



Bond Issuance Practices

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Presentation

1. Current Bond Policy
2. Proposed Enhancement to Bond Policy
3. Public Financial Management, Inc.
 - a) Impacts to Project NEON
 - b) Credit Considerations
4. Board discussion, comments and questions



NDOT's Current Policy

Internal Policy dated April 3, 2007:

“NDOT will not issue bonds unless the pledged motor vehicle taxes are at least **twice** the combined maximum debt service of annual principal and interest (of both existing and proposed bonds) for any year.”



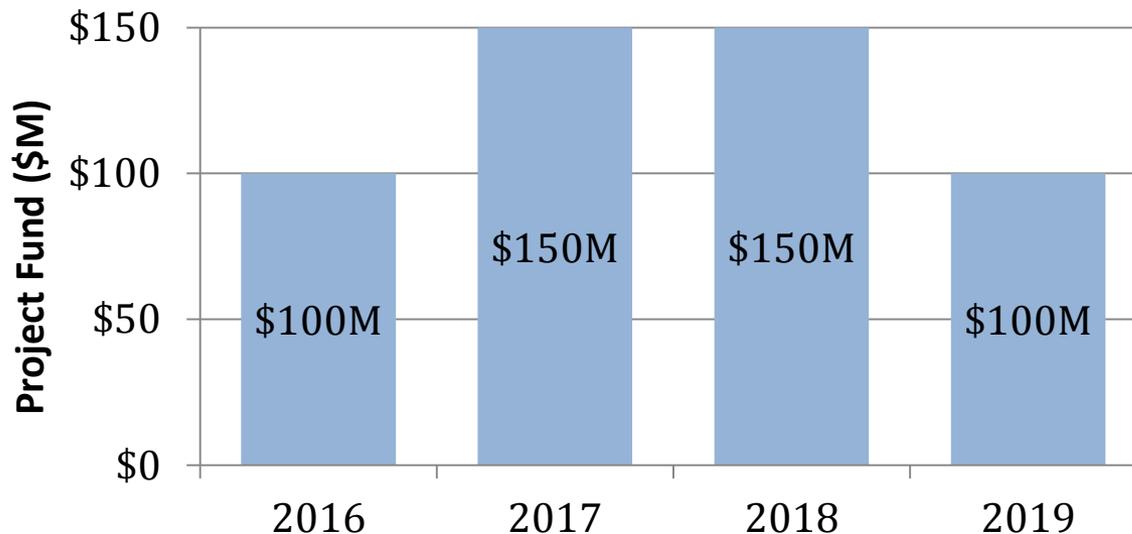
Debt Service Calculation

Gas Tax	\$188M
Special Fuel Tax	<u>\$ 79M</u>
Total 2014 Taxes	\$267M
	<u>÷ 2</u>
Annual Debt Service Limit	\$133M
Current Peak Debt Service (2016)	\$ 69M



