

# Bonds and Financing Tools That May Be Used by Nevada's Department of Transportation (NDOT)



Susan G. Martinovich, P.E., Director, NDOT  
Robert D. Chisel, Assistant Director, Administration, NDOT

EXHIBIT C - Transportation Issues

Document consists of 14 pages.



Entire document provided.

A copy of the complete document is available through the Research Library  
(775/684-6827) or e-mail [library@lcb.state.nv.us](mailto:library@lcb.state.nv.us).

Meeting Date: 2/19/08

# Types of Bonds

Municipal Bonds  
General Obligation Bonds  
Special Revenue Bonds  
Garvee Bonds  
TIFIA Bonds

## Other Financing Tools

Pay as You Go  
Commercial Paper  
State Infrastructure Bank

## NDOT's Bonding Program

Bond Issuance Policy  
Bonds Issued  
Debt Service



# Municipal Bonds

---

- A Municipal bond is a generic term for any bond issued by any municipal organization
- The main appeal of municipal bonds is that the interest payments to the Bond Holders are usually tax exempt.
- Tax exempt bonds normally pay at a lower interest rate therefore the State saves interest expense.



# General Obligation Bonds

---

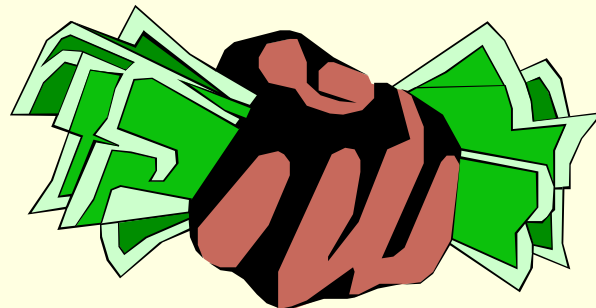
- These bonds are unsecured municipal bonds that are simply backed by the full faith and credit of the State.
- Generally, these bonds are paid off with funds from property taxes or other fees.
- The Department of Transportation does not have the ability to issue General Obligation Bonds



# Special Revenue Bonds

---

- These bonds are municipal bonds where the State pledges a revenue source, such as gas tax and or Federal revenue.
- Special Revenue Bonds are **not** backed by the full faith and credit of the State.
- To date all of the Bonds issued by the Department of Transportation have been Special Revenue Bonds



# GARVEE Bonds

## Grant Anticipation Revenue Vehicles

- A GARVEE Bond permits the State to pay the debt service with future Federal aid.
- A typical GARVEE Bond project would have the following characteristics:
  - A large project
  - There is no other revenue stream available (such as gas tax)
  - The State must have federal aid available in proper funding categories
  - State must be willing to reserve future Federal aid
  - The interest rate is typically higher than a Special Revenue Bond
- The Department of Transportation has not issued any GARVEE bonds to date.
  - NDOT utilizes Special Revenue Bonds at:
    - ✓ Lower interest rate, and
    - ✓ Uses Federal Revenue for repayment



# TIFIA Bonds

Transportation Infrastructure Finance and Innovation Act

- The objective of the TIFIA program is to attract private investment in surface transportation projects.
- Under the TIFIA program the US Department of Transportation is authorized to issue three types of credit assistance:
  - Direct secured loans
  - Loan guarantees
  - Standby Letters of Credit
- Example: Reno Re-track



# Other Financing Tools

---

## **Pay as You Go**

- Pay as You Go uses current revenue to pay for current projects.
- Commonly used by the Department of Transportation.
- No interest cost.

## **Commercial Paper**

- Commercial Paper is a short term borrowing option where the State borrows funds from a bank as the funds are needed.
- Commercial Paper typically has a higher interest rate than the municipal bond market.
- Commercial Paper could be converted to long term debt after a period of time to take advantage of lower long term rates.

