

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



Dale R. Folwell, CPA
STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

Transportation Debt Affordability 2021

Sharon Edmundson
Lewis Andrews



Debt Affordability Advisory Committee

- The Committee is legislatively directed to:
 - Annually advise the Governor and the General Assembly of the estimated debt capacity of the General Fund for the upcoming ten years
 - Annually advise the Governor and the General Assembly of the estimated debt capacity of the Highway and Highway Trust Fund (“Transportation” funds) for the upcoming ten years
 - Recommend other debt management policies it considers desirable and consistent with the sound management of the State’s debt



Study makes no recommendations regarding the use of available debt capacity.

The annual study is due February 1, but due to COVID-19 pandemic related information delays, a one-month delay was requested in January 2021, and the study was delivered on March 1, 2021.



Debt Affordability Advisory Committee

- **Membership**

- Dale R. Folwell, CPA, State Treasurer, Chair
- Ronald Penny, Secretary of Revenue
- Charles Perusse, State Budget Officer
- Beth Wood, State Auditor
- Linda Combs, State Controller

Senate Appointees

- Frank Aikmus
- Bradford Briner

House Appointees

- Gene Chianelli
- Donald G. Pomeroy, II



Review: What is Debt Affordability?

- The amount of debt that may be prudently authorized and issued in a given period *without* negatively affecting the credit position or impairing the budget flexibility of the issuer.
 - The amount of debt that is affordable (“capacity”) is finite
 - Capacity can be measured and compared
 - Issuance beyond a prescribed level can erode credit ratings
 - The State measures its available capacity using tax-supported debt: self-supporting debt is excluded



Transportation Debt Affordability

- Highway and Highway Trust Fund capacity combined
- All State-level transportation revenues used (DOT projection)
- Federal revenues, toll revenues (and any related toll-supported debt) and GARVEES are excluded
- “GAP Funding” for NCTA projects (\$49 million/year), availability payments and commitments under a DRAM are included
- Guideline adopted: amounts used for transportation-related debt support should not exceed 6% of the State’s transportation revenues

Outstanding Transportation Debt by Type at 6/30/20 (millions)

Tax-Supported Debt*	
Highway Fund Supported GO Bonds	\$0.0
“GAP Funding” Supported NCTA Revenue Bonds	\$785.5
Build NC Limited Obligation Bonds	<u>\$284.0</u>
Total Transportation Tax-Supported Debt	\$1,069.5
Non Tax-Supported Debt	
GARVEEs (Grant Anticipation Revenue Vehicle Bonds)	\$959.5
Toll Supported NCTA Revenue Bonds(includes TIFIA)	<u>\$1,797.7</u>
Total Transportation Non Tax-Supported Debt	\$2,757.2
Total Transportation Debt	<u>\$3,826.7</u>

* Tax-supported debt includes debt supported by state (not federal) highway revenues, for example motor fuels tax and vehicle registration fees.



Transportation Debt

- GARVEES
 - Supported solely by federal \$ (NO State back up)
 - Currently Outstanding = \$959.5 million
 - Total program capacity +/- \$1.8 billion
 - Fed reauthorization key credit factor
- GAP Funding
 - Budget authorization for up to \$49 million per year to “pay debt service or related financing costs” for 2 NCTA projects, TriEx and Monroe Connector
 - NCTA maximizes the amount of debt issued supported by these funds
- DRAM
 - Developer Ratio Adjustment Mechanism payments treated as debt-like (\$75 million total). I-77
- “Availability Payments”
 - Payments to contractors/others similar to installment purchase contracts. This also includes commitments under P3 agreements. Treated as debt-like (\$0 outstanding)



Transportation Debt (Continued) Build NC Bonds

- S.L. 2018-16 “Build NC Bond Act of 2018”
- \$3 billion total authorization for regional and divisional transportation projects (\$2.0 billion authorized but unissued @ 12/31/2020)
- Debt Service paid from Highway Trust Fund
- Subject to various constraints
 - Cash balances
 - Treasurer recommendation
 - DAAC limits
 - Special Indebtedness provisions (Chapter 142, Article 9)
 - Maximum 15-year maturity

