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January 9, 2014

The Honorable Peter Courtney
Senate President
S201 State Capitol
Salem, Oregon 97301

The Honorable Tina Kotek
Speaker of the House
269 State Capitol
Salem, Oregon 97301

Dear President Courtney and Speaker Kotek:

Improving the Columbia River Crossing on Interstate 5 is a public works imperative for the entire Pacific Northwest. It is a vital part of a larger transportation system that is currently subject to issues of congestion, safety, and future economic competitiveness not only for Oregon, but for the region as a whole.

The current plan to replace the bridge and interchange network would be the most expensive infrastructure project ever undertaken by the state. Therefore, we must have a full understanding of the financial risks associated with it. In short: While the project is badly needed -- it must also make sense from a financial perspective. It is Treasury's job to ensure that if the State decides to move forward with any plan, Oregon's financial interests remain protected.

Because I will not be able to attend next week's hearing on the CRC Project due to a longstanding commitment, I decided it would be helpful to give you Treasury's first impression of the findings of the investment grade analysis provided to us on January 7 by the CRC project managers and ODOT director, in collaboration with their consultants. I thought it would also be useful to give you an update on the status of financial requirements that must be met in order for the state to issue bonds for this project, as stated in my letter to legislative leadership of September 26, 2013 (attached).

As you recall, Treasury has been asked by the Legislature to offer an evaluation of the project financing plan because more than \$1.5 billion in state bonds may be issued to help finance the work.

My role as Treasurer is not to re-do the analysis of the professional consultants, but rather to consider the implications of the financial model and also to protect Oregonians' financial interests. In that capacity, my office has remained in regular contact with the Department of Transportation and the consultants, has asked questions, and has urged the authors to ensure that their assumptions were conservative in order to increase the likelihood the massive bond sale

would be successful -- and that any State bonds issued for the project would be repaid with tolls so as to not impair other vital public programs or projects. We do not have the capacity or expertise at Treasury to predict future traffic patterns and toll elasticity, or even to deliberate the implications of such. As asked, we have provided perspective about the conservative parameters necessary to achieve investment grade ratings for any public debt, if it is ultimately issued in conjunction with this project.

Based on our review: **If the assumptions underlying the projections made by the project consultants are valid, the tolls will be sufficient to service the project bonds. That said, we need to be sure Oregon can collect them.**

While the key financial assumptions appear reasonable to us at Treasury, I would still encourage further evaluation among legislators and other experts if any potential legislation is drafted and considered.

In my September 26 memo to legislative leadership, I outlined several other legal and logistical requirements that must also be met before bonds for construction are approved. **A number of those items have been addressed, but others remain incomplete.**

These items have been satisfactorily addressed:

- An agreement with the State of Washington authorizing construction within the border of Washington State.
- Identification of funds to pay for the operation of an expanded light rail service into Vancouver, Washington.
- A bridge permit from the United States Coast Guard.

These items have not been fully addressed, and need further attention to reach a necessary level of assurance prior to the sale of any bonds for this project:

- A method of ensuring that sufficient tolls and surcharges incurred by Washington drivers who use the new bridge will be collected. Oregon's Transportation Commission must retain authority over the setting of future tolling rates to assure that they are sufficient to fund both upfront and on-going costs associated with the project.

A reliable method of collecting tolls from Washington drivers is crucial in light of the fact that an estimated two-thirds of the bridge traffic is projected to be vehicles registered in Washington. Although no formal agreements have yet been reached, the project is considering various options and we are waiting to review the Department of Justice's opinion on the enforceability of these options. Absent such an agreement with Washington, Oregon must ensure that it has both the technical means and statutory framework to unilaterally collect past-due tolls and surcharges from Washington drivers in an amount sufficient to pay debt service on the bonds and operate the tolled facility over time.

- An \$850 million Federal Transportation Administration grant to finance light rail components of the project.
- A \$900 million TIFIA loan from the Federal Highway Administration, repaid over the next several decades with toll revenue generated by the project.

As noted in previous communications, the financial risk to Oregon and its taxpayers is higher under an Oregon-led scenario and I recommend that state leaders continue to seek a partnership with the State of Washington. Sharing the oversight and financial risk would be a more advantageous position for both states. Absent that possibility, extra diligence is required to ensure that Oregon taxpayers are protected under an Oregon-led scenario, including ensuring Oregon can unilaterally set toll rates and can collect them.

Again, I want to thank both ODOT and CRC staff for their efforts to communicate with Treasury over the past few months as this latest option for building the CRC is considered. Thank you for your attention to the financial impacts as you deliberate the current iteration of this critical project.

Respectfully,



Ted Wheeler
State Treasurer

Attachments:

Letter to Legislative Leaders, 9/26/13

CRC Investment Grade Study - Presentation to Oregon Treasurer, 1/7/14

c:

Senate Republican Leader Ted Ferrioli
House Republican Leader Mike McLane
Mike Bonetto, Chief of Staff, Governor's Office
Matt Garrett, Director, ODOT