



Oregon

John A. Kitzhaber, M.D., Governor

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September 12, 2013

Honorable Ted Wheeler
Oregon State Treasurer
Oregon State Treasury
159 State Capitol
900 Court St. NE
Salem, Oregon 97301-4034

ORIGINAL SENT VIA EMAIL

Subject: Revised financial plan, investment grade analysis update and final responses to Aug. 19 questions on a phased Columbia River Crossing project.

Dear Treasurer Wheeler:

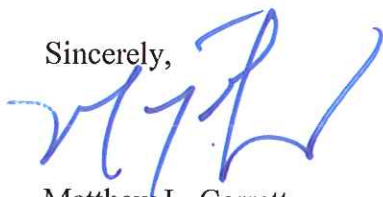
ODOT has continued to work expeditiously over the past three weeks to update the finance plan, refine traffic and revenue analysis and address your questions about an Oregon-led, phased Columbia River Crossing project. Your staff has been actively engaged in this substantial effort, and I am pleased to submit the results of our work today. Collectively, these products provide a body of work to help inform your review of whether the Oregon-led project is financially feasible and provides the necessary safeguards for the State and Oregon taxpayers.

Attached, please find the following:

- A final response to your August 19 set of questions about the Oregon-led, phased option for the I-5 Columbia River Crossing project. Our reply responds specifically to questions on project management and oversight, risk and exposure issues and toll rate setting and enforcement questions. We provided draft responses to key risk and exposure questions on September 5; this communication provides final responses to all questions. (See immediately below.)
- A revised finance plan with cash flow assumptions. (Attachment A)
- A summary on the cost estimating methodology used by the project. (Attachment B)
- The most current toll capacity financial analysis from CDM Smith, Parsons Brinkerhoff (PB) and Public Resources Advisory Group (PRAG). (Attachment C)

We have also reviewed the September 3, 2013, CRC Status Report prepared by your staff and continue to work collaboratively to provide updated and new information as needed. I look forward to discussing next steps with you soon.

Sincerely,



Matthew L. Garrett
Director

Attachments: A: Revised Finance Plan
B: Cost Estimating Methodology
C: Current Toll Capacity Financial Analysis

Cc: Governor John Kitzhaber
Senator Peter Courtney
Speaker of the House Tina Kotek
Senator Ted Ferrioli
Representative Mike McLane

Responses to Aug. 19, 2013, questions on the Columbia River Crossing project from the Oregon State Treasurer

1. The CRC project team must provide a clear understanding of the new economic and financial assumptions associated with the Oregon-only project plan. An Oregon-only solution can, of course, only increase the financial risk to Oregon and its taxpayers. Those risks need to be clearly identified and measured. An objective means of answering the question: “what are the financial risks to Oregonians?” needs to be established. Ultimately, we need a clear understanding of how this plan will impact Oregon’s finances and credit rating.

While the revised plan may increase certain risks compared to the original plan, it also may reduce the likelihood and/or impacts of other risks. Based on our work with your office, TriMet, FTA, FHWA, financial advisors, and project development specialists, we believe that the revised phased plan, as it currently stands, provides a prudent course of action. By continuing to work with your office, the legislature, and others the current plan can be further refined to even better meet Oregon’s objectives. In general, the potential impacts of the revised project plans are not changed substantially from the original proposal. While in some areas risk might be increased, in several noteworthy areas the revised decision-making structure is likely to present a significant improvement.

The revised cost estimate incorporates about \$455 million to address inflationary costs and other contingencies. This represents about a 20 percent risk pool. In addition, currently proposed construction sequence provides the opportunity to defer costs and/or undertake value engineering in the outer years of construction if a cost overrun occurs. Also, the planned use of design-build contracts would transfer construction risk to the private sector and thereby reduce or limit the State’s potential liability regarding cost overruns.

