



Financial Demonstration of the Illiana Corridor Project, In Support of the NIRPC 2040 Comprehensive Regional Plan November 26, 2013

I. Introduction

The purpose of this document is to demonstrate how the Illiana Corridor Project (hereinafter referred to as the Project) meets the fiscal constraint requirements for amending the project into the fiscally constrained Northwestern Indiana Regional Planning Commission (NIRPC) 2040 Comprehensive Regional Plan (CRP). This is intended to fulfill the Indiana Department of Transportation (INDOT) commitment to provide additional financial information that became available since the April 5, 2013 request for the inclusion of the Project as a fiscally constrained major capital project in the 2040 CRP.

The Project has been a great success thus far, representing a bi-state partnership between INDOT and the Illinois Department of Transportation (IDOT), as well as two Federal Highway Administration (FHWA) division offices, all of the bi-state region's environmental regulatory agencies, and numerous stakeholders across the 900-square mile study area. The planning work for the Project encompasses an unprecedented level of stakeholder participation, technical expertise, and agency oversight. As part of this coordination effort, IDOT had also submitted a formal request to the Chicago Metropolitan Agency for Planning (CMAP) to include the Project as a fiscally constrained major capital project in the CMAP GO TO 2040 CRP. IDOT also submitted to CMAP a document similar to this one, dated September 27, 2013, to demonstrate that the Project meets the long range transportation plan fiscal constraint requirements. On October 17, 2013, the Metropolitan Planning Organization (MPO) Policy Committee of CMAP formally approved the proposed Project as an amendment to the GO TO 2040 plan's list of fiscally constrained major capital projects.

The implementation of the Project will rely upon a public-private partnership (P3) which will allow access to private equity capital to finance the project. This will be particularly helpful since the Project will indirectly rely on a toll-based revenue stream, State contributions, and alternative delivery funding to support the full amount of the upfront capital investment. The P3 will accelerate the delivery of the Project by securing much of the upfront capital necessary to construct the project all at once, rather than in stages. The P3 will mean the difference between delivering the Project and having no project at all. The Project will also utilize a combination of conventional (federal, state and local) funding resources in addition to the innovative financing techniques included in the P3.



Following a brief background section and a summary of anticipated project costs, this document provides a synopsis of the potential sources of funding that the State of Indiana expects could be utilized in some combination to meet the currently anticipated funding needs for the Project. At this time, these potential funding sources and financing mechanisms are projected to be available in the amounts and at the times needed to complete construction of and operate and maintain the Project.

It should be emphasized that this document does not represent a formal financial plan for the Project. As the project's financial structure is still being analyzed and developed, it does not include the full range of potential funding and financing strategies that could be considered as part of the development of the project. In addition, a P3 procurement process has been initiated by INDOT in parallel with IDOT. As such, detailed financial information needs to remain confidential in order to not jeopardize the P3 procurement process and to promote competition and innovation among the potential bidders. The information provided in this document is intended to demonstrate that the Project meets the fiscal constraint requirements for the long range transportation plan, which includes the project cost estimate and the funding resources that can reasonably be expected for the project.

II. Background

The Project is a proposed 47-mile long east-west limited access highway between I-65 in Indiana and I-55 in Illinois located in Lake County, Indiana and Will County, Illinois. On June 9, 2010, the Governors of Indiana and Illinois signed a Memorandum of Understanding (MOU) for a mutual commitment to the project by both states. In April 2011, INDOT and IDOT initiated the Illiana Corridor Study as a tiered environmental impact statement (EIS). Approval of the single document Illiana Corridor Tier One Final EIS and Record of Decision (ROD) was received in January 2013. The preparation of the Tier Two EIS is currently underway, with approval of the Tier Two Final EIS/ROD expected in Spring 2014.

With the completion of the Tier One EIS and receipt of a ROD, sufficient justification is now available to include the project on the fiscally constrained project list in the NIRPC 2040 CRP. To date, the Illiana's preferred corridor and cost estimates have been developed. The next step in the process is the inclusion of the Project in the 2040 CRP as a fiscally constrained major capital project. This will allow INDOT and IDOT to receive a Tier Two ROD, which is essential for allowing INDOT and IDOT to move forward with the P3 procurement processes.

