June 2, 2008

TO: David Bragdon, Presiding Officer, Metro
Tom Potter, Mayor, City of Portland
Sam Adams, Mayor-elect, City of Portland
Lynn Peterson, Chair, Clackamas County Commission
Ted Wheeler, Chair, Multnomah County Commission
Tom Brian, Chair, Washington County Commission

FROM: Joe Cortright

RE: Financial Risks of the Columbia River Crossing

As proposed, the Columbia River Crossing poses serious risks to the future financial integrity of transportation finance in the Portland-Vancouver region.
It is a project that poses substantial risk to the region's taxpayers, travelers, local governments and future development. The work done to date on the project provides only the most cursory examination of these risks, makes implausibly optimistic assumptions, and does little to quantify the consequences of error. The region's elected official and citizens should insist on real due diligence on these risks—preferably from parties completely independent of the project—before endorsing any alternative. It may well be that you decide that this project is worth the risks that it would require, but it is incumbent on you to insist that a full and fair estimation of these risks be undertaken before the region commits itself to this extraordinarily costly project.

CRC would be the most expensive public works project

The proposed Columbia River Crossing would be the most expensive public works project in the region's history. At more than $4 billion, it represents a cost of more than $8,000 for each four-person household in the region. It his hard to understate the size of this project: it is roughly the equivalent of 80 OHSU trams. It is 20 times bigger than the largest highway construction project currently underway in Oregon (the Highway 20 rebuild between Newport and Corvallis). Just the estimated cost of demolishing the existing I-5 bridges--$155 million—would be a bigger expenditure than any other current project underway in Oregon.

Proponents don't have financing plans worked out

To date, the financial plan for the project remains speculative. The Draft Environmental Impact Statement lists a number of different possible sources of funding, but all of them would require further legislative action by the Washington and Oregon Legislatures, by Congress, and tax increases or resource allocations by C-Tran and Tri-Met. A portion of the cost may have to be borne by city and county taxpayers as well.

The vagueness and ambiguity of the financing plans should give the region's leaders pause. What if federal earmarks are not forthcoming? Who then will make up the

difference? How likely is it that Washington State will provide $750 million or more for a project in Clark County, when it has a huge backlog of un-funded projects in the Puget Sound area? Keep in mind that Clark County represents less than 10 percent of Washington's population, so that funding a $750 million project in Clark County would imply that the state would have to come up with a $12 billion dollar transportation financing package statewide to generate this much here. And voters in King County just last November decisively defeated a proposed tax increase for roads and transit. It is questionable whether Washington has the interest or political will to fund such a project in Clark County: the 2008 Legislature budgeted the state's transportation funds through 2023, allocating $1.9 billion to the SR 520 floating bridge and $2.4 billion to the Alaska Way Viaduct, but nothing beyond preparation of the DEIS for the Columbia River Crossing.[1]

What CRC proponents are suggesting is that the region agree to the project and then look for funding. If any of the expected contributions from other parties fall short: federal grants, toll bond revenues, Washington State appropriations, then the project will require an even larger contribution from Oregon transportation funds. This is a clear risk to the region's ability to finance other projects.

Federal support is likely to be very small

The CRC financing plan assumes a massive and now politically implausible level of federal earmarks. The CRC has blithely asserted that the region can expect $400 to $600 million in federal earmarks for this project, and that because of its alleged unique characteristics that these monies will be over and above federal revenue that the region could expect to get in the future.

But this level of earmarks dwarfs what has gone to any single project. And the climate for earmarks has changed dramatically from the last transportation bill in 2005. One presidential candidate has made a flat ban on earmarks a central part of his platform. Senator Patty Murray—chair of the transportation subcommittee of the appropriations committee—has warned against expecting big funding for this project.[2]

While the public statements of the CRC imply that this project can expect some special funding, the reality is quite different. The "Corridors of the Future" program which CRC implies is a special category, is defined to include freeway mileage that carries fully one-

[1] Senate Transportation Committee, Proposed 2008 Transportation Budget, February 25, 2008, http://leap.leg.wa.gov/leap/budget/detail/2008/st2008_Highlights0225.pdf, viewed May 20, 2008.
[2] Hamilton, Don, "Building a new bridge: Fed funding for I-5 bridge faces hurdles" *The Columbian*, January 15, 2008. "But two issues could complicate federal funding for the proposed project. First is the congressional discussion over earmarks, special allocations for special projects. Murray, a Democrat, said the earmark process has been abused and must be controlled, but that earmarks often provide a crucial boost for small local projects with limited resources. Even more important, the federal highway trust fund is projected to run out of money sometime in mid-2009."

third of the nation's traffic, and is an bureaucratically created program of the Bush Administration, funded at a total of $66.2 million nationally.[3]

No one should make the mistake of assuming that the CRC will not compete for virtually every federal dollar flowing into the region. In the text of the DEIS, the CRC makes it clear that every other source of federal money flowing to Oregon and Washington for transportation are fair game for the CRC, including monies dedicated to preservation and maintenance of the highway system (DEIS, Section 4-3).

