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February 11, 2013

Senator Lee Beyer, Co-Chair
Senator Bruce Starr, Co-Chair
Representative Tobias Read, Co-Chair
Representative Cliff Bentz, Co-Chair
Joint Committee on the I-5 Bridge Replacement Project
State Capitol
Salem, OR 97310

RE: Testimony on HB 2800

Dear Co-Chairs Beyer and Read, and Committee Members:

I understand that you are considering HB 2800, which would authorize borrowing by the state to finance the proposed Columbia River Crossing (CRC). Over the past several years, I have carefully examined the financial plans for the proposed project, and would like to share my analysis with you as you evaluate this legislation.

Simply put, proceeding with the CRC under the current financial plan and as outlined in HB 2800 poses very substantial financial risks to transportation finance in the State of Oregon.

The CRC financial plan makes highly optimistic assumptions about likely toll revenues, about federal contributions to the project, and about the ability of the two states to manage the project to completion for its presently stated budget. If there are shortfalls in funding from federal or toll revenues, the two states will be forced to make up the difference by diverting funds from other sources—including moneys that would otherwise be available for highway projects throughout the state.

CRC traffic and toll estimates are overly optimistic.
I've analyzed CRC traffic estimates at great length. The models used to generate these estimates were based on 1994 data and assumed the indefinite continuation of $1.00 or $1.25 a gallon gasoline prices. ODOT and CRC consultants have conceded that these models are incapable of accurately predicting traffic levels on tolled facilities. The estimates have not been updated in more than five years. In the intervening time, rather than increasing as forecast, traffic on the I-5 bridges has declined and today is 19,000 vehicles per day below the CRC forecast. Because they have over-estimated traffic levels, CRC has also grossly over-estimated the potential toll revenues to be gained from the CRC. Because tolls are unlikely to provide the $1.3 billion the project is counting on, those funds will have to come from the two states.

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CRC has made overly optimistic assumptions about federal funding.

CRC's financial plan relies on the highly unrealistic assumption that the federal government will provide $1.25 billion for the project. Of this total, $400 to $500 million was supposed to come from federal highway discretionary funds or earmarks. MAP-21, the new transportation reauthorization law passed last year contains no earmarks. The one program that might provide additional funding to Oregon, the so-called Projects of National Significance provision received no allocation of highway trust fund monies in the act. While Congress authorized a national total of $500 million for the two-year life of the program, it has not appropriated any funds for this program, and in light of the upcoming sequester it seems unlikely to be funded at all.

The CRC also assumes that the Federal Transit Administration (FTA) will provide $850 million to cover about 90 percent of the cost of building light rail. This is a highly questionable assumption. FTA routinely provides about 50 percent of the cost of such projects (the share it provided for the Portland Milwaukie Light Rail (PMLR) project). CRC is counting on an untested rider inserted in a 2009 appropriation bill that would essentially let CRC count the highway portion of the project as match for the light rail portion. The FTA contribution could be substantially less than the $850 million CRC is asking for, as it was when Tri-Met asked for 60 percent federal funding for the PMLR, but ended up getting only 50 percent. CRC has not said where funding would come from if the FTA provides less than $850 million. This would particularly be a problem in Oregon, because neither of the state sources of funding (highway funds and toll receipts) can be used to finance transit.

Oregon's system of transportation finance has deteriorated badly.

Over the past several years, the state has become increasingly dependent on debt financing to pay for transportation projects. This has happened at exactly the same time that gas tax revenues are falling—and Oregon Department of Transportation (ODOT) revenue forecasts have become increasingly unreliable. Up until 2000, the state pursued a prudent, pay as you go capital investment strategy. In 2002, only about 1.4 percent of ODOT's budget was expended on debt service. Since 2002, however, ODOT has vastly expanded its borrowing, and now spends nearly 30 percent of its gross revenue on debt service payments.

The agency's financial position has been aggravated further because of its consistently over-optimistic revenue forecasts. In 2005, ODOT forecast that statewide gas sales would rise from 1.5 billion gallons annually to 1.8 billion by 2012. In fact, gasoline sales and tax revenues flat-lined. The revenue shortfall was so severe that ODOT Director Matt Garrett reported to the Legislature:

> "ODOT's State Highway Fund resources are now essentially fully committed to debt service, the costs of running the agency, and maintaining highways, leaving virtually no state funding for new capital projects in the Statewide Transportation

Improvement Program (STIP) (other than the JTA projects and matching funds for federal resources)."

Likely CRC cost overruns further threaten Oregon transportation finance.

