

**FINANCE AND CONSTRUCTION PLANNING COMMITTEE
OF THE
LOUISVILLE and SOUTHERN INDIANA BRIDGES AUTHORITY**

Kye's Building I Banquet Hall
500 Missouri Avenue
Jeffersonville, Indiana 47130
December 2, 2010

1. Call to Order/ Roll Call/ Opening Remarks

Committee Chairman Kerry Stemler called the meeting to order at 10:00 a.m. The following Committee members were present: Kerry Stemler, Charles Moyer, Jamie Fiepke and Joe Reagan. Pat Byrne and David Tharpe were absent. Other members of the Authority present were: Charles Buddeke, Sandra Frazier, Jerry Finn, Ben Richmond and Lisa Kobe. Also present was Steve Schultz, Executive Director of the Authority.

Mr. Stemler noted that minutes of the Committee's November 4, 2010 meeting had been previously distributed to each member. Upon motion made, seconded and carried, the minutes were unanimously approved in the form submitted.

Mr. Stemler then made several introductory comments to frame some desired outcomes for the meeting. He observed that, as the Authority continues to move the project forward, he believes it would be helpful for the Committee to establish some targeted objectives to help drive and shape the work ahead, based on the Authority's and the Committee's deliberations to date. In particular, he stated that he would like for the Committee to consider identifying a targeted toll rate for "frequent users," as that term may come to be defined through the consideration and development of a tolling policy, and to identify a targeted start date for construction of the project.

2. Old Business

- a. *KPTIA Meeting and Coordination Plan—Update.* Mr. Schultz gave a report on a recent meeting with the Kentucky Public Transportation Infrastructure Authority, which had served to brief the KPTIA on the status of the Authority's and the state sponsors'

efforts to deliver the update to the initial financial plan to FHWA by the end of the year. Mr. Schultz walked through the upcoming schedule and milestones for completing this objective, which will include two additional KPTIA meetings, with a view toward submitting the IFP update on or about December 17th. He noted that more detail on the IFP update will be covered later in the meeting.

- b. *KIPDA Long-Range Plan Update.* Mr. Schultz reported to the Committee that KIPDA's Metropolitan Transportation Plan, or "long-range plan," which included the financial demonstration for the project that had been completed in July, had been approved by FHWA in mid-November. The receipt of this approval has the effect of avoiding the funding freeze for federally-funded projects in the Louisville metro area that would have occurred had the approval not been received by a regulatory deadline of early December. Mr. Stemler thanked all participants in the process for their work toward the achievement of this significant milestone for the project.
- c. *Industry Input Opportunities.* Mr. Schultz then provided an update on two recent developments on industry input related to the project. The first involved the workshop on Disadvantaged Business Enterprises that FHWA had held in coordination with the state sponsors in Louisville in the second week of November. Mr. Schultz reminded the Committee that the Bridges Project was one of five that had been selected for such a workshop as part of a pilot program announced by U.S. Transportation Secretary Ray LaHood earlier this year. Mr. Schultz had been a presenter at the workshop, and Mr. Buddeke, who had attended it on behalf of the Authority, expounded on its benefits relative to DBE opportunities. This will be a key focus of the project sponsors moving forward.

Mr. Schultz also reported on the status of his discussions with the state sponsors about exploring the possibility of holding an industry forum in Louisville in the early part of the new year, as requested at the last Committee meeting. The Committee engaged in a discussion about the benefits of such a forum, and Ed Crooks of KPMG described the favorable results of a forum recently hosted by Florida DOT in connection with the Orlando-Tampa

high-speed rail project. The Committee requested that Mr. Schultz continue researching and discussing with the state sponsors the feasibility and potential features of such an industry forum.