Under the revised plan, Oregon would issue all of the toll borrowings, whereas in the original plan Oregon and Washington each issued one-half of such borrowings. This creates potential impacts on ODOT and the State in the case of inaccurate toll revenue forecasts, increased interest rates, or less TIFIA assistance than desired. However, the revised plan uses assumptions and incorporates means to mitigate these potential impacts. For example:

- The revised plan is based on very recent updates to traffic and toll revenue forecasts by CDM Smith. These forecasts use a Stage 2 traffic and toll revenue forecast model that incorporates many refinements required for the investment-grade forecast. The model has been revised to address the phasing of highway improvements in Washington.

- The revised finance plan assumes a tolling scenario that incorporates a middle socio-economic forecast and the low toll rate scenario. The assumed toll rates offer substantial 'headroom' to increase toll revenues by increasing toll rates in the future, should there be a need. The toll revenue and bonding capacity forecasts do not rely on any toll rate increases after the replacement bridges are fully open for traffic. The revised plan also uses tolling operations and maintenance cost estimates that reflect the possibility that ODOT may collect tolls rather than contracting with WSDOT for collection services.
- The revised finance plan is based on recent financial capacity analyses by PRAG, ODOT's financial advisor. The assumed interest rates have been updated to be 100 basis points above current rates for each type of borrowing. These rates are substantially higher than earlier work. Sensitivity analyses were performed for different interest rates. At the assumed interest rate (current rate plus 100 basis points) in the scenario used for the revised plan, the net project funding from tolls is about \$96 million higher than the scenarios with the most conservative assumptions (i.e.; the lowest revenue assumption for each factor). An interest rate 50 basis point higher than assumed results in about \$70 million less than assumed in the revised plan, while conversely a 50 basis point lower rate than assumed yields about \$80 million more net project funding.
- As in the original plan, the \$450 million ODOT contribution to the project is intended to be derived from existing funding sources; no additional highway funding is assumed. This raises concerns regarding the impacts of the ODOT contribution to the project on the state highway fund. These concerns are not materially different under the revised plan than under the original plan.
- Because FTA New Starts funds are anticipated to be appropriated at a slower pace than required by the construction schedule, interim borrowing is necessary to maintain the optimum schedule. These interim borrowings are repaid with New Start funds when they are received. Under the original plan, the interim borrowing obligation was divided between ODOT and WSDOT. Under the revised plan, the obligation is divided between ODOT and TriMet. There is little difference to ODOT between this obligation under the original and revised plan. The revised plan provides TriMet the ability to borrow by pledging only New Start funds from the Full Funding Grant Agreement (FFGA); there is no added to risk to TriMet's general operating funds.

The possibility of proposing that the toll bonds be issued under the revised plan with and without state backing continues to be under consideration. Under the assumptions analyzed, the state backup pledge could generate about \$65 million in additional toll-backed borrowing. However, if toll bonds are issued with a back-up state pledge, there is a risk that the state would have to cover a toll revenue shortfall. There are means to mitigate this risk. For example, the plan incorporates a 'toll revenue stabilization reserve'

equal to 30 percent of the fiscal year net toll receipts. These funds are available to cover toll revenue shortfalls, if any, prior to any demands being placed on ODOT or the State. ODOT would place the state highway fund and federal highway formula funds between bond holders and the state general fund. If required to exercise the back-up pledge, the state highway fund and federal formula funds would buffer the state general fund. What's more, the Oregon Transportation Commission (OTC) could on its own approve an increase in toll rates, if required. Assumed toll rates are well below the rates at which toll revenues are maximized. CDM Smith suggests that toll increases in the shoulder periods and off-peak periods can increase toll revenues without materially impacting trip diversion.

A cost overrun could have greater impact on ODOT's revenue resources under the revised Oregon-led phased plan than under the original plan because under the revised plan ODOT would be fully responsible for paying cost overruns. In the original plan cost overruns would have been divided equally between ODOT and WSDOT. But with sharing of funding liability came joint decision-making – and joint decision-making increases the likelihood of indecision. Indecision is not only a common cause of cost overruns, it also reduces the ability to manage adverse impacts when they occur. WSDOT will continue to be a cooperative partner in this project, but decision-making is simplified and expedited under the revised plan. The ODOT-WSDOT project development agreement will provide the opportunity for WSDOT to review and comment on certain design and construction issues within specified time frames, but decisions will be made by ODOT.

