



STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION

ROY COOPER
GOVERNOR

JAMES H. TROGDON, III
SECRETARY

November 7, 2018

The Honorable Tim Moore, Co-Chairman
The Honorable Phil Berger, Co-Chairman
Joint Legislative Commission on Governmental Operations
North Carolina General Assembly
16 W. Jones Street
Raleigh, NC 27601-1030

The Honorable Kelly E. Hastings, Co-Chairman
The Honorable Frank Iler, Co-Chairman
The Honorable John A. Torbett, Co-Chairman
The Honorable Jim Davis, Co-Chairman
The Honorable Michele D. Presnell, Vice-Chairwoman
Joint Legislative Transportation Oversight Committee
North Carolina General Assembly
16 W. Jones Street
Raleigh, NC 27601-1030

Dear Honorable Commission Members, and Honorable Committee Members:

Pursuant to the consultation requirements under G.S. 142-97(2)c, this letter is to notify you that the North Carolina Department of Transportation (NCDOT) has requested that the State Treasurer recommend and issue \$300 million in Build NC bonds no later than May 15, 2019. The proceeds raised from this issuance would help NCDOT continue to accelerate transportation projects as cash balances are gradually depleted.

Proposed Build NC Issuance Meets Cash Balance Test of G.S. 142-97(2)a

The attached report (Attachment A) shows that cash balances were \$955 million at the end of September 2018 and are projected to remain below the \$1.0 billion threshold of G.S. 142-97(2)a through FY 2018-19 and beyond. Our cash model projects that without Build NC bond proceeds, cash levels would reach the minimum threshold of \$290 million (established by S.L. 2001-424) by November 2019, assuming NCDOT does not act to delay the delivery of transportation projects. In the highly unlikely event that the average month-end cash balances exceed \$1.0 billion for the period from January 2019 through March 2019, NCDOT would formally withdraw this request to issue Build NC bonds.

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FINANCIAL MANAGEMENT DIVISION
1514 MAIL SERVICE CENTER
RALEIGH, NC 27699

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Customer Service: 1-877-368-4968

Website: www.ncdot.gov

Location:
1 S. WILMINGTON ST. STE 336
RALEIGH, NC 27601

Debt Service Estimate

PFM Financial Advisors, LLC (PFM) provided an analysis of the Build NC bond issuance (see Attachment B) that estimates the debt service would be approximately \$28.6 million annually, or \$428 million over the 15-year life of the issue.

Bond Issuance Will Not Cause NCDOT to Exceed Debt Affordability Limits of G.S. 142-97(2)b

The 2018 Debt Affordability Study, published by the Debt Affordability Advisory Committee, estimates NCDOT debt capacity of \$1.5 billion as of FY 2017-18, and nearly \$2.4 billion through FY 2021-22. Due to the shorter 15-year maturity structure, Build NC debt service will be higher than the standard transportation debt issue assumed by the Debt Affordability Study. Nevertheless, our analysis shows that the 6% limitation on transportation debt service (as a percentage of transportation revenues) will not be exceeded. Our financial advisor analyzed debt capacity assuming 15-year maturities and estimates that the requested issuance would leave approximately \$2.0 billion of unused capacity. Of course, we understand that official debt capacity estimates will be updated in the Debt Affordability Study for 2019, and that our requested bond issuance would be contingent on the issuance remaining within the updated estimates.

Finally, we have included a copy of our formal request to Treasurer Folwell. Thank you for your assistance with this matter that is so crucially important to the State transportation program. If you have any questions about our proposal, please contact me.

Best regards,



Evan Rodewald

Cc: Treasurer Dale Folwell
Greg Gaskins
Dora Fazzini
Secretary Trogon
Bobby Lewis