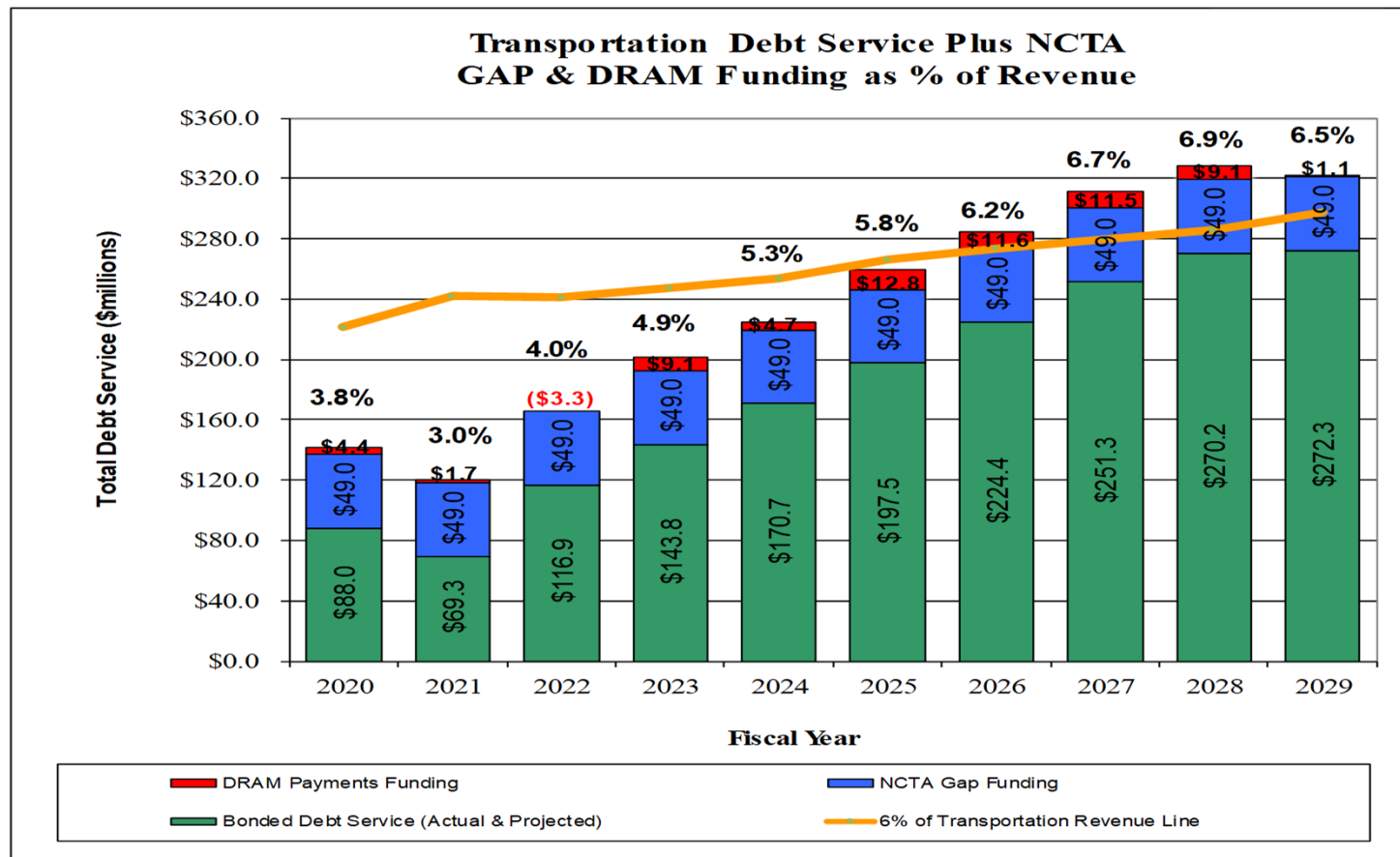


Transportation Debt (Continued) Build NC Bonds

- The Issuance of the Build NC Bonds utilizes (more than) all of the Transportation Debt Capacity
 - The first series (2019A) was issued on June 27, 2019 for a par of \$300 million
 - The second series (2020B) was issued on November 12, 2020 for a par of \$700 million (SL 2020-91)
 - Up to \$300 million annually for future issues
 - In FY 2026, 2027 and 2028 the 6% limitation is projected be exceeded (6.2%, 6.7% & 6.89% respectively)
 - Therefore, issuance may need to be reduced years 2026 - 2028
 - Projections still show that the majority of the issuance limitations in years 2026-2028 can potentially be funded from available proceeds due to premium structures (prices above par)



Transportation Debt Service 2020-2029 vs. 6% (\$ millions)





Transportation Model Highlights

- 10-Year Model Horizon
- All State –level Transportation Revenues included
- Repayment of existing debt and NCTA bond support incorporated (excludes GARVEEs)
- Assumes future debt issued at 6.15% for 25 year term (conservative)
- Guideline adopted based on analysis of peers (mostly southeastern) developed in consultation with DOT.



Transportation Model Results

Transportation
Net Tax-Supported Debt Capacity using 6.0% debt service/revenues target ratio
(In millions of dollars)

Fiscal Year	2021	2022	2023	2024	2025
Total Additional Debt Capacity per Year *	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Debt Capacity Available Each and Every Year	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

* In addition to that already authorized but unissued. Assumes additional debt capacity is authorized and issued in stated fiscal year. GAP Funding for North Carolina Turnpike Authority projects assumed to total \$49 million annually.



Combined GF and Transportation Results

**General Fund and Transportation Funds
Combined Debt Service / Revenue Percentages**

Fiscal Year	2021	2022	2023	2024	2025
General Fund	2.69%	2.58%	2.49%	2.24%	1.71%
Transportation *	2.98%	4.05%	4.89%	5.31%	5.85%
Combined	2.72%	2.77%	2.80%	2.63%	2.24%

Note: Percentages are based on forecasted revenues and debt service.

* GAP Funding for North Carolina Turnpike Authority projects assumed to total \$49 million annually.

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Thank You

sharon.edmundson@nctreasurer.com

lewis.andrews@nctreasurer.com