



NORTH CAROLINA

Department of Transportation



Board of Directors Finance Committee Meeting

North Carolina Turnpike Authority

July 20, 2017



NCTA Refunding Overview

Triangle Expressway System State Annual Appropriation Revenue Bonds (BABs), Series 2009B

July 20, 2017

PFM Financial
Advisors LLC

300 South Orange
Avenue
Suite 1170
Orlando, FL 32801

407-406-5752
pfm.com



Refunding Overview

- ◆ **\$349,305,000 Triangle Expressway System State Annual Appropriation Revenue Bonds, Series 2009B**
 - \$312,365,000 is eligible for a refunding
 - Bonds maturing 2022 and thereafter become callable January 1, 2019 at par

- ◆ **The Series 2009B Bonds were issued as Federally Taxable, Issuer Subsidy Build America Bonds**
 - NCTA was to receive a subsidy of 35% of the interest due semi-annually

- ◆ **Refunding Eligibility/Considerations**
 - Although eligible for an advance refunding, BABs are challenged by reissuance concerns that might eliminate the federal interest subsidy between closing and the call date
 - BABs are eligible for a forward refunding or current refunding
 - Savings achieved through a refunding would remain on the project



Forward Refunding & Solicitation

◆ Forward Refunding

- A Forward Starting Bank Loan is a standard fixed rate loan where the interest rate is set today but the loan doesn't settle until a future date.
- A forward premium is incorporated into the interest rate to lock in the rate today.

◆ Through a competitive solicitation process via broad distribution of a new Request for Proposals, NCTA is able to receive market indications from multiple proposers and select the lowest cost option

◆ The Request for Proposals for a Tax-Exempt Forward Refunding Bank Term Loan specific to the 2009B Appropriation Revenue Bonds was distributed to active market participants and posted on NCTA's website on June 20th



Responses Received

- ◆ Please refer to separate handout for a detailed summary.
- ◆ Interest rate indications are as follows:

Proposer	Bank of America Merrill Lynch			JP Morgan		Piper Jaffray		Wells Fargo		
	Make Whole	10 Year Par Call	5 Year Par Call	Non-callable	5-year Par Call	Non-callable	5-year Par Call	Make Whole	Call Date: 1/1/2022	Call Date: 1/1/2020
10 Years	2.43%	-	2.73%	3.01%*	3.12%*	2.98%	3.05%	2.38%	2.58%	2.86%
12 Years	2.65%	-	3.01%	3.14%*	3.22%*	3.14%	3.22%	-	-	-
15 Years	2.86%	2.92%	3.41%	3.32%*	3.43%*	3.25%	3.34%	-	-	-

*JP Morgan provided a scale for each scenario, the rates shown are the Total Interest Cost on a transaction utilizing the proposing scales.



Indicative Refunding Results

Bank	Bank of America Merrill Lynch				JP Morgan			Wells Fargo	
Term	10 Year	15 Year	15 Year	15 Year	10 Year	15 Year	15 Year	10 Year	10 Year
Call Provision	Make Whole	Make Whole	10 Year Par Call	5 Year Par Call	Non-Callable	Non-Callable	5 Year Par Call	Make Whole	5 Year Par Call
Interest Rate	2.43%	2.86%	2.92%	3.41%	2.70% - 3.20%	2.70% - 3.60%	2.70% - 3.80%	2.38%	2.58%
All-In TIC	2.48%	2.87%	2.94%	3.42%	3.05%	3.33%	3.44%	2.43%	2.62%
Gross Savings (\$)	\$8.0 M	\$21.9M	\$21.0 M	\$14.2 M	\$5.4 M	\$15.5 M	\$13.9M	\$8.2 M	\$7.3 M
NPV Savings (\$)	\$7.3 M	\$18.4 M	\$17.6 M	\$11.6 M	\$4.9 M	\$12.7 M	\$11.4 M	\$7.5 M	\$6.7 M
NPV Savings (%)	9.3%	11.4%	10.9%	7.2%	6.2%	7.9%	7.1%	9.6%	8.5%



Breakeven Analysis – Interest Rate Sensitivity

- A Current Refunding on or near 1/1/2019 based on today's interest rates and the assumptions herein, is \$22.9 million or 14.2% of refunded par but ...
- NCTA would carry interest rate risk until the current refunding bonds could be priced.
- Forward Refunding Breakeven
 - Locking in an interest rate today via a forward refunding would eliminate the Authority's exposure to increasing interest rates, but would include an additional interest rate premium.
 - If interest rates were to increase an average of 35 bps from now until the bond sale (within 90 days of January 1, 2019), a future Current Refunding would achieve the same npv savings as the Forward Refunding today.
 - Any further rate increase would mean the current refunding at that time would likely not be as beneficial as the proposed forward sale.