The CRC would require an unprecedented level of debt

Historically, with a few exceptions, transportation investments have been financed on a "pay-as-you-go" basis. This prudent policy means that each year, policy makers have that year's full revenues available to spend on the transportation system. This project is different. Based on CRC reports, we estimate that 80% or more of the cost of the highway bridge will be borrowed over three decades. Borrowing, especially in these large amounts creates new kinds of risk for the funding of our transportation system. If there are shortfalls from projected levels for any of the sources of funds—tolls, future taxes, and federal grants—then bond holders will have first call on transportation revenues. The CRC toll bond funding scenario assumes a backup pledge of state gas tax revenues to toll bond holders. The Columbia River Crossing DEIS includes plans to issue bonds against anticipated future federal grants--Grant Anticipation Revenue Vehicle (GARVEE) bonds (Draft Environmental Impact Statement, page 4-11).

Hundreds of millions in transportation revenue will be used to pay interest

Missing from the project's financial analysis is a comprehensive accounting of how much the region will pay in interest payments over the next three decades so that we can have this giant new bridge—designed not for today's traffic levels, but for the estimated demand of 2030—today. The amount will be measured in hundreds of millions of dollars—transportation revenue that cannot be used for transportation projects over the next 20 to 30 years because it will be needed to retire the debt the region will incur to finance this one project.

Because the financial plan for the project is so sketchy, it is impossible to determine the exact amount of interest payments that will be required. As a rough rule of thumb, however, the region would pay roughly $60 million in interest per year (in the initial years of borrowing) for each $1 billion financed (assuming an interest rate of 6%). Borrowing $3 billion for the project would necessitate annual interest payments of $180 million in the initial years of the project—money that would not be available for other transportation projects.

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[3] U.S. Department of Transportation, Corridors of the Future Fact Sheet, http://www.dot.gov/affairs/CORRIDORS%20OF%20THE%20FUTURE%20FACT%20SHEET.htm, Viewed May 20, 2008.

Borrowing against future toll revenues is risky

Bonding against toll revenues carries two distinct sets of risks for transportation finance in the region: leverage risk and repayment risk. Leverage risk has to do with the amount of bridge construction costs that can be paid for with bonds: how much money will Wall Street agree to lend against the promise of repayment from future toll revenues? Repayment risk is related to the reliability of projections about future toll revenues. If toll revenues fall short of projections, state and local governments must make up the difference from other sources of public revenue.

The CRC estimates that it can leverage the $2.50 tolls it plans to charge into as much as $1.35 billion in bond revenues. The leverage risk is that bond rating agencies and bond issuers will take a much more critical and conservative view of how much debt they are willing to issue against the predicted stream of toll revenues over the next 30 years. Bad experiences with a long series of toll bond issuances over the past decade have made the financial community very skeptical of these forecasts. And independent review of these forecasts by the Transportation Research Board, an arm of the National Academies, found consistent "optimism bias."[4] Rating agencies are particular prone to heavily discount forecasted revenues for projects that involve tolling a single facility (like one bridge), and projects for which there is no demonstrated history of toll revenues. The CRC stacks up poorly on these measures.

The repayment risk stems from the possibility that actual toll revenues over the next thirty or forty years will be less than CRC's forecasts. If they are, then Oregon and Washington will have to make up the shortfall from other sources of revenue. The higher end estimates of potential revenue from tolling assume that both Oregon and Washington make pledges of other revenues to assure repayment of toll-backed bonds. (Draft Environmental Impact Statement, page 4-22). The legal requirement to pay back bondholders puts the CRC first in line for all pledged revenues for a period of several decades.

CRC has not prepared a realistic, investment grade traffic and revenue forecast

In addition, you should know that bond rating agencies and the financial community will insist that we pay for an independent "investment grade" traffic and revenue forecast **before** issuing bonds for this project. Having been burned in the past by the overly optimistic, promotional forecasts developed for other toll-financed projects, Wall Street requires that an investment grade forecast be undertaken which makes much more conservative assumptions about traffic levels, toll diversion, future growth, operating costs, and other factors. The CRC has not undertaken such an analysis.[5] This fact alone

[4] Kriger, D., S. Shiu, et al. (2006). Estimating Toll Road Demand and Revenue. Washington, DC, Transportation Research Board of the National Academies 364.
[5] Mr. Jay Lyman, Columbia River Crossing consultant, Testimony to the Portland Planning Commission, April 8, 2008.

should be extremely alarming to the region's decision-makers: Why should the public sector, which will ultimately pay the full cost of this project, make a decision based on less evidence that the banker's who will merely lend us the money for its construction?

