Date: January 18, 2016

To: Colorado Transportation Commission / High Performance Transportation Enterprise Board

From: David Spector, HPTE Director; Josh Laipply, CDOT Chief Engineer

Subject: Reallocation of RAMP Funds on the C-470 Express Lanes Project

Purpose

The purpose of this memo is to summarize why the RAMP allocation is able to be reallocated on the C-470 Express Lanes Project, and what opportunities and options that the reduction may present for this and/or other projects.

Action

Action by the Transportation Commission and HPTE Board could be expected in March or April, after the C-470 TIFIA loan closes.

Project Background

The C-470 Express Lanes Project (the Project) is located along 12.5 miles of C-470, between Interstate 25 (I-25) and Wadsworth Boulevard. The Project includes reconstructing existing pavement, adding auxiliary lanes, improving on and off ramps as well as the construction of new express lanes both westbound and eastbound. The capital cost of the Project is $276 million.

Reduction in RAMP Expenditure

The financing structure for the C-470 project was originally designed to maximize the use of the strong toll revenue projections in the corridor. In December of 2015, HPTE and CDOT estimated allocating, based on the early design of the tolled express lanes, approximately $100 million in RAMP/HPTE Public Private Partnership funds), $105 million from a TIFIA loan, and $100 million in Toll Revenue Bonds. The estimate of necessary RAMP funds was based on an early estimate of how much borrowing capacity the project would have. These RAMP funds were effectively a placeholder until the level 3 investment grade traffic and revenue study and the bidding process for the project were completed.

In April of 2016, when the Flatiron|AECOM (F|A) bid came in ($10M under the pricing Upset Amount and including the Additional Requested Element (ARE) that extended the eastbound tolled express lane from the Platte River to Wadsworth Boulevard), HPTE re-ran its traffic and revenue model with updated assumptions including the additional toll points included in the ARE. By extending the eastbound tolled express lane, estimated revenues on the project increased by almost 30 percent over 30 years (the term of the TIFIA loan and the Senior Revenue Bonds). Furthermore, the traffic and revenue study was stronger than expected, ultimately obtaining BBB and BBB- ratings. Combined with average corridor growth, heavy bi-directional congestion in the peak periods, and strong debt service and loan life coverage metrics, HPTE and CDOT felt comfortable increasing the borrowing capacity on the project by approximately $80 million. Increasing the borrowing capacity had little to no negative effect on the project debt service coverage, or the ability to extend the Express Lanes in the future.

Because the borrowing capacity increased, the RAMP placeholder funds were able to be reduced to $40.3 million. This results in $52.3 million of RAMP funds available to be reallocated.

Options for Consideration- What should happen with the reallocated $52.3 million?

Option 1: Reduce the Bonds by 52.3 million and increase RAMP funds by the same amount. HPTE can reduce the amount of the bonds by the $52.3 million and increase the RAMP allocation by the same amount. If HPTE alters the amount of Senior Bonds, the financial model submitted to TIFIA would have

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to be re-done and HPTE would have go back to the ratings agencies for additional review since the financial structure of the project would have changed (a **three to five month delay**). Refreshed ratings are likely to be higher than the current rating. Maximizing the use of toll revenues for corridor construction has been a consistent decision from the HPTE Board and Commission.

Delaying the financial close through May would not delay the project. It would expose the project to interest rate risk and any ongoing financing costs. Our consultants believe interest rates have steadied recently, and do not expect rates to rise in the next five months. Project funds are sufficient to cover a financing delay of five – eight months.

<u>Option 2: Reallocate the $52.3 million to the HPTE Development Fund with no commitments.</u> The RAMP funds planned for this corridor were RAMP Public Private Partnership Funds. If the Commission wants to continue the original purpose for those funds, the funds could be placed into the HPTE Development Fund. Over the next several months, as more clarity happens around a potential state or federal measure that increases highway funds, having this "reserve" to be ready to respond to potential tolled options on any number of corridors would be beneficial. This would include but not be limited to consideration of additional funds going back to the C-470 corridor for further improvements.

