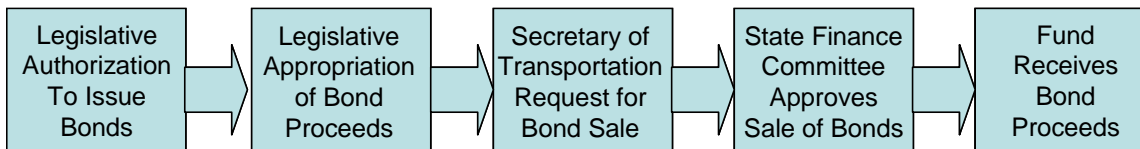

Bonds

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 percent 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 used only for capital purposes.

- 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.
- 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 (WSDOT) projects and the Transportation Improvement Board for Urban Arterial Trust Account and Transportation Improvement Account Program projects. Bonds are issued by the State Finance Committee, which comprises the State Treasurer, Governor, and Lieutenant Governor.
- State transportation motor vehicle fuel tax bonds are General Obligation (GO) bonds. They are often referred to as "double-barreled" bonds, because they are secured by motor vehicle fuel taxes as well as the full faith and credit of the state. In 2022, SB 5898 was enacted that also pledges certain vehicle-related fees to new bond issuances.
- Debt service on motor vehicle fuel tax GO bonds is paid from motor vehicle fuel taxes. Debt Service on toll-backed bonds is first payable from tolls, then motor vehicle 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 structure and pledge of bonds, as well as the state's financial health, when assigning credit ratings to any of the state's 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. In advance of bond sales, rating agency reports are typically published on the Office of the State Treasurer's website.
- The bonds issued for the Tacoma Narrows Bridge are motor vehicle fuel tax bonds. Debt service payments for the Tacoma Narrows Bridge bonds are paid from motor vehicle fuel tax revenues from the Motor Vehicle Account. The Tacoma Narrows Toll Bridge Account then reimburses the Motor Vehicle Account with the equivalent amount of toll revenue. Recent transportation budgets have provided loans and other funds to assist the Tacoma Narrows Toll Bridge Account with debt service payments and other costs to either prevent or mitigate toll increases. In 2016, ESHB 2524 appropriated \$2.5 million and, in 2017, ESB 5096 transferred \$5 million of Motor Vehicle Account funds for these purposes. Enacted in 2018, SHB 2990 declared Legislative intent to provide future loans of up to \$85 million through the

life of the debt service plan to be repaid after the retirement of debt service and deferred sales tax obligations. In 2022, SSB 5488 provided \$130 million of General Fund transfers to the Tacoma Narrows Bridge Account.

- In 2009, the Legislature authorized \$1.95 billion in bonds to support SR 520 Corridor projects. Several different debt instruments have been used to finance the SR 520 Corridor project including: triple pledge bonds, Federal Highway Grant Anticipation Revenue (GARVEE) bonds and a loan from the Transportation Infrastructure Finance and Innovation Act (TIFIA).
 - Triple pledge bonds were issued and are backed by tolls, motor vehicle fuel taxes, and the full faith and credit of the state. Toll revenue is expected to pay for the debt service on these bonds.
 - The State has entered into a loan agreement funded from the Transportation Infrastructure Finance and Innovation Act (TIFIA). All \$300,000,000 has been drawn on the TIFIA loan. It is anticipated that this will be a 35-year loan.
 - Federal Highway Grant Anticipation Revenue (GARVEE) bonds financed a portion of the costs of constructing the SR 520 Bridge. They were issued as limited obligations of the state, payable from and secured solely by the Federal-Aid Highway funds received by the state.
- Bonds were issued for the SR 99/Alaskan Way Viaduct Replacement Project as motor vehicle fuel tax bonds. Debt service payments for the SR 99 bonds are paid from the Transportation Partnership Account and then reimbursed from tolls in the Alaskan Way Viaduct Project Replacement Account.
- In 2019, the Legislature authorized up to \$1.5 billion in triple pledge bonds (similar in structure to those issued for SR 520) to support the I-405/SR 167 Corridor projects and the Puget Sound Gateway project. The sale of up to \$1.16 billion was authorized for I-405/SR 167 projects and up to \$340 million was authorized for Puget Sound Gateway project. Bonds have not yet been issued.
- The Legislature has also provided WSDOT with limited GO authorization. The proceeds from the state GO bonds are used for multimodal projects including 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 amount of bond funding is also constrained by the amount of revenue available for debt service. The table below summarizes transportation bond authorizations that have not been sold.

