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September 26, 2013

Rep. Tina Kotek
Speaker of the House
Capitol Building, 269

Senator Peter Courtney
Senate President
Capitol Building, S-201

To: House Speaker Tina Kotek and Senate President Peter Courtney:

In accordance with House Bill 2800, the Oregon Treasury is required to complete a financial review of the Columbia River Crossing project co-sponsored by the states of Oregon and Washington. Subsequent to the Washington Legislature's failure to approve funding for the CRC project, we have also been asked to evaluate an Oregon-led approach. This memo, though preliminary, serves as a critical step toward that requirement.

I want to start by thanking you, as well as Governor Kitzhaber, for your strong leadership and support for a thorough evaluation of this important project. I believe we are all in agreement that the Columbia River crossing is critical to Oregon's economy. My job as State Treasurer is to make sure that if the Legislature makes a decision to move forward, it does so in a manner that is financially viable and protects Oregon taxpayers.

As we have discussed, the financial risk to Oregon and its taxpayers is higher under an Oregon-led scenario. Therefore, I recommend that we continue to negotiate a close partnership with Washington State.

If Oregon chooses to go forward with an Oregon-led financing proposal, I want to be clear that our financial interests are no longer as clearly aligned with Washington. Therefore, legal protections for Oregon and its taxpayers must be iron-clad and legally enforceable, especially the bi-state toll collection reciprocity agreement described in more detail below. In the event that the project does not unfold as planned, we must be able and willing to take any and all necessary steps to enforce such an agreement with Washington.

<u>Key Question: Does the Oregon-led proposal work financially?</u>

It is premature to conclude that the project can work, financially. The answer will ultimately depend on required negotiations and agreements that are not completed. Treasury staff has identified and shared requirements for the project to work financially (see attached). Bonds for construction cannot and should not be approved and funds should not be expended until all requirements (listed below) are met.

Under an Oregon-led scenario, Oregon would be responsible for the collection of tolls, so I cannot over-state the importance of a legally enforceable tolling agreement with Washington that includes clear authority for Oregon to establish tolls, surcharges and late fees over the life of the bonds. These agreements must withstand economic and political changes over three decades. These provisions must be satisfied before an Oregon-led project could be considered financially viable.

Viability Requirements

In summary, if the project is to proceed to the stage of financing, you will need the following in order to satisfy the rating agencies and financial markets:

- An executed, toll collection reciprocity agreement that ensures that tolls, surcharges and any associated late payment fees and penalties incurred by Washington drivers who use the new bridge will be collected in full on Oregon's behalf by the State of Washington. This agreement can recognize that Washington will be consulted as to toll rates, but must allow Oregon's Transportation Commission unilateral authority over the setting of future tolling rates to assure that they are sufficient to fund both upfront and on-going costs associated with the CRC project;
- An executed agreement with the State of Washington authorizing the construction of bridge, rail and interchange improvements related to the project within the border of Washington State;
- A dedicated source of annual funds to pay for the operation of an expanded light rail service into Vancouver, Washington
- A bridge permit from the United States Coast Guard for the new bridge at the now-proposed height over the main channel of the Columbia River;
- An $850 million grant through the Federal Transportation Administration to finance the light rail components of this project; and
- A $900 million TIFIA loan from the Federal Highway Administration, which would be repaid over the next several decades with toll revenue generated by the project.

It is important to note that the full "investment grade analysis" will not be completed until December. This summary and the attached reports are based on preliminary financial information provided to the Treasury by the CRC project staff and third-party consultants. We have used conservative financial data based on the "Level 2" data provided to Treasury since August 19.

If the project proceeds to the next phase, the CRC's consultants will complete a sensitivity analysis of the impacts of the key factors underlying their projections of future traffic patterns for the Interstate 5 Bridge. This will better ensure that the remaining variables have been thoroughly vetted, understood and planned for well in advance of the actual sale of state bonds. Projections show that the majority of traffic using the bridge and paying tolls will be Washington drivers.

I want to acknowledge and thank both ODOT and CRC staff for their efforts to supply information over the past few weeks.

Finally, as Oregon's Treasurer, I share the responsibility with you to protect Oregon's finances and taxpayers, and that means we need to ensure there is a high level of confidence with the underlying financial assumptions of an Oregon-led project, that there are appropriate contingencies in place if our estimates are nevertheless wrong, and that all of the necessary legal agreements are worked out and are executed prior to the expenditure of additional resources.

As you and your colleagues deliberate, please let me know if Treasury can provide additional guidance or analysis.

