

THE BOND BUYER

West Virginia toll agency to finance a portion of the state's \$2.6 billion road program

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The West Virginia Parkways Authority will enter the bond market to fund a portion of its contribution to the state's \$2.6 billion road financing program.

The Parkways Authority Tuesday plans to price \$160.72 million of senior lien turnpike toll revenue bonds as part of the state's Roads to Prosperity Program.

The authority could issue as much as \$500 million in bonds as its share of the program, although the total amount depends in part on revenue performance from what lead bankers at Wells Fargo said they believe is a unique single-fee discount program.

Bond proceeds will be used to fund off-turnpike projects in 10 counties closest to the turnpike. The West Virginia Division of Highways will construct the projects and pay for maintenance.

The bonds have been rated AA-minus by Fitch Ratings and S&P Global Ratings.

The debt will be secured by a first lien and pledge of net toll road revenues.

The 30-year deal has been pre-marketed with serial maturities, though an alternative structure probably will be offered with some term bonds, said Wells Fargo Director Julie Burger.

While there will be no separate retail order period, retail will have priority on certain maturities.

The bonds are being issued under a new master trust indenture, that includes the discount program and a new toll schedule with rate increases, Burger said.

"There is a new single fee program discussed in the preliminary official statement and the investor presentation that essentially allows any passenger vehicle from West Virginia or any other state to pay a single fee to use the turnpike," she said.

“We don’t believe any peer toll road has a similar program, and that is a very unique aspect of West Virginia’s program.”

Class 1 passenger vehicles will be eligible for the program, which will initially cost a single fee of \$25 for unlimited travel annually. Class 1 vehicles are two axle passenger vehicles weighing less than 8,000 pounds that are driven for personal, non-commercial use.

Qualified drivers must purchase an E-ZPass transponder from West Virginia, even if they are from out of state. The transponder currently costs \$13, and it works in any state that uses the E-ZPass system.

On Jan. 1, 2022, the \$25 flat fee will increase by 5%, and every third year afterward the fee will automatically increase by 5%.

To support the authority’s operations, capital and bond programs, the Parkways Authority on June 7 adopted a new toll rate schedule. On Jan. 1, 2019, all tolls will increase 100% all classes of vehicles. Automatic annual toll increases will begin Jan. 1, 2022.

The West Virginia Turnpike is a four-lane, 88-mile highway that runs between Princeton and Charleston, West Virginia. Interstate 77 runs the length of the turnpike, while I-64 runs from Charleston to south of the city of Beckley.

The turnpike has a mix of passenger and commercial traffic. In fiscal 2017, passenger vehicles accounted for 78% of total transactions and 53% of revenue. Commercial vehicles accounted for 22% of transactions and 47% of revenue, according to an online roadshow presentation.

The turnpike has been tolled since the early 1950s, although promises had been made to lift the tolls once prior bonds were paid off, according to Turnpike Authority General Manager Greg Barr.

The authority recently defeased the outstanding debt issued under a prior indenture, and the Legislature agreed to allow tolls to remain on the turnpike as long as a flat discount fee program that had been in place also was available to certain drivers, Barr said.

“This is kind of unique for West Virginia because we don’t have that many West Virginia drivers with 75% coming from out of state,” he said.

Barr said the initial bond issuance under the new indenture, flat fee program and toll rate increase structure is designed to be “very conservative,” so the state can monitor revenue performance and prepare for the next bond deal with actual data in hand.

“It’s important to note that the way the master trust indenture is written and the finance plan is put together that the number one priority for the West Virginia Parkways Authority is to maintain the turnpike in a state of good repair at all times,” he said. “That would be the focus before any money is given to other counties, and I think that’s important for bondholders to know.”

In 2017, the West Virginia Legislature passed a series of measures expected to generate about \$2.6 billion for highway and bridge construction and maintenance over the next seven to 10 years. Collectively, Gov. Jim Justice called it the Roads to Prosperity Program.

As part of the program, Senate Bill 1006 was passed increasing vehicle registration fees, raising the floor on average wholesale gas prices, and increasing the sales tax on motor vehicle sales, which on a combined basis are expected to raise about \$125 million annually.

The program’s funding includes state general obligation funds, grant anticipation revenue vehicle bonds, and the maintenance of tolls on the West Virginia Turnpike.

Co-managers on Tuesday’s deal are JPMorgan, Crews & Associates Inc., and Piper Jaffray & Co.

Public Resources Advisory Group is the authority’s financial advisor.

Bowles Rice LLP is bond counsel. Underwriters’ counsel is Jackson Kelly LLP. Spilman Thomas & Battle PLLC is disclosure counsel.