AUTHORITY	PURPOSE	AUTHORIZED AMOUNT (<u>\$Millions</u>)	UNSOLD AS OF 6/30/22 (Estimate) (<u>\$Millions</u>)
<u>HIGHWAYS AND MISCELLANEOUS</u>			
Ch. 293	L. 90	NW Region Headquarters	1.60
Ch. 519	L. 07	Special Category C Highways	206.10
Ch. 432	L. 93	Advance Highway Construction	50.00
Ch. 432	L. 93	Federal Demonstration Highways	.20
Ch. 432	L. 93	Local Programs	25.00
Ch. 321	L. 98	State and Local Highways (Referendum 49)	30.49
Ch. 519	L. 07	2003 Transportation Projects	212.49
Ch. 147	L. 03	Multimodal Transportation Projects	38.10
Ch. 519	L. 07	2005 Transportation Partnership Projects	1,186.11
Ch. 472	L. 09	State Route 520 Corridor Projects	254.54
Ch. 045	L. 15 3 rd Sps	Connecting Washington Projects	4369.90
Ch. 421	L. 19	I-405/SR 167 and Puget Sound Gateway	<u>1,500.00</u>
		SUBTOTAL	7,874.53
 <u>TRANSPORTATION IMPROVEMENT BOARD</u>			
Ch. 440	L. 93	Transportation Improvement Acct. Program	7.51
 <u>URBAN ARTERIAL</u>			
Ch. 83	L. 67	County-City Urban Arterials	42.57
 <u>PUBLIC-PRIVATE PARTNERSHIP PROGRAM</u>			
Ch. 183	L. 94	Public Private Partnerships	6.21
 <u>GRAND TOTAL</u>		 <u>\$20,440.13</u>	 <u>\$7,930.82</u>

Bond Authorization Purposes

Bond authorizations with unsold balances as of June 30, 2022, 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.

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.

Chapter 498, Laws of 2009, Section 6 (ESHB 1272) amended RCW 47.10.867 and decreased authority by \$100 million (from \$349.5 to \$249.5 M) effective 5/15/2009.

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.

Connecting Washington Bonds

(Ch. 45, Laws of 2015 sp. S, RCW 47.10.889)

These bonds are used to provide funds necessary for the location, design, right-of-way, and construction of selected projects or improvements that are identified as connecting Washington projects or improvements in the omnibus transportation budget.

Interstate 405, State Route 167, and State Route 509 Projects

(Ch. 421, Laws of 2019, RCW 47.10.896)

These bonds are used to provide funds necessary for the location, design, right-of-way, and construction of projects as allowed in RCW [47.56.880](#), [47.56.884](#), [47.56.895](#), and [47.56.897](#)

Projected Bond Sales

As of June 30, 2022, there are approximately \$7.9 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 2005, 2015, and 2019 authorizations, which provided a total of \$11.8 billion for specified projects.

- \$1,186 million in transportation bonding authority remains from the 2005 Transportation Partnership funding package.
- \$4,370 million in transportation bonding authority remains from the 2015 Connecting Washington funding package.
- \$1,150 million in transportation bonding authority remains from the I-405/SR 167 and Puget Sound Gateway authorization.

The plan below reflects the bond sale plan most recently published at the time of this publication's writing – the Governor's proposed 2023-25 budget.

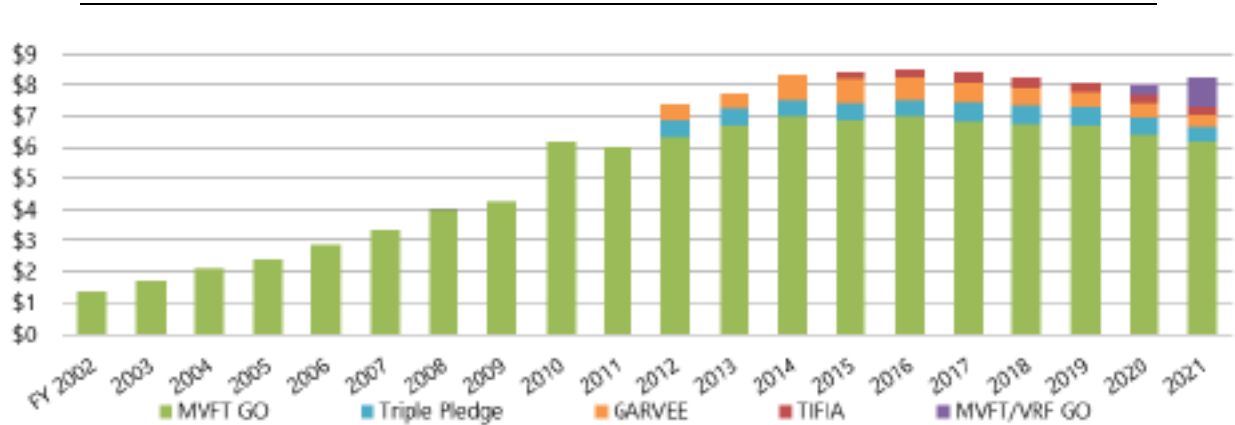
<i>dollars in millions</i>	2021-23	2023-25	2025-27	2027-29	2029-31	10-Year Total
Special Category C Highways	50.0	107.3	-	-	-	157.3
(Motor V.) State and Local Highways: R-49	-	-	-	-	-	-
2003 (Nickel) Transportation Projects	-	-	-	-	-	-
Multimodal Transportation Projects	-	-	-	-	-	-
2005 Transportation Partnership Projects	65.0	35.5	164.0	800.0	154.5	1,219.0
State Route 520 Corridor Projects	-	-	-	-	-	-
Connecting Washington Projects	-	112.2	1,027.2	352.5	272.3	1,764.2
Puget Sound Gateway	-	-	155.2	-	-	155.2
I-405 and SR 167	-	-	261.2	240.3	50.2	551.7
Total Projected Bond Sale Plan	115.0	255.0	1,607.6	1,392.8	477.0	3,847.4