Enclosures

Attachment A



NORTH CAROLINA
Department of Transportation



Report on NCDOT Cash Balances

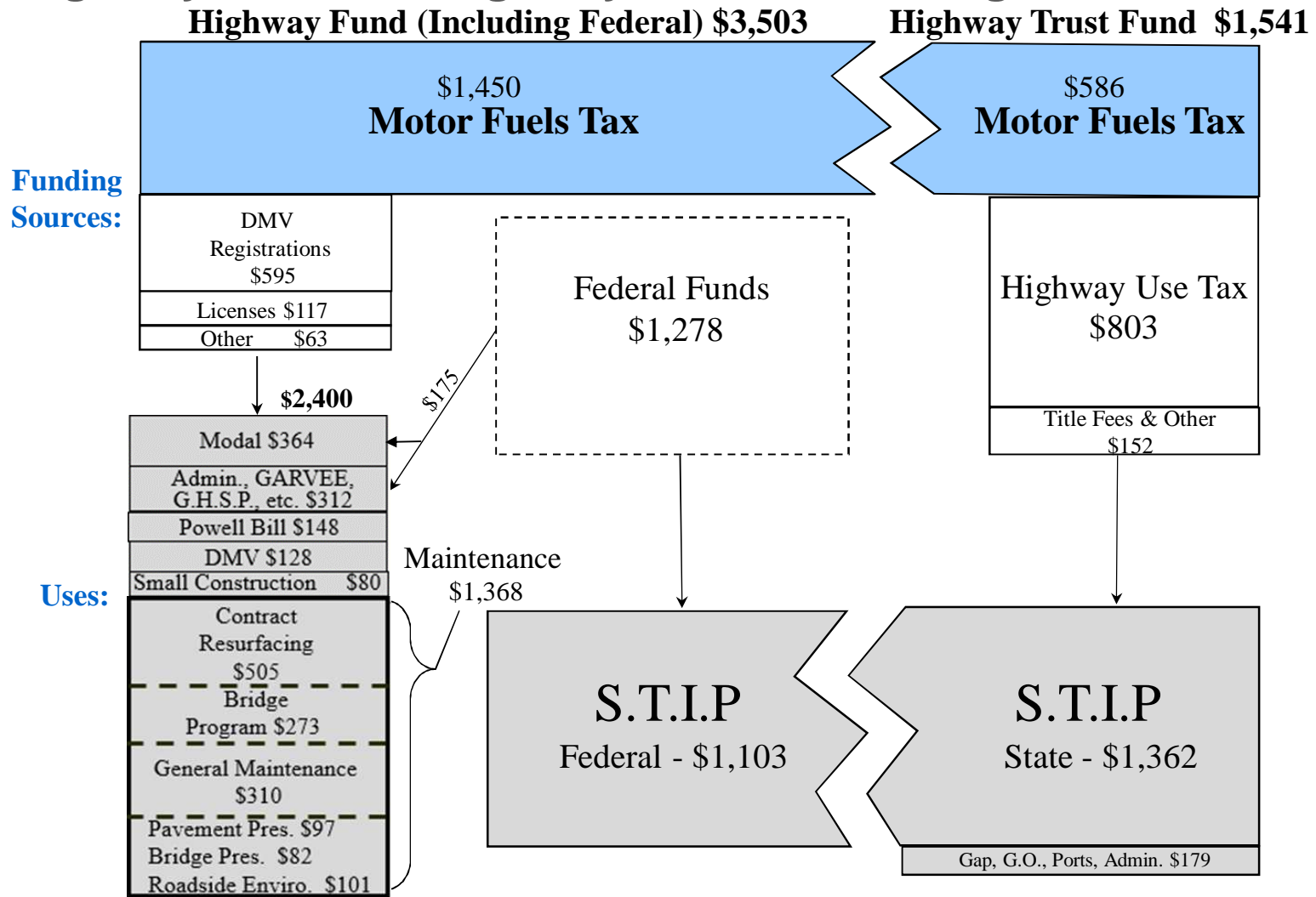
Evan Rodewald, Chief Financial Officer, NCDOT

November 7, 2018

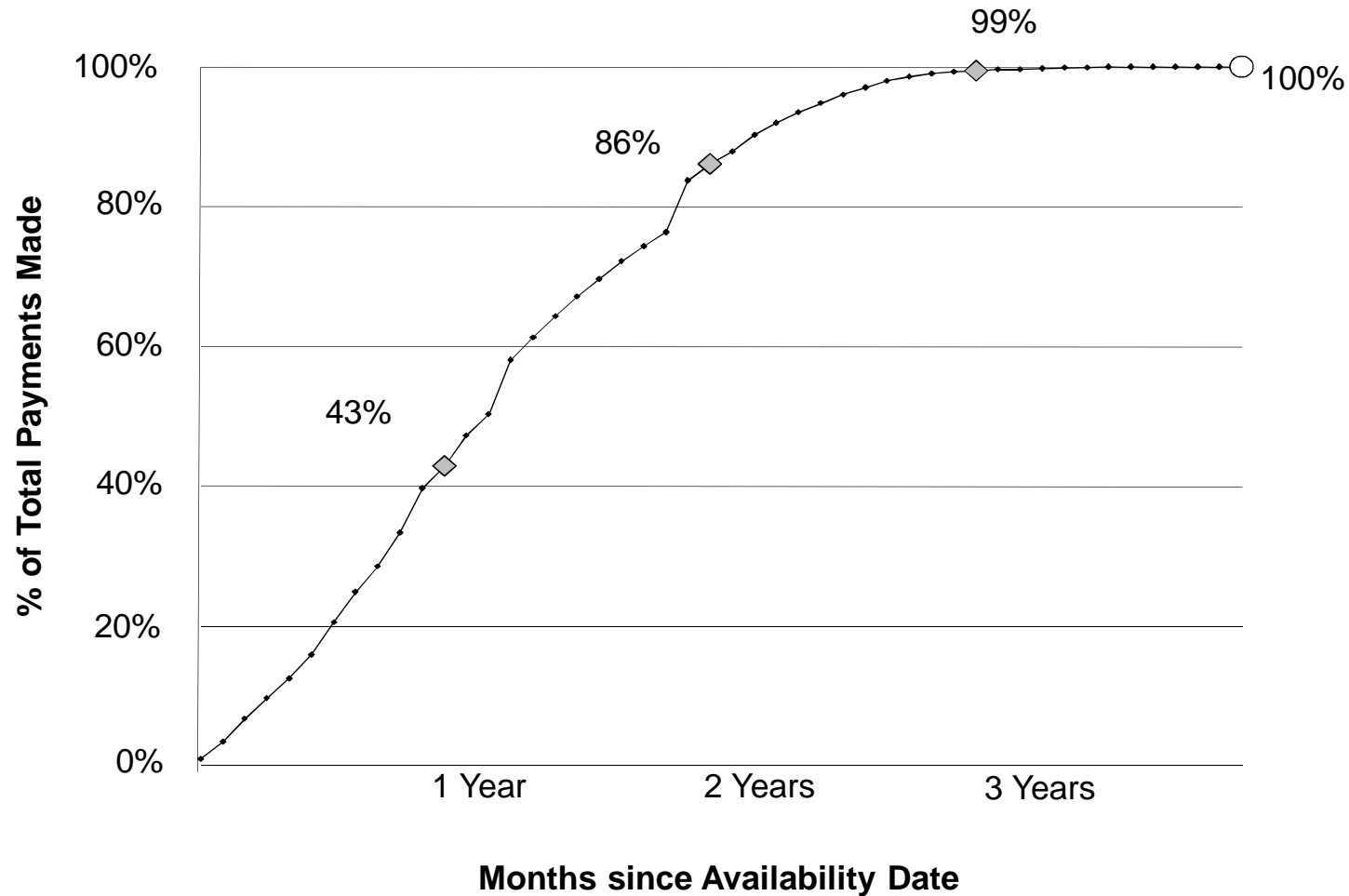
Overview of Report on NCDOT Cash Balances

