

LOUISVILLE AND SOUTHERN INDIANA BRIDGES AUTHORITY

Kentucky Center for African American Heritage
Trolley Barn
1701 West Muhammad Ali Blvd,
Louisville, KY 40203

Thursday, October 6, 2011
9:00 A.M. (Eastern)

1. Welcoming Remarks

Authority Chair Charles Buddeke welcomed everyone to the meeting. He then introduced the Honorable Gerald Neal, Kentucky State Senator, to provide welcoming remarks. Senator Neal recognized the importance of the Authority's work both to the metro area as well as the region, and offered his assistance in moving the Ohio River Bridges Project forward.

2. Call to Order / Roll Call

Mr. Buddeke thanked the Senator for his support and assistance, and then proceeded to call the meeting to order. Mr. Buddeke noted that the meeting had been called and was being held in accordance with open meeting laws, with due notice given and posted. Mr. Buddeke then requested that Secretary Sandra Frazier conduct a roll call of the members to determine the presence of a quorum. The following members were present: Charles Buddeke, Pat Byrne, Jerry Finn, Pete King, Lisa Kobe, Charles Moyer, Joe Regan, Ben Richmond, Kerry Stemler, Dave Tharp and Dianne Fischer. Luther Deaton and Jamie Fiepke were absent. Secretary Frazier declared that a quorum was present for conducting the meeting.

3. Approval of Minutes

The minutes of the Authority's July 7, 2011 meeting had been previously distributed to each member. Upon motion made, seconded and carried, the minutes for that meeting were unanimously approved in the form submitted.

4. Executive Director's Report

Steve Schultz, Executive Director, then delivered his report to the Authority. Mr. Schultz noted that his report would be brief due to the amount of time necessary to cover the significant amount of material slated for this meeting. He stated that the Authority's main focus since the July meeting had been the completion of the options analysis, which had been designed to help evaluate the relative merits of several delivery options. Mr. Schultz stated that the dialogue conducted with key stakeholders in the two states during the process had yielded productive feedback. He also noted that, in the meantime, the Bi-State Management Team had been diligently working to move the SEIS process forward, and he added that John Sacksteder of Community Transportation Solutions, the general engineering consultant, would provide an update on that process later in the meeting.

Mr. Schultz next reported that the project will soon have the opportunity to submit an application for the next round of TIGER federal funding. As reported at the previous meeting, the TIGER III application will be due October 31st. Once again, it is expected that the submission will be in the form of an application to participate in the TIGER TIFIA Payments program, which would mean that any grant award would be used to help leverage a TIFIA loan for the project. Mr. Schultz noted that Tamar Henkin of High Street Consulting will provide an update on this topic later in the meeting.

Mr. Schultz next stated that a draft business case for sub-recipient status has been developed for the Authority, although it had not yet been finalized pending the refinement of some key inputs. Both that initiative and the engagement of transaction counsel await further discussion with the state sponsors as part of the process of building consensus around the preferred delivery model for the project. Mr. Schultz then added that Kris Wuestefeld and Susan Buse from Wilbur Smith Associates would be providing an update later in the meeting on the nature and scope of their assistance on tolling policy development considerations.

After concluding his report, Mr. Schultz turned the floor over to Chairman Buddeke to cover unfinished business.

5. Unfinished Business

Mr. Buddeke led the Authority and guest presenters through the topics under Unfinished Business.

- a. *SEIS Process—Status Report.* John Sacksteder of Community Transportation Solutions gave a brief progress report on the ongoing SEIS process. Mr. Sacksteder credited both the states as well as FHWA for their close collaboration and cooperation, which has been responsible for advancing the process at a good pace and with careful diligence. Mr. Sacksteder stated that the SEIS process was currently on track to meet the March 2012 target for completion. Chairman Buddeke asked if anyone had any questions, and seeing none, moved to the next item of business.

- b. *Request for Information—Update and Summary.* Ed Crooks of KPMG next provided an update and summary of the recent Request for Information process. Mr. Crooks noted that there has been constant and positive ongoing dialogue with major industry players throughout the last several months, especially since the time of the Industry Forum. This dialogue is very important to the process of making key financing and procurement assumptions, and it will ultimately help shape project delivery decisions flowing from the options analysis. The feedback also serves to reinforce the strong market interest in the project. Mr. Crooks reiterated that the RFI was not the start of a procurement process, but rather an information gathering exercise only, with the result that no RFI respondent would have any advantage in a future procurement process, nor would there be any penalty associated with not submitting a response.

