



Date: March 15, 2017
To: High Performance Transportation Enterprise Board
From: Nicholas Farber, HPTE Operations Manager; Brent Butzin, HPTE General Counsel
Subject: C-470 Express Lanes Project Parameters Resolution - Current Market Conditions

Purpose

The purpose of this memo is to summarize current market conditions, the C-470 Express Lanes Project's Plan of Finance, and to recommend a 75 basis point cushion to accommodate for interest rate movement between now and financial close.

Action

The Board and TC are asked to adopt a resolution that supports the staff recommendation.

Project Background

The C-470 Express Lanes Project (the Project) is located along 12.5 miles of C-470, between Interstate 25 (I-25) and Wadsworth Boulevard. The Project includes reconstructing existing pavement, adding auxiliary lanes, improving on and off ramps as well as the construction of new express lanes both westbound and eastbound. The total construction cost of the Project is \$276 million. Up to \$61 million is being contributed between CDOT and local stakeholders and HPTE will borrow the remainder of the Project cost through a TIFIA loan and toll revenue backed bonds. HPTE aims to close on the TIFIA Loan and the toll revenue backed bonds some time in mid to early April and needs approval of this resolution to move forward with financial close. At the February Board meeting, HPTE staff asked for a 100 basis point cushion in Resolution #223 that approved the C-470 TIFIA Loan, the C-470 Master Trust Indenture, the C-470 Preliminary Official Statement and the Bond Purchase Agreement. The Board approved a 50 basis point cushion with the provision that staff could come back at the March meeting with additional information justifying additional flexibility.

C470 Plan of Finance

In response to questions from the Board at the February 15 meeting relating to the interest rate parameters contained in the Bond Resolution, HPTE has evaluated a range of scenarios to illustrate the extent to which the impact of changes in interest rate can be absorbed by the project's existing financial plan. The Board expressed concern that if the financing were to be completed when interest rates are 100bps above current market rates, the resulting debt service coverage ratios (DSCRs) would be close to legal covenants and would leave very little cushion if the project underperforms.

The finance plan has been structured in order to maximize the amount of TIFIA proceeds and bond proceeds that can be supported within the DSCR limitations expected by the rating agencies to support the expected BBB ratings and within the legal covenants of both the TIFIA loan agreement and Trust Indenture. The finance plan has flexibility to manage DSCRs based on the availability of up to \$40 million of RAMP funding.

The following table shows how the finance plan and resulting DSCRs would be impacted under a variety of interest rate scenarios. Assuming the **Rating Case**, project cash flows could accommodate up to \$175 million of senior bond proceeds, an up to \$110 million TIFIA loan, and a RAMP allocation of \$19.5 million. As interest rates rise, additional RAMP funding is allocated to the project while proceeds from senior bonds is reduced, thus mitigating the impact on DSCRs. The bonds will be structured in order to maintain the Current Market Case DSCRs as closely as possible in order to protect the BBB ratings. In all cases, the minimum DSCR is higher than the legal covenants of the TIFIA loan and the Bond Indenture which are 1.25x for Total Debt Service. It is also important to note that the minimum DSCR occurs in only one year therefore the average DSCR more accurately reflects the flexibility in the finance plan.

	RATING CASE	Senior +75 bps TIFIA +50 bps	Senior +100 bps TIFIA +100 bps
Senior Bonds Rate	4.80%	5.55%	5.80%
TIFIA Rate	3.10%	3.60%	4.10%
Senior Bond Proceeds	177,899	158,607	160,494
TIFIA Loan Proceeds	108,151	108,484	109,120
RAMP Proceeds	19,500	40,000	40,000
Min Total DSCR	1.58x	1.55x	1.47x
Avg. Total DSCR	3.24x	3.19x	3.00x
Legal DSCR Covenant	1.25x	1.25x	1.25x
Projected Rating	BBB	BBB to BBB-	BBB-

While the amount of RAMP funding provides the most flexibility, HPTE also has the ability to implement other structural changes such as the amortization schedule or the use of capital appreciation bonds. To the extent DSCRs are significantly reduced due to higher interest rates or there are other significant structural changes to the financial plan, there would be a delay in the financing as the rating agencies would need to be informed of the changes. If the rating agencies feel the changes are materially negative, there may be a negative rating impact which would result in higher interest rates.

Key Benefit

- Based on current market conditions and the likelihood that the Federal Reserve will raise rates this month, the 75 basis point cushion will allow staff to reach financial close without staff having to come back to the Board with additional requests.

Options/Decision Matrix

- 1) **Staff Recommendation:** Approve the Resolution. HPTE will close on the Project's financing in April.
- 2) Review and approve the Resolution with changes the Board deems appropriate.
- 3) Review but do not approve the Resolution. Provide instructions on changes or revisions. Project financing would be delayed by at least one or two months.

Recommendations

The staff recommends that the Board approve the resolution authorizing with the higher interest rate cushion of 75 basis points.