Financial Services Update

JULY 2007
VOL. 2 NO. 6

FINANCIAL SERVICES UPDATES AND EVENTS

FS Updates

- Starting in the 07-09 Biennium the FS Updates will be published bi-monthly

Integrated System

- The 2007-09 budget included funding for the pre-implementation work.
- We have briefed executive leadership and are in the process of meeting with division leadership to address the business line's needs. These briefings will continue throughout the program.
- The program team is also meeting with branch management to discuss staffing needs and optimum timelines for the business programs.

Upcoming Training

- Legislative and Operating Budget Training is under development and is tentatively scheduled for September/ October.

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Les Brodie,

Chief Financial Officer

Oregon Department of Transportation

$738 million Bond Sale Largest in ODOT History

(Third Largest in State History)

The recent completion of the Series 2007 Bond sale provided $738 million for ODOT's OTIA program and facilitated refunding portions of outstanding bond obligations. Our approach allowed ODOT to capitalize on its strong reputation and favorable market conditions. As a result of this sale we were able to borrow more and reduce forecasted debt service costs.

ODOT used $155 million of the proceeds for OTIAI/II programs and $372 million for the OTIA 111. This represents the final round of funding authorized for the projects under OTIA I/II. The remaining proceeds of $211 million went to refund outstanding bonds (series 2002A, 2004A, 2005A and 2006A) resulting in $8.3 million savings on ODOT's forecasted debt service expenses. The bonds were sold with an average coupon rate of 4.41% on the 25-year fixed-rate portion and an initial 3.64% on the variable-rate bonds.

This is the second issue of bonds for the OTIA III State Bridge program. As was done in 2006, variable rate bonds were built into the structure in order to achieve a greater level of overall debt service savings. Variable rate bonds differ from regular coupon bonds based on the payment and "re-setting" of interest on a weekly basis, whereas fixed rate coupon bonds earn a set rate of interest which is generally paid twice a year. Variable rate bonds are also more attractive to short-term investors who desire a greater degree of liquidity. $165 million of the OTIA III proceeds were issued as variable rate bonds. Approximately 13% of ODOT's bond portfolio now contains variable rate bonds and is expected to provide a potential, overall interest costs savings of approximately $14.5 million per year.

Expenditure of Bond Proceeds

Spending bond proceeds in a timely manner is often a concern program managers have. If proceeds are not spent quickly, ODOT may be required to pay IRS penalties. With this in mind, the OTIA bonding program continues to focus on issuing bonds primarily on a "reimbursement basis". As of the date of the 2007 sale, at least 52% of the OTIA I/II proceeds and 43% of the OTIA III proceeds had been spent. Full expenditure of the funds should be complete within the current fiscal year.

As noted in previous updates, ODOT planned to issue bonds annually, primarily on a reimbursement basis, and in an amount based on forecasted spending over the coming year. With the 2007 sale we deviated from this plan and borrowed additional funds or "accelerated" our borrowing based on financial market conditions which produced low interest rates. Low interest rates combined with ODOT's premium credit rating resulted in debt service savings very advantageous to ODOT. Factoring in the successfully managed OTIA project schedules, it was determined that we could adequately manage the additional funds and meet the IRS spending requirements.

Financial Services Vision

To be recognized by customers and stakeholders as the most accountable, responsive and innovative finance organization in Oregon state government

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FSB Trivia

This was ODOT's largest bond sale. Third largest in state history.

- For a fresh baked cookie (worth its weight in gold); What was the largest bond sale in Oregon State history?

Now for the milk to go with the cookie; What was the second largest bond sale in Oregon state history?

Hint: Neither one is ODOT.

Submit Answer by 7/30/07 and the winner will be announced in the September FS Update.

Financial Services is a branch of ODOT's Central Services Division.

Financial Services provides centralized accounting, financial reporting, payroll and benefits, budget development, economic and financial analysis, business planning, debt administration, cash management, the Oregon Transportation Infrastructure Bank, tax collection and auditing, revenue forecasting, tax policy analysis and cost allocation services

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OTIA Bonding Plan

The OTIA funding program was developed with a focus on managing at least $178 million of projected annual debt service payments resulting from the $2.4 billion combined OTIA I/II and III legislative approvals. The plan in place allows us the flexibility to structure bond sales which are targeted at attaining the lowest cost of borrowing.

To date, ODOT's financial team and its professional advisors along with Oregon State Treasury have continued to successfully structure bonding packages that exceed planned expectations. Shortly after the June 2006 sale, our efforts were recognized with an upgrade of the agency's credit rating by Standard & Poor's from AA+ to AAA, the highest possible rating given for municipal bonds. Along with ratings from Fitch and Moody's, this represents the highest ratings of any Oregon State bonds.

Key Features of OTIA Funding Plan and Status

Annual bond issues timed for completion at or before beginning of construction season.

⇒ The amount or size of an issue is based on forecasted spending over the coming year; as a result of the accelerated borrowing in the 2007 issue, we may adjust the size and timing of the planned 2008 sale according to project funding needs.

Bonds sold primarily on a reimbursement basis, allowing ODOT to retain most interest earnings.

⇒ 2007 bond issue allowed for increased borrowing and basically "pre-funded" a portion of the 2008 planned borrowing. The overall funding plan allows us to capitalize on certain opportunities to effectively lower borrowing costs.

⇒ Retention of interest earnings has not been jeopardized.

A gradual increase to about 20% variable rate debt – about $480 million of the total $2.4 billion.

⇒ Currently 13.3% or $320 million of outstanding OTIA debt is variable rate. Variable rate debt is issued as "subordinate lien" debt in order to preserve overall debt capacity.

How Does ODOT Sell Bonds? A refresher

Typically ODOT bond sales take 3-4 months of intensely focused effort by a team of at least 25 people. This team includes (and is not necessarily limited to) members from ODOT Financial Services, Oregon State Treasury, Department of Justice, Bond Counsel (an outside law firm specializing in bond issues), a professional financial advisor and major investment banking firms.

All sales must be approved, in advance, by the OTC. Months in advance of a proposed sale ODOT begins coordinating with the Oregon State Treasury to determine an optimal sale date. As documents are developed in preparation of the sale, numerous decisions are made to structure an offering that will secure the highest possible ratings and attract desired investors.

ODOT conducts what is termed a "negotiated sale", during which a major investment bank or banks has agreed to purchase (underwrite) the entire bond issue and then along with other investment banks sell the bonds to investors. Investors may purchase a single $5,000 bond or blocks of many millions of dollars.

On the closing date of the bond sale, ODOT receives the full amount of bond proceeds, and the investment bank(s) receives the bonds to deliver to investors.