Financial Assumptions and Cash Management Study

Joint Transportation Committee, Washington State Legislature

October 14, 2008

Presented by
Public Financial Management

Goals of the Study

- **Are the assumptions in the 16-Year Transportation Financial Plan reasonable?**

  – interest rates, bond costs, debt service withholding

- **How well is WSDOT managing its cash?**

  – minimum fund balances, capital spending, bond sale requests

Findings and Recommendations: Bond Financing Assumptions

- **In the 2008 session, the Legislature lowered the bond interest rate assumption from BBI plus 0.75% to BBI plus 0.29%.**

- **In the 2008 session, the Legislature lowered the bond costs assumption from 1.00% to 0.51% of bond principal.**

Findings and Recommendations: Bond Financing Assumptions

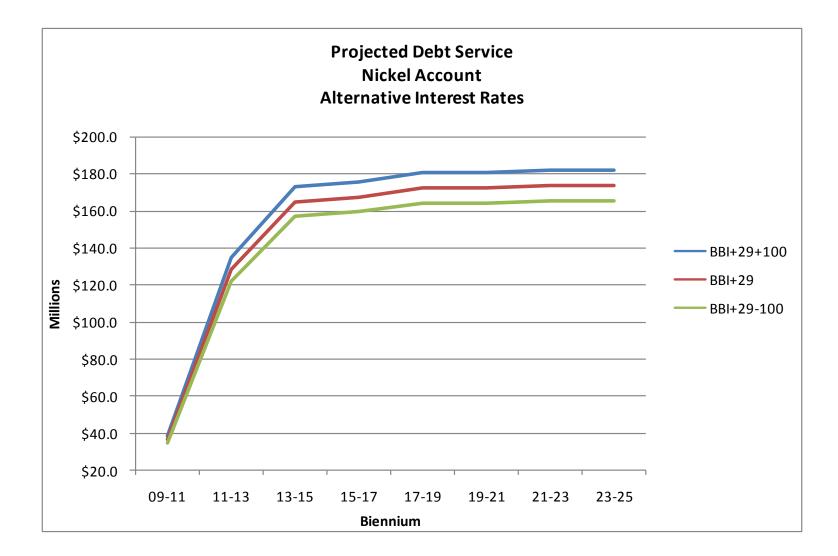| Recommendation	The Legislature's lower interest rate and bond costs assumptions are reasonable, as they are not overly aggressive, and we do not recommend a change to the assumptions.

Analysis: Interest Rate Assumption

- **The average interest rates on State MVFT bonds over the last 3 years have been 0.05% higher than the BBI.**

Sale Date	Bid TIC	BBI	Difference TIC vs. BBI
8/16/2005	4.44%	4.37%	0.07%
8/16/2005	4.38%	4.37%	0.01%
1/24/2006	4.43%	4.33%	0.10%
1/24/2006	4.42%	4.33%	0.09%
7/18/2006	4.72%	4.62%	0.10%
7/18/2006	4.69%	4.62%	0.07%
1/23/2007	4.41%	4.25%	0.16%
1/23/2007	4.41%	4.25%	0.16%
5/15/2007	4.40%	4.24%	0.16%
9/12/2007	4.46%	4.57%	-0.11%
9/12/2007	4.43%	4.57%	-0.14%
1/8/2008	4.31%	4.32%	-0.01%
1/8/2008	4.31%	4.32%	-0.01%

Analysis: Interest Rate Assumption

- **The MVFT bonds appear well correlated to the BBI.**

- **Other state agencies use an interest rate index or forecast, plus a spread, in their transportation financial plans.**

- **The impact of inaccurate bond interest rate assumptions is small relative to other risks.**

- **The State can take future actions to offset the impact of higher than anticipated interest rates.**

Analysis: Interest Rate Assumption

Projected Debt Service
Nickel Account
Alternative Interest Rates

Analysis: Bond Costs Assumptions

- **The total bond costs on MVFT bonds has averaged 0.21% since July 2005.**

- **The average underwriter's "spread" nationwide has steadily declined from 0.68% in 1999 to 0.41% in 2007.**

Findings and Recommendations: Debt Service Withholding

- **The Legislature and WSDOT have traditionally budgeted semiannual debt service payments up to six months in advance.**

- **The Legislature did plan for debt service withholding payments due in FY 2010 in the FY 2007-09 budget.   However, no additional withholding was provided in the 07-09 budgets for the first debt service payment due in FY 2010. This decision was driven primarily by the large cash balances accumulating in the capital construction accounts.**

Findings and Recommendations: Bond Financing Assumptions

Recommendations	WSDOT should continue its practice of monthly withholding. The WSDOT budget for debt service should be equal to the amount expected to be withheld.