If there are cost overruns on the CRC, they will have to be borne by the state. As in the case of the recent Highway 20 cost overruns, the budget effect will be to divert money that would otherwise be used for other projects. Cost overruns on the CRC are highly likely for a variety of reasons. After seven years of work and $160 million spent on planning, fundamental questions such as the bridge height are not yet resolved. The project has made significant errors, for example, for several years pursuing an "open-web" design that the project's own expert review panel pronounced "unbuildable." Neither ODOT nor WSDOT have demonstrated the ability to bring a multi-billion dollar project in under budget. The international record of such "megaprojects" is that they routinely exceed their estimated cost by a third or more (For a definitive review of this literature, see Flyvbjerg, B. (2009). Survival of the unfittest: why the worst infrastructure gets built—and what we can do about it. *Oxford Review of Economic Policy*, *25*(3), 344. CRC exhibits all of the classic characteristics of project design and decision-making processes that lead to large-scale overruns.

ODOT's largest current project—the five-mile re-alignment of Highway 20 between Pioneer Mountain and Eddyville—clearly demonstrates the scope of the risks and the inadequacy of the controls on project cost. When it was approved in 2003, the project was supposed to cost $110 million and be complete by 2009. In practice, the project proved unbuildable as designed—and late last year ODOT tore down several partially constructed bridges. Now the project is slated to be completed in 2016 (seven years late) at a cost of nearly $400 million.

Such cost overruns are common on large ODOT projects. The Grand Avenue Viaduct project in Portland was planned to cost $31 million when approved, and ended up costing $98 million. The cost of the Newberg-Dundee Bypass nearly quadrupled between its initial plans and final environmental impact statements from $222 million to $752 to 880 million—and is still un-built. Cost overruns of these magnitudes on the CRC would devastate transportation finance in Oregon.

Pending CRC Legislation authorizes borrowing but no additional revenue, which threatens to jeopardize funding for all other projects in the state.

Neither of the bills currently introduced in the Oregon Legislature on the CRC make any provision for increasing revenue going into the State Highway Fund. HB 2800 authorizes essentially unlimited borrowing for CRC, but provides no additional revenues for the repayment of these bonds. Both bills authorize ODOT to repay CRC bonds from the state highway fund and also from any eligible federal funds. Shortfalls in other revenue sources for CRC, or cost overruns on the project will reduce funds available for other transportation projects in Oregon.

Toll-driven traffic diversion may adversely the Portland Area

CRC's excessively optimistic traffic forecasts have another important implication for the regional economy. The current forecasts essentially assume that there will be no diversion of traffic from I-5 to I-205 because of tolling. These forecasts are simply wrong. ODOT and CRC consultants have admitted that the models used to produce these forecasts cannot be reliably used to forecast traffic on tolled facilities. The experience of the SR-520 floating bridge in Seattle, which has been tolled for more than a year is instructive: after the implementation of tolls, traffic on that bridge declined by more than 30 percent, and traffic—and congestion—on the parallel I-90 bridge crossing Lake Washington increased. The effect of tolling I-5, and not tolling I-205 will be to greatly increase traffic levels and traffic congestion on this important artery serving Portland International Airport, East Multnomah County and Clackamas County. CRC may improve travel times on the I-5 bridge, but it is likely to come at the expense of congestion and delay for businesses and residents on the east side of the Portland region.

CRC concedes that its traffic estimates are flawed, and have hired another consulting firm to prepare an Investment Grade Analysis that will include more realistic estimates of diversion. Unfortunately, the results of that analysis will not be finalized until December 2013 or later—six months or more after the time the Legislature is asked to approve financing for the project. Under its current timetable, CRC will disclose to the Legislature and the public its more realistic assessment of traffic impacts on I-205 and the region only after the project is slated to be approved.

The specific provisions of HB 2800 do little to address the shortcomings of the CRC financial plan, and in important respects, actually serve to amplify the financial risk to the state associated with this project. The attached bill analysis outlines several of these concerns.

In my view, it is simply premature for the Legislature to authorize moving forward with the CRC, even with a set of "triggers" or pre-conditons for issuing bonds. The Legislature should insist that fundamental questions be answered before it signals even its conditional agreement to the project. It should, for example, be in receipt of a final investment grade toll analysis which reveals how much tolling can realistically provide toward the project. It should insist of federal agreement to a specific dollar amount for both the highway and transit portions of the project. It should have a clear agreement with the State of Washington as to the amount and timing of Washington's contribution, and a legally binding agreement for cost sharing.

The proposed Columbia River Crossing would be the single largest transportation project in Oregon. The weakness of the key assumptions underlying its financial plan, and the utter lack of any contingency plans for making up revenue shortfalls should these assumptions prove incorrect expose the Oregon transportation finance system to considerable risk. These risks come at a time when the system has deteriorated badly. ODOT has significantly increased its debt load, and has seen its revenues fall substantially short of its projections. Incurring several hundred million or more than a billion dollars of debt for this project, and exposing the state to the liability to pay for cost overruns and revenue shortfalls is likely to further jeopardize the health of the state's transportation finance system. These are risks that all the state's policy makers should fully understand and acknowledge before proceeding further with this project.

Best regards,

Joseph Cortright

Attachment: Analysis of HB 2800