- d. *Milton-Madison Bridge Project.* At the request of the Committee, Mr. Gary Valentine of the Kentucky Transportation Cabinet then provided an update on the recent success of the Milton-Madison Bridge project, another bridge project co-sponsored by KYTC and INDOT that had held its groundbreaking at the end of November, which was attended by both Governors and Secretary LaHood. After providing some background on the project, Mr. Valentine talked about the lessons learned from the Milton-Madison experience, including the manner in which an innovative procurement method had been used for this bridge replacement project. This carefully managed “design build” contracting method had been used to identify and secure a cost-effective method for project delivery that will minimize environmental impacts and dramatically reduce both the overall construction time schedule and the number of days that the cross-river facility will be out of commission during construction. The Committee discussed how these lessons provide insights on the potential benefits of innovative project delivery for the Ohio River Bridges Project, which the Authority will continue to explore in the process of executing its strategy.

3. New Business

- a. *Highway Transportation Funding—Situation Assessment.* Tamar Henkin of High Street Consulting Group provided an overview of federal and state highway transportation funding issues. Conventional funding for highway projects has historically come from state, local and federal sources. Ms. Henkin described how the landscape is, however, dramatically changing, given that gas-tax based funding sources are not keeping up with infrastructure needs. Ms. Henkin described and depicted the decline in the purchasing power of motor fuel taxes due to inflation since 1993, with no increase in the federal gas tax being implemented since then. This funding shortfall persists as the year-end expiration date of the current federal surface transportation authorization looms, with Congress expected to pass a short-term funding extension at

current fiscal year 2010 funding levels. The President's Deficit Commission has called for program funding levels to be kept in line with revenues, and most recently Congressional earmarking practices have been in the spotlight since the November elections. This situation has resulted in increasing pressure to leverage existing resources, facilitate public-private partnerships, encourage tolling and expand financing techniques. Ms. Henkin shared that the key underlying question will increasingly revolve around the federal government's role, which can be expected to become narrower in scope—involving less direct funding for transportation projects—and increasingly be seen as a *facilitator* of non-federal initiatives. Meanwhile, operations, maintenance and system preservation continue to consume the majority of state transportation programs, leaving very little funding for building new capacity. Therefore, as conventional federal and state sources pay an increasingly smaller share of new urban capacity, tolling and targeted local taxes are left to pick up some of the balance. Trends show that mega-projects increasingly rely on alternative sources, including user fees, to meet their funding needs. Alternative delivery models such as public-private partnerships and innovative financing mechanisms are helpful to facilitate and accelerate project delivery (and result in reduced costs), but an underlying revenue stream is still needed to pay for projects such as the Ohio River Bridges Project.

- b. *Initial Financial Plan Update.* Tim Wilschetz and Ed Crooks of KPMG walked the Committee through an overview and status report on the update to the initial financial plan (IFP). Mr. Wilschetz reminded the Committee that the IFP had originally been submitted to and approved by FHWA in early 2008. The budget passed by the Kentucky General Assembly in its 2010 special session requires that an update to the IFP be submitted to FHWA by December 31, 2010. Federal regulations governing “Major Project” financial plans technically require that KYTC and INDOT, as the state sponsors, perform such an update; however, the Kentucky budget requires involvement in this process by KPTIA and the Bridges Authority. A failure to meet the year-end deadline will cause a loss of Kentucky funding for the project.

Mr. Wilschetz noted that the IFP update builds on both the original

IFP and the financial demonstration completed in July 2010 for KIPDA's long-range plan updating process. He observed that a key change from the original IFP is that traditional public funds are no longer expected to fully fund the project, resulting in the identified need for additional funding sources, including potential toll revenues. The IFP update will be based on a traditional design-bid-build public delivery model using updated construction cost estimates, an updated project schedule, the most recent toll revenue forecasts, and contributions from conventional state and federal funding sources as well as toll-based funding. Mr. Wilschetz noted that the IFP update will represent an important milestone in developing a plan that meets project objectives. He also noted, consistent with what has been discussed by the Authority and the Committee, that the IFP update will discuss possible enhancements that can be considered with a view to accelerating project completion and reducing costs, including alternative delivery models.

Mr. Crooks proceeded to walk the Committee through an outline of each of the chapters of the draft IFP update.