Respondents to the RFI were asked to give their views on a series of questions on various topics. Mr. Crooks reported that 28 teams responded to the RFI, representing a broad geographical reach and a wide range of firm sizes. Mr. Crooks then summarized for the

Authority members some key findings and concepts from the RFI responses.

Mr. Buddeke asked if there were any other questions and, seeing none, thanked Mr. Crooks and introduced Tim Wilschetz, also of KPMG.

- c. *Options Analysis—Overview and Discussion of Results.* Mr. Wilschetz was tasked with leading the Authority through an in-depth review and discussion of the results of the Options Analysis. Before turning the floor over to Mr. Wilschetz, Mr. Schultz recapped the concept—first introduced at the Authority’s October 2010 meeting—of using a “value-for-money” analysis as a tool to evaluate alternative delivery models. This intention was signaled in the Updated Initial Financial Plan that had been endorsed by the Authority, as well as by the Kentucky Public Transportation Infrastructure Authority, in December 2010. Mr. Schultz reminded the Authority members that the Options Analysis therefore represents the culmination of a process of designing and using this tool to explore delivery options for the project over the last year.

Mr. Wilschetz thanked Mr. Schultz and began his overview of the Options Analysis by reiterating the six objectives of the Authority underlying the Options Analysis process: (1) taking a lifecycle view of the project; (2) working toward a financial plan that meets the standard of being “fair sound and doable;” (3) optimizing risk allocation; (4) retaining flexibility to arrive at a workable project delivery solution under multiple sets of conditions; (5) realizing positive “Value for Money”; (6) ensuring cash flow sufficiency to complete the project.

Mr. Wilschetz reintroduced a slide depicting an Overview of the Options Analysis, which illustrated the “risk transfer continuum” of project delivery approaches and plots the different models along that continuum. Mr. Wilschetz reminded the Authority that the goal of the

analysis is to quantify the value of incrementally shifting risk to a private sector partner. Mr. Wilschetz pointed out that, for purposes of the Authority's analysis, six different delivery models were compared, beginning with a public sector comparator (or traditional design-bid-build approach) on the left side of the continuum, and moving out to a full revenue concession on the far right side of the continuum. Four other options along the continuum between these two approaches, representing different lifecycle considerations and procurement and financing combinations, were also evaluated.

Mr. Wilschetz highlighted some specific differences between each of the delivery models, explaining, in the context of each, the risks that the public sector would retain and the risks that would be transferred to the private sector.

Mr. Wilschetz recapped for the Authority the method by which the modeling inputs had been identified through a process of working with the states and the project consultants, including CTS and Wilbur Smith Associates. Four teams were used to derive model inputs: a revenue team led by Wilbur Smith, a cost team led by the Bi-State Management Team and CTS, a funding team comprised of representatives of the two states, and a financing team lead by KPMG. Mr. Wilschetz walked the Authority through the standard assumptions that were used in the models underlying the Options Analysis.

After highlighting the standard assumptions, Mr. Wilschetz noted that the objective of the Options Analysis is not intended to be a financial plan for the project. Rather, as has been discussed at prior Authority meetings, it is designed to serve as a tool to evaluate the relative merits of the alternatives, to rank them accordingly, and thereby to help inform decision-makers about which one(s) warrant more focused attention in terms of considering the funding and financing implications of each on the project sponsors. Next steps in this process include, among other things, understanding the implications

of the preferred option(s) in light of the existing legal and legislative framework.

In response to a question from Authority Member Pat Byrne, Mr. Wilschetz explained that, under all of the project delivery options evaluated, the public sponsors would retain ownership of the facilities—even in the case of a concession, in which only a long-term lease is involved. Mr. Wilschetz confirmed the assumption that, depending upon the delivery model (and the method of financing it uses), the facility would, at the end of the assumed evaluation period for any given model, be free of debt or long-term concession obligations. Another important assumption in the model in all scenarios, however, is that public funds are committed up-front by the state sponsors—at whatever level is eventually agreed to by the states.

In response to a question from Mr. Buddeke, Mr. Wilschetz to provided further detail on the mechanics of using tax-exempt governmental purpose bonds in several of the scenarios. He compared and contrasted this approach, which is featured in Options 1, 2 and 3, with Option 4, which assumed the use of taxable debt and equity during construction, with tax-exempt governmental purpose bonds being used to refinance the project upon completion. He explained the benefits that each of these approaches was designed to measure, by looking at the incremental transfer of certain types of risk under each approach.

