

## Questions from Capital Area Metropolitan Planning Organization for the N. C. Turnpike Authority regarding the Western Wake / Triangle Parkway Turnpike Initiative

### ***Introduction...***

Following the July 2006 CAMPO TAC meeting during which the NCTA's Western Wake project was discussed, CAMPO submitted to NCTA a list of twenty five questions regarding the project and NCTA plans.

NCTA is pleased to provide below a response to each question based on the information available at this time. Moreover, NCTA will make a presentation on the Western Wake projects at the August 16<sup>th</sup> TAC meeting and be available, along with our staff and key consultants, for further discussion.

### ***Next Steps***

#### ***Question:***

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1. What are the remaining steps in the process of establishing these highways as turnpikes?

#### **Response:**

- See table showing the process and timeline.

#### ***Question:***

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2. Who approves each step relative to the Turnpike study?

#### **Response:**

- NCTA Board has the ultimate approval authority for the project and the sale of the bonds to finance the project
- The NCDOT Board, in accordance with the Master Contract executed between NCTA and NCDOT, approves certain steps.
- CAMPO and FHWA participate in the process by designating the project as a toll project; adjusting the Air Quality model to accommodate this change; seeking approval from other counties and MPO's in the region; revising the TIP to reflect the accelerated timing of the toll project and to show that, to meet the needs of fiscal constraint, it will be funded by "other", non-DOT funds.

- In order to continue the process, NCTA needs for CAMPO to 1) place the project on the CAMPO Long Range Plan and 2) request that NCTA continue working on the project, in accordance with NCTA policy and 3) to meet the requirements of legislation enacted on July 26<sup>th</sup> request that the approved section of I-540 be transferred to NCTA.

**Question:**

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3. Will the Capital Area MPO TAC be able to review the final investment grade feasibility report before approval of any additional work?

**Response:**

- With the above steps by CAMPO, NCTA will undertake approximately \$9 million in project work during the next 12 months. The T&R study, while part of this, will not be completed until near the end of this period. The Investment Grade T&R Study then becomes part of the Official Statement that is prepared just prior to the bond offering.
- CAMPO will be given an opportunity to review the report(s) when received.
- NCTA will work closely with CAMPO during this time on the revision of the air quality model and the financially constrained TIP, both of which are necessary to proceed with the project.
- Final approval of the project financing and the bond offering is the responsibility of the NCTA Board.

## **Source of Gap Funding Revenues**

**Question:**

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4. Where will the current estimated \$215 million gap in construction funding for the Western Wake / Triangle Parkway turnpike come from and will it be subject to the state highway funding distribution formula?

**Response:**

- Identifying the source(s) of gap funding will be a major undertaking of the NCTA in the upcoming long session of the General Assembly.
- Since the NCTA is uncertain where funding will come from, the NCTA cannot say if it will be subject to the equity formula.
- Considering NCDOT's serious financial constraints, it is unlikely that current sources of highway funds would be sufficient to fill the gap.

**Question:**

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5. Who will handle approving gap funding of the project, the NC Board of Transportation or the Turnpike Authority? Will the MPO have a role?

**Response:**

- The NCTA Board approves all financing arrangements, including gap funding.
- If NCDOT is contributing capital to the project, the project will be included in the TIP which is approved by the NCDOT Board and MPO. The Joint Legislative Transportation Oversight Committee also has an oversight role. Due to serious limitations of existing NCDOT funds, NCTA does not anticipate using NCDOT monies to fund the gap.
- While not a formal approval role, NCTA will provide an estimate of funding by source for use in the financially constrained TIP to be prepared by CAMPO.

**Question:**

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6. Is either NCDOT ownership of the turnpike right-of-way (with leasing to the Turnpike Authority) or maintenance of the turnpike by NCDOT feasible as a means of reducing or eliminating the gap funding cost?

**Response:**

- Both would reduce the gap; however, NCDOT may or may not be willing to provide this support.

**Question:**

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7. Does the fact that I-540 West (at least to US 1) has been a designated Highway Trust Fund loop project since 1989 make it more likely that State gap funding can be obtained?