- **NCDOT Funding**
- **History of Cash Model**
- **Current Trends in Cash Balances**
- **Cash Projections**

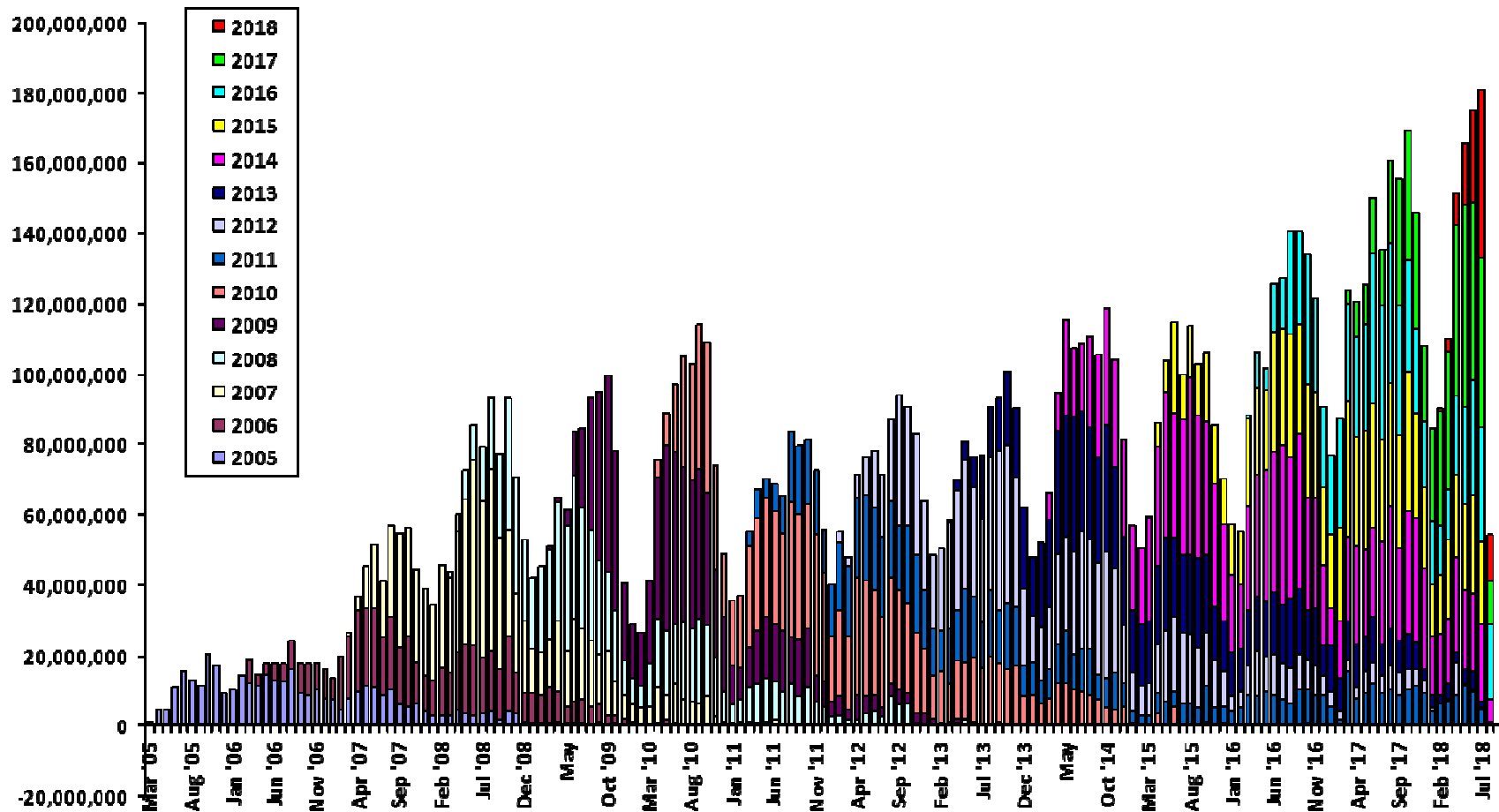
Highway Fund and Highway Trust Fund Budget, SFY 2018-19



Payout Curve for Typical Construction Project



Construction Payment History by Year of Letting/Obligation



Background and Purpose of Cash Model

- Session Law 2001-424, Section 27.23(a), required NCDOT to :
 - “...utilize **cash flow financing** to the maximum extent possible...”
 - “Establish necessary management controls to facilitate use of cash flow financing”
 - “Strengthen the project delivery process by reorganization of preconstruction functions in order to expedite project delivery and maximize use of cash flow financing of projects.”
- **Cash model** is forecasting tool NCDOT uses to meet the managerial and financial goals established under this legislation
 - Allows NCDOT to balance cash needs and project delivery

Session Law 2014-100

SECTION 34.23.(c) In any month in which the Department's total cash balance on hand from the Highway Fund and the Highway Trust Fund exceeds one billion dollars (\$1,000,000,000), the Department shall report its cash balance no later than the 15th day of the following month as follows:

(1) To the Board of Transportation.

