AGENDA ITEM #5: HB2313: HRTPO STRUCTURE AND FINANCING

At its May Retreat, the HRTPO Board was briefed by Mr. Peter Huber from Willcox & Savage and Mr. Sergio Masvidal from PFM Group, Inc. on the potential policy and financial strategies the HRTPO can take regarding the HB2313 "regional" component funds (Attachment 5). Mr. Huber and Mr. Masvidal indicated that while the HRTPO is the entity that will determine project selection for HB2313 revenues, VDOT and the Commonwealth Transportation Board (CTB) will implement and administer the projects. They stated that the HRTPO could consider more legislative initiatives such as modifying the relative roles of the state and regional bodies and/or seeking legislation to authorize the issuance of bonds by either the CTB or consolidating functions at the regional level by the HRTPO or creating a new regional entity similar to the Northern Virginia Transportation Authority.

The HRTPO Legislative Ad-Hoc Committee has been reconvened to discuss and advise the HRTPO Board on the potential policy strategies the HRTPO could pursue to maximize the HB2313 "regional" component funds and make recommendations regarding the need for future General Assembly actions during the 2014 session.

Mr. Peter Huber, Mr. David Miller, and Mr. Tom Inglima will be available to discuss legal and financial issues that may require legislative action.

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RECOMMENDED ACTION:
Per discussion.

HRTPO Structure and Financing

May 16, 2013

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the *heartbeat* of HAMPTON ROADS TPO
TRANSPORTATION PLANNING ORGANIZATION

Executive Summary

I. Policy Discussion
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II. Leveraging HB2313 Revenues
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Policy Discussion

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Considerations

- No current entity has power to issue bonds secured by the Fund without additional enabling legislation
- Revenues dedicated to the Fund will be insufficient to finance the major Hampton Roads projects, requiring coordination with VDOT and the CTB in the application of Transportation Trust Fund revenues and Federal funds and in the design and constructions of those projects
- Planned regional mega projects likely will still need to be tolled to be financially feasible

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General Policy Decisions

The HRTPO will need to reach a policy decision as to whether it prefers:

1. To work within the current structure to clarify the relative roles and powers of the HRTPO, VDOT and the CTB and to clarify the authority to issue bonds secured by revenues of the Fund
2. Seek legislation to consolidate the planning, implementation and financing functions at the regional level, either through modification of the HRTPO or creation of a new regional entity

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HRTPO Legislation

Legislation could be introduced to allow the HRTPO to issue debt secured by the Fund.

- Unlike the HRPDC, the HRTPO has only minimal recognition in the Virginia Code, and lacks specific enabling legislation detailing its powers and rights under state law, which may prevent it serving as an appropriate issuer of public debt without extensive legislation affecting all MPOs
- If VDOT remains responsible for project design and construction, the HRTPO would be merely a conduit for financing, which may be inefficient

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Commonwealth Transportation Board (CTB)

- Based on preliminary legal research, the CTB is a potential issuer of debt supported by the Fund.
- Legislation would be required to authorize the CTB to issue bonds for projects identified by the HRTPO and backed by revenues of the Fund.
- The CTB is authorized to issue bonds for specific purposes and projects enumerated by statute.
- Historically, the CTB has issued bonds secured by and paid from revenues of the Transportation Trust Fund.
  - CTB's bonds have carried additional security from an "appropriation pledge" of the Commonwealth in order to attain a higher bond rating
  - Due to the pledge of state-wide taxes and the "appropriation pledge," this debt is counted by the Commonwealth in its debt capacity calculations
- CTB may not want to issue debt secured by the Fund if counts in the Commonwealth's debt capacity calculation.
  - Preliminary review suggests credit enhancement may not be necessary to sell bonds
  - Additional review is required to determine how to avoid impacting the state's debt capacity, if possible

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New Regional Entity

A new regional entity could be established with powers to design, construct and finance projects similar to those of the Northern Virginia Transportation Authority.

Overlap & coordination with HRTPO would be important.

- Positives
  - Together with HRTPO, a common approach to project planning, phasing, and financing
  - Greater and more direct power to implement projects with revenue under direct control
  - Entity could likely issue debt backed by the HB2313 revenues at an acceptable rate of interest without the Commonwealth credit enhancement
- Negatives
  - The design of the entity could be complex politically, both locally and at the state level

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- Consideration could also be given to legislation permitting use of another existing entity for financing purposes, such as the Virginia Port Authority which has been granted new conduit financing powers

Additional Considerations with respect to Regional Toll Projects

A new regional entity might also be vested with powers to develop regional toll road projects.

- Common approach to setting toll rates and congestion pricing
- Consolidated toll collection system and back office operations
- Ability to implement a regional toll system financing / bonding approach
- Capability to utilize Design-Build and DBOM delivery alternatives
- Over time, possibility to consolidate existing transportation projects in the region, creating the ability to equitably manage tolls or consider the use of tolls in congestion management

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Leveraging HB2313 Revenues

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TRANSPORTATION PLANNING ORGANIZATION

Credit Quality

- The various revenues provided by HB2313 are common among transportation debt programs and can be successfully leveraged without Commonwealth credit support.
- Common financial structures for credit-worthy plans include:
  - Typically level annual debt service, although modestly ascending debt service based upon conservative revenue projections can be used
  - Additional Bonds Test requires debt service coverage in the 1.25x to 1.50 times range
  - Ability to fund O&M costs, fund R&R deposits, and fund pay-go capital after payment of debt service
- Credit ratings for a regional entity and this type of revenue pledge are typically in the AA – A categories depending on bond covenants and the expected level of leveraging
- Regional economic strength is an important credit factor

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Case Study: Better Jacksonville Plan