**Response:**

- This is a NCDOT decision. However NCTA also considers Loop Funds to be an unlikely source of gap funds.

**Question:**

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8. Does this region have to agree to toll existing or under construction roads in order for the gap funding picture to work?

**Response:**

- Yes. As noted in question 2, under the legislation adopted in July, the NCTA requires agreement by: NCDOT, FHWA and CAMPO to transfer ownership of the under-construction segment of I-540 (referred to as 540P).

**Question:**

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9. What would another region that is considering a potential turnpike do for gap funding if they have no contiguous freeways that would work for tolling?

**Response:**

- It would simply increase the gap funding that the NCTA would have to find for the other project -- reducing the probability of financing success -- as it will in the case of this project if the contiguous road is not authorized and transferred.
- When the gap is computed as a per-year supplemental revenue payment, including the 540P segment, reduces the payment from approximately \$18 million per year to approximately \$12 million per year.

**Question:**

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10. Where is the money for the Turnpike Authority's current administrative operations and technical studies coming from and who approves it?

**Response:**

- NCTA's administrative and preliminary engineering funds are provided by NCDOT in accordance with the NCTA enabling legislation. These are approved by the NCDOT Board as part of NCTA's Annual Plan of Work as prescribed in the enabling legislation and the NCTA-NCDOT Master Agreement.

## **Financing by Toll Revenues**

### **Question:**

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11. Why is a 35 year bond now being recommended? This is substantially longer than the 20 – 25 year bond originally discussed.

### **Response:**

- The term considered has always been 30 to 35 years, which is consistent with the term offered by other startup toll agencies.
- In the case of the Triangle/Western Wake Project, the project revenue could not pay out the project in a shorter term. The longer term also reduces the annual revenue supplement needed to fund the gap.

### **Question:**

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12. What are the currently estimated bond interest rates?

### **Response:**

- The current interest bonds are forecast to carry a BBB rating and an interest rate of 4.38% in 2010.
- The capital appreciation bonds are forecast to carry a BBB rating and an interest rate of 5.23% in 2010.
- The TIFIA bonds are forecast at an interest rate of 5.2%.

### **Question:**

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13. Will tolls come off after the bonds are repaid?

### **Response:**

- Yes, the law requires this.

### **Question:**

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14. If maintenance is paid by tolls, what happens after the bonds are paid for?

### **Response:**

- Maintenance would be paid by NCDOT after the tolls are removed and the project is transferred to NCDOT, as prescribed in the NCTA-NCDOT Master Agreement.

**Question:**

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15. Where can toll revenues go after turnpike bonds are repaid? Could they be expropriated to other areas of the state to help pay for other turnpike projects outside our region?

**Response:**

- According to the law, there will be no toll revenue after the bonds are paid as the tolls will be removed and the road turned over to NCDOT. Further, it is NCTA's proposed policy (to be considered by NCTA's Board on August 16<sup>th</sup>) that:

*"toll revenues generated in one corridor are intended to be expended on financial obligations and improvements in the corridor from which those revenues were generated."*

**Question:**

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16. Can the bonds be refinanced prior to being paid off? If so, can the entire original amount borrowed be refinanced or only the amount still owed at the time of refinancing?

**Response:**

- If the project meets or exceeds its revenue projections, then the outstanding bond balance can be refinanced. Borrowing additional amounts would depend on the lender's assessment of the future revenue potential, plus the term and other market conditions at that time. The capital raised must be invested in a project in the same area as the refinanced project in accordance with NCTA draft policy.
- If the project is not meeting revenue projections, refinancing may be difficult, or if the project is in financial trouble, refinancing may be forced by the lenders.

**Question:**

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17. Since a substantial number of recent toll roads in the United States have not met their revenue forecasts, would any additional public funding be used to address toll revenue shortfalls, or would bond holders bear the full consequences of toll revenues not meeting forecasts?