Bond financing requirements may limit future transit development

Bond financing also carries one additional risk. Bond holders and bond rating agencies view local transportation improvements in the same general area as a toll-financed project as a financial risk. In some cases in the past, public agencies have invested in transportation improvements that have had the effect of reducing traffic on tolled facilities, reducing their revenue, and endangering bond repayment. In short, bond holders do not want to see effective competition for their projects—they prefer a monopoly situation. Therefore, bond rating agencies frequently seek assurances from state and local governments that they will not make additional investments in transportation capacity that would have the potential to reduce traffic on the tolled facility. What this means in the case of CRC is unclear. It may mean that bond holders would seek assurances that the region would not make additional improvements to the I-205 crossing—currently slated to be un-tolled—and could well mean that the bond holders would want assurance that the development of mass transit in Clark County would be limited (a large light rail system connected to Portland might be viewed as endangering future highway bridge toll revenues). Because the CRC has not commissioned an investment grade toll study or sought project review from bond rating agencies we don't know what conditions may be imposed as the region seeks bond funding for the project. In the absence of agreement to such conditions, the bond rating agencies are likely to downgrade the amount of money they are willing to allow to be borrowed against future project revenues (leverage risk) meaning that the region will have to come up with more money from other local sources.

CRC has not allowed its financial analysis to be independently examined

One might be more confident of the quality of CRC's analyses if they had made them public. But despite having completed this work in November of 2007, and having been in receipt of a public records request for "all reports relating to toll projections" in February 2008, the CRC as of May 20, 2008, had not released any of the details of these projections.[6] (The report "Toll Financial Capacity Analysis Results, November 2007 is referenced on Page 4-22 of the Draft Environmental Impact Statement, but appears no where on the CRC website or in its CD of technical papers).

Transportation revenue is declining; CRC will require tax increases

It is apparent that current system of paying for roads and bridges is failing. Driving is down. Gasoline sales are down. Gas tax revenues are down. The federal highway trust

[6] Letter from Tonja Gleason, Public Disclosure Coordinator, Columbia River Crossing Project, February 26, 2008, to Joe Cortright.

fund is essentially bankrupt, expenditures regularly exceed revenues, and the fund balance is slated to go negative in 2009. The problem is so dire that Congress has been rescinding funding for approved projects.

At the state level, the seriousness of the revenue shortfall is now becoming apparent. Relying on ODOT forecasts, CRC assumes that the volume of gas sales (not their dollar amount) will rise at 1.5% per year over the next 30 years.[7] ODOT's revenue projection staff were caught by surprise by the drop in gasoline demand triggered by the more than doubling of gas prices in the past few years.[8] Rather than increasing, net gas tax revenues available for transportation projects are actually declining, and sharply: the City of Portland saw its net disbursements of shared state road user fees decline by 5.6% over the last year.[9]

We face a multi-billion dollar transportation investment deficit, even without the CRC

And the revenue shortfall comes at a time when we know that the preservation and maintenance of the existing transportation system is woefully underfunded. Late last year the Metro Council officially concluded that even if the Oregon state gas tax was increased by one cent every year for the foreseeable future and even if the vehicle registration fee was increased by $15 every eight years, the region faced a $7 billion shortfall for various proposed transportation projects in the region – a total that does not include funding for the CRC.

ODOT officials are telling Portland area local governments that they don't have any money for additional projects between now and 2013 and face a $7.5 million annual cut in modernization funding starting in 2014.[10]

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[7] CRC Transportation Planning/Traffic Engineering Team and CRC Financial/Economic Specialists, Subject: Review of Columbia River Crossing-Economic Analysis Memorandum by Joe Cortright dated February 13, 2008, March 3, 2008, page 4: "These revenues are estimated by ODOT to grow on average at about 1.5% per year."

[8] Dylan Rivera, The Oregonian, May 11, 2008, page A1. The decision by Oregon motorists to persistently drive less, even during periods of job growth, has baffled state economists, especially those who keep the figures on total vehicle miles traveled.

"I don't really have a bulletproof explanation for why it hasn't been growing," said Dave Kavanaugh, chief economist for the Oregon Department of Transportation.

[9] Oregon Dept Of Transportion Fund Apportionments, Receipt distribution to cities for fiscal year 2007-2008, and fiscal year 2006-2007. http://www.oregon.gov/ODOT/CS/FS/docs/HwyRev_apport/apport_fy08.pdf, viewed May 20, 2008. For the 11 months ended May 2008, total revenues were $22.8 million compared with $24.1 million for the 11 months ended May 2007.

[10] Swan, D. (2008). ODOT to Tigard: No dough on the horizon. Tigard Times. Tigard.(May 22) 1. Tigard asked ODOT for $1.75 million in help for a project to improve the intersection of Highway 99 and

There are substantial risks that construction cost estimates will be exceeded

At the same time, construction and repair costs are rising. The rise in oil prices is driving up costs of asphalt. The falling dollar, coupled with strong economic growth in China and India have driven up the prices of steel and concrete.

