

Special Finance Committee Meeting – Minutes

Meeting Details

Date: December 20, 2022

Location: Webinar Only

Time: 9:30 AM

Attendance

Members Present In-Person & Virtually

John Adcock, Pamela Senegal, Robert Teer,
Jim Walker

Members Absent

Welcome/Introductions, Call to Order & Declaration of Quorum

Robert Teer, Chair

Discussion Summary

Chairman Robert Teer called the December 20, 2022, North Carolina Turnpike Authority Special Finance Committee meeting to order and welcomed those in attendance. Mr. Teer invited everyone attending the meeting in person and remotely to introduce themselves. Mr. Teer called roll and declared a quorum present.

Actions Taken

Information only/no action required

Opening Comments

J.J. Eden, NCTA Executive Director

Discussion Summary

Mr. J.J. Eden started his opening comments by welcoming everyone to the meeting. He thanked Mr. David Roy and his finance team for their work in keeping the finances of the Turnpike in front of mind. He spoke about the idea that the next year will be a great time to be part of the Turnpike, with so many potential projects and opportunities.

Mr. Eden shared that he appreciated the good turnout and dedication to the Turnpike considering the short notice of this meeting's announcement and the fact that the holidays are a busy time of year. He thanked Mr. Teer for chairing this committee and then yielded back to the Chair.

Actions Taken

Information only/no action required.

BANs Defeasance Opportunity

David Roy, Chief Financial Officer Jacob Vlanich, Financial Analyst

Discussion Summary

Mr. David Roy and Mr. Jacob Vlanich shared a presentation about an opportunity for the Board to take advantage of a timely financing instrument.

Mr. Vlanich delivered information including an overview of the opportunity to defease the TIFIA loan for the Triangle Expressway early, a transaction overview with an execution date of January 17, 2023, the net benefit of the transaction to NCTA, the financing schedule, and details about the draft documents and Board Resolution.

During the presentation, Mr. Robert Teer asked Mr. Vlanich to go point by point to focus on each detailed item. Mr. Teer shared for the record that these savings were in addition to the \$149 million saved in the past 20 years which utilized similar transactions. He added that it was important that Turnpike was able to do this and noted that not many other state agencies were able to use these financial transactions to save money for the customers and for the State of North Carolina in the same way.

Mr. Vlanich continued with the presentation. There were several questions from Mr. John Adcock. He asked if the transaction was in compliance with NCTA Debt Policy. Mr. Vlanich said that it had been vetted in a significant way with the Bond Council that has advised NCTA in these matters. Mr. Vlanich also confirmed that this would not be a new issuance. The transaction made use of issuances which were previously

approved by the Board. Mr. Adcock continued by asking, because it was not a new issuance, if there was local government commission approval required. Mr. Vlanich and Mr. David Roy stated that Mr. Adcock's statement was correct, assuming that this Defeasance was approved today by the NCTA Finance Committee, that the local commissioner would be made aware of the transaction, but that no approval was required from the commissioner.

Mr. Adcock also referred to slide 6 "Net Benefit of Transaction to NCTA." The statement "based on current rates" appeared. He wanted more information about the variables considered and the net benefits received in regard to rate changes caused by the factors involved. Mr. Roy stated that there would be rate risk until the financial close was reached on January 17, 2023 (approximately). At the time of closing, NCTA would purchase allowable government securities such as a One-Year Treasury Note that (with the interest earnings) would fully defease the roughly \$500 million BANs. He stated that the rate risk only existed until closing date. All rates would be 'locked in' between January, 2023 and February, 2024. Mr. Adcock asked what the estimated TIFIA drawdown amount was for this transaction. Mr. Roy shared that the full TIFIA loan was about \$499.5 million. He added that the expectation was for NCTA to draw on the full amount. At that point, the interest from drawing on TIFIA would begin to accrue. Mr. Adcock asked if the debt amount would be increased by the full draw of the TIFIA loan? Mr. Roy stated that Mr. Adcock was correct. As part of that calculation, NCTA would pay more interest over the life of the TIFIA loan by drawing TIFIA early. However, the additional debt would be more than offset by the realized savings.

