



Finance and Construction Planning Committee Meeting

December 2, 2010

Agenda

Background

Initial Financial Plan Update Review

Executive Summary

Chapter 1 – Introduction

Chapter 2 – Project Cost Estimate

Chapter 3 – Implementation Plan

Chapter 4 – Financing and Revenue

Chapter 5 – Project Cash Flow

Chapter 6 – Risk Identification and Other Factors

Timeline and Milestones



Background

Requirements

- **Initial Financial Plan (IFP)**
 - Submitted by KYTC and INDOT to FHWA in September 2007
 - Approved by FHWA in January 2008
- **KYTC and INDOT technically required to perform updates; however, Kentucky budget requires KPTIA and Authority involvement**
- **KY budget of June 2010 lays out financial plan requirement**
 - KPTIA, in conjunction with the Authority, shall update the initial financial plan (“IFP Update”) for the project
 - IFP Update must be submitted to FHWA by 12/31/10
 - Failure to meet deadline stops KYTC funding for the project

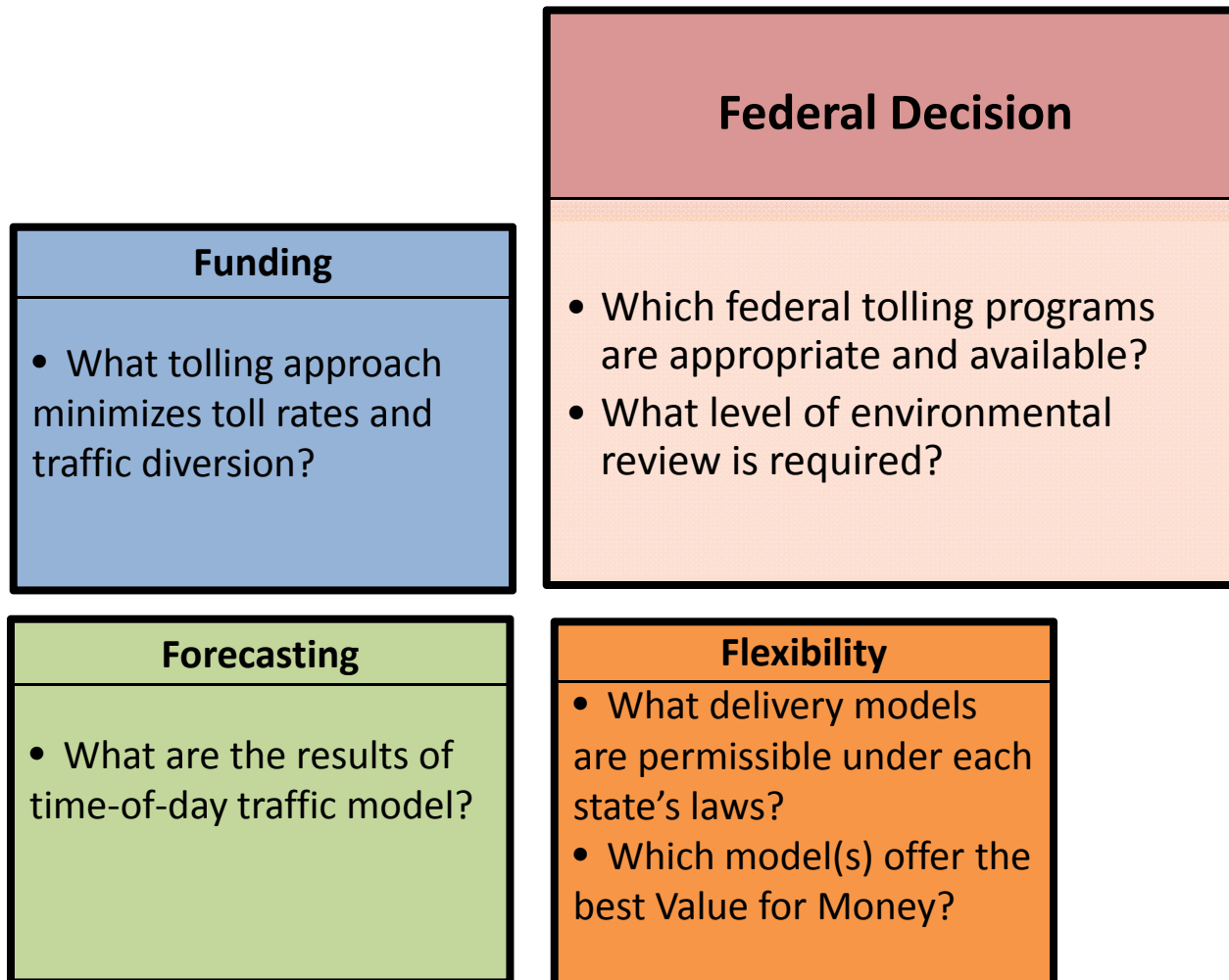
Background

- Update started with the approved IFP from 2008
- Financial Demonstration for KIPDA's long-range transportation plan update (July 2010) provided an interim view of financial plan
 - Key change from the original IFP is that traditional public funds are no longer expected to fully fund the project
 - Identified need for additional funding sources, including potential toll revenues
- IFP Update builds on both documents
- An important milestone in developing a plan that meets project objectives

Background (cont'd)

- Based on best case that can be presented using information available today:
 - Latest construction and O&M cost estimates (GEC, KYTC, INDOT)
 - Current project schedule (GEC, KYTC, INDOT)
 - Preliminary TOD toll revenue forecasts (Wilbur Smith Associates)
 - Updated estimates of state and federal contributions (KYTC, INDOT)
- Project delivery approach assumes traditional public delivery model
 - Design-bid-build
 - Can be done under existing legislative authority in both states
 - Mix of state and federal funding and toll revenues
- Update includes discussion of possible enhancements
 - Alternative delivery models, tolling scenarios and funding sources

Keys to Financial Implementation





Initial Financial Plan Update Review

Executive Summary

- Introduction
- Project Overview
- Project Sponsors
- Overview of Financial Plan Development
- Overview of the Updated Financial Plan
- Summary

Chapter 1 - Introduction

- Introduction
- Project Description
- Project History
- Project Cost Sharing
- Project Management and Oversight