Risk is a key component in pricing of a concessionaire's P3 bid. In order to minimize the potential risks and overall uncertainty regarding the project's approval, the Illiana project is required to be included in the long-range transportation plan to allow for the issuance of a federal ROD and to maintain the momentum of the P3 process. INDOT and IDOT have already released independent RFQ documentation in pursuit separate procurements. In order for the



States to attract as many potential concessionaire teams as possible, it is essential that unnecessary risk and uncertainty be minimized. One of the benefits of the P3 process is the expediency in project delivery and the potential cost savings that can occur from a shorter procurement and construction timeframe. Further, minimizing potential project delays and adherence to the current Tier Two ROD schedule may ultimately result in lower project costs as current interest rates are expected to increase over time for various financing options, including TIFIA loans, should interest rates continue their current upward trend.

For these reasons, INDOT, in a letter dated April 5, 2013 requested amending the NIRPC long range transportation plan to include the Project at the October 2013 meeting of the NIRPC Commission, which is the designated metropolitan planning organization (MPO) for the northwest Indiana region. Subsequently, NIRPC staff has requested and INDOT has agreed to a December 12, 2013 meeting of the NIRPC Commission to consider amending the fiscally constrained long range transportation plan to include the Project.

III. Project Costs

A summary of the currently available project cost estimates for the Project are provided below.

A. Project Development and Construction Costs

As part of the Project, INDOT and IDOT have developed a cost estimate based on quantity takeoff using concept plans and unit prices developed from recent bid prices in Indiana and Illinois. The cost estimate is periodically updated as the overall scope and project-specific design elements are better defined during Tier Two. As part of the ongoing Context Sensitive Solutions (CSS) process being utilized for the Project, two additional interchanges (Wilton Center Road and IL-50) were added to the project in Illinois, as well as 17 additional cross-road connections that were not assumed during Tier One. In addition, IDOT has expanded the scope of the Tier Two EIS to include the I-55 at Lorenzo Road Interchange Project to ensure that FHWA Logical Termini requirements are met, given its close proximity to the I-55/IL-129 Interchange where the Project connects with I-55.

In August of 2013, the FHWA conducted a major independent project cost review of the project cost estimate. Their cost review included all aspects of the cost including construction, land acquisition, utility relocations, and engineering/construction oversight. The FHWA cost estimate also included past expenditures for the Phase 1 study that were not included in the project cost estimate. Based on the latest Tier Two cost estimate, FHWA, INDOT, and IDOT anticipate the total cost to be approximately \$1.5 billion. Since this includes about \$60 million in previously programmed costs associated with the preliminary engineering and environmental studies (Phase 1), as well as about \$140 million in costs previously programmed



for the I-55 at Lorenzo Road and IL-129 improvements project by IDOT, the programming requirement for the Project is \$1.3 billion. The Indiana contribution to the project is expected to be approximately \$300 million, and the Illinois contribution to the project is expected to be approximately \$1 billion. This would include the construction cost, land acquisition, utility relocations, and engineering/construction oversight costs for the project. The INDOT cost of approximately \$300 million for Indiana's share of the Project has been substantiated through refined engineering and confirmed through an independent FHWA project cost review.

The expected expenditures are shown below.

Table 1. Illiana Corridor Project Cost Estimate – by Project Phase/Segment
(Year-of-Expenditure \$, millions)

Project Phase/Segment	Cost Estimate
Preliminary Engineering, Environmental Studies*	\$60
I-55 at Lorenzo Road and IL-129 Project*	\$140
Illiana Tier Two Cost Estimate	\$1,309
Total	\$1,509

*Currently included in the INDOT and IDOT Programs

Table 2. Illiana Corridor Project Cost Estimate – by Fiscal Year and by State
(Year-of-Expenditure \$, millions)

State	FY11 to FY13	FY14 to FY15	FY16 to FY18	Total
Indiana	\$8	\$102	\$236	\$346
Illinois	\$23	\$384	\$756	\$1,163
Total	\$31	\$486	\$992	\$1,509

It should be noted that the current Tier Two cost estimate presented above will be continuously refined and is subject to change. This cost estimate does not include any potential cost savings that could result from innovative design and construction techniques and life cycle cost efficiencies that may be employed by a P3 concessionaire.

B. Operations and Maintenance Costs

In addition to the development and construction costs summarized above, the project must account for reasonably anticipated operations and maintenance costs. These costs include routine facility operations and maintenance costs, major maintenance requirements, and toll operations costs. These cost items were incorporated into INDOT and IDOT's financial study, and the results showed that operations and maintenance costs would be covered by reasonably available resources, as described further herein.