There were no more questions. Mr. Jim Walker shared that he had a discussion with Mr. Roy before the meeting and he was comfortable with the information learned. He asked Mr. Roy if he wanted to share with the other board members what they had discussed. Mr. Roy said that Mr. Walker had questions about financial news (FTX and general risk regarding banks). Ms. Lisa Williams, with McGuireWoods, L.L.P., shared the information that at financial close the securities would be used to purchase U.S. Securities – Treasuries. There was no money being loaned by Computershare. They would not be holding these funds in cash, and these assets were being used to buy securities backed by the U.S. Government. Computershare is a go-between only/brokerage. Computershare will be acting on behalf of NCTA and then holding the securities on behalf of Turnpike. The transactions will be made and securities will be held in an escrow account. The assets are held for the benefit of NCTA by Computershare acting as a fiduciary. Ms. Williams continued to say that Computershare had no claim to the funds. Their documentation also confirmed this fact.

Mr. Walker said that he appreciated Ms. Williams explaining the process and said that he just was compelled to ask the question because it was such a large sum of money being considered for defeasance. Mr. Roy added that Computershare did acquire the Corporate Trust Business section of Wells Fargo Bank last year. He stated that this was a very well-capitalized firm. He confirmed that the people and the systems were the same people and systems that NCTA had always worked with, just the name of the fiduciary firm had changed. Ms. Williams added that Computershare had been a major player in the trust business for a long time. Computershare had not previously been a main name in the municipal securities business in the United States. She said that they had been in the corporate space, and by purchasing Wells Fargo they have moved into the municipal securities space. She finished by stating that they had been around for a long time.

Mr. Adcock summarized the transaction and asked if he was correct in saying that NCTA was increasing the debt by the amount of the TIFIA draw as a short-term increase of the debt load until full defeasance of the bond anticipation notes was achieved. Was he correct that this increase in debt that would only be in existence until the bond anticipation note was paid off. Mr. Roy also asked Ms. Williams to confirm that the BANs would be legally defeased as soon as the bonds were placed in escrow. At that point, from a legal perspective, the BANs would no longer exist and only the TIFIA loan would be outstanding for the Turnpike Authority. He asked her to clarify the following point: NCTA would not have the \$500 million BANs and also \$500 million TIFIA loans outstanding at that point. The BANs would be legally defeased. Ms. Williams stated that Mr. Roy was correct.

Actions Taken

Information only/no action required.

Action Item:

CONSIDERATION OF RESOLUTION WITH RESPECT TO THE DEFEASANCE OF THE SENIOR LIEN TURNPIKE REVENUE BOND ANTICIPATION NOTES, SERIES 2020

Robert Teer, Chair

Discussion Summary

Mr. Robert Teer announced that he would entertain a motion that the Finance Committee recommended the RESOLUTION WITH RESPECT TO THE DEFEASANCE OF THE SENIOR LIEN TURNPIKE REVENUE BOND ANTICIPATION NOTES, SERIES 2020 to the North Carolina Turnpike Authority Board of Directors for consideration and approval.

Mr. Jim Walker so moved. Mr. John Adcock made the second. Mr. Teer then took a roll call vote. All Committee Members voted aye. The motion passed.

Mr. Teer thanked the Board Members for their work throughout the year and wished all a wonderful holiday.

Actions Taken

Resolution Approved.

Adjourn

Robert Teer, Chair

Discussion Summary

Mr. Robert Teer called for a motion to adjourn the December 20, 2022, North Carolina Turnpike Authority Finance Committee meeting.

Actions Taken

A motion to adjourn the December 20, 2022, Finance Committee meeting was approved upon a call for motion from Dr. Pamela Senegal and second from Mr. John Adcock. A unanimous vote closed the meeting.

North Carolina Turnpike Authority

Special Finance Committee Meeting

December 20, 2022



Opening Comments

J.J. Eden
Executive Director

BANs Defeasance Opportunity

David Roy
Chief Financial Officer

Jacob Vlanich
Financial Analyst

Overview of Opportunity

Triangle Expressway System

- In October 2020, NCTA issued the Senior Lien Revenue Bond Anticipation Notes, Series 2020 (“2020 BANs”) with the intent of drawing upon the TIFIA Loan at their maturity in February 2024
 - At that time, short-term interest rates were below the TIFIA Loan rate of 1.83% (i.e., the 1-year treasury rate was 0.12%*)
- Due to significant shifts in the interest rate environment (i.e., the 1-year treasury rate is currently 4.64%**), NCTA would benefit from accelerating the TIFIA Loan draw to defease the 2020 BANs in advance of their maturity
 - Furthermore, TIFIA funds are not subject to yield restriction and therefore can be invested in allowable investment vehicles at current market rates without restriction
 - Due to investment earnings on escrowed funds, the amount of TIFIA funds required to pay the principal of the 2020 BANs is reduced
 - Excess funds could be deposited into the general reserve
- The investment earnings outweigh the increased debt service on the TIFIA Loan (resulting from an accelerated draw schedule) creating a net benefit to NCTA

*Slides from PFM Financial Advisors LLC

*Rate as of October 29, 2020.