Under the revised plan, TriMet is the proposed FTA grantee; in the original plan WSDOT was the grantee and sub-contracted for TriMet assistance. By placing the highly experienced light rail development team directly in charge of working with FTA and contracting for light rail improvements, the revised plan further reduces the likelihood of indecision and cost overruns.

As in the original plan, the revised plan depends on receiving certain approvals in a timely manner, for example FHWA approval of \$900 million in TIFIA assistance and FTA approval of an \$850 million Full Funding Grant Agreement (FFGA). These execution risks are inherent in these federal programs; they are neither created nor worsened by the revised plan. To mitigate TIFIA execution risk, the revised plan calls for submitting to FHWA as soon as possible, following legislative approval of required amendments to HB 2800, a Letter of Interest for TIFIA assistance. If TIFIA assistance is not approved (assuming the current interest rate plus 100 basis points), there would be an estimated loss of about \$206 million in net project funding. This loss could potentially be mitigated by deferring certain highway improvements.

In FTA's "Annual Report to Congress on Funding Recommendations for the Capital Investment Grant Program" for Fiscal Year 2014, FTA identified the CRC Project as a "Recommended New Starts Project for FFGA." If the revised plan is approved by the legislature and formally agreed to by WSDOT, we believe it would equally satisfy FTA requirements and the CRC Project would maintain its 'recommended' status. To further mitigate risks of later than anticipated federal approvals, ODOT intends to propose in the amendments to HB 2800 reasonable limits on the amounts that ODOT can expend or bond prior to receiving the federal approvals.

In summary, while ODOT and the State would take on greater obligations under the revised plan than in the original plan, Oregon would have a greater ability to control risks and respond to adverse impacts when they occur.

2. How will the identified financial risks be managed on an ongoing basis? Who is responsible for managing those risks? Do they have the resources and capability to do so? If not, what will it take to ensure effective management of financial risks over the life of the project?

Two areas that present potential financial risks will require ongoing management:

- Completing the project within its budget.
- Ensuring toll revenues are sufficient to cover debt service.

As ODOT has delivered over 800 projects over the last 10 years, we have developed effective management practices to manage the financial risks involved in delivering major projects and programs. These practices have enabled us to deliver \$3.7 billion of projects nearly one percent under budget. ODOT brought the \$1.3 billion OTIA III State Bridge Program, which repaired or replaced nearly 300 bridges, in under budget, and effective cost-management has also brought the Jobs and Transportation Act projects in under budget. In fact, ODOT's performance in bringing projects in under budget leads the nation. A national study in 2011 that compared data on project delivery among states found that ODOT ranked first in the nation in terms of cost savings per project. Just as we did with OTIA and the JTA, ODOT will use the financial management and project delivery capabilities it has developed to manage risks and deliver this project within its budget.

As with other successful ODOT programs, third party oversight will be a key element of this financial risk management. ODOT will hire an outside firm to continually monitor and assess our performance against our overall plan as well as assessing our approach to ensure our decision making is consistent with our approved approach. We will also ask this third party to continue monitoring the overall risks of the project as conditions affecting the project change. ODOT has used this approach with the State Radio Project as we reevaluated this project to bring it back on course. As we have done with other major programs, quarterly reports from a third party firm would be provided to the Legislature, Governor's office, Oregon Transportation Commission (OTC) and leadership at ODOT and TriMet.

An effective decision-making structure is crucial to the delivery of the project and managing costs. As is ODOT's practice, an Executive Management team will provide oversight of the project and recommendations to the project director. This team will ensure a good flow of input and resources to the project and information to the organization and ensure that issues can be quickly identified and addressed.