(2) If the General Assembly is in session, to the Chairs of the House of Representatives Appropriations Subcommittee on Transportation, the Chairs of the Senate Appropriations Committee on Department of Transportation, and the Fiscal Research Division.

(3) If the General Assembly is not in session, to the Chairs of the Joint Legislative Transportation Oversight Committee and the Fiscal Research Division.

The report shall include an explanation from the Department of the reasons the cash balance has exceeded the amount specified in this subsection, the actions to be taken by the Department to reduce the cash balance, and the estimated amount of time it will take to bring the cash balance to the target identified in G.S. 143C-6-11(k)(1), as amended by subsection (a) of this section.

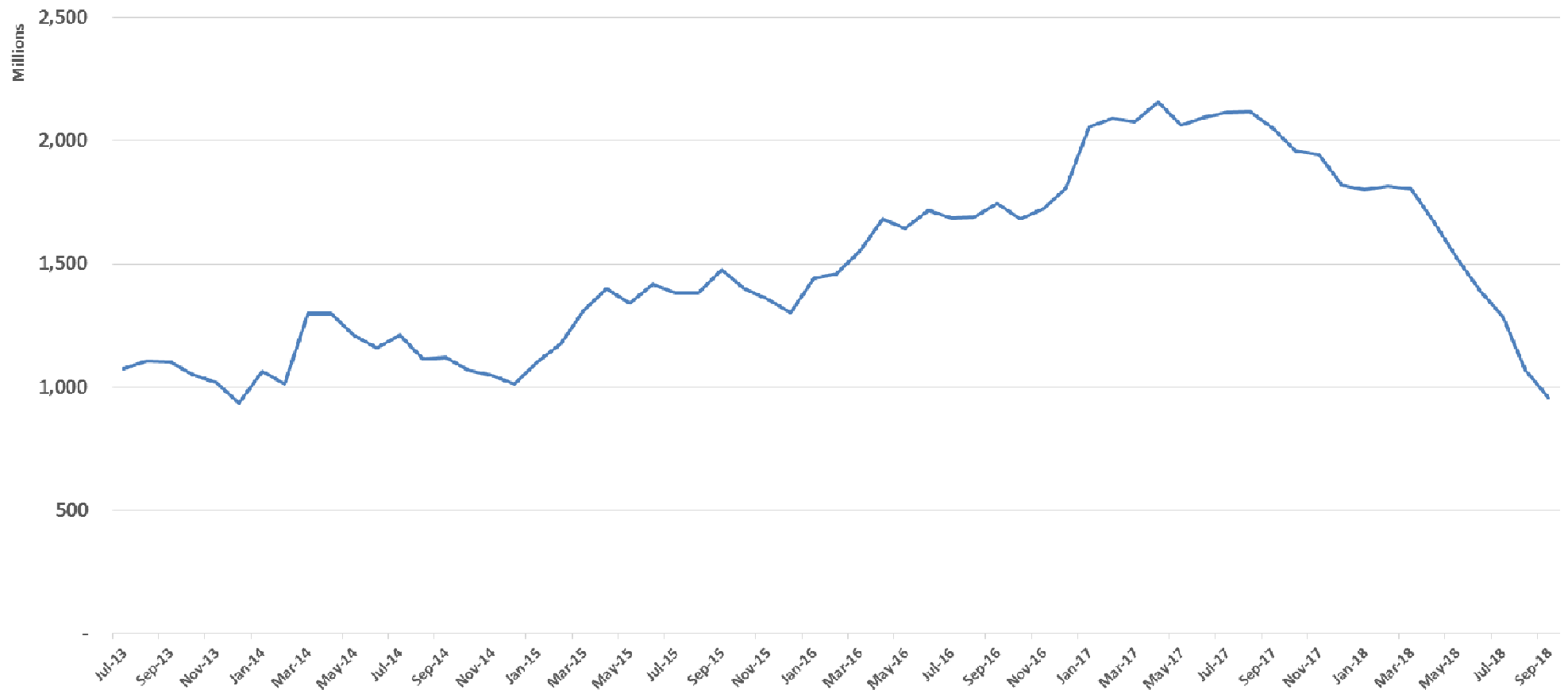
SECTION 34.23.(d) Subsection (c) of this section becomes effective July 1, 2015.