**Response:**

- In the proposed financing structure, it is assumed that NCTA will sell non-recourse bonds. It is also assumed that bond investors will require a 1.5x to 2.0x coverage ratio to give them protection against a revenue shortfall. With this structure, the Federal TIFIA program loan would be the first to suffer a reduction in payment. Other details about handling a shortfall would be dealt with in the bond agreement.

**Governance and Process**  
**Both Now and in the Future -- Local/Regional Roles**

**Question:**

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18. Will the TAC be able to review the final feasibility report before approval of any additional study of the tolls?

**Response:**

- CAMPO will be given an opportunity to review the reports and analyses as available. Further, CAMPO will directly participate in modifying the Long Range Plan to incorporate the project, conducting the analysis of the Air Quality impact, and, when appropriate, modifying the fiscally constrained TIP and accelerating the timing to reflect the timing as a toll road.
- Final approval of financial feasibility, the funding plan and the terms of the bond offering is the responsibility of the NCTA Board.

**Question:**

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19. If state law is amended to allow existing roads such as I-540 to be tolled, how will the approval / transfer process be accomplished and what level of MPO / RPO or local concurrence be sought?

**Response:**

- CAMPO must approve the transfer of 540P to NCTA.
- Following approval by CAMPO, NCTA will deal directly with NCDOT and FHWA to accomplish the transfer. Details of this process are under discussion.

**Question:**

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20. Does the MPO or RPO get to formally approve a new turnpike at some point?

**Response:**

- Yes. New turnpike projects must also be in the Long Range Plan, be included in the approved Air Quality modeling, and the fiscally constrained TIP. In addition the project must be requested for study by local representatives.
- They must also be approved by the MPO per NCTA policy for project approval.
- New turnpike projects, beyond the initial six projects, require approval by the General Assembly.

**Question:**

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21. What are some successful examples of similar recent turnpike projects operated elsewhere by statewide turnpike authorities, and of these, how was local approval achieved?

**Response:**

- HNTB reports that other statewide turnpike authorities require that the project be on the TIP, but do not require specific project approval by the MPO.
- NCTA goes beyond the standard procedure by seeking MPO involvement and approval to proceed after the initial evaluation.

**Question:**

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22. Since the tolls paid for these turnpike projects will be largely coming from nearby local citizens already paying gas taxes for highway improvements, what roles will MPOs, RPOs, or local officials be given in the Turnpike Authority's decision-making process? For example, if a road is slated for a change in operating status -- e.g., free to toll, public toll road to toll concession, etc. -- will the MPO or local officials be given an approval or concurrence/advisory role to play?

**Response:**

- Yes, as noted in the response to question 19, legislation adopted July 26<sup>th</sup> requires CAMPO approval for the conversion of the section of I-540 to a toll road. Any future conversion would have to be approved by the General Assembly, and no such conversions are anticipated.

**Question:**

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23. Constructing outer loops as turnpikes will take funding pressure off of NCDOT's Highway Trust Fund Loop Program, freeing up revenue to construct other cities' planned outer loops as non-tolled highways sooner. In order to achieve local turnpike support, how will the Turnpike Authority and/or NCDOT ensure that this region's highway funding revenue contributions would not just be diverted to other parts of the state?

**Response:**

- This is an issue for NCDOT's board. NCTA does not participate in these decisions.

**Question:**

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24. The N. C. General Assembly is considering approving a bill that would authorize the Department of Transportation to convey to the Turnpike Authority the now under construction portion of I-540 between the Western Wake Outer Loop and the Triangle Parkway. How will the asset value of the prior investment of state and federal transportation taxes to construct this highway be treated? Sold? Leased? Given at no cost? Will the Capital Area MPO's concurrence be sought?

**Response:**

- The reason that NCTA's financial advisors suggested considering the inclusion of the section of I-540 known as 540P was to reduce the total project gap by more than \$125 million.
- As noted in the response to questions 19 and 22, legislation approved on July 26<sup>th</sup> requires the 540P section to be transferred to NCTA at no cost, with CAMPO approval.

