



**INFORMATION PAPER FOR THE FINANCE
COMMITTEE**

**POLICY CONSIDERATIONS FOR SETTING NEAR-
TERM TOLL RATES**

APRIL 2012



Purpose

- To facilitate Committee discussion of key policy decisions associated with setting near-term toll rates on the Dulles Toll Road (DTR)
- To receive Committee guidance that will enable management and the Financial Advisors to develop recommendations for discussion at the May meeting of the Board Committees



Key Policy Questions

- How far into the future should toll rates be established?
- What is the range of potential toll rate adjustments that should be considered?

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PURPOSE

To facilitate Committee discussion of key policy decisions associated with setting near-term toll rates on the Dulles Toll Road (DTR) and receive Committee guidance that will enable management and the Financial Advisors to develop recommendations for discussion at the May meeting of the Board Committees.

BACKGROUND

The Airports Authority has the exclusive right to establish, charge, and collect tolls and other fees for the use of the DTR. Prior to adjusting toll rates, the Airports Authority must follow its process for promulgating regulations, including convening one or more public hearings in the Dulles Corridor to provide members of the public and others an opportunity to become informed about, and express their views on, any proposed toll rate changes.

To facilitate the potential issuance of Dulles Toll Road revenue bonds in the fourth quarter of 2012, management developed a draft schedule (Appendix A is attached) for establishing DTR toll rates that would allow Board action to be taken in October 2012. Pursuant to that schedule, management and the Financial Advisors have identified two key policy issues for discussion at the April Committee meeting:

- (1) How far into the future should toll rates be established?
- (2) What is the range of potential toll rate adjustments that should be considered?

DISCUSSION

How far into the future should toll rates be established?

In 2009, the Airports Authority amended its regulations to specify the toll rates that would be effective on January 1 of the next three years (2010, 2011, and 2012). Most public toll authorities with major capital programs address rate setting periodically to

provide the rating agencies and investors with some assurance that toll rates will be maintained at levels required to support outstanding debt.

When the Airports Authority established the toll rate schedule in 2009, there was uncertainty regarding the potential cost of Phase 2. The completion of Phase 2 preliminary engineering and the independent cost estimate provides greater certainty with regard to the Phase 2 budget, however, other key assumptions remain unresolved, including:

- the bid cost for the selected Phase 2 design-build contractor,
- the continued participation by Loudoun County in funding the Rail Project,
- the size and timing of financial contributions from the Commonwealth,
- the allocation of available Transportation Infrastructure Finance and Innovation Act (TIFIA) financing among the local funding partners, and
- the potential for additional funding from the Commonwealth and additional TIFIA funds.

Since major financing assumptions for the Rail Project are currently uncertain or subject to change, adjusting tolls just for the year 2013 and deferring a decision on toll rates for immediate subsequent years is an option at this time. There are three potential options to consider for setting tolls through 2015: 1) set tolls for 2013 only and revisit future year tolls during 2013, once the uncertain issues noted above are resolved, 2) set tolls for 2013 and 2014, and revisit future year tolls during 2014, or 3) set tolls for 2013, 2014, and 2015, and revisit future year tolls during 2015. Management does not recommend proceeding to establish tolls for longer than a three-year period at this time.

In addition to the uncertainties with Phase 2 financing noted above, there are also toll collection strategies under analysis that would necessitate technological upgrades to the revenue system, if pursued. These including peak hour pricing, lower toll rates for customers using electronic toll collection instead of cash, frequent user discounts, and distance-based pricing. Although a priority, it is unlikely any of the options can be developed in time to be considered by the Board and implemented in 2013.

What is the range of potential toll rate adjustments that should be considered?

The Dulles Toll Road traffic and revenue projections discussed at the February Board meeting (Appendix B “2012 Initial Toll Rate Estimates” is attached) provide assurance that sufficient net toll revenue can be generated over time to finance the Rail Project costs that may be allocated to the DTR. The 2012 Initial Toll Rate Estimates are primarily used for long-term financial planning purposes and will support numerous funding scenarios with different underlying assumptions. The Airports Authority has some level of flexibility with regard to how it manages actual toll rate adjustments.

Based on current assumptions, the DTR trip cost will likely need to be approximately \$6.75 by 2018, but the Board has the flexibility to determine how to get there from the current \$2.25 level without having a significant impact on the viability of the overall finance plan.

In the short-term (the next five to six years), during construction of the Rail Project, as toll revenue bonds are being issued, the annual debt service requirements will be almost entirely interest payments. The Airports Authority can determine how much interest is payable in any given year by issuing deferred interest securities and/or using funds other than toll revenue (such as Commonwealth of Virginia contributions) to pay interest on toll revenue bonds. The impact of issuing deferred interest debt simply means that over the life of the bonds, additional debt service is paid in later years.