In response to a question from Mr. Moyer, Mr. Wilschetz confirmed that, under an availability payment structure (Option 5), the states would be required to cover any shortfall in making required payments to the concessionaire to the extent toll proceeds were insufficient. However, in response to a follow up question from Mr. Stemler, Mr. Wilschetz also noted that the converse is true; to the extent toll proceeds are more than sufficient to cover the availability payment, the states would retain the upside. Mr. Wilschetz also observed that availability payment concessions are relatively new in the United

States but have been used very successfully in Europe and Canada. There are currently three such projects under construction in the U.S., and recent trends suggest that the U.S. market for major infrastructure projects may be moving more in that direction.

In response to a recollection by Mr. Buddeke, Mr. Schultz concurred that the enabling legislation (Chapter 175B) contemplates that toll revenues are to be dedicated for use within the project.

The Authority members, led by Mr. Wilschetz, then engaged in a detailed discussion of the Options Analysis process, asking several additional questions, all designed to explore and better understand the differences among the delivery options evaluated.

Mr. Wilschetz then provided a summary of the key inputs that had been used in the cost, revenue, financing and funding categories of the modeling exercise.

Authority member Moyer asked Mr. Wilschetz if inflationary factors were used for both cost inputs and revenue inputs, and Mr. Wilschetz indicated that both represented within the model.

In covering the key inputs, Mr. Wilschetz noted that the funding inputs were based on KYTC and INDOT funding levels reflected in the December 2010 Initial Financial Plan Update. Mr. Schultz then reminded the Authority of the history of the IFP Update and its endorsement by the Authority and KPTIA last year.

Mr. Wilschetz continued to answer questions from the Authority members regarding some of the key financial inputs, possible TIFIA funding and various rate information.

After a lengthy question-and-answer session with Mr. Wilschetz, Chairman Buddeke then announced a ten-minute break in the meeting.

After the break, Mr. Wilschetz walked the Authority through the results of the Options Analysis. He first covered an overview of the

methodology used for the financial analysis, noting that all analyses were compared on a Net Present Value basis over a common term (represented by construction periods of varying lengths, depending on the schedule assumptions for each model, along with concomitant operational periods). A discount rate of 5% was used as a proxy for both KYTC and INDOT cost of capital.

The ranking exercise in the financial analysis generally on two key criteria: (1) whether any “additional public funds” (i.e., beyond those assumed to be committed up front by the state sponsors) would be necessary during the construction phase to complete the project; and (2) whether, over the entire evaluation period, the project would be expected to provide a net funding return or require an additional net funding outlay under a given delivery model. Mr. Wilschetz walked the Authority through a detailed summary of the scenarios. In response to a question from Mr. Byrne, Mr. Wilschetz confirmed that the results set forth for each of the scenarios were not a prediction of actual dollar amounts, but are rather intended to be a basis for comparison driven by the modeling assumptions used.

Next, Mr. Wilschetz then provided a more detailed description of both Option 3 (Design-Build and Operate-Maintain) and Option 5 (Availability Payment Concession), looking at a TIFIA sensitivity case for each one. The Authority engaged in a discussion of the results of each of these cases.

Wrapping up, Mr. Wilschetz noted that there are still some select qualitative considerations that need to be vetted further in connection with the identification of the preferred delivery model(s). These include, among other things, the legislative and legal framework, the anticipated strength of the bidder pool, the potential for innovation, the likelihood of securing TIFIA, and the potential to benefit from toll revenue surplus. He also noted that, now that the project model has been developed, the results of the options analysis can be re-tested leading up to and periodically throughout the procurement process.

Mr. Buddeke then asked for more questions. There being none, he asked Co-Chair Stemler, who has been following the Sherman Minton Bridge situation closely, to provide a status update based on what he has heard. Mr. Stemler provided a summary of the reports from INDOT and KYTC on current and planned actions for the bridge repairs. Although the Sherman Minton Bridge is not a part of our project, Mr. Stemler noted that the recent experience with the shutdown highlights the importance of continued cross-river mobility between Kentucky and Indiana.