## **SIB - State Infrastructure Bank**

- A State Infrastructure Bank is an option where the Department of Transportation lends money to a local government or other agency to construct a highway infrastructure project and the local government pays the State back over a period of years at a low interest rate.
- A SIB allows local governments to construct a project sooner than if the project had to wait for the Department of Transportation funding.
- As the SIB loan is repaid the Department of Transportation can re-loan the funds.





# Why Bond?

---

- Benefits of Bonding:
  - Projects delivered faster then pay as you go.
  - Cost savings – Construction inflation versus interest cost.
  - Projects are available to users sooner.
- Bonding needs to be balanced so as not to over encumber future revenue.



# The Department of Transportation's Bond Issuance Policy

---

This policy is for the issuance of bonds by NDOT to fund transportation projects that require supplemental funding to expedite completion. All bonding will be conducted in accordance with applicable NRS, in particular 408.273 "Issuance of Bonds", the State Treasurer's bonding procedures, and existing bond covenants.

The Department of Transportation in the past has been successful in delivering projects sooner and at reduced costs to the driving public by issuing Bonds. The following analysis is a tool in NDOT's decision making process prior to recommending a Bond issuance to the Transportation Board. The Accounting Division is responsible for the coordination of the Bond Analysis.

1. **Bonds versus Pay-As-You-Go Cash Funding.** NDOT will analyze the tradeoffs associated with debt funding projects versus cash funding. The tradeoff analysis should consist of, but not be limited, to:
  - a. Economic and other benefits of accelerated project completion. Tradeoff scenarios, for delaying the project versus bond issuance utilizing estimated future costs (i.e., construction and right of way).
  - b. Current fund balance and anticipated highway fund expenditures and revenues.
  - c. Current interest rate and investment environment.
  - d. Construction bidding environment and anticipated construction and right of way inflation.
2. **Cash Flow Projections.** Cash flow projections for the duration of the bonds, utilizing various scenarios for issuance and payback should be prepared. Bonds issued shall not exceed the amount that can be reasonable expected to be paid with future unrestricted highway fund revenues and federal funding. Considerations of the net proceeds for coverage shall include the payments of principal, interest and any redemption premium on the bonds.
3. **Bond Size and Structure.** Bond size and structure considerations will be analyzed. Areas of consideration should include:
  - a. The term of proposed bonds.
  - b. Impact of bond payments on NDOT's future program.
  - c. Current interest rate environment and market constraints.
  - d. Funding constraints.
  - e. Legal constraints.
  - f. Debt ratios based on revenue projects and existing and anticipated bond issues.
  - g. Highway Fund balance and cash flow projects.
  - h. Anticipated need for future debt.
  - i. Anticipated structure of proposed debt.

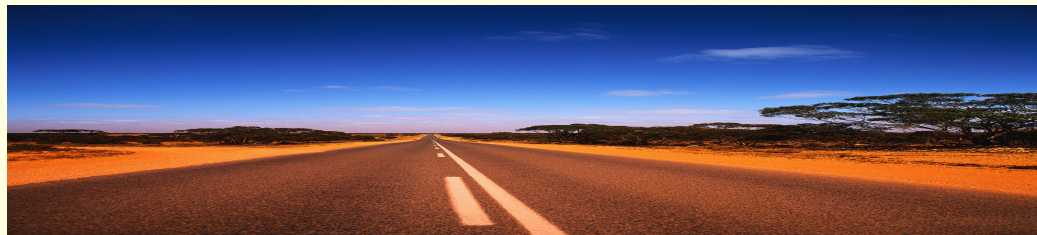
# The Department of Transportation's Bond Issuance Policy