- Overview of Current Activities and Project Schedule

Chapter 1: Introduction

- **Description of the six project sections:**

- Downtown improvements**

1. **Kennedy Interchange**
2. **Kennedy Bridge (I-65)**
3. **Indiana Approach**

- East End improvements**

4. **Kentucky Approach to the East End Bridge**
5. **East End Bridge**
6. **Indiana Approach to the East End Bridge**

- **IFP Update includes**

- **Current cost and expenditure data through State Fiscal Year (SFY) 2010**
 - **Current KYTC/INDOT schedule**

Chapter 1: Overview of Current Activities and Project Schedule

- Project schedule assumes traditional design/bid/build contracting

Project Section	Current Activities	Approximate Status ⁽¹⁾	Estimated Construction Start Date (SFY)	Estimated Open to Traffic Date (SFY)
Section 1 – Kennedy Interchange	Design phase ROW phase	50% complete 5% complete	2014	2022
Section 2 – I-65 Kennedy Bridge	Design phase	20% complete	2016	2020
Section 3 – Downtown Indiana Approach	Design phase ROW phase	5% complete 0% complete	2016	2020
Section 4 – East End Kentucky Approach	Design phase ROW phase	50% complete 50% complete	2013	2017
Section 5 – East End Bridge	Design phase	30% complete	2013	2017
Section 6 – East End Indiana Approach	Design phase ROW phase	35% complete 60% complete	2013	2017
Other costs ⁽²⁾	Ongoing			

(1) Provided by KYTC and INDOT

(2) Other costs include project-wide enhancements, costs associated with historic mitigation requirements and a limited portion of program management costs.

Chapter 2 – Project Cost Estimate

- Introduction
- Current Cost Estimates
- Inflation Assumptions and Cost Estimating Methodology
- Project Expenditures
- Cost Management Responsibility
- Factors Impacting Project Costs

Chapter 2: Current Cost Estimate

- Current cost estimates developed by the Bi-State Management Team in conjunction with the GEC and FHWA

Project Segment	Construction and Contingency	Other Costs (Design, ROW, etc.)	Total Cost (\$MM) ⁽²⁾
Section 1 – Kennedy Interchange	1,209.6	320.2	\$1,529.9
Section 2 – Downtown River Bridge	452.1	58.1	\$510.1
Section 3 – Downtown IN Approach	304.2	88.5	\$392.7
Section 4 – KY East End Approach	736.6	148.6	\$885.2
Section 5 – East End River Bridge	360.0	46.2	\$406.2
Section 6 – IN East End Approach	182.0	52.8	\$234.8
Other Costs ⁽¹⁾	-	123.3	\$123.3
TOTAL	3,244.5	837.8	\$4,082.2⁽³⁾

(1) Includes costs that are not section-specific, such as project-wide program management, archaeology, and enhancements

(2) Current estimate as of 11/30/10. Amounts under final review.