ODOT will make certain that the needed resources for effectively delivering the project will be made available, either through engaging consultants or by redeploying ODOT staff and internal expertise to the project. As other major construction programs wind down, ODOT is currently in the process of "right sizing" its project delivery staff to meet the expected reductions in our overall construction program. Making these reductions in

other parts of the agency will allow ODOT to redeploy positions as well as experienced staff to the project team as needed. As the State Radio Project and the OTIA III State Bridge Delivery Program wrap up over the next two years, more staff with specialized expertise in management of large complex projects will be available to the project team.

In addition to ODOT oversight, the Federal Transit Administration (FTA) will retain an independent Project Management Oversight Consultant (PMOC) to review the sufficiency of the project management organization and capabilities, design, cost estimates, and risks. In addition, FTA will conduct its own risk assessment on cost and schedule to ensure sufficient contingency is incorporated in the cost estimate.

Just as project management will employ a mix of in-house expertise and third party consultants and advisors, financial risk will be managed directly by ODOT in strong consultation with its third party financial and legal advisors and with significant input and oversight from the State Treasurer's office. The project finance team will endeavor to limit the Department's and the State's financing risk to the maximum extent possible. The analysis and recommendations of the finance team will strive to ensure that the State only cover those risks that the project cannot manage to accept or can only accept at very high costs.

The primary long-term financial risk that will require ongoing management is the potential for shortfalls in toll revenues. As discussed in previous responses, this potential exposure will be mitigated by including a substantial toll revenue stabilization reserve fund equal to 30 percent of the fiscal year net toll receipts to cover toll revenue shortfalls. Toll rate covenants will also require that toll rates be raised if insufficient revenues are raised. In addition, the project would retain a Traffic and Toll Revenue consultant throughout the term of the bonds. This consultant would periodically monitor and forecast toll revenues to ensure early identification of any potential problems. As identified below, toll operations staffing will be added as the project moves forward.

In addition, there are uncertainties with regard to FHWA's approval of TIFIA assistance and FTA's approval of the Full Funding Grant Agreement (FFGA) for New Starts funds. Each of these uncertainties can be managed. With regard to TIFIA, if the approval is delayed or the amount approved is less than planned, the finance and implementation plan would be adjusted by deferring some project improvements and/or adjusting toll rates. With regard to the FFGA, project staff is meeting with FTA to establish an agreed-upon schedule to ensure approval dates are met. In addition, the finance plan incorporates an interim borrowing program to accommodate slower than desired appropriations of New Starts funds.

3. Are there any material costs associated with the project that are not yet included in the total bonding requirements, i.e. mitigation or other direct costs? If so, those need to be clearly identified.

The only capital cost excluded from the estimate is the cost of bridge height mitigation. Mitigation agreements have now been signed with the three metal fabricators, allowing us to pinpoint the cost of mitigation at \$86.4 million (well within the original estimated range of \$30-\$116 million). Revenues necessary to pay the mitigation agreement costs have not yet been identified. Options for funding the mitigation costs include identifying

new revenue, using existing funds, reducing the scope of the project, relying on toll revenues for a longer period of time, allowing for general obligation backing of toll bonds to generate additional revenue, and/or asking Washington to provide assistance.

4. What new management or operational capacities will be required to competently manage the enterprise? Those include management of toll collection, enforcement, revenue adjustments, systems, and public transparency. How much will these functions cost, and are they worked into the financial assumptions? If not, when will they be? Who is tasked with this responsibility?

Three new management or operational capacities are required by the proposed revised plan:

- Development of a toll operations group within ODOT.
- Toll setting processes by the OTC.
- Expanded construction management capacities for the project.

Where WSDOT oversaw toll collections in the previous finance plan, ODOT oversees toll collections in the proposed revised plan. This is a new operational/management capacity that ODOT must develop using staff and contractors. Toll collections are primarily accomplished via two contractors (which can be merged into one omnibus contract). The Toll Collection System vendor is responsible for roadside toll equipment operations and maintenance (i.e., gantries, video cameras, transmission of data to customer service center). The Customer Service Center vendor maintains the toll accounts and invoices for payment. ODOT will add resources to oversee tolling operations.

