Creating a Stand-Alone Toll Financing

Creating a self-supporting toll finance plan for a start-up toll facility is challenging and the marketability of bonds will depend on several factors including: (1) reliability of T&R estimates; (2) construction costs and risks; (3) O&M costs; (4) finance plan; and (5) support for the project.

The finance plan will determine the feasibility of most toll projects and the key is achieving the lowest cost of borrowing. Unfortunately, for start-up toll facilities, the amount of revenue that is likely to be generated by the project is extremely uncertain so protections must be built into the financing to provide sufficient cushion in the event revenues are slower or lower than expected. In addition to repaying bondholders, the revenues must also fund operating and maintenance expenses of the project and fund a maintenance reserve fund and/or rate stabilization fund. The bond markets typically require a minimum of 1.75x coverage on net revenues in order to obtain investment grade ratings. A combination of senior bonds at 1.75x and subordinate bonds at a lower coverage, eg 1.30x, could also be marketable.

There are three components of the financing that can be tweaked in order to reduce or eliminate funding gaps: reduce the amount of borrowed funds; create a financing that minimizes interest costs while supporting an investment grade rating; identify ways to enhance annual cash flows.

- General sources of funding that could reduce the amount of funds borrowed in the capital markets:
  - Changes to project design or value-engineering to reduce costs
  - Federal funding (regular federal-aid revenues received by CDOT)
  - TIFIA
  - State funding received by CDOT
  - Local funding
  - Private participation
- Finance Plan Considerations
  - Implementing a mix of lien levels to maximize leveraging capacity
  - Utilizing short-term borrowing to reduce negative arbitrage in the construction fund
  - Deferring payments during ramp-up phase
  - Ensuring enough flexibility to refinance in the event revenues are lower than projected
- General sources of funding that could be used to provide annual cash flow support:
  - State funding (to the extent permitted by law)
  - Local funding (to the extent permitted by law)

The purpose of this discussion is to explore alternatives to close the funding gap for the C-470 project. The following is a description of some of the alternatives mentioned above and their relevance and application to the C-470 project.

Reducing the Amount Borrowed

There are several options that could potentially benefit this project by reducing the amount of project costs that must be funded from bond proceeds. Such alternatives include:

- **Participation by CDOT**: CDOT could make a commitment to contribute state or federal dollars to make up any shortfall in the construction costs. The amount that could be granted to CTE would be limited by

TABOR restrictions, however a loan may be possible. If CDOT were willing and able to be a "patient" lender, they could also provide the flexibility needed during the early years of the project ramp-up. In order for CDOT to use federal funds for this project, it would need to be included in the STIP. Another way CDOT could participate is to agree to fund major maintenance reserves – thereby reducing the amount of funds that need to be borrowed.

- **Participation by private developers**: While there is a cost to private participation, there have been projects where a developer has been willing to delay receiving payment for services for some period of time. Interest would accrue at a mutually agreed upon interest rate. There is no limitation on the amount of funds that may be contributed by private corporations. Private ownership and operation of the project may also be a viable alternative and potentially provide some upfront cash for CTE.

- **Participation by local governments**: Local participation could take several forms including a direct payment towards construction costs, donation of right-of-way, or construction of certain elements of the project.

Finance Structure

The use of a TIFIA loan (described further below) in conjunction with creative structuring of senior and subordinate lien debt can help a project become more self-sufficient. A TIFIA loan is an attractive and flexible funding tool because it allows for the deferral of debt service payments and the subordination of USDOT's position increases overall leveraging capacity. The primary disadvantage of a TIFIA loan is that the interest rate is somewhat higher than tax-exempt rates due to the fact that they are based on taxable U.S. Treasury rates. It is important to note that market conditions over the past two years have resulted in a very narrow spread between taxable and tax-exempt rates that have made the cost of borrowing at taxable rates considerably more attractive.

Accessing short-term financing rates during construction and ramp up for a portion of the project cost may help in reducing the overall interest cost of the project. TIFIA loans start to accrue interest from the time the funds are accessed, therefore delaying the scheduled draws as long as possible will help to reduce interest costs, provide additional coverage in the ramp up period and help the project become self-supporting. Several issuers have used a combination of short-term tax-exempt borrowings that have been taken out with a TIFIA loan which has resulted in significant interest cost savings. For example, the TTA saved approximately $70 million in interest costs on a $2.1 billion financing and greatly improved the credit profile of the transaction.

The most critical time of the financing and project life is during the ramp-up phase when the revenues begin to flow and the accuracy of the T&R estimates will be tested and the amount of flexibility in the finance plan will increase the likelihood of receiving investment grade ratings. The higher the underlying rating, the lower the insurance premium is likely to be, once again lowering the amount of bonds that need to be issued.

Annual Cash Flow Support

Sources of funds that can be dedicated to the project will help to alleviate the reliance on toll revenues to support both bond payments and O&M expenditures. Whatever funds may be contributed must be a reliable source and the rating agencies will need some kind of formal commitment before any credit can be given for this type of arrangements. To the extent CDOT can legally agree to pay or support a portion of on-going operating and maintenance, this will both have the effect of providing a gross pledge of revenues to bondholders and increasing debt service coverage. This will enhance the credit quality of a bond issue.

E-470 Corridor

TIFIA (Transportation Infrastructure Finance and Innovation Act)

- **Direct Loan:**
  –Must be repaid within 35 years of project completion
  –Interest rate equivalent to comparable maturity U.S. Treasury
- **Loan Guarantee**:
  –To promote private investment in transportation
  –Federal guarantee of debt service payments due to commercial lender over life of loan
  –Interest rate negotiated between borrower and lender and approved by FHWA
- **Lines of Credit**:
  –Direct loan provided as a result of shortfall in revenues during first 10 years of project operation
  –Up to 20% of the line may be converted to a loan in any year
  –All loans are payable within 35 years of project completion
  –Interest rate equal to 30-year Treasury