ODOT's track record in estimating the cost of mega-projects is less than stellar. At the time of the draft Environmental Impact Statement on the proposed Newberg-Dundee bypass (2003), total project costs were confidently estimated at $222 million. Just 2 years later, after additional, more precise engineering analyses, the cost had ballooned 40%, to more than $311 million.[11] ODOT's largest current project—and the biggest highway project it has undertaken since completing I-205—a 7-mile long rebuild of U.S. Highway 20 between Corvallis and Newport, is more than 33 percent over budget. [12] One doesn't have to imagine a cost overrun of more than 200% (as in the case of the OHSU tram) to realize that mis-estimating this project would have devastating consequences for the region. If the current estimates are off by as little as 25%, this would add fully a billion dollars to the project cost.

Cost overruns would jeopardize future transportation investments

It has not been determined who would be responsible for cost overruns.[13] But it is clear that the additional resources would be diverted from other transportation priorities in the state and the region. And once ODOT and WSDOT have embarked on bridge construction, it is clear that completing this project—regardless of its final cost—would be the highest priority use of any available revenues.

And this project will not achieve its key objectives

Greenburg Road. ODOT's response: "All of our money is spent between now and 2013 without any additional funding," Tell [Jason Tell, Region 1 manager for ODOT] told the council.

[11] Oregon Department of Transportation, Newberg-Dundee Transportation Improvement Project Location (Tier 1) Final Environmental Impact Statement, June 2005, page 2-18. (http://www.newbergdundeebypass.org/environmentalanalysis/NDTIP_FEIS_04_Chapter%202.pdf)

[12] Tobias, Lori, "Corvallis-Newport project revived," The Oregonian, May 20, 2008, page B2. Cable, Kendall S. "Agreement reached regarding Highway 20 project, Newport News Times, May 21, 2008. The original design-build contract was valued at $129.9 million. ODOT recently agreed to add $47 million to the contractor's compensation. ODOT's costs for planning and project management are in addition to these amounts.

[13] Draft Environmental Impact Statement, page 4-42: "WSDOT, ODOT, C-TRAN, TriMet, and possibly the Cities of Vancouver and Portland, must prepare agreements on roles and responsibilities for project development, construction, and capital funding that address such issues as project management and decision-making, capital cost sharing, how potential cost-overruns are managed, and contracting procedures."

The proponents of the bridge are trading on the palpable frustration with peak hour congestion on the existing bridge, and the assumption that casual observers harbor that spending $4 billion will surely make traffic flow smoothly. Disappointingly, however, according to the project's own estimates, building the new bridge will actually increase AM travel times between Vancouver and Portland compared to the No-Build. Let me repeat—according to the CRC estimates it will take **longer** to travel from SR 500 to Columbia Boulevard with the $4 billion replacement bridge than under the No-Build alternative.[14]

There are good reasons to believe that CRC traffic models are simply wrong about the projects effects on future congestion. The project asserts that the replacement bridge will increase peak hour travel capacity (2 hours) from 55,000 vehicles (no-build) to 75,000 (replacement). Apparently, none of the additional peak hour traffic, according to CRC will travel south of the I-5/I-405 intersection (near the Fremont Bridge. All of the additional users (essentially Clark County residents commuting to Oregon jobs) will leave the freeway in North Portland.

Effective, lower cost alternatives have been systematically ignored

There is little reason to undertake this level of risk to deal with the congestion problems in the I-5 corridor. All of the projects important objectives can be accomplished at much lower cost, with a prudent, pay-as-you-go approach.

- Toll the existing facility to fund seismic retrofits (The cost of retrofits is roughly the same as the budgeted cost--$155 million--of demolishing the existing bridges)
- Address navigation problems by putting a lift span in the railroad bridge as recommended by the Coast Guard
- Modify selected I-5 on-ramps to improve safety and reduce congestion
- Extend light rail to Hayden Island
- Ultimately, as revenues and demand permit, build a light rail/bike/pedestrian bridge following the contour of the existing lift spans and extend light rail to Clark County

We know this approach will address the congestion problems in the corridor because the CRC's own analysis show that the only components of the project that reduce congestion are transit and tolling—additional capacity, by itself, simply generates more traffic.

As proposed, the Columbia River Crossing poses serious risks to the future financial integrity of transportation finance in the Portland-Vancouver region. Until these fundamental questions are addressed, the region should not move forward with this project.

[14] According to the CRC Traffic Technical Report, Exhibit 7-13, Travel time from SR-500 to Columbia Boulevard will increase from 16 minutes today, to 19 minutes under the No-Build to 22 minutes under the Replacement Bridge.