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## COLUMBIA RIVER CROSSING TOLL-SETTING STRUCTURE OPTIONS

September 10, 2012

This document summarizes information on four options for toll-rate setting and bonding structures for the Columbia River Crossing project. References to bonds in this document are exclusive to those bonds which would be repaid by the net toll revenue stream. Project funding will be provided through federal funding, state funding and tolls. This document does not deal with how each state will meet its own equity contribution, i.e. state funding. The following information regarding bonds should be kept in mind when reviewing this document.

<u>Bond Background</u>

Toll-backed bonds incorporate a contractual commitment by the issuer to set toll rates to produce revenue to repay the debt. Investors typically require projected toll revenues to be in excess of debt service to protect their investment if actual revenues do not keep pace with projections; this requirement is called coverage. The higher the coverage ratio, the smaller the amount that can be financed on a given toll revenue stream. Toll-backed bonds can either be revenue bonds or general obligation (GO) bonds. The types of toll-backed bonds considered in this analysis include:

Stand-alone toll revenue bonds backed only by toll revenues.

- Likely to require high coverage ratios (annual toll revenues at least twice the size of annual debt service)
- Higher borrowing costs
- Minimal impact on state's GO credit

Toll bonds supported by a state backstop, e.g. triple pledge bonds issued by the State of Washington which are first backed by toll revenues, second by motor vehicle fuel taxes and third by the full faith and credit of the state.

- Relatively low coverage ratios (annual toll revenues no less than 1.3 times the size of annual debt service)
- Low borrowing costs at the state's long-term GO rates
- Negative impact on GO credit as increases debt burden

TIFIA loan (long-term borrowing from the federal government at subsidized rates tied to the 30-year U.S. Treasury rate). The availability of TIFIA loans is limited although recently substantially increased with the new transportation act. The application process can be lengthy and uncertain.

- Coverage ratios determined by perceived risk of the credit; i.e. strong credits require relatively low coverage and no additional credit enhancement, weaker credits require higher coverage as well as debt service reserve funds
- Low borrowing costs in the current market
- Minimal impact on state's GO credit

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| Option | Policy Considerations | Financial Market Considerations | State Considerations | Other Considerations |
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| **Separate State Bonds and Joint Toll-Setting with the Full Commissions**<br><br><u>Toll-backed Bonds:</u> Each state issues bonds backed by its predetermined share of CRC toll revenues. Revenue collection to be conducted by Washington. Each state adopts substantially identical bond covenants. Each state pledges to bond holders that it will adjust toll rates as necessary to meet all of the bond covenants.<br><br><u>Toll-setting</u>: The two commissions negotiate an initial rate structure. Each commission separately adopts the agreed-upon rate structure by a majority vote of that commission. In the event of a disagreement on subsequent rate adjustments there would be a predetermined rate adjustment (based upon third-party recommendation) that would automatically occur to sufficiently meet rate covenants and pay the debt for the project. Alternatively, in the event of a disagreement concerning the structuring of tolls, the stages pledge to increase/adjust toll rates based upon a predetermined "equation" or "calculation" as defined by the agreement between the WSTC and the OTC.<br><br><u>Variation on this Option (Suggested by WA Commission)</u>: If the two commissions reach an impasse on a rate adjustment, both commissions would vote and a majority vote of the combined commissions would prevail (a majority of 12 members). | • Gives each state a definitive and equal role in setting toll rates and structure.<br>• There may be a question of delegation of authority in the case of a combined Commission majority vote. | Issuance of bonds by two separate governmental entities secured by the same toll revenue stream is unprecedented and could result in more expensive debt if bonds are not supported by a state backstop. | • Spreads the debt burden across two states.<br>• Different borrowing conditions, choices, covenants and issuance conditions in each state may result in different borrowing capacity based on equivalent revenue streams. This could require the state that delivers fewer proceeds for construction to fund additional equity contributions from other sources. | • May require the use of a third party trustee to administer the flow of funds so that bondholders of both states are protected.<br>• Both states responsible for TIFIA borrowing, likely complicating TIFIA application, negotiations and commitments. |
| **Separate State Bonds and Joint Toll-Setting with Commission Subcommittees**<br><br><u>Toll-backed Bonds:</u> Each state issues bonds backed by its predetermined share of CRC toll revenues. Revenue collection to be managed by Washington. Each state adopts substantially identical bond covenants. Each state pledges to bond holders that it will adjust toll rates as necessary to meet all of the bond covenants.<br><br><u>Toll-setting</u>: A bi-state committee consisting of a subset of transportation commission members from both states establishes and adjusts tolls as necessary to comply with bond covenants. The toll rates are expected to produce revenues required by the states' equivalent bond covenants. In the event of a disagreement concerning the structuring of toll rates, the committee chair (an "odd" numbered member of the | • Gives each state a definitive and equal role in setting toll rates and structure.<br>• Neither state currently has statutory authority to delegate toll-setting authority to a subcommittee of their transportation commission.<br>• Relies on an individual from one state as the tie-breaker which may politicize timing and/or frequency of toll increase requests; potential for politicization may be mitigated with defined rate increases during the construction period. | Issuance of bonds by two separate governmental entities secured by the same toll revenue stream is unprecedented and could result in more expensive debt if bonds are not supported by a state backstop. | • Spreads the debt burden across two states.<br>• Different borrowing conditions, choices, covenants and issuance conditions in each state may result in different borrowing capacity based on equivalent revenue streams. This could require the state that delivers fewer proceeds for construction to fund additional equity contributions from other sources. | • May require the use of a third party trustee to administer the flow of funds so that bondholders of both states are protected.<br>• Both states responsible for TIFIA borrowing, likely complicating TIFIA application, negotiations and commitments. |

