



## COLORADO

Department of Transportation

Division of Accounting and Finance

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**DATE:** NOVEMBER 19, 2015  
**TO:** TRANSPORTATION COMMISSION  
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**SUBJECT:** METHODOLOGY FOR PURSUING FINANCING RELATED TO I-25 NORTH, SEGMENT 3,  
EXPRESS LANES PROJECT

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### Purpose

This memorandum introduces the idea of considering a corridor's ability to generate sufficient revenue to pay for itself as one criteria to consider when evaluating how to fund surface transportation projects.

### Action:

Staff is seeking feedback from the Transportation Commission (TC) regarding the recommendation that private financing be considered as a primary option for funding on corridor's that are able to generate adequate revenue through the collection of user-fees. The TC is specifically being asked to comment on using this approach to fill the funding gap currently identified on I-25 North Segment 3.

### Background

In 2013, Region 4 submitted an application for the use of Responsible Acceleration of Maintenance and Partnerships (RAMP) funds on I-25 North: 120<sup>th</sup> to State Highway (SH) 7 Managed Lanes Project. The proposed project included all design, Right-of-Way (ROW), utility relocation, environmental evaluation, and construction to provide new High Occupancy Managed Lanes on I-25 North from 120<sup>th</sup> Avenue in Denver to State Highway 7. The project proposed to continue the managed lanes that are currently under construction from U36 up to 120<sup>th</sup>, also known as I-25 North Segment 2. The project will maximize the use of the existing highway infrastructure to expand the capacity of I-25 by adding one HOV/tolled Express Lane in each direction. In addition, the project will resurface the existing lanes along this 6-mile stretch. The new Express Lanes will connect directly with the existing I-25 Express Lanes leading into and out of downtown Denver, providing motorists with the option of carpooling or paying a toll for a more reliable commute, or utilizing the existing general purpose lanes for free. Currently, Segment 2 is slated to be completed and operation in the spring of 2016. Extending the project past the limits of Segment 2 from 120<sup>th</sup> to SH7 proposed to bring continuity for the traveling public while decreasing travel time and expanding transportation choices further along the I-25 corridor.

### Funding Details

Based on the application submitted by Region 4 in 2013, the I-25 North Segment 3 project was approved for \$55.0 million in RAMP Public-Private Partnership funds. Since that time, the entire \$55.0 million of allotted RAMP funding has been budgeted via the budget supplement process in March 2014, November 2014 and April 2015. In addition to RAMP funds, the Segment 3 project originally identified various other sources of funding including a variety of CDOT program funds as well as contributions from the Regional Transportation District (RTD). Region 1 and Region 4 coordinated to formulate a funding package that best leverages the approved RAMP funds and extend the project as far north as possible. However, Segment 3 still has a funding gap that needs to be filled.

### *Filling the Current Funding Gap*

In a constrained funding environment, identifying additional options for project funding is a top priority. In general, most construction projects within CDOT are funded with cash through conventional project funding processes, whether through RAMP or other sources. As CDOT pursues projects with innovative financing approaches, such as managed lanes, certain projects may include revenue streams that allow the project help to pay for itself.



One recent example of a project that was able to use revenue generated by the project to secure private financing is the Mountain Express Lanes Project (formerly known as the Peak Period Shoulder Lane or PPSL). Last December, the High Performance Transportation Enterprise (HPTE) closed on a \$25 million short-term construction loan with Bank of America to provide gap financing for the project. Backed by future toll revenues on the corridor, the loan was structured with maximum flexibility allowing HPTE to either to amortize with toll revenue generated on the lane or to eventually be refinanced into a larger project transaction.

Other projects in various stages of development that could utilize the same methodology are as follows:

***I-25 North Managed Lanes Segment 3 (funding gap approximately \$26.0 million):***

CDOT is committed to extend the I-25 Segment 2 project from 120<sup>th</sup> to E470 - currently defined as Segment 3 - and is currently planning to start the design-build process as soon as January 2015. Based on preliminary Toll and Revenue analysis by CDM Smith in 2014, the revenues of this corridor are more than sufficient to support financial structure similar to the PPSL financing. Aggressive interest rates (below 3%), similar to the PPSL transaction, would provide similar benefits and flexibility to the project. If the decision is made to pursue financing for this segment of the project, there will still be a funding gap that CDOT will look to fill with local contributions.

***Extending I-25 North Segment 3 past E470 (approximately \$33.0-\$35.0 million):***

Based on current financing options and depending on final design costs, there is a strong possibility that the financing could also be structured to extend the I-25 North Segment 3 project to State Highway 7. Contingent on the cost, HPTE and Office of Major Project Development (OMPD) will work with the region to determine viability of this option.

**Key Benefits: I-25 North Financing Approach**

As the I-25 North Segment 3 project is current in development, CDOT staff has been evaluating various methods to complete the project and believes pursuing a financing similar to the PPSL loan to be the most advantageous. Staff sees the following benefits to pursuing this approach:

***Allow CDOT to Retain RAMP Funds for Additional Projects***

More often than not RAMP projects do not have a self-supporting revenue stream. By financing the balance of the I-25N Segment 3 project cost, utilizing toll revenues as pledged revenues; this will allow RAMP funds to be utilized on other projects throughout the State that cannot finance themselves. For example, RAMP development fund dollars saved could be use to a close a funding gap on other potential managed lanes corridors, such as I-25 South, identified for Planning and Environmental Linkages (PEL) studies.

***Efficient Reinvestment of Corridor-Specific Toll Revenues***

Toll revenues collected on I-25 must be used on corridor-specific costs or improvements. Since the long-term goal is to extend improvements further north, the most efficient way to use these revenues is to accelerate the development and construction of Segment 3 to allow for a more comprehensive solution.

***Provide Financial Flexibility***

The loan structure will allow maximum flexibility to provide preserve multiple restructuring possibilities based on future revenue constraints and capital finance needs. It will also allow for accelerated principal repayment if revenues are sufficient.

- Based on an initial fixed rate of 2.79% for a 7-year initial term, with a step-up rate of 7.00% for a 3-year term out provision (identical structure to the PPSL Loan). The projected revenues from the T&R Study are sufficient to make the fixed rate interest payments through the initial term, with a residual \$13 million available for pre-payment on the optional redemption date. As a point of reference, interest rates are currently within 5 basis points of when the PPSL Loan was executed.
- Benefit from a Low Interest Rate Environment - Allows the High Performance Transportation Enterprise (HPTE) to take advantage of low interest rates to borrow money to complete project
- Rating Agency Considerations



## Next Steps

- If the Transportation Commission agrees with the recommendation that private financing be considered as a primary option for funding on corridor's that are able to generate adequate revenue through the collection of user-fees, CDOT and HPTE staff will begin researching a finance plan for I-25 North Segment 3 that includes the use of a possible loan.
  - In December, staff will return with a final budget request when the funding scenario is identified
  - Similar to PPSL, prior to the approval of any loan, terms and conditions will be brought before the TC for review and approval
  - At that time, similar to the PPSL, CDOT will be asked to sign a back-up loan agreement
- Support funding for a Planning and Environmental Linkages (PEL) study on other managed lanes corridors, such as I-25 South, through RAMP/HPTE Development Fund

