



October 5, 2007

Barbara W. Reese
Deputy Secretary of Transportation
Virginia Department of Transportation
1401 East Broad St.
Richmond, Virginia 23219-2000

Dear Ms Reese,

In April of 2004, you provided a financial evaluation of the proposed project to put HOT lanes on the Capital Beltway. That report raised many questions about the viability and risk of the project. Since then, there has been the April, 2005 agreement and the Ekern memorandum of Sept. 2007, yet neither of those purports to answer critical questions raised by your 2004 report. Has there been any further analysis and have those questions been resolved? Some key concerns and questions taken from that early report are detailed below.

The interspersed italicized questions are those listed as evaluation and selection criteria regarding financing for a PPTA project.

What are the current financial values (comparable to the 2004 values below) and do the current numbers “*demonstrate a reasonable basis for funding project development and operations? Are the planned sources of funding realistic?*”

Capital Beltway HOT Lanes Financial Proposal Summary Spending (millions)

Project Construction Costs \$693.4 (in year of construction \$)
Fluor’s pre-development Costs \$ 10.0
Additional Financing Costs \$143.3 Total - **\$846.7**

Sources (millions)

Toll Revenue Bonds \$450.9
Federal TIFIA Program \$246.4
Public Sector Investment \$ 91.1
Investment Earnings \$ 58.3 Total – **\$846.7**

The 2004 Values Did Not Include:

- A fixed price at that time.
- On-going maintenance and operation cost.
- Toll collection and operation expenses.

Have these deficiencies been corrected and what are the corrected values?

Did the proposer demonstrate evidence of its ability and commitment to provide sufficient equity in the project as well as the ability to obtain the other necessary financing?

Other issues raised in the 2004 and other documents:

“There is no mention of liquidated damages in the event of project delay” (Pg 3)

“The financial plan leaves little room for error in traffic assumptions, toll revenue collection, or adjustments in project costs” (pg 4)

“Refined time of day traffic and revenue studies and discussions with rating agencies are needed to determine if investment grade ratings can be obtained at the level of funding proposed.” (Pg 4)

“ . . . a thorough examination of any value pricing strategies (will be required).” (pg 5)

Are the assumptions on which the plan is based well defined and reasonable in nature?

Please clarify how each of the above is being addressed now. Will investment grade bonding be available? How will the projected increase in tolls affect the number of transactions? Will this analysis and underlying assumptions be made available to the public?

“Fluor should be required to provide payment and performance bonds for this project as part of any comprehensive agreement. At a minimum, the value of these bonds should be \$230 million.” (Pg 6) **Is this being met? What is the value?**

What are the results of VDOT discussions with ratings agencies?

Is an investment grade rating for bonds likely?

Are the plan's risk factors identified and dealt with sufficiently?

The public sector contribution has increased to \$409 million, up to 29 percent of the cost. In addition, the public sector will now bear the risk of possible payments if HOV use crowds out toll-payers.

What is the estimated cost of the latter? How will the public sector commitment be met? Will it affect other projects, and if so, which ones? What share of the project will be financed with debt under the new conditions?

“Whether the project is financially feasible is not clear” (Pg 7)

How can the TIFIA loan be paid over 40 years + (with construction period) when the requirement is for repayment in 35 years? (Pg 1)

Given the serious questions raised in 2004 and the now increased total costs, the situation cries out for a thorough explanation and justification. A significant risk seems to have been shifted to the public, but it is still risk that must be accounted for.

Thank you for your attention to this matter

Roger Diedrich
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Cc: Delegate David Bulova
Delegate Brian Moran