Cash Balance

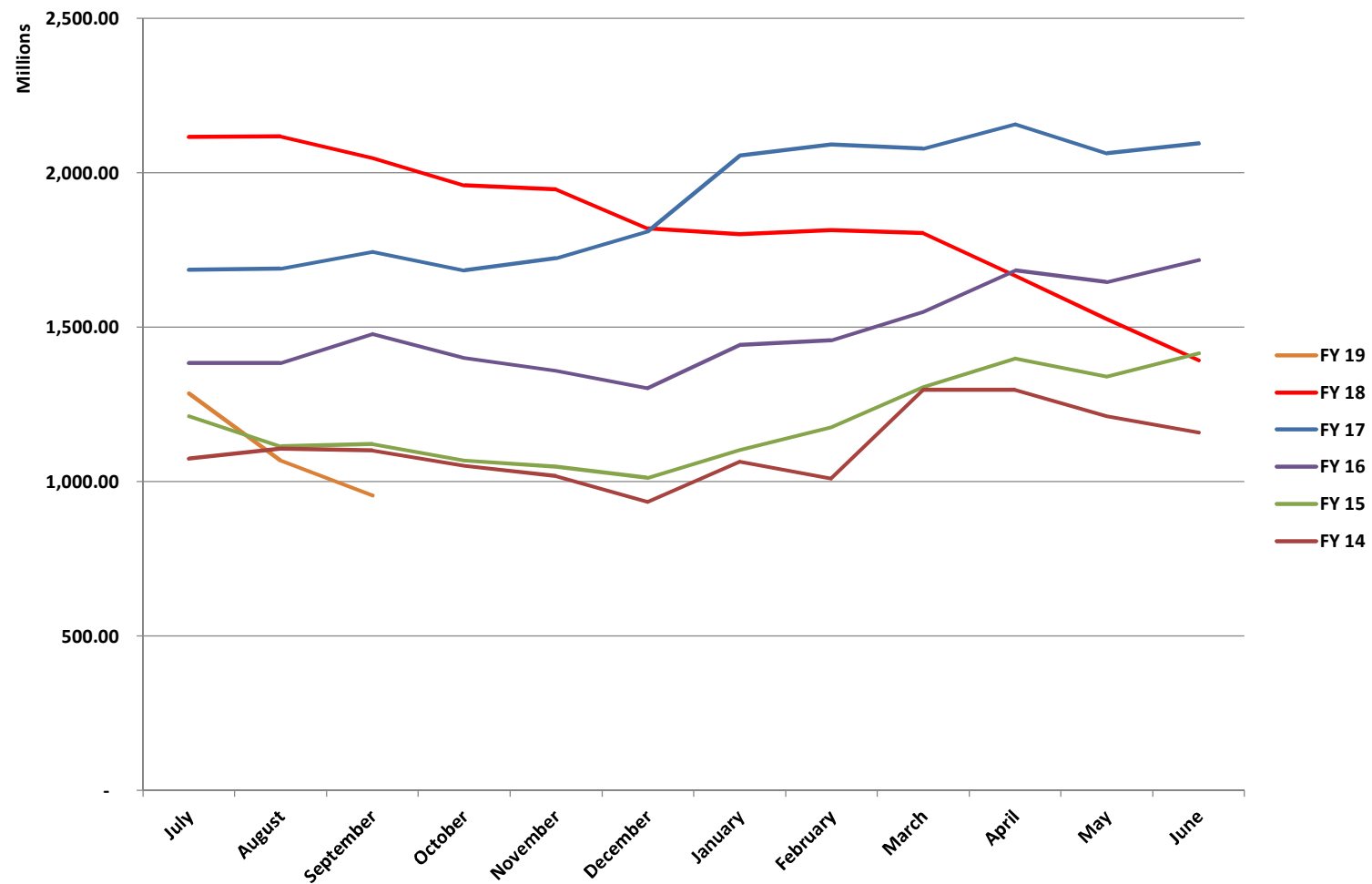
The Daily Cash Balance As of October 31, 2018 was \$715 Million

- Represents 41 days of working capital
- For perspective, NCDOT has contractual obligations of \$6.6 billion
 - Outstanding contracts of \$6.3 billion
 - Outstanding purchase orders of \$368 million