IV. Financing Approach

In accordance with the Transportation Equity Act for the 21st Century (TEA-21) FHWA guidance on public private partnerships as it relates to fiscal constraints, revenue forecasts that support a Statewide Transportation Improvement Program (STIP), metropolitan transportation plan, or a metropolitan Transportation Improvement Program (TIP) may take into account new funding sources and levels of funding not currently in place, but which are "reasonably expected to be available." The TEA-21 FHWA guidance further indicates that both public and private sources of funding are to be reflected in the financial information and financial plans that support the STIP, metropolitan transportation plan, and TIP. This includes P3s, and like any other transportation project, the funding sources associated with financing a particular P3 project, such as the Illiana Corridor Project, generally are to be "reasonably expected to be available."

A P3 project may be "reasonable" if there are clear expressions of support by the Governor and/or other appropriate local/regional decision makers and a strategy exists for securing necessary approvals within the time period for implementing the project. On March 18, 2010, the Governor of Indiana signed legislation, Senate Enrolled Act No. 382, "Authorizes public-private agreements for: (1) a project concerning the Illiana Expressway" by INDOT or the Indiana Finance Authority (IFA). This constitutes clear expressions of support by the Governor and decision makers and the current Project schedule and NEPA process marks a strategy for securing necessary approvals within the time period for implementing the project. Indiana Senate Enrolled Act No. 382 and the Illiana Corridor Act (Public Act 096-0913) in Illinois allow a collaborative planning effort for a new interstate highway between I-65 in Indiana and I-55 in Illinois. Both states can now enter into P3s with one or more private entities to develop, finance, construct, manage, and/or operate the Project.

INDOT and IDOT have initiated parallel but separate P3 procurement processes. On May 29, 2013, a "Request for Information Regarding an Innovative Project Delivery Approach for the Illiana Corridor Project Cooperatively Between the Illinois Department of Transportation and Indiana Department of Transportation" was issued. The purpose of the RFI was to provide an opportunity to receive industry feedback prior to and at the Illiana P3 Industry Forum and associated one-on-one meetings with industry participants on June 24 and 25, 2013. Governors Mike Pence of Indiana and Pat Quinn of Illinois gave the keynote addresses at the Illiana P3 Industry Forum and stressed the importance of this project to both states. A total of 15 potential proposers expressed interest in the project. The current P3 procurement schedules includes the release of RFQs in fall 2013, the release of RFPs in winter 2013/2014, and commercial close in fall/winter 2014. It should also be noted that the use of P3s is strongly supported in the NIRPC 2040 CRP.

INDOT and IDOT have evaluated a wide range of potential funding and financing strategies for implementing the Project. The states anticipate that a P3, in the form of a design-build-finance-



operate-maintain (DBFOM) contract will be used, where responsibilities for designing, building, financing, operating, and maintaining are bundled together and transferred to private sector partners. There are a wide variety of DBFOM agreements, especially in the degree to which financial responsibilities and risks are actually transferred to the private sector. All DBFOM projects are partly financed by concessionaire debt, which can either be partially or fully backed by new revenue streams generated by the project or availability payments. For the Project, it is anticipated that toll revenues from the Project will be used to pay availability payments to the concessionaire. The use of tolls is consistent with the NIRPC 2040 CRP adequate transportation funding goal. Toll revenues are often supplemented by public sector subsidies in the form of upfront construction payments, right-of-way acquisition, or through payments made to the concessionaire during the operating period based on availability and overall performance of the facility (availability payments).

A. Alternative Funding and Financing Sources

Based on the established project implementation timeframe (open to traffic in 2018), and given the limited availability of public funds within the multi-year programs of both INDOT and IDOT, alternative funding sources will need to be pursued in financing the Project. Alternative funding sources may include, but are not necessarily limited to:

- Private financing through a P3, with toll revenues providing one of the sources of funds for INDOT and IDOT payments to the private partner
- Public-sponsored tolling (via authorities that now exist under both Indiana law and Illinois law)
- Potential development-related private financial participation
- Other dedicated state and local funding sources, such as transportation-related fees or other revenue measures

In addition to these alternative funding sources, the financing approaches to be considered in conjunction with P3s include:

- Federally-supported borrowing such as via the Transportation Infrastructure Finance and Innovation Act ("TIFIA") program
- Private activity bonds ("PABs") as part of a public-private partnership approach
- Equity investment by investors

These and any other appropriate financing approaches will be considered to meet the cash flow demands of the Project, and the ability to generate cost savings and/or expedited project delivery.