Respectfully,

Ted Wheeler

Attachments:

Letter to CRC project director, Aug. 16, 2013
Treasury memo to Treasurer Wheeler regarding CRC feasibility, Sept 3, 2013

Cc:

Senate Republican Leader Ted Ferrioli
House Republican Leader Mike McLane
Curtis Robinhold, Chief of Staff, Governor
Matt Garret, ODOT

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August 19, 2013

ORIGINAL SENT VIA EMAIL

Patricia McCaig
Advisor to Governor John Kitzhaber
Columbia River Crossing Project
700 Washington Street, Suite 300
Vancouver, WA 98660

Re: Columbia River Crossing Project- Revised Concept, August 2013

Dear Patricia:

Thank you for meeting with my team and me on August 8th to introduce us to the revised Columbia River Crossing (CRC) concept.

As State Treasurer, my obligation is to protect the long-term financial interests of Oregon and its taxpayers. This includes being a careful steward of public-backed debt and Oregon's credit rating.

The Treasury is committed to completing a thorough fiscal analysis as quickly as possible but will need your prompt assistance. As discussed, given the current absence of information and the level of due diligence required by law, I am especially concerned about how the revised concept can meet the September timeframe you articulated.

The new CRC concept raises significant financial questions that must be addressed and resolved on behalf of Oregon taxpayers -before the state commits any further financial resources and before I can certify the financial feasibility of the project – as both my position and the law requires.

As we agreed, I am hereby outlining the Treasury's requests for information and questions about the revised concept:

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.

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?

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.

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?

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?

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?

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?

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?

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

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

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?

A final note: As I mentioned in our meeting, communication from the Columbia River Crossing project team to the Treasury has been inconsistent. I must emphasize again that given the timeframe you seek for a detailed review of this newly revised concept, the CRC project team will need to make a great leap forward in a short period of time to provide legally adequate and reliable information to the Treasury and the people of Oregon.

As always, please contact me if I can be of any immediate assistance. I look forward to further discussions.

Sincerely

Ted Wheeler
Oregon State Treasurer

TW/pr

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

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Memorandum

Date: September 3, 2013

To: Ted Wheeler, State Treasurer

From: Laura Lockwood---McCall
Director, Debt Management Division

Re: Status Report on Evaluation of Revised Plan of Finance for the Columbia River Crossing project

Per your request, my team and I have spent the past two weeks evaluating the financial feasibility of the revised "Oregon---only" version of the Columbia River Crossing (CRC) plan that was announced in early August 2013. To that end, we have had several meetings with CRC, the Oregon Department of Transportation (ODOT), and Oregon Department of Justice (DOJ) staff, as well as CRC and ODOT consultants to review and analyze the following items:

- CRC design, permitting, land acquisition and construction costs, cost estimating processes, and planned phasing of the various construction components that remain within the revised CRC plan
- Sources of funding for each of the various components of the overall CRC project as well as the timing that each of these source of funding must become available in order for the project to succeed
- Stage 2 results of the tolling and traffic analysis as prepared by CDM Smith, dated August 6, 2013, which produced a range of gross revenue forecasts under differing socio---economic growth, toll rate, and travel parameter assumptions
- Net revenue forecasts prepared by Parsons Brinkerhoff, dated August 6, 2013, based upon these Stage 2 gross revenue estimates that accounted for bridge and toll

operations, maintenance, and repair costs, non---collectible tolls, and other factors that may reduce gross toll revenue

- Legal issues surrounding both the State's ability to construct highway, bridge, and rail improvements in Washington State as well as the establishment of a toll enforcement reciprocity agreement with Washington State

As of September 2, 2013, the revised project budget is $2.68 billion before taking into account any height mitigation costs. Table 1 below is a summary of the identified funding sources for this revised CRC budget, with allocations for both the transit and highway portions of the project. Please note that the revised financial plan is still being finalized by CRC staff with regards to the allocation of funds between the transit and highway elements of the project, but the revised project budget shown below does include both a 26% construction contingency and the interest costs associated with interim borrowing for the Federal Transit Administration (FTA) grant by TriMet and ODOT (ODOT will need to be authorized to borrow on an interim basis for the highway/bridge elements of the transit grant). Please also note that while this revised CRC budget still has a future $450 million equity contribution from the State of Oregon, this equity contribution is now split between $68.4 million in ODOT pay---as---you---go appropriations, composed of Federal formula dollars swapped to TriMet for their payroll tax revenues, and $381.6 million in State General Obligation (GO) bonds.