- The Better Jacksonville Plan ("BJP") provides the City of Jacksonville (FL) with road, transportation and infrastructure improvements, economic development and public facilities.
  - Prior to the first issuance of BJP Bonds, the City created a financing structure for funding $2.25 billion of capital projects within the City over ten years
  - The two pieces of BJP, Infrastructure Sales Tax ("IST") and Transportation Sales Tax ("TST"), were sized based upon long term financial planning models
- Financial models were driven by credit rating standards and market acceptance of the BJP Bonds:
  - Based on bond financing and cash funded projects and fully incorporated coverage requirements, reserve funds, and liquidity needs
  - TST program included a local fuel tax and subordinate funding of the Jacksonville Transit Authority system operations after payment of TST debt service and capital needs
- The City and JTA adopted two Bond Ordinances authorizing the BJP bond financing program in its entirety.
- Financial models were driven by credit rating standards and market acceptance of the BJP Bonds:
  - IST Revenue Bonds rated A/A1/A+ with $568 million currently outstanding
  - TST Revenue Bonds rated AA-/A1/AA- with $545 million currently outstanding

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HRTPO Capacity Analysis

- The following assumptions were used for both of the following capacity analyses:
  - 30-year bond issue every 2 years for 20 years, such that the final maturity of the last bond issue is in year 50
  - Fixed-rate, Level annual debt service structure for each issue
  - Targets 125% coverage over debt service
- Low Case: $180mm revenues in FY 2014, growing by 2% annually
  - $3,075 million Aggregate Bond Net Proceeds over 20 years
  - $2,374 million Aggregate Net Revenues After Debt Service over 30 years through 2043
- High Case: $200mm revenues in FY 2014, growing by 3% annually
  - $3,848 million Aggregate Bond Net Proceeds over 20 years
  - $3,642 million Aggregate Net Revenues After Debt Service over 30 years through 2043

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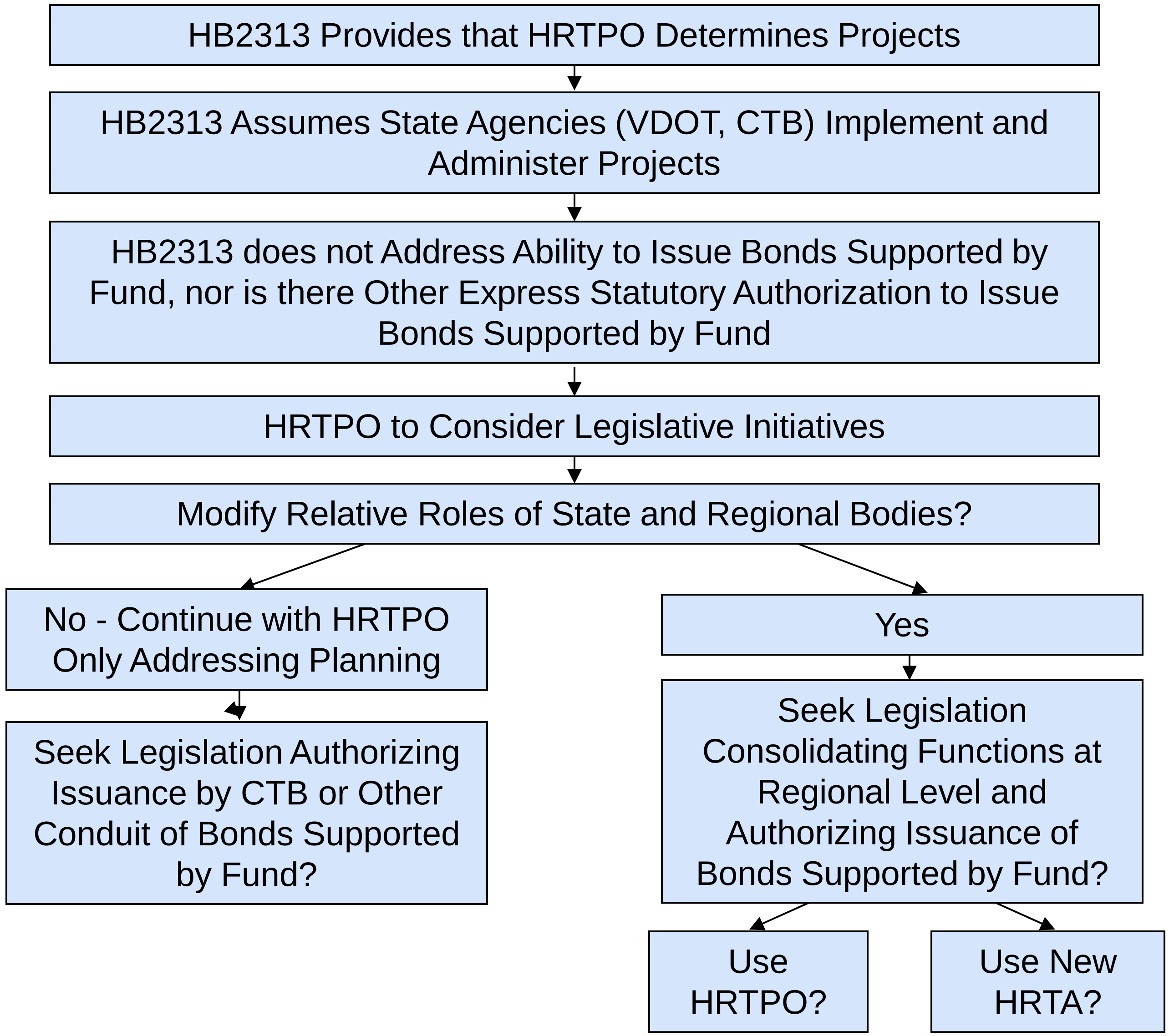
Decision Tree



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