

The Bond Buyer

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Deal in Focus

Texas Sets a Record Road Deal

TTC Plans \$1.5B Of Prop. 14 Debt

By [Richard Williamson](#)

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DALLAS — The Texas Transportation Commission is preparing a record \$1.5 billion bond issue under the voter-approved program known as Proposition 14 that dedicates fuel taxes and vehicle fees toward highway construction.

The deal will include taxable Build America Bonds and tax-exempt revenue bonds in a combination to be determined before pricing the week of July 26.

Financial adviser RBC Capital Markets is working with the TTC and lead manager Goldman, Sachs & Co. Co-managers on the negotiated deal include Citi, Bank of America Merrill Lynch, Morgan Keegan & Co., Piper Jaffray & Co., Southwest Securities, Estrada Hinojosa & Co., and M.R. Beal & Co. Andrews Kurth is bond counsel.

Ratings have not been reported, but under the recalibrated scales of Moody's Investors Service and Standard & Poor's, the previous issue in 2008 is rated triple-A.

The \$150 million in 2008 was the smallest annual issuance of Prop. 14 bonds since the program was authorized in 2003.

The 2007 issue of \$1.3 billion was the largest single deal, but the \$1.55 billion in three series in 2006 was the largest combined issuance in any calendar year.

Under the original Prop. 14, Texas was allotted \$3 billion of bonds with a minimum of \$600 million to be spent on safety projects.

The 80th state Legislature increased the capacity of the highway program to \$6 billion, with a maximum annual issuance of \$1.5 billion, and \$1.2 billion dedicated to safety projects.

State motor fuel taxes, vehicle registration fees, reimbursements from federal funds, and other miscellaneous revenue sources are combined in the highway fund to secure the bonds.

Since the fund's creation, state revenues have accounted for about 62% of all deposits into the fund.

"While the department's long-term needs are far greater than this bond program will address, the program allows management to accelerate certain projects while maintaining very high debt-service coverage," Standard & Poor's analyst Horacio Aldrete-Sanchez noted in his last rating report.

The TTC also issues general obligation bonds on behalf of the Texas Department of Transportation through the \$5 billion Proposition 12 program approved by voters in 2007.

The 81st Legislature authorized TxDOT to obligate up to \$2 billion in Prop. 12 bonds for non-toll projects and \$1 billion for the state infrastructure bank.

The infrastructure banks were authorized in 1995 as a part of the National Highway Designation Act to help accelerate mobility projects.

Keeping up with construction needs remains a chronic problem in a growing state where the Republican-controlled Legislature has refused to raise fuel taxes that have not been increased since 1991.

On gasoline, Texas levies a 20-cent per gallon tax on top of the 18.4-cent per gallon federal tax that has not been adjusted since 1993.

Improving efficiency of new vehicles means that the revenue per gallon will decrease while the miles traveled will increase.

Since 2002, the amount of state motor fuel-tax revenue deposited in the highway fund has been less than the amount spent to maintain the 193,000 lane-miles of highway.

Based on assumptions about population growth and freight traffic projected through 2030, a committee appointed by the TTC concluded that Texas would need to invest \$315 billion over the next 20 years to keep up with demand.

The study estimated that the number of trucks carrying NAFTA — the North American Free Trade Agreement — goods will increase by 263% and the number of rail units will grow by 195%.

In addition to falling revenue, TxDOT has faced rising costs in recent years. According to a 2007 Federal Highway Administration report, between 2003 and 2006, the costs of highway construction and maintenance across the country grew three times faster than the fastest rate recorded for any three-year period between 1990 and 2003.

The FHWA attributed the rise to soaring prices of common highway construction materials, such as concrete, asphalt, and steel.

Those increases were also fueled by skyrocketing oil prices, which prompted a decrease in revenues as drivers sought more efficiency.

Federal highway funds are based on lane-miles of roadway, vehicle miles of travel, diesel fuel used on roadways, population, and contributions to the U.S. highway trust fund.

Texas receives only 70% back for highways from all the federal fuel taxes sent to Washington, according to state officials.

“With the expiration of the federal aid program and the pending insolvency of the [highway trust fund], it is unclear if this will continue,” the committee report said.

Despite the financial constraints, TxDOT has promoted creative ways to get major projects underway.

In the Dallas-Fort Worth area, public-private projects such as the LBJ Express redevelopment are underway with new forms of financing. The LBJ Express will completely redesign and rebuild a section of Interstate 635 known as the LBJ Freeway.

A team of developers and financial backers known as the LBJ Infrastructure Group completed a \$2.7 billion financing on June 17.

“With this public-private approach, the state is able to leverage limited tax dollars to create billions of dollars in congestion-relieving roadway benefits for local drivers, while also creating new jobs for Texans,” said Nicolas Rubio, president of Austin-based Cintra US, the lead partner in the consortium.

The financial team calls LBJ Express the first privately funded road development project of its kind in the country to attain financial close in 2010. In addition to Cintra US, the LBJ team includes the Dallas Police and Fire Pension System, Meridiam Infrastructure, and Texas-based W.W. Webber.

The public-private funding includes \$665 million of private equity, \$615 million of unwrapped private-activity bonds authorized by the U.S. Department of Transportation, \$496 million from TxDOT, and a \$850 million Transportation Infrastructure Finance and Innovation Act loan from the U.S. DOT.

Construction on the 17-mile project is expected to begin in early 2011 and be on a fast track for completion by 2016.

The LBJ Infrastructure Group was chosen by the Texas Transportation Commission in February 2009 to design, build, finance, operate, and maintain the LBJ Express under a 52-year concession.

Projects such as the LBJ Express represent the future of highway development in Texas, according to the Texas Transportation Institute at Texas A&M University.

“The best solutions are going to be those in which actions by transportation agencies are complemented by businesses, manufacturers and commuters,” said TTI researcher Tim Lomax. “There’s a mindset that says that this is a city government’s job or a state DOT’s job, but the problem is far too big for transportation agencies alone to address it adequately.”