**Rate as of December 14, 2022

Transaction Overview

Triangle Expressway System

- **Execution date: January 17, 2023**
- **Irrevocable Escrow Investment**
 - Investments currently held in Capitalized Interest Fund will be transferred into the escrow and continue to pay all interest due on the 2020 BANs until their maturity
 - NCTA will deposit TIFIA Loan proceeds required to purchase government securities to fully defease the 2020 BANs principal
- **TIFIA Loan**
 - NCTA will draw the full amount of the TIFIA Loan at closing. Only a portion will be required to fully defease the 2020 BANs and the remainder will be deposited into the general reserve.
 - The general reserve deposit is estimated to be \$23 million
 - Interest will begin to accrue on the full TIFIA Loan amount when the TIFIA Loan is drawn resulting in increased debt service.
 - The NPV cost of the accelerated draw is estimated to be \$9 million

Net Benefit of Transaction to NCTA

Triangle Expressway System

- Based on current rates, the plan results in approximately \$13.8 million net present value benefit to the Triangle Expressway System after considering increased TIFIA debt service and transaction costs

Net Benefit to NCTA*	
Excess TIFIA Funds	\$23,010,000
<i>Less:</i> NPV of Increased TIFIA Loan Debt Service	(9,011,000)
<i>Less:</i> CAPI Fund Yield Restriction Liability**	(70,000)
<i>Less:</i> Transaction Fees	(100,000)
<i>NPV Net Benefit</i>	<i>\$13,828,000</i>

- The Net Benefit amount will fluctuate with investment rates until securities are purchased

*Slides from PFM Financial Advisors LLC

Financing Schedule

Triangle Expressway System

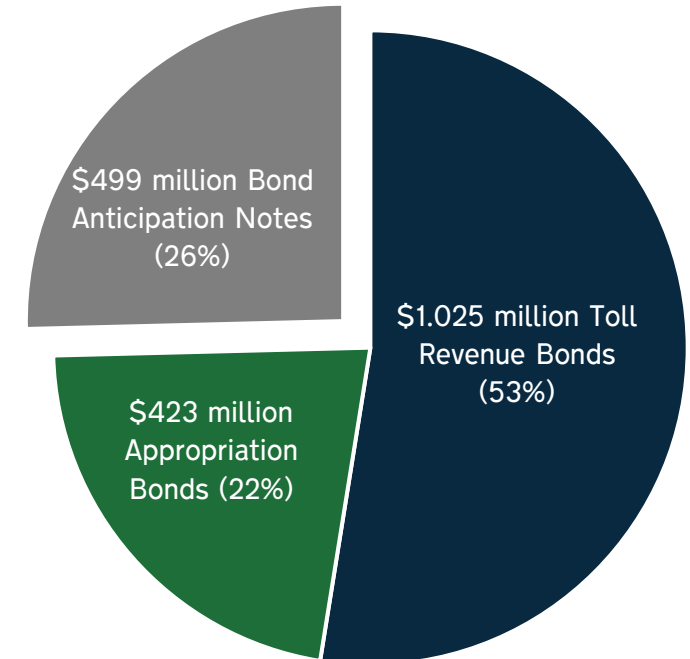
Target Date (Deadline)	Task
Dec 20	NCTA Finance Committee and Board Approval
Dec 21 (Dec 31)	Submit Requisition of full TIFIA Loan
Jan 5 (Jan 10)	SLGS Subscription / Open Market Security Bidding Verification of Escrow Sufficiency
Jan 17	Closing: <ul style="list-style-type: none">• TIFIA Loan Drawn• Settlement of Escrow• Defeasance Notice Posted

Draft Documents and Board Resolution

Triangle Expressway System

- Escrow Agreement
 - Agreement defines terms of Escrow Fund with Trustee
 - Full Defeasance of BANs
 - Requires Verification Report, ensuring deposits along with interest are sufficient
- Resolution
 - Approves the early TIFIA Loan draw for defeasing the Series 2020 BANs
 - Earnings on proceeds in excess needed to defease the Series 2020 BANs are to be used for costs related to the Triangle Expressway System
 - Board reaffirms and ratifies all prior resolutions and actions taken in connection to the defeasance of the Series 2020 Notes.

Triangle Expressway
Debt by Security Type*



*Totals may not add due to rounding

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Thank you!