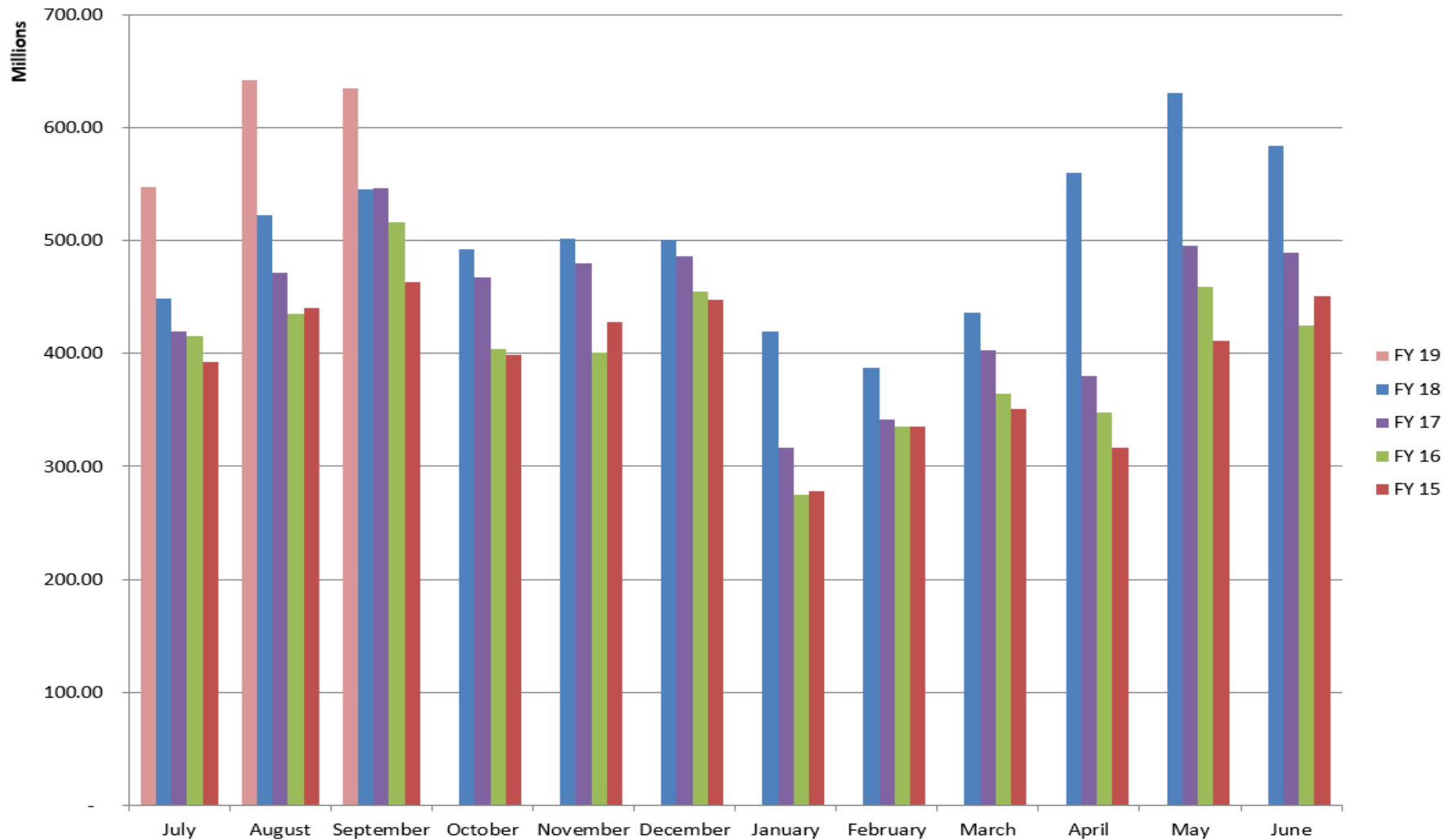
Closing Cash Balance by Month SFY2013-14 to September 2018