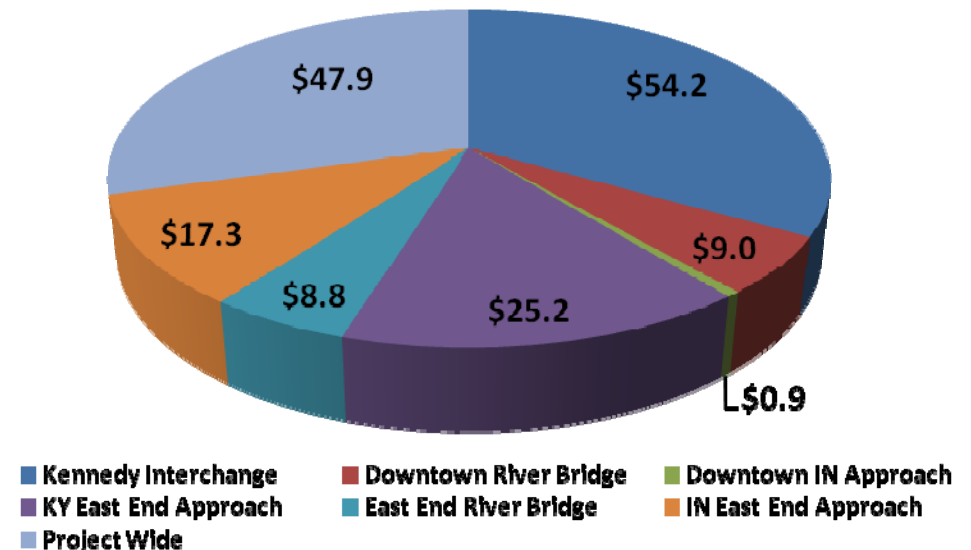
(3) Totals may not add due to rounding.

Chapter 2: Project Expenditures

- Approximately \$163 million has been expended on the Project through SFY 2010
- The Bi-State Management Team (BSMT) has ongoing responsibility for the management of Project costs and schedule

Total Expenditures to Date by State Fiscal Year (\$MM)			
SFY	KY	IN	Total
2004	1.0	0.6	1.6
2005	15.1	4.1	19.2
2006	29.3	7.2	36.6
2007	29.9	6.7	36.6
2008	17.7	4.4	22.2
2009	17.8	7.6	25.4
2010	16.2	5.5	21.7
TOTAL	\$127.1	\$36.1	\$163.3

Project Expenditures to Date by Section
In Year-of-Expenditure (\$MM)



Chapter 2: Factors Affecting Project Costs

- **Project Sponsors will continue to monitor and adjust cost estimates to reflect:**
 - Potential benefits from alternative delivery structures
 - Changing economic conditions
- **Alternative delivery models could have positive cost impacts due to:**
 - Increased competition
 - Private sector innovation
 - Enhanced cost efficiencies
- **Alternative delivery models will be considered with regard to:**
 - Value engineering
 - Value for money
- ***Faster project delivery lowers both construction and financing costs.***

Chapter 3 – Implementation Plan

- Introduction
- Project Schedule Overview
- Traditional Project Delivery Plan
- Alternative Project Delivery Options
- Status of Permits and Approvals

Chapter 3: Traditional and Alternative Project Delivery Options

- IFP Update assumes traditional design/bid/build delivery approach with expected completion by end of SFY 2022
- Project size, complexity makes coordination of design and construction sequencing critical
- Alternative project delivery models could accelerate schedule and provide greater schedule certainty through:
 - Guaranteed completion dates
 - Single point of responsibility
 - Compressed procurement schedule

Chapter 3: Alternative Project Delivery Options

- Project Sponsors considering alternative delivery models that are legally permissible in each state
 - The state sponsors have a recent history of collaborating on alternative delivery models.