6. New Business

- a. Consideration of Preferred Delivery Model(s).* Mr. Schultz discussed next steps on the process for identifying the preferred delivery model(s). Mr. Schultz shared that over the next few weeks he and the Authority officers would continue briefings of key partners in both states regarding the results of the Options Analysis. Mr. Schultz noted that these discussions, which would take place with the KPTIA, the Indiana Finance Authority, the state sponsors and key legislative leaders, would explore and elicit feedback on the advantages and disadvantages of the different options. Mr. Schultz observed that building a consensus around the preferred project delivery approach will be essential to completing the financial plan and the procurement structure. Among other issues, as noted earlier in the meeting, Mr. Schultz reiterated the need to identify and frame any legislative changes necessary in order to provide the tools required for the preferred procurement approach. In response to a question from Mr. Buddeke, Mr. Schultz confirmed that the discussions involved in the process of building consensus had already begun and will continue to take place in the coming weeks.
- b. TIGER TIFIA Review – Update –* Mr. Schultz introduced Tamar Henkin of High Street Consulting Group for an update on TIGER III and the TIGER TIFIA Payment program. Ms. Henkin reminded the group that TIGER is a competitive grant program that is now in its

third iteration. She reported that the project sponsors had already submitted a pre-application three days prior to this meeting. Ms. Henkin noted that there would be \$527 million available in total, and up to \$150 million of that amount is eligible to be used for TIGER TIFIA payments, which is a hybrid program that links the TIFIA with TIGER's discretionary grant program. She next explained the project's current and future TIFIA track, as well as the application process involved. Ms. Henkin summarized some of the selection criteria used by FHWA, and noted that the project continues to stack up very well against them, especially on the TIFIA side.

Ms. Henkin reported that the challenge with reliance on the TIFIA program continues to be that its funding levels are quite limited relative to the demand. She also indicated that even though a project may be invited to submit an application, a TIFIA credit agreement may not be entered into for a project until the NEPA process is completed.

In response to a question from Mr. Stemler on the governing authorities responsible for TIGER and TIFIA credit decisions, Ms. Henkin stated that TIGER grants are decided at the U.S. DOT level, while TIFIA awards are considered by a credit council and are then awarded based on a departmental level decision.

Ms. Henkin was asked several more questions by various Authority members. Mr. Schultz reminded the board that, having met the TIGER III pre-application deadline earlier in the week, plans will move forward on completing and filing the TIGER III application by October 31st. He then thanked Ms. Henkin for her update.

- c. *Economic Impact Study Review* - Mr. Buddeke then invited Ed Crooks of KPMG to return to the podium. Mr. Crooks walked the Authority through an explanation of the Economic Impact Analysis that had been completed, as requested at the last meeting. Mr. Crooks noted that the Authority had authorized a review of what studies have

been completed, what methodologies had been used in those studies, and what may lie ahead in terms of potential future requirements for an economic impact study for the project.

Mr. Crooks identified two different study types as a general matter. First, he talked about the type of economic impact analysis that looks at the effects of a project on an economy of a given area. Next, Mr. Crooks talked about a benefit-cost analysis that looks at the relevant costs and benefits of alternative cases of a project. Mr. Crooks proceeded to review the three selected studies that had been completed for the project to date, their type and purpose, and under what auspices they had been commissioned. Mr. Crooks then summarized the future economic-impact related needs in light of these studies, as well as potential next steps.

d. Tolling Policy Development—Overview – Mr. Schultz then introduced Mr. Kris Wuestefeld and Susan Buse of Wilbur Smith Associates for an update on tolling policy considerations to date. Ms. Buse reviewed several options to consider with the development of a tolling policy. Some of these include vehicle class, time of day, schedule for rate adjustments, discounts, differentials, violations and enforcement, transponder distribution arrangements, billing and user account policies, and regional interoperability and reciprocity. Ms. Buse summarized various process associated with all electronic toll collection, such as tolling parameters and business rules. She stated that, at each step of the process, there are assumptions, policy decisions, cost implications, and risk evaluations that must be considered. Ms. Buse indicated that Wilbur Smith would help develop a model that, once complete, will frame the issues, test the assumptions and alternatives, and measure potential impacts of various policy parameters on collected toll revenue, as well as the potential lost revenue.

Mr. Buddeke thanked Kris Wuestefeld and Susan Buse for their presentation.

7. Future Meetings

Mr. Buddeke reminded the Authority members that the next regular quarterly meeting is scheduled for January 5, 2012. Any special meetings of the Authority or the Finance and Construction Planning Committee would be called and noticed in advance.

8. Adjournment

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

Respectfully submitted,

Sandra Frazier, Secretary