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.

Bonds........................................................................................................................................197
Overview and Table of Contents..............................................................................................197
The Bond Process .....................................................................................................................198
Bond Authorizations ................................................................................................................199
Bond Authorization Purposes ....................................................................................................200
Projected Bond Sales .................................................................................................................202
Debt Service on Motor Fuel Tax Bonds ....................................................................................203
Debt Service as a Percent of the State’s Overall Share of the Gas Tax ....................................204
Bonding – Pros and Cons ..........................................................................................................205
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 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 bonds are referred to as "double-barrel" bonds. They are general obligation bonds, meaning they are secured by the full faith and credit of the state and are also secured by motor fuel taxes.
- Transportation bonds for the Tacoma Narrows Bridge are backed by tolls and are also backed by full faith and credit of the state as well as motor fuel taxes.
- 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.
- Rating agencies look at the state’s financial health when assigning credit ratings to the motor fuel tax bonds.

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.

Legislative Authorization To Issue Bonds

Legislative Appropriation of Bond Proceeds

Secretary of Transportation Request for Bond Sale

State Finance Committee Approves Sale of Bonds

Fund Receives Bond Proceeds
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.

<table>
<thead>
<tr>
<th>AUTHORITY</th>
<th>PURPOSE</th>
<th>AUTHORIZED AMOUNT ($Millions)</th>
<th>UNSOLD AS OF 6/30/2011 ($Millions)</th>
</tr>
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<tbody>
<tr>
<td><strong>HIGHWAYS AND MISCELLANEOUS</strong></td>
<td></td>
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<tr>
<td>Ch. 212 L. 79 1st ES</td>
<td>North Richland Toll Bridge</td>
<td>80.00</td>
<td>80.00</td>
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<td>Ch. 293 L. 90</td>
<td>NW Region Headquarters</td>
<td>15.00</td>
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<td>Ch. 519 L. 07</td>
<td>Special Category C Highways</td>
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<td>Ch. 432 L. 93</td>
<td>Advance Highway Construction</td>
<td>50.00</td>
<td>50.00</td>
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<td>Ch. 432 L. 93</td>
<td>Federal Demonstration Highways</td>
<td>25.00</td>
<td>20.00</td>
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<tr>
<td>Ch. 432 L. 93</td>
<td>Local Programs</td>
<td>25.00</td>
<td>25.00</td>
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<td>Ch. 321 L. 98</td>
<td>State and Local Highways (Referendum 49)</td>
<td>1,900.00</td>
<td>162.14</td>
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<td>Ch. 519 L. 07</td>
<td>2003 Transportation Projects</td>
<td>3,200.00</td>
<td>901.45</td>
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<td>Ch. 147 L. 03</td>
<td>Multimodal Transportation Projects</td>
<td>349.50</td>
<td>120.95</td>
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<td>Ch. 519 L. 07</td>
<td>2005 Transportation Partnership Projects</td>
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<td>3,390.12</td>
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<tr>
<td>Ch. 472 L. 09</td>
<td>State Route 520 Corridor Projects</td>
<td>1,950.00</td>
<td>1,718.00</td>
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<td>SUBTOTAL</td>
<td></td>
<td>13,494.50</td>
<td>6,675.29</td>
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**TRANSPORTATION IMPROVEMENT BOARD**

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<th>AUTHORITY</th>
<th>PURPOSE</th>
<th>AUTHORIZED AMOUNT ($Millions)</th>
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<tr>
<td>Ch. 6 L. 002 2d ES</td>
<td>Transportation Improvement Acct. Program</td>
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**PUBLIC-PRIVATE PARTNERSHIP PROGRAM**

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<th>AUTHORITY</th>
<th>PURPOSE</th>
<th>AUTHORIZED AMOUNT ($Millions)</th>
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<tbody>
<tr>
<td>Ch. 183 L. 94</td>
<td>Public Private Partnerships</td>
<td>25.63</td>
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</table>

**GRAND TOTAL**

<p>| | |</p>
<table>
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<tbody>
<tr>
<td>Grand Total</td>
<td>$13,620.13</td>
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</table>
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 1, 2009, there are expected to be approximately $6.7 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.

- $1.4 million in transportation bonding authority remains from the 2003 funding package.
- $4.5 million in transportation bonding authority remains from the 2005 funding package.

The plan below reflects the bond sale plan submitted with the Washington State Department of Transportation’s 2009–11 biennial budget request and 16-year plan.

Projected Long-Term Bond Sales
WSDOT 2011-13 Budget Submittal

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<tr>
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<tr>
<td>State and Local Highways (R49)</td>
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<td>124.2</td>
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<td>2003 Transportation Projects</td>
<td>488.0</td>
<td>127.5</td>
<td>11.0</td>
<td>15.2</td>
<td></td>
<td>641.7</td>
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<td>2005 Transportation Projects</td>
<td>1,611.0</td>
<td>975.0</td>
<td>356.0</td>
<td>63.5</td>
<td>26.0</td>
<td>3,031.5</td>
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<tr>
<td>Multimodal Transportation Projects</td>
<td>70.0</td>
<td>3.0</td>
<td></td>
<td></td>
<td></td>
<td>73.0</td>
</tr>
<tr>
<td>State Route 520 Corridor Projects</td>
<td>Bond Sale Plan to be Determined</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Projected Bond Sales</strong></td>
<td><strong>$2,293.2</strong></td>
<td><strong>$1,105.5</strong></td>
<td><strong>$367.0</strong></td>
<td><strong>$78.7</strong></td>
<td><strong>$26.0</strong></td>
<td><strong>$3,870.4</strong></td>
</tr>
</tbody>
</table>
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 2030, based upon the bond sale plan submitted with the Washington State Department of Transportation’s 2011–13 biennial budget request. SR 520 Corridor debt service is excluded from this chart, as the bond sale plan is still under development.
Debt Service as a Percent of the State’s Overall Share of the Gas Tax

- 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.
- 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.

DISADVANTAGES OF BONDING

- Bonding increases debt and obligates future revenue.
- Debt service not only includes paying on the principal amount, but also includes paying interest over the term of the bonds.