The Finance Team can ensure sufficient funds are available in 2013 to complete Phase 1 and to fund initial construction costs for Phase 2 by making adjustments to the type and amount of toll revenue bonds issued over the next 12 months. The plan of finance, for example, assumes the issuance of a substantial amount of capital appreciation bonds (CABs) over the next five years. (CABs are bonds that accrue interest until maturity). If market conditions remain near current attractive levels, the Airports Authority could simply issue more CABs in late 2012 or early 2013 instead of issuing current interest bonds. Alternatively, the Airports Authority could supplement the issuance of long-term revenue bonds with commercial paper or another type of interim financing in 2013. If the Airports Authority subsequently receives \$150 million (or more) from the Commonwealth, the funding can be used to moderate toll rate adjustments in 2014 and future years.

CONCLUSION

Management would like feedback on potential options the Board would like to consider with regard to the timing and magnitude of toll rate adjustments in 2013 and immediate subsequent years. Input from the Board will be used to refine the financial analysis and other materials needed to advance the toll rate setting discussion at the May Board meeting.

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Appendix A: Potential 2012 Process & Schedule for Establishing Toll Rates

2/15/12	Finance Committee Meeting <ul style="list-style-type: none"> Review 2012 process and schedule for establishing toll rates Receive Traffic & Revenue (T&R) Study Update Receive Preliminary Financial Analysis of the Updated Dulles Toll Road Revenue Projections
4/10/12	Fairfax County votes to ‘Opt In’ to Phase 2
4/18/12	Finance and/or Dulles Corridor Committee Meeting <ul style="list-style-type: none"> Discuss policy considerations in setting future toll rates
5/16/12	Finance and/or Dulles Corridor Committee Meeting <ul style="list-style-type: none"> Receive potential toll rate schedule(s) for 2013 and future years
6/20/12	Finance and/or Dulles Corridor Committee Meeting <ul style="list-style-type: none"> Receive initial recommendations for proposed tolls for 2013 and future years based on Committee discussion at May meeting Provide Committee authorization to proceed with the regulatory process for proposed rate adjustments and effective dates
7/04/12	End of Extended Option Period for Loudoun County
July and August 2012	Proposed Public Comment Period and Dulles Corridor Advisory Committee (DCAC) Meeting <ul style="list-style-type: none"> Public comment period and public forums on proposed toll rate adjustments Consultation with DCAC on proposed tolls for 2013 and future years
9/19/12	Finance and/or Dulles Corridor Committee Meeting <ul style="list-style-type: none"> Receive staff report on the Public Forums and DCAC comments Decision whether to recommend proposed resolution to set DTR toll rates for 2013 and possibly future years
10/17/12	Board of Directors Meeting <ul style="list-style-type: none"> Consideration of resolution to set new DTR toll rates for 2013 and possibly future years
Late October/Early November	Proposed DCAC Meeting <ul style="list-style-type: none"> Airports Authority briefing to DCAC to report on Board’s consideration of DCAC advice, public comments, and actions with regard to DTR toll rate schedule
1/1/13	Implementation of Potential Toll Rate Adjustment

It is important to note that all dates are tentative and subject to many variables, which may change the proposed schedule.

Appendix B: 2012 Initial Toll Rate Estimates

calendar year	Total Transactions	Mainline Toll Rate	PV @ 3.0%	Ramp Toll Rate	PV @ 3.0%	Trip Cost	PV @ 3.0%	GROSS TOLL REVENUE
2012	99,911,000	<u>\$1.50</u>		\$0.75		\$2.25		103,508,000
2013	81,908,000	<u>\$2.75</u>	\$2.67	<u>\$1.75</u>	\$1.70	\$4.50	\$4.37	177,107,000
2014	83,502,000	\$2.75	\$2.59	\$1.75	\$1.65	\$4.50	\$4.24	181,740,000
2015	83,144,000	\$2.75	\$2.52	\$1.75	\$1.60	\$4.50	\$4.12	180,960,000
2016	85,118,000	\$2.75	\$2.44	\$1.75	\$1.55	\$4.50	\$4.00	185,257,000
2017	87,008,000	\$2.75	\$2.37	\$1.75	\$1.51	\$4.50	\$3.88	189,369,000
2018	75,062,000	<u>\$4.00</u>	\$3.35	<u>\$2.75</u>	\$2.30	\$6.75	\$5.65	246,441,000
2023	74,084,000	<u>\$5.00</u>	\$3.61	<u>\$3.75</u>	\$2.71	\$8.75	\$6.32	320,180,000
2028	76,311,000	<u>\$6.00</u>	\$3.74	<u>\$4.75</u>	\$2.96	\$10.75	\$6.70	407,841,000
2033	76,933,000	<u>\$7.00</u>	\$3.76	<u>\$5.75</u>	\$3.09	\$12.75	\$6.85	489,294,000
2038	77,507,000	<u>\$8.00</u>	\$3.71	<u>\$6.75</u>	\$3.13	\$14.75	\$6.84	581,330,000
2043	75,655,000	<u>\$9.00</u>	\$3.60	<u>\$7.75</u>	\$3.10	\$16.75	\$6.70	636,671,000