Finance Team Recommendation

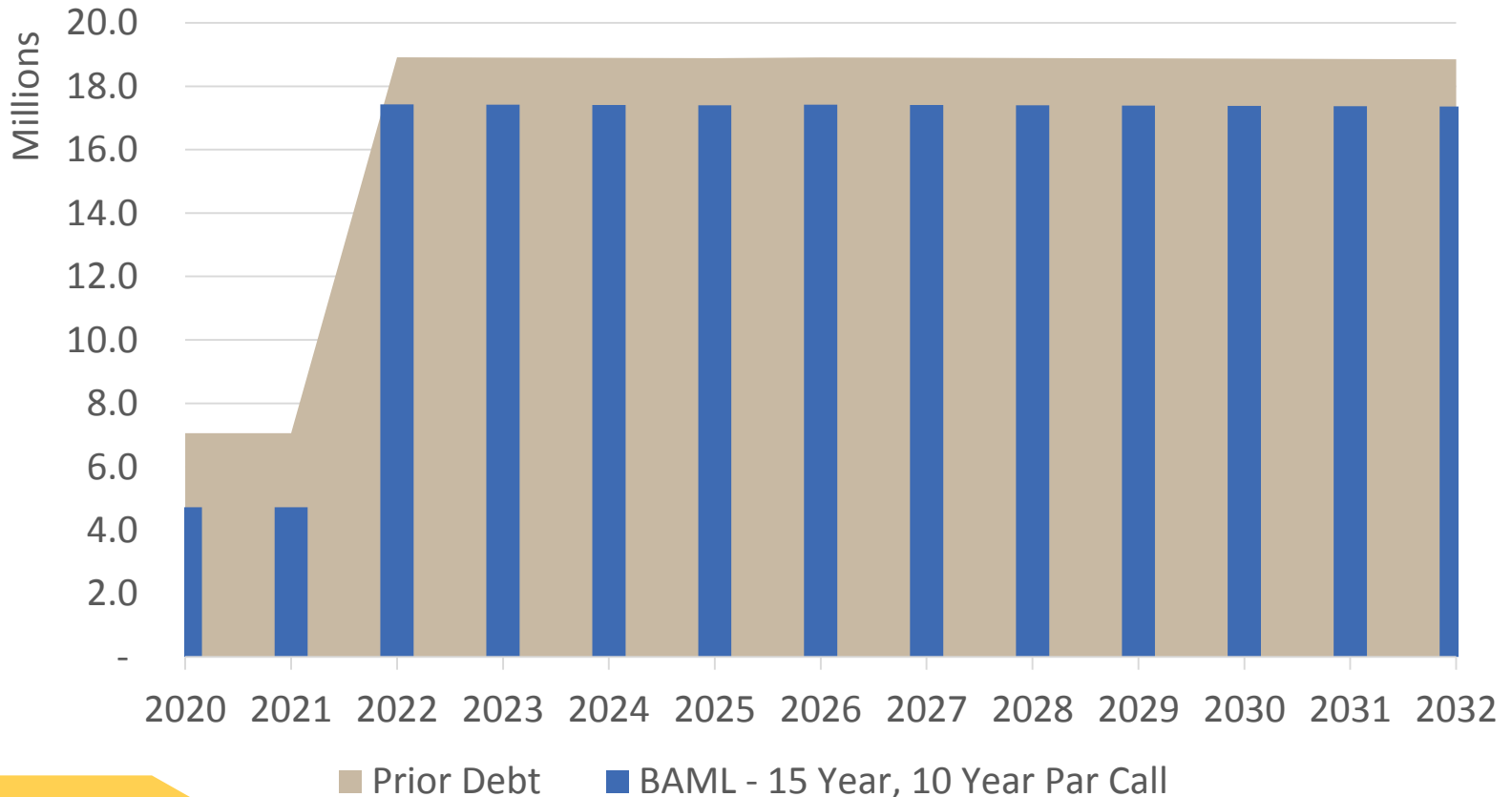
- ◆ Bank of America Merrill Lynch's proposed rate achieves the greatest npv savings in both dollar terms and as a percentage of refunded par
 - 15-Year Term, Make Whole: \$18.4 million or 11.4% of refunded par
 - 15-Year Term, 10-Year Par Call: \$17.6 million or 10.9% of refunded par
- ◆ The loan is eligible for an advance refunding in the future, and the 10-year par call alternative offers flexibility at a relatively small cost
- ◆ A forward premium of 28 bps is incorporated into the interest rate
- ◆ The prepayment fee or "breakage fee" will be equal to the net present value difference between the interest due on the loan at the fixed rate and the swap rate for the remaining term
- ◆ The NCTA finance team recommends securing the savings associated with BAML's 15-year loan while preserving future refunding optionality available through the 10-year par call option



Debt Service Savings

Bank of America Merrill Lynch – 15 Year Term, 10 Year Par Call

- Cash Flow savings of over \$21 million, approx. \$1.6 million average annual





Potential Rate Lock

- ◆ Notify preferred responder that they are recommended by Staff and the NCTA Finance Committee, but subject to the approval of the full NCTA Board and the LGC
- ◆ Clarify Loan Term Sheet questions, if any
- ◆ Determine interest rate based on the proposed interest rate index and formula
- ◆ Request a 30-day rate lock quote
- ◆ Expected cost 1-4 basis point cost added to the loan interest rate



Schedule

July 11	Receive forward bank loan proposals
July 14	Selection committee reviews proposals
July 20	NCTA Finance Committee Meeting reviews selection committee's recommendation
July 24	NCTA Special Board Meeting to approve Refunding & Loan Provider
August 1	LGC Full Commission Meeting – Approval of Refunding (no further LGC action required in 2018)
August 10	Execution of forward agreement

Refunding Bond Documents

Wally McBride

Hunton & Williams

Refunding Bond Documents

- **Bond Order**

- Short formula document to be adopted by the Authority as required by Revenue Bond Act
- To be adopted in August 2017

- **First Supplemental Trust Agreement**

- Between the Authority and Wells Fargo as Trustee
- Amends the original 2009 Trust Agreement, states terms for the Refunding Bond (rate, installment payments, etc.) and has some adjustments reflecting single purchaser instead of multiple bond owners
- To be executed in December 2018, but form will be decided now

- **Refunding Bond**

- In form attached to First Supplemental Trust Agreement
- To be executed in December 2018

- **Bond Purchase Agreement**

- Between Authority and Purchaser
- To be approved by the LGC, provides for current sale but future delivery, sets conditions on future closing and breakup fee
- To be executed in August 2017

- **There is no Official Statement or other offering document**

- **No Escrow Agreement is needed since the proceeds of the Bond, when issued, will immediately be used to redeem the selected BABs**