	Design	Construction	Operate Maintain	Financing	Traffic	Revenue
Design Bid Build (Traditional)	○	○	○	○	○	○
Design Build	●	●	○	○	○	○
Design Build Operate/Maintain	●	●	●	○	○	○
Design Build Finance Operate/Maintain (Availability Payment)	●	●	●	●	○	○
Design Build Finance Operate/Maintain (Shadow User Fee)	●	●	●	●	●	○
Design Build Finance Operate/Maintain (Real User Fee)	●	●	●	●	●	●

○ – Risk retained by Public Sector

● – Risk transferred to Private Sector

Chapter 3: Permits and Approvals

- **Permitting process has been initiated by the BSMT and the state sponsors.**

Agency	Permit/Notification ⁽¹⁾
U.S. Army Corps of Engineers	Section 404 Permit for Discharge of Dredged or Fill Material into Waters of the United States
U.S. Army Corps of Engineers	Section 10 Construction, Dumping and Dredging Permit
U.S. Coast Guard	Section 9 Bridge Permit
Federal Aviation Administration	FAA Form 7460-1 Notice of Proposed Construction or Alteration
Kentucky Airport Zoning Commission	Lighting required for top of structures of Ohio River
Kentucky Natural Resources and Environmental Protection Cabinet, Division of Water	Floodplain Construction Permit
Kentucky Natural Resources and Environmental Protection Cabinet, Division of Water	Section 401 Water Quality Certification
Kentucky Natural Resources and Environmental Protection Cabinet, Division of Water	Rule 5 National Pollution Discharge Elimination System
Indiana Department of Environmental Management	Section 401 Water Quality Certification
Indiana Department of Environmental Management	Rule 5 National Pollution Discharge Elimination System
Indiana Department of Natural Resources	Construction in a Floodway Permit

(1) Note: not all permits/notifications apply to all sections of the Project.

Chapter 4 – Financing and Revenues

- Introduction
- Updates to the Financial Plan Process
- Current Financial Plan
- Overview of Funding Options and Status of Funding Availability
- State Transportation and Federal-Aid Formula Funding
- Federal Discretionary Funding
- Project Revenues
- Overview of Revenue, Financing and Project Delivery Options
- Key Revenue-Related Assumptions, Risks and Mitigations

Chapter 4: Federal Tolling Programs

- Federal approval for tolling interstate highways can be granted under a variety of programs
- The Project Sponsors submitted an Expression of Interest to FHWA in May 2010 seeking guidance on which program(s) would be available for the Project
- The Project Sponsors are awaiting a response from FHWA

Tolling Program/Statutory Provision	Speed ⁽¹⁾	Revenue Flexibility
Section 129	Potentially fast to the extent federal authorization can be secured	Relatively high
Interstate Reconstruction and Rehabilitation Pilot	Potential to expedite application	Relatively low (funds must be used only on specific facility)
Interstate Construction Pilot	Potential to expedite application	Relatively low (funds must be used only on specific facility)
Value Pricing	Anticipated to be low; requires re-designation from another state	Highest (no limitations beyond toll agreement requirements)
HOV (HOT) Lanes	Nearly immediate	High (revenues can be used broadly as long as facility is maintained)
Express Lanes	Program currently inactive	N/A

(1) All programs are dependent upon the speed of federal action

Chapter 4: Overview of Revenue, Financing and Project Delivery Options

- Initial studies indicate that toll revenues could be sufficient to bridge the gap between total costs and available state and federal funding
- A variety of tolling scenarios will be evaluated that encompass a range of rates and pricing mechanisms, such as:
 - Time-of-day pricing
 - Congestion pricing
 - Commercial vs. passenger car rates
 - Local commuter discounts
- Tolling scenarios will be evaluated on the following criteria:
 - Level of funding generated
 - Expected traffic impacts
 - Equitable financial impact on users

Chapter 4: Overview of Revenue, Financing and Project Delivery Options (cont'd)

- Tolling scenarios need to be evaluated using a comprehensive time of day traffic model, which is anticipated to be ready by the first quarter of 2011
- Higher revenue capacity could allow for lower toll rates

Scenario	I-65 Bridge	East End Bridge	I-64 Bridge	US 31 Bridge	Kennedy Interchange	Potential Diversion Impact	Potential Revenue Capacity
1	✓	✓				<ul style="list-style-type: none"> • High • I-64, US 31, local routes 	<ul style="list-style-type: none"> • Moderate
2	✓	✓	✓			<ul style="list-style-type: none"> • Medium • No diversion to I-64 	<ul style="list-style-type: none"> • High
3	✓	✓	✓	✓		<ul style="list-style-type: none"> • Low 	<ul style="list-style-type: none"> • High
4	✓	✓			✓	<ul style="list-style-type: none"> • Medium • Moderate diversion to I-64, local routes 	<ul style="list-style-type: none"> • Medium-high