**Question:**

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25. What role will the Capital Area MPO be given to participate in decision-making on turnpike projects in our planning region, particularly as it relates to advancing other potentially successful turnpike projects, such as the remainder of the I-540 outer loop? How will priorities be set, ensuring that commitments will be made to advance more complicated turnpike projects such as the proposed I-40 HOT lane system that has been studied by NCDOT for several years, but has been on hold for over a year awaiting funding for further action?

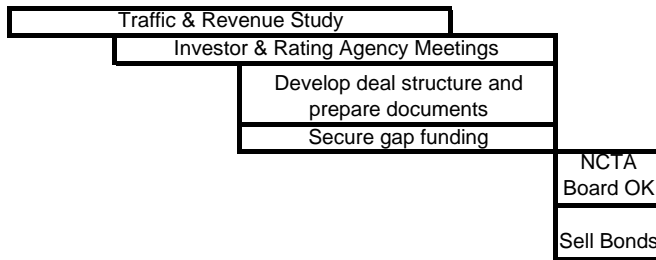
**Response:**

- NCTA's project approval process requires local support of any turnpike project at both the beginning of the process and following completion of financial feasibility analysis. CAMPO has the opportunity to propose other turnpike projects by requesting that NCTA study a project as described in the NCTA Project Approval Process. Also, all NCTA projects must be in the TIP.
- As required in recently passed legislation, the General Assembly must approve all new NCTA projects.

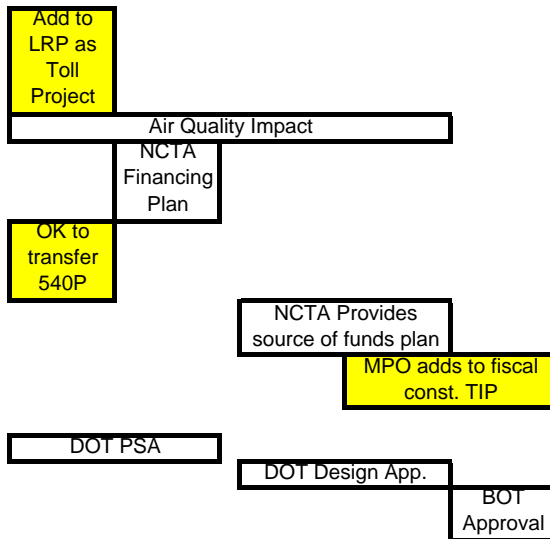
**Triangle & Western Wake Process & Timeline**

2006		2007				2008			
Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4

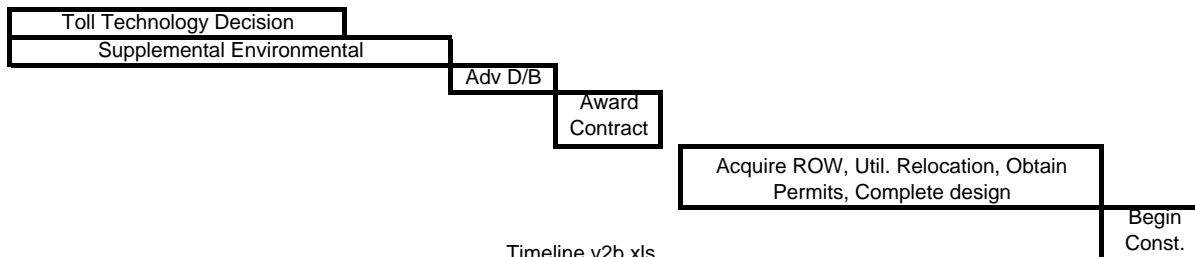
**Financing Schedule:**



**MPO, DOT, FHWA Approvals:**



**Project Schedule:**



# NCTA Project Approval Process

The following process for studying, funding and constructing a project as a toll facility was recommended at the January 18, 2006 NCTA Board meeting. Additional revisions were made at the February and March meetings for approval by the NCTA board in April.