In recognition of these financial conditions, Indiana and Illinois signed a MOU in June 2010 concerning their mutual objective to investigate all options available to finance the Project as a P3. Both states also previously passed enabling legislation to allow for P3 agreements between Indiana and Illinois and one or more private entities to design, build, finance, operate, and maintain the Project. A well-structured P3 agreement can reduce demands on constrained public budgets, help ensure timely project delivery, as well as result in lower life-cycle costs of the project in the long run in case a long-term concession agreement is considered. The inclusion of funding for preliminary engineering in their current respective programs, the MOU, and the P3 legislation demonstrate the intent of the states to use tolling as a delivery mechanism and to provide some portion of financing for the Project. An additional consideration is the importance of demonstrating financial commitment in order for the MPOs to adopt the Project into their fiscally constrained plans.

Net Project Revenues from Tolling

INDOT and IDOT estimated toll rates for the Project based on revenue maximization; the actual toll rates may vary depending on toll policy; commercial delivery approach; and concessionaire's terms, conditions, and proposals. Conservative assumptions for traffic retention of 30% to 60% under a tolled traffic scenario were used. Significant additional analytical effort is underway and will continue to be carried out by the states and their appropriate advisors, to develop further both the potential tolling scenarios and associated revenue estimates. Key assumptions, for the limited purpose of this narrow demonstration exercise, include:

- Tolled facilities and timing — The current estimate is based only on a single scenario: tolling the Project once it is open to traffic, anticipated to be in 2018. Other scenarios are currently under consideration as well. The scenario presented is a reasonably available funding approach for the limited purpose of the required fiscal constraint demonstration and is based on currently available information.
- Allocation of operations and maintenance costs — For the purpose of this demonstration, it is assumed that operations and maintenance costs, along with debt service, are included in the concessionaire's availability payments. These operations and maintenance cost estimates, including both toll fixed operations and routine facility operations and maintenance, are based on an analysis of existing Indiana and Illinois public and private toll road operations and best practice lifecycle cost assumptions.

Availability payments are assumed to include payment for the P3 concessionaire's initial capital costs, financing costs, equity return, operations and maintenance costs, and long-term capital replacement costs for the project throughout the projected P3 concession term. While project toll revenues during the initial period of the Illiana are projected to be less than the annual availability payments, eventually projected toll revenue is forecasted to be greater than the



annual availability payments. It is projected that the Indiana portion of total toll revenue will be in the range of \$0.8 billion to \$1.3 billion (year-of-expenditure/outright/nominal) over the life of the P3 term assumed to be 2018-2053 (based upon high and low value of time sensitivities applied to the base traffic and revenue forecast and Moody's Chicago region CPI forecast). *Over the life of the P3 term, on a year-of-expenditure basis, it is projected that in aggregate, the Indiana net toll revenue will exceed the availability payment costs.*

It is projected that the Illinois portion of total toll revenue will be in the range of \$2.4 billion to \$3.8 billion (year-of-expenditure/outright/nominal) over the life of the P3 term assumed to be 2018-2053 (based upon high and low value of time sensitivities applied to the base traffic and revenue forecast and Moody's Chicago region CPI forecast). Similarly, over the life of the P3 term, on a year-of-expenditure basis, it is projected that in aggregate, the Illinois net toll revenue will exceed the availability payment costs.

Additional State and Locally-Generated Revenues

The financing approaches to be considered include using a P3 structure to access the following: (i) federally-supported borrowing such as via the Transportation Infrastructure Finance and Innovation Act ("TIFIA") program, (ii) private activity bonds ("PABs"), and (iii) equity investment. These and any other appropriate financing approaches will be considered in the context of each state's overall transportation programs, the cash flow demands of the Project relative to these programs, and the ability to generate cost savings and/or expedited project delivery.

Indiana has a successful history of using a range of alternative funding sources and financing techniques for the development of their transportation infrastructure. Indiana maintained the 157-mile Indiana Toll Road connecting the Chicago Skyway with the Ohio Turnpike for 50 years, periodically using the proceeds of toll-revenue bonds for necessary expansion and maintenance projects. In 2006, Indiana completed a successful public private partnership transaction with a private concessionaire involving the Indiana Toll Road. Illinois is poised to equal Indiana's strong record in wielding alternative funding sources and financing techniques to deliver future transportation infrastructure.

B. Conventional State and Federal Sources

Implementation of the Project may also utilize a combination of traditional (federal, state and local intergovernmental grants) and alternative and innovative financing techniques that will be fully evaluated as part of the project financial plan to be developed for the selected alternative. With the stated implementation timeframe for the Illiana project, the Governors of both states have indicated their state's commitment to investigating any and all options to deliver the Project in the most rapid and cost-effective manner possible.



