



Illinois Department of Transportation

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ILLIANA CORRIDOR FISCAL CONSTRAINT DEMONSTRATION FOR INCLUSION IN THE FISCALLY CONSTRAINED CMAP GO TO 2040 COMPREHENSIVE REGIONAL PLAN

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I. Introduction

The purpose of this document is to demonstrate how the Illiana Corridor Project meets the fiscal constraint requirements for amending the project into the fiscally constrained Chicago Metropolitan Agency for Planning (CMAP) GO TO 2040 Comprehensive Regional Plan. This is intended to fulfill IDOT's commitment to provide additional financial information that became available since the April 8, 2013 request for the inclusion of the Illiana Corridor Project as a fiscally constrained major capital project in the GO TO 2040 Plan.

The Illiana Corridor Project has been a great success thus far, representing a bi-state partnership between the Illinois Department of Transportation (IDOT) and the Indiana Department of Transportation (INDOT), 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 Illiana Corridor Project encompasses an unprecedented level of stakeholder participation, technical expertise, and agency oversight. As part of this coordination effort, INDOT has also issued a formal request to the Northwestern Indiana Regional Planning Commission (NIRPC) to include the Illiana Corridor as a fiscally constrained major capital project in the 2040 Comprehensive Regional Plan. INDOT will submit a document similar to this one to NIRPC to demonstrate that the Illiana Corridor meets fiscal constraint requirements.

The implementation of the Illiana Corridor 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 Illiana Corridor 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 Illiana Corridor 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 Illiana Corridor and having no project at all. The Illiana Corridor 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 Illinois expects could be utilized in some combination to meet the currently anticipated funding needs for the Illiana Corridor. 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 Illiana Corridor 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 IDOT in conjunction with INDOT. As such, detailed financial information needs to remain confidential in order to not jeopardize the P3 procurement process and to ensure competition and innovation among the potential bidders. The information provided in this document is intended to demonstrate that the Illiana Corridor 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 Illiana Corridor Project is a proposed 47-mile long east-west limited access highway between I-55 in Illinois and I-65 in Indiana located in Will County, Illinois and Lake County, Indiana. On June 9, 2010, the Governors of Illinois and Indiana signed a Memorandum of Understanding (MOU) for a mutual commitment to the project by both states. In April 2011, IDOT and INDOT 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 March 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 CMAP GO TO 2040 Plan. The Illiana's preferred corridor and cost estimates have been developed. To proceed with identification of potential private funding sources, it is now necessary to include the Illiana Corridor in the GO TO 2040 Plan as a fiscally constrained major capital project so that IDOT can receive a Tier Two ROD, thereby allowing IDOT to continue the P3 procurement process by releasing the Request for Qualifications (RFQ), and ultimately the Request for Proposals (RFP).

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. IDOT and INDOT are planning to release the RFQ this fall. In order for the States to reasonably release the RFQ and attract as many potential concessionaire teams as possible, it is essential that risk and uncertainty be

minimized. One of the benefits of the P3 process is the expediency in project delivery and the resulting cost savings that can occur from a shorter implementation timeframe. Further, adherence to the current Tier Two Record of Decision schedule and anticipated RFQs and RFPs from a greater array of bidders 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, IDOT, in a letter from the Secretary dated April 8, 2013 requested amending the CMAP long range transportation plan to include the Illiana Corridor at the October 2013 meeting of the MPO Policy Committee, which is the designated metropolitan planning organization (MPO) for the northeast Illinois region.

III. Project Costs

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

A. Project Development and Construction Costs

As part of the Illiana Corridor Project, IDOT and INDOT have developed a cost estimate based on quantity takeoff using concept plans and unit prices developed from recent bid prices in Illinois and Indiana. 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 Illiana Corridor project, two additional interchanges (Wilton Center Road and IL-50) were added to the project, 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 Illiana Corridor connects with I-55.

In August of 2013, the FHWA conducted a major independent project cost review of the Illiana Corridor 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 IDOT's Illiana Corridor Project cost estimate. Based on the latest Tier Two cost estimate, FHWA, IDOT, and INDOT 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, the programming requirement for the Illiana Corridor Project is \$1.3 billion. 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.