1. A recognized municipal, regional or local planning authority, or group of local elected officials or members of the General Assembly may submit a request to the NCTA Board of Directors to study building a project from their area as a toll project. This request shall include any local financing options that may be available. (For clarification of appropriate projects, see the attached "Project Selection Criteria" previously adopted by the Board.)

"A Turnpike project selected for construction by the Turnpike Authority shall be included in any applicable locally adopted comprehensive transportation plans and shall be shown in the current State Transportation Improvement Plan." (from Public Toll Roads & Bridges enabling legislation). In addition, the project may be studied if it is on the strategic highway corridor.

2. The NCTA will identify the source to fund the study.
3. Once the NCTA Board receives the request, they will consider three options:
  - (a) To conduct a "Sketch-level" financial feasibility study;
  - (b) To conduct a "Level 2" financial feasibility study;
  - (c) To deny the request. Denial will be based on the grounds that preliminary traffic and revenue studies indicate that the project is unlikely to meet adequate bonding capacity to qualify as a viable toll project or for other similar reasons. Upon denial, the NCTA Board will notify the requesting entity in writing. If the NCTA Board denies the request, the local MPO, RPO, or group of elected officials have the option of funding a study with private or alternative funds. The NCTA will manage the study for the local entity.
4. If the NCTA Board decides to proceed with a Sketch or Level-2 study, the Authority will contract for a study to provide:
  - An estimate of the traffic and revenue that would be generated from the project;
  - An estimate of the project's cost;
  - An estimate of the amount of the project's cost that could be funded through the issuance of bonds;
  - An estimate of the size of the "gap" (i.e. the amount of the project's cost that cannot be financed from bonds and project revenue). This gap analysis will consider funds that may be available from all possible sources.
5. Following the completion of the preliminary financial feasibility study, the NCTA Financial Advisor will examine available funding sources including local participation and make a report to the NCTA Board about the sources available for funding the "gap."
6. The NCTA Board will submit the preliminary financial feasibility study and the gap-funding analysis from the Financial Advisor to the local entity and the NCDOT Board.
7. After examining funding possibilities for the "gap," the local MPO or RPO and the NCDOT Board (if affected) will decide if they wish to proceed with a request to the NCTA Board that the project be constructed as a toll project. If it is deemed that the project gap cannot be funded by local, state, or private funds, the NCTA may decide not to proceed with the project. In that case the project will be returned to DOT and the project will remain on the TIP schedule as determined by the NCDOT board.

*Approved by NCTA Board  
April 18, 2006*

## **Project Selection Criteria** *Previously Approved by NCTA Board*

**Roadway Type** – The project must have full control of access.

**Project Location** – The project must have a “free” parallel route and meet legislative guidelines.

**Project Feasibility** – The project must have a high probability of being able to move to construction within a reasonable time frame.

**Local Support** – The project should have a demonstrated local support or a reasonable expectation of support for development as a toll facility.

**Financial Feasibility** – The project should be deemed to be financially feasible using available data and commercially reasonable assumptions.

**Statewide or Regional Significance** – Special consideration should be given to those projects that would play a significant role in the statewide or regional highway system or serve major economic generators.

**DRAFT:  
NORTH CAROLINA TURNPIKE AUTHORITY  
STATEMENT OF POLICY**

It is the policy of the North Carolina Turnpike Authority that all Turnpike Projects are intended to generate sufficient funds to cover their own operations and maintenance costs and the portion of debt service on the bonds issued to finance that Turnpike Project, and that a project that cannot show that it will eventually meet this requirement will not be undertaken.

It is further the policy of the Authority that toll revenues generated in one corridor are intended to be expended on financial obligations and improvements in the corridor from which those revenues were generated. In special circumstances, revenues from an existing Turnpike Authority project may be used temporarily to help support a project in another corridor for reasons of financial distress or to meet "ramp up" debt service coverage and debt service subsidies. In such situations any subsidy from an established project to another project shall be treated internally as a loan to be repaid to the established project as soon as the new project becomes self-sustaining or it is financially feasible.

*Presented to the NCTA Board July 11, 2006*