pros and Cons

ADVANTAGES OF BONDING

Spreading out payments allows a project to be paid for over a long period of time, avoiding large draws on current revenue and taking advantage of favorable market conditions.

Enables the state to accelerate construction timelines and spreads the costs of a project over its useful life, so the people who benefit from the capital improvement help to finance its construction.

By building projects sooner, the inflationary impacts of the project costs can often be avoided.

The use of revenue bonds (fuel tax or toll backed bonds) for transportation projects does not impact the debt limit of the state.

DISADVANTAGES OF BONDING

Bonding increases debt and obligates future revenue. Once revenue is committed to debt service payment, it is not available to fund new projects on a pay-as-you-go basis.

Debt service not only includes paying on the principal amount, but also includes paying interest over the term of the bonds, issuance costs, debt covenants, and burdening of future generations with debt.

Debt service on fuel tax bonds accounts for more than half of fuel tax revenues, the primary revenue source for the transportation budget. Increases in fuel efficiency and a growing prevalence of alternative fuel vehicles means future fuel tax revenues are likely to be relatively flat through 2027.

Fuel tax bonds have low borrowing costs as they are also backed by the state's general obligation pledge. However, continued growth in the issuance of fuel tax bonds has the potential to negatively affect Washington's strong credit rating. This could significantly increase borrowing costs for the state.