Debt Service on Motor Vehicle Fuel Tax Bonds

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

- Debt service is the first obligation on motor vehicle fuel tax collections.
- Transportation bonds are typically issued as 25-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 bond sales, through 2021.

Outstanding Transportation Principal (\$ in billions)

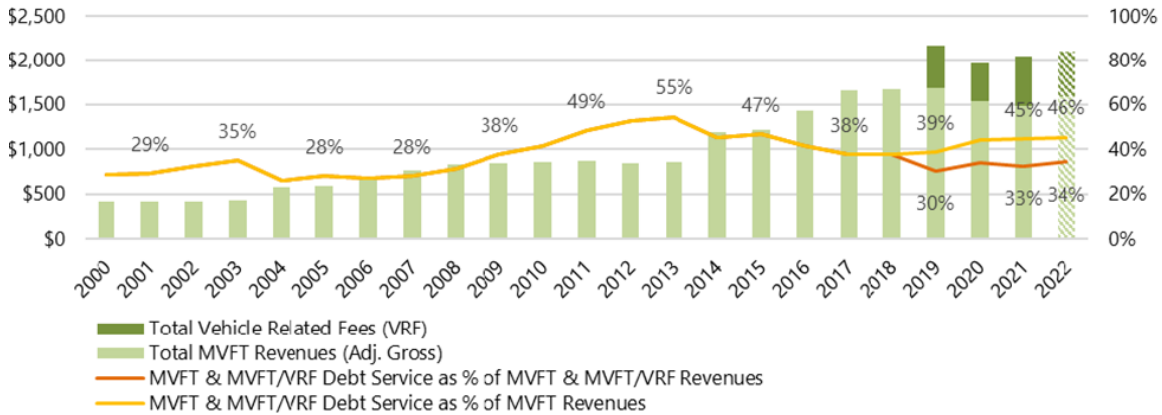


Source: Office of the State Treasurer

*Chart produced by the Office of the State Treasurer, Figure 5.1, page 14, [2022 Debt Affordability Study](#)

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

MVFT & MVFT/VRF Debt Service Chart*
As a Percent of MVFT & MVFT/VRF Revenues (\$ in millions)



Sources: MVFT: Nov-2021 TRFC, Volume II, Table A-5. VRF: Nov-2021 TRFC, Volume IV, Table H.1. 2021 Sess. Enacted 10-year Plan and WSDOT 10/17/2019 presentation. \$ million remaining unissued. Interest rates: Nov. 2021 Forecast.

*Chart produced by the Office of the State Treasurer, Figure 5.4, page 16, [2022 Debt Affordability Study](#)

- Includes Vehicle Related Fees (VRF) and Motor Vehicle Fuel Taxes (MVFT) revenues.
- Assumes bond sale plan included in the 2021 enacted 10-year plan, updated to reflect the November 2021 forecast.
- State motor vehicle 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, Transportation Partnership Account and Connecting Washington Account.

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.

The state is able to accelerate construction timelines and spread 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. Once revenue is committed to debt service payment, it is not available to fund ongoing maintenance and operations or new projects on a pay-as-you-go basis. This burdens future generations with debt.

Debt service not only includes paying the principal amount, but also includes paying interest over the term of the bonds, as well as, issuance costs and other costs.

Debt service on motor vehicle fuel tax bonds accounts for more than half of motor vehicle 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 motor vehicle fuel tax revenues are likely to be relatively flat.

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