The OTC will be responsible for monitoring toll collections and setting rates at required levels to meet debt service, operational costs, and traffic objectives. To facilitate the OTC's decision-making the revised plan incorporates the retention (throughout the duration of the toll bonds) of a Traffic and Toll Revenue Consultant specializing in toll revenue forecasts. The Traffic and Toll Revenue Consultant will provide ODOT and the OTC with on-going forecasting of toll revenues to ensure early identification of potential problems. Engineering expertise specializing in toll collection and facility operations will also be retained throughout the term of the toll bonds, and will continuously monitor and forecast operations and maintenance costs associated with tolling and the facility to ensure they are in line with best practices.

Where in the original plan WSDOT was the lead entity with regard to bridge and light rail construction, ODOT will be responsible for managing highway/bridge construction in the proposed revised plan. A substantial portion of the management capacity is already in place or can be quickly put in place if and when the Legislature approves funding. ODOT has temporarily engaged the services of a consulting team to assist in design and construction management, and also has contracts for key WSDOT staff that have technical capacity and institutional knowledge of the project to supplement ODOT staffing. These contracts can quickly be extended if project funding is provided.

The bridge and approaches will be delivered as a design-build contract. A draft of the Request for Qualifications (RFQ) to procure a design-build contractor has been prepared. It is anticipated that this contractor could be given a notice to proceed by early fall of 2014. To supplement ODOT's capacity, the plan proposes to use TriMet as the FTA grantee because of their experience in working with FTA and success in delivering numerous light rail projects. In this case, TriMet would bring its highly experienced technical capacity to the design and construction of the light rail elements of the project. This staff would include key personnel from the Portland-Milwaukie Light Rail Project, making them extremely current with contracting practices.

A pre-requisite for receipt of an FFGA from FTA is a review of the management capacity and organization for designing and constructing the project. This provides an assurance of an independent review of these capacities, and if a gap is identified, it must be filled prior to receipt of the FFGA. In addition, FTA will assign a PMOC to oversee the project on an ongoing basis throughout its construction. One of the roles of the PMOC is to recommend additional management capacity if a need develops in the future.

5. What new financial assumptions are being made regarding toll collection under the Oregon-only model vs. the previous Oregon-Washington model? Although the plan calls for Oregon to shoulder the financing and collect tolls to service the bonds, out-of-state registered drivers would also necessarily be assessed tolls to use the span. How will those tolls be collected?

Under the proposed plan, ODOT would be responsible for collection of tolls, and the OTC would set toll rates. This is a new function for ODOT that will be developed. A toll collection consultant will be retained to design and help implement the toll collection program, which will include contracting for toll collection vendors and electronic toll collection and accounting software. The proposed finance plan assumes pre-completion tolling would begin in early 2016.

Out-of-state motorists will have two methods for payment of tolls. These motorists could open an ODOT toll account, purchase a transponder for a small fee, and deposit money into the account. The pre-paid funding in the toll account would be transferred to ODOT when the transponder registers a trip on the Interstate Bridge. It is anticipated that frequent commuters will use this option since it will be less expensive than the alternative. The second option for out-of-state motorists is the use of photo toll, or license plate recognition. Out-of-state motorists without transponders and ODOT accounts will be tolled by capturing an image of their license plates and billing them by mail (i.e.; photo-toll). The administrative costs associated with this method are higher than for trips using transponders, and those fees are passed along to the customer.

There are no material issues regarding collectability with regard to out-of-state motorists using transponders, since payment is linked to a pre-paid account under ODOT. In order to ensure payment of photo tolls, the plan proposes that Oregon will enter into a reciprocal toll enforcement agreement with the Washington Department of Licensing (WDOL). In this agreement, each state would commit to withhold vehicle registration renewals if there are outstanding, unpaid tolls. This reciprocal agreement is similar to the agreement that would have been in place in the previous proposal. Oregon Department of

Justice (DOJ) is exploring the legal options under which WDOL can enter into such an agreement.