Chapter 4: Overview of Revenue, Financing and Project Delivery Options (cont'd)

- A variety of financing mechanisms and tools are likely to be utilized under either a public or alternative delivery structure
- Under public delivery model, approach could include:
 - Tax-exempt toll revenue bonds and/or taxable Build America Bonds
 - TIFIA or a similar federal credit program
 - The Authority or state sponsors would issue bonds and retain risk on revenue, construction, operations and maintenance
- Under alternative delivery model, approach could include:
 - Private Activity Bonds, TIFIA or other federal credit assistance, commercial bank debt and equity
 - Financing potentially based on more aggressive view of traffic estimates
 - Assignment of key project risks to private developer

Chapter 4: Estimated Funding Availability

Funding Source		Total (\$MM)
Kentucky	Federal-aid Formula and State Transportation Funds, including GARVEE debt proceeds	1,016
	TEA-21 HPP (incl. state match)	34
	SAFETEA-LU HPP & Discretionary (incl. state match)	28
	Annual Federal Appropriation Earmarks	18
	Future Federal Discretionary Programs	221
	Subtotal Kentucky	1,316
Indiana	Federal-aid Formula and State Transportation Funds	486
	TEA-21 HPP (incl. match)	13
	SAFETEA-LU HPP (incl. match)	22
	Annual Federal Appropriation Earmarks	4
	Future Federal Discretionary Programs	41
	Subtotal Indiana	566
Subtotal - State and Federal		1,882
Project Revenues	Toll-Based Funding	2,200
Total - All Sources		4,082

Current estimate as of 11/30/10. Amounts under final review.

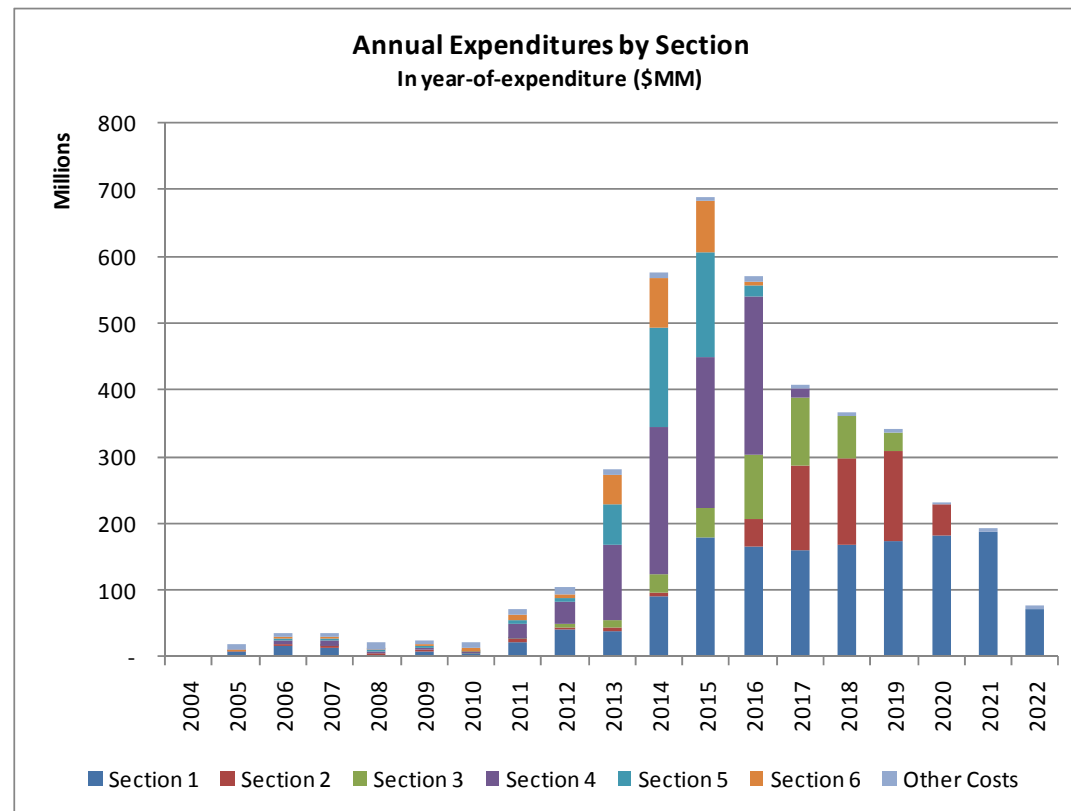
- **Current estimates indicate up to \$1.9 billion of state and federal funding could be available, with the difference to be made up by toll revenue**
- **Initial studies indicate that toll revenues could be sufficient to bridge the gap between total costs and available state and federal funding**