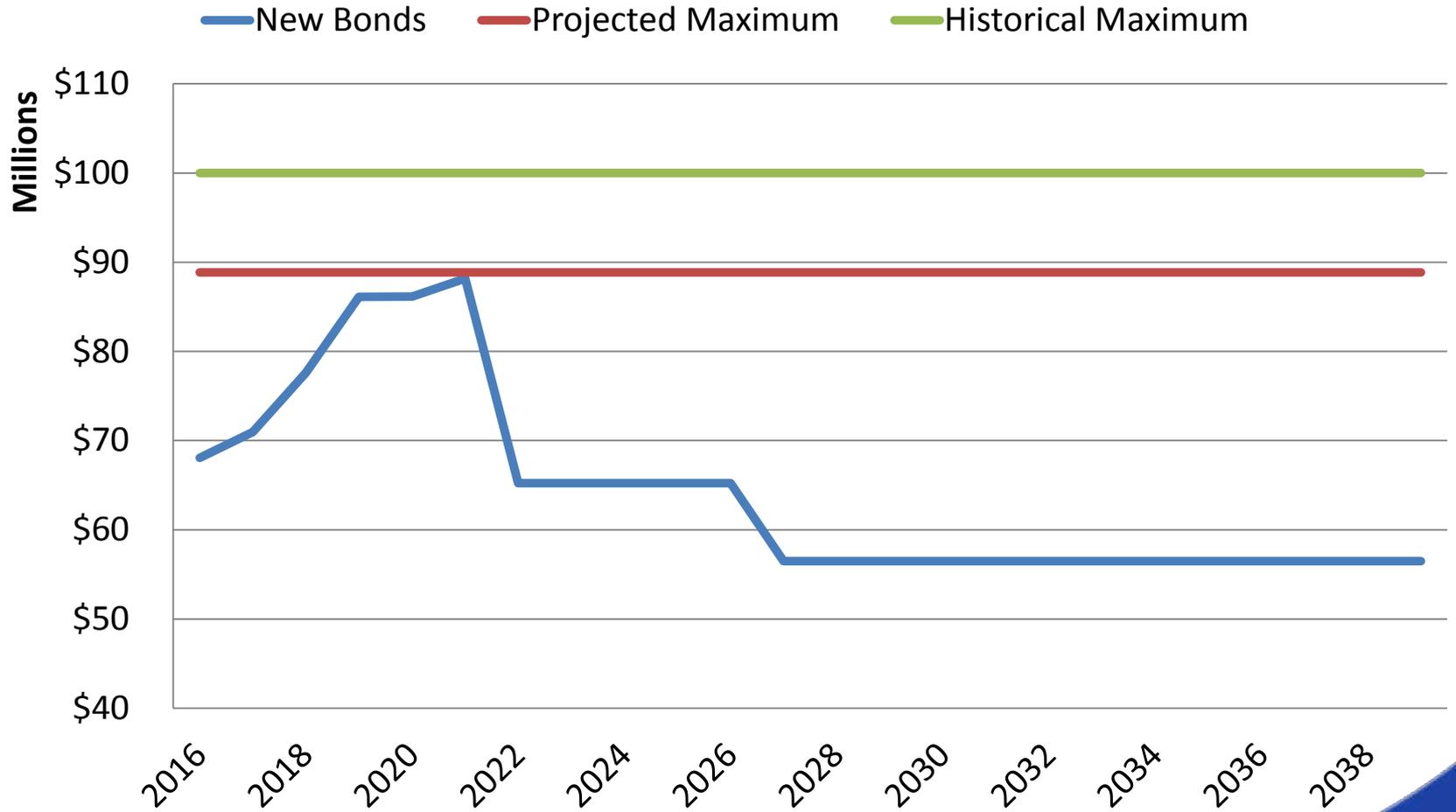
Project NEON Bonding Needs

NDOT anticipates \$500M of additional bonding needs over 2016 – 2019, with the following contemplated borrowing schedule:





Debt Service Levels





Current Credit Ratings

		<u>Goal</u>
Standard & Poor's	AAA	(Highest rating)
Fitch Ratings	AA+	AAA
Moody's	Aa2	Aa1 or AAA

NDOT may be able to make the case to improve rating based on strengthened debt policies



Bond Counsel's Suggestion

“NDOT will not issue **senior lien** (i.e., first lien) bonds unless the pledged motor vehicle fuel taxes are at least **three times** the combined maximum annual debt service (principal and interest) on the then outstanding senior bonds and on the senior bonds proposed to be issued. NDOT may consider issuance of second lien (subordinate) bonds if that is advantageous. **Second lien** bonds will not be issued unless the pledged motor vehicle fuel taxes are at least **two times** the combined maximum annual debt service (principal and interest) on the then outstanding senior bonds, then outstanding second lien bonds and on the second lien bonds proposed to be issued.”