Even with reciprocal tolling enforcement agreements, a portion of toll revenues will not be collected (termed 'leakage') due to unreadable license plates, inability to identify the vehicle owner, and non-payment by toll customers. The financial plan accounts for these factors by assuming that a percentage of toll revenues will be uncollectable.

6. In particular, would Washington State agree to collect and transfer the toll revenue to Oregon? Would Washington have any leverage over its drivers to do so? And would that commitment be guaranteed for the life of the project? There are other legal and financial issues that will be of paramount importance to the bond rating agencies and potential bond purchasers (i.e. can Oregon tax money be spent across the border in Washington, etc.). Finally, who would create, approve and enforce such an intergovernmental agreement?

The current plan does not anticipate that WSDOT will play a role in helping to collect tolls. However it does propose assistance from the WDOL; in particular, a process would be put in place to receive the names and addresses of registered owners of vehicles crossing the bridge without a transponder. As discussed earlier, WDOL would be involved in withholding license plate renewals in the event of uncollected tolls of the vehicle owner. This agreement will be prepared by Oregon DOJ staff in concert with ODOT and WSDOT staff.

If at some point it makes business sense to utilize WSDOT expertise, then that possibility will be explored. The current concept does not rule that out, but simply doesn't rely upon it to make the project successful.

7. How will the estimated toll rates change under an Oregon-only plan? If it increases, what new assumptions are being made about traffic volumes and diversion to I-205? How does this change the financial modeling?

The revised proposal is nearly identical to the original project scope, with the exception that certain interchanges and associated highway improvements north of the I-5 bridge (Mill Plain, Fourth Plain, and SR 500) in Vancouver will be phased in at a later time as determined by the State of Washington. The traffic and revenue analysis used for the current finance plan addresses this change. The limited changes in project scope would make only small differences in traffic volumes and diversions and revenue collection because these changes will not significantly affect the function of I-5.

There is no anticipated difference in toll rates between the original approach and the current proposal. The current finance plan assumes the same base toll rate as the previous plan. Also, no material difference in traffic diversion is anticipated to result from the proposed plan since no difference in toll rates is anticipated.

There will be a difference in how tolls are set. In the previous plan the approval of both OTC and the Washington State Transportation Commission (WSTC) were required to set

toll rates. In the current plan, authority to set rates will rest with the OTC, who will establish a public process and consultation with the State of Washington.

8. Given that Oregon carries the sole financial risk for this new approach, will Oregon have unilateral authority to increase tolls or other fees to cover cost overruns or revenue shortfalls? If not, what other sources of funding would be used to service bonds issued to pay for the project?

The Oregon-led, phased approach will greatly simplify both the financing and toll rate setting processes, as the OTC will set rates. Toll collection would be Oregon's responsibility with no requirement to share revenues. The previous bi-state approach to financing the project carried with it the necessity to split the revenues between the two states. The revised approach to the financing will be more direct and less complicated, and it will also reduce potential barriers to raising tolls to levels necessary to fully cover costs.

The intent of the Department is to enter into bi-state tolling agreement(s) with the State of Washington that would lay out tolling responsibilities and procedures. Given the increased project-related debt for Oregon, the authority to increase tolls would reside with the OTC, which will provide for an appropriate public process and consultation with the State of Washington.

Toll-backed borrowing documents would include provisions to ensure adequate revenues are always available to pay debt service. Of particular importance will be toll rate covenants that mandate minimum toll revenue coverage of debt. This would require that toll rates would be increased if insufficient revenues are raised. Such provisions provide protection to bondholders and any other secured party. This would potentially include the State, should it choose to enhance the credit of the toll-backed debt. The toll-backed borrowing documents would also ensure that any advances made by the State to pay toll-backed bond debt service would be repaid by net toll revenues.

Traffic and revenue modeling work conservatively assumes that toll rates do not increase after 2022. Further, the toll levels being modeled in the traffic and revenue analysis are approximately one-half the estimated revenue maximizing toll. In tolling parlance this is referred as "headroom." By setting an initial toll rate at a level where there is substantial headroom, the OTC would provide itself flexibility in responding to unanticipated toll revenue shortfalls.