Illiana Cost Estimate (YOE \$ millions)	
Preliminary Engineering and Environmental Studies*	\$60
I-55 at Lorenzo Road and IL-129 Project*	\$140
Illiana Tier Two Cost Estimate	\$1,300
Total Project Cost Estimate	\$1,500

*Currently included in the IDOT Multi-Year Program

Therefore, the IDOT cost estimate of approximately \$1 billion for Illinois' share of the Illiana Corridor has been substantiated through refined engineering and confirmed through an independent FHWA project cost review.

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 IDOT and INDOT's financial study, and the results showed that operations and maintenance costs would be covered by reasonably available resources.

IV. Funding and Financing Approach

In accordance with the Moving Ahead for Progress in the 21st Century (MAP-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 MAP-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, 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 June 9, 2010, the Governor of Illinois signed legislation authorizing IDOT to "enter into one or more public private agreements with one or more contractors to develop, finance, construct, manage, or operate the Illiana Corridor on behalf of the state." This constitutes clear expressions of support by the

Governor and decision makers and the current Illiana Corridor schedule and NEPA process marks a strategy for securing necessary approvals within the time period for implementing the project. The Illiana Corridor Act (Public Act 096-0913) and the Indiana Senate Enrolled Act No. 382 allow a collaborative planning effort for a new interstate highway between I-55 in Illinois and I-65 in Indiana. Both states can now enter into P3s with one or more private entities to develop, finance, construct, manage, and/or operate the Illiana Corridor.

IDOT and INDOT have initiated a P3 procurement process. 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 Pat Quinn of Illinois and Mike Pence of Indiana 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 schedule includes the release of a RFQ in fall 2013, the release of a RFP in winter 2013/2014, and commercial close in fall 2014. It should also be noted that the use of P3s is strongly supported in the CMAP GO TO 2040 Plan.

IDOT and INDOT have evaluated a wide range of potential funding and financing strategies for implementing the Illiana Corridor 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 be partially or fully backed by new revenue streams generated by the project. Toll revenues from the Illiana Corridor will be used to pay availability payments to the concessionaire. The use of tolls is consistent with the CMAP GO TO 2040 Plan user pays 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 IDOT’s multi-year programs, alternative funding sources will need to be pursued in financing the Illiana Corridor 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 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 Illiana Corridor, and the ability to generate cost savings and/or expedited project delivery.

In recognition of these financial conditions, Illinois and Indiana signed a MOU in June 2010 concerning their mutual objective to investigate all options available to finance the Illiana Corridor as a P3. Both states also previously passed enabling legislation to allow for P3 agreements between Illinois and Indiana and one or more private entities to design, build, finance, operate, and maintain the Illiana Corridor. 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 Illiana Corridor. An additional consideration is the importance of demonstrating financial commitment in order for the MPOs to adopt the Illiana Corridor into their fiscally constrained plans.

Net Project Revenues from Tolling. IDOT and INDOT estimated toll rates for the Illiana Corridor 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 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 Illiana Corridor 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 Illinois and Indiana 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 Illinois portion of total toll revenue will be in the range of \$2.4 billion to \$3.8 billion (year-of-expenditure/outturn/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 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 Illiana Corridor 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 Illiana Corridor in the most rapid and cost-effective manner possible.

Both Illinois and Indiana have historically used federal-aid resources for project implementation that are matched by state funds. Illinois and Indiana 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 Illiana Corridor. 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 \$1 billion implementation cost for the Illinois 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 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. 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 preliminary 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 October – December 2013, and then subsequent amendment of the STIP by INDOT which would follow during January – March 2014.

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, 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. The Department may also invest up to \$200 million in milestone payments in 2018 and 2019. Once the project is completed and toll

revenues are being collected, IDOT estimates that during the assumed operating period of 2018-2053 the net toll revenues collected will exceed the total project costs.

V. Summary of Potential Funding Sources and Financing Options

Working together, IDOT and INDOT 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 Illiana Corridor. 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 Illiana Corridor by the two state sponsors to meet the currently anticipated project costs for State Fiscal Years ("SFYs") 2014 and 2015. For Illinois, this commitment is in the form of their multi-year highway program that includes \$70 million for land acquisition for the Illiana Corridor, and about \$60 million allocated toward the planning study, P3 advisors, and surveys. As with most P3 projects, the State will also be advancing the utility relocations and construction oversight contracts. The State is also considering a milestone payment of approximately 10-20% 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 Illiana Corridor could be fully funded through a combination of funding sources.