Table 1

<u>Potential Sources of Funding</u>	Transit	Highway	Total
WA/OR DOT Appropriations to Date	$ 31.3	$ 76.5	$ 107.8
Additional ODOT Appropriations	68.4	-	68.4
State GO Bonds	-	381.6	381.6
FTA Grant (to TriMet)	850.0	-	850.0
Pre---Completion Tolling	28.5	201.1	229.6
TIFIA Loan (toll---backed)	-	892.4	892.4
Stand---Alone Toll Revenue Bonds	146.3	3.0	149.3
Total	$ 1,124.5	$ 1,554.6	$ 2,679.1

While critical legal and operational issues remain unresolved as of the date of this memo, an analysis of the basic funding plan based on the cost projections provided by CRC project staff suggests that the revised project is financially viable at current interest rates, even under the most pessimistic toll revenue assumptions, so long as **<u>all of the following events</u>** occur:

1. The Coast Guard permit is granted by September 30, 2013 – this appears more likely now that all three up---river companies have reached an agreement with CRC on height mitigation costs ($86.4 million will be paid to these companies, once all permits are

obtained and the bridge construction contract is awarded, now estimated to occur sometime around FY 2016).

2. An opinion from the Oregon Department of Justice is released stating that it is legal for the State of Oregon to enter into an agreement with the State of Washington to construct bridge, highway and rail improvements within the borders of Washington State.
3. The two states enact the above---mentioned construction agreement as well as an electronic toll enforcement reciprocity agreement that has strong enough toll---setting procedures and enforceability provisions to assure rating agencies, the Federal Government and toll revenue bondholders that the project is financially viable. In particular, this agreement must ensure that both Washington and Oregon drivers will not be allowed to renew their vehicle and/or drivers' licenses if they fail to pay delinquent tolls, surcharges, and penalties associated with their use of the I---5 Bridge.
4. The source of annual operating funds to pay for the expanded light rail services into Vancouver, Washington is identified.
5. The State of Oregon retains exclusive control over the setting of tolling rates to ensure financial accountability to both our bondholders and taxpayers.
6. Congress awards an $850 million grant to TriMet for expansion of their light---rail system into Vancouver, Washington in early 2014.
7. The Federal Highway Administration (FHA) awards a $900 million TIFIA loan to the State of Oregon for the revised CRC project by the summer of 2014.

Table 2 below summarizes the preliminary results of Public Resource Advisory Group's (PRAG) financial capacity analysis of Stage 2 projected toll revenues at both the most pessimistic and more moderate toll revenue assumptions generated by CDM Smith/Parsons Brinkerhoff.

Table 2

Financial Capacity of Projected Tolling Revenue for Columbia River Crossing Project					
As of 09---03---2013					
(in millions)					
		Scenario B		Scenario C modified	
Key Forecast Parameters		*Most Pessimistic Forecast*		*"Moderate" Forecast*	
Socio---Economic Growth		Low		Moderate	
Toll Rates		Low		Low	
Travel Parameters (Value of Time, Transponder Use, etc)		Low		Low/Moderate	
	Time Funds are Needed	Curr Interest Rates*	plus 1.00%	Curr Interest Rates*	plus 1.00%
Pre---Completion Tolling Revenues	FY 2016 -- FY 2022	229.6	229.6	229.6	229.6
TIFIA Loan (net proceeds)	FY 2016 -- FY 2022	900.0	900.0	900.0	900.0
Stand---Alone Toll Rev Bonds (net proceeds)	FY 2021 -- FY 2022	235.9	82.6	350.2	178.5
Total		1,365.5	1,212.2	1,479.8	1,308.1
Tolling---Related Revenues Needed to Fund Project**		1,271.3	1,271.3	1,271.3	1,271.3
Projected Surplus/(Shortfall)		**94.2**	**(59.1)**	**208.5**	**36.8**
As sumptions					
* Current market 30 year yields, rounded to nearest 0.25% as of 8---30---13					
** Does not include $86.4 million in bridge height mitigation costs					

As you will note, if interest rates increase by 1.00% above current market rates, under the most pessimistic revenue forecast, PRAG estimates a budget shortfall of $59.1 million, before taking into consideration the $86.4 million in height mitigation costs. This funding shortfall will grow substantially if interest rates rise by more than this amount at the time that loans are entered in to or bonds sold.