In addition, project plans call for the retention of a Traffic and Toll Revenue Consultant throughout the term of the bonds. This consultant would periodically monitor and forecast toll revenues to ensure early identification of any potential problems.

9. What assurances do we have that federal FTA and formula funding will materialize under an Oregon-only plan?

For now the window of opportunity remains open at the federal level. If this approach can be executed in Oregon, from the FTA's perspective the Oregon-led phased option is not materially different than the previous incarnation. Because TriMet is highly experienced in managing FTA grants and has successfully managed a number of large New Start projects, the shift to having TriMet serve as the transit grantee is likely a positive event

from FTA's standpoint. ODOT has been in contact with the FTA to vet the phased option and will have ongoing discussions prior to submission of the New Starts application, and Governor Kitzhaber has scheduled a meeting for September 10 to discuss the phased option with U.S. Secretary of Transportation Anthony Foxx.

FTA has been a strong supporter of the project, and earlier this year the U.S. DOT budget recommended the project for a full funding grant agreement (FFGA) and for \$65 million in federal FY 2014. Given the high national priority placed on the Columbia River Crossing and the strong support from US DOT, ODOT expects that FTA is likely to offer an FFGA for the phased option if FTA is Oregon can execute the proposed approach and demonstrate sufficient funding to pay for capital and operation costs. FTA's decision on the FFGA application is expected to be rendered by spring, assuming the application is submitted on schedule.

Moving to the Oregon-led, phased option in no way impacts the availability of federal highway formula funding that would be used by ODOT to repay the \$450 million for the State's equity contribution. There remains risk and uncertainty regarding whether Congress will continue to provide Federal Highway Administration formula funds to states at current levels because of the fiscal imbalance in the federal Highway Trust Fund, just as there was earlier in the year when the Legislature approved funding for the project. However, there is little risk that there will be insufficient federal highway formula funding to cover the state's debt service for the Columbia River Crossing. Oregon currently receives more than \$450 million in federal highway formula funding annually, compared to estimated debt service payments for the Columbia River Crossing of \$22.8-23.7 million annually.

10. What sources of funding have been identified to backfill cost overruns or tolling revenue shortfalls should those occur?

As described above, construction cost contingencies built into the budget, the ability to defer elements and engage in value engineering, the use of design-build to transfer risk to the private sector, conservative toll estimates and a toll reserve fund will all help mitigate the risk of running short of money.

However, in the event that the project does run short of funding due to some combination of a toll revenue shortfall or cost overrun, ODOT has three primary options:

- Raise additional revenues from tolls.
- Provide additional state highway fund resources.
- Dedicate additional federal highway formula funds.

As noted above, substantial headroom exists in the toll rates, allowing additional revenue to be raised through raising toll rates. Cost overruns could be financed from the issuance of additional bonds, assuming that there are revenues available to cover the associated debt service. Typical provisions in toll revenue bond documents permit borrowing to complete a project without meeting the additional bonds test covenants. For example, an issuer might be permitted under its documents to issue up to 10 percent of the project costs in completion

bonds without meeting the additional bonds test. The premise is that the bond investor has an interest in seeing the revenue producing project completed.

11. How much of Oregon's debt capacity will the Oregon-only model absorb, in both the short and long-term? What impact will the greater debt capacity have on the ability to fund other critical projects across the state?

The Oregon-led phased option would require borrowing in a number of areas:

- Issuing debt for a portion of the state's \$450 million equity contribution, as approved by the 2013 Legislative Assembly in HB 2800.
- Issuing toll-backed debt obligations, including a substantial federal TIFIA loan and supplementary toll-backed bonds.
- Interim borrowing for light rail construction costs that will be repaid by FTA New Starts funds in future years.

The finance plan, incorporating the State equity contribution, toll revenue bonds, TIFIA loan, FTA full funding grant and interim financings, is attached.