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Both Indiana and Illinois have historically used federal-aid resources for project implementation that are matched by state funds. Indiana and Illinois have also secured federal discretionary funding from the Highway Trust Fund and General Appropriations for major transportation projects. Both states will continue to identify and, as appropriate, pursue potential additional federal discretionary funds for the Project. This may include funds made available under future U.S. Department of Transportation's TIGER (Transportation Investment Generating Economic Recovery) discretionary grant programs and additional federal transportation discretionary funds made available through reauthorization of the federal surface transportation program and other Congressional acts. These resources are not anticipated to be sufficient to meet the approximately \$300 million implementation cost for the Indiana portion of the project.

With the stated implementation timeframe for the Illiana project, the Governors of both states have indicated their state's commitment to investigating any and all options to deliver the Illiana project in the most rapid and cost-effective manner possible. In Indiana, the anticipated INDOT multi-year program, Fiscal Year 2014-2017 Statewide Transportation Improvement Program (STIP), based on the current adoption timeline, includes \$6.77 billion in federal, state, and local funds to be designated for state and local highway improvements over four years. The anticipated funding in the INDOT multi-year program for the Illiana project includes \$44.4 million for engineering, right-of-way, and construction. Implementation of the INDOT multi-year program, including funding for the Illiana project, requires amendment of the Transportation Improvement Program (TIP) by NIRPC, which is anticipated to occur during December 2013 – March 2013, and then subsequent amendment of the STIP by INDOT. In Illinois, the proposed IDOT multi-year program (Fiscal Year 2014-2019 Multi-Modal Transportation Improvement Program) includes \$9.53 billion in federal, state and local funds that are designated for state and local highway improvements over six years. The funding in the IDOT multi-year program for the Illiana project is limited to \$92.3 million for preliminary engineering, land acquisition, and P3 advisory services.

On this basis, both states have evaluated their multi-year programs and determined that traditional funding alone is inadequate for project implementation. Therefore, a combination of traditional and innovative funding and financing strategies, including tolling, will be required, with further analysis to be performed as part of the financial plan to be developed for the Project. As such, project delivery with only federal, state, and local funding is an unreasonable alternative, and the use of tolling to finance a portion of the project cost is seen as the only viable method of project delivery, with the level of toll revenues depending on a number of factors including traffic volumes and tolling policy.

Based on the current financial analysis and funding assumptions outlined herein, INDOT estimates that anywhere from \$30 million to \$65 million in Indiana state funds will be required to be invested during the construction of the Illiana (assumed to be 2015-2017) for land acquisition, utility relocations, and engineering. INDOT may also invest up from \$50 million to



\$70 million in milestone payments in 2018 and 2019. Overall, INDOT calculates that the total initial investment of state highway funds (with participating federal highway funds) for the Illiana to be in the range of \$80 million to \$110 million. Once the project is completed and toll revenues are being collected, INDOT estimates that during the assumed operating period of 2018-2053 the net toll revenues collected will exceed the total project costs.¹ IDOT estimates that anywhere from \$250 million to \$300 million in Illinois state funds will be required to be invested during the construction of the Illiana (assumed to be 2015-2017) for land acquisition, utility relocations, and engineering. IDOT may also invest up to \$200 million in milestone payments in 2018 and 2019.

V. Summary of Potential Funding Sources and Financing Options

Working together, INDOT and IDOT have prepared the above financial demonstration setting forth a range of funding levels that are "committed," "available," or "reasonably expected to be available" for the Project. Taken together, these funding categories — and reasonable estimates for each — demonstrate (a) that sufficient resources can be reasonably expected to be available to meet the project's estimated funding needs, and in timeframes that are consistent with the currently staged project implementation timeline and key open-to-traffic milestones, and (b) that all long range transportation plan-related fiscal constraint requirements are met.

Sufficient funds are "available" and "committed" to the Project by the two state sponsors to meet the currently anticipated project costs for State Fiscal Years ("SFYs") 2014 and 2015. For Indiana, this commitment is in the form of their multi-year highway program that includes \$44.4 million for engineering, land acquisition, and construction for the Project. The State reserves the option to consider advancing a portion of the utility relocations and construction oversight contracts. The State is also considering a milestone payment of approximately 10% to 20% of the project cost.

This document describes the reasonably available funding sources and techniques that could be used in some combination to fully fund the project. For purposes of estimating levels of funding that might reasonably be expected to be available, this demonstration is premised on an assembly of reasonable representative estimates for each potential funding source on a year-of-expenditure basis. Taken together, this analysis demonstrates that the Project could be fully funded through a combination of funding sources.

¹ This portion of the paragraph was resubmitted to NIRPC on 12/2/2013 to provide further clarification of the financial obligations for the Project.