---

- The Transportation Board of Directors must approve and adopt a resolution requesting that the State Board of Finance issue bonds.
- Legislative budget authority to receive the bond proceeds must be secured.
- The State Treasurer is responsible for the bond issuance. The State Treasurer's office is involved in discussions relating to the sale during the entire process of developing and selling a bond issue. The State Treasurer's office will designate individuals, and/or consultants to handle the formal and official aspects of
  - bond sales, as well as providing needed financial and bond counsel consultation.
  - These individuals may include bond counsel, disclosure counsel and the bond financial advisor. The bond counsel provides an opinion as to the legality and tax-exempt status of the bonds. The disclosure counsel prepares the preliminary and final official statements for bond issues. The bond financial advisor prepares a financing schedule and structures the bonds. The official statement will include such information as; the terms, redemption, purpose, financial information directly related to the bond, information about NDOT, and the State of Nevada. In addition, the bonds will be subject to the ratings by national bond rating agencies (i.e., Standard & Poor's, Fitch and Moody's).
- NDOT bonds will not be secured by the State's general fund and/or ad valorem taxing power. While there is no statutory debt limit for NDOT bonds, the amount of debt is a function of various factors, including NDOT bond funding constraints, maintaining a favorable bond rating, meeting the additional bonds test, and input from the State Treasurer and bond financial advisors. NDOT will limit bond issuance if the bond rating on NDOT bonds falls below the "A" level by a national bond rating agency. NDOT will not issue bonds unless the pledged motor vehicle taxes are at least twice the combined maximum debt service of annual principal and interest (of both existing and proposed bonds) for any year.
- The types of debts can include revenue bonds, grant anticipation revenue vehicle bonds (GARVEE), temporary bonds, notes, warrants, and interim debentures not exceeding 5 years as provided in NRS 349.318 to 349.328.
- The borrowing term will not extend past the useful life of the project being financed. Per State law, the borrowing term will not exceed 20 years. The term of bonds will be determined by consultation by NDOT with the State Treasurer's office, bond financial advisors, and bond counsel. All bonding will be conducted in the best interest of the State's transportation needs, present and future.
- NDOT will follow the State Treasurer's arbitrage rebate policies. NDOT, with assistance from Bond Counsel and the State Treasurer's office, will review current Federal tax law as it relates to spending requirements prior to bond issuance to insure full compliance. Federal tax law compliance certification will be contained in the Federal Tax Certificate in the final transcript of proceedings for each bond issue. Pursuant to the request of the State Treasurer's office a projection of expenditures of the bond proceeds will be provided by NDOT.
- The Accounting Division is responsible for maintaining the bond issue documentation and maintaining the NDOT Bond Reference Manual.

# Current Bonds

State of Nevada					
Department of Transportation					
Highway Improvement Revenue (Motor Vehicle Fuel Tax) Bonds					
					True Interest
<u>Series</u>	<u>Original Amount</u>	<u>Outstanding Amt.</u>	<u>No. of years to Mature</u>	<u>Maturity Date</u>	<u>Rate</u>
12/1/2000A	100,000,000	35,070,000	10	12/1/2010	4.83%
7/1/2003	176,435,000	107,795,000	10	12/1/2013	2.70%
8/1/2004	173,345,000	141,240,000	15	12/1/2019	4.03%
11/9/2005	191,445,000	173,295,000	15	12/1/2020	4.07%
12/14/2006	192,730,000	186,930,000	20	12/1/2026	4.15%
	833,955,000	644,330,000			
Anticipated Bond issue:					
4/23/2008	135,000,000	0	20	12/1/2028	4.00%



# Debt Service



Fiscal Year	Total Debt Service (Includes anticipated issue)
2009	\$90,591,000
2010	\$92,786,000
2011	\$92,893,000
2012	\$80,107,000
2013	\$80,177,000
2014	\$80,242,000
2015	\$58,990,000
2016	\$59,041,000
2017	\$59,089,000
2018	\$59,078,000
2019	\$59,195,000
2020	\$59,261,000
2021	\$42,935,000
2022	\$24,834,000
2023	\$24,860,000
2024	\$24,884,000
2025	\$24,808,000
2026	\$24,825,000
2027	\$24,844,000
2028	\$ 9,959,000

\*Payments are comprised of State and Federal Revenue

# Questions?

---