Chapter 1 describes the project and the current schedule for the project, by section. In response to a question from Joe Reagan about the estimated construction start date of 2013, Mr. Schultz explained that the schedule is based on the state sponsors' use of a fiscal year calendar, meaning that 2013 actually begins in July of 2012. Mr. Reagan then suggested, referencing Mr. Stemler's stated objective at the beginning of the meeting, that the Committee consider identifying a target date to begin construction as soon as practicable in the beginning of that fiscal year. The Committee engaged in a discussion of this objective and requested feedback from Mr. Schultz on whether a project work plan could be developed to support a target of August 2012 for this purpose. Mr. Schultz confirmed, subject to certain important assumptions, caveats and interdependencies—mostly involving factors that are beyond the Authority's and the state sponsors' control—that he believed it would be possible to develop such a plan. Charles Buddeke added his perspective on some of the many factors that could influence timing, including, among other things, the need to work with FHWA to complete the additional environmental work

under the NEPA process because of the introduction of tolling to the project. At the conclusion of this discussion, the Committee agreed by consensus to recommend to the Authority that it adopt, for its future planning purposes, a target of August 2012 as the date to begin construction.

Mr. Crooks proceeded with the presentation on the IFP update. Chapter 2 addresses the current cost estimate of \$4.1 billion, including \$163 million expended through FY 2010, and factors affecting project costs. As discussed at prior meetings, Mr. Crooks observed that faster project delivery lowers both construction and financing costs. Chapter 3 outlines approaches for project implementation, including the existing traditional design-bid-build delivery model on which the IFP update is based (indicating project completion by FY 2022), but also observing that alternative project delivery models could compress this schedule and provide greater schedule certainty. Mr. Crooks also provided information about the permitting process involving numerous permits and approvals, some of which have already been initiated by the bi-state management team.

Chapter 4 summarizes the financing and revenue considerations for the project, including estimated funding availability. Inasmuch as toll-based revenues will be a required funding source, Mr. Crooks reminded the Committee of the dialogue with FHWA's Office of Innovative Program Delivery on potential tolling program eligibility. He shared that a variety of tolling scenarios would be evaluated in the course of developing a tolling policy to support the ultimate financial plan. In reviewing the information presented on the potential for variable pricing programs, and reflecting on Mr. Stemler's other stated objective for the meeting, Dr. Charles Moyer proposed that the Committee consider targeting a "frequent user" rate in the \$1 range as a tolling policy objective. Following further discussion, the Committee agreed by consensus to recommend to the Authority that it adopt this target at its next meeting, along with establishing a committee to develop a tolling policy based on the various tolling scenarios that will be evaluated with the benefit of a time-of-day travel demand model, expected to be completed in the first quarter of 2011. It was noted that the Committee itself could serve in this function, given the

composition of its membership and the scope of its responsibility for financial planning matters. It was suggested that other members of the Authority, such as Sandra Frazier in her capacity as chair of the Outreach Committee, could be included in the tolling policy discussions from time to time.

Mr. Crooks concluded his presentation with an overview of Chapter 5, which covered a review of estimated cash flows for the project, and Chapter 6, which identified risk factors and mitigation strategies for the project.

Mr. Schultz noted that a draft of the complete IFP update would be circulated to all Authority members prior to the upcoming December 9th meeting.

- c. *Project Work Plan Overview.* Due to time constraints, Mr. Stemler informed the Committee that a status report on the project work plan would be deferred until the next meeting of the Committee or the Authority. At the suggestion of Joe Reagan, the Committee requested that Mr. Schultz develop a presentation for the next meeting on how the project work plan might be designed and managed to meet the target date of August 2012 to begin construction, subject to the assumptions, caveats and interdependencies that were referenced earlier in the meeting.

3. Future Meeting Dates

The next meeting of the committee was preliminarily set for December 9, 2010, tentatively scheduled to be held prior to the meeting of the full Authority scheduled on that same date. This meeting may be subject to cancellation if Mr. Stemler, in consultation with Mr. Buddeke, believes that it is not necessary prior to the Authority meeting.

4. Adjournment

Upon motion duly made and seconded, the meeting was adjourned at approximately 12:00 p.m.

Respectfully submitted,

Kerry Stemler, Committee Chairman and Acting Secretary