Chapter 5 – Projected Cash Flow

- Introduction
- Estimated Sources and Uses of Funding
- Project Cash Flow
- Estimated Cash Outlays and Available Revenues
- Cash Management Techniques
- Operations and Maintenance Costs

Chapter 5: Projected Cash Flow

- Chapter 5 includes a year-by-year breakout of Sources and Uses of Funds
- Ability to finance against funding streams provides flexibility, i.e., project not dependent on pay-as-you-go funding



Chapter 6 – Risk Identification and Other Factors

- Introduction
- Project Cost Risks and Mitigation Strategies
- Project Schedule Risks and Mitigation Strategies
- Financing and Revenue Risks and Mitigation Strategies
- Impact on Statewide Transportation Programs

Chapter 6: Risk Identification and Other Factors

- Various risks can impact the ability to deliver Project on time and on budget
- Significant consideration has been given to identifying risks and potential mitigation measures
- Major risk categories:
 - Cost
 - Schedule
 - Financing
 - Long term operations and maintenance

Chapter 6: Project Cost Risks and Mitigation Strategies

- The risk of project cost overruns is driven by a number of factors. Some of these risks are listed below:

Risk ⁽¹⁾	Description
Original Cost Estimates	The risk that original cost estimates are lower than bids received.
Inflation	Highway construction inflation has been very volatile over the past several years and could significantly increase the cost of the Project.
Contingency	Current cost estimates reflect early stages of design. Contingency should reduce as design progresses.
Cost Overruns During Construction	Unforeseen conditions after start of construction could result in insufficient upfront funds to complete the Project.

(1) This list of potential risks is not intended to be exhaustive

Chapter 6: Project Schedule Risks and Mitigation Strategies

- Following are some of the risks that may affect the ability to deliver the Project on a timely basis:

Risk ⁽¹⁾	Description
NEPA	Although there is a ROD for the Project, further NEPA approval will be required for tolling.
NEPA Litigation	Lawsuits filed within the statutory protest period may result in significant delays to the start of construction and expose the Project to additional inflationary costs.
Permits and Approvals	Delays in the receipt of permits and approvals may delay the start of construction.
ROW Acquisition	A large number of ROW parcels will need to be acquired and variances from forecasts may impact overall project cost and schedule.
Schedule Coordination	Due to the size and complexity of the Project, complications in project scheduling and contract coordination could affect project completion.

(1) This list of potential risks is not intended to be exhaustive

Chapter 6: Financing and Revenue Risks and Mitigation Strategies

- Following are some of the risks that may affect the ability to finance the Project cost-effectively and operate and maintain the Project over time.

Risk ⁽¹⁾	Description
Required Approvals	Delays in FHWA approval of tolling could affect cost and schedule.
Availability of State and Federal Funding	The states have identified and committed various levels of traditional funding for the Project within the timeframe of their budget planning cycles. Funding beyond this period is subject to risk.
Toll Revenue Risk	Toll revenues could be less than projected, which could jeopardize the ability for Project debt to be repaid and for sufficient funds to be available for long-term operations and maintenance.
Toll Collection Risk	Toll collections could be less than forecasted due to increased evasion or ETC equipment failures.
Capital Market Access	Capital market volatility could limit access to financing and/or increase financing costs.
Federal Credit Availability	Uncertainty surrounding the reauthorization of the Transportation Bill or specific credit and financing programs could limit access to favorable financing tools (i.e. TIFIA and PABs).

(1) This list of potential risks is not intended to be exhaustive



Timeline and Milestones

IFP Update: Timeline and Milestones

Upcoming Milestones	Date
Review draft with Finance Committee	12/2
FHWA Approval of MTP	Completed
Present draft to Authority	12/9
Present draft to KPTIA	12/10
First public input session	12/13
Consideration by LASIBA	12/16 (AM)
Consideration by KPTIA	12/16 (PM)
Submittal to FHWA by LASIBA and KPTIA, through KYTC and INDOT	12/17