Equity Contribution

The Department will contribute approximately \$450 million to the project through a combination of issuing 30-year state highway general obligation (GO) bonds and upfront cash contributions from unallocated federal highway formula funds available to ODOT in 2014 and 2015. Debt service on the state highway GO bonds will be paid from legally available state highway fund revenues or federal highway formula funds. Based on earlier assumptions the issuance of the \$450 million in state highway GO bonds would add an additional \$27.5 million in debt service payments per fiscal year.

The "down payment" from unallocated federal highway formula funds would reduce the required amount of GO bonding and future debt service payments. The revised finance plan contemplates the issuance of approximately \$382 million in state highway GO bonds and the utilization of approximately \$68 million in unallocated federal highway formula funds. The lower GO bond issuance amount would be expected to reduce annual debt service payments by about \$3.8 million, to \$4.7 million, for a total of \$22.8-23.7 million. Given that HB 2800 did not provide for new revenues to offset this additional debt obligation, future debt service payments on these bonds will reduce the amounts available to fund other capital transportation projects. It should be noted that this impact to future projects existed in the original proposal.

Since the GO bonds authorized by HB 2800 are not planned to be issued as Highway User Tax Revenue Bonds and will be paid for out of funds available after the payment of Highway User Tax Revenue Bond debt service, the debt capacity of the existing program would not be directly impacted. However, increasing demands on the state highway fund without providing new revenue sources will have a negative impact on the Department's ability to use bonding to fund other capital transportation projects. In addition, the lack of new revenues to offset the added debt service commitment for the I-5 bridge project will eventually place additional pressures on the Department's available cash balances. Given that available cash liquidity is an important credit rating factor, there is a concern that the Highway User Tax Revenue Bond program

will no longer be able to maintain its “AAA” credit rating. In the eventuality that the Highway User Tax Revenue Bond program is downgraded, the result will be higher interest rate costs and reduced debt capacity for a given revenue stream.

Toll Bonds

ODOT intends to apply for a TIFIA loan from the Federal Highway Administration for a large portion of the toll-backed bonds and issue standalone toll revenue bonds for the remainder. To maximize proceeds, the standalone toll revenue bonds in particular may benefit from a general obligation pledge by the State. However, the Department would most likely choose to eschew a State pledge on the toll bonds, issue less toll revenue bonds and supplement any shortfalls with highway revenue bonds.

To the extent that the State support for toll revenue bonds is required to achieve the desired debt capacity for all or a portion of the project, the financing would be carefully structured with toll rate covenants, reserves and sufficient headroom in toll rates to protect the State in the event of revenue shortfalls and/or cost overruns. If some level of State support is required for toll revenue bonds, that support will be structured with a lien on toll revenues that is ahead of the TIFIA loan and ODOT’s revenue resources, essentially eliminating the possibility the general fund would ever be impacted.

As previously mentioned, securing some or all of the toll-backed debt with a pledge of the state highway fund could put additional stress on the Highway User Tax Revenue Bond program cash flow and credit ratings.

Interim Borrowing for Transit

As noted before, the Oregon-led, phased option does not materially alter Oregon’s role in interim borrowing for transit, as ODOT and WSDOT would have split interim borrowing under the original plan. The interim borrowing program to advance funding for the FTA grant may require ODOT to provide state highway fund backing (at a level subordinate to the Highway User Tax Subordinate Revenue Bonds). The interim borrowing program may take the form of short-term notes, a commercial paper program and/or grant and bond anticipation notes. The risk to the State is largely one of timing, as the takeouts of these interim borrowings will come from toll revenue bond borrowing as well as the proceeds of the FTA full funding grant. Using state highway fund backing permits more aggressive leveraging of the FTA full funding grant agreement to advance funding given the mismatch between grant payments and construction funding requirements. The issuance of grant and bond anticipation notes with a pledge of federal revenues (i.e. TIFIA loan and FTA grant) may prove the better option as it would essentially reduce the risk to the State and ODOT’s balance sheet.