Monthly Closing Cash Balance by SFY and Month



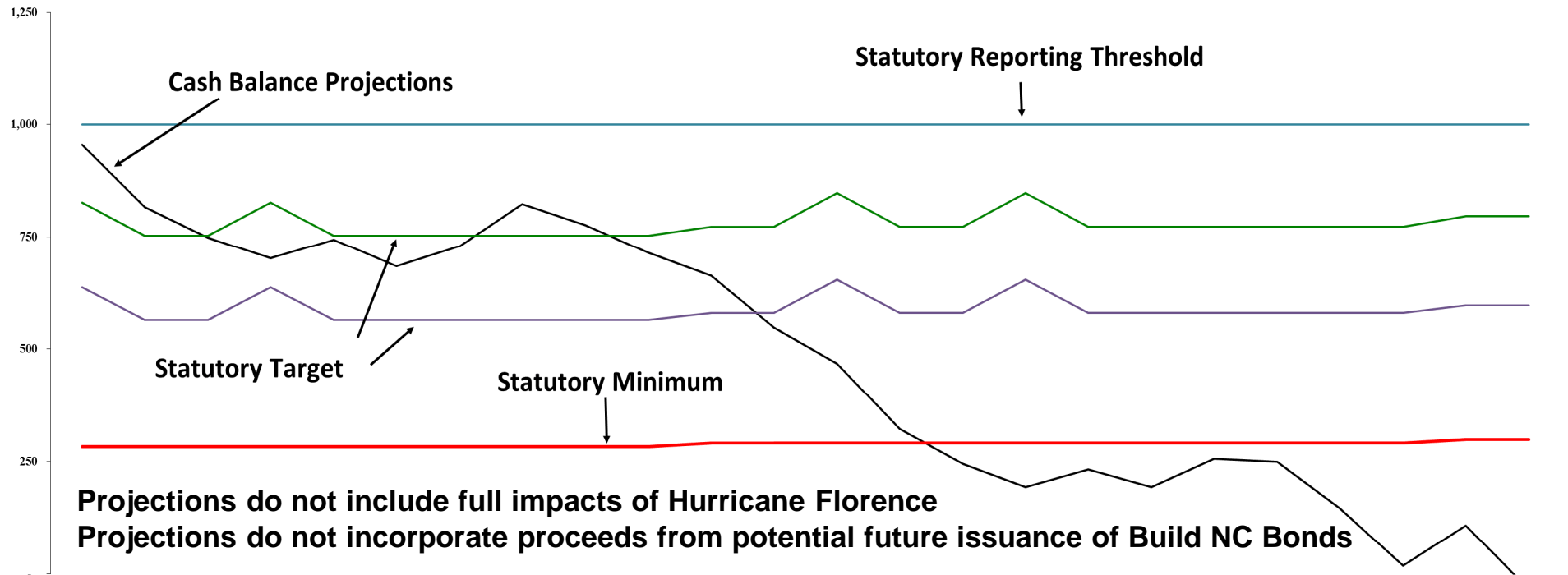
Monthly Disbursements by Fiscal Year



Project Delivery and Financial Indicators

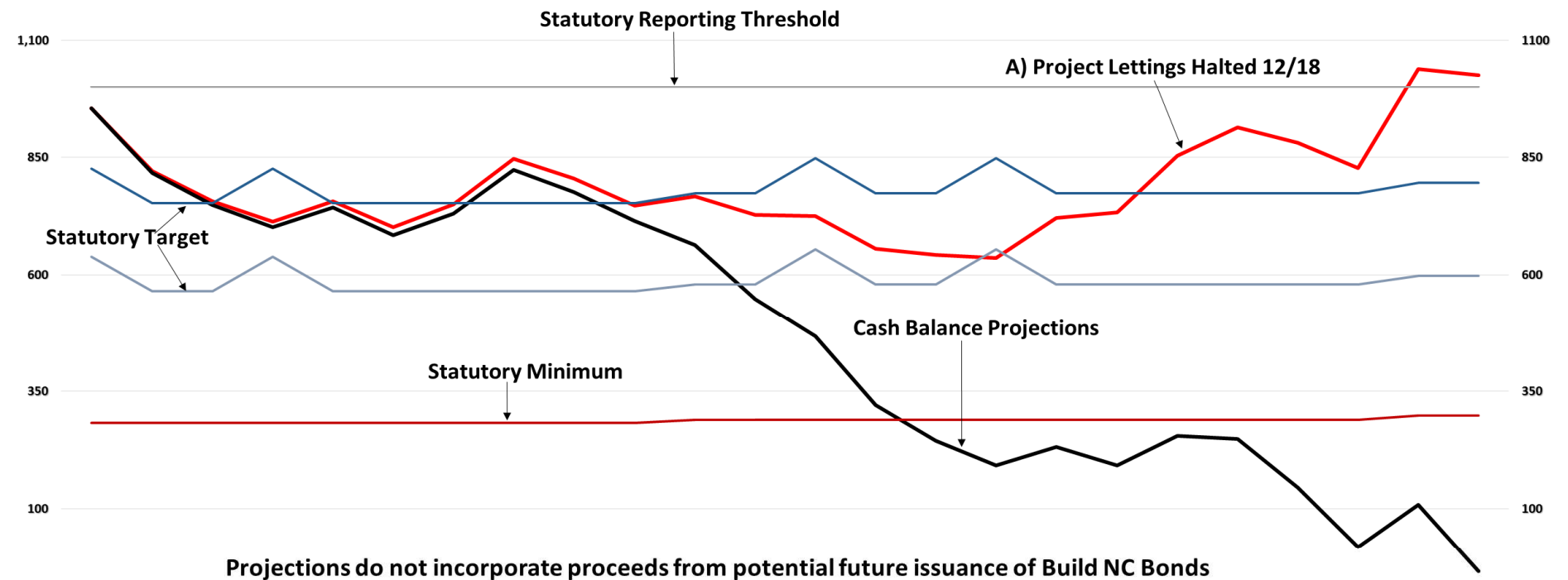
(\$ in millions)	FY 2016-17	FY 2017-18	Difference %	Q1, FY2017-18	Q1, FY2018-19	Difference %
PE Lettings (Awards)	348	690	98%	187	172	-8%
Maintenance Lettings	802	1,214	51%	434	276	-36%
Construction Lettings	1,462	2,035	39%	254	1,145	351%
PE Expenditures	266	409	54%	83	103	24%
ROW Expenditures	319	363	14%	81	113	40%
Construction Expenditures	1,861	2,327	25%	544	650	19%
Maintenance Expenditures	1,411	1,743	24%	427	553	30%
Modal Expenditures	357	353	-1%	88	143	63%
Other Expenditures	553	620	12%	105	87	-17%
Cash Balance	2,095	1,393	-34%	2,047	955	-53%

Monthly Projected Ending Cash Balance



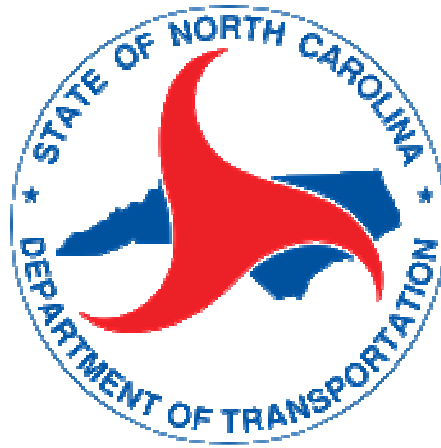
	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Cash Balance Projections	955	817	748	702	743	684	730	823	777	714	663	547	467	321	244	193	232	193	256	249	146	18	108	(34)
Statutory Target - 20%	826	753	753	826	753	753	753	753	753	753	773	773	848	773	773	848	773	773	773	773	773	773	796	796
Statutory Minimum	282	282	282	282	282	282	282	282	282	282	290	290	290	290	290	290	290	290	290	290	290	290	299	299
Statutory Reporting Threshold	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Statutory Target - 15%	638	565	565	638	565	565	565	565	565	565	580	580	655	580	580	655	580	580	580	580	580	580	597	597

Monthly Ending Cash Balance Forecast Compared with Hypothetical Scenario Halting Lettings December 2018



	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
A)	955	821	756	713	757	701	750	847	805	747	767	728	725	656	642	636	720	733	854	914	881	827	1,039	1,026
cash balance	955	817	748	702	743	684	730	823	777	714	663	547	467	321	244	193	232	193	256	249	146	18	108	-34

Questions?



