From: Greg Gaskins <Greg.Gaskins@nctreasurer.com>
Sent: Thursday, January 24, 2019 12:50 PM
To: Rodewald, Evan <erodewald@ncdot.gov>
Subject: [External] RE: Debt Affordability Study

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Evan,

I was meeting with the Treasurer today and I brought up your request in our discussion of the DAAC report. Essentially, he has not changed his position that he expressed when we met with you and David Miller recently. There are a number of reasons for this, but as we said then, this limitation will not impact the issuance of NC Build for some years in your model and ours. Plus, given the nature of modeling maybe never impact it. There is time to discuss this in the future if that changes and that discussion still would appear not to justify a ceiling as high as 15%. However, I also will be happy to discuss this with you. Could you do it Monday morning? I can do it at 10:00 or 10:30 in person or by phone.

Greg

From: Rodewald, Evan <erodewald@ncdot.gov>
Sent: Wednesday, January 23, 2019 9:21 AM
To: Greg Gaskins <Greg.Gaskins@nctreasurer.com>
Subject: Debt Affordability Study

Greg,

I understand that the Debt Affordability Advisory Committee will be meeting next week to vote on the 2019 Study. I assume the latest study will factor in a few changes in the transportation section related to the new Build NC bond program. As we have discussed, one change we recommend concerns the debt affordability ratio of 6% (maximum debt service/revenues), which we believe is unnecessarily conservative, based on our review of other states. A debt-service-to-revenue ratio of 15% for North Carolina transportation debt would still be conservative compared to other states, but it would also allow NCDOT to access the full amount of bonding allowed under S.L. 2018-16. As we discussed when we met a few weeks ago, our current projections are that the 6% threshold would only allow NCDOT to access $2.3 billion of the total $3.0 billion in bonding authority under the law. This projection is based upon NCDOT's baseline revenue forecast and interest rates that, while above current market levels, are much less conservative than the 6.15% currently assumed in previous DAAC reports.

The possibility that a higher ratio of debt service to revenues might be appropriate has been acknowledged in previous versions of the Debt Affordability Study. Page 29 of the 2018 Study states: "the Transportation Funds enjoy a greater degree of budgetary flexibility than does the General Fund, and the Committee determined that the State's Transportation funds could support a higher ongoing level of debt service as a percentage of revenues than was deemed appropriate for the General Fund. However, the Committee also determined not to adopt the same 15% guideline for Transportation debt capacity as was contained in the GARVEE legislation because GARVEEs have higher annual debt service requirements due to their shorter maturity." The decision not to adopt the 15% debt threshold appears to have been based on the assumption that North Carolina transportation debt would have terms of up to 25 years (unlike GARVEE debt that has typically has terms of up to 15 years). But this reasoning against a 15% threshold is not valid in the case of the Build NC program; Build NC bonds are capped at terms of only 15 years rather than the 25 years assumed in the Study.

Please note that while NCDOT is requesting a higher debt service to revenue threshold, we are also considering a comprehensive "additional bonds test" for the Highway Trust Fund, the sole source of debt repayment for the Build NC Bonds. Any such "ABT" would cover other debt and debt-like obligations paid from the HTF, such as NCTA's state appropriation revenue bonds, thus providing further credit and bondholder protections in the form of binding bond covenants.

I would like to discuss this matter with you, if possible, either in person or over the telephone. I appreciate all of your help as we work toward implementing Build NC, and I hope you will seriously consider our arguments as well as the data we provided on the debt service levels of other State transportation agencies.

Evan