The HPTE RAMP Development Fund has been an exceptional tool, and over the past 18 months has enabled the following projects to move forward: Mountain Express Lane ($4.6 million); C-470 ($20 million in credit support); I-25 South ($3.75 towards the PEL); I-25 North, 120th to SH 7 (design); and I-25 North, Johnstown to Fort Collins ($4.15 million for right-of-way acquisition and T&R study). It has a remaining balance of only $4 million, and replenishing the fund would help enable other CDOT projects in development.

<u>Option 3: Allocate a portion of the $52.3 million towards building all or a portion of the additional C-470 improvements cleared in the 2015 Revised Environmental Assessment (EA).</u> Beyond the improvements currently positioned for construction, the following additional scope is cleared in the 2015 Revised EA:

- An extension of the current construction project westward via one express lane each direction between Wadsworth Boulevard and Kipling Parkway.
- An expansion of the express lanes currently positioned for construction via:
  - An additional westbound express lane between Colorado Boulevard and Lucent. This expansion would result in two total express lanes westbound between I-25 and Lucent.
  - An additional eastbound express lane between Broadway and I-25

Doing so would move further towards delivery of the project detailed in the C-470 Coalition's RAMP application which ultimately calls for two express lanes in each direction between I-25 and Kipling:

Explore incorporation of all or a portion of the additional scope cleared in the Revised EA into the current design-build contract. Adding a significant amount of scope after award has proven problematic for other large projects. However, project staff is open to exploring whether a contract modification may yield the best result for the traveling public. One approach could be to obtain pricing for the additional work. If the pricing received isn't competitive and in-line with the selected proposal pricing, staff could then transition towards the following option.

- Preparing a separate project for bid is another option for constructing additional scope. Any additional construction outside the current construction contract would need to be carefully coordinated to avoid impacting the begin toll collection milestone for the current project. Depending on timing, another potential consideration is the ability to continue toll collection in the critical early years for the larger 12.5 mile project. While no decisions have been made, the tolling impact on the larger project could be better mitigated via expansion between Wadsworth and Kipling compared to further expanding areas within the current project limits.

At this time, HPTE's investment grade traffic and revenue study shows that either adding an additional toll lane or extending the Project to Wadsworth is not supported by existing traffic. The expansion would require additional toll revenue to be diverted to the operation and maintenance costs of the new roadway capacity and tolling equipment. Under a scenario in which there is limited demand for the new capacity, this additional burden may negatively impact overall excess revenues from the Project. Higher near-term operating costs related to the expansion may increase the risk that the Project will require support from the Transportation Commission to the HPTE in the form of an O&M loan.

The TIFIA loan terms require that all revenues coming from the segment 2 expansion have to flow through the Trust Estate (no matter when it is built) and must be applied first to debt service, restricting HPTE's ability to collect excess revenue (for further build out) and to pay for O&M on the tolled express lanes.

Option 4: Enable HOV3+ on C-470. On October 15, 2015 the TC approved Resolution 15-10-6, which found that an HOV3+ exemption on the C-470 Project was not financially feasible. It also required HPTE to reassess whether HOV3+ was feasible on the Project if financing conditions permit. Unfortunately, the investment grade traffic and revenue study, which fed into the financial model used by the rating agencies and TIFIA, only models a no HOV exemption. Additionally, a large part of the reason for the strong credit rating on this project is that there are no free vehicle exemptions (similar to the Mountain Express Lane). Changing the corridor to a HOV3+ exemption would require new traffic and revenue forecasts, a new report, and would require a reset on all financing activities. This would result in a project delay of at least 12 to 14 months (as discussed above, the project can only sustain a financing delay of 5 to 8 months). Along with increased consultant fees (T&R consultants, financial advisors, and technical advisors), the project would incur significant change order costs resulting from revised design requirements to accommodate HOV.

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An HOV exemption would also reduce revenue from enforcement costs and leakage, which would then delay building out the Project to its final configuration or extending up to I-70.

HPTE proposes to reexamine a HOV3+ in the next three to five years, after the initial ramp up period, to see if the financial feasibility has changed at that time.