New Debt Service Calculation

Gas Tax	\$188M
Special Fuel Tax	<u>\$ 79M</u>
Total 2014 Taxes	\$267M
	<u>÷ 3</u>
Senior Lien Annual Debt Service Limit	\$ 89M
Subordinate Lien Annual Debt Service Limit	\$133M
*Projected Peak Debt Service (2021)	\$ 89M

**After Sale of all Bonds for NEON*



Benefits to State

- Currently, rating agencies may not recognize the historically higher coverage levels the State has maintained until that coverage is memorialized in writing
- Secures and potentially improve ratings, lowering borrowing costs
- Maintain program flexibility with the same repayment source



Important Considerations

- Benefit existing debt if refunding opportunities came available
- Update does not limit Board's authority
- Board approves future bond issuances
- Potential for lower rates on Project NEON
- Financial Advisor, PFM will present impacts



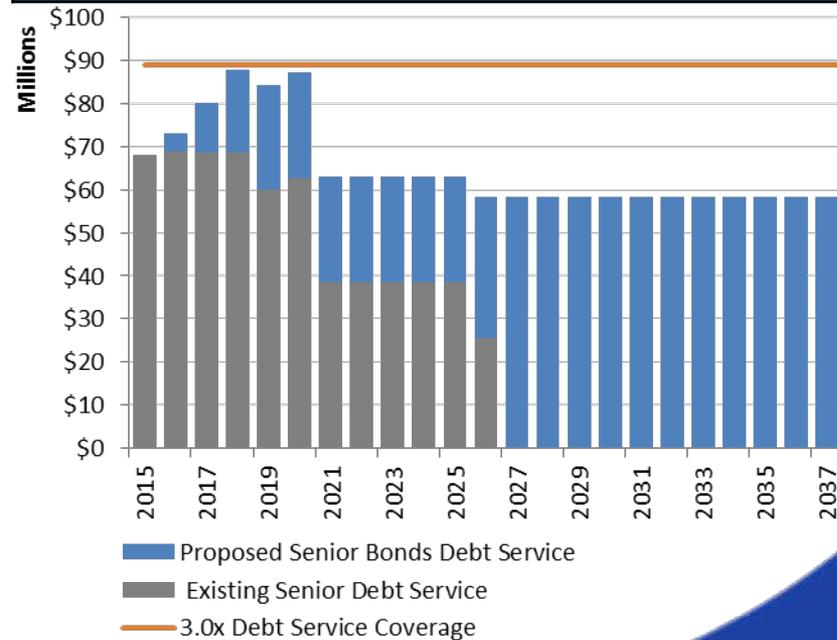
Projected Financing Results for Project NEON (Senior Bonds Only)

- Issuing 100% senior lien bonds is feasible
 - Peak debt service approaches the 3.0x coverage target

Proposed Financing Results

Senior Bonds Proceeds:	\$500M
All-In-Borrowing Cost:	4.80%
Total Proposed Debt Service:	\$876M
Senior Lien MADS Coverage:	3.05x

Proposed Debt Service





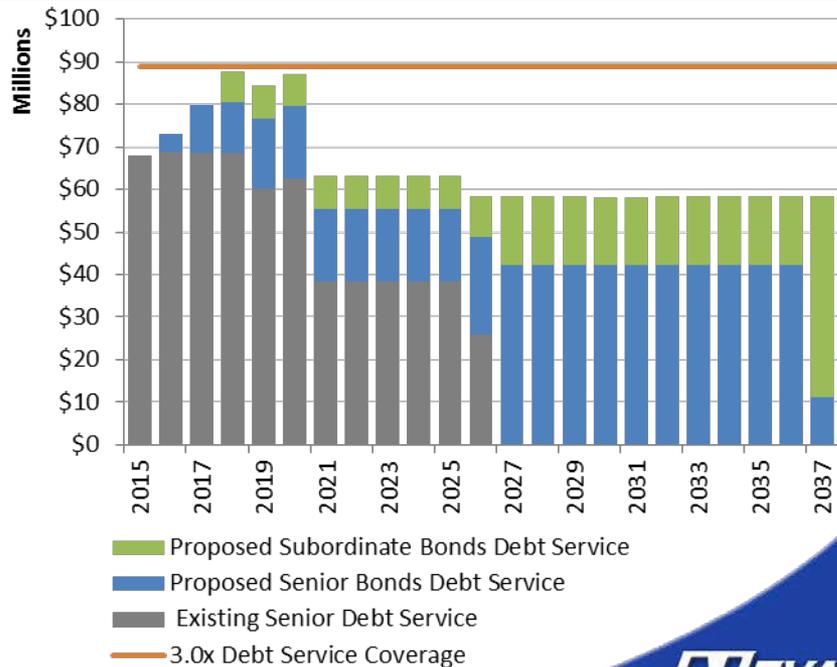
Projected Financing Results for Project NEON (Potential use of Subordinate Bonds)