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| committee) casts the tie-breaker vote. The committee chair position rotates between the states annually or biennially. | | | | |
| **Separate State Bonds and Joint Toll-Setting with Full Commissions and Subcommittees**<br><br>Toll-backed Bonds: Each state issues bonds backed by its predetermined share of CRC toll revenues. Revenue collection to be managed by Washington. Each state adopts substantially identical bond covenants. Each state pledges to bond holders that it will adjust toll rates as necessary to meet all of the bond covenants.<br><br>Toll-setting: The two transportation commissions jointly establish and adjust toll rates as necessary to comply with bond covenants. The transportation commissions coordinate with a bi-state transportation commission sub-committee that recommends a single toll rate structure for adoption by both transportation commissions in separate actions. In the event of a disagreement concerning the structuring of tolls, the states pledge to increase all toll rates to the extent necessary based on the recommendation of a Joint Toll Consultant as to what set of rates is likely to produce revenues to meet all bond covenants. | • Gives each state a definitive and equal role in setting toll rates and structures.<br>• Bi-state sub-committee may avoid issues related to delegation of authority.<br>• Toll rate setting relies on action by three groups making it difficult to take action quickly; potential for difficulty to take action quickly may be mitigated with defined rate increased during the construction period | Issuance of bonds by two separate governmental entities secured by the same toll revenue stream is unprecedented and could result in more expensive debt if bonds are not supported by a state backstop. | • Spreads debt burden across two states.<br>• Different borrowing conditions, choices, covenants and issuance conditions in each state may result in different borrowing capacity based on equivalent revenue streams – This could require the state that delivers fewer proceeds for construction to fund additional equity contributions from other sources. | • May require the use of a third party trustee to administer the flow of funds so that bondholders of both states are protected.<br>• Both states responsible for TIFIA borrowing, likely complicating TIFIA application, negotiations and commitments. |
| **Washington Issues all Toll-Backed Bonds and Sets Tolls**<br><br>Toll-backed Bonds: Washington issues all bonds backed by CRC toll revenues, either as revenue bonds or as general obligation bonds. Through a bond resolution, Washington makes a rate covenant, i.e. contractually commits to set toll rates to produce toll revenues as required in the bond resolution. Washington contractually commits to Oregon and pledges to bond holders that it will adjust tolls as necessary to meet all of Washington's bond covenants.<br><br>Toll-setting: Washington collaborates with Oregon in the determination of appropriate toll rates, although only Washington is ultimately responsible for taking actions to satisfy the rate covenants. | • Concept previously used for Oregon and Washington bi-state bridges funded by tolls.<br>• Oregon currently does not have statutory authority to delegate toll-setting to the Washington State Transportation Commission.<br>• The single-state rate covenant diminishes Oregon's role in influencing the structure and level of toll rates. Oregon decision-makers and citizens may have significant concerns with Washington having sole authority to set toll rates for Oregon bridge users.<br>• Washington state legislators may want to specify use of funds | The simplicity and clarity of the toll-setting process and security pledge support the strongest credit and therefore this option likely provides for the lowest cost of capital compared to the other three options. | • The single-state structure places 100% of the debt burden on Washington; effect on GO credit variable depending on how bonds are supported<br>• Oregon has little say as to how toll-backed debt will be structured. | A single-state structure simplifies the TIFIA application, negotiations and commitments. |