# Illinois Tollway
## Managing *Move Illinois* Financing Cost
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# To Hedge or Not to Hedge

- Should the Tollway accelerate bond issues in the near term to hedge a portion of its *Move Illinois* Program costs?
  - If so, what amount of 2014 bond issuance should be accelerated for a given interest rate?
- Should the Tollway consider Derivatives to hedge a portion of the Program?
  - If so, how much?
  - What are the costs and risks?

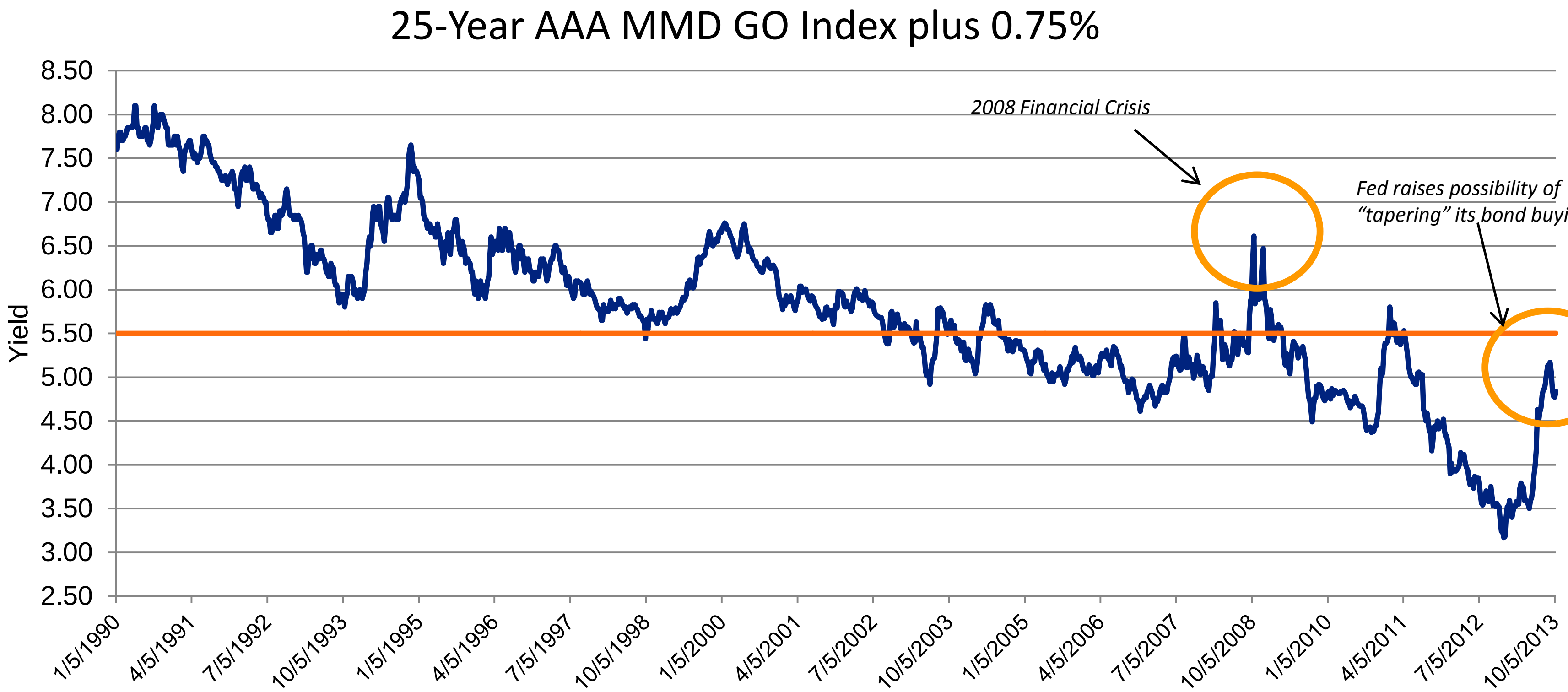
# *Move Illinois* has Interest Rate Risk

- Estimated funding of the $12.1 billion *Move Illinois* Program includes $5.1 billion of Bonds, generating an estimated $4.8 billion for *Move Illinois* and $0.3 billion for debt service reserve

- $4.6 billion of Bonds planned over the next 9 years in addition to the $500 million 2013 Series A Bonds
  - Borrowing cost assumed 5.00% in 2014 and 5.50% thereafter
  - Financial plan currently unhedged / exposed to interest rate risk
  - Each 1 basis point rise in interest rates (.01%) increases the present value of the debt service by approximately $5 million

# Hedging Mitigates the Financial Risk of the Capital Plan

- Current market borrowing rates remain below historical averages
- The Tollway could implement hedging strategies to capture some of the value in the current rate environment and remove some future interest rate exposure



# Hedging Strategies

- The Tollway can implement strategies to reduce exposure to rising borrowing costs in both the near term and the long term
  - Near-term strategy – consider accelerating 2014 bond issuance
  - Long-term strategy – consider derivatives options for managing interest rate risk of later bond issues

# Near Term Hedging

- Advance 2014 bond issuance
  - The Tollway's current plan for *Move Illinois* bond issuance in 2014 is $450 million in March and $450 million in September
  - Current rates can be accessed by accelerating bond issuance, at a cost of the increased "negative carry." Assuming market rates are unchanged:
    - Issuing Mar 2014 Bonds 4 mos early would increase cost 0.06% ($7.4M PV)
    - Issuing Sep 2014 Bonds 10 mos early would increase cost 0.14% (or $18.0M PV)
- Benefits: locks in current rates
- Risks / Disadvantages:
  - If rates decline, the Tollway would not benefit and would have incurred the cost of "carrying" the bond proceeds at a very low earnings rate
  - If spend-down of funds were slower than expected, the cost of the "negative carry" would increase (approx. $1.8M per month per $450M par amount)
  - Advance funding is limited by IRS regulations requiring bond proceeds to be spent within 3 years

# Long Term Hedging Options for Future Consideration

- Longer term hedging can be accomplished through Derivative products including forward floating-to-fixed swap agreements and swaptions
- Enables access to fixed rate market years ahead of bond issuance
- Forward floating-to-fixed swap – upon bond issuance Tollway either:
  - Terminates swap, pays/receives swap termination payment and issues fixed rate bonds; or
  - Keeps swap and issues variable rate bonds.
- Swaption – upfront payment now for the option to enter into a swap agreement at a future date
- Both products can protect against rising rates, but carry certain risks, including counterparty risk and basis risk
- TIFIA loans may provide another hedging alternative for certain projects

# Next Steps

- Determine amount of 2014 bond issuance to accelerate
- Evaluate derivative products as long-term hedging strategy
  - Calculate long-term exposure
  - Evaluate how to best manage the Tollway's exposure
  - Determine implementation strategy
  - Analyze impact on current derivatives portfolio and debt policies / guidelines
  - Determine if legislative changes are necessary to broaden the Tollway's strategic options
  - Assess impact of long-term hedging strategies on credit ratings
    - Short-term hedging (i.e. accelerating all or portion of 2014 bond issuance) not expected to impact credit ratings