- Increases senior lien coverage
- Provides flexibility in case interest rates rise or more bonds are needed
- Marginal additional cost
 - \$2.7M (\$1.4M PV) additional debt service* associated with estimated 10 bps interest rate penalty

Proposed Financing Results

Senior Bonds Proceeds:	\$350M
Subordinate Bonds Proceeds:	\$150M
All-In-Borrowing Cost:	4.83%
Total Proposed Debt Service:	\$879M
Senior Lien MADS Coverage:	3.31x
Subordinate Lien MADS Coverage:	3.05x

Proposed Debt Service



*For one subordinate lien bond issuance of \$150M



Credit Considerations

- Potential subordinate lien bonds are estimated to achieve ratings one notch lower than that on the senior lien
 - An estimated 10 basis points credit spread on top of the senior lien
- By strengthening senior lien documents, senior lien bond ratings may increase, offsetting any costs associated with subordinate lien bonds

NDOT Current Actual and Estimated Ratings			
	S&P	Moody's	Fitch
Current Senior Lien	AAA	Aa2	AA+
Potential Subordinate Lien	AA+	Aa3	AA



Multi-Lien Transportation Bonding Programs

- Several highly-rated state level highway bond issuers utilize more than one lien to issue debt

National State Level Highway Bond Issuers with Subordinate Liens

Pledged Revenue*	State Highway Program	Ratings			ABT	Outstanding Debt	MADS Coverage
		S&P	Moody's	Fitch			
M,R,L	Arizona						
	Senior	AAA	Aa1	-	4.0 x	\$500 M	5.1 x
	Subordinate	AA+	Aa2	-	3.0 x	\$1.2 B	2.5 x
M,R,S	Missouri						
	Senior (Closed Lien)	AAA	Aaa	AAA	Closed	\$430 M	7.8 x
	First Lien	AAA	Aaa	AAA	4.0 x	\$1 B	6.4 x
	Second Lien	AAA	Aa1	AA+	3.0 x	\$780 M	4.9 x
	Third Lien	AA+	Aa1	AA-	2.0 x	\$315 M	4.0 x
M,R,L,F	New Mexico						
	Senior	AAA	Aa1	-	3.5 x	\$856 M	6.0 x
	Subordinate	AA	Aa2	-	3.0 x	\$588 M	4.0 x
M,R,L	Oregon						
	Senior	AAA	Aa1	AA+	3.0 x	\$1.6 B	5.0 x
	Subordinate	AA+	Aa2	AA	2.0 x	\$830 M	3.6 x

*F-Federal revenues; L-License permit fees; M-Motor vehicle fuel tax; R-Registration taxes; S-Sales taxes
Coverage and outstanding debt statistics based on latest rating reports or official statements.



Next Steps

NDOT and Treasurer's Office with PFM will be updating rating agencies on NEON's current financing plan and bonding policy:

1. Receive comments from Board for proposed updated bonding policy
2. Adopt policy
3. Brief rating agencies on updated policy