Analysis: Debt Service Withholding

- **The RCW require the State to set-aside revenue for debt service on certain MVFT bonds.**

- **The State's official statements include wording that promise to set-aside revenue for debt service on MVFT bonds, including Nickel Account and TPA bonds.**

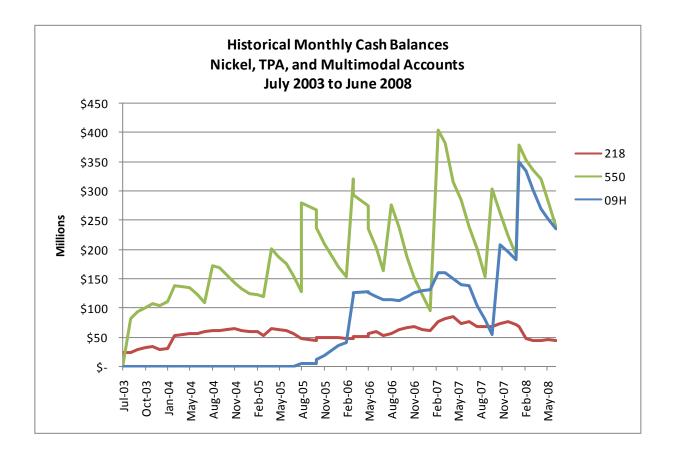# Findings and Recommendations: Minimum Fund Balances

- **WSDOT currently maintains large fund balances, well in excess of designated minimums.**

- **The minimum fund balances are somewhat arbitrarily determined.**

Findings and Recommendations: Bond Financing Assumptions

Recommendations	The minimum fund balances should be the amount needed, along with other WSDOT revenues, to fund fixed costs and high-priority expenditures after a downturn in major revenues, consideration of the potential to delay or eliminate certain capital and operating costs, and accessing any additional sources of liquidity.

Analysis: Minimum Fund Balances

- ## **The cash balances for the Nickel Account and TPA have trended upward since their inception.**

Historical Monthly Cash Balances
Nickel, TPA, and Multimodal Accounts
July 2003 to June 2008

Findings and Recommendations: Capital Spending

- **WSDOT has historically under-spent its capital budget.**

- **WSDOT has budgeted for accrued capital expenditures that will not be spent until the following year.**

- **WSDOT has several financial tools to monitor its budget performance, but does not have a formal budget evaluation process.**

Findings and Recommendations: Capital Spending

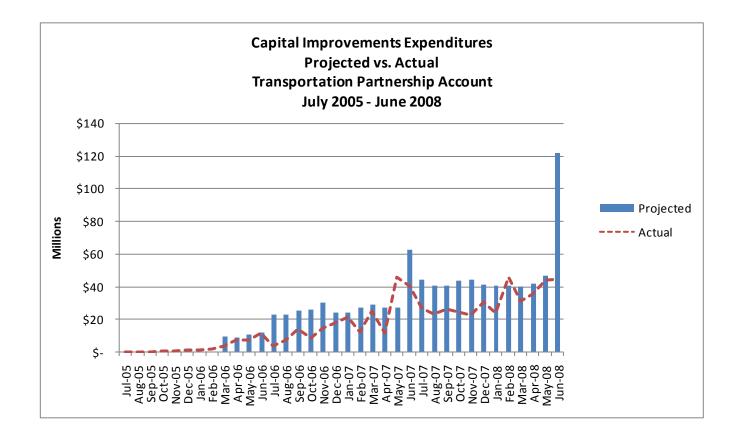| Recommendations	WSDOT should move the "25th month" of capital improvements expenditures into the following biennium. WSDOT should implement a formal and well-defined process of monitoring and measuring its budgeted and actual capital expenditures.

Analysis: Capital Spending

	Capital Outlay Budget vs. Actual Motor Vehicle and Multimodal Funds			
	Final Budget	**Actual**	**Variance**	**% Variance**
Motor Vehicle Fund:				
2001-03	$2,691,469	$1,930,894	$760,575	28.3%
2003-05	2,892,027	2,229,474	662,553	22.9%
2005-07	3,541,937	2,900,647	641,290	18.1%
Multimodal Fund:				
2001-03	$107,240	$79,272	$27,968	26.1%
2003-05	103,522	60,568	42,954	41.5%
2005-07	143,967	80,917	63,050	43.8%
Source: State of Washington, Audited General Purpose Financial Statements, "Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual."				

Analysis: Capital Spending

- ## **The 25th month appears to contribute to the under-spending of capital expenditures.**

Capital Improvements Expenditures
Projected vs. Actual
Transportation Partnership Account
July 2005 - June 2008

Findings and Recommendations: Bond Sale Requests

- **WSDOT submits bond requests to the OST every six months.**

- **The size of the bond request is intended to maintain only a minimum fund balance.**

- **The large WSDOT cash balances indicate that bonds have been issued earlier than needed**

Findings and Recommendations: Bond Sale Requests

Recommendations	WSDOT should exclude any accrued "25th month" capital expenditures when determining the amount of its bond sale request. WSDOT should reduce its initial bond sale request if actual and projected bond funded expenditures are lower than those estimated at the time of the initial request.

Analysis: Bond Sale Requests

- ## **Cash balances increase after each bond issue and do not reach targeted minimums.**

Historical Monthly Cash Balances and Bond Proceeds
Nickel Account
July 2005 to June 2008