PRAG also projects that the revised CRC project is not financially viable under a scenario where the State issues GO toll revenue bonds instead of utilizing the $900 million TIFIA loan. As Table 3 below shows, if the State is required to fund more of the project with GO bonds rather than the TIFIA loan, there is the potential for significant funding shortfalls under both the most pessimistic and more moderate toll revenue forecasts (assuming that height mitigation costs are added to the project budget.) Unlike the TIFIA loan scenario which allows the State to defer principal and interest at a low interest rate for up to five years after completion of the project, State---backed GO toll revenue bonds would need to be issued from FY 2016 to FY 2022 to pay project costs at substantially higher current interest rates, with a significant portion of the bond proceeds required to cover interest costs prior to the opening of the new, 24---hour tolled bridge. Any future increase in interest rates only exacerbates the funding shortfall problem.

Table 3

Financial Capacity of Projected Tolling Revenue for Columbia River Crossing Project					
As of 09---03---2013					
(in millions)					
		Scenario B		Scenario C modified	
Key Forecast Parameters		*Most Pessimistic Forecast*		*"Moderate" Forecast*	
Socio---Economic Growth		Low		Moderate	
Toll Rates		Low		Low	
Travel Parameters (Value of Time, Transponder Use, etc)		Low		Low/Moderate	
	Time Funds are Needed	Curr Interest Rates*	plus 1.00%	Curr Interest Rates*	plus 1.00%
Pre---Completion Tolling Revenues	FY 2016 -- FY 2022	229.6	229.6	229.6	229.6
State GO Toll Bonds (net proceeds)***	FY 2016 -- FY 2022	912.8	773.3	1,032.0	872.3
Total		1,142.4	1,002.9	1,261.6	1,101.9
Tolling---Related Revenues Needed to Fund Project**		1,271.3	1,271.3	1,271.3	1,271.3
Projected Surplus/(Shortfall)		**(128.9)**	**(268.4)**	**(9.7)**	**(169.4)**
As sumptions					
* Current market 30 year yields, rounded to nearest 0.25% as of 8---30---13					
** Does not include $86.4 million in bridge height mitigation costs					
*** Assumes State GO Toll Bonds sold at a 40 year term with 1.30x revenue coverage					

If the State decides to move forward with the revised CRC project, ODOT will probably not be in a position to know whether the FHA will grant the State the full $900 million TIFIA loan prior to the initial draw on the State's equity contribution, as required by the financial plan in the FTA grant (these drawdowns begin in February 2014 to fund a portion of the permitting and right of way costs of the project). Given both the uncertainty of the timing and the amount of the TIFIA loan, as well as the direction of future interest rates, the State needs to be prepared to either scale back or delay some of the latter phases of the revised CRC project (e.g., the Marine Drive interchange and/or demolition of the old bridge) and/or identify additional sources of funding (including increased equity contributions or an upward adjustment to toll rates) as the project unfolds over the next decade.

In the coming week, I expect to receive a memo from CRC staff outlining in some detail how their cost---estimation process works and why they are confident as to the current budget estimate for the project. This is an extremely important element of risk that needs to be reviewed and evaluated, as construction cost underestimation and lack of adequate contingency funds for unforeseen conditions has plagued many mega---projects around the world. I also anticipate that CRC and ODOT consultants will be performing additional adjustments of the project budget to reflect the timing of the TIFIA loan decision, grant---eligible issuance costs for stand---alone toll bonds, and the $86.4 million in height mitigation costs that are not yet part of the budget.

Legislative Steps Needed to Proceed with CRC Plan of Finance

Assuming a decision is made to proceed with the revised CRC project, below are some of the basic items that need to be addressed in a special legislative session this fall.

1. Modification of HB 2800 authorizing the State Treasurer to sell State GO bonds in an amount not to exceed $450 million for the CRC project upon evidence of a similar amount of equity contribution by the State of Washington (instead, the amount of State GO bonds authorized should be reduced to $381.6 million, the amount of pay---as---you---go funds from ODOT increased by $68.4 million, and a trigger should be added that is linked to Washington's commitment to the enactment of the toll enforcement reciprocity agreement noted above).

2. Modification of SB 5506, aka the "Bond Bill" as follows:

    a. Authorize ODOT to issue up to $1.3 billion in toll---backed revenue bonds (or revenue---based Federal TIFIA loans) (the bill as currently adopted limited these revenue bonds to $650 million)
    b. Authorize ODOT to issue up to $351.4 million in interim borrowing related to the highway/bridge portions of the FTA grant
    c. Authorize ODOT to issue up to $381.6 million, rather than $450 million, in GO bonds

I will provide you with additional information from the project team as it becomes available.

cc: Cynthia Byrnes, ODOJ
Ethan Hasenstein, ODOJ
Tom Rinehart, OST
Darren Bond, OST