Evan Rodewald
Chief Financial Officer

erodewald@ncdot.gov

Attachment B

**NCDOT Build NC Bonds
Series 2019 Bonds Analysis**

								Annual Debt Service
		Date	Principal	Coupon	Yield to Call	Interest	Debt Service	Ending 6/30
Dated Date	4/1/2019	7/1/2019				3,750,000	3,750,000	
First Call	1/1/2030	1/1/2020	17,310,000	5.000%	2.560%	7,500,000	24,810,000	28,560,000
Final Maturity	1/1/2034	7/1/2020				7,067,250	7,067,250	
		1/1/2021	14,425,000	5.000%	2.720%	7,067,250	21,492,250	28,559,500
True Interest Cost (TIC)	3.694104%	7/1/2021				6,706,625	6,706,625	
Arbitrage Yield	3.554318%	1/1/2022	15,145,000	5.000%	2.800%	6,706,625	21,851,625	28,558,250
Average Life (years)	8.559	7/1/2022				6,328,000	6,328,000	
		1/1/2023	15,900,000	5.000%	2.910%	6,328,000	22,228,000	28,556,000
		7/1/2023				5,930,500	5,930,500	
Sources		1/1/2024	16,700,000	5.000%	3.020%	5,930,500	22,630,500	28,561,000
Par	300,000,000.00	7/1/2024				5,513,000	5,513,000	
Premium	28,302,774.20	1/1/2025	17,530,000	5.000%	3.120%	5,513,000	23,043,000	28,556,000
Total	<u>328,302,774.20</u>	7/1/2025				5,074,750	5,074,750	
		1/1/2026	18,410,000	5.000%	3.220%	5,074,750	23,484,750	28,559,500
Uses		7/1/2026				4,614,500	4,614,500	
Net Proceeds	326,802,774.20	1/1/2027	19,330,000	5.000%	3.330%	4,614,500	23,944,500	28,559,000
Issuance Cost	1,500,000	7/1/2027				4,131,250	4,131,250	
Total	<u>328,302,774.20</u>	1/1/2028	20,295,000	5.000%	3.440%	4,131,250	24,426,250	28,557,500
		7/1/2028				3,623,875	3,623,875	
		1/1/2029	21,310,000	5.000%	3.540%	3,623,875	24,933,875	28,557,750
		7/1/2029				3,091,125	3,091,125	
		1/1/2030	22,375,000	5.000%	3.660%	3,091,125	25,466,125	28,557,250
		7/1/2030				2,531,750	2,531,750	
		1/1/2031	23,495,000	5.000%	3.730%	2,531,750	26,026,750	28,558,500
		7/1/2031				1,944,375	1,944,375	
		1/1/2032	24,670,000	5.000%	3.790%	1,944,375	26,614,375	28,558,750
		7/1/2032				1,327,625	1,327,625	
		1/1/2033	25,905,000	5.000%	3.840%	1,327,625	27,232,625	28,560,250
		7/1/2033				680,000	680,000	
		1/1/2034	27,200,000	5.000%	3.890%	680,000	27,880,000	28,560,000
			300,000,000			128,379,250	428,379,250	428,379,250



STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION

ROY COOPER
GOVERNOR

JAMES H. TROGDON, III
SECRETARY

November 7, 2018

Dale R. Folwell, CPA
State Treasurer of North Carolina
3200 Atlantic Avenue
Raleigh, NC 27604

Dear Treasurer Folwell,

This letter is to notify you, as required by the requirements under G.S. 142-97(2)c, that the North Carolina Department of Transportation (NCDOT) requests that the State Treasurer recommend and issue \$300 million in Build NC bonds no later than May 15, 2019. The proceeds raised from this issuance will help NCDOT continue to accelerate transportation projects as cash balances are gradually depleted.

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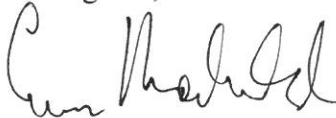
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transportation debt service (as a percentage of transportation revenues) will not be exceeded. Our financial advisor analyzed debt capacity assuming 15-year maturities and estimates that the requested issuance would leave approximately \$2.0 billion of unused capacity. Of course, we understand that official debt capacity estimates will be updated in the Debt Affordability Study for 2019, and that your approval of our requested bond issuance would be contingent on the issuance remaining within those updated estimates.

Finally, we have included copies of consultation letters to the Joint Legislative Transportation Oversight Committee, and the Joint Legislative Commission on Governmental Operations (see Attachment C) as required by G.S. 142-97(2)c.

Thank you for your assistance with this matter that is so crucially important to the State transportation program. We are particularly grateful for the expertise and help we have received from the staff of the Local Government Commission. If you have any questions about our proposal, or if you need additional information before making your recommendation or determination as set out in G.S. 142-97(2), please contact me.

Best regards,

A handwritten signature in black ink, appearing to read "Evan Rodewald". The signature is fluid and cursive, with the first name "Evan" written in a larger, more prominent script than the last name "Rodewald".

Evan Rodewald

Cc: Greg